



ABN 13 112 682 158

28 October 2008

The Manager Companies
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

(95 pages by email)

Dear Madam

ANNUAL REPORT AND NOTICE OF AGM

I attach the Company's Annual Report for the year ended 30 June 2008 and a copy of the Company's Notice of Annual General Meeting to be held on 27 November 2008 as sent to shareholders today.

Yours sincerely

Peter J. Nightingale
Director

pjn4573



2008

ANNUAL REPORT

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CHAIRMAN'S LETTER

Dear Fellow Shareholder,

Cockatoo Coal Limited has enjoyed a very successful and busy year ended 30 June 2008.

One measure of the success of the year is an increase of more than 500% in the Company's market capitalisation from \$56.6 million at 30 June 2007 to \$354.5 million at 30 June 2008. This increase is due to both an increase in the Company's share price and an increase in the number of shares on issue.

Share issues during the year have been to strategic shareholders including:

- POSCO Australia Pty Limited, a wholly owned subsidiary of the Korean based Pohang Iron and Steel Corporation, one of the largest steel manufacturing and trading companies in the world.
- KEPCO Australia Pty Limited and Korea East-west Power Co. Ltd, Korean government power generation, transmission and distribution utilities.
- Kores Australia Pty Limited, a Korean government company which comprehensively supports the resources industry.

The Company's aggressive growth and development strategy is made possible by the outstanding shareholder support by these, and other existing, shareholders.

As more fully disclosed in the Operating and Financial Review which follows, during the year, the Company added significant tenement holdings to its Bowen and Surat Basin projects and continues to increase its exploration drilling activities, operating personnel numbers and project development activities. One achievement worthy of mention is the increase of the Company's Woori project (formerly known as the Guluguba project) measured resource to over 100 million tonnes. Pre-feasibility studies, including core drilling for coal quality testing is currently in progress with a view to being ready to commence production concurrently with the anticipated completion of the Surat Basin 'missing link' railway line and the Wiggins Island port development.

In anticipation of future production, the Company is being actively positioned to secure rail and port infrastructure entitlements.

We look forward to the coming year with great anticipation and excitement.

Yours sincerely



Norman A. Seckold
Chairman



OPERATING AND FINANCIAL REVIEW

Overview

The year ended 30 June 2008 has been another significant year in the development of Cockatoo Coal Limited and its controlled entities ('Cockatoo' or 'the Company').

Major achievements since the end of the last financial year include:

Corporate highlights:

- Issued 73.6 million shares to POSCO Australia Pty Limited for \$25.0 million.
- Issued 40.0 million shares to Korea Electric Power Company and Korea East West Power Company for \$16.8 million.
- Issued 11.5 million shares to Kores Australia Pty Limited for \$4.83 million.
- Completed acquisition of SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd.
- Mr Sun Moon Woo, a nominee of POSCO, appointed as a Director of the Company.

Operational highlights:

Infrastructure:

- The Surat Basin 'missing link' railway line was endorsed by the Queensland Government as meeting the government's public/private partnership value for money criteria and awarded an unconditional exclusive mandate to the Surat Basin Railway Joint Venture to undertake a feasibility study to complete the 'missing link'.
- The Surat Basin Railway Joint Venture has identified a preferred rail corridor and the Queensland Government published draft terms of reference for the first stage of the Environmental Impact Statement (EIS) process.
- Wonbindi project rail connection options were scoped and preliminary cost estimates were completed.
- The Queensland Government announced approval of the Wiggins Island Coal Terminal EIS at Gladstone.
- The Federal Minister for the Environment assented to the Wiggins Island Coal Terminal EIS, allowing the project to move to full feasibility and engineering studies.
- The Company is an industry participant actively supporting rail and port infrastructure developments.

OPERATING AND FINANCIAL REVIEW



Surat Basin:

- Acquired approximately 3,000 square kilometres (km²) of coal tenements in the Surat, Tarong and Clarence/Moreton Basins and joint venture interests in two coal technology orientated joint ventures through the acquisition of SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd.
- Acquired Surat Basin EPCs 796 (Horse Creek) and 813 (Dogwood Creek) for \$3.0 million.
- MDL 187 (Woori) model update defined a 103.53 million tonne (Mt) Measured Resource of raw product, at a stripping ratio of 4.2:1.0.
- Commencement of core drilling at MDL 187 (Woori) for washability studies.
- Ninety nine holes drilled for a total of 12,566 metres at EPC 1041 (Miles).
- EPC 1135 (Chinchilla) comprising 15 sub-blocks (46 km²), EPC 1136 (Dalby) comprising 218 sub-blocks (669 km²) and EPC 1170 (Chinchilla #2) comprising of 263 sub-blocks (807 km²) were granted from EPCA status.
- Application was submitted for EPCA 1278 (Tin Hut Creek North) comprising of 4 sub-blocks (6.3 km²).

Bowen Basin:

- Data review and 3D-modelling of resource in MDL 352 (Wonbindi) has defined a preliminary 'anticline' target zone of 26 Mt. Additional drill hole planning designed to increase this resource and raise it to a measured JORC status is ongoing.
- Ninety one holes drilled for a total of 16,624 metres in EPC 1047.
- Interpretation and 2D-modelling of EPC 1047 (Baralaba North) drill data is ongoing.



OPERATING AND FINANCIAL REVIEW

Corporate Activities

Issue of 73.6 million shares to POSCO Australia Pty Limited for \$25.0 million.

In September 2007, the Company completed the issue of 73,595,835 fully paid ordinary shares to POSCO Australia Pty Limited (POSCO Australia) for cash consideration totalling \$25.0 million. The shares are subject to a voluntary escrow restriction for a period of 12 months.

In addition, the Company has granted POSCO Australia the first right of refusal to purchase a maximum of 1.0 million tonnes of metallurgical low volatile pulverised coal injection coal, or other coal type satisfactory to POSCO Australia, per annum produced from any of Cockatoo's coal mining operations provided that Cockatoo produces more than 1.0 million tonnes of coal per annum. The purchase of any coal by POSCO Australia from Cockatoo will be at the then market price for the relevant type of coal and otherwise on terms and conditions reasonably required by POSCO Australia having regard to terms and conditions applicable in the Australian coal market at the time of sale.

Issue of 40.0 million shares to Korea Electric Power Company and Korea East West Power Company for \$16.8 million.

In December 2007, the Company completed the issue of a total of 40.0 million fully paid ordinary shares to KEPCO Australia Pty Ltd (KEPCO) and Korea East-West Power Co. Ltd (EWP) (being 20.0 million fully paid ordinary shares each to KEPCO and EWP) for cash consideration totalling \$16.8 million. The shares are subject to a voluntary escrow restriction for a period of 12 months.

In addition, the Company has granted KEPCO and EWP the first right of refusal to purchase the greater of 2.0 million tonnes or that percentage of Cockatoo's thermal coal production equal to the percentage ownership of Cockatoo by KEPCO and EWP per annum produced from any of Cockatoo's coal mining operations. The purchase of any coal by KEPCO and EWP from Cockatoo will be at the then market price for the relevant type of coal and otherwise on terms and conditions reasonably required by KEPCO and EWP having regard to terms and conditions applicable in the Australian coal market at the time of sale.

Issue of 11.5 million shares to Kores Australia Pty Limited for \$4.83 million.

In January 2008, the Company completed the issue of 11.5 million fully paid ordinary shares to Kores Australia Pty Ltd (Kores) for cash consideration totalling \$4.83 million. The shares are subject to a voluntary escrow restriction for a period of 12 months.



OPERATING AND FINANCIAL REVIEW

Acquisition of SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd.

In July 2007, the Company acquired Metallica Minerals Limited's (Metallica) subsidiaries SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd which own the following coal assets:

- The Surat project (EPCs 1041, 1135, 1136 and 1170).
- The Kingaroy project (EPC 882).
- The Condamine project (EPCs 963 and 1130).
- The Injune project (EPCs 1017 and 1018).
- A 20% interest in an underground coal gasification (UCG) project with Cougar Energy Limited over EPC 1118. In addition, Cougar Energy Limited has the right to earn a 70% interest, with the Company retaining a 30% interest, in a designated area covering deeper coal (>130 metres depth) and outside the open cut coal potential of SE QLD Energy Pty Ltd's EPC 882.
- A 25% interest in a coal to liquids project (CTL) with Eastern Mining Corporation Pty Limited over EPCs 935, 936, 1076, 1137 and 1138.

The coal projects cover a combined area of approximately 3,000 square kilometres of coal bearing strata, and include the Taabinga coal deposit which has a Measured and Indicated coal resource of

163.8 million tonnes of thermal coal (35.5 million tonnes Measured and 128.3 million tonnes Indicated). This acquisition significantly added to Cockatoo's Surat Basin tenement holdings.

Consideration for the acquisition of SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd was:

- Made a cash payment of \$4.75 million.
- Issued 25.0 million Cockatoo shares to Metallica. These shares are subject to a 12 month voluntary escrow.
- In the future, issue the lesser of a further 5.0 million Cockatoo shares or shares to the value of \$1.0 million (based on Cockatoo's average trading price over the preceding month) to Metallica upon commencement of production from any of the tenements acquired. These shares will be subject to a 12 month voluntary escrow.
- In the future, pay a royalty of 40 cents per tonne to Metallica on production from the Kingaroy project (EPC 882) which includes the Taabinga coal deposit.

Mr Sun Moon Woo, a nominee of POSCO, appointed as a Director of the Company.

Mr Sun Moon Woo, Managing Director of POSCO Australia, was appointed as a Director of Cockatoo Coal Limited in September 2007.

Negotiated the sale of the Company's 25% CTL Joint Venture interest.

During the year the Company negotiated the sale of its 25% coal to liquids joint venture interest, comprising the Company's title in or farm-in rights to EPCs 935, 936, 1076, 1137 and 1138 with Eastern Mining Corporation Pty Limited for \$1.0 million and certain other future entitlements. Subsequently, this agreed sale price was renegotiated for approximately 520,000 shares in Eastern Mining Corporation Pty Limited's parent company Ambre Energy Limited which recently completed a private placement of shares at \$4.80 per share. The Company's shareholding in Ambre Energy Limited will be a passive minority holding and give the Company exposure to the potential success of the CTL technology.



OPERATING AND FINANCIAL REVIEW

Projects

The Company is a coal exploration, development and mining company with rights to projects in Queensland, Australia.

The Company's lead projects are located in the Bowen Basin, with a focus on ultra low volatile (ULV) PCI and thermal coal products and in the Surat Basin in south east Queensland, with a focus on thermal coal. In addition, the Company has projects in the Clarence-Moreton and Tarong Basins.

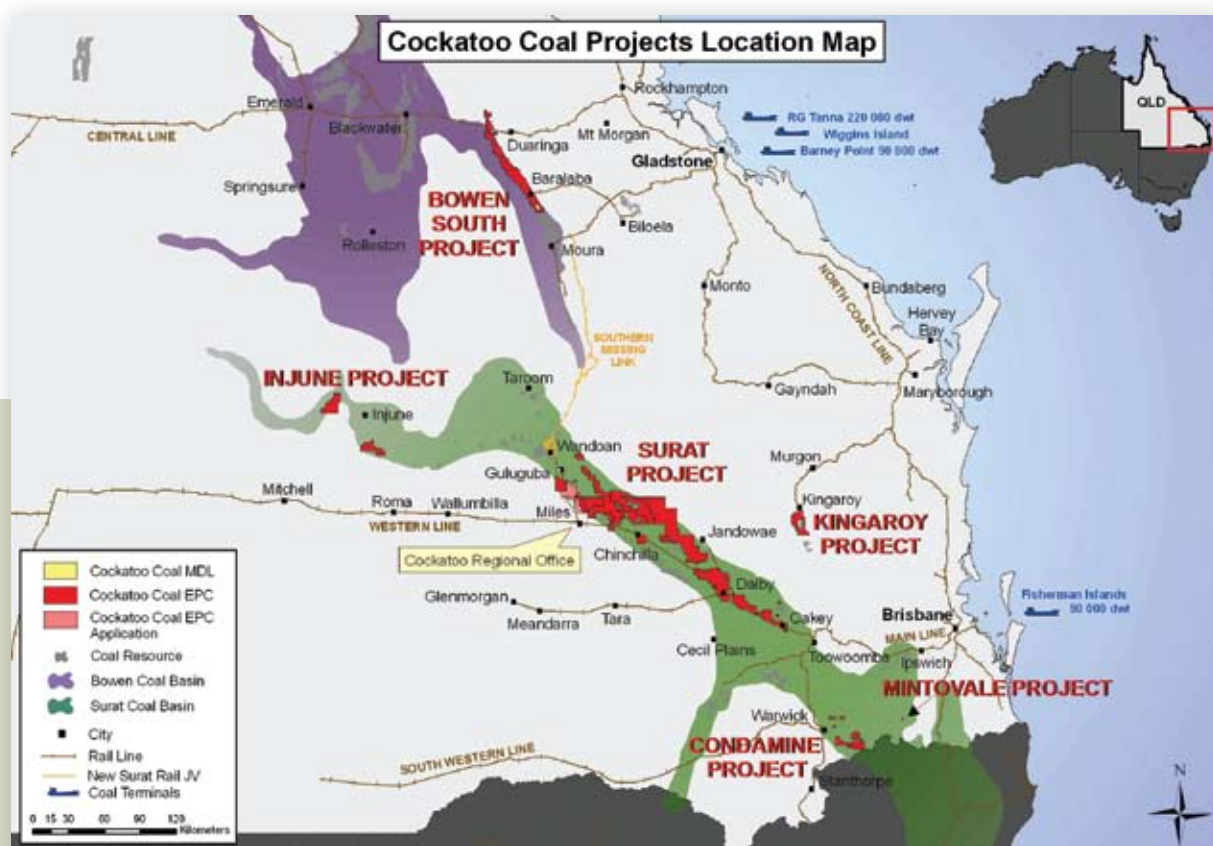
During the year ended 30 June 2008, the Company had 4 drilling rigs under contract, operating in both the Surat and Bowen South project areas. Drilling deployment varies between the two regions depending upon immediate operational needs, with the overall objective of maximising effective exploration undertaken. Drilling activities during the year were hampered at times by rainfall which restricted access to drilling sites.

Discussions are continuing in respect of contracting additional drilling rigs for deployment in such areas as may be deemed first order targets in the exploration program.

The Company has also added in house exploration resources to further develop and manage its aggressive exploration targets. This includes establishing a regional office at Miles, in the Surat project area, and geological staff based in the Bowen South project area. This expansion of in house capabilities and expertise will continue in the coming year.



OPERATING AND FINANCIAL REVIEW



The Company's lead projects are located in the Bowen Basin, with a focus on ultra low volatile (ULV) PCI and thermal coal products and in the Surat Basin in south east Queensland, with a focus on thermal coal. In addition, the Company has projects in the Clarence-Moreton and Tarong Basins.

OPERATING AND FINANCIAL REVIEW

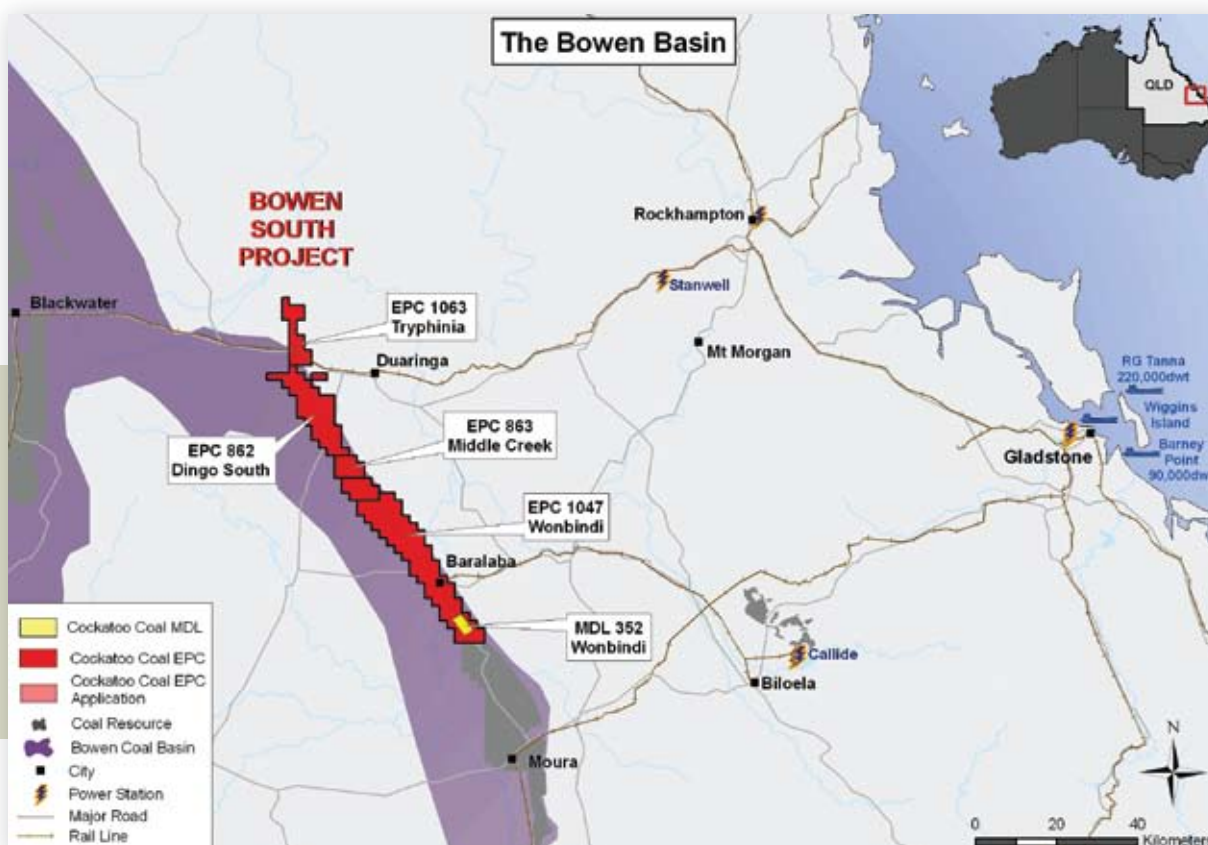
Bowen Basin Projects

The Company's Bowen South project comprises:

- Wonbindi (MDL 352).
- Wonbindi and Baralaba North-Lochinvar (EPC 1047).
- Dingo South (EPC 862).
- Middle Creek (EPC 863).
- Tryphinia (EPC 1063).

The Company's Bowen South project has contiguous target areas covering an area of approximately 55,790 hectares with Permian age, Rangel Coal Measures sub-cropping over a strike length of more than 80 kilometres, which may become a new coal production region on the south eastern flank of the Bowen Basin. The Rangel Coal Measures identified are host to other companies' mining operations at Baralaba, Blackwater, Curragh, Jellinbah and Yarrabee.

The southern project boundary of the Bowen South Project is 30 kilometres north of the Moura railway and 180 kilometres from the coal port of Gladstone. The northern tip of the project is bisected by the Blackwater railway and is 225 kilometres from the coal port of Gladstone. In addition, the disused Baralaba railway easement is within close proximity of the Wonbindi area of MDL 352 and EPC 1047.



OPERATING AND FINANCIAL REVIEW

MDL 352 and EPC 1047

The Company, through an 80% owned subsidiary company, Wonbindi Coal Pty Limited, controls operations in tenements MDL 352 and EPC 1047 and related mining information, other rights, titles, interests, claims, benefits, contracts and property.

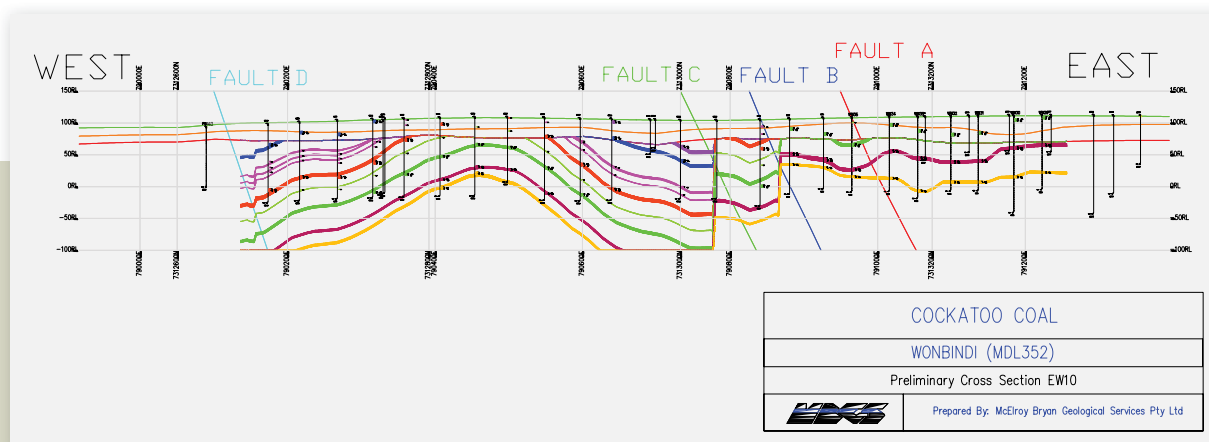
MDL 352 and EPC 1047 are serviced by good infrastructure and are located 30 kilometres north of the Moura railway and 180 kilometres from the coal port of Gladstone. The tenements adjoin the Dawson coal mine complex, operated by Anglo Coal Pty Ltd and the Baralaba coal mine which is operated by Peabody Australia Energy Pty Ltd.

MDL 352 and EPC 1047 have a combined surface area of approximately 20,370 hectares. Coal seams of interest in the Wonbindi project are contained within the Late Permian Rangal Coal Measures, locally referred to as the Baralaba Coal Measures, which are known to extend along the 44 kilometres of the Wonbindi tenements. There are about eight seams in the local sequence which have been investigated

during previous exploration. Rangal Coal Measures are of primary interest as they are known to host other regional companies' coal mining operations such as Baralaba, Blackwater, Curragh, Jellinbah and Yarrabee.

A review of all data within EPC 1047 has been undertaken and three targets within EPC 1047 were established with the aim to prove up additional resources. The three target areas are the southern area within MDL 352 (where the majority of drilling to date has taken place); Baralaba North, just north of the Peabody managed Baralaba coal mine, and Lochinvar in the north of EPC 1047. These targets are within about a 30 kilometre range along the strike length running north from Baralaba.

Additional drilling of open and coal quality holes in the coming months, with the mobilisation of a fifth drilling rig, is intended to lead to an updated JORC-compliant resource statement.



MDL 352 Wonbindi Preliminary Cross Section

OPERATING AND FINANCIAL REVIEW

MDL 352 Exploration and Drilling

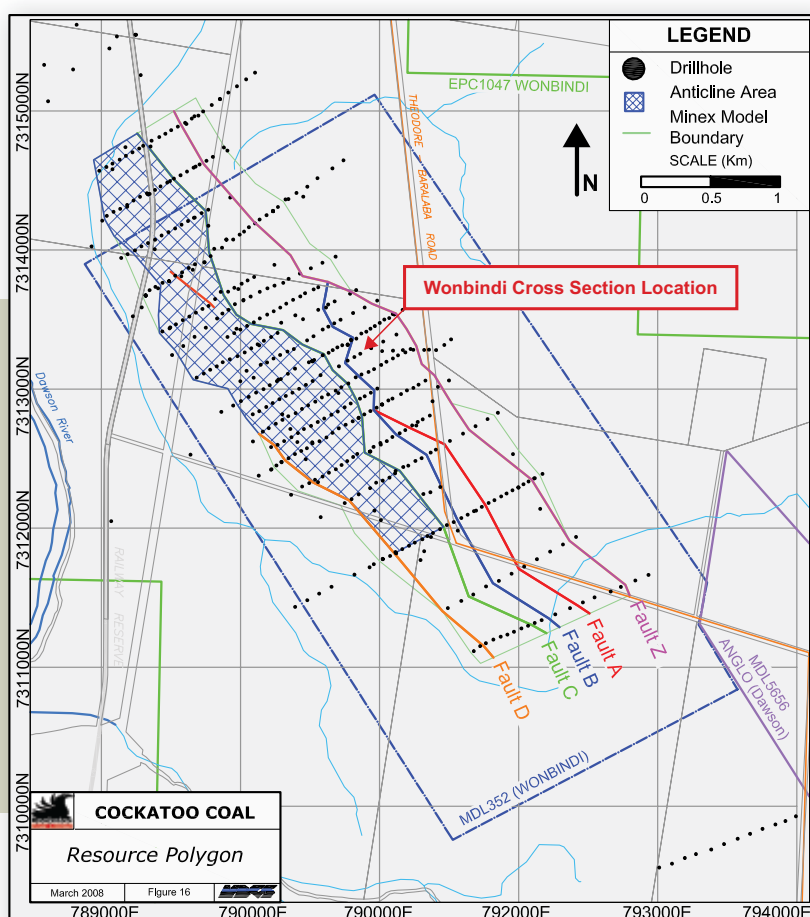
Approximately 300 holes have been previously drilled in MDL 352, generally to a depth of 120 metres. The drilling results for this closely drilled pattern (50 metres spacing across strike and 250 metres along strike) has enabled the definition of major geological structures and coal seam characteristics.

Results from this drilling have also been used to define a JORC standard Indicated resource of 24.1 Mt and an Inferred resource of 9.7 Mt in MDL 352. Further, during the year, interpretation and 3-D modeling of these drill results have enabled a preliminary estimate of an in situ coal tonnage of 26.0 Mt within an 'anticline area', constrained by depth of drilling, geological structures and the MDL 352 boundary. The estimate has been made on a ply by ply basis, in all eight Baralaba Coal Measure seams encountered at Wonbindi within the 'anticline area'.

Interrogation of modeled drill hole data in MDL 352 continued during the year, leading to the finalisation of:

- A detailed drilling program to the southeast within MDL 352.
- A core drilling program within MDL 352 to provide coal quality data.
- A drilling program to the northeast of MDL 352.

This program is designed to progress MDL 352 towards a reserve status and the development of a coal mining operation.



MDL 352 Wonbindi Resource Polygon

OPERATING AND FINANCIAL REVIEW

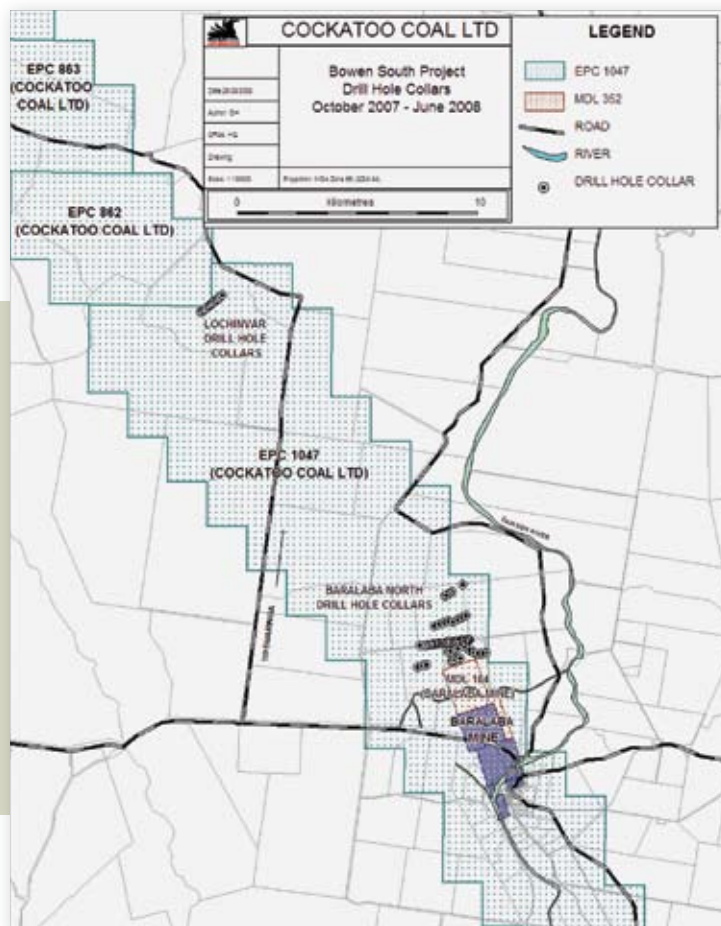
Baralaba North (EPC 1047) Exploration and Drilling

During the year, the Company conducted a highly successful open hole drilling results in the Baralaba North area of the Bowen South project utilising 3 exploration rigs to achieve its exploration drilling targets following wet weather delays experienced in the December 2007 to March 2008 period. A total of 91 holes (BN0001 to BN0091) were drilled for a total of 16,624 metres.

Open-hole drilling to a maximum depth of approximately 200 metres was undertaken with drill hole collars between 50 metres and 200 metres apart, located on lines spaced 200 metres to 1.0 kilometre apart. Spacing of drill lines and collars is being determined by increasing confidence in the geological setting of the area.

The area of focus commences approximately 200 metres to the north of MDL 184 and 2.0 kilometres to the north of the Baralaba coal mine and extends northwards in EPC 1047. The drilled area in the Company's EPC 1047 currently extends 2.85 kilometres to the north of the Baralaba coal mine and associated MDL 184.

Drill hole co-ordinates and cumulative thicknesses of coal, verified by down-hole geophysical logging, have been reported in full by the Company and are available on the Company's website. The significant coal intercepts confirm expectations that the economic seams currently mined in the Baralaba mine as PCI and thermal coal products, continue northwards in EPC 1047. The defined coal zone is up to 1.5 kilometres wide and has coal intercepts of up to 29.7 metres. The coal-bearing zone is open to the north and will be defined further through ongoing drilling.



EPC 1047 Drill Hole Collar Locations

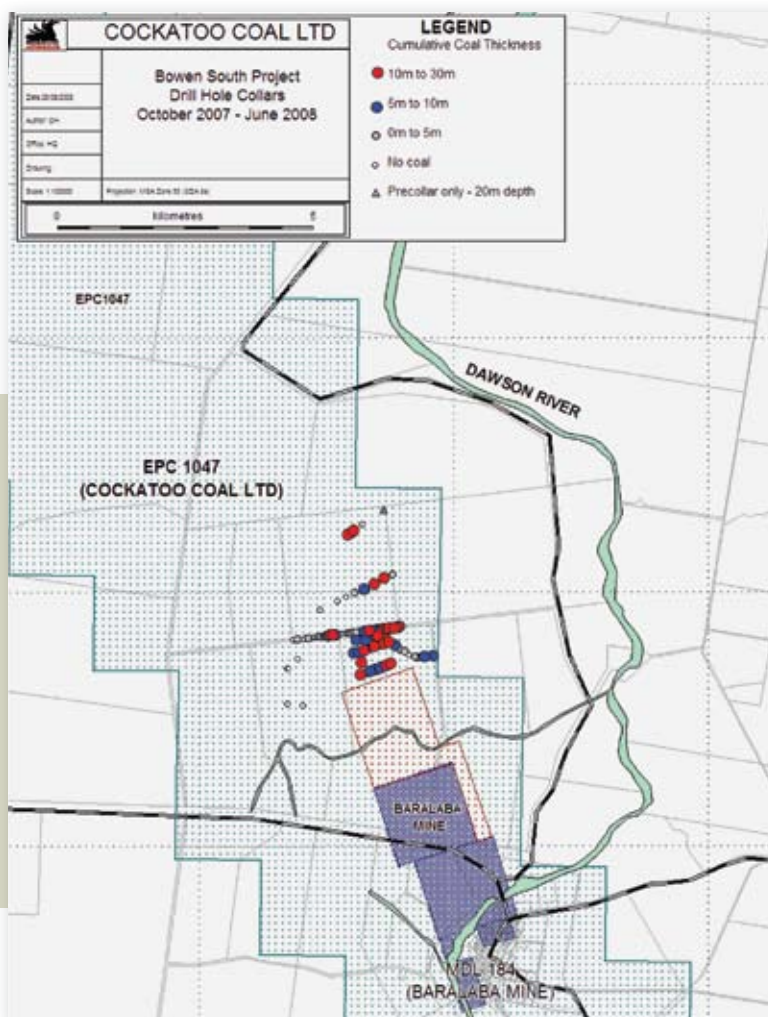
OPERATING AND FINANCIAL REVIEW

Using an average density of 1.35, the significant intersections result in an average overburden to coal ratio of 9.5:1.

Interpretation of the geological data, coupled with the down-hole geophysics, enabled seam correlation and provides significant encouragement for further drilling and in the coming months, strategically placed cored drill holes, in conjunction with further open-hole drilling and subsequent modelling is planned to elevate the coal intersections within EPC 1047 to a JORC standard. It is expected that the coal quality results will confirm the PCI and thermal coal properties evident in mining operations immediately to the south of the Company's current target area.

Lochinvar (EPC 1047) Exploration and Drilling

During the year ended 30 June 2008, 15 holes (LV0001 to LV0015) were drilled to an average depth of 150 metres for a total of 2,246 metres at the Lochinvar target within EPC 1047. Drill hole co-ordinates and cumulative thicknesses of coal, verified by down-hole geophysical logging, have been reported in full by the Company and are available on the Company's website. Coal intercepts occurred in 9 of the 15 holes drilled and further analysis of the results, integrating seismic data, is required in the coming months prior to additional drilling.



EPC 1047 Baralaba North Drill Hole and Cumulative Coal Thicknesses

OPERATING AND FINANCIAL REVIEW

EPCs 862, 863 and 1063

The Company's northern target area in the Bowen South project comprises three 100% owned tenements, EPC 862 (Dingo North), EPC 863 (Middle Creek) and EPC 1063 (Tryphinia) with a combined surface area of approximately 35,420 hectares. The first two tenements contain Rangel Coal Measures at sub-crop along a strike length of 36 kilometres. These are the same coal measures that form the focus of interest in the adjacent Wonbindi project areas.

During the year ended 30 June 2008, EPC 1063 Tryphinia was added to ascertain the coal bearing potential of the Burngrove Formation, and is adjacent to Dingo North. EPC 1063 comprises 21 sub-blocks in two separate areas, one of 19 sub-blocks and the second of 2 sub-blocks that lie adjacent to the Company's target areas to the south. Total surface area is approximately 7,150 hectares. It is intended to carry out investigations to ascertain the coal bearing potential of the Burngrove Formation.

The northern boundary of EPC 862 is situated some 3 kilometres south of the Blackwater railway and EPC 1063 Tryphinia is intersected by the Blackwater railway line, slightly west of the town of Daringa on the main highway between Rockhampton and Emerald. Distance by rail is approximately 225 kilometres to the major coal exporting port of Gladstone.

Mining has occurred along the strike of the Rangel Coal Measures to the northwest of the project area at Bluff and to the southeast at Baralaba, however, only limited exploration had been carried out in project tenements before the current exploration campaign. No exploration has been previously carried out in the Tryphinia area.

Exploration Activities

In previous years, the Company completed a seismic survey program, which totalled approximately 56 kilometres of traverse lines approximately 3 kilometres apart, using the MiniSOSIE seismic method. The seismic survey was designed to identify favourable structural settings to be drill tested.

As a result of this seismic survey a Stage 1 drilling program was completed in the northern area of EPC 862, close to rail and road infrastructure, with the aim of validating the seismic survey results depicting the location of possible areas with shallow coal and in understanding the local stratigraphy and seam sequence. Subsequent holes were also drilled along the seismic traverse lines, in the vicinity of validation holes to establish the extent of the best coal intersections across strike. The Stage 1 drilling program identified 4 targets, all in the Rangel Coal Measures, and 2 potential targets, 1 in the Rangel Coal Measures and 1 in the Burngrove Formation, for further Stage 2 drilling.

The Stage 2 drilling program was conducted in the northern area of EPC 862, close to rail and road infrastructure, predominately in the areas identified as Pearl Creek, Charley Creek and King Creek. This Stage 2 drilling program of 202 holes was completed in December 2006, including 97 holes totalling 10,449 metres which were drilled in the Charley Creek area during the year. Drilling results have been reported in full and are published on the Company's website.

A review of all geological and exploration data has been conducted leading to the establishment of targets for future exploration within the largely unexplored areas of EPCs 862 and 863.

The seismic traverses which were spaced throughout EPC 862 provided a framework for subsequent drilling by identifying zones in which coal measures are present at sub-crop, the dip of the bedding, and location of major faulting. Deep validation and assessment holes were then drilled in the northern part of EPC 862 within many of these target zones, and established the general stratigraphic sequence. Subsequently, more closely-spaced holes were drilled across some of the target zones, and were also used to delineate targets on infill traverses between some of the original lines.

Geological structure is complex, and steep dips and faulting are common. Eight main seams within the Rangel Coal Measures were identified from the validation drilling, but they do not usually have strong lithological or geophysical characteristics, and correlation is rarely straightforward. With stratigraphic

OPERATING AND FINANCIAL REVIEW

correlation, structural interpretation between drilling traverses is necessarily vague. Without reliable structural interpretation, it is not possible to make an assessment of the resource and this is the current position. Although uncertainties remain, the review has enabled a more detailed interpretation to be made, particularly by making a thorough examination of all the geophysical data. The results can now be used to guide future exploration, both in the north and in other parts of the prospect, by extrapolating knowledge of the style of deformation and patterns of sub-crop.

In the central part of EPC 862, no drilling has yet been done, but the seismic data can be used to locate validation boreholes in a manner similar to that done in the north. In the south of EPC 862, reliable data is available from scout drilling done in 1999, and from seismic traverses. Some reliable drilling data is also available from the Lochinvar in the northern part of EPC 1047, and some extrapolation into EPC 862 is possible. Depth of weathering in valleys in the southern part of EPC 862 may be less than that which has been found in the north, and the previous drilling gave indications of coal seams that warrant further investigation. This area is currently seen as a priority for exploration within EPC 862.

Further scout drilling is planned for the next twelve months along seismic lines yet to have validating drilling as a means of continuing the extension of knowledge of the Dingo coal occurrences.

An exploration program of scout drilling was commenced in EPC 863 during year ended 30 June 2008 and five scout holes were completed. Drilling results have been reported in full and are published on the Company's website. Initial indications are that the stratigraphy is similar to that of areas previously investigated.

A detailed review of all historical drilling and exploration activities, including analysis of existing coal quality results in the project was commissioned during the year and exploration planning, based on these results and integrated with 2-D seismic data has been commenced. Identified targets will be drill tested in the coming months following the commissioning of an additional drilling rig.



Drilling at the Surat Project

OPERATING AND FINANCIAL REVIEW

Surat Basin Projects

The Company's Surat Basin projects comprise:

- The Woori project (formerly known as the Guluguba project) (MDL 187).
- The Surat project (EPCs 796, 813, 1041, 1135, 1136 and 1170 and EPCAs 1134 and 1278).
- The Kingaroy project (EPC 882).
- The Condamine project (EPCs 963 and 1130).
- The Injune project (EPCs 1017 and 1018).
- A 20% interest in an underground coal gasification (UCG) joint venture (EPC 1118). In addition, Cougar Energy Limited has the right to earn a 70% interest, with the Company retaining a 30% interest, in a designated area covering deeper coal (>130 metres depth) and outside the open cut coal potential of SE QLD Energy Pty Ltd's EPC 882.
- A 25% interest in a coal to liquids (CTL) joint venture (sale negotiated).

The Company has had an interest in the thermal coal potential of the Surat Basin through its Woori project which was acquired in 2005. During the year ended 30 June 2008 the Company acquired SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd which held approximately 3,000 square kilometres of coal tenements in the Surat, Tarong and Clarence-Moreton Basins and joint venture interests in two coal technology orientated joint ventures.

During the year ended 30 June 2008 the Company also acquired EPCs 796 (Horse Creek) and 813 (Dogwood Creek) which cover an area of approximately 816 square kilometres and are contiguous with the Company's existing exploration tenements in the highly prospective energy province of the Surat Basin.

These strategic acquisitions allow Cockatoo to further progress an integrated exploration strategy over contiguous and/or closely located exploration tenements running for over 150 kilometres along the Surat Basin from near Oakey in the southeast to near Wandoan and Cockatoo's existing Woori project in the northwest.

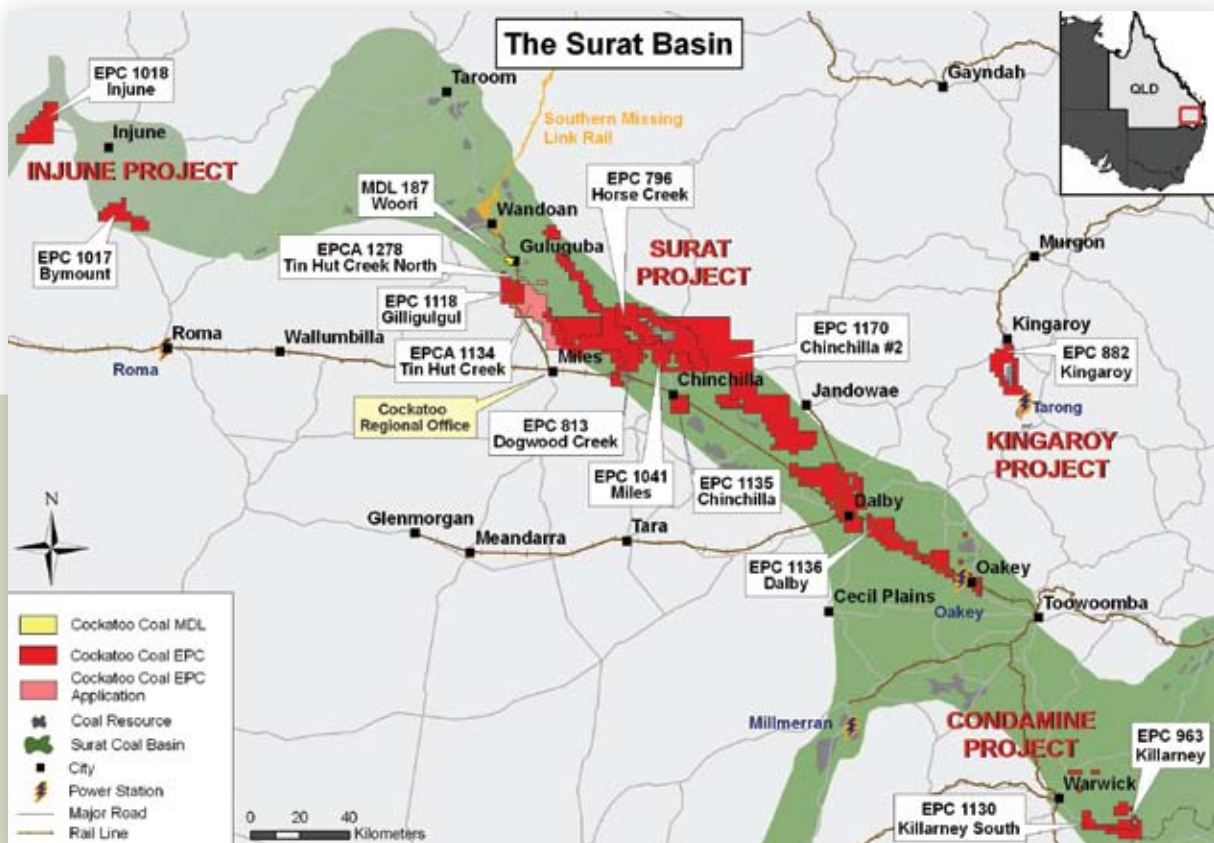
The Surat Basin is a well established energy province, with existing power developments, regional centres and service industries and existing infrastructure, which will be enhanced by the expected development of the Surat Basin Railway, connecting the region to the port of Gladstone by developing a rail freight corridor from Wandoan northwards to the existing rail line at Banana.

During the year ended 30 June 2008 the prospectivity of the Surat Basin was enhanced significantly by an announcement by the Queensland Government that it was satisfied that the proposed 210 kilometre 'missing link' railway line between Wandoan and Banana met public/private partnership value for money criteria. A consortium, comprising Australian Transport Energy Corridor, Queensland Rail, Xstrata Coal, Anglo Coal and Industry Funds Management, was given the exclusive mandate to advance the 'missing link' railway line project.

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

In anticipation of the decision to complete the Surat Basin Railway, the Company embarked on a drilling program to fast track the upgrading of the existing Woori project and also significantly increased its tenement holdings in the Surat Basin.

OPERATING AND FINANCIAL REVIEW



The Surat Basin is a well established energy province, with existing power developments, regional centres and service industries and existing infrastructure, which will be enhanced by the expected development of the Surat Basin Railway, connecting the region to the port of Gladstone by developing a rail freight corridor from Wandoan northwards to the existing rail line at Banana.

OPERATING AND FINANCIAL REVIEW

The Woori Project

The Company holds, through its subsidiary Surat Coal Pty Limited, a 100% interest in the Woori project (MDL 187). The Woori project is located adjacent to the Leichhardt Highway, 19 kilometres south of Wandoan and covers an area of 911.1 hectares which contain a full sequence of the coal bearing Walloon Sub-Group. The Juandah Coal Measures, the uppermost formation within the sub-group, sub-crops over the area. The coal is a high quality bituminous, high volatile, low ash and low nitrogen and sulphur pollutant steaming coal. An existing, disused, rail line crosses the Woori project.

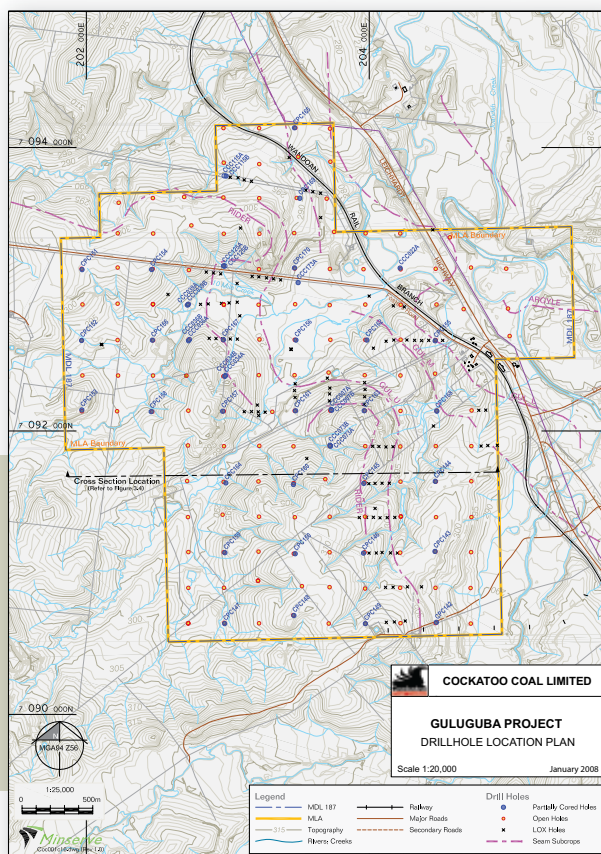
Exploration Activities

Three phases of drilling have been completed at the Woori project, including 30 part core and shallow oxidation drill holes during the year ended 30 June 2008 designed to provide coal quality data from part cored

holes at 500 metre centres to enable the reported Indicated Resources to be upgraded to a Measured Resource status. To date, the Company has completed:

- Drilling of 140 open holes on a 250 metre grid spacing covering most of the lease area.
- A 30 hole, part-cored program with holes drilled at 500 metre spacing adjacent to selected previous open hole locations.
- A program of 32 shallow (+20 metre) depth of weathering of the coal seams (oxidation or Lox line) holes.

All available drilling results have been reported in full and are published on the Company's website.



Woori Project Drill Hole Location Plan

OPERATING AND FINANCIAL REVIEW

During the year ended 30 June 2008, a new geological model of the Woori deposit was generated which includes all the geologic and coal quality data available. The modelling was carried out on a ply-by-ply basis, rather than whole of seam basis, to allow for the running of selective mining options. Five principal coal seams were previously recognised from the drilling, and the stratigraphy established from this exploration has been maintained in the subsequent modelling work:

Seam	Code
Woori Upper Rider	GULR
Woori Upper	GULU
Woori Middle	GULM
Woori Lower	GULL
Argyle	ARG

Cores were obtained of each of the 5 recognised seams in the Juandah Coal Measures. Logging of the core has shown that each seam may contain a number of non-coal bands of varying thickness which divide the coal into a number of plies. These individual plies can be recognised over a broad area of the deposit and sampling of the cores was carried out on the basis of these plies.

Coal Resources

As a result of structural and resource modelling that was completed during 2008, including further correlation and cross-checking of coal plies and interburden lithologies, an updated, JORC compliant Measured resource of 103.53 Mt of raw coal has been defined at a stripping ratio of 4.2:1.0. This is a significant increase from the previously known Indicated Resource of 56.18 million tonnes at a stripping ratio of approximately 5.0:1.0.

The updated resource estimate included a ply by ply correlation across the Woori deposit within MDL 187, utilising core and non-core drilling results integrated with down-hole geophysical logging of all holes.

Coal Quality

A program of analysis for quality of the individual samples obtained is currently being conducted. The analytical data will be reviewed in detail when finalised, to assess which plies will be composited for float/sink and other quality tests. Further analyses and detailed modelling of the deposit is required before typical product specifications can be determined.

Late in the year ended 30 June 2008, core drilling for washability test purposes was commenced as part of the project feasibility studies which are underway. Two core-drill rigs are completing a 14 hole full core drilling program. The deployment of 2 rigs will fast-track the completion of this drilling phase and will expedite laboratory analysis. Additional Lox drilling will be conducted as part of this program, improving definition of shallow coal resources.

Once completed, the washability results and additional refinement of the geological model will lead to an updated coal quality and washability specifications statement.

OPERATING AND FINANCIAL REVIEW

The Surat Project

The Company holds, through its subsidiary SE QLD Coal Pty Ltd and Surat Coal Pty Limited, a 100% interest in the Surat project which comprises EPCs 796 (Horse Creek), 813 (Dogwood Creek), 1041 (Miles), 1135 (Chinchilla), 1136 (Dalby), 1170 (Chinchilla #2) and EPCAs 1134 and 1278.

During the year ended 30 June 2008, EPCAs 1135 and 1170, to the east and southeast of Chinchilla were granted full EPC status. In addition, an application for EPCA 1278, to the south of Woori was submitted. These tenements complement the Company's strategic plan of exploration and development in the Surat Basin.

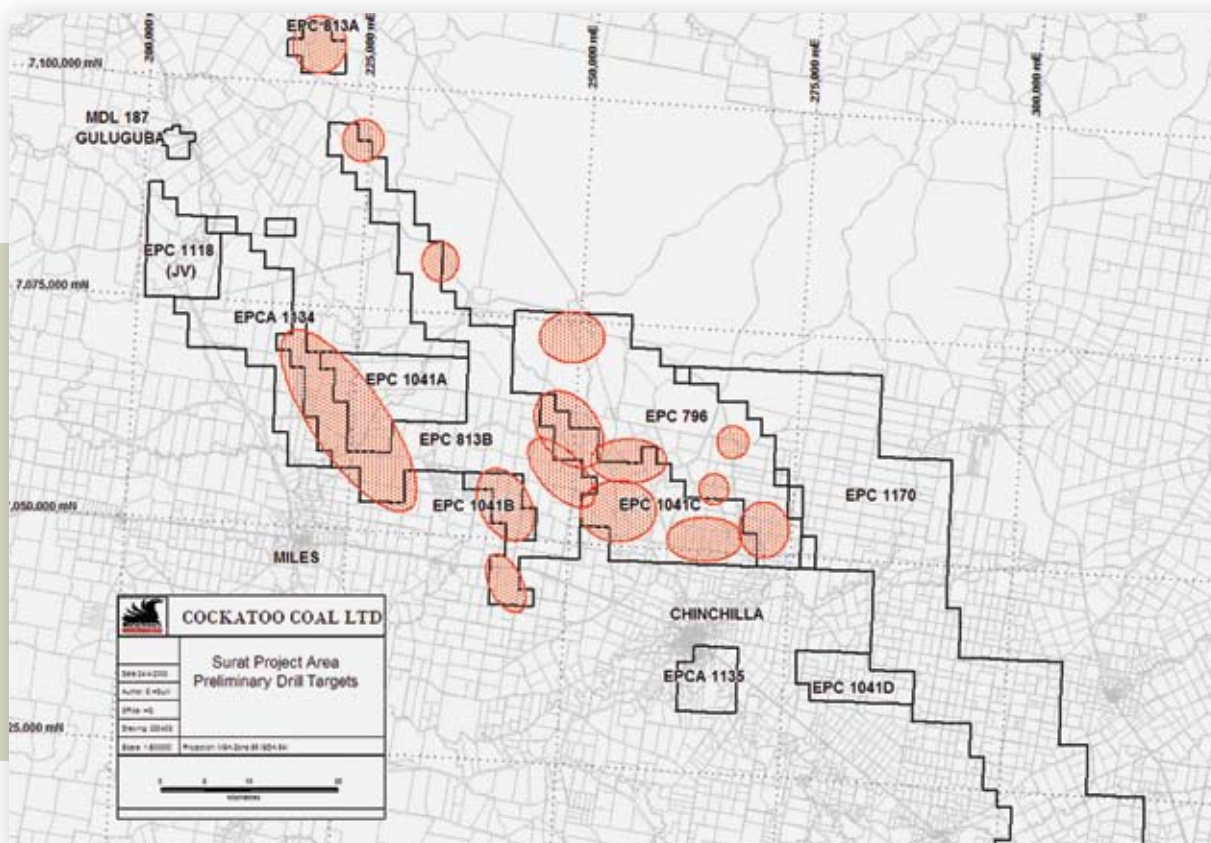
Collectively, these tenements allow the Company to pursue an integrated exploration strategy over contiguous and/or closely located exploration tenements running for over 150 kilometres along the

Surat Basin from near Oakey in the southeast up to near Wandoan and the Company's existing Woori tenement in the northwest.

The Surat project has the potential for open cut mining of export thermal coal. EPC 1041 (Miles) has the highest potential with a target in situ deposit in the range of 200 to 400 million tonnes of coal at reasonable depths with an export thermal fraction available for washing.

Exploration Activities

Subsequent to the acquisition of these tenements, a series of exploration targets has been delineated based on drill hole coal seam intersections, despite significant delays due to rain during December 2007 to March 2008, the Company commenced and has continued a successful open hole drilling program in the Miles and Chinchilla areas of EPC 1041.



Surat Project Areas and Preliminary Drill Targets

OPERATING AND FINANCIAL REVIEW

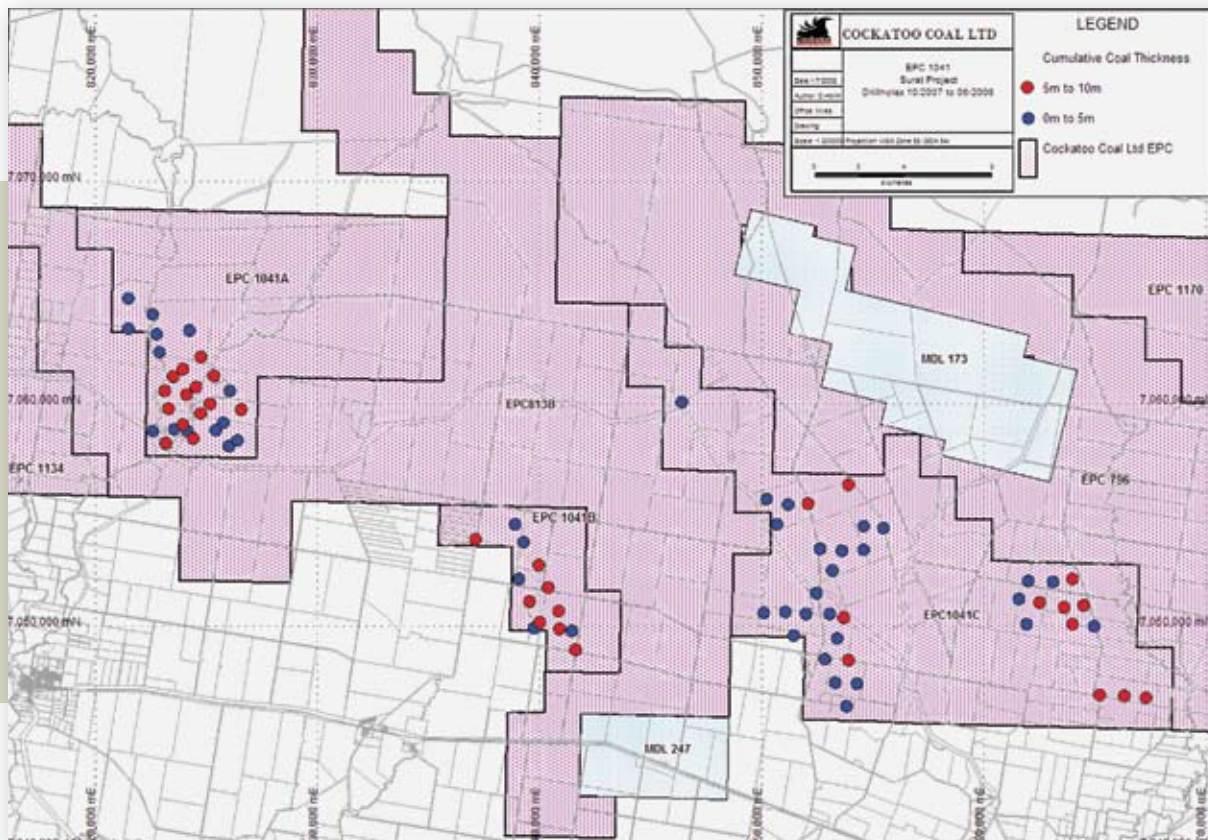
The Company is utilising 2 exploration rigs to achieve its regional exploration targets at the Surat project. Ninety nine holes have now been drilled in EPC 1041 (Miles) for 12,566 metres.

Drill hole co-ordinates and cumulative thickness of coal as determined from downhole geophysical logging have previously been reported in full by the Company and are available on the Company's website. In summary, cumulative downhole coal intercepts of up to 10.5 metres have been achieved with average intercepts of 4.9 metres, over an area of 80 km² on 1.0 kilometre drill centres.

Site preparation is now underway for the commencement of regional scout drilling in EPCs 796 and 813. Strategic exploration within these tenements will advance the definition of targets identified in EPC 1041, in the current phase of open hole drilling. It will also generate additional core hole targets that will be drilled.

Open hole drilling to an average depth of approximately 130 metres has been undertaken in EPC 1041A, B and C. The drill hole collars are on average 1.0 kilometres apart, enabling rapid scout drilling coverage of the Company's extensive EPC holdings in the Surat Basin.

Through the scout drilling program, 4 key areas demanding follow up drill testing have been identified in EPC 1041. These areas have average cumulative coal intercepts of 7.3 metres with calculated strip ratios of 11.1 BCM per tonne. Core drill holes for coal quality test work which will be drilled in the near future are designed to elevating coal resources within the Company's Surat project to a JORC compliant standard.



EPC 1041 Drill Hole and Cumulative Coal Thicknesses

OPERATING AND FINANCIAL REVIEW

The Kingaroy Project

The Company holds, through its subsidiary, SE QLD Energy Pty Ltd, a 100% interest in the Kingaroy project (EPC 882) and the Taabinga coal deposit therein.

EPC 882 is situated south of Kingaroy in, the South Burnett Region. The northern area of EPC 882, described as Taabinga, has a Measured and Indicated resource totalling 163.8 Mt (35.5 Mt Measured and 128.3 Mt Indicated). The three main seams present at Taabinga are the Kunioon, Swain and Goodger seams.

The Kingaroy project is strategically located 25 kilometres from the Tarong Power Station, one of the largest power stations in Queensland. Tarong Energy Corporation has announced that it will develop the Kunioon coal deposit, acquired by Tarong Energy Corporation in February 2008 for \$152 million, for future supply to Tarong power station.

The Kunioon deposit is encircled by the Company's Kingaroy project and potential synergies with Tarong Energy are being evaluated by the Company.

During the year ended 30 June 2008 an underground coal gasification exploration drilling program, managed by the Company's joint venture partner Cougar Energy Limited, was commenced.

The Condamine Project and CTL Joint Venture

The Company holds, through its subsidiary, SE QLD Coal Pty Ltd, a 100% interest in the Condamine project (EPCs 963 and 1130). In addition, the Company has a 25% interest in a coal to liquids project with Eastern Mining Corporation Pty Limited over a portion of adjacent EPCs 935, 936, 1076, 1137 and 1138.

The Condamine project tenements were originally acquired to explore the potential of an open pit coal deposit suitable for a coal to liquids project. Eastern Mining Corporation Pty Limited is a subsidiary of the Brisbane based coal to liquids specialists Ambre Energy Limited and, under the terms of the joint venture, can earn a 75% interest in the tenements by exploration and evaluation expenditure of \$2.0 million.

As the joint venture does not fit with the Company's core business objectives of coal exploration, development and mining, during the year ended 30 June 2008 the Company negotiated the sale of the Company's 25% interest in the CTL technology joint venture, comprising the Company's title in or farm-in rights to EPCs 935, 936, 1076, 1137 and 1138 with Eastern Mining Corporation Pty Limited for \$1.0 million and certain other future entitlements. Subsequently, this agreed sale price was renegotiated for approximately 520,000 shares in Eastern Mining Corporation Pty Limited's parent company Ambre Energy Limited which recently completed a private placement of shares at \$4.80 per share. The Company's shareholding in Ambre Energy Limited will be a passive minority holding and give the Company exposure to the potential success of the CTL technology.

OPERATING AND FINANCIAL REVIEW

The Injune Project

The Company holds, through its subsidiary, SE QLD Coal Pty Ltd, a 100% interest in the Injune project (EPCs 1017 and 1018).

EPCs 1017 and 1018 are located approximately 100 kilometres west of Wandoan. Historical drilling results have intersected coal belonging to the Juandah Coal Measures. Targeted coal deposits with a cumulative coal thickness in excess of 4.0 metres and at a strip ratio of less than 6 BCM per tonne have been identified.



Drilling at the Surat Project

The UCG Joint Venture

The Company holds, through its subsidiary, SE QLD Coal Pty Ltd, a 20% interest in a UCG project with Cougar Energy Limited over EPC 1118. In addition, Cougar Energy Limited has the right to earn a 70% interest, with the Company retaining a 30% interest, in a designated area covering deeper coal (>130 metres depth) and outside the open cut coal potential of SE QLD Energy Pty Ltd's EPC 882.

The joint venture is pursuing the development of a commercial underground gasification project for power generation. Cougar Energy Limited is planning to construct a 40 megawatt power plant fuelled by gas supplied by underground coal gasification. Cougar Energy Limited has spent more than \$250,000 to earn its current 51% interest and has advised its intention to spend an additional \$500,000 to increase its interest in the joint venture to 70%.

As the joint venture does not fit with the Company's core business objectives of coal exploration, development and mining, the Company is in the process of negotiating the sale of the Company's 20% interest in the UCG technology joint venture.

Mintovale

The Company also holds, through its wholly owned subsidiary, Moreton Coal Pty Limited, a 100% interest in Mintovale (MDL 138). Mintovale covers 244 hectares near Boonah, 60 kilometres southwest of Brisbane. A target deposit of 5.0 million tonnes at a 5:1 strip ratio was calculated by an independent expert using exploration data provided by a previous owner.

The coal is a high quality bituminous, high volatile, low ash and low pollutant steaming coal. Additional drilling is required to provide coal quality data with two core holes needed to confirm the consistency of the seam characteristics. Due to the focus on the Bowen Basin and Surat Basin projects, no field work was conducted on the Mintovale project by the Company during the year ended 30 June 2008.

OPERATING AND FINANCIAL REVIEW

Infrastructure

The Company considers access to infrastructure, particularly rail and port capacities, to be a critical issue in the development of the Company's projects. Accordingly, the Company is an industry participant actively supporting infrastructure developments and the Company is being actively positioned to secure rail and port infrastructure entitlements designed to align capacity and planning of all key projects with a projected 2012 start-up date targeted for the key Wiggins Island Coal Export Terminal project in Gladstone.

Surat Basin Railway

The construction of the Surat Basin Railway (the Southern Missing Link) is an essential link in opening access to the major coal export port of Gladstone for the Company's Surat Basin tenements.

During the year ended 30 June 2008, major developments by the Surat Basin Railway Joint Venture include:

- Granting by the Queensland Government of the exclusive mandate to develop an open-access rail link to connect the Surat Basin to the Port of Gladstone in July 2007 and the project has been granted State Significant Project Status.
- The initial Surat Basin Railway is planned to be constructed from Wandoan to the existing Moura to Gladstone rail line, joining at the town of Banana. The preferred route between Wandoan and Banana was finalised during the year.
- Engineering consultants to the Surat Basin Railway have been appointed.
- Draft terms of reference for the Surat Basin Railway's EIS have been published for public comment.

The Company has continued discussions with the Surat Basin Railway Joint Venture during the year, including:

- Lodgement of indicative tonnage profiles with the Surat Basin Railway Joint Venture and Queensland Rail for future volumes on the railway line to Gladstone which will form the basis of future contracts for capacity on the Surat Basin Railway.
- Location of the rail head in Wandoan and discussions with the Surat Basin Railway Joint Venture and Queensland Rail regarding an extension of the heavy rail line to the Company's Woori project, located approximately 17 kilometres south of Wandoan.
- Expressions of interest with the Surat Basin Railway Joint Venture and Queensland Rail regarding route options for the extension of the heavy freight line south from Wandoan past the Company's Surat project to Chinchilla.

OPERATING AND FINANCIAL REVIEW

Queensland Rail

During the year, the Company progressed discussions with Queensland Rail on key infrastructure links as follows:

- Upgrade of Moura to Gladstone rail line in order to cope with the volumes of additional freight traffic to be generated by completion of the Surat Basin Railway.
- The Company has joined with other existing and potential coal companies using the Moura to Gladstone rail line to agree in principal support for underwriting the cost of the feasibility study needed to define the detailed scope of the upgrade.
- Development of an initial scoping study by Queensland Rail for rail options to link the Company's Wonbindi project area with the Moura to Gladstone rail line, including lodgement of an Indicative Access Proposal for capacity on the line as enhancements to the existing rail infrastructure are completed.
- Integrated planning discussions with Queensland Rail and other key infrastructure providers developed on a formalised basis to ensure consistent and interlinked planning and development of capacity profiles in parallel with the Company's project development schedules.

Gladstone Port - Wiggins Island Coal Export Terminal

Development of a new coal loading facility at the existing coal export port of Gladstone is another essential element to permit new volumes of coal from the Company's projects, and other users, to reach international markets.

The Gladstone Port Corporation is progressing the Wiggins Island Coal Export Terminal project in order to address the industry demand for additional long term throughput via Gladstone. The Wiggins Island project is presently envisaged as a three-stage development with an ultimate throughput capacity of 70 Mtpa with initial loading expected from mid 2012. Additional capacity is envisaged by the Gladstone Port Corporation if further

infrastructure and systems can be developed to link and optimise the existing RG Tanner coal terminal with the Wiggins Island coal terminal.

During the year ended 30 June 2008, major developments by the Gladstone Port Corporation included:

- The Gladstone Port Corporation completed a preliminary engineering study for the Wiggins Island project.
- A final Environmental Impact Statement was completed and approved by the Queensland Government.
- The Federal Minister for the Environment assented to the Wiggins Island project Environmental Impact Statement, allowing the project to move to full feasibility and engineering studies.
- A detailed feasibility study and engineering design for Stage 1 of the Wiggins Island project was commenced.

During the year, the Company progressed discussions with the Gladstone Port Corporation as follows:

- Lodging and confirming tonnage requests sought for the Company's future throughput capacity at the Wiggins Island Coal Export Terminal.
- Confirming support for an underwriting agreement for the funding of the Wiggins Island project.
- Negotiating, in concert with other industry participants, the terms of a Feasibility Study Funding Agreement. Participation in this agreement is expected to secure a first right to negotiate binding take or pay capacity contracts.

The Feasibility Study Funding Agreement is not expected to be completed and signed until later in 2008 due to the complex discussions required between Gladstone Port Corporation, the Queensland Government and the coal industry participants.

OPERATING AND FINANCIAL REVIEW

Other

The information in this report that relates to Exploration Results or Mineral Resources is based on information compiled by Oliver Holm, geologist, who is a Member of the Australasian Institute of Mining and Metallurgy. Oliver Holm is a full-time employee of the Company who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Oliver Holm has consented to the inclusion in this report of the matters based on his information in the form and context in which they appear.



STATEMENT OF CORPORATE GOVERNANCE

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, which comply with the Australian Stock Exchange ('ASX') Corporate Governance Council recommendations, unless otherwise stated.

Board of Directors

The Board of Directors is responsible for the overall corporate governance of the Group including its strategic direction, setting remuneration, establishing goals for management and monitoring the achievement of these goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

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 Company with the appropriate levels of both expertise and experience. The Board comprises a majority of independent, non-executive Directors. The independence of Directors is based on their capacity to put the best interests of the Company and its shareholders ahead of all other interests.

Should a Board vacancy exist, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board identifies a panel of candidates with appropriate expertise and experience. A selection procedure is then completed and the Board appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Directors, other than the Managing Director, are subject to re-election by the shareholders at least every three years.

Having regard to the current membership of the Board and the size, organisational complexity and scope of operations of the Group, a Nomination Committee has not been established.

Each Director has the right to seek independent professional advice at the Group's expense. Prior approval of the Chairman is required, but such approval is not unreasonably withheld. A copy of the advice received by the Director is made available to all other members of the Board.

In the event that a potential conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter.

Directors, officers and employees are permitted to trade in the Company's securities only in accordance with the provisions of the Corporations Act and ASX Listing Rules. The Directors are under an obligation to report any dealings by them in the Company's securities.



STATEMENT OF CORPORATE GOVERNANCE

Remuneration Committee

The Remuneration Committee has a documented charter, approved by the Board, which outlines the committee's responsibilities, composition, frequency of meetings, authority and the charter review process. The committee comprises a minimum of three members, of which a majority are non-executive Directors. The Chairperson may not be the Chairperson of the Board.

During the year, the composition of the Remuneration Committee was:

- J. Gillis Broinowski (Chairman)
- Mark H. Lochtenberg
- Lindsay R. Flint

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

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 and incentive policy.
- The remuneration of the Managing Director and any other executive Directors, the Company Secretary and all senior executives reporting directly to the Managing Director.
- An executive incentive plan and an equity based incentive plan.

- The remuneration of non-executive Directors.
- Superannuation arrangements.
- Recruitment, retention, performance measurement and termination policies and procedures for non-executive Directors, the Managing Director and any other executive Directors, the Company Secretary and all senior executives reporting directly to the Managing Director.
- The disclosure of remuneration in the Company's public materials including ASX filings and the Annual Report.

Remuneration of non-executive Directors is determined by the Board, upon the recommendation of the Remuneration Committee, within the maximum amount approved by Shareholders from time to time. The Remuneration Committee reviews and establishes the level of remuneration for non-executive Directors. The level of Director remuneration is to be set so as to attract the best candidates for the Board while maintaining a level commensurate with boards of similar size and type. There are no schemes for retirement benefits, other than superannuation, for non-executive Directors.

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.

STATEMENT OF CORPORATE GOVERNANCE

Audit Committee

The Audit Committee has a documented charter, approved by the Board. The committee comprises a minimum of three members, of which a majority are non-executive Directors. The Chairperson may not be the Chairperson of the Board.

During the year, the composition of the Audit Committee was:

- Paul G. Chappell (Chairman)
- Peter J. Nightingale
- Robert A. Yeates

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

The 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 chief executive officer and the chief financial officer declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 30 June 2008 comply with accounting standards and present a true and fair view of the Company'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 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 Company's code of ethical standards.
- Organise, review and report on any special reviews or investigations deemed necessary by the Board.
- Address any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

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.
- Review the results and findings of the audit, the adequacy of accounting and financial controls and to monitor the implementation of any recommendations made.

STATEMENT OF CORPORATE GOVERNANCE

Internal Controls

The Board of Directors 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 Group 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 Group.

The full Board takes responsibility for reviewing financial reporting procedures, internal controls and the performance of financial management. Selected internal control mechanisms employed to support the business include:

- Investment appraisal - the Company has documented guidelines for capital expenditure and investment appraisals. These include annual budgets, expenditure review procedures and appropriate levels of authority.
- Business planning, budgeting and reporting - a comprehensive business planning process includes evaluation of strategies, objectives, and risks resulting in an annual budget approved by the Board. Monthly actual performance is reported against budget and revised forecasts for the year are prepared regularly.
- Quality and integrity of employees - there are clearly defined accountabilities, performance measures, and reinforcement of values and ethics by management.

The Managing Director and CFO state in writing to the Board that the Group's financial statements present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards.

External Auditors

Board nominees review the performance of the external auditors and the Audit Committee and CFO meet with them during the half yearly review and annual audit to discuss any issues that have arisen with respect to accounting policies, any significant operational issues and the level of proposed audit fees. The auditor is requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

KPMG, the Company's auditors, were appointed on 25 July 2005.

Ethical Standards

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, endeavouring at all times to enhance the performance and reputation of the Group.

Directors, officers and employees are permitted to trade in the Company's securities only in accordance with the provisions of the Corporations Act and ASX Listing Rules. The Directors are under an obligation to report any dealings by them in the Company's securities.

STATEMENT OF CORPORATE GOVERNANCE

The Role of Shareholders

The Board ensures that the shareholders are informed of all major developments affecting the Group by the following means:

- Distribution of the Annual Report to all shareholders which contains relevant information about the operations of the Group during the year in addition to disclosures required by the Corporations Act 2001.
- Lodgement of quarterly reports with the ASX which show summarised financial information for the quarter. Copies of these reports are available to shareholders on request.
- Lodgement of the half yearly report with the ASX which contains summarised and audit reviewed financial information. Copies of half yearly financial statements prepared in accordance with the Corporations Act are available to shareholders on request.
- Lodgement and distribution of the Annual Report, which contains full audited financial information, in accordance with the Corporations Act.
- Announcements to the ASX concerning any significant development in the Group's operations, financing and administration. All announcements are immediately available to the general public.
- Disclosure of all major announcements to the ASX on the Company's website.

The Annual General Meeting is the main opportunity for the shareholders to hear the Managing Director and Chairman provide updates on the Company's performance, ask questions of the Board and to express views and vote on various matters of business on the agenda.

The shareholders are responsible for voting on the appointment of Directors.

Risk Management

Due to the size of the Company, the number of officers and employees and the nature of the Company's business, a formal risk management policy and internal compliance and control system has not been implemented. The Managing Director and CFO declare, in writing, to the Board that the system of risk management and internal compliance and control which implements the policies adopted by the Board has been assessed and found to be operating efficiently and effectively in all material respects.

Each Director reviews the business risks affecting his particular area of expertise annually and reports to the Board. The Board then determines the appropriate actions to eliminate or minimise the identified business risks. The full Board oversees the establishment, implementation and ongoing review of the Group's risk management and internal control system. The internal control system covers financial, operational and compliance risks.

Recommendations made by external auditors and other external advisers are investigated by the Board and, where necessary, appropriate action is taken to ensure that the Group has the internal control environment to manage the key risks identified. Ways of enhancing existing risk management strategies, including segregation of duties, employment and training of suitably qualified and experienced personnel are investigated by the Board.

Performance Evaluation of the Board and Key Executives

Given the size and nature of the Group and the number of key executives, the Board has adopted an informal and continuous performance evaluation process of its key executives. The Company has not established formal performance review measures for the Board or key executives nor has it established a Nomination Committee.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Cockatoo Coal Limited ('the Company') and of the Group, being the Company and its controlled entities, for the year ended 30 June 2008 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:

Norman Alfred Seckold



Executive Chairman

Director since 28 January 2005.

Norman Seckold graduated with a Bachelor of Economics degree from the University of Sydney in 1970. He has spent more than 25 years in the full time management of natural resource companies, both in Australia and overseas.

Mr Seckold has been the Chairman of a number of publicly listed companies including Moruya Gold Mines (1983) N.L., which acquired the Golden Reward heap leach gold deposit in South Dakota, USA, Pangea Resources Limited, which acquired and developed the Pauper's Dream gold mine in Montana, USA, Timberline Minerals, Inc. which acquired and completed a feasibility study for the development of the MacArthur copper deposit in Nevada, USA, Perseverance Corporation Limited, which discovered and developed the Nagambie gold mine in Victoria, Valdora Minerals N.L., which developed the Rustler's Roost gold mine in the Northern Territory and the Ballarat East Gold Mine in Victoria, Viking Gold Corporation, which discovered a high grade gold deposit in northern Sweden and Mogul Mining N.L., which drilled out the Magistral and Ocampo gold deposits in Mexico and Bolnisi Gold N.L., which discovered and is currently developing the Palmarejo and Guadalupe gold and silver deposits in Mexico.

Mr Seckold is currently a director of Kings Minerals N.L., a company exploring for precious and base metals in Australia and its Canadian listed subsidiary San Anton Resources Inc which is exploring for precious and base metals in Mexico and Planet Gas Limited, a coalbed methane exploration and development company operating in Australia and the USA.

Mark Hamish Lochtenberg



Managing Director

Director since 28 January 2005.

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.

Peter James Nightingale



Executive Director, Chief Financial Officer and Company Secretary

Director since 28 January 2005.

As a director or company secretary Mr Nightingale has, for more than 20 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 Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals N.L., ETT Limited and Bolnisi Gold N.L.. Mr Nightingale is currently a director Planet Gas Limited.

DIRECTORS' REPORT

John Gillis Broinowski



Independent, Non-executive Director

Director since 25 July 2005.

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, a director, and former President of the Foundation for National Parks & Wildlife and former President and director of the NSW Chamber of Commerce & Industry (Australian Business Limited, Chamber of Manufacturers of NSW).

Mr Broinowski has had in excess of 25 year's 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 since 19 December 2005.

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 and is a Fellow of the Australian Society of Certified Practising Accountants. 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 group's head office in The Netherlands and was Director Commercial Operations Asia. He retains this role and relocated to Australia in October 2007.

Lindsay Ross Flint



Independent, Non-executive Director

Director since 25 July 2005.

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, Dr Flint has 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 all of Shell Coal's global sales and distribution until Shell divested its coal interests to Anglo American in 2000.

Dr Flint continued with Anglo Coal Australia as General Manager Marketing for the following two years and has since maintained an active involvement in international coal, working with a major solid fuels trader, SSM Coal B.V., now Oxbow Carbon & Minerals LLC.

DIRECTORS' REPORT

Hak Hee Lee



Independent, Non-executive Director

Director since 30 November 2006.

Hak Hee Lee is a director of SK Australia Pty Limited, a subsidiary of SK Corporation, the largest energy company in Korea with major business areas being petroleum refining, petrochemical and coal. Mr Lee has spent 22 years in the energy industry in new business development and overseas investment positions with a focus on coal.

Sun Moon Woo



Independent, Non-executive Director

Director since 25 September 2007.

Sun Moon Woo is a graduate of Seoul National University in Korea, completing a Bachelor of Engineering (Mining) in 1980 and a Masters course in 1982.

He joined POSCO in 1983, since then has worked in the Raw Materials Purchasing Division and the Investments Division for 25 years, accumulating a profound knowledge about the resources industry. He has conducted various investment projects in iron ore and coal mines all over the world including Australia and Brazil.

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

Robert Ainslie Yeates



Independent, Non-executive Director

Director since 25 July 2005.

Rob 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. He 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 8 years has been principal of his own mine management consultancy, providing a full range of technical, management and strategic planning services to the mining industry.

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 Company as required from time to time by the Company. These services will be carried out by, amongst others, Rob Yeates.

John Christopher Cook

Independent, Non-executive Alternate Director for Paul Chappell

Director from 16 February 2006 to 31 October 2007.

Chris Cook has been involved in the coal industry for more than 30 years, culminating in his appointment as Managing Director/CEO of SSM Coal B.V. in the Netherlands until his retirement in 1995 and return to a private consultancy practice in Australia.

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
Norman A. Seckold	5	4	-	-	-	-
Mark H. Lochtenberg	5	5	-	-	-	-
Peter J. Nightingale	5	5	-	-	-	-
J. Gillis Broinowski	5	4	-	-	-	-
Paul G. Chappell	5	4	-	-	-	-
Lindsay R. Flint	5	5	-	-	-	-
Hak Hee Lee	5	5	-	-	-	-
Sun Moon Woo	4	3	-	-	-	-
Robert A. Yeates	5	4	-	-	-	-
J. Chris Cook (alternate)	2	1	-	-	-	-

* Since the end of the financial year there has been one meeting of each of the Audit Committee and Remuneration Committee.

Directors' Interests

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

Specified Directors	Held at 1 July 2007	Purchased	Sold	Held at 30 June 2008
Norman A. Seckold	19,750,002	-	-	19,750,002
Mark H. Lochtenberg	37,500,004	-	-	37,500,004
Peter J. Nightingale	13,010,002	-	-	13,010,002
J. Gillis Broinowski	1,500,000	-	-	1,500,000
Paul G. Chappell	-	570,000	-	570,000
Lindsay R. Flint	1,000,000	-	-	1,000,000
Hak Hee Lee	-	-	-	-
Sun Moon Woo	-	-	-	-
Robert A. Yeates	1,050,000	-	-	1,050,000
J. Chris Cook (alternate)	-	-	-	-*

* Number held at the date of the resignation as an alternate Director.

No shares were granted to key management personnel during the reporting period as compensation in 2007 or 2008.

DIRECTORS' REPORT

Remuneration Report - Audited

The policy of remuneration of Directors is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Other than the Managing Director, the Directors are not employed directly by the Group. Their services are provided by way of arrangements with related parties. The remuneration disclosed below represents the cost to the Group for the services provided under these arrangements.

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

		Primary Fees	Superannuation	Total
	Year	\$	\$	\$
Executive Directors				
Norman A. Seckold (Chairman)	2008	90,000	-	90,000
	2007	90,000	-	90,000
Mark H. Lochtenberg (Managing Director)	2008	208,000	18,720	226,720
	2007	200,000	18,000	218,000
Peter J. Nightingale (Director, Company Secretary and Chief Financial Officer)	2008	120,000	-	120,000
	2007	90,000	-	90,000
Non-executive independent Directors				
J. Gillis Broinowski	2008	30,000	-	30,000
	2007	30,000	-	30,000
Paul G. Chappell	2008	30,000	-	30,000
	2007	30,000	-	30,000
Lindsay R. Flint	2008	30,000	-	30,000
	2007	30,000	-	30,000
Robert A. Yeates	2008	64,627	-	64,627
	2007	83,383	-	83,383
Non-executive Directors				
Hak Hee Lee	2008	30,000	-	30,000
	2007	17,500	-	17,500
Sun Moon Woo	2008	22,500	-	22,500
	2007	-	-	-
Total, all specified Directors	2008	625,127	18,720	643,847
	2007	570,883	18,000	588,883

DIRECTORS' REPORT

There are no senior executives of the Company or Group that are not Directors and no Directors receive performance related remuneration. There are no service contracts and no bonuses or other performance related compensation paid. No shares or options were granted to key management personnel during the reporting period as compensation in 2007 or 2008.

Total compensation for all non-executive Directors is determined by the Board based on market conditions.

Consequences of performance on shareholders' wealth - Audited

In considering the Group's performance and benefits for shareholders' wealth, the Remuneration Committee have regard to the following indices in respect of the current financial year and the previous two financial years.

	2008	2007	2006
Net loss attributable to equity holders of the parent	\$1,531,500	\$214,783	\$124,437
Dividends paid	-	-	-
Change in share price	\$0.64	\$0.05	\$(0.04)

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

Principal Activities

The Company and 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 has occurred during the year.

Financial Result and Operating and Financial Review

The operating loss of the Group for the financial year ended 30 June 2008 after income tax was \$1,531,500 (2007 - \$214,783).

A review of the Company's and 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 2008. No dividends have been paid or declared during the financial year.

DIRECTORS' REPORT

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 2008 were as follows:

- The continued exploration and drilling of the Company's Bowen Basin and Surat Basin projects.
- Completed the acquisition of all of the issued capital of SE QLD Coal Pty Limited and SE QLD Energy Pty Limited.
- Completion of the acquisition of Surat Basin EPCs 796 (Horse Creek) and 813 (Dogwood Creek) - adjacent to existing Surat Basin projects.
- Issued 73.6 million shares to POSCO Australia Pty Limited for \$25.0 million.
- Issued 40.0 million shares to Korea Electric Power Company and Korea East West Power Company for \$16.8 million.
- Issued 11.5 million shares to Kores Australia Pty Limited for \$4.83 million.

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.

Employees

The Company and Group have 8 employees (2007 - 1 employee).

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 regularly monitors compliance with environmental regulations. The Directors are not aware of any significant breaches of these regulations during the period covered by this report.

Events Subsequent to Balance Date

Other than as disclosed in the Subsequent Events note to the financial report, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely Developments

Information as to 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.

DIRECTORS' REPORT

Indemnification of Officers and Auditors

During or since the end of the financial year, the Company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Company against a liability incurred by such an officer or auditor. In addition, the Company has not paid or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

Options

At the date of this report, unissued ordinary shares of the Company under option are (2007 - nil):

Number of options	Exercise price	Expiry date
1,000,000	\$0.20	30 June 2012
500,000	\$0.25	30 June 2012
500,000	\$0.30	30 June 2012
1,500,000	\$0.60	30 June 2012
750,000	\$0.70	30 June 2012
750,000	\$0.80	30 June 2012

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. There are no unissued shares under option as at the date of this report.

Non-audit Services

During the year KPMG, the Company's auditor, performed no other services in addition to their statutory duties.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act 2001 is included in the Directors' Report.

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

	Consolidated	
	2008 \$	2007 \$
Statutory audit: Auditors of the Company - audit and review of financial reports	35,839	27,347
	35,839	27,347

DIRECTORS' REPORT

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

The lead auditor's independence declaration is set out on page 40 and forms part of the Directors' Report for the year ended 30 June 2008.

Signed at Sydney this 5th day of September 2008
in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Chairman



Mark H. Lochtenberg
Managing Director

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DIRECTORS' REPORT

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 2008, there have been:

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



KPMG



S.J. Board
Partner

5 September 2008

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2008

FINANCIAL REPORT

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
Profit on the sale of investment		-	34,528	-	34,528
Administration and consultants' expenses		(2,368,263)	(1,239,249)	(2,367,198)	(1,241,131)
Impairment losses	11	-	-	(25,132,285)	(6,032,675)
Share based remuneration	18	(1,539,273)	-	(1,539,273)	-
Travel expenses		(391,061)	(53,287)	(391,061)	(53,287)
Other expenses	4	(162,526)	(126,068)	(162,526)	(126,068)
Results from operating activities		(4,461,123)	(1,384,076)	(29,592,343)	(7,418,633)
Financial income	5	2,929,623	1,169,293	3,709,225	1,710,691
Loss before income tax		(1,531,500)	(214,783)	(25,883,118)	(5,707,942)
Income tax expense	6	-	-	-	-
Loss for the year		(1,531,500)	(214,783)	(25,883,118)	(5,707,942)
Attributable to:					
Equity holders of the parent		(1,531,500)	(214,783)	(25,883,118)	(5,707,942)
Minority interest		-	-	-	-
Loss for the year		(1,531,500)	(214,783)	(25,883,118)	(5,707,942)
Basic loss per share attributable to ordinary equity holders	7	(0.49) cents	(0.08) cents		
Diluted loss per share attributable to ordinary equity holders	7	(0.49) cents	(0.08) cents		

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
Loss for the year	16	(1,531,500)	(214,783)	(25,883,118)	(5,707,942)
Total recognised income and expense for the year	16	(1,531,500)	(214,783)	(25,883,118)	(5,707,942)
Attributable to:					
Equity holders of the parent		(1,531,500)	(214,783)	(25,883,118)	(5,707,942)
Minority interest		-	-	-	-
Total recognised income and expense for the year	16	(1,531,500)	(214,783)	(25,883,118)	(5,707,942)

Other movements in equity arising from transactions with owners as owners are set out in note 16.

BALANCE SHEETS

AS AT 30 JUNE 2008

Current assets

Cash and cash equivalents	19	2,461,807	20,977,746	2,457,767	20,845,972
Term deposits	8	52,000,000	-	52,000,000	-
Trade and other receivables	9	1,054,202	132,544	1,052,081	130,499
Other	10	487,947	-	487,947	-

Total current assets

56,003,956 21,110,290 55,997,795 20,976,471

Non-current assets

Trade and other receivables	9	-	-	-	-
Investments	11	-	-	-	-
Exploration and evaluation expenditure	12	38,079,404	13,956,752	-	-
Property, plant and equipment	13	731,831	-	263,659	-
Other	10	197,184	311,351	133,099	270,000

Total non-current assets

39,008,419 14,268,103 396,758 270,000

Total assets

95,012,375 35,378,393 56,394,553 21,246,471

Current liabilities

Trade and other payables	14	1,169,454	371,647	1,035,172	371,647
Employee benefits		34,086	61,729	34,086	61,729

Total current liabilities

1,203,540 433,376 1,069,258 433,376

Net assets

93,808,835 34,945,017 55,325,295 20,813,095

Equity

Issued capital	16	93,535,762	35,280,762	93,535,762	35,280,762
Option premium reserve	16	2,140,318	-	2,140,318	-
Retained losses	16	(1,867,861)	(336,361)	(40,350,785)	(14,467,667)
Total parent entity interest		93,808,219	34,944,401	55,325,295	20,813,095
Minority interests	16	616	616	-	-

Total equity

93,808,835 34,945,017 55,325,295 20,813,095

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash flows from operating activities					
Cash payments in the course of operations		(2,311,395)	(1,364,882)	(1,659,225)	(1,417,536)
Payments for exploration and evaluation		(4,273,536)	(3,374,991)	-	-
Cash generated from operations		(6,584,931)	(4,739,873)	(1,659,225)	(1,417,536)
Interest received		2,068,662	1,169,293	2,063,188	1,166,975
Net cash from operating activities	19	(4,516,269)	(3,570,580)	403,963	(250,561)
Cash flows from investing activities					
Investments in controlled entities		-	-	(8,260,670)	(3,323,008)
Deposits to term deposits		(52,000,000)	-	(52,000,000)	-
Payment for investment		-	(69,922)	-	(69,922)
Proceeds on sale of investments		-	103,309	-	103,309
Payments for property, plant and equipment		(750,296)	-	(282,124)	-
Payments for acquisition of mining projects		(7,750,000)	(1,905,214)	(4,750,000)	(2,000,000)
Payments for option purchase agreement		-	(250,000)	-	(250,000)
Proceeds from refund of security deposits		-	32,315	-	-
Net cash from investing activities		(60,500,296)	(2,089,512)	(65,292,794)	(5,539,621)
Cash flows from financing activities					
Proceeds from issue of shares		46,630,000	9,000,000	46,630,000	9,000,000
Cost of issuing shares		(125,000)	-	(125,000)	-
Net cash from financing activities		46,505,000	9,000,000	46,505,000	9,000,000
Net increase in cash and cash equivalents		(18,511,565)	3,339,908	(18,383,831)	3,209,818
Cash and cash equivalents at the beginning of the financial year		20,977,746	17,637,166	20,845,972	17,635,482
Effect of exchange rate adjustments on cash held		(4,374)	672	(4,374)	672
Cash and cash equivalents at the end of the financial year		2,461,807	20,977,746	2,457,767	20,845,972

As set out in note 8, the Company and Consolidated Entity hold term deposits totalling \$52 million which mature within six months of year end.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

1. REPORTING ENTITY

Cockatoo Coal Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial period ended 30 June 2008 comprises the Company and its subsidiaries (together referred to as the 'Group').

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') (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

The financial report was authorised for issue by the Directors on 5 September 2008.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

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 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 financial statements are described in the following notes:

- Note 11 - Investments
- Note 12 - Exploration and evaluation expenditure

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and have been applied consistently by all entities in the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Jointly controlled entities

In the consolidated financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The Group's share of the jointly controlled entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

Transactions eliminated and consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Where a controlled entity issues shares to minority interests which does not result in loss of control by the Group, any gain or loss arising on the Group's interest in the controlled entity is recognised directly in equity.

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 income statement. 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 accounting policy Impairment).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Depreciation

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

The plant and equipment depreciation rate is applied on the basis of units of production over the life of the economically recoverable reserves. Office equipment is depreciated at rates between 40% and 60%, buildings are depreciated at a rate of 4% and motor vehicles are depreciated at a rate of 22.5%.

Business combination

Business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits.

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 exploration and evaluation expenditure 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.

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 income statement, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

Options

The fair value of the options granted is measured using 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 except where forfeiture is only due to share prices not achieving the threshold for vesting.

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 Company become unconditionally entitled to the options. The fair value of the options granted is measured using 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.

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.

Expenses

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, and interest earned.

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

Borrowing costs are expenses as incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Income tax

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially 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 with effect from 28 January 2005 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Cockatoo Coal Limited.

Current tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'group allocation method' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax consolidated group). Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Nature of tax funding arrangements and tax sharing agreements

The members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivables (payables) in the separate financial statements of the members of the tax consolidated groups equal in amount to the tax liability (asset) assumed. The inter-entity receivables (payables) are at call.

The head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current tax amounts, since they are also due to or from the same taxation authority. The current tax liabilities (assets) are equivalent to the tax balances generated by external transactions entered into by the tax consolidated group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The members of the tax consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Employee benefits

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

Intercompany loans

Loans made to controlled entities which are interest free, unsecured, of no fixed term, and repayable only out of potential future profits are classified as investments.

Provisions

A provision is recognised in the balance sheet 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.

Site restoration

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

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 8 *Operating Segments* introduces the 'management approach' to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly 'primary' statement) the 'statement of comprehensive income'. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Group has not yet determined the potential effect of the revised standard on future earnings.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

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.

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.

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 consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

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

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

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.

Audit fees - KPMG audit and review of financial reports

Depreciation

Legal fees

Net foreign exchange loss

Interest income

Interest income - controlled entity

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

6. INCOME TAX EXPENSE

Current tax expense

	Consolidated 2008 \$	2007 \$	Company 2008 \$	2007 \$
Current year	(2,808,654)	(1,621,860)	(199,902)	(12,157)
Adjustments for prior year	(538,889)	1,128	(539,782)	(1,154,255)
De-recognition of losses	3,347,543	1,620,732	739,685	1,166,412
Total income tax expense in income statement	-	-	-	-

Deferred tax expense

Current year	2,389,350	1,596,330	(639,021)	(1,661,321)
Adjustments for prior year	(4,500)	(2,022)	2,168,953	1,155,515
De-recognition of temporary differences	(2,384,850)	(1,594,308)	(1,529,932)	505,806
Deferred tax expense	-	-	-	-

Numerical reconciliation of income tax expense to prima facie tax payable

Loss before tax - continuing operations	(1,531,500)	(214,783)	(25,883,118)	(5,707,942)
Prima facie income tax expense at the Australian tax rate of 30% (2007 - 30%)	(459,450)	(64,435)	(7,764,935)	(1,712,383)
Increase in income tax expense due to:				
• Non-deductible expenses	40,146	38,905	6,926,012	38,905
• Effect of net deferred tax assets not brought to account	419,304	25,530	838,923	1,673,478
Income tax expense - current and deferred	-	-	-	-

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Taxable temporary differences (net)	(6,514,340)	(4,166,990)	2,760,015	4,252,447
Tax losses	7,768,613	4,421,070	4,823,719	2,612,979
Net	1,254,273	254,080	7,583,734	6,865,426

The deductible temporary differences and tax losses do not expire under current tax legislation. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

7. LOSS PER SHARE

Basic and diluted earnings per share have been calculated using:

Net loss for the year attributable to equity holders of the parent

Weighted average number of ordinary shares

- Issued ordinary shares at beginning of year
- Effect of shares issued in November 2006
- Effect of shares issued in July 2007
- Effect of shares issued in September 2007
- Effect of shares issued in December 2007
- Effect of shares issued in January 2008

Weighted average ordinary shares at the end of the year

Weighted average number of ordinary shares (diluted)

- Weighted average ordinary shares at the end of the year
- Effect of share options on issue

Weighted average number of ordinary shares (diluted) at the end of the year

8. TERM DEPOSITS

Balance at beginning of year

Deposits during the year

Balance at end of year

Consolidated		Company	
2008	2007	2008	2007
\$	\$	\$	\$
(1,531,500)	(214,783)		
269,383,342	229,383,342		
-	23,452,055		
10,915,301	-		
19,125,683	-		
8,859,016	-		
2,005,902	-		
310,289,244	252,835,937		
310,289,244	252,835,937		
-	-		
310,289,244	252,835,937		
-	-	-	-
52,000,000	-	52,000,000	-
52,000,000	-	52,000,000	-

Term deposits are represented by:

Amount	Interest rate	Term	Maturity Date
\$	%		
25,000,000	7.54%	6 months	13 Aug 2008
6,000,000	8.10%	6 months	15 Oct 2008
21,000,000	8.25%	6 months	24 Dec 2008
52,000,000			

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

9. TRADE AND OTHER RECEIVABLES

Current

Interest receivable

840,918

-

840,918

-

GST receivable

213,284

132,544

211,166

130,499

1,054,202

132,544

1,052,081

130,499

Non-current

Loans to subsidiaries

-

-

9,042,512

6,863,113

Less cumulative impairment losses

-

-

(9,042,512)

(6,863,113)

-

-

-

-

The loans to subsidiaries are unsecured and bear interest at 3% above the Bank Bill Swap Reference Rate, compounded monthly.

Impairment loss

At 30 June 2008, the Directors assessed the recoverability of loans to subsidiaries. Given that the controlled entities are in the exploration phase of operations the Directors are unable to prepare discounted cash flow calculations to support the recoverability of these loans to subsidiaries and as a result the full carrying value of these loans has been impaired in the Company's financial statements.

10. OTHER

Current

Prepayments

487,947

-

487,947

-

487,947

-

487,947

-

Non-current

Security deposits

64,085

61,351

-

20,000

Option purchase agreement deposit

-

250,000

-

250,000

Prepayments

133,099

-

133,099

-

197,184

311,351

133,099

270,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

11. INVESTMENTS

Non-current

Investment in controlled entities, at cost

Less cumulative impairment losses

Consolidated		Company	
2008	2007	2008	2007
\$	\$	\$	\$
-	-	31,034,472	8,081,586
-	-	(31,034,472)	(8,081,586)
-	-	-	-

Impairment loss

At 30 June 2008, the Directors assessed the recoverability of investments in controlled entities. Given that the controlled entities are in the exploration phase of operations the Directors are unable to prepare discounted cash flow calculations to support the recoverability of these investments and as a result the full carrying value of these investments has been impaired in the Company's financial statements.

12. EXPLORATION AND EVALUATION EXPENDITURE

Bowen Basin projects

Surat Basin projects

Other projects

14,462,027	12,937,223	-	-
23,592,210	1,000,498	-	-
25,167	19,031	-	-
38,079,404	13,956,752	-	-

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 projects in the following phases:

Opening balance

Additions

Closing balance

13,956,752	8,586,875	-	-
24,122,652	5,369,877	-	-
38,079,404	13,956,752	-	-

During the year ended 30 June 2008 the Company, via its wholly owned subsidiary SE QLD Coal Pty Ltd, acquired 100% of Exploration Permits for Coal 796 (Horse Creek) and 813 (Dogwood Creek), covering an area of approximately 816 square kilometres located in the Surat Basin, for cash consideration totalling \$3.0 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

13. PROPERTY, PLANT AND EQUIPMENT

Land and buildings - cost

Net book value

Office equipment - cost

Accumulated depreciation

Net book value

Motor vehicles - cost

Accumulated depreciation

Net book value

Total property, plant and equipment

Consolidated		Company	
2008	2007	2008	2007
\$	\$	\$	\$
468,172	-	-	-
468,172	-	-	-
43,039	-	43,039	-
(4,398)	-	(4,398)	-
38,641	-	38,641	-
240,546	-	240,546	-
(15,528)	-	(15,528)	-
225,018	-	225,018	-
731,831	-	263,659	-

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

Additions

Net book value

Office equipment

Carrying amount at beginning of year

Additions

Depreciation

Net book value

Motor vehicles

Carrying amount at beginning of year

Additions

Depreciation

Net book value

-	-	-	-
468,172	-	-	-
468,172	-	-	-
-	-	-	-
43,039	-	43,039	-
(4,398)	-	(4,398)	-
38,641	-	38,641	-
-	-	-	-
240,546	-	240,546	-
(15,528)	-	(15,528)	-
225,018	-	225,018	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

14. TRADE AND OTHER PAYABLES

Accounts payable

Consolidated		Company	
2008	2007	2008	2007
\$	\$	\$	\$
1,169,454	371,647	1,035,172	371,647

15. SEGMENT REPORTING

The Group operates wholly within the coal industry in Australia.

16. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

Consolidated	Share capital \$	Option premium reserve \$	Retained losses \$	Total \$	Minority interest \$	Total equity \$
Balance at 1 July 2006	26,280,762	-	(121,578)	26,159,184	616	26,159,800
Issue of shares	9,000,000	-	-	9,000,000	-	9,000,000
Total recognised income and expense	-	-	(214,783)	(214,783)	-	(214,783)
Balance at 30 June 2007	35,280,762	-	(336,361)	34,944,401	616	34,945,017
Balance at 1 July 2007	35,280,762	-	(336,361)	34,944,401	616	34,945,017
Issue of shares	58,380,000	-	-	58,380,000	-	58,380,000
Cost of issue	(125,000)	-	-	(125,000)	-	(125,000)
Equity settled transactions net of tax	-	2,140,318	-	2,140,318	-	2,140,318
Total recognised income and expense	-	-	(1,531,500)	(1,531,500)	-	(1,531,500)
Balance at 30 June 2008	93,535,762	2,140,318	(1,867,861)	93,808,219	616	93,808,835

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

16. CAPITAL AND RESERVES (Cont.)

Company	Share capital \$	Option premium reserve \$	Retained losses \$	Total equity \$
Balance at 1 July 2006	26,280,762	-	(8,759,725)	17,521,037
Issue of shares	9,000,000	-	-	9,000,000
Total recognised income and expense	-	-	(5,707,942)	(5,707,942)
Balance at 30 June 2007	35,280,762	-	(14,467,667)	20,813,095
Balance at 1 July 2007	35,280,762	-	(14,467,667)	20,813,095
Issue of shares	58,380,000	-	-	58,380,000
Cost of issue	(125,000)	-	-	(125,000)
Equity settled transactions net of tax	-	2,140,318	-	2,140,318
Total recognised income and expense	-	-	(25,883,118)	(25,883,118)
Balance at 30 June 2008	93,535,762	2,140,318	(40,350,785)	55,325,295

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. There were no options exercised during the year ended 30 June 2008 and 30 June 2007.

	Consolidated	
	2008 Number of Shares	2007 Number of Shares
Share capital		
Ordinary shares on issue at 1 July - fully paid	269,383,342	229,383,342
Issue of shares	150,095,835	40,000,000
Ordinary shares on issue at 30 June - fully paid	419,479,177	269,383,342

During the year ended 30 June 2008:

- The Company issued 40,000,000 ordinary shares at \$0.42 per share for cash totalling \$16,800,000. There were no amounts unpaid on the shares issued and there were no share issue costs.
- The Company issued 73,595,835 ordinary shares at \$0.3397 per share for cash totalling \$25,000,000. There were no amounts unpaid on the shares issued. Share issue costs totalled \$125,000.
- The Company issued 25,000,000 ordinary shares with fair value of \$0.47 per share for total amount of \$11,750,000 as consideration for the acquisition of SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd.
- The Company issued 11,500,000 ordinary shares at \$0.42 per share for cash totalling \$4,830,000. There were no amounts unpaid on the shares issued and there were no share issue costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

16. CAPITAL AND RESERVES (Cont.)

During the year ended 30 June 2007:

- The Company issued 40,000,000 ordinary shares at \$0.225 per share for cash totalling \$9,000,000. There were no amounts unpaid on the shares issued and there were no share issue costs.

Options

During the year ended 30 June 2008:

- 1,000,000 options were issued, each exercisable at 20 cents to acquire one fully paid ordinary share at any time up to 30 June 2012.
- 500,000 options were issued, each exercisable at 25 cents to acquire one fully paid ordinary share at any time up to 30 June 2012.
- 500,000 options were issued, each exercisable at 30 cents to acquire one fully paid ordinary share at any time up to 30 June 2012.
- 1,500,000 options were issued, each exercisable at 60 cents to acquire one fully paid ordinary share at any time up to 30 June 2012.
- 750,000 options were issued, each exercisable at 70 cents to acquire one fully paid ordinary share at any time up to 30 June 2012.
- 750,000 options were issued, each exercisable at 80 cents to acquire one fully paid ordinary share at any time up to 30 June 2012.
- There were no options exercised or lapsed unexercised during the financial year.

Refer note 18 for further details.

There were no options granted, exercised or lapsed unexercised during the year ended 30 June 2007.

Dividends

There were no dividends paid or declared during the year ended 30 June 2008 or 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

17. CONTROLLED ENTITIES

Particulars in relation to controlled entities:

	Ordinary shares - Group interest	
	2008 %	2007 %
<i>Parent Entity</i>		
Cockatoo Coal Limited		
<i>Controlled entities</i>		
Corella Coal Pty Limited	100	100
Dingo Coal Pty Limited	100	100
Independent Coal Pty Limited	100	100
Surat Coal Pty Limited	100	100
Moreton Coal Pty Limited	100	100
SE QLD Coal Pty Ltd	100	-
SE QLD Energy Pty Ltd	100	-
Wonbindi Coal Pty Limited	80	80

All entities are incorporated in Australia.

- Corella Coal Pty Limited, Independent Coal Pty Limited, Surat Coal Pty Limited, SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd are wholly owned controlled entities.
- Independent Coal Pty Limited holds a 98% interest in Dingo Coal Pty Limited and the remaining 2% interest is held by the Company.
- Moreton Coal Pty Limited is a wholly owned controlled entity of Surat Coal Pty Limited.
- The Company holds an 80% interest in Wonbindi Coal Pty Limited

Acquisition of controlled entities

During the year ended 30 June 2008, the Company acquired Metallica Minerals Limited's ('Metallica') subsidiaries SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd which owned the following coal assets:

- The Surat project (EPCs 1041, 1135, 1136 and 1170).
- The Kingaroy project (EPC 882).
- The Condamine project (EPCs 963 and 1130).
- The Injune project (EPCs 1017 and 1018).
- A 20% interest in an underground coal gasification project with Cougar Energy Limited over EPC 1118. In addition, Cougar Energy Limited has the right to earn a 70% interest, with the Company retaining a 30% interest, in a designated area covering deeper coal (>130 metres depth) and outside the open cut coal potential of SE QLD Energy Pty Ltd's EPC 882.
- A 25% interest in a coal to liquids project with Eastern Mining Corporation Pty Limited over a portion of EPCs 935, 936, 1076, 1137 and 1138.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

17. CONTROLLED ENTITIES (Cont.)

The coal projects cover a combined area of approximately 3,000 square kilometres of coal bearing strata, and include the Taabinga coal deposit which has a Measured and Indicated coal resource of 163.8 million tonnes of thermal coal (35.5 million tonnes Measured and 128.3 million tonnes Indicated). This acquisition strengthens Cockatoo's existing Surat Basin holdings, adding to its already owned Woori project (MDL 187).

In accordance with the Acquisition Agreement, the Company:

- Made a cash payment of \$4.75 million in addition to a \$250,000 deposit paid in the previous financial year.
- Issued 25.0 million Cockatoo shares to Metallica. These shares were subject to a 12 month voluntary escrow.
- Will, in the future, issue the lesser of a further 5.0 million Cockatoo shares or shares to the value of \$1.0 million (based on Cockatoo's average trading price over the preceding month) to Metallica upon commencement of production from any of the tenements acquired. These shares will be subject to a 12 month voluntary escrow.
- Will, in the future, pay a royalty of 40 cents per tonne to Metallica on production from the Kingaroy project (EPC 882) which includes the Taabinga coal deposit.

The above transaction has been accounted for as an acquisition of assets rather than a business combination as both SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd have no business operations and each of those company's sole asset is an interest in exploration areas.

During the year ended 30 June 2007 the Company purchased 100% of the issued capital of Independent Coal Pty Limited for cash consideration of \$2,000,000. Independent Coal Pty Limited is the registered holder of EPCs 862, 863 and 1063 (the 'Dingo project') in which Cockatoo had the right to earn up to an 80% interest. This acquisition superseded those earn-in arrangements and delivered a 100% interest in the Dingo project to the consolidated entity. This transaction was accounted for as an acquisition of assets rather than a business combination as the Independent Coal Pty Limited has no business operations and its sole asset is an interest in an exploration area.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

18. SHARE BASED REMUNERATION

During the year ended 30 June 2008, the Company established a share option program that entitles key management personnel, senior employees and consultants to purchase shares in the entity.

The terms and conditions of the grants made during the year ended 30 June 2008 were as follows:

Grant date	Expiry date	Vesting date	Exercise price	Granted during the year	Balance at start of the year	Exercised during the year	Cancelled during the year	Balance at end of the year
			\$	Number	Number	Number	Number	Number
5 July 2007	30 June 2012	5 July 2007	0.20	1,000,000	-	-	-	1,000,000
5 July 2007	30 June 2012	5 July 2008	0.25	500,000	-	-	-	500,000
5 July 2007	30 June 2012	5 July 2009	0.30	500,000	-	-	-	500,000
8 Jan 2008	30 June 2012	8 Jan 2008	0.60	1,500,000	-	-	-	1,500,000
8 Jan 2008	30 June 2012	8 Jan 2009	0.70	750,000	-	-	-	750,000
8 Jan 2008	30 June 2012	8 Jan 2010	0.80	750,000	-	-	-	750,000
				5,000,000	-	-	-	5,000,000

All options are exercisable at any time after the vesting date and before the expiry date to acquire one fully paid ordinary share.

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 one month from the date of termination of employment.

Fair value of options

The fair value of options granted is measured at grant date and recognised as an expense over the period during which the key management and senior employees become unconditionally entitled to the options. The fair value of the options granted is measured using 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.

The fair value of options granted on 5 July 2007 was \$339,401. The Black-Scholes formula model inputs were the Company's share price of \$0.265 at the grant date, a volatility factor of 68.31% based on historic share price performance and a risk free interest rate of 6.33% based on government bonds.

The fair value of options granted on 8 January 2008 was \$1,800,917. The Black-Scholes formula model inputs were the Company's share price of \$0.85 at the grant date, a volatility factor of 82.26% based on historic share price performance and a risk free interest rate of 6.52% based on government bonds.

There were no options granted during the year ended 30 June 2007.

Expenses arising from share-based payment transactions

Total expenses arising from share based payment transactions recognised during the year ended 30 June 2008 as part of share based remuneration expense was \$1,539,273 (2007 - nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

19. STATEMENTS OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the Statements of Cash Flows is reconciled to the related items in the Balance Sheets as follows:

Bank balances

Consolidated		Company	
2008	2007	2008	2007
\$	\$	\$	\$
2,461,807	20,977,746	2,457,767	20,845,972

(b) Reconciliation of net loss from ordinary activities after tax to net cash used in operating activities

Loss from ordinary activities after tax

(1,531,500)	(214,783)	(25,883,118)	(5,707,942)
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Items classified as investing/financing activities

Profit on sale of investment

-	(34,528)	-	(34,528)
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Non-cash items

Depreciation

19,925	-	19,925	-
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Foreign exchange loss

4,374	-	4,374	-
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Impairment losses

-	-	25,132,285	6,325,621
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Employee benefits

(27,643)	50,463	(27,643)	50,463
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Share based remuneration

1,539,273	-	1,539,273	-
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Changes in assets and liabilities

Trade and other receivables

(921,658)	(31,397)	(921,581)	(921,916)
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Exploration and evaluation expenditure

(4,273,536)	(3,530,264)	-	-
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Other

210	-	-	-
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Trade and other payables

674,286	189,929	540,448	37,741
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Net cash used in operating activities

(4,516,269)	(3,570,580)	403,963	(250,561)
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

20. KEY MANAGEMENT PERSONNEL DISCLOSURES

There are no key management personnel of the Company or Group that are not Directors. 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 on pages 35 to 36.

Movement in shares

Key management personnel	Held at 1 July 2007	Purchased	Sold	Held at 30 June 2008
Norman A. Seckold	19,750,002	-	-	19,750,002
Mark H. Lochtenberg	37,500,004	-	-	37,500,004
Peter J. Nightingale	13,010,002	-	-	13,010,002
J. Gillis Broinowski	1,500,000	-	-	1,500,000
Paul G. Chappell	-	570,000	-	570,000
Lindsay R. Flint	1,000,000	-	-	1,000,000
Hak Hee Lee	-	-	-	-
Robert A. Yeates	1,050,000	-	-	1,050,000
Sun Moon Woo	-	-	-	-

Key management personnel	Held at 1 July 2006	Purchased	Sold	Held at 30 June 2007
Norman A. Seckold	19,750,002	-	-	19,750,002
Mark H. Lochtenberg	37,500,004	-	-	37,500,004
Peter J. Nightingale	13,010,002	-	-	13,010,002
J. Gillis Broinowski	1,500,000	-	-	1,500,000
Paul G. Chappell	-	-	-	-
Lindsay R. Flint	1,000,000	-	-	1,000,000
Hak Hee Lee	-	-	-	-
Robert A. Yeates	1,050,000	-	-	1,050,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

21. RELATED PARTIES

During the year ended 30 June 2008, Norman A. Seckold and Peter J. Nightingale had an interest in an entity, Mining Services Trust, which provided full 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 and on normal terms and conditions, amounted to \$655,033 (2007 - \$180,000). At 30 June 2008 the balance outstanding was \$295,750 (2007 - \$15,000).

During the year ended 30 June 2008, Robert A. Yeates had an interest in an entity, Rob Yeates and Associates Pty Limited, which rendered financial and geological services to the consolidated entity. Fees accrued by Rob Yeates and Associates Pty Limited during the year, which were in the ordinary course of business and on normal commercial terms and conditions, amounted to \$45,959 (2007 - \$22,595). At 30 June 2008 the balance outstanding was \$8,246 (2007 - \$8,137).

Controlled entities

At balance date, the Company had amounts receivable from Dingo Coal Pty Limited of \$5,061,883 (2007 - \$5,063,256), Independent Coal Pty Limited of \$2,623 (2007 - \$99), SE QLD Coal Pty Limited \$5,010,054 (2007 - nil), SE QLD Energy Pty Limited \$4,861 (2007 - nil), and Surat Coal Pty Limited of \$2,204,871 (2007 - \$1,018,050). These amounts are classed as investments as they are interest free, unsecured, there is no fixed term of repayment and they are repayable out of profits.

At balance date, the Company had amounts receivable from Wonbindi Coal Pty Limited of \$9,042,512 (2007 - \$6,863,113). The amount receivable is unsecured and bears interest at 3% above the Bank Bill Swap Reference Rate, compounded monthly.

At 30 June 2008, the Directors assessed the recoverability of investments in controlled entities and loans to subsidiaries, given that the controlled entities are in the exploration phase of operations and that there is no impact on the financial statements of the Group, the full carrying value of these investments and loans to subsidiaries have been impaired in the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

22. 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 reviewed regularly 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 presents 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:

		Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash and cash equivalents	19	2,461,807	20,977,746	2,457,767	20,845,972
Term deposits	8	52,000,000	-	52,000,000	-
Trade and other receivables	9	1,054,202	132,544	1,052,081	130,499
		55,516,009	21,110,290	55,509,848	20,976,471

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

Australia	55,516,009	21,110,290	55,509,848	20,976,471
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The Group mitigates credit risk on cash and cash equivalents by dealing with regulated banks in Australia. Credit risk of trade and other receivables is very low as it consists predominantly of amounts recoverable from the Australian Taxation Authority and interest receivable from call deposits held with regulated banks.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

22. FINANCIAL INSTRUMENTS DISCLOSURE (Cont.)

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:

Consolidated	Carrying amount	Contractual cash flows	Less than one year	Between one and five years	More than five years
30 June 2008					
Trade and other payables	1,169,454	(1,169,454)	(1,169,454)	-	-
	1,169,454	(1,169,454)	(1,169,454)	-	-
30 June 2007					
Trade and other payables	371,647	(371,647)	(371,647)	-	-
	371,647	(371,647)	(371,647)	-	-

Company	Carrying amount	Contractual cash flows	Less than one year	Between one and five years	More than five years
30 June 2008					
Trade and other payables	1,035,172	(1,035,172)	(1,035,172)	-	-
	1,035,172	(1,035,172)	(1,035,172)	-	-
30 June 2007					
Trade and other payables	371,647	(371,647)	(371,647)	-	-
	371,647	(371,647)	(371,647)	-	-

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.

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. The Company and the Group is not exposed to currency risk as all its financial assets and financial liabilities are denominated in Australian dollars.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

22. FINANCIAL INSTRUMENTS DISCLOSURE (Cont.)

Interest rate risk

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

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated as cash flow hedges:-

		Consolidated Carrying amount		Company Carrying amount	
		2008 \$	2007 \$	2008 \$	2007 \$
Financial Assets					
Cash and cash equivalents	19	2,461,807	20,977,746	2,457,767	20,845,972
Term deposits	8	52,000,000	-	52,000,000	-
		54,461,807	20,977,746	54,457,767	20,845,972

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and 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.

Equity	-	-	-	-
Loss for the period	494,616	209,777	494,578	208,460

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 Company 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 2008 and 30 June 2007, approximate their net fair values, given the short time frames to maturity and or variable interest rates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

23. 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:

	Consolidated Carrying amount		Company Carrying amount	
	2008 \$	2007 \$	2008 \$	2007 \$
Not later than one year	1,059,667	3,210,000	-	-
Later than one year but not later than two years	1,764,667	1,059,667	-	-
Later than two years but not later than five years	1,044,000	2,808,667	-	-
	3,868,334	7,078,334	-	-

24. RECLASSIFICATION OF COMPARATIVE FINANCIAL INFORMATION

In the prior year, the Company classified amounts receivable from a controlled entity, Wonbindi Coal Pty Limited as investments in controlled entities on the basis that they were interest free, unsecured, had no fixed term of repayment and were repayable at Wonbindi Coal Pty Limited's discretion. In the current year, the Company determined that this loan has interest at 3% above the Bank Bill Swap Reference Rate, compounded monthly. The Company has corrected the classification in its financial statement presentation by reclassifying \$6,863,113 of loans to subsidiaries held at 30 June 2007 from investments to loans to subsidiaries. In addition, interest income of \$543,716 has been recognised in the comparative information and fully impaired.

The following table shows the amounts as originally presented in the Company's financial statements for the year ended 30 June 2007 and the amounts following reclassification. The reclassification had no effect on total current assets, total assets, net assets, total equity, loss for the year or loss per share. There is no impact on the Group's comparative financial information.

Company 30 June 2007	As previously reported \$	Adjustment \$	Amounts after reclassification \$
Loans to subsidiaries	-	6,863,113	6,863,113
Less cumulative impairment losses	-	(6,863,113)	(6,863,113)
Investments	14,108,037	(6,026,451)	8,081,586
Less cumulative impairment losses	(14,108,037)	6,026,451	(8,081,586)
Financial income	1,166,975	543,716	1,710,691
Impairment losses	(5,488,959)	(543,716)	(6,032,675)

DIRECTORS' DECLARATION

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

1. (a) the financial statements and notes set out on pages 43 to 73, and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 35 and 36, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their 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; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.
- (c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standards AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001; and
- (d) 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 2008.

Signed at Sydney this 5th day of September 2008

in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Chairman



Mark H. Lochtenberg
Managing Director

INDEPENDENT AUDIT 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 balance sheets as at 30 June 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 24 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies 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 Group's preparation and fair presentation of the financial report 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 Group'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 (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their 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.

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF COCKATOO COAL LIMITED

Auditor's opinion on the financial report

In our opinion:

- (a) the financial report of Cockatoo Coal Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their 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.

Report on the remuneration report

We have audited the Remuneration Report included in pages 35 to 36 of the Directors' Report for the year ended 30 June 2008. 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 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

S.J. Board
Partner

5 September 2008

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information as at 31 July 2008 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 31 July 2008 the Register of Substantial Shareholders showed the following:

Rigi Investments Pty Ltd	37,500,003 fully paid ordinary shares
Kores Australia Pty Ltd	31,500,000 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.

ADDITIONAL STOCK EXCHANGE INFORMATION

As at 31 July 2008 the twenty largest quoted shareholders held 73.52% of the fully paid ordinary shares as follows:

	Name	Number	%
1	POSCO Australia Pty Ltd	73,595,835	17.54
2	Rigi Investments Pty Ltd	37,500,003	8.94
3	Kores Australia Pty Ltd	31,500,000	7.51
4	Citicorp Nominees Pty Ltd	20,334,292	4.85
5	Kepco Australia Pty Ltd	20,000,000	4.77
6	Korea East-West Power Co. Ltd	20,000,000	4.77
7	SK Australia Pty Limited	20,000,000	4.77
8	SSM Coal BV	20,000,000	4.77
9	Altinova Nominees Pty Ltd	16,250,001	3.87
10	Rosignol Pty Ltd <Nightingale Family A/C>	13,000,001	3.10
11	ANZ Nominees Limited <Cash Income A/C>	6,238,998	1.49
12	Walker Group Holdings Pty Limited	4,750,000	1.13
13	Cogent Nominees Pty Ltd	4,050,460	0.97
14	HSBC Custody Nominees (Australia) Ltd	4,000,000	0.95
15	Permgold Pty Ltd	3,500,000	0.83
16	Biga Nominees Pty Ltd	3,286,240	0.78
17	Triangle Resource Fund <Australia>	3,200,000	0.76
18	Nicholas Moore	2,500,000	0.60
19	Forbar Custodians Limited <Forsyth Barr Ltd - Nominee A/C>	2,394,783	0.57
20	Merrill Lynch (Australia) Nominees Pty Limited	2,306,842	0.55

ADDITIONAL STOCK EXCHANGE INFORMATION

Distribution of Shareholders

As at 31 July 2008, the total distribution of fully paid shareholders, being the only class of equity, was as follows:

Range	Total Holders	Units	% Issued Capital
1 - 1,000	299	236,055	0.06
1,001 - 5,000	1,176	3,645,872	0.87
5,001 - 10,000	809	6,810,708	1.62
10,001 - 100,000	1,135	36,201,938	8.63
100,001 and over	184	372,584,604	88.82
Total	3,603	419,479,177	100.00%

As at 31 July 2008, 90 shareholders held less than marketable parcels of 642 shares.

As at 31 July 2008, 1 optionholder held 2,000,000 30 June 2012 options, each exercisable to acquire 1 fully paid ordinary share, which were granted on 5 July 2007. A total of 1,000,000 of these options had a vesting date of 5 July 2007 and an exercise price of \$0.20, 500,000 have a vesting date of 5 July 2008 and an exercise price of \$0.25 and 500,000 have a vesting date of 5 July 2009 and an exercise price of \$0.30.

As at 31 July 2008, 2 optionholders held 3,000,000 30 June 2012 options, each exercisable to acquire 1 fully paid ordinary share, which were granted on 8 January 2008. A total of 1,500,000 of these options had a vesting date of 8 January 2008 and an exercise price of \$0.60, 750,000 have a vesting date of 8 January 2009 and an exercise price of \$0.70 and 750,000 have a vesting date of 8 January 2010 and an exercise price of \$0.80.

On the 27 July 2007 the Company issued 25,000,000 shares to Metallica Minerals Limited as part consideration for the acquisition of SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd.

Shares Subject to Escrow Restrictions

The Company had 71,750,000 fully paid ordinary shares released from escrow on 19 December 2007 and had 25,000,000 fully paid ordinary shares released from escrow on 27 July 2008.

Use of Cash and Assets

Since the Company's listing on the Australian Stock Exchange, the Company has used its cash and assets that it had at the time of listing in a way consistent with its stated business objectives.

On Market Buy Back

There is no on market buy-back.

CORPORATE DIRECTORY

Directors:

Norman A. Seckold
Mark H. Lochtenberg
Peter J. Nightingale
J. Gillis Broinowski
Paul G. Chappell
Lindsay R. Flint
Hak Hee Lee
Sun Moon Woo
Robert A. Yeates

Company Secretary:

Peter J. Nightingale

Principal Place of Business and Registered Office:

Level 2, 66 Hunter Street
SYDNEY NSW 2000

Phone: 61-2 9300 3333

Fax: 61-2 9221 6333

Email: info@cockatoocoal.com.au

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Auditors:

KPMG

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71 Eagle Street

BRISBANE QLD 4000

Solicitors:

Minter Ellison

88 Phillip Street

SYDNEY NSW 2000

Share Registrars:

Computershare Investor Services Pty Limited

PO Box 523

BRISBANE QLD 4001

Phone: 61-7 3237 2100

Fax: 61-7 3229 9860

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NOTICE OF ANNUAL GENERAL MEETING

This Document contains:-

- Notice of Annual General Meeting
- Explanatory Memorandum

for the Annual General Meeting of the Company

DATE OF MEETING:	27 November 2008
TIME OF MEETING:	9.00am (Sydney time)
PLACE OF MEETING:	Level 9, 33 Erskine Street, Sydney, NSW 2000

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of members is to be convened at Level 9, 33 Erskine Street, Sydney, NSW, 2000 on 27 November 2008 at 9.00 am.

AGENDA

BUSINESS

To receive and consider the Company's annual financial report, the directors' report and the auditors' report for the year ended 30 June 2008.

To consider and, if thought fit, pass the following resolutions, with or without amendment:

Ordinary Resolution 1. Adoption of the Remuneration Report

'That the Remuneration Report for the year ended 30 June 2008 be and is hereby adopted.'

Ordinary Resolution 2. Re-election of a Director

'That J. Gillis Broinowski be and is hereby re-elected as a Director.'

Ordinary Resolution 3. Re-election of a Director

'That Paul G. Chappell be and is hereby re-elected as a Director.'

Ordinary Resolution 4. Re-election of a Director

'That Robert A. Yeates be and is hereby re-elected as a Director.'

Ordinary Resolution 5. Ratification of the Issue of Shares

'That the issue of 11,500,000 fully paid ordinary shares in the Company on 31 January 2008 for \$0.42 per share be and is hereby ratified for the purposes of ASX Listing Rule 7.4.'

Ordinary Resolution 6. Approval of the Cockatoo Coal Executive Option Plan

'That the grant of options to eligible employees under the Cockatoo Coal Executive Option Plan, as set out in the Explanatory Memorandum accompanying this Notice of Meeting, is approved for the purposes of ASX Listing Rule 7.2, Exception 9.'

Ordinary Resolution 7. Approval to Grant Options to Directors under the Cockatoo Coal Executive Option Plan

'That, for the purposes of ASX Listing Rule 10.14, the Company approves the grant an aggregate total of up to 10,500,000 options to Messrs Norman A. Seckold, Mark H. Lochtenberg, Peter J. Nightingale, J. Gillis Broinowski, Lindsay R. Flint and Robert A. Yeates in accordance with the terms of the Cockatoo Coal Executive Option Plan as set out in the Explanatory Memorandum accompanying this Notice of Meeting.'

Ordinary Resolution 8. Approval of an Increase in Directors' Fees

'That, for the purposes of ASX Listing Rule 10.17, the Company approves an increase of \$100,000 in the total amount of Directors' fees payable, to a total amount of \$250,000.'

Ordinary Resolution 9. Approval of the Proposed Issue of Shares

'That, for the purposes of ASX Listing Rule 7.1, the proposed issue of 100,000,000 fully paid ordinary shares in the Company as set out in the Explanatory Memorandum attached to this Notice of Meeting be and is hereby approved.'

To transact any other business that may be brought forward in accordance with the Company's Constitution.

By order of the Board



Peter J. Nightingale
Director

24 October 2008

ANNUAL GENERAL MEETING TO BE HELD ON 27 NOVEMBER 2008

EXPLANATORY MEMORANDUM

Resolution 1

The Remuneration Report, which can be found in the Directors' Report in the Company's 2008 Annual Report, contains certain prescribed details, sets out the policy adopted by the Board of Directors and discloses the payments to Directors.

In accordance with section 250R of the Corporations Act, a resolution that the Remuneration Report be adopted must be put to the vote. The resolution is advisory only and does not bind the Directors.

Resolutions 2, 3 and 4

In accordance with Article 58 of the Company's Constitution and the Corporations Act, Messrs J. Gillis Broinowski, Paul G. Chappell and Robert A. Yeates retire as Directors by rotation and, being eligible, offer themselves for re-election.

Resolution 5

Resolution 5 seeks the ratification by shareholders of the issue of 11,500,000 fully paid ordinary shares in the Company on 31 January 2008 for the purposes of ASX Listing Rule 7.4. This ratification will provide the Company with the ability to raise further funds, if required, will maximise the flexibility of the Company's funds management and will facilitate planning for the Company's ongoing activities.

Details of the issue, as required by ASX Listing Rule 7.4 are as follows:

- Number of securities allotted: 11,500,000
- Issue price: \$0.42 per share
- Terms: Fully paid ordinary shares ranking pari passu with existing fully paid ordinary shares.
- Name of allottee: Kores Australia Pty Ltd.
- Intended use of funds: To enable the Company to expand its coal project portfolio, accelerate its exploration and development programs and for working capital purposes.

The Company will disregard any votes cast on Resolution 5 by:

- Kores Australia Pty Ltd; and
- any associates of Kores Australia Pty Ltd.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 6

In general, without shareholder approval, ASX Listing Rule 7.1 prohibits the Company issuing equity securities which in aggregate exceed 15% of the fully paid ordinary share capital of the Company in a 12 month period.

ASX Listing Rule 7.2 Exception 9(b) provides that ASX Listing Rule 7.1 does not apply in respect of the issue of securities by the Company under an employee incentive scheme, if within 3 years from the date of issue of the relevant securities, the shareholders of the company have approved the issue of securities under the plan.

The Directors propose to establish the Cockatoo Coal Executive Option Plan ('Plan') and wish to exclude issues of securities to eligible employees under the Plan from the limit in ASX Listing Rule 7.1 on issuing securities.

Shareholder approval of the Plan has not previously been sought and no securities have been issued under the Plan.

The options which may be granted under the Plan will form part of eligible Directors' and employees' remuneration packages and are intended to provide an incentive to those eligible Directors and employees and to recognise their contribution to the Company's success. The Directors consider that the incentive represented by these options is a cost effective and efficient incentive offered by the Company when compared with alternative forms of incentive such as cash bonuses or increased remuneration.

A summary of the terms of the Cockatoo Coal Executive Option Plan is set out in Attachment A.

The Company will disregard any votes cast on Resolution 6 by:

- any Directors of the Company (except those who are ineligible to participate in the Cockatoo Coal Executive Option Plan); and
- any associates of those persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 7

Resolution 7 seeks shareholder approval pursuant to ASX Listing Rule 10.14 to grant an aggregate total of up to 10,500,000 options ('Options') to Messrs Norman A. Seckold (1,000,000), Mark H. Lochtenberg (5,000,000), Peter J. Nightingale (3,000,000), J. Gillis Broinowski (500,000), Lindsay R. Flint (500,000) and Robert A. Yeates (500,000) ('Eligible Directors'), in accordance with the terms of the Plan.

The maximum number of Options that may be granted in aggregate to the Eligible Directors is 10,500,000.

The issue price for the Options and the exercise price of the Options will be determined in accordance with Rules of the Plan, as summarised in Attachment A. The Options will be issued to the Eligible Directors in part consideration for the services that will be provided by the Eligible Directors to the Company and no further monetary consideration will be payable for the grant of the Options. The Exercise Price of the Options will be \$0.70.

No securities have been issued under the Plan.

The names of all the persons referred to in ASX Listing Rule 10.14 entitled to participate in the Cockatoo Coal Executive Option Plan are Norman A. Seckold, Mark H. Lochtenberg, Peter J. Nightingale, J. Gillis Broinowski, Lindsay R. Flint and Robert A. Yeates.

No loans will be granted by the Company in relation to the acquisition of the Options.

The Company intends to grant the Options to the Directors immediately following the Annual General Meeting, and in any event, no later than 12 months after the meeting.

The Company will disregard any votes cast on Resolution 7 by:

- any Directors of the Company (except those who are ineligible to participate in the Cockatoo Coal Executive Option Plan); and
- any associates of those persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 8

Resolution 8 seeks shareholder approval pursuant to ASX Listing Rule 10.17 to increase the total amount of Directors' fees payable by \$100,000 to a total amount of \$250,000.

The Company has, since its incorporation, appointed a number of Directors to assist with the growth and development of the Company and there is currently a substantial Board comprising nine Directors.

This proposed resolution will provide the Company with the flexibility to remunerate the Directors at a reasonable level to retain the Directors' services.

The Company will disregard any votes cast on Resolution 8 by:

- any Directors of the Company; and
- any associates of those persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 9

Resolution 9 seeks the approval by shareholders of the issue of 100,000,000 fully paid ordinary shares in the Company as soon as practicable after the date of this Annual General Meeting, and in any event, within 3 months of the date of this Annual General Meeting for the purposes of ASX Listing Rule 7.1.

Details of the proposed issue, as required by ASX Listing Rule 7.1 are as follows:

- Number of securities to be issued: 100,000,000.
- Issue price: A minimum of 80% of the average market price of the Company's fully paid ordinary shares calculated over the last 5 days on which sales of the Company's fully paid ordinary shares were recorded before the issue date.
- Terms: Fully paid ordinary shares ranking pari passu with existing fully paid ordinary shares.
- Allottees: Coal industry participants who, in the opinion of the Directors, will add value to the Company.
- Intended use of funds: To provide funds for the continued development and exploration of the Company's coal projects, further acquisitions and for working capital purposes.

The Company will disregard any votes cast on Resolution 9 by:

- a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed and any associate of that person.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Company has determined, in accordance with regulation 7.11.37 of the Corporations Regulations 2001 (Cth), that the Company's shares quoted on the Australian Securities Exchange Limited at 7.00 pm Sydney time on 25 November 2008 are taken, for the purposes of the general meeting to be held by the persons who held them at that time. Accordingly, those persons are entitled to attend and vote (if not excluded) at the meeting.

Summary of the Terms of the Cockatoo Coal Executive Option Plan ('Plan')

The following is a summary of the Plan. For full details of the operation of the Plan, shareholders should read the Plan's terms and conditions ('Rules'). Copies of the Rules are available on request to the Company. Capitalised terms in the following summary are defined in the Rules.

1. Background

Cockatoo Coal Limited ('Cockatoo') has adopted the Plan to provide individuals whom the Plan Committee determines to be:

- (a) in the full-time or part-time employment of a body corporate in the Group, being Cockatoo and its subsidiaries, (including any employee on parental leave, long service leave or other special leave as approved by the Plan Committee);
- (b) a director of a body corporate in the Group who holds a salaried employment or office in a body corporate in the Group;
- (c) an individual who provides services to a body corporate in the Group whom the Plan Committee determines to be an Employee for the purposes of the Plan;
- (d) an individual whose associate (as that expression is defined in section 139GE of the Income Tax Assessment Act 1936) provides services to a body corporate in the Group, which individual the Plan Committee determines to be an Employee for the purposes of the Plan; or
- (e) an individual otherwise providing services to a body corporate in the Group whom the Plan Committee determines to be an Employee for the purposes of the Plan. ('Eligible Employee')

with the opportunity to acquire an option to subscribe for a share in the capital of Cockatoo ('Option') in accordance with the rules of the Plan ('Rules').

2. Issue Price

Options will be issued for consideration comprising the services that are expected to be provided by an Eligible Employee to or for the benefit of the Group. However, no further monetary or other consideration will be payable in respect of the issue of an Option under the Plan.

3. Plan Limit

Options must not be granted under the Plan if the total number of outstanding Options exceed 10% of the Company's total number of issued Shares at that time.

4. Offer of Options

Subject to the Rules, the Board of Cockatoo or any committee of the Board to which power to administer the Plan has been delegated ('Plan Committee') may from time to time make an offer of Options to any Eligible Employee.

5. Exercise Period

Unless otherwise specified in an offer of Options, as determined by the Plan Committee, the Options will be exercisable during the period commencing on the earlier of:

- (a) for one third of the Options, the first anniversary of the date of the Options being granted,
- (b) for one third of the Options, the second anniversary of the date of the Options being granted; and
- (c) for one third of the Options, the third anniversary of the date of the Options being granted; or
- (d) the date of total and permanent disablement, redundancy, death or other circumstance as the Plan Committee may determine ('Special Circumstances') in respect of the Participant holding the Option.

The Exercise Period ends no later than:

- (a) the date 5 years after the date of the Options being granted; or
- (b) if a Special Circumstance arises in respect of a Participant during those 5 years, then the date 12 months (or longer period as may be determined by the Plan Committee) after the Special Circumstance arises (the 'Last Exercise Date').

6. Exercise Price

The exercise price in respect of an Option will be the amount fixed at the time of the issue of the Option and as determined by the Plan Committee ('Exercise Price').

7. Acceptance of Offer

An Eligible Employee may accept an offer under the Plan by giving to Cockatoo an application form within the period specified in the offer. An offer not accepted in accordance with the Rules will lapse unless the Plan Committee determines otherwise.

8. Shares

Subject to the Rules, each Option confers on its holder the entitlement to subscribe for and be issued one fully paid Share in Cockatoo at the Exercise Price.

Subject to the Rules and the ASX Listing Rules, Cockatoo must issue a Share on the exercise of an Option. Shares issued on the exercise of Options will rank equally with all existing Shares in Cockatoo (on and from the date of issue) in respect of all rights issues, bonus share issues and dividends which have a record date for determining entitlements on or after the date of issue of those Shares.

9. Transfer of Options

Under the Rules, Options held by an Option holder are personal to him or her and may not be exercised by any other person. However, the Plan provides for the transfer of Options in certain circumstances, including in relation to a compulsory acquisition or buy-out following a takeover bid concerning the Company and where a transfer is approved in the circumstances by the Plan Committee.

10. Lapse of Options

Generally, an Option lapses on the earlier of:

- (a) the Last Exercise Date;
- (b) a determination of the Plan Committee that the Option should lapse because the Participant, in the Plan Committee's opinion:
 - (i) has been dismissed or removed from office for a reason which entitles a body corporate in the Group to dismiss the Participant without notice;
 - (ii) has committed an act of fraud, defalcation or gross misconduct in relation to the affairs of that body corporate (whether or not charged with an offence); or
 - (iii) has done an act which brings the Group or any body corporate in the Group into disrepute; and
- (c) unless otherwise determined by the Plan Committee, the date which is 2 months after the date of termination of employment of the Participant with the Group (other than due to the occurrence of a Special Circumstance).

11. Quotation

Cockatoo will not seek official quotation of any Options. Cockatoo must apply to the ASX for quotation of Shares issued on exercise of Options if other Shares of Cockatoo are officially quoted by ASX at that time.

For personal use only



FORM OF PROXY

I/we
of

being a member/members of Cockatoo Coal Limited HEREBY APPOINT

.....
or failing him, the Chairman of the Meeting, as my/our Proxy to vote for me/us and on my/our behalf at the Annual General Meeting of Members of the Company to be held at 9.00 am 27 November 2008 and at any adjournment thereof.

The Proxy is directed by me/us to vote as indicated by the marks in the appropriate boxes below:

RESOLUTION	FOR	AGAINST	ABSTAIN
1. Adoption of the Remuneration Report	☐	☐	☐
2. Re-election of J. Gillis Broinowski as a Director	☐	☐	☐
3. Re-election of Paul G. Chappell as a Director	☐	☐	☐
4. Re-election of Robert A. Yeates as a Director	☐	☐	☐
5. Ratification of the issue of 11.5 million shares	☐	☐	☐
6. Approval of the Cockatoo Coal Executive Option Plan	☐	☐	☐
7. Approval to Grant of Options to Directors	☐	☐	☐
8. Approval to Increase Directors' Fees	☐	☐	☐
9. Approval of the proposed issue of 100 million shares	☐	☐	☐

If no directions are given, the Proxy may vote as the Proxy thinks fit or may abstain. If you mark the abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Important:

If you do not wish to direct your Proxy how to vote, please place a mark in the box: ☐

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest. The Chairman intends to vote undirected proxies in favour of each item.

Dated this day of 2008.

Signatures of Member(s)

THE COMMON SEAL of A.C.N.

was hereunto affixed in accordance with its Constitution in the presence of:

Director

Secretary

PROXY INSTRUCTIONS

1. A member entitled to attend and vote is entitled to appoint not more than 2 proxies.
2. Where more than 1 proxy is appointed, each proxy must be appointment to represent a specified proportion of the member's voting rights.
3. A proxy need not be a member.
4. All joint holders must sign.
5. All executors of deceased estates must sign.
6. Voting exclusions:

The Company will disregard any votes cast on Resolution 5 by:

- Kores Australia Pty Ltd; and
- any associate of Kores Australia Pty Ltd.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Company will disregard any votes cast on Resolutions 6 and 7 by:

- any Directors of the Company (except those who are ineligible to participate in the Cockatoo Coal Executive Option Plan); and
- any associates of those persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Company will disregard any votes cast on Resolution 8 by:

- any Directors of the Company; and
- any associates of those persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Company will disregard any votes cast on Resolution 9 by:

- a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed and any associate of that person.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

7. This Proxy form (and the original or certified copy of any power of attorney under which this proxy form is signed) must be received at an address given below no later than 48 hours before the time appointed for holding the meeting:
 - in person or by mail at the Company's registered office, Level 2, 66 Hunter Street, Sydney, NSW 2000 Australia; or
 - by facsimile on +61 2 9221 6333.