Octa Phillip FINANCIAL GROUP — Research

COMPANY Cuesta Coal Ltd| CQC | $0.09/share Date: 29th August 2012

RECOMMENDATION Spec Buy | Very High Risk | $0.37/share target

EVENT SepQ to date CQC has expanded resources, extended a coal find and negotiated a farm-out

KEY POINTS – 4 months since listing – Multiple programs progressing

- CQC has extended its East Galilee Basin discovery of coal to now have a 4.5km strike length with new drilling. This is a high potential coal area and further drilling over the next 8 weeks could see a maiden JORC resource by late 2012 (Reported 27th August).
- CQC has boosted JORC resource at its Moorlands deposit (West Bowen block near Blair Athol, Qld) by 45% to 39.5mt of moderate calorific value thermal coal, reported 20th August. The thick, relatively shallow seams are well located to under-utilised infrastructure with RIO's Blair Athol mine closing. The bigger resource boosts chances for development studies to proceed and CQC will provide more certainty with additional drilling due in 6 weeks.
- A recent $3m farm-out of Galilee application blocks with a Hancock affiliate points to further ability to accelerate exploration of and diversify its coal properties value adding activities. The area is attracting broader interest.
- West Emerald desktop study was completed and reported on the 25th July 2012. This identifies coal on a key application block that is close to rail infrastructure. Once this block is awarded CQC are confident a drilling program will be able to uncover a JORC resource in 2013 and have an exploration target of 50mt to 200mt.

Well funded explorer - with $19.3m cash on 30th June and budgeted $2.7m expenditure in SepQ'12

- Since listing in May 2012 CQC has also increased JORC resource at Thorn Hill (East Wandoan) by 87% to 44.6mt and completed drilling at Amberley (close to Brisbane) – where we expect a JORC update in a month.
- **We rate CQC as a Spec Buy** and unchanged **price target of $0.37/share.** CQC provides a fully funded 2 year exposure to multiple coal exploration plays and a developing reputation for delivering on its promises. CQC is creating value-adding options for development or trading enhanced value assets and has the key backing of the Beijing Gouli group who had a representative join the CQC Board in July.

See important corporate disclaimers on last page

Drilling underway at EPC 1802 - Eastern Galilee Project - 27 August 2012

CQC announced on 27 August 2012 it has commenced exploration activities at the company's 100% owned EPC 1802 at the Eastern Galilee Project, located in the Eastern Galilee Basin, Queensland.

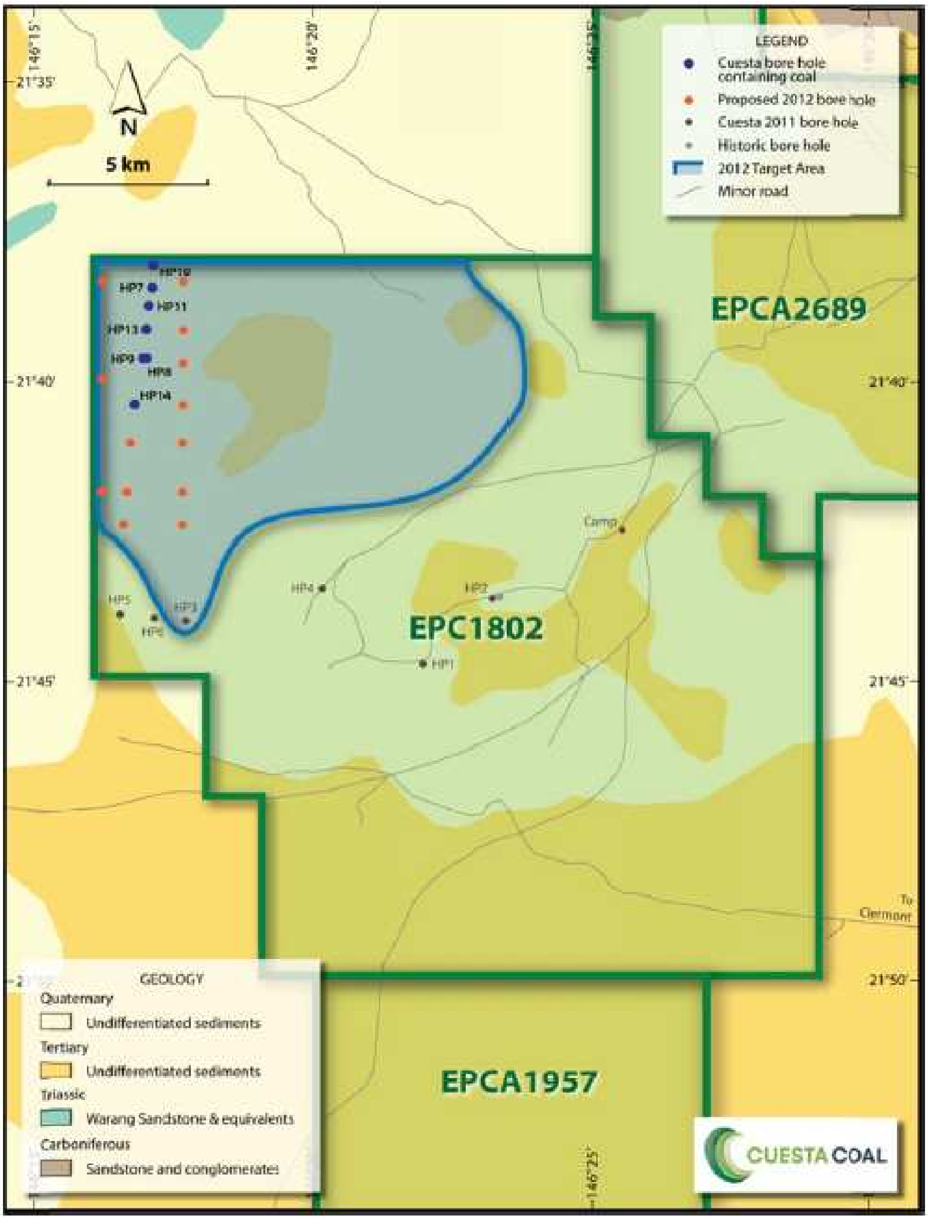
Key findings in four open PCD holes have been drilled to date and will spur further exploration:

- All of the holes encountered coal intersections with some holes logging 8m cumulative coal thickness.
- Coal has now been intersected over a north - south strike length of ~4.5km and remains open to the south.
- An upper seam was encountered at around 90m depth with individual holes logging 3m and 5m thickness.

- A lower seam was intersected in 3 of 4 holes at ~120m depth at up to a 5.5m thickness.

CQC will complete a further 13 open holes will be completed over the next eight weeks (by end October) with exploration activities focusing on identifying seam thicknesses, lateral extent in both a easterly and westerly direction, regional seam dips and coring to attain coal quality information.

We would expect that a maiden JORC resource at this project could be declared by year's end.



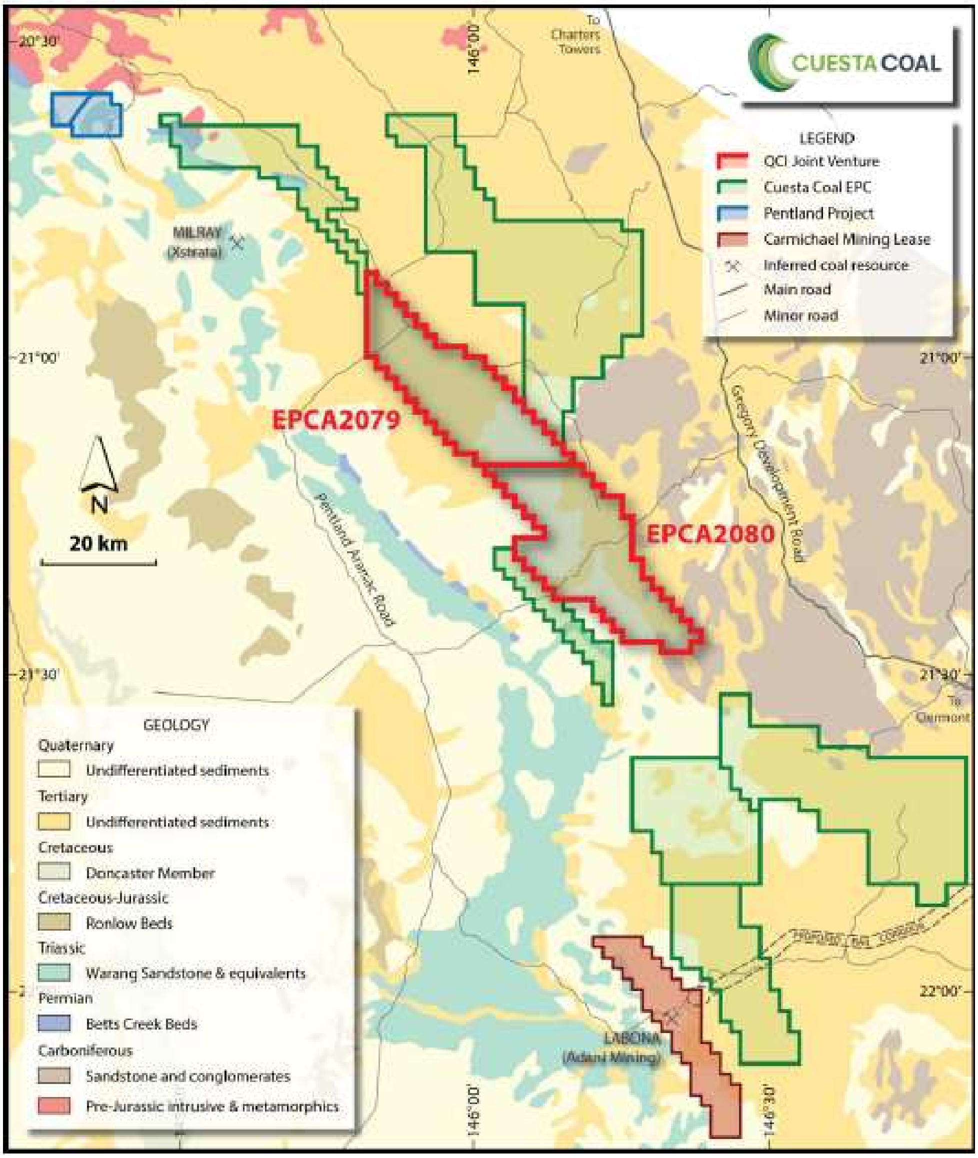
Confirming concept – opens up more targets in Eastern Galilee

CQC's large and growing Eastern Galilee tenement holdings covers a total area of ~4,000km² with two granted tenements including EPC 1082 being now drilled. CQC also has 4 tenement applications and a further two applications (EPCA2079 and EPCA2080) under a $3m joint venture with Hancock affiliate QCI (Galilee) Pty Ltd subject to successful granting of the tenements that was announced 8th August 2012.

CQC have pioneered exploration that has extended the extent of coals in the Galilee Basin further east. The current drilling is confirming its geological model and will allow CQC to focus on high grading additional targets. A scout drill over the coming 12 to 18 months, particularly in co-operation with our Joint Venture partner QCI (Galilee) Pty Limited at EPCa 2079 and 2080. CQC's activities are also attracting other to drill in neighbouring tenements.

CQC's large Galilee Basin tenements in green and joint venture with Hancock in red outline

– Adani's proposed mine and rail corridor is to the south



Expanding resource at West Bowen by 45% to 39.5mt – 20th August 2012

CQC boosted its JORC resource at its Moorlands deposit (EPC 1738 - West Bowen block near Blair Athol in central Queensland) by 45% to 39.5mt of moderate calorific value thermal coal.

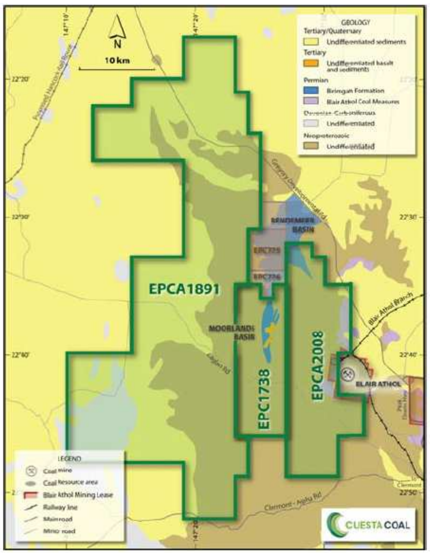
The prospect's chances for development studies to proceed are boosted by the presence of thick, relatively shallow seams that are well located to under-utilised infrastructure. Rio Tinto is now in the process of closing the nearby Blair Athol mine. The majority of coal was intersected at a depth between 50m to 150m and potentially mineable in an open-pit with selected areas having attractive strip ratios.

An additional 20 open hole and 6 cored hole drilling program at Moorlands is set to begin in the next six weeks to further define and potentially expand this resource southward and provide infill data to increase knowledge of already discovered coal. A revised resource and coal quality report could be completed by late 2012 or early 2013.

While drilling is concentrated in EPC 1738, CQC has a growing land position and are getting close to being awarded EPCA 1891 to the west of Moorlands. There may be opportunities merge development options with a nearby coal discovery, further improving development prospects for CQC's currently most advanced project.

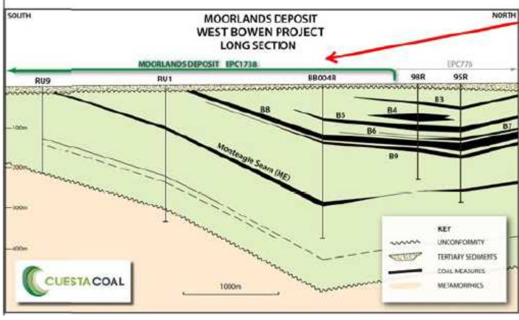
Moorlands is CQC's most advanced project – starting to take shape – more progress by early 2013

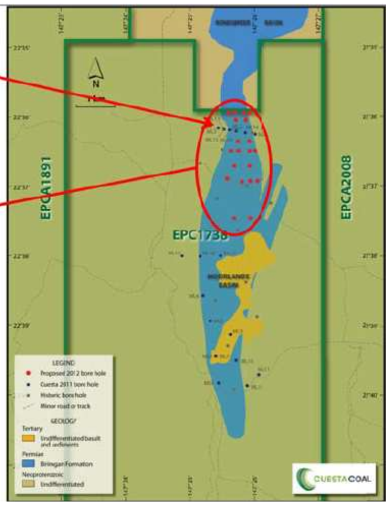
Growing tenement position



Multiple and thick intersections of coal encountered in deposit that extends north

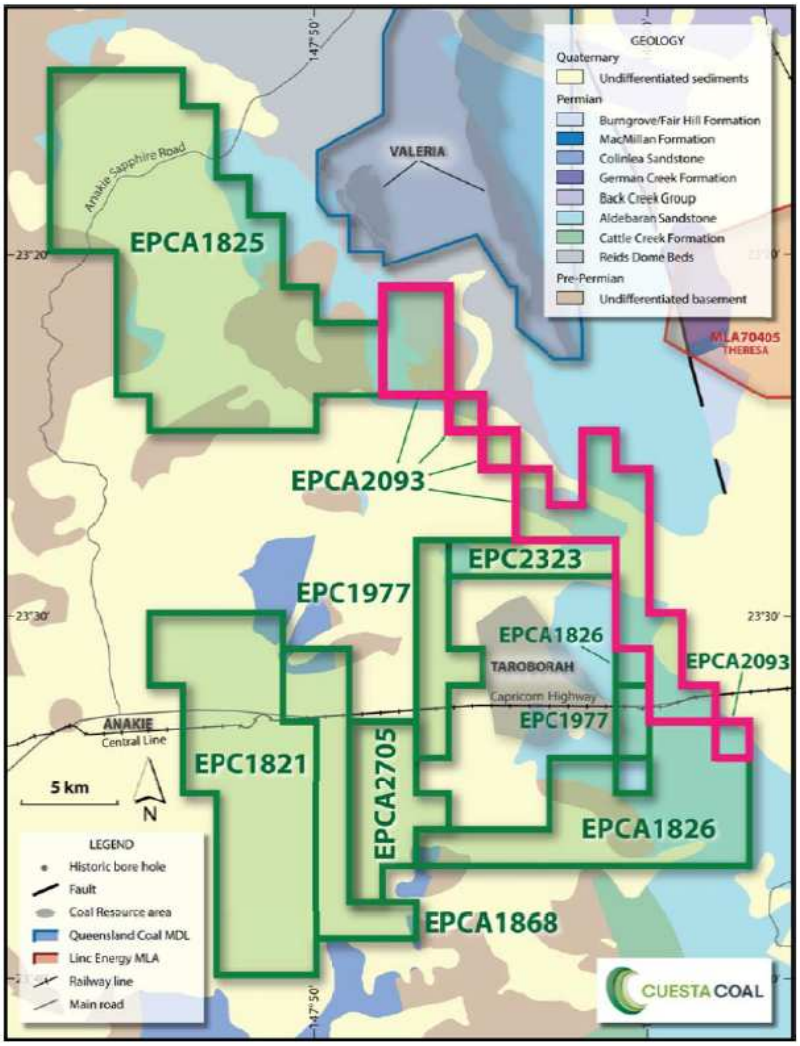
Cuesta 2011 Drilling		
Hole ID	Cumulative Coal	Depth to Base of Coal
ML0002	24.03 m	105 m
ML0014	24.12 m	110 m





Source: CQC announcement 20 Aug 2012

West Emerald desktop study – 25th July 2012 – coal is there, but how much?



The West Emerald Project comprises 8 near contiguous tenements in the Bowen Basin in Queensland close to Emerald and rail infrastructure. CQC is targeting extensions of the Valeria and Taroborah coal deposits, with

EPCa 2093 focussing on extensions of Rio Tinto's Valeria Deposit.

Historical drilling and other data have been re-appraised by CQC to determine that well known seams are present within CQC's tenement application area. Some of these seams have been known to have coking qualities.

Once the application is granted, CQC will conduct confirmatory drilling in order to outline an initial JORC Inferred Coal Resource and to establish if the coal extends further west and south than the historic drilled area. Subsequently, there will be scout drilling in other prospective areas within the tenement where preliminary geophysical analysis has yielded further areas of interest that warrant follow up drilling.

CQC currently have an exploration target of 50Mt to 200Mt for the project and we expect that its potential will be drilled during 2013.

Octa Phillip – valuation after risking $0.37/share is our target price

We see upside in JORC resources likely to come in rough order at Amberley, Eastern Galilee, West Bowen and West Emerald between September 2012 and mid-2013. As discoveries are made, our assessment of valuation tends to rise on reduced risk discounting as well as more coal being delineated.

Cuesta Coal Price & Mkt Cap $0.09 $24m	Equity Wgt'd by target %	JORC Inferred Resource mt	Resource Target Low mt	High mt	Target Probability Wghted $m	Discovery Success Mean Case $m
West Bowen	100%	39.5	10	70	14	20
East Wandoan	90%	40.1	17	167	11	23
Amberley	100%	5.1	35	55	8	19
Eastern Galilee	98%	-	200	2,950	47	268
West Emerald	100%	-	50	200	8	28
Montrose	100%	-	0	70	1	10
4 additional blocks	99%	-	448	2,990	5	22
Total Program		84.7	760	6,502	94	390
Net Cash at IPO					23	23
Exploration& other costs					-13	-22
Interest Received					1	1
Total Valuation					104	392
Undiluted Valuation: $/share					**$0.54**	
Contingent capital					23.1	23.1
Total Valuation					126.7	415
Fully diluted Valuation: $/share					**$0.37**	**$1.22**

Source: Octa Phillip estimates

Our valuation of CQC is set as the average between our probability weighted target expected discovery cases. We note that given exploration progress on multiple fronts, CQC appears to be on track for up to 58.7m shares to be issued to management and vendors in FY'13 as beyond the performance threshold JORC resources are achieved. When taking these shares into account our undiluted $0.54/share valuation falls to $0.41/share.

There are additional options that at current share prices are well out of the money with strike prices of $0.20 to $0.30. If these are taken into account, the fully diluted valuation falls to $0.37/share. We adopt this most diluted valuation measure as our target price.

We **recommend CQC as Speculative Buy.** CQC is trading cheaply and well below our $0.37/share risked valuation and target price. CQC's undiluted market capitalisation is $17.2m and trading in line with current cash position. Even excluding the cash the market capitalisation is just $0.20/tonne of JORC resource prior to upgrades expected from Amberley and West Bowen and a maiden resource at the potentially large Eastern Galilee project.

Coal chip samples from CQC hole HP014, East Galilee

Should you have any queries, please do not hesitate to contact me on +612 9233 9635.

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Recommendation Criteria

Investment View
Octa Phillip Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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Disclosure of Corporate Involvement - Section 734(6) Statement:

- Cuesta Coal Limited ('Cuesta') offered 80m shares at $0.30 each under a prospectus issued in February 2012 (''Prospectus''). The Prospectus can be obtained from www.cuestacoal.com.au.
- Offers of shares was made in, or accompanied by, a copy of the Prospectus.

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