

Cuesta Coal Ltd (CQC)

Explorer turning developer - acquisition creates scale

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Key Points

- CQC has acquired the 82.9mt Orion JORC thermal coal resource and exploration licences for \$18.2m. This adjoins CQC's licences containing the 53.4mt Moorlands resource enabling CQC to examine development options.
- The acquisition price is \$0.22/t JORC resource, upside exploration potential could see this fall to \$0.11/t. CQC has current cash of ~\$15m to fund cash consideration of \$8.2m; the balance is covered by an 18 month \$10m vendor loan.
- Since listing in April 2012 CQC's exploration has cost-effectively boosted JORC resources from 56.3mt to 152.7mt in three ventures which we expect can double in 2013. It now is moving to concept development stage at Moorlands.

New development focus - while exploration upside remains

Orion coal resource acquisition

CQC has acquired the 82.9mt Orion JORC thermal coal resource and exploration licences for \$18.2m. This adjoins CQC's recently expanded by 35% to 53.4mt Moorlands find, providing critical mass to initiate a development process. *We see CQC's big progress attracting new shareholder support.*

Attractive low strip ratio project - near infrastructure

Octa Phillip have examined a development, firstly at CQC's recently discovered Moorlands deposit with low initial strip ratio ~4:1 for 1.5mtpa product operation by 2017 with 40% of coal not needing washing. If CQC can obtain access to nearby underutilised infrastructure, initial capital and fob operating costs could be below \$100m and \$70/t respectively.

Adding the Orion open-pit deposit at ~7.5:1 strip ratio would allow expansion to 2.9mtpa of moderate energy thermal coal - similar to Blair Athol with its under-used rail 15km.away.

We value the combined asset at \$64m, but apply a 40% risk factor for early stage development to \$38m or \$0.28/t of JORC resource - is 27% higher than the \$0.22/t acquisition price. We are also expecting a resource upgrade at Orion in 2013.

Exploration and Development catalysts in 2013

CQC is delivering on its IPO promises aided by a ~20% drop in drilling costs enabling more exploration than planned. We expect **Moorland's** concept development study completed by MarQ'13. By then CQC could declare a maiden resource at its **eastern Galilee** Basin program close to Adani's proposed 60mtpa Carmichael mine's rail with drilling on 3 more Galilee blocks in 2013. New exploration at **West Emerald** could uncover a soft coking coal resource close to rail access.

Recommendation: Spec Buy price target \$0.32/share

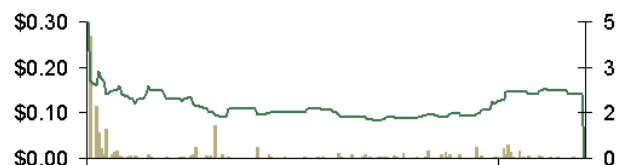
We value CQC at \$0.32/share on basis of risked Moorlands NPV and its exploration program. CQC's SepQ'12 cash position was \$18.3m and we forecast it has sufficient cash till mid-2013. Though CQC could sell non-core assets like the 52mt Amberley resource to aid funding, it may need to raise equity capital to maintain its active exploration and development program into FY'14. Other risks include development delays and weak coal markets.

Recommendation

Spec Buy

Previous Recommendation	Spec Buy
Risk Rating	Very High
Current Share Price	\$0.14
12 Month Price Target	\$0.32 (from \$0.32)
Price Target Methodology	NPV
Total Return (Capital + Yield)	126.9%
NAV / Share	\$0.32 (from \$0.32)
Market capitalisation	\$21m
Liquidity - Daily Value	\$0.0m

Exploration finds positive - development can continue the trend



Financial Forecasts & Valuation Metrics

Y/e Jun (\$m)	FY'16	FY'17	FY'18	FY'19
Revenue	0	11	178	180
NPAT	-4	-12	23	23
EPS (cps)	-0.6	-1.8	3.6	3.6
EPS Growth	-49.1	->100.0	+>100.0	1.8
DPS (c)	0.0	0.0	0.9	0.9
EV / EBITDA (x)	na	na	3.0	2.6
PER (x)	-24.7	-7.6	3.9	3.9
Dividend Yield	0%	0%	6%	6%
Gearing	31%	89%	45%	20%
Interest Cover (x)	-1.5	-2.3	6.5	9.5

Source: Octa Phillip Securities estimates

Development asset is now 45% or \$0.14/share of valuation

Cuesta Coal Limited

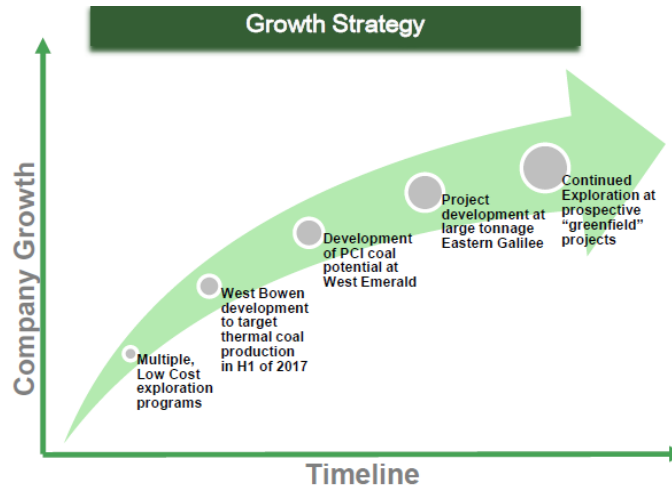
Valuation	0.0	CQC share	Confidence Level	Riskd	Value
Dil.shares	266.7	%	%	A\$m	A\$ps
Moorlands-Bendemeer		100%	60%	38	\$0.14
W.Bowen extended		100%	18%	4	\$0.01
Thorn Hill		90%	45%	9	\$0.03
Amberley		100%	95%	14	\$0.05
Yellow Jacket		98%	16%	36	\$0.14
West Emerald		100%	27%	6	\$0.02
Other Assets		100%	18%	4	\$0.01
Corporate Costs				-18	-\$0.07
Debt & Convert Notes				-10	-\$0.04
Options exercise		0.0		0	\$0.00
Cash - Jun'13e		0.6		1	\$0.00
Total Valuation				84	\$0.32

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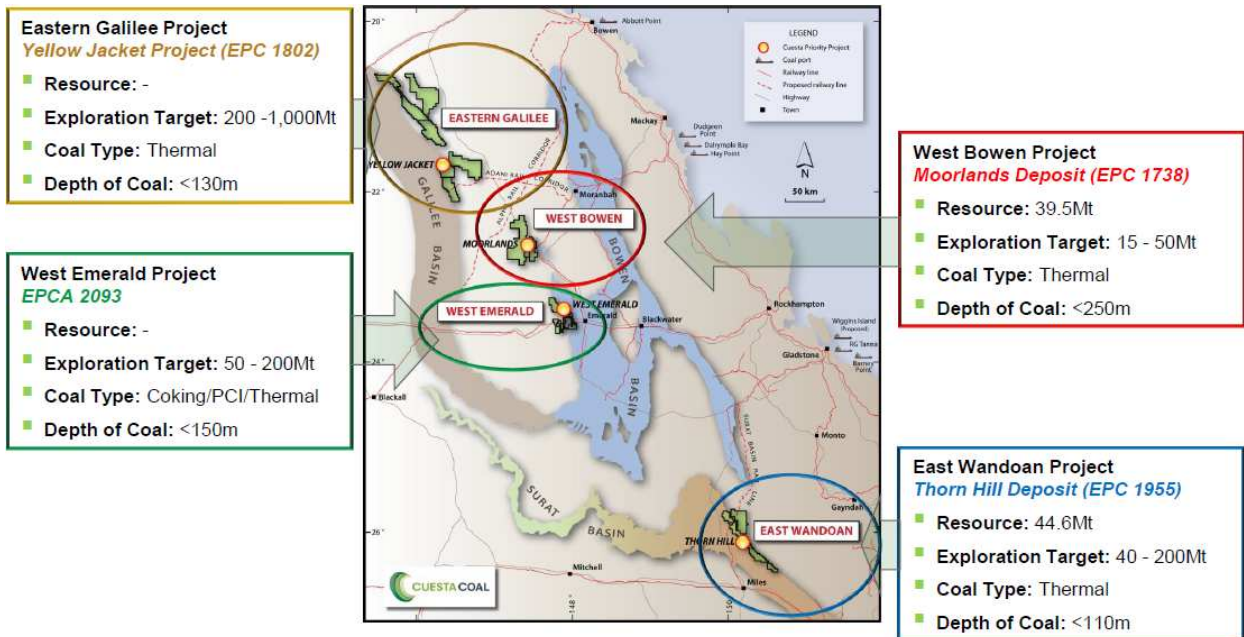
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Corporate Strategy

“CQC’s aim is to become a medium sized producer of a range of coal products within a 5 year period”



CQC’s aims to explore 4 core exploration projects in 2013 with the aim of developing 1-2 projects. West Bowen (Moorlands and Orion prospects) are now taking first steps toward development.



Source: CQC Presentations October 2012

Cuesta Coal - explorer turning developer

Orion coal prospect acquisition creates scale

The Orion 82.9mt JORC resource acquired for \$18.2m

CQC acquires 82.9mt Orion prospect for \$18.2m in cash

CQC has acquired for \$18.2m 100% working interest in EPC's 775 and 776 in central Queensland's Bendemeer Basin – which is a Permian aged coal basin that is close to and geologically equivalent to Rio Tinto's Blair Athol and Clermont thermal mines 20 – 30km east of these exploration leases, and close to the infrastructure established to service these big mines, though Blair Athol has now been largely extracted. Importantly it is immediately north of CQC's most advanced coal project – Moorlands.

EPC 775 and 776 contain the Orion prospect with an 82.9mt JORC thermal coal resource and exploration licences. This is made up of 29.2mt of Indicated resource and 53.7mt of Inferred resource compliant with JORC standards. Orion also has additional exploration targets of 80 -90mt.

This adjoins CQC's recently expanded Moorlands 53.4mt thermal coal resource

These leases adjoin CQC's West Bowen exploration licences that contain the 53.4mt Moorlands resource in EPC 1738 and also EPC 1891. On 10th December 2012, CQC reported the results of its most recent drilling campaign that boosted JORC resource by 35% at Moorlands. This is made up of 14.6mt Measured, 9.7mt Indicated and 29.1mt of Inferred JORC defined (thermal) coal resources. Importantly, most of the deposit appears to be relatively shallow and has an indicated 4.1 to 6.1 strip-ratio open-pit mine potential.

Moorland's now the subject of a mine scoping study

This success at Moorlands has enabled CQC to commence a mine scoping study for completion by March 2013. The acquisition of the Orion prospect that immediately adjoins to the north of Moorlands. The combined 136.3mt resource base allows examination of a potential staged multi-pit development with shared infrastructure that can boost returns compared to two stand alone projects.

Acquisition price is \$0.22/t JORC resource – lower if exploration is converted to resource

Measured & Indicated resource 53.5mt justifies development study

The Orion acquisition price is \$0.22/t JORC resource. Exploration success at Moorlands has been highly cost effective at ~\$0.07/tonne of discovered resource.

The combined Moorlands-Orion Measured and Indicated Resource of 53.5mt provide a strong platform to initiate development studies for an initial 1 to 2mtpa operation. Undertaking more drilling to upgrade most of the 82.8mt of Inferred resource, particularly in the Orion field, could provide the opportunity to double this scale of operation and allow CQC to reap benefits of scale.

CQC aims to upgrade 82.8mt Inferred Resource

In this report we examine a development scenario and its impact on CQC's valuation based upon an 84.8mt mineable resource. Our findings are the combined project risked valuation of \$38m or \$0.28/t resource. **Our valuation is 27% higher than CQC's acquisition price for Orion.**

Our valuation is 27% higher per t resource

Acquisition Pricing	Acquisition Price \$m.	Equity %	Measured mt	Indicated mt	Inferred mt	Total Resource mt	Mineable ROM ** OP est. mt	Acquire Price /t resource	Acquire Price /t ROM
Bendemeer	18.5	100%	0.0	29.2	53.7	82.9	54.7	0.22	0.34
Moorlands*	3.5	100%	14.6	9.7	29.1	53.4	30.0	0.07	0.12
Total	22.0		14.6	38.9	82.8	136.3	84.8	0.16	0.26

Source: CQC releases and Octa Phillip estimates

* Moorlands acquisition price represents estimated total acquisition and exploration spending cost

** Octa Phillip estimate of potential mine development

Exploration upside – could lower the price to \$0.11/t

Orion has 83mt exploration target

Orion leases come with identified additional exploration targets of 80mt plus. These targets are mostly infill and a southern extension of the Orion interpreted coal resource. If successful the acquisition price would fall to just \$0.11/tonne.

CQC's West Bowen leases have 60mt target

CQC this week announced three additional exploration targets west of Moorlands in EPC 1738 and EPC 1891. These have been identified by gravity geophysical assessment and surface geological work, with CQC assessing an aggregate target of up to 50mt. Up to 10mt could be added to Moorlands as well.

Source: CQC releases and Octa Phillip estimates

Acquisition Pricing	Acquisition Price \$m.	Exploration target Low mt.	Exploration	
			Res+target \$/t	Exploration target High mt
Orion	18.5	80.0	0.11	90.0
Moorlands	3.5	5.0	0.06	60.0
Total	22.0	85.0	0.10	150.0

Funding the acquisition

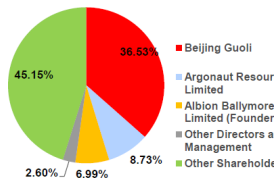
\$18.2m price tag

\$8.2m in cash comes funded from CQC's \$15m in current cash

\$10m vendor Convertible note – 18 month term

Beijing Guoli direct and indirect support

Shareholdings



CQC has non-core resources it can sell

Partly sell down Moorlands-Orion project

Value-adding activities to attract wider investor support

CQC has agreed to pay \$18.2m for the 82.9mt Orion and exploration licences by buying Hannigan & Associates. The transaction is subject to FIRB approval and CQC require shareholder approval to issue the convertible note. The payments terms are for a \$5m cash payment before 21st Dec 2012. A further \$13.2m will be paid in cash on the 28 February 2013. CQC has current cash resources of ~\$15m.

CQC have secured from the Orion's vendor an option to issue it a \$10m, 18 month Convertible Note secured against Hannigan & Associates shares. The first 12 months bears 9%pa interest and the final 6 months CQC would be required to pay 10%pa rate on the moneys loaned. The Convertible Note is able to be converted into shares at the then average traded prices (VWAP) at a 10% discount. CQC can repay the vendor Convertible Note at any time without penalty.

CQC's current cash and the Convertible Note are sufficient to complete the transaction and run activities till mid-2013. CQC are in advanced discussions on funding initiatives with Beijing Guoli and other parties.

Beijing Guoli Energy Investment Company, CQC's major shareholder has voiced strong support for CQC's initiatives. Longer term, Beijing Guoli may also participate with a direct project interest and off-take contract for its affiliated Chinese power stations.

CQC could raise added equity capital in the coming year after some of its value-adding activities bear fruit. A key catalyst is if concept mine studies confirm our favourable assessment of a potential Moorlands project, as development groups may attract wider investor support than pure explorers.

In addition we see CQC's position in the Galilee Basin becoming strategically more important as it declares a resource at Yellow Jacket and may find an additional resource adjacent to Adani's proposed rail corridor. CQC's West Emerald exploration has good chance of finding a soft coking coal resource based upon past drilling that needs confirmation.

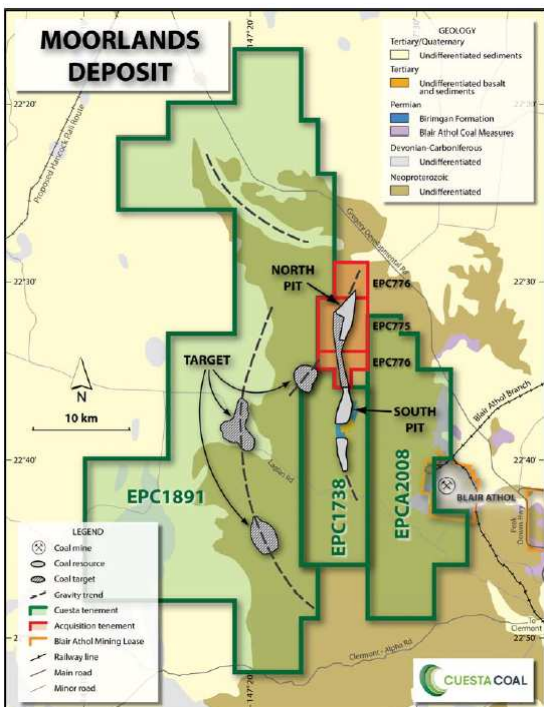
Asset sales opportunities and potential capital raisings

CQC's activities since listing have quickly and cost-effectively boosted JORC resources from 56.3mt to 152.7mt in three ventures which we expect can double in 2013. Some of these assets could be sold in 2013 to fund core development and exploration activities and/or repay the Convertible Note loan.

We see the **54.7mt Amberley deposit** west of Brisbane and close to infrastructure and New Hope's near exhausted mines as being an attractive development candidate – worth more to other miners. Similarly, we think the **44.6mt Thorn Hill** find east of Xstrata's proposed giant Wandoan coal development as potentially for sale. This may become more valuable if the stalled proposed new Surat rail link project regains development momentum.

We also see that CQC will be able to add significant value to Moorlands-Orion project in 2013 as resource definition expands and potentially improves project economics. This opens the opportunity to sell down part of the project to assist funding its development.

Orion Project spans EPC 775 & 776 – adjacent to CQC's West Bowen project



CQC's West Bowen project consists of two awarded leases EPC 1738 – containing the Moorlands deposit and EPC 1891 – containing newly identified 50mt exploration target with similar geological signature to Moorlands. A further application block is EPCA 2008 could be awarded to CQC in the coming year.

Moorland's (see "South Pit" in map) could be the subject of the first starter pit due to low ~4.1:1 initial strip ratio.

By acquiring Hannigan & Associates' Orion prospect CQC controls a 20km strike length of coal occurrence. The Orion project (see "North Pit on map) has 29.2mt of Indicated Resource and 53.7mt of Inferred Resource.

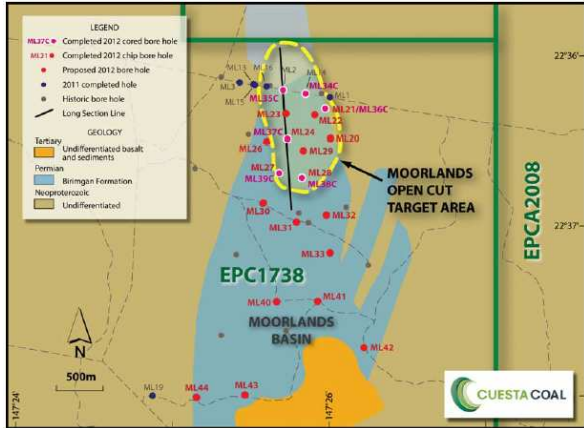
Orion project area has 80 to 90mt of exploration upside.

Deposit	West Bowen Coal Project				Exploration Target (Mt)	
	Coal Resources (Mt)				Low	High
	Measured	Indicated	Inferred	Total		
Orion Coal Deposit	0	29.2	53.7	82.9	80	90
Moorlands Deposit	14.6	9.7	29.1	53.4	5	10
Satellite Target Areas	0	0	0	0	0	50
Total	14.6	38.9	82.8	136.3	85	150

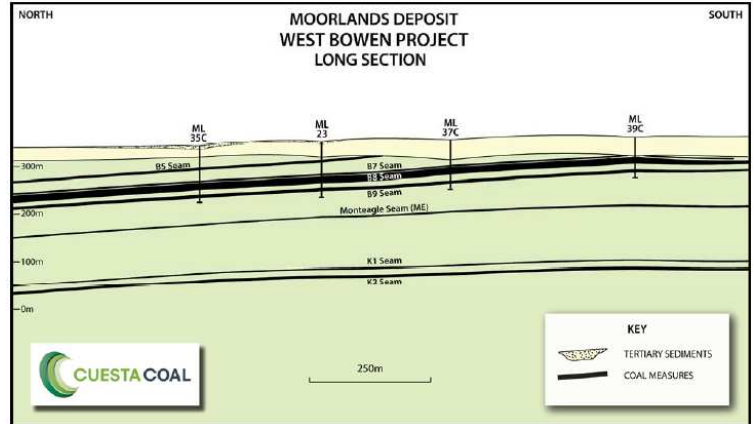
Moorlands – a strong development candidate

In EPC 1738, around 20km west of Rio Tinto’s recently shut Blair Athol coal mine, CQC has expanded coal resource from 27.3mt at April 2012 at time of IPO to 53.4mt JORC compliant resource. While coal has been encountered over the block, CQC have concentrated drilling in the northern part of the EPC at the Moorland target area, that adjoining Orion coal prospect.

Moorlands open-pit target – adjoins Orion



Multiple thick seams close to surface aid development credentials



Source: CQC announcement 10th Dec 2012

At Moorlands, thick and shallow coal has been intersected. Drilling has indicated multiple seams with combined thicknesses that are around 10 to 13-plus metres, with around 89% of the resource lying above 150metres depth. Overall vertical strip ratios have been estimated to be 4.1 bank cubic metres to 1 tonne of coal, up to 6.1:1 ratio. The thermal coal resource indicated to have moderate heating value of ~24MJ/kg (5740kcal/kg) ad, prior to washing. There is potential for ~40% of the coal to be saleable without washing, enhancing the economics further of this deposit.

Moorland low strip ratio, enhanced economics

Average Vertical Strip Ratios by Seam	
Seams	Average Vertical Stripping Ratio (bcm/tonne)
B5	> 20:1
B5, B7	> 15:1
B5, B7, B8	4:1 to 6:1
B5, B7, B8, B9	4:1 to 6:1

Moorlands shallow coal – 49% less than 100m and 89% below 150m

Resources by Depth of Cover (Million tonnes)							
Seam	Resource Categories	0-50 metres	50-100 metres	100-150 metres	150-200 metres	200-250 metres	Total
B5	Measured+Indicated	0.2	1.0	-	-	-	1.2
	Inferred	-	-	-	-	-	-
B7	Measured+Indicated	0.1	0.9	0.1	-	-	1.1
	Inferred	-	-	-	-	-	-
B8	Measured+Indicated	0.9	11.8	4.3	-	-	17.0
	Inferred	-	-	-	-	-	-
B9	Measured+Indicated	-	2.5	2.5	-	-	5.0
	Inferred	-	-	-	-	-	-
ME	Measured+Indicated	-	-	-	-	-	-
	Inferred	0.6	1.9	2.4	0.9	-	5.8
K1	Measured+Indicated	-	-	-	-	-	-
	Inferred	0.2	1.7	2.3	0.7	0.5	5.4
K2	Measured+Indicated	-	-	-	-	-	-
	Inferred	0.7	3.7	8.6	3.2	1.7	17.9
Total	Measured+Indicated	1.2	16.2	6.9	-	0	24.3
Total	Inferred	1.5	7.3	13.3	4.8	2.2	29.1

Source: CQC announcement 10th December 2012

Moorlands-Orion development – assessing value

Octa Phillip has sought to estimate value of a development of Moorlands and Orion based upon CQC released information. While it is too early to be confident that a mine development will be established, we believe that resource increased size and shallow configuration and low capital cost, enhance the likelihood of a development.

The joint resource of Moorlands and Orion is 136.3mt, of which 53.5mt is already categorised at Measured and Indicated status and a large 83mt exploration target still remaining. We see at least two open-pits being established to mine 85mt over more than 25 year mine life.

The first pit is assumed to be established at Moorlands at initial strip ratios of ~4.1:1 at a rate of 1.8mtpa of raw run-of-mine (ROM) coal. Around 40% is assumed to be by-pass coal and sold raw, while the remainder is washed to produce 1.5mtpa and two thermal coal products of ~23.6 and

24.5MJ/kg. This will require a box cut, coal screening and handling facilities, wash plant and site buildings and infrastructure in addition to a haul road to/near Blair Athol rail loop, which we estimate at \$95m capital cost.

A second pit is established in the higher strip ratio (initial 7:1 pit) Orion area and requires expansion to the wash plant, a box cut and minor ancillary items for a capital cost of \$45m. Operating costs vary as strip ratios increase over time but we see an FOB cash cost of ~\$69/tonne in the first few years.

Our un-g geared valuation at discount rate of 11.5% is \$64m or \$0.47/t of JORC resource. However due to early stage pre-development, we have risked this asset 40% (i.e. a confidence rating of 60%) for a risked value of \$38m or \$0.28/t of resource.

CQC's initial view of development time frame

Date	Item
1 st quarter 2013	Exploration and environmental studies commence
1 st quarter 2013	Complete Conceptual Mine Study
3 rd quarter 2013	Mining Development Lease application submitted
4 th quarter 2013	Complete Pre-Feasibility
1 st quarter 2014	EIS terms approved
4 th quarter 2014	EIS submitted
4 th quarter 2014	Complete BFS
1 st quarter 2015	Submit Mining Lease Application
2 nd quarter 2016	Mining Lease approved & FID
2 nd quarter 2016	Pre-strip commences
3 rd quarter 2016	CHPP & Wash plant Construction Commences
2 nd quarter 2017	Coal production commences

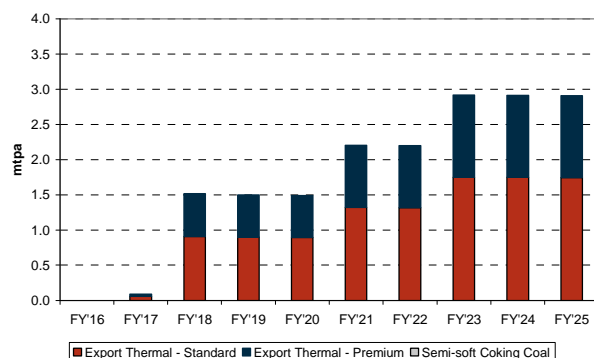
Source CQC Announcement 12 Dec 2012

Octa Phillip's initial view of project development

Moorlands-Orion			
Resources JORC: Meas. & Indic.	mt		53.5
Total JORC Resources	mt		136.3
Exploration target	mt		85.0
ROM coal	mt		84.8
Marketable coal	mt		70.8
Strip ratio - life of mine	x		7.2
Mine Life at start-up & plateau rate	Years	49	24
Start-up	JunQ'17	Initial	Plateau
ROM rate	mtpa	1.8	3.6
Semi-soft Coking Coal	mtpa	0.0	0.0
Export Thermal - Premium	mtpa	0.6	1.2
Export Thermal - Standard	mtpa	0.9	1.7
Total Saleable Coal	mtpa	1.5	2.9
Capital Expenditure	A\$m	95	
SIB Capital expenditure	A\$m pa	1	
Expansion Capital expenditure	A\$m		45
Cash costs	A\$/t product		\$39
Transport Costs	A\$/t product		\$30
Total Cash Costs	A\$/t product		\$69
Initial Ownership	%		100%
Assumed Ownership	%		100%
Asset Sale realisation	A\$m		0
NPV	A\$m		\$0.47
Risked NPV	Risking	60.0%	A\$m \$0.28
Discount Rate		11.5%	

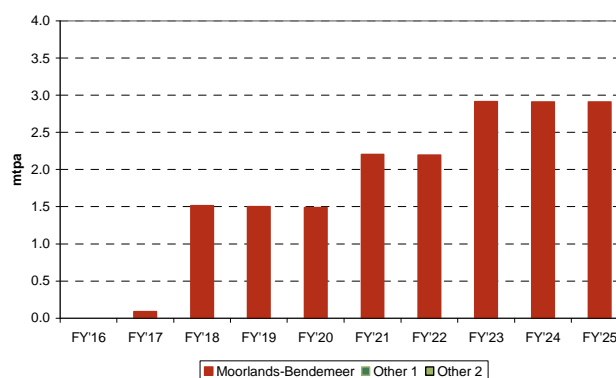
Source Octa Phillip estimates

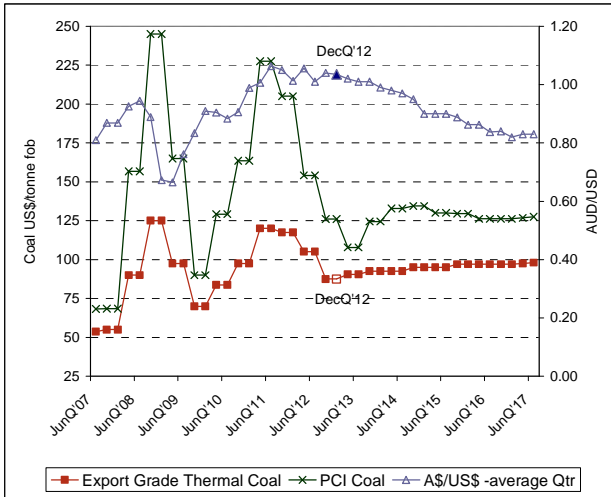
Moderate energy thermal coal sales – two product potential



Source: Octa Phillip estimates

Staged development - Moorlands-Orion deposits





Octa Phillip commodity assumptions call for coal prices to slowly rise over the next few years to levels significantly below recent peaks. 2017 nominal thermal coal price is estimated to be US\$97.50/t or ~6% higher than spot prices.

A key assumption is that the Australian dollar/US dollar exchange rate retreats to \$0.83. While the local dollar has been resilient in the face of commodity price pull-back, we believe that a combination of gradual US (and global) economic recovery and a slowing Australian economy and resource sector investment will lead to the local dollar to be relatively less appealing.

In the absence of an Australian dollar retracement, there are likely to be more mine closures or slower new mine development, and the US dollar coal price likely to drift up to compensate.

Source: Octa Phillip estimates, history – various data providers

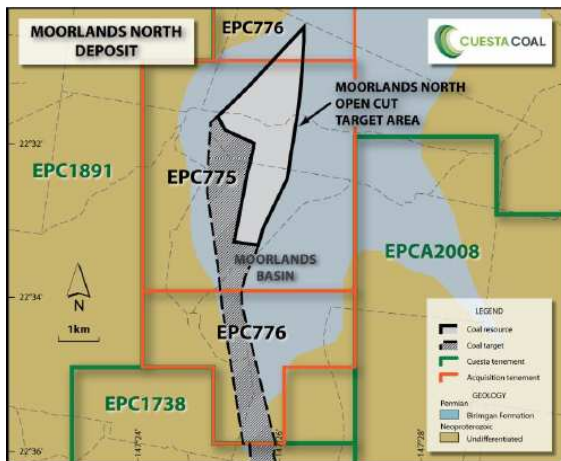
Orion – satellite development potential with compatible quality

Orion Project – open-pit target area

- has indicated 7.2:1 vertical strip ratio

Coal quality testing shows moderate energy thermal coal.

- More tests to come in 2013



Orion and Moorlands Deposit Average Raw Coal Quality by Seam						
Seam Name	Moisture % (ad)	Ash % (ad)	Volatile Matter % (ad)	Fixed Carbon % (ad)	Specific Energy MJ/kg (ad)	Total Sulphur % (ad)
North Pit						
B8	10.8	14.1	29.3	45.8	23.82	0.54
B9	11.7	11.3	31.8	45.2	24.76	0.80
South Pit						
B5	9.5	12.8	34.1	43.5	24.97	2.25
B7	9.6	22.2	27.1	41.1	21.28	0.52
B8	8.3	18.9	27.3	45.5	22.90	0.53
B9	8.5	16.3	31.1	44.1	23.41	0.70

Washability testing to be completed on the south pit Q1 2012

CQC valuation unchanged at \$0.32/share

Valuation quality rising as 45% of net valuation attributable to potential developments

Exploration to be more selective – secondary projects valuation cut

We have incorporated a valuation for a proposed development into our assessed valuation of CQC for the first time since the group was listed. The Moorlands-Orion valuation is \$64m or \$0.24/share. However we have risked that valuation to a confidence factor of 60% down to \$38m or \$0.14/share. This represents around 45% of our total valuation.

The valuation lift from the proposed Moorlands development was partly offset by the Orion acquisition price and greater focus on development has led us to slightly reduce valuations on the exploration assets ~\$5m. We have included discounted corporate costs for life of project, not just the IPO's 2-year exploration project.

Our valuation assessment is set as forecast at end of June 2013. This incorporates full development and exploration expenditures and dilution for vendor or management performance shares issued for exceeding resource targets – including 10m shares and 3.33m (25¢, 31Dec2015) options for just announced West Bowen resource revision. There may be sale of non-core assets, though this may not occur until DecH'2013.

Valuation	CQC share	Coal Resource	Product Coal	Confidence Level	Risked Value	Risked	Value	Unrisked
Dil.shares	266.7	%	mt	mt	%	A\$/t product	A\$m	A\$ps
Moorlands-Bendemeer	100%	136	71	60%	\$0.54	38	\$0.14	\$0.24
		Resource	Target Size					
W.Bowen extended	100%	0	35	18%	\$0.11	4	\$0.01	\$0.08
Thorn Hill	90%	40	59	45%	\$0.09	9	\$0.03	\$0.07
Amberley	100%	55	3	95%	\$0.25	14	\$0.05	\$0.06
Yellow Jacket	98%	0	713	16%	\$0.05	36	\$0.14	\$0.88
West Emerald	100%	0	80	27%	\$0.08	6	\$0.02	\$0.09
Other Assets	100%	0	960	18%	\$0.00	4	\$0.01	\$0.08
Corporate Costs				100%		-18	-\$0.07	-\$0.07
Debt & Convert Notes			-10	100%		-10	-\$0.04	-\$0.04
Options exercise	0.0			100%		0	\$0.00	\$0.00
Cash - Jun'13e	0.6			100%		1	\$0.00	\$0.00
Total Valuation		231				84	\$0.32	\$1.40

Source: Octa Phillip estimates

Unchanged recommendation – Speculative Buy, price target \$0.32/share

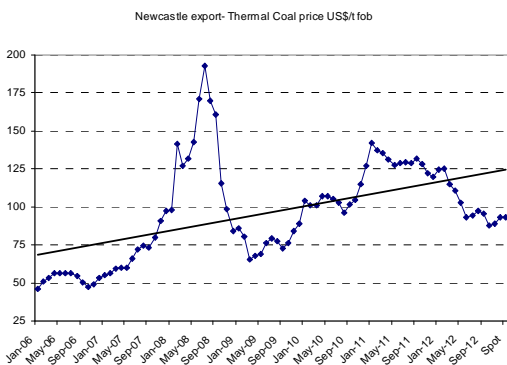
Our recommendation remains unchanged with a Speculative Buy, price target of \$0.32/share.

We are attracted to CQC’s active exploration and now potential development programs that have the ability to deliver significant value added. Since listing in April 2012 CQC’s exploration has cost-effectively boosted JORC resources from 56.3mt to 152.7mt in three ventures. The eastern Galilee program has discovered coal over a 15²km area at Yellow Jacket prospect and we expect a maiden resource statement in March 2013, which along with other programs could double CQC’s resource base in 2013.

We believe that release of a positive mine scoping study in MarQ’2013 may initiate a re-rating of CQC as it would signal the green light for further development initiatives of Moorlands and Orion prospects. Ultimately an improvement in coal market conditions can see support for coal explorers and developers resume and share prices increase. Recent thermal coal prices have risen from lows last seen in early 2010.

Risks

Our recommendation keeps its speculative rating due to CQC still being in transition toward a development project and the need to raise further capital. Its exploration activities have added value to a number of assets that may be sold to concentrate funding upon key developments. However these assets sales and investor interest in CQC are subject to overall tough current coal industry conditions of modest coal prices and high dollar sapping investor confidence. The risk is that these conditions persist.



Enterprise value per tonne of resource ~\$0.09/t

Following the acquisition CQC will have ~\$6 to 7m in cash

JORC Resource position increases from 1532.7mt to 235.6

We see 36% of total resources or ~85mt as likely candidate for mining

EV Calculation	Share Price	No. of units	Option Premium	Cash Balance	Cash Balance	Coal Resource	Enterprise Value	EV/tonne
	\$0.140	mil.	\$/option	\$m	\$/unit	mt	\$m	A\$/t
Current listed shares		150.9					21.1	
Escrowed FP Ord. (23/4/13)		5.4					0.8	
Escrowed FP Ord. (4/5/14)		35.3					4.9	
Total as at 8th Oct'12		191.6					26.8	
Management Perform. Shares - max^		42.0					5.9	
EPC 1802 Performance Shares*		35.7					5.0	
EPC 1802 Performance Options*		35.7	\$0.14	5.0			5.0	
Current Cash less Vendor Payment				6.0				
Total - currently issued		191.6		6.0	\$0.03	235.6	20.8	\$0.09
Max. shares - inc. performance shares		269.3		6.0	\$0.02	235.6	31.7	\$0.13
Max. Shares and in-money options		305.1		11.0	\$0.04	235.6	31.7	\$0.13

^ Contingent award depending upon minium discovery of inferred resources being declared

* Contingent award of max \$2m in shares and options if Inferred Resource exceeding 100mt issued @ then 10-day VWAP - assume cmp

* Contingent award of max \$3m in shares and options if Measured Resource exceeding 100mt issued @ then 10-day VWAP - assume cmp

Appendix – Infrastructure & other activities in 2013

Infrastructure options for field developments

PROJECT	RAIL	PORT	OPPORTUNITY
West Bowen - Moorlands Deposit – 14kms from Blair Athol	Existing railway line from Blair Athol to Hay Point - 278kms to DBCT Proposed railway line from Alpha to Abbot Point	Dalrymple Bay Coal Terminal - 85Mt - Existing Port Abbot Point (T0 Terminal) - 25Mt Dungeon Point Coal Terminal Expansion - 90Mt	In the process of securing 1.5Mt of Rail & Port Allocation in Secondary Market from 2016 onwards Seek to participate in development of Dungeon Point Coal Terminal
East Wandoan - Thorn Hill Deposit	Southern Missing Link + Moura Railway System - 390Kms to WICET	WICET - Master Plan is for 87Mtpa	Look to participate in Secondary Market or WEXP2
West Emerald – EPCa 2093	Blackwater System - 400kms to Port	Fitzroy Terminal Project (FTP) - 25Mtpa Yarwun Coal Terminal (3TL) - 50Mtpa	Participate in Development process through feasibility funding
Eastern Galilee - Yellow Jacket Project	Proposed Rail from Carmichael Project - 440kms to Abbot Point via Alpha Railway	Abbot Point (T0 Terminal + Expansion)	

In addition, CQC has lodged an expression of interest for a 0.8-1.2 Mt pa allocation for the Port of Brisbane for the future development of the Amberley project.

Eastern Galilee – CQC’s multi-hundred million tonne targets

Galilee success can make CQC a corporate target

EPC 1802 - Yellow Jacket prospect

This prospect has been the site of most CQC drilling and has found what appears to be export grade thermal coal over a 15²km area. This is a new area discovery as it extends the eastern boundary of the Galilee Basin that hosts Permian coals.

CQC have a 200 to 1000t exploration target. We expect that by March 2012, CQC could release a ~100mt resource at Yellow Jacket – with further drilling to locate further coal.

EPC 1957 – Karura target

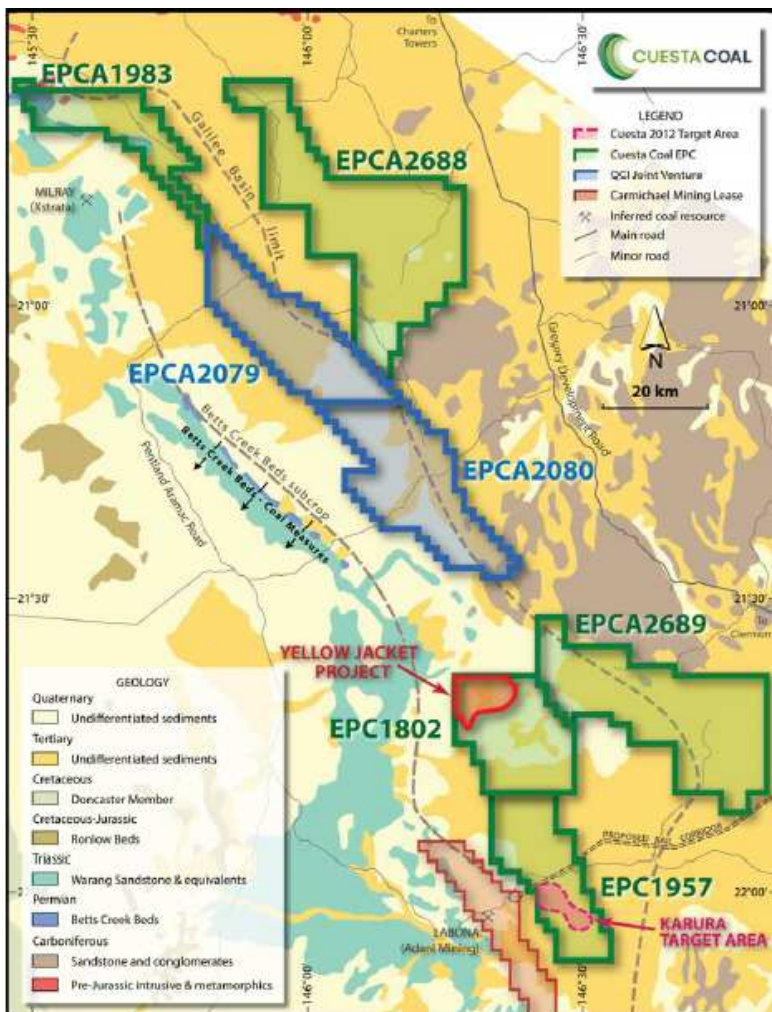
This is a newly identified target that will be drilled in 2013. Karura is located close to Adani’s proposed rail line from its giant Carmichael mine project that plans to mine up to 60mtpa.

If successful, it could increase Adani’s interest in CQC’s Galilee assets.

EPCA2079 & EPCA 2080 – Hancock farmin

The \$3m farmin exploration activity can begin after CQC is awarded the exploration leases. If successful it would increase Hancock Prospecting’s stake in building a position well north of its large interests further south.

Exploration success could lead to competitive tension between Adani and Hancock for control of strategically located resource.



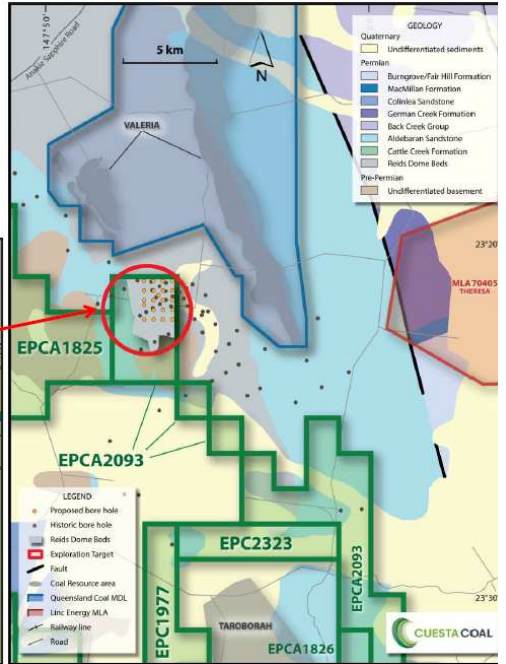
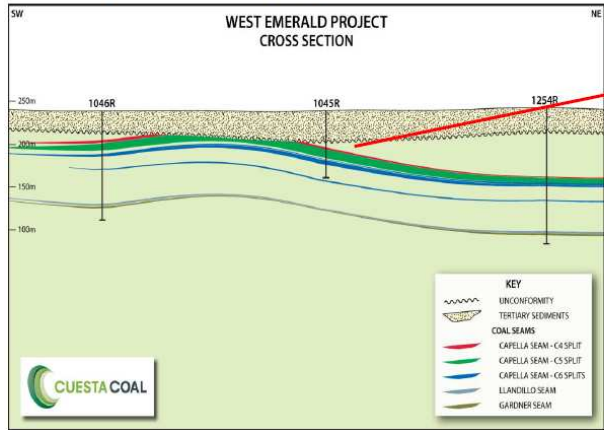
Source: CQC Announcement 6 Dec 2012

West Emerald – soft coking coal target for 2013 drilling

Is close to Linc Energy’s Teresa and Rio Tinto’s Valeria deposits and only ~25km from rail

Historic & Future Exploration

- 14 historic drill holes confirm presence of Reids Dome Beds Coal Measures
- Potential to define moderate sized PCI/Coking Coal resource
- Cuesta’s plans 20 open holes and 4 cored holes to define maiden resource in 2013
- Seam thicknesses, stripping ratios and coal quality to be verified in next round of drilling



Source: CQC Presentation Oct’2012

Amberley – 54.7mt resource – close to infrastructure - could be monetised

Eastern Galilee application blocks – start exploring with Hancock prospecting upon lease grant

Montrose – Greenfield exploration target – close to under-used rail- may slip into 2014 program

Amberley – 54.7mt resource
– close to infrastructure
- could be monetised

Eastern Galilee application blocks – start exploring with Hancock prospecting upon lease grant

Montrose – greenfield exploration target
– close to under-used rail- may slip into 2014 program

Eastern Galilee Project
Snake Creek Joint Venture
EPCAs 2079 & 2080

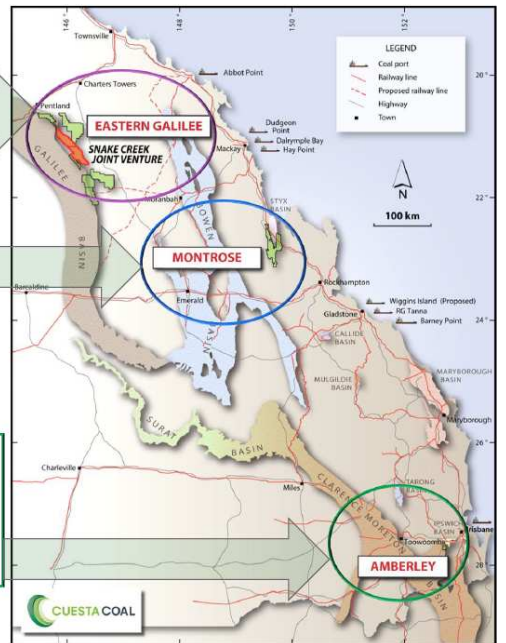
- \$3 m Joint Venture with QCI (Galilee) Pty Limited to earn 51%
- Wholly Owned Subsidiary of Hancock Prospecting
- Subject to successful granting of Cuesta Tenement

Montrose Project
EPCAs 2128

- 0 – 70Mt conceptual coking coal exploration target.
- Internal Desktop Study Underway
- Targeting coking coal of the Permian Back Creek Group

Amberley Project
EPC 2127

- 54.7Mt JORC Inferred Resource
- Planning for step out and infill drilling underway for 2013
- Infrastructure study underway



Source: CQC Presentation Oct’2012

Cuesta Coal Limited CQCRecommendation
Spec Buy

Date 11-Dec-12

Price \$0.140 Target \$0.316 Shares 233.6 Market Cap 32.7

PROFIT AND LOSS - A\$m

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
Sales Revenue	0.2	0.2	0.0	0.0	0.0
Other Revenue (incl hedge)	0.0	0.0	14.4	0.0	0.0
Operating Costs	0.0	0.0	0.0	0.0	0.0
Gross Operating Profit	0.2	0.2	14.4	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Exploration and Royalties	0.0	0.0	0.0	0.0	0.0
Corporate and Other	4.3	2.8	3.1	3.0	3.0
EBIT	-4.1	-2.6	11.3	-3.1	-3.1
Less Net Interest Expense	0.6	0.1	0.5	0.2	2.0
Pre-Tax Profits	-4.7	-2.7	10.8	-3.4	-5.2
Add Equity Profits	0.0	0.0	0.0	0.0	0.0
Less Tax	0.0	-0.8	3.2	-1.0	-1.6
Less Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (pre-Abs)	-4.7	-1.9	7.6	-2.4	-3.6
Net Abnormals	0.0	0.0	0.0	0.0	0.0
Reported Profit	-4.7	-1.9	7.6	-2.4	-3.6
Tax Rate (%)	0.0%	30.0%	30.0%	30.0%	30.0%

CASH FLOW ANALYSIS - A\$m

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
Cash Flows From Operating Activities					
Receipts from customers	0.0	0.2	0.0	0.0	0.0
Payments To Suppliers	(2.3)	(0.0)	(0.0)	(0.0)	(0.0)
Net Interest	0.1	(0.1)	(0.5)	(0.2)	(2.0)
Tax, Royalty and Other	0.0	(2.8)	(3.6)	(3.1)	(3.1)
	(2.2)	(2.7)	(4.1)	(3.3)	(5.1)
Cash Flows From Investing Activities					
Acq. of Property, Plant and Equip.	(0.0)	(23.2)	5.0	(22.2)	(31.7)
Exploration Expenditure	(8.3)	(2.8)	(6.5)	(1.7)	(0.6)
Other	0.0	0.0	0.0	0.0	0.0
	(8.4)	(26.0)	(1.5)	(23.9)	(32.3)
Cash Flows From Financing Activities					
Net Change in Borrowings	0.0	10.0	(3.8)	15.0	26.9
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other (Inc issues less buy backs)	25.9	0.0	33.3	19.2	0.0
	25.9	10.0	29.4	34.1	26.9
Net Increase In Cash Held	15.3	(18.7)	23.8	6.9	(10.5)
Cash At End of Year	19.3	0.6	24.4	31.2	20.7

BALANCE SHEET ANALYSIS - A\$m

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
Current Assets					
Cash and Liquids	19.3	0.6	24.4	31.2	20.7
Other	7.9	7.9	7.9	7.9	7.9
Non-Current Assets					
Receivables	0.0	0.0	0.0	0.0	0.0
Fixed Assets	0.1	23.3	32.7	54.8	86.4
Exploration & Other	12.9	15.7	22.2	24.0	24.6
Current Liabilities					
Borrowings	0.0	0.0	0.0	0.0	0.0
Creditors	2.7	2.7	2.7	2.7	2.7
Other	0.0	(0.8)	1.9	0.9	(0.6)
Non-Current Liabilities					
Borrowings	0.0	10.0	6.2	21.1	48.1
Other	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
SHAREHOLDERS FUNDS	37.5	35.6	76.4	93.2	89.6

PRICE ASSUMPTIONS

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
FOB prices: US\$/t	LT Real (2016\$)				
Exchange Rate USD/AUD	0.84	1.03	1.03	0.99	0.91
Coking Coal - Premium	180.00	254.00	177.50	195.00	197.50
Semi Soft Coking Coal	119.89	169.15	102.09	114.44	123.19
Export Grade Thermal Coal	97.00	111.33	89.00	92.50	95.00
Moorlands area Products					
Semi-soft Coking Coal	126.99	179.18	108.14	121.22	130.49
Thermal Coal - Premium	88.21	101.24	80.93	84.12	86.39
Thermal Coal - Standard	85.20	97.79	78.17	81.25	83.44
Company Tax Rate	30.0%	Secondary Tax applicable: MRRT Applies			

VALUATION PARAMETERS

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16	
NPAT (pre-Abs)	\$m	-4.7	-1.9	7.6	-2.4	-3.6
EPS	¢ps	-3.8	-0.8	1.8	-0.4	-0.6
PE Ratio	x	-3.7	-17.5	8.0	-36.8	-24.7
EPS Growth	%	100.0	79.0	>>100.0	>>100.0	-49.1
Enterprise Value	\$m	2.3	38.4	49.1	74.7	110.6
EV / Sales	x					
EV / EBITDA	x	-0.6	-14.9	4.3	-24.1	-35.7
EV / EBIT	x	-0.6	-14.7	4.4	-23.8	-35.2
Price / NTA	x	0.7	1.0	0.9	1.0	1.0
Dividend	¢ps	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0
CFPS	¢ps	-2.4	-0.7	1.5	-0.4	-0.6
Price / CFPS	x	-5.8	-19.0	9.3	-38.4	-24.8
NFPOS	mil.	191.6	250.3	504.4	636.6	636.6
Fully Diluted Shares	mil.	191.6	266.7	520.7	652.4	636.6

KEY RATIOS

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16	
EBITDA	\$m	-4.1	-2.6	11.3	-3.1	-3.1
EBITDA per Share	¢ps	-3.3	-1.1	2.6	-0.5	-0.5
EBITDA Margin	%					
EBIT Margin	%					
NPAT Margin	%					
ROE	%	-12%	-5%	10%	-3%	-4%
ROA	%	-12%	-4%	9%	-2%	-3%
NTA per share	¢ps	19.6	14.2	15.2	14.6	14.1
Eff Tax Rate	%	0%	30%	30%	30%	30%
Interest Cover	x	-7.5	-41.0	23.6	-13.4	-1.5
Net Debt/Equity	%	-51%	26%	-24%	-11%	31%
Net Debt/Net Debt plus Equity	%	-106%	21%	-31%	-12%	23%

DIVISIONAL VALUATION & RESOURCES

	Risked	NPV A\$m	p sh	mt	Resource mt	Targets mt
Moorlands Open-cuts	60%	38	0.14	71	136	
W. Bowen extended	18%	4	0.01		0	35
Thorn Hill	45%	9	0.03		40	59
Amberley	95%	14	0.05		55	3
Yellow Jacket	16%	36	0.14		0	713
West Emerald	27%	6	0.02		0	80
Other Assets	18%	4	0.01		0	960
Corporate Costs		-18	-0.07			
Debt & Convert Notes		-10	-0.04			
Options exercise		0	0.00			
Cash - Jun'13e		1	0.00			
TOTAL NPV (A\$m)		84	0.32	71	231	1850
NPV per Share (Unrisked)		372	1.40			
Target Price - 1 year			0.32			

COAL SALES

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
By Project - mt					
	Net w.i.				
Moorlands Open-cuts	100%	0.0	0.0	0.0	0.0
Other 1	0%	0.0	0.0	0.0	0.0
Other 2	0%	0.0	0.0	0.0	0.0
Total Shipments	0.0	0.0	0.0	0.0	0.0
By Product - mt					
Export Thermal - Standard	0.0	0.0	0.0	0.0	0.0
Export Thermal - Premium	0.0	0.0	0.0	0.0	0.0
Semi-soft Coking Coal	0.0	0.0	0.0	0.0	0.0
PCI Low Vol Coking Coal	0.0	0.0	0.0	0.0	0.0
Total Shipments	0.0	0.0	0.0	0.0	0.0

MARGIN ANALYSIS

	FY'12	FY'13	FY'14	FY'15	FY'16
Average Price Received (A\$/t)					
Site & Transport Cash costs (A\$/t)					
Total costs (A\$/t)					
Incl interest (A\$/t)					
Incl Tax (A\$/t)					
Net Margin (A\$/t)					
Price Received (US\$/t)					
Cash costs (US\$/t)					
Total costs (US\$/t)					
Incl interest (A\$/t)					
Incl Tax (A\$/t)					
Net Margin (US\$/t)					

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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.

Risk Rating

Octa Phillip Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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