

COMPANY Cuesta Coal Ltd| CQC | \$0.14/share

Date: 4th February 2013

RECOMMENDATION Spec Buy | Very High Risk | \$0.32/share target

EVENT DecQ'12 | Transitioning to developer, Galilee may be strategic

KEY POINTS

CQC's step towards becoming producer – only 9 months after listing

- CQC purchased the Orion coal resource just north of its Moorlands deposit near Blair Athol in central Qld for \$18.2m or \$0.22/t JORC resource. To date CQC has paid \$5m and will pay the remainder in Feb 2012, partly on \$10m vendor finance, though CQC is in advanced funding talks with its major shareholder, Beijing Guoli.
- The combined 136mt resource has potential to be CQC's first production asset, developed into two open-pits, which we value at \$38m ~\$0.15/share. *Contact your advisor for our 14th Dec 2012 full report on the transaction.*
- We see CQC's attracting new skills to the company and Guoli's funding as important in building market trust that CQC's excellent exploration track record, can translate to rapid progress of a coal mine development.

Galilee Basin – JORC resource soon, later may excite corporate interest

- Yellow Jacket in EPC1802 is CQC's 100% owned greenfield Galilee Basin extension discovery. Completed drilling has found thermal coal over 15km² at depths <130m and CQC expects to declare a maiden JORC resource estimate in March 2013. CQC's have an exploration target of 200mt plus, and with up to 1,000mt possible on further exploration in this or surrounding blocks.
- CQC's 90% owned EPC1957 is south of and adjoins the Yellow Jacket block. CQC has identified a similar signature coal exploration target called Karura, just south of Adani's proposed rail development.
- We see CQC's Galilee Basin position potentially attracting the attention of Galilee mine developers including Hancock prospecting and Adani. This may occur upon a solid resource announcement in EPC1802, a coal discovery in EPC1957 and/or more discoveries after the start of the \$3m work program at EPCA2079 & EPCA2080 with Hancock Prospecting carrying these expenses to farm in for 51%. These prospects may aggregate to coal resources logistically too important for Basin's coal mine developers, or the market, to ignore.

Maintain Spec Buy, \$0.32/share price target

- End Dec cash position was \$10.4m, sufficient for drilling activities. However up to \$15.5m in vendor payments for foundation blocks and Orion purchase outstanding will need added funding. An 18-month vendor finance of \$10m is a stop-gap measure. We expect Beijing Guoli and perhaps other sources of equity will be tapped.
- We are attracted to CQC's strong ability to cost effectively explore. It has discovered 152.7mt JORC compliant resource at three deposits. Amberley 54.7mt and Thorn Hill 44.6mt both have upside, though may be sold to assist development of the Moorlands and expand its Galilee exploration effort as well as test a PCI coking target at West Emerald in 2013. Note that coal exploration companies at an early stage of business development and should be viewed as speculative investments.

Orion coal project purchase, enhances joint development with Moorlands

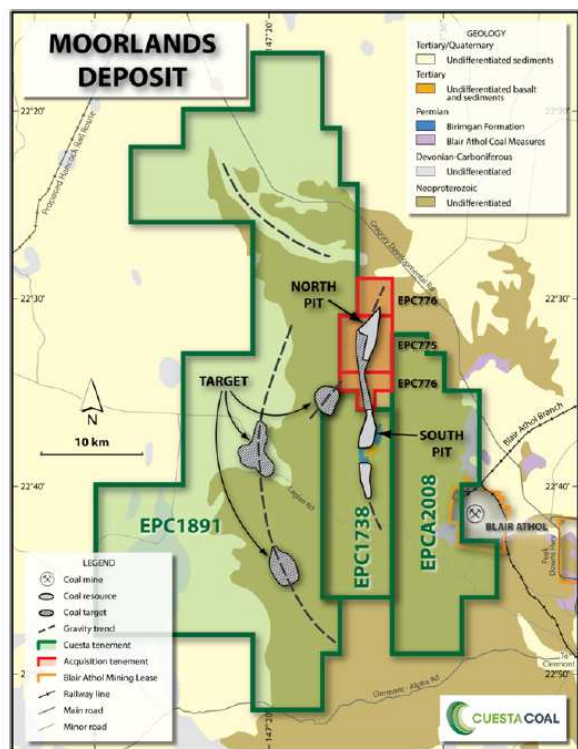


Figure 1: Moorlands Deposit (EPC 1738) showing EPC 775 & EPC 776 (in red)

CQC acquired EPC775 & 776, known as the Orion Coal Project for \$18.2m (north pit), which will be integrated with CQC's existing Moorlands Deposit (south pit) to the immediate south in EPC1738, creating a "flagship project".

Once integrated the project will be known as the Moorlands Deposit and at present there appears to be a two open pit potential from a resource of 136.3mt, over a 20km strike length.

The acquisition comes with significant exploration upside of 80mt plus that requires drilling to confirm any upside. However with 200mt of potential – this represents an attractive development prospect with growth upside close to existing infrastructure.

Moorlands project area lies approximately 14km from the Blair Athol mine (now shuttered) and about 260km west of Mackay and the Port of Dalrymple Bay.

Source: CQC DecQ'12 for maps and resource statements

Aggregate coal resource enough to initiate development study – large exploration target

Deposit	Coal Resources (Mt)				Exploration Target (Mt)	
	Measured	Indicated	Inferred	Total	Low	High
Orion Coal Project	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

Coal resources of the combined project

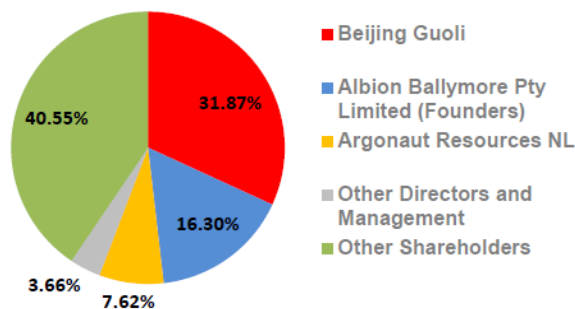
Moorlands has low strip ratio – an initial pit may be 4 or 5:1 and with the prospect of some of the coal being not washed.

The Orion project area has big upside resource target, and requires more work to optimised pit configuration.

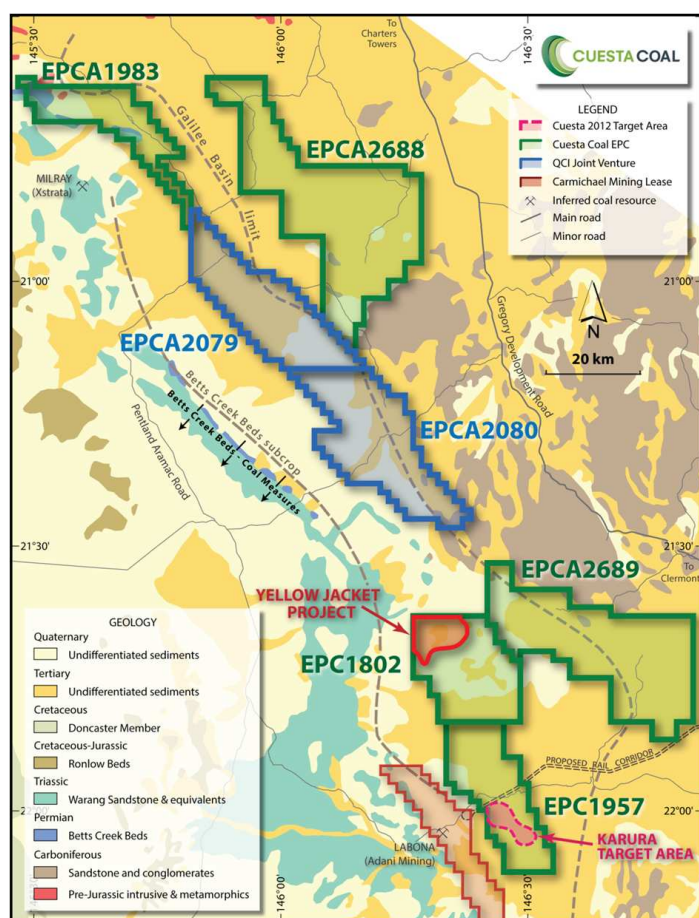
Shareholdings as at Dec'2012 – to tap funding in 2013

Beijing Guoli is a Chinese based investors in resources and power generation. As CQC's major shareholder and is represented on the Board, they have expressed support for CQC's exploration activities and are keen for CQC to progress to mine development and ultimately production. We expect them to assist CQC in funding the Orion acquisition in coming weeks.

We await news whether this plan may also involve broader equity market involvement.



Galilee Basin – JORC resource soon, later may excite corporate interest



Yellow Jacket in EPCA1802 (CQC's 100% owned) is a greenfield Galilee Basin extension discovery, with thermal coal found over 15km² at depths <130m. CQC expects to declare a maiden JORC resource estimate in March 2013. CQC's have an exploration target of 200mt-plus, and with up to 1,000mt possible on further exploration in this or surrounding blocks.

CQC's 90% owned EPCA1957 is to the south and CQC has identified a similar coal exploration target (Karura) just south of Adani's proposed rail development.

EPCA2079 & EPCA2080 are 100% owned but once the applications blocks are awarded (hopefully in the JunH'13), Hancock Prospecting can earn up to 51% by spending \$3m on an exploration program.

These prospects may aggregate to coal resource levels logistically too important for Basin's coal mine developers, or the market, to ignore.

Price target and valuation \$0.32/share

Valuation	Dil. shares	CQC share	Coal Resource	Product Coal	Confidence Level	Risked Value A\$/t product	Risked A\$m	Value A\$ps	Unrisked A\$ps
	275.8	%	mt	mt	%				
Moorlands-Orion		100%	136	71	60%	\$0.54	38	\$0.14	\$0.23
			Resource	Target Size					
W. Bowen extended		100%	0	34	17%	\$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	748	16%	\$0.05	38	\$0.14	\$0.85
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%		-17	-\$0.06	-\$0.06
Debt & Convert Notes				-10	100%		-10	-\$0.04	-\$0.04
Options exercise		0.0			100%		0	\$0.00	\$0.00
Cash - Jun'13e		1.2			100%		1	\$0.00	\$0.00
Total Valuation			231				87	\$0.32	\$1.36

Source: PhillipCapital estimates

Since our 14th Dec 2012 report CQC –Explorer Turning Develop –acquisition creates scale” we have made minor changes to our valuation with our overall \$0.32/share unchanged. We have slightly upgraded Galilee Basin exploration value for Karura target and have a higher dilution element. In coming weeks we will be able to more accurately analyse acquisition funding.

Should you have any queries, please do not hesitate to contact me on +61 2 9233 9635.

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Recommendation Criteria

Investment View

PhillipCapital 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

PhillipCapital 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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