Cuesta Coal Limited (CQC.ASX)

21 March 2014

Advancing development of the Moorlands Thermal Coal Project

Cuesta Coal Limited (CQC) is an emerging coal producer, planning to develop Moorlands, a low-cost, low-strip ratio, open cut mine producing export quality thermal coal near the Blair Athol and Clermont coal mines in Bowen Basin age coals. First coal is planned for late 2016 at a rate of 1.9 Mtpa ROM. A Concept Study has been completed indicating attractive fob cash costs of approximately AUD 63/tonne (contractor basis, excl royalties). A Feasibility Study will begin in early 2014 to evaluate the Moorlands project before a commitment is made to develop the project. Our unrisked DCF valuation is $0.35/share with a risked and discounted 12 mo fwd Price Target of $0.16/share, which is at a 65% premium to the current share price ($0.094).

Recommendation	
DCF value	$0.35
12mo Price Target	**$0.16**
F'cst 12mo Return	65%

Security Details	
ASX Code	**CQC**
Share Price ($)	**$0.094**
Issued Cap.(dil) (m)	477.3
Market Cap ($m)	43.0

30-Jun-14	forecast
P/E (x)	-13.3
CFM (x)	-27.6
Yield (%)	0.0
EPS growth (%)	23.1
CFPS growth (%)	79.6
Cash ($m)	30.3
Debt + CN ($m)	4.2
Debt+CN / Equity (%)	6%
Interest Cover (x)	-138.3
Debt+CN/Cashflow (x)	-4.3

30-Jun-13	actual
P/E (x)	-7.9
CFM (x)	-4.4
Yield (%)	0.0
EPS growth (%)	62.2
CFPS growth (%)	8.8
Cash ($m)	3.1
Debt + CN ($m)	8.5
Debt+CN / Equity (%)	22%
Interest Cover (x)	-999.0
Debt+CN/Cashflow (x)	0.0

Investment Thesis

- Cuesta Coal Limited (CQC) is planning to develop Moorlands, a low-cost low-strip ratio, open cut, export quality, thermal coal project near the (closed) Blair Athol coal mine in the Bowen Basin. CQC holds 100% of Moorlands and has recently completed a Concept Scoping Study recommending development of a 1.9 Mtpa thermal coal project. CQC has outlined 281 Mt of JORC Resources at Moorlands. Rail infrastructure from the Blair Athol mine is only 14 km away. A maiden Reserve assessment is underway and anticipated to be completed soon. A Feasibility Study on Moorlands is planned for early 2014.
- FOB Cash costs are forecast to average A$63/t fob (excl royalties) for 1.9 Mtpa ROM under a contract-operator. Capital costs for a 1.9 Mtpa project are forecast at $167m (incl BFS and contingency) for contract operator.
- We expect that CQC will need to raise about $24m of capital within the next year to provide for ongoing evaluation and feasibility costs, and about $50m by June 2015 to provide the non-debt funding for construction of Moorlands which has a production target of late 2016 after a 3 yr development time-frame. We have assumed that this will be as new equity. In the absence of other funding we estimate CQC would need to raise a total of about A$74m of equity. However there is scope to sell-down an interest in the project and reduce CQC's equity funding requirement while adding value.
- CQC is evaluating two other projects West Emerald and Eastern Galilee with potential for near term definition of coking and thermal coal resources. It holds six additional prospects at earlier stages of evaluation.
- CQC is supported by an experienced Board and Management and a strong cornerstone investor, Beijing Gouli Energy Investments, which now holds a 36.4% interest in the company.
- We have assessed CQC's funding for its base case (1.9 Mtpa) and also run sensitivities on funding by equity and on asset sell-down cases.
- We value CQC on an unrisked basis at $0.35/share, and after diluting for the anticipated capital requirements, with a Price Target at $0.16/share based on Moorlands' 1.9 Mtpa ROM / 1.7 Mtpa product base case.

Catalysts

- Completion of a favourable feasibility study recommendation for the Moorlands project will increase confidence in the project commerciality and value.
- A sell-down of an interest in Moorlands to a JV or off-take party will demonstrate commitment of partners and or customers toward development of the project, and will assist in funding it.
- Announcement of maiden Reserves for Moorlands, and Resource upgrades for West Emerald and /or Eastern Galilee projects.

Risks

- CQC needs to raise capital for development of the Moorlands project. The prices at which equity can be sold will affect valuations and Target Prices.
- The Moorlands project has been evaluated to Concept Study level, and has yet to pass through the detailed scrutiny of a Feasibility Study. However we believe that the initial parameters from the Scoping Study are encouraging.

Andrew Pedler
Matau Advisory Pty Ltd
+61 412 122 778
andrew@matauadvisory.com.au

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Financial Summary

PRODUCTION yr ending June	2013	2014	2015	2016	2017	2018
Hard Coking 000t	0	0	0	0	0	0
LVPCI 000t	0	0	0	0	0	0
SSCC 000t	0	0	0	0	0	0
Thermal 000t	0	0	0	0	1,334	1,778

FORECAST yr ending June	Prices 2013	2014	2015	2016	2017	2018
AUDUSD	1.027	0.925	0.935	0.910	0.865	0.823
Hard Ckg US$/t	183.0	148.3	156.0	166.5	172.0	176.3
LVPCI US$/t	138.0	118.3	123.8	137.1	140.2	143.1
Semi-Soft US$/t	125.5	104.4	108.1	124.2	124.9	126.8
Thermal US$/t	100.8	85.9	91.5	107.8	108.4	109.9

VALUATION @	12.64%				
DCF Valuation Yr Ending June	DCF Value A$m	Dec 2013	Stage Risk Factors %	12mo fwd Value A$m	Dec 2014
Moorlands	293.9	0.26	50%	187.1	0.17
West Emerald	6.0	0.01	20%	1.2	0.00
East Galilee	26.7	0.02	35%	9.3	0.01
Amberley	3.0	0.00	30%	0.9	0.00
Montrose	1.0	0.00	10%	0.1	0.00
East Wandoan	2.5	0.00	10%	0.3	0.00
Investments	0.0	0.00		0.0	0.00
Expl'n & Eval'n	6.0	0.01		6.0	0.01
Corp. Costs (pv)	-23.9	-0.02		-24.4	-0.02
Hedge Book	0.0	0.00		0.0	0.00
Enterprise Value	**315.3**	**0.28**		**180.4**	**0.16**
Cash	8.4	0.01		7.7	0.01
Debt + CNotes	-4.6	0.00		-30.7	-0.03
Equity Valuation	**319.2**	**0.28**		**157.4**	**0.14**
Add Notional Capital (pv)	72.9	0.06		61.7	0.05
Value – Fully Dil.	**392.1**	**0.35**		**219.1**	**0.19**
mkt disc. factor			-20.0%	-43.8	-0.04
12mo fwd Val (dil)				**175.3**	**0.16**

INVESTMENT yr ending June	Ratios 2013	2014	2015	2016	2017	2018
EPS bef. abs(c)	-0.9	-0.7	-0.5	-0.8	2.5	4.5
EPS growth (%)	62.2	23.1	20.4	-52.0	407.4	78.0
PER (x)	-7.9	-13.3	-16.7	-11.0	3.6	2.0
CFPS (c)	-1.6	-0.3	-0.6	-0.8	1.1	6.2
P/CF (x)	-4.4	-27.6	-15.6	-12.0	8.1	1.4
EV/EBITDA (x)	-0.5	-2.5	-6.5	-26.6	4.8	2.5
DPS (c)	0.0	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0	0.0

PROFITABILITY yr ending June	Ratios 2013	2014	2015	2016	2017	2018
EBIT / Sales (%)	0.0	0.0	0.0	0.0	25.9	38.0
ROA (%)	-5.1	-5.6	-2.8	-2.8	7.7	11.1
ROE (%)	-7.0	-8.5	-6.2	-7.5	20.4	28.1
ROCE (%)	-6.1	-5.9	-2.8	-2.9	8.5	12.1

PROFIT & LOSS yr ending June	($m) 2013	2014	2015	2016	2017	2018
Sales Revenue	0.0	0.0	0.0	0.0	154.0	215.4
Operating Profit	-4.0	-5.5	-3.9	-4.0	39.9	81.8
Other Income	0.3	0.5	0.0	0.0	0.0	0.0
EBITDA	**-3.7**	**-5.0**	**-3.9**	**-3.9**	**40.0**	**81.8**
Depr. & Amort.	0.0	0.0	0.0	0.0	2.4	3.4
EBIT	-3.7	-5.0	-3.9	-3.9	37.6	78.4
Interest Income	0.7	0.2	0.4	0.8	0.4	0.4
Interest Expense	0.0	0.0	2.6	6.1	8.2	6.3
Pre-Tax Profit	**-3.0**	**-4.9**	**-6.1**	**-9.3**	**29.8**	**72.6**
Tax	-0.4	0.0	0.0	0.0	1.3	21.8
Minorities / Pref Divs	0.0	0.0	0.0	0.0	0.0	0.0
Equity acc' NPAT	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	**-2.6**	**-4.9**	**-6.1**	**-9.3**	**28.5**	**50.8**
Abnormals	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	**-2.6**	**-4.9**	**-6.1**	**-9.3**	**28.5**	**50.8**

CASHFLOWS yr ending June	($m) 2013	2014	2015	2016	2017	2018
Oper. Cashflow	**-4.4**	**-2.0**	**-5.3**	**-8.5**	**12.6**	**70.5**
Dev. Cap. Exp.	0.0	0.0	-76.0	-81.0	-15.0	-5.0
Maint. Cap. Exp.	-0.1	0.0	0.0	0.0	-2.0	-2.1
Expln, Evaln, R&D	-14.6	-9.5	-6.0	-6.0	-6.0	-6.0
Asset (purch)disp	-5.5	-0.1	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	**-20.2**	**-9.5**	**-82.0**	**-87.0**	**-23.0**	**-13.0**
Share Issues (b'bck)	-0.1	43.7	50.0	14.8	0.0	2.0
Debt drawn(repay)	0.0	0.0	55.0	58.1	-2.0	-45.3
C/Notes issue(red)	8.5	-5.0	-5.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Other Finance flows	0.0	0.0	0.0	0.0	0.0	0.0
Finance Cashflow	**8.4**	**38.7**	**100.0**	**72.9**	**-2.0**	**-43.3**
Cash Incr (Decr)	-16.2	27.2	12.7	-22.6	-12.4	14.2

BALANCE SHEET yr ending June	($m) 2013	2014	2015	2016	2017	2018
Cash	3.1	30.3	43.1	20.5	8.1	22.3
Total Assets	51.9	87.0	221.9	326.5	370.5	458.6
Debt	0.0	0.0	55.0	113.1	111.2	65.9
C/Notes	8.5	4.2	0.0	0.0	0.0	0.0
Shareholders Equity	37.9	76.5	120.4	125.9	154.4	207.2
Outside Interests	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	37.9	76.5	120.4	125.9	154.4	207.2

LEVERAGE & LIQUIDITY yr ending June	Ratios 2013	2014	2015	2016	2017	2018
Debt/Equity (%)	0%	0%	46%	90%	72%	32%
(D+CN)/(D+CN+E)	18%	5%	31%	47%	42%	24%
Interest Cover (x)	-999.0	-138.3	-1.3	-0.5	4.6	12.6
Debt/Cashflow (x)	0.0	0.0	0.0	-6.5	10.7	1.6
(Debt+CN)/CF (x)	0.0	-4.3	-0.8	-6.5	10.7	1.6

EARNINGS SENSITIVITY ($m change) yr ending June	2013	2014	2015	2016	2017	2018
AUDUSD +/- 5c	0.0	0.0	0.0	0.0	-6.3	-9.2
HCC +/- US$ 10/t	0.0	0.0	0.0	0.0	0.0	0.0
LVPCI +/- US$ 10/t	0.0	0.0	0.0	0.0	0.0	0.0
SSCC +/- US$ 10/t	0.0	0.0	0.0	0.0	0.0	0.0
Thermal +/- US$ 10/t	0.0	0.0	0.0	0.0	11.4	14.6

Investment Highlights

Industry Trends

The seaborne thermal coal market is predominantly comprised of regional markets, the Asia-Pacific region and the Atlantic region, which normally see very little inter-regional trade of thermal coal. Australia is a significant participant in the seaborne thermal coal market, consistently producing good quality, low-impurity thermal coal.

Power demand growth in the Asia-Pacific region continues to be met with thermal coal as a key input. Advanced economies Japan and South Korea are also planning construction of new coal-fired power stations over the next 5-10 years. Wood Mackenzie forecasts an average 4.6% p.a. demand growth for thermal coal in the Asia-Pacific region to 2022.

Resources – Location

CQC holds 100% interest in the West Bowen – Moorlands open cut thermal coal project, located near Blair Athol, which is approaching feasibility study as a long-life producer.

The company also holds interests, mostly at 100%, in several other thermal and coking coal projects and prospects in the Bowen, Surat, Clarence-Moreton, Styx and Galilee Basins. These projects are attractive, though at earlier stages of evaluation.

Resources Geological

CQC has outlined JORC Resources at the Moorlands-South and Moorlands-North Resource areas of a combined 281.1 Mt. A maiden Reserve assessment is underway and anticipated to be completed soon.

At the Yellow Jacket deposit in the East Galilee area an initial 364.1 Mt of thermal coal Resources has been defined. CQC has also defined an initial 54.7 Mt of Resources at the Amberley project in the Clarence Moreton basin.

CQC has defined an initial 44.6 Mt of Resources at Thorn Hill in the East Wandoan project, though development of these will be limited by delays to Surat Basin infrastructure.

Mining Conditions

Mining conditions for open cut mining are being assessed by geotechnical test work on the Moorlands project. Results to date indicate that mining conditions are anticipated to be good.

Resource Quality

The thermal coal product from CQC's Moorlands project is good quality low-sulphur thermal coal. The deposit has shallow, thick coal seams between 4m & 10m giving a target strip ratio of 3.2:1 for the South-Pit and about 5:1 for the North–Resource area.

Production

CQC's Moorland project has concluded its Scoping Study on the proposed South-Pit and is working toward feasibility study stages before potential commitment to production, with an indicated plan for first coal in 2016. An initial mining rate of 1.9 Mtpa is considered.

Markets

The Moorlands project is planning to produce export quality thermal coal. The East Galilee and Amberley projects are also targeting thermal coal. However the West Emerald project and the Montrose East Galilee project are targeting coking, LVPCI and thermal coals.

Infrastructure

The Moorlands project is near the closed Blair Athol thermal coal mine operated by RIO (Linc Energy Ltd recently announced a conditional agreement to acquire and recommence mining at Blair Athol). About 14 km of road haulage would be required to deliver into that load-out. However CQC has included costs for a stand-alone rail loop and load-out in its capital estimates. Power is anticipated to be brought in from Blair Athol. Port capacity allocation is anticipated to be available on secondary markets.

The Montrose, West Emerald and Amberley projects are close to existing infrastructure. However the development of East Galilee and Wandoan East projects is contingent on development of rail infrastructure.

Corporate

Strong and supportive cornerstone investor in Beijing Gouli Energy Investments which has a 36% interest in CQC and is a potential off-take party.

Valuation Fundamentals

The 12 mo fwd Target price (risked and discounted) is at a 65% premium to the share price.

Our DCF-based equity valuation, on an un-risked, fully diluted basis is $0.35/share, with a 12 month (risked for stage of development) value of $0.20/share.

In the current market, which continues to be in a continued risk-off mode, we have calculated and applied a 20% market discount factor to our forecast 12 month risked value, to derive a 12 mo forward Price Target of $0.16/share.

We applied a nominal Weighted Average Cost of Capital (WACC) of 12.64%, calculated for non-producing companies in the coal sector. The WACC is calculated using a beta of 1.65 for the coal sector segment, a risk free rate of 6.0%, a market premium of 6.0%, cost of debt of 7.2% and 30% gearing (D/(D+E)).

The 12 mo fwd Target Price (incl market discount) is at a 65% premium to the share price ($0.094).

DCF-based Valuation

DCF Valuation @ 12.64%	DCF Value (unrisked)	Dec-13	Stage Risk Factor	12 mo fwd Value (risked)	Dec-14
Yr Ending June	A$m	$/shr	%	A$m	$/shr
Moorlands	293.9	0.26	50%	187.1	0.17
West Emerald	6.0	0.01	20%	1.2	0.00
East Galilee	26.7	0.02	35%	9.3	0.01
Amberley	3.0	0.00	30%	0.9	0.00
Montrose	1.0	0.00	10%	0.1	0.00
East Wandoan	2.5	0.00	10%	0.3	0.00
Investments	0.0	0.00		0.0	0.00
Expl'n & Eval'n	6.0	0.01		6.0	0.01
Corp. Costs (pv)	-23.9	-0.02		-24.4	-0.02
Hedge Book	0.0	0.00		0.0	0.00
Enterprise Value	**315.3**	**0.28**		**180.4**	**0.16**
Cash	8.4	0.01		7.7	0.01
Debt + CNotes	-4.6	0.00		-30.7	-0.03
Equity Valuation	**319.2**	**0.28**		**157.4**	**0.14**
Add Notional Capital (pv)	72.9	0.06		61.7	0.05
Equity Value – Fully Dil.	**392.1**	**0.35**		**219.1**	**0.19**
mkt disc. factor			-20.0%	-43.8	-0.04
12mo fwd Equity Val (dil)				**175.3**	**0.16**

Source: Matau Advisory Pty Ltd

For projects that are reasonably advanced through scoping studies toward feasibility studies our valuation is DCF based. To derive Target values and target prices we apply risk weights that reflect the stages of evaluation and development (confidence levels) of the respective projects.

We derived a DCF valuation for the Moorlands project, based on the company evaluation and plans to date described in the Concept Scoping Study, and included them in our unrisked DCF valuation.

We have assigned values for the less advanced exploration projects West Emerald and Eastern Galilee, based on the buy-in cost of the JV partner entering CQC's Snake Ck JV with $12m assigned to East Galilee and $6m to West Emerald and on market EV/t values implied for non-producing coal Resources for Yellow Jacket.

The current market EV/t valuation for non-producing resources (Amberley & East Wandoan) is estimated at $4.6m and is included in the values assigned ($3m and $2m respectively). The value implied by market-EV for non-producing Resources for Yellow Jacket is $17.7m. CQC is in the process of evaluation of its several projects and we anticipate additional resource definition in the near future.

The risk weights we have applied to project valuations to derive the Target Price are 50% for Moorlands, 35% for East Galilee, 30% for Amberley, 20% for West Emerald and 10% for Montrose and East Wandoan.

Our target price is a 12 month forward Target Price that is derived by using our 12 month forward DCF valuation, with risk factors applied to projects or valuation items according to stage of project development and or technological maturity or complexity. In addition, in the current market we have estimated and applied a market discount factor of 20% to the risked Target Price.

In the absence of alternative project funding arrangements, which would most likely include sell-down of interest in project assets, we have assumed that non-debt funding will be raised by issue of equity. The total equity valuation (above) is added to the present value of the additional capital to be raised to give a fully diluted valuation. This, divided by the total notional issued shares (1,134.0m) after redemption of convertible notes gives an un-risked diluted equity value of $0.35/share and a 12 mo fwd risked Target Price of $0.16/share (net of market discount).

Shares Issued

	Dec-13
Shares Issued - dil (m)	**477.3**
Notional Shares Issued (m)	656.7
Total Notional Issued Shares (m)	**1134.0**

Valuations on an Issued Shares Basis

Issued Shares Basis	**Dec-13**			**Dec-14**	
	$m	**$/shr**	**mkt disc**	**$m**	**$/shr**
Equity Value (DCF-based) (dil)	**165.0**	**0.35**		**138.3**	0.19
market discount factor			-20.0%	-27.7	-0.04
Target Price				**110.6**	**0.16**
Enterprise Value	**Dec-13**	**EV ($/t)**	**Jun-14**	**Dec-14**	**EV ($/t)**
Market EV	**41.0**	0.06	**41.5**	**90.1**	0.12

Enterprise Value (DCF-based)	**$m**	**EV ($/t)**		**$m**	**EV ($/t)**
Equity Value	165.0			138.3	
net debt & pmts	-3.9			23.0	
Enterprise EV	**161.2**	0.22		**161.3**	0.22
less market discount	-32.2		-20.0%	-32.3	
12mo fwd risked EV ($m)	**128.9**	0.17		**129.1**	0.17

EV/t, on an issued shares basis, is $0.17/t of Resources.

Enterprise Value per Tonne Ratios

We calculate Enterprise Value per tonne (EV/t) ratios on two basis.

a) A **Market EV** at a given point in time is calculated simply by addition of net debt to the market capitalisation. This value varies with the company market capitalisation.

We have assumed all non-debt funding will be from raised equity.

This is a conservative approach.

b) An **Industry EV** or **Enterprise EV** is calculated by either taking the average or median of a range of appropriate values determined from recent past industry transactions in the commodity, or by using the calculated project or company (enterprise) EV, which is usually constructed using DCF methods. This value varies with project specific inputs, commodity prices, costs, and or transaction values, rather than market capitalisation.

EV per tonne: For sector comparison purposes, the denominator tonnes are usually either expressed as attributable "Total Reserve tonnes" or attributable "Total Resource tonnes" so that comparisons are conducted on a like-for-like basis. CQC's Total attributable Resources are 740.1 Mt, which we use to provide comparison with its peers.

DCF Valuation Considerations

We derive DCF-based valuations for each project for which we have sufficient confidence in the key parameters and assumptions for the project to generate a DCF value. In order to present that valuation as part of our sum-of-parts valuation of the company we consider that the project must be funded and the implications of that funding are expressed in our forecasts.

In practice we expect that CQC will sell-down an interest in the key project, and reduce its equity funding requirement.

In the *absence of announced (alternative) funding structure*(s) for the key project we assume a default case that the company would proceed to develop the project on a 100% basis. We expect in the current market that a minimum debt funding of 65% of project capital requirements is achievable. The balance of the project 'equity' funding requirement would need to be sourced from cash balance, cash flow and or newly raised market equity.

For the amount of implied market equity requirement we start with an assumption of a share price at approximately a 10% discount to the theoretical ex-rights price (TERP). This may be adjusted with reference to an index of the project(s) stage-of-development risk factors. We dilute our forecast value (target price) and earnings according to the amount of forecast equity raised.

For small companies this process may forecast a large equity raising relative to the size of the company concerned. In practice we believe it is generally more conservative than the results from several alternative funding possibilities that the companies generally consider when faced with similar funding requirements.

In practice, we expect that Cuesta Coal will sell down an equity interest in the project, which would contribute equity proceeds from the sale of interest toward project development. The sell down would reduce the amount of market equity required to be raised (as a percentage of project capital, as would the receipt of net of proceeds of sale), thus reducing the number of proposed issued shares and consequent dilution of value per share and earnings per share.

The lower the company share price, the greater the impact this method has on the estimated valuation per share.

Discussions with banks continue to indicate that project-based debt finance should be available for at least 60% of project capital requirements for good projects. We assume this is as project finance, not corporate debt.

Valuation using one of many permutations of potential alternative funding structures would generally result in a comparable and likely more optimistic outcome than our default case which we use *in the absence of an alternative funding proposal* which at this stage is hypothetical. The anticipated upside arises from the reduced equity interest in the project value to be offset by the proceeds of sale of interest sold and therefore smaller capital funding requirement in line with the equity interest, divided by a reduced number of new issued shares.

We consider that there is a reasonable likelihood that CQC's cornerstone investor Beijing Gouli will either, acquire a direct interest in CQC's development project Moorlands, or increase its equity investment in CQC directly (either to maintain its interest level at a capital raising or increasing its interest level).

Other Coal Resources: Our value for Other Coal Resources is a value ascribed to JORC Resources in the coal seams within the project area that can reasonably be expected to be mined, though have not been included in a DCF-based calculated value. We value these Other Coal Resources by taking current average market-based EV/t values for non-producing companies that have JORC Resources that are not in production. From these we derive average enterprise values for non-producing thermal resources and non-producing coking coal resources of $0.049/tonne and $0.485/tonne respectively, and applied these values to selected Resources that are not included in our project DCF modelling.

Our valuation modelling does not include the development of the Moorlands Northern Resource area, nor the Resources of CQC's interest in the 54.7 Mt of Amberley nor the attributable 40.1 Mt at Thorn Hill in the Surat Basin. Using the above market EVs the above Resources would be valued respectively at $4.0m, $2.7m and $1.9m.

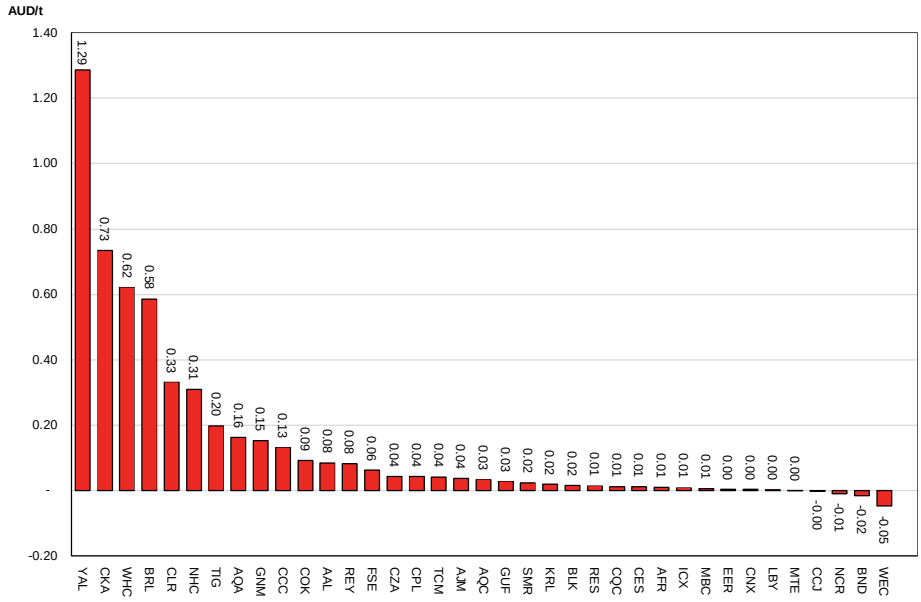
Comparable Farm-In Transactions: The recent farm-in agreement for the Snake Ck JV exploration project in the East Galilee tenements, provides an implied valuation for the adjacent tenements that is reasonable and able to be applied to comparable tenements in the region. In the above DCF Valuation we have broadly applied transaction values to the non-producing projects and note that the $3m we apply to Amberley is comparable to its Resource market valuation above, and the $2m we attribute to Thorn Hill is comparable to its Resource valuation.

Exploration Targets, currently valued at zero, have potential to add value upon upgrade to Resources.

CQC has total **Exploration Targets** of between 375 Mt and 1,730 Mt over its several projects. Further evaluation is required to evaluate these. We are confident that CQC will add Resources through upgrades of several of these targets. However we currently assign zero value to Exploration Targets.

Market Valuations

Enterprise Value per Resource Tonne



Source: Commsec, Matau Advisory (Share prices as at 21 February 2014)

With a Market EV of 0.02/tonne of Resources CQC is valued by the market in the lower section of the emerging coal companies. This value is above some technically more advanced projects but reflective of the fact that CQC does not have the infrastructure limitations of several other advanced projects.

The market continues to materially undervalue emerging coal companies including CQC, compared to industry valuations (see below).

Market Transaction Values

Below we show a summary of recent industry transactions for thermal coal projects and or companies.

Summary Table of transaction

Date	Project	Seller	Buyer	Reserves Mt	Resources Mt	Interest %	Amount $m	Production $/ t.p.a.	Reserves $/t	Resources $/t
Sep-07	Anvil Hill	Centennial Coal	Xstrata	115	522	100	425.0	42.5	3.70	0.81
Feb-08	Narrabri	Whitehaven Coal	Guangdong Yudean Group	88.4	336.1	7.5	67.5	150.0	10.18	2.68
Aug-08	Narrabri	Whitehaven Coal	J-Power	112	438.3	7.5	125.0		14.88	3.80
Aug-08	Narrabri	Whitehaven Coal	EDFT	112	438.3	7.5	129.1		15.37	3.93
Aug-09	Narrabri	Whitehaven Coal	Korean Consortium	201.9	438.3	7.5	125.0		8.25	3.80
Jun-11	Donaldson	Noble / Donaldson	Gloucester Coal	152.4	885	100	585.0	130.0	3.84	0.66
Jun-11	Monash	Noble / Monash	Gloucester Coal	0	287	100	30.0	4.3		0.10
Jul-11	Woori	Cockatoo Coal	Mitsui	40.6	84.3	49	37.5	25.5	1.88	0.91
Aug-11	Syntech Resources	Syntech Resources	Yancoal Australia	440	723	100	202.5	144.6	0.46	0.28
Sep-11	Kevins Corner			1300	4300	100	556.1		0.43	0.13
Sep-11	Alpha - Alpha West			2000	3600	79	469.3		0.30	0.17
Sep-11	Alpha-Kevins Corner	Hancock Coal	GVK	2880	8566	100	1,260.0		0.44	0.15
Sep-11	Premier	Wesfarmers	Yancoal (Austar)	138	535	100	296.8	84.8	2.15	0.55
Oct-13	Blair Athol	Rio Tinto	Linc Energy	11.3	46.1	100%	0	n/a	n/a	n/a
Oct-13	Clermont	Rio Tinto	Glencore/Xstrata	165	Neg	50%	1,015.0	68.8	12.30	n/a
	Average of Transactions							94.6	5.71	1.38
	Median of Transactions							107.4	3.70	0.66

Source: Matau Advisory

We note specifically the recent transactions involving the neighbouring Blair Athol and Clermont coal mines. Although these do not provide direct transaction benchmarks for Cuesta on an EV/resource tonne basis they highlight that there is continued demand for export thermal coal of similar quality to that which will be mined at Moorlands and a willingness to invest in the region.

The Industry transaction EV/t for Qld projects is approximately10x the market EV/t.

In October 2013, Linc Energy Ltd announced a conditional agreement to acquire and recommence mining at Blair Athol. Mining activities ceased at Blair Athol in November 2012 however up to 10 Mtpa export thermal coal has been mined there historically. Nil consideration was paid by Linc however Linc must fund rehabilitation associated with historic mining activities. Linc is proposing to recommence production from the mine in June 2014.

Rio Tinto sold its 50.1% stake in Clermont to Glencore/Sumitomo in October 2013 for $1,015m. Production at Clermont commenced in 2010 and has been ramping up since. For the 12 months ending 31 December 2013, 11.6Mt export thermal coal was mined (12.2Mtpa nameplate capacity). Clermont has a remaining mine life of 13-14 years.

Applying the median market EV/tonne of transaction values for Resources of $0.66/t implies an industry Enterprise Value for Cuesta Coal of $488m, based on the equity interest of 740.1 Mt of Resources attributable to CQC. This is at a considerable premium to our forecast 12 mo fwd Enterprise EV for Dec 2014 of $129.1m ($0.17/t) for Cuesta Coal Limited on the recently expanded Resources.

After removal of the NSW transactions, most of which also occurred prior to the onset of the global financial crisis in 2009, the Queensland thermal coal transactions during 2011 remain with an average transaction EV/t of $0.36/tonne, and a median transaction EV/t of $0.22/tonne.

The median transaction value for Queensland transactions implies a value for CQC of nearly 4x the current market capitalisation.

The median value for the Qld transactions implies a 12 mo fwd EV/t of $163m for Cuesta Coal, nearly four times the current market capitalisation.

The Queensland transactions are somewhat weighted by Galilee Basin project transactions for resources with significant un-built infrastructure requirements for production. By comparison, most of CQC's tenements are within ready reach of existing rail infrastructure.

Summary of Valuation Comparisons

Our DCF-based 12 mo fwd Target Price ($0.16/share) is at a 65% premium to the current share price after application of a 20% market discount.

The undiscounted 12 mo fwd Target Value $0.20/share includes project values that have been risk-adjusted according to the stage of development of key projects.

Potential to Expand

In the light of the large defined Resource which in itself has little impact on our DCF value as the prior resource indicated a life of the order of 20+ years we also considered the scope and value for CQC to further expand its Moorlands project once its 1.9 Mtpa project had attained its target output.

We considered a further expansion to 5 Mtpa after conduct of a full EIS, and estimates for additional capital expenditure that would be required for the expansion, and derived a 12 mo fwd Target price of $0.38/share.

We believe that expansion is something that CQC should consider once having first established its operational, cost parameters and market position for its Moorlands thermal product.

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Sensitivities

Sensitivity of DCF-based Valuation to WACC

We have adopted a WACC of 12.64% for the non-producing companies in the coal sector. In the table below the effect of a 10% increase, and a 10% decrease in WACC are shown.

WACC		12.64%		13.91%		11.38%	
		$m	$/shr	$m	$/shr	$m	$/shr
unrisked DCF		*397.4*	*0.35*	*350.2*	*0.31*	453.3	0.40
risked Target		***178.1***	***0.16***	***158.2***	***0.14***	**201.4**	**0.18**
change DFC				-47.2	-0.04	*55.9*	*0.05*
change Target				-19.9	-0.02	*23.3*	*0.02*
change DFC	%			-11.9%	-4.2%	14.1%	4.9%
change Target	%			-11.2%	-1.8%	13.1%	2.1%

Sensitivity of Valuation to Changes in Price Forecasts

Our coal price forecast period extends to December 2019, after which we refer to long term price forecasts. First production is planned in the December HY 2016. Sensitivities of earnings to changes in exchange rate assumptions and in coal prices are shown below for the forecast period.

Earnings Changes ($m) to Changes in Forecast Prices

Yr Ending June	2013A	2014E	2015E	2016E	2017E	2018E	2019E
+/- 5c US$/A$	0.0	0.0	0.0	0.0	-6.3	-9.2	-9.7
+/- US$10/t Hard Coking	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+/- US$10/t Semi-Hard	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+/- US$10/t LV PCI	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+/- US$10/t Semi-Soft	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+/- US$10/t Exp Thermal	0.0	0.0	0.0	0.0	11.4	14.6	14.3

Sensitivity of Valuation to Long Term Price Forecasts

As the substantial part of CQC's valuation occurs from production beyond 2019, the bulk of forecast cashflows are subject to our assumed Long Term coal price forecasts. Our Long Term coal prices are forecast to begin in the December 2019 HY. We have calculated sensitivities to changes in our Long Term price assumptions.

In practice we believe that an increase in Long Term AUDUSD exchange rate would be largely matched by an increase in thermal coal prices, and probably by an increase in coking coal prices, given Australia's market position as a substantial supplier to the seaborne coal market.

Long Term Price Sensitivities

Assumptions Case	Long HCC USD/t	Term Thermal USD/t	Prices AUDUSD	unrisked DCF $/shr	risked Target $/shr	unrisked DCF % chg	risked Target % chg
Base Case	**190.0**	**112.0**	**0.80**	**0.35**	**0.16**		
only FX increase 10 cents	190.0	112.0	**0.90**	0.28	0.13	-19.3%	-19.4%
only FX increase 20 cents	190.0	112.0	**1.00**	0.23	0.10	-34.8%	-35.0%
only Thermal Coal up USD 10/t	190.0	**122.0**	0.80	0.40	0.18	15.3%	15.4%
only Coking Coal up USD 10/t	**200.0**	112.0	0.80	0.35	0.16	0.0%	0.0%
Coal **up** $10/t & FX **up** 10 c	**200.0**	**122.0**	**0.90**	0.33	0.15	-5.7%	-5.7%
Coal **down** $10/t & FX **up** 10 c	**180.0**	**102.0**	**0.90**	0.23	0.11	-33.0%	-33.1%
Coal **down** $10/t & FX **down** 10 c	**180.0**	**102.0**	**0.70**	0.38	0.17	7.3%	7.4%

In isolation a change in currency-only scenario is not reasonable, as in practice long run thermal coal price contracts generally are settled with reference to the AUD/t margin available to the Australian thermal coal producers, respecting the significant volume share Australia has of the Asia-Pacific seaborne market. In that context, the AUDUSD exchange rate and thermal coal prices have historically tended to move in the same direction.

The recent pattern of the commodity price falling with the currency remaining high was a very distinct anomaly, compared to past history.

The case (above) in which the exchange rate only was increased by USD 0.20 had a very similar effect to increasing the currency by USD 0.10 cents and decreasing the coal price by USD 10/t.

Sensitivity to Capital Raise Share Prices

Valuation is sensitive to issue price of new shares.

As described above under 'DCF Valuation Considerations', and in the absence of an agreed funding structure we assume that project funding be generated by debt funding to 65% of project requirements after equity funds (from cash balances and or new equity raised) is contributed. Clearly the issue of shares at low share prices has potential to be strongly dilutive if all the non-debt funding is raised by new raised equity at low share prices.

However there are a number of other avenues that do not involve heavy dilution by either reducing the funding requirement or using other sources of funds, or both. CQC's Moorlands project requires funding of $167m (incl BFS and contingency) on a contract-operator case. Our modelling indicates that after considering project debt funding CQC would have to raise $24m of new equity in the June 14 HY and $50m in the June 15 HY. We also assume that $5m of convertible notes will be redeemed. This would be supported by potential exercise of $14m of options in the Dec 15 HY.

Sensitivity: Equity Raised Price with Debt the only other funding.

All the share price scenarios here offer a healthy premium in the Target Price compared to the current share price.

Base Case: We assume a raising price in June HY 2014 of $0.10/share for $24m), in June 15 HY of $0.12 for $50m.

The progressively increased prices assumed reflect a level of market recognition for ongoing de-risking of the project, but that the whole market does not other-wise improve or reduce.

Base Case	Capital	Equity Raise Price (Dec 14)	Prem (Disc) to Target (of period)	Prem (Disc) to Target $0.13	Prem (Disc) to Share Price
	$	%	%	%	$
Jun-14	$24.0	$0.10	-36.6%	-34.4%	-17%
Jun-15	$50.0	$0.12	-23.9%	-10.6%	0%
Jun-16	$0.0	$0.14	-11.2%	-5.0%	17%
Target Price (less mkt disc)	-20.0%	$0.16			31%

Constant Raise Price Case: If we were to assume that all equity raisings were to be made at a price of $0.10/share (broadly consistent with the current share price), the 12 mo fwd Price Target would become $0.15/share.

Constant Raise Price Case	Capital	Equity Raise Price (Dec 14)	Prem (Disc) to Target (of period)	Prem (Disc) to Target $0.13	Prem (Disc) to Share Price
	$	%	%	%	$
Jun-14	$24.0	$0.10	-31.9%	-29.5%	-17%
Jun-15	$50.0	$0.10	-31.9%	-20.0%	-17%
Jun-16	$0.0	$0.10	-31.9%	-27.1%	-17%
Target Price (less mkt disc)	-20.0%	$0.15			22%

We consider that the TERP case reflects pricing for large amounts of capital raised relative to a company's market capitalisation.

CQC appears priced for market conditions that are better than the TERP case implies.

TERP price Case: If we assume that all future equity raisings were to be priced at a 10% discount to the theoretical ex-rights price (TERP), the 12 mo fwd risked Target Price would become $0.16/share.

TERP Case	Capital	Equity Raise Price (Dec 14)	Prem (Disc) to Target (of period)	Prem (Disc) to Target $0.13	Prem (Disc) to Share Price
	$	%	%	%	$
Jun-14	$24.0	$0.110	-29.2%	-26.8%	-8%
Jun-15	$50.0	$0.110	-29.2%	-16.9%	-8%
Jun-16	$0.0	$0.120	-22.8%	-17.4%	0%
Target Price (less mkt disc)	-20.0%	$0.16			30%

Improving Markets Case: If we assume that the forecast equity raisings are priced at 2 cents above our base case in an improving market scenario, the prices would be $0.12 for June14 HY, $0.14 for the June 15 HY and $0.16 for the June 16 HY, with values as below.

Improving Markets Case	Capital	Equity Raise Price (Dec 14)	Prem (Disc) to Target (of period)	Prem (Disc) to Target $0.13	Prem (Disc) to Share Price
	$	%	%	%	$
Jun-14	$24.0	$0.12	-30.6%	-28.2%	0%
Jun-15	$50.0	$0.14	-19.0%	-4.9%	17%
Jun-16	$0.0	$0.16	-7.4%	-1.0%	33%
Target Price (less mkt disc)	-20.0%	$0.17			44%

Sensitivity: Sell-down of Asset Equity.

Sell-down of asset equity reduces the number of new shares required to be issued. The value outcome however is price sensitive.

It may be necessary to sell some equity in the project in order to secure commercially attractive offtake and funding agreements.

A potential sell-down of an interest in the Moorlands project from CQC's 100% equity to 70% equity, i.e. sale of a 30% or more interest in the project, should reduce the value of CQC's equity in the project but would also reduce our estimates for CQC raising further dilutive equity capital.

We assume cases in this scenario that CQC sells down a 30% and a 50% interest in the Dec14HY, prior to raising equity capital for mine development. We assume that the value of the sale could be:

(a) sale of 30% at zero price;

(b) sale of 30% at an EV/t based on the median EV/t for Qld transactions ($0.22/t);

(c) sale of 30% at the EV/t based on the average EV/t for Qld transactions ($0.36/t);

(d) sale of 30% interest at 70% of the Moorlands project EV, risked at 50% for stage of development; and

(e) sale of 50% at the average EV/t for Qld transactions $0.36/t).

Project Equity Sell-Down Scenarios

Equity Sell-Down Scenarios	Unit EV	Moorlands	Sale	Sale Price	Target	Target	Notional	Capital Required		
Base case - 1.9 Mtpa - contractor 1	EV/t	equity interest EV$m	Asset Equity %	Est Net $m	12 mo fwd risked $m	on Issued Shares $/shr	Shares m	Dec-14	Jun-15	Jun-16
Base Case			**0%**	0.0	**175.3**	**0.155**	**417**	**24**	**50**	0
nil $ price	0.00	0.0	30%	0.0	134.2	0.130	317	24	38	0
Price: median of Qld transactions	0.22	32.1	30%	9.6	140.6	0.139	300	24	36	0
Price: avg of Qld transactions	0.36	52.6	30%	15.8	144.1	0.145	283	24	34	0
Price: 70% Proj. EV, risked at 50%	0.98	100.7	30%	30.2	148.9	0.162	208	24	25	0
Price: avg of Qld transactions	0.36	52.6	**50%**	26.3	115.0	0.137	125	24	15	0

The price received has a greater impact on valuation than the amount of equity sold.

As shown above, potential sales of ~30% and of 50% of the Moorlands project for the amounts reflected by the Enterprise EV/t for recent market transactions results in an increased equity valuation per share in CQC, compared to our Base Case and reduced future equity raising requirements from 2014 onward. The outcomes are sensitive to amount of equity sold and to price received.

The price received for sale of asset has a greater impact than the amount of equity sold or reduction in new equity issued for the cases we examined.

The nil price case tests the case for ceding interest in the project for nil-price received by CQC, in order to have the project developed. This would be in the (unlikely) event of a farm-in where funds provided by the incoming party are expended wholly in the project with no payment to CQC for a share of prior evaluation and exploration carried out.

A reduction of equity interest would reduce the target value but also reduce the capital contribution required by CQC.

An example of the 'nil' case is the surrender by BC Iron (BCI) to FMG of 50% of equity in its Nullagine project in order to achieve a negotiated infrastructure solution for the project.

We do expect CQC to receive payment for past work done and for value of the project upon any sell-down.

However we expect that an incoming party would make an agreed payment for past CQC expenditure and also for a proportion of the value of the project.

As the assumed price achieved for the equity sold increases, the equity dilution from issue of shares reduces and value per share increases, while the non-debt capital required decreases.

Similarly the larger the project interest sold, the lower the amount of non-debt capital required. However the greater the amount of equity sold, the lower the resultant value per share.

CQC has choices driven in part by several factors:

a) How much debt funding can be attracted to the project. We have assumed 65% of project capital.

b) How much equity capital (non-debt) funding it is able to muster. Our base assumption is that all non-debt funding is sourced from equity.

How much is sold down is influenced by several factors.

c) How much equity the company wants to retain. We presume CQC would wish to operate the project and therefore would seek to retain > 50%;

The lowest (equity) capital requirement is achieved upon the highest level of sell-down, but at expense of share Target Price.

d) How much of the project asset CQC is prepared to sell-down in order to: (i) reduce CQC's capital requirements; (ii) attract off-take partners;

e) The price paid to CQC for sell-down of an interest in the project.

From the above it appears that at a 1.9 Mtpa rate, the (marginally) highest share Target Price (16.2 cents) is derived at the highest price we assumed (at 70% of the DCF of project value, risked at 50% for the current stage of development) that might be received for a 30% sell-down. However the lowest capital required is derived from the greatest level of sell-down (50%) that we assumed.

Alternative Funding Sources:

Aside from project debt funding, which we have assumed based on recent indications of banks toward emerging coal projects, and asset sell-down, there are other potential sources of funds for project development that we have not analysed here. These may include:

There are a number of finance sources that are alternatives to issue of new equity.

a) Issue of **convertible notes**: which the company has already made use of, and already redeemed half of those issued;

b) **Off-take finance**: from customers, prepared to contribute to project development in order to secure product, particularly for good quality long-life projects;

c) **Royalty finance**: sale of a royalty stream: however this represents an increase in operating costs. We believe this is not a likely choice in the current environment;

d) **Export Credit Agency finance**: provided by (foreign) credit agencies to assist (foreign) companies to participate in the target business. This style of finance can be on favourable terms;

Industry often takes a longer view than the equity markets and may be prepared to invest at a share price above market.

e) **Contractor finance**: contract operators may choose to capitalise initial charges or pre-strip revenue in order to participate in a long-life contract. Moorlands is anticipated to have about a 30 year life;

f) **Joint Venture**: would reduce the equity interest in a project and also the funding required of in proportion to the amount of the venture interest retained.

CQC already has a strong cornerstone investor, Beijing Gouli, which has experience in coal markets, and has scope to participate in one or more of the above alternatives, subject to agreement and approval of commercial terms.

g) As highlighted by the comparison of Market EV/t and Industry transaction EV/t values if equity is placed with industry participants (either operating miners or off-take parties) it is often the case that industry is prepared to take a longer view and pay a premium to the existing share price in order to secure a footprint on valuable resources. An issue that CQC and its shareholders would then have is to avoid becoming a controlled subsidiary of the cornerstone investor.

Risk

Industry Factors

Resources

Resources reflect the physical delineation of coal deposits. Resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates are correct based on available information when Resources are certified, but may change as new information becomes available. This includes instances where coal mined may be of a different quality, tonnage or strip ratio than originally stated. Such changes could affect the company's development and mining plans.

Reserves

Reserves reflect an economic overlay on Resources of coal deposits which are determined to be economically mineable. This economic overlay, contained in a feasibility study, includes assumed commodity price, foreign exchange rates, mining, metallurgical, economic, marketing, legal, environmental, social and governmental parameters. This study is an indicator whether or not the extraction of the Reserves could be reasonably justified.

Economic Climate

Inflation, commodity prices, currency fluctuation, interest rates, supply and demand, industrial disruption and changes in legislation can affect operating parameters including costs. Adverse movements in exchange rates, particularly the US dollar, generally increase the amount of Australian dollar funding required to meet obligations. Steps may be taken to manage currency fluctuation risk by hedging a proportion of the US dollars expected to be received under export contracts. Currently the outlook for thermal coal is for robust demand from Asia, though variations in climate (milder summers and winters) can reduce demand, and shorter or milder monsoon periods can result in increased supply from Indonesia. The outlook for the steel industry appears robust in the medium to longer term, but short term there are some concerns expressed about the impact of a slowdown of Chinese economic growth, and impact of steel inventories.

Infrastructure

The company is proposing to haul coal by road to nearby rail load-out facilities and rail the coal to port(s) where it plans to have negotiated capacity allocation for its production and sales. CQC has engaged industry logistics specialists to identify and source capacity for port allocation on secondary markets.

We expect that capacity will be available on commercial terms.

Political Risk

The introduction of, or changes to, policies, taxes, royalties, legislation, practices or administrative action may adversely affect the company's operations. The obligations and entitlements of the company, as interpreted by relevant authorities, may change and there is no guarantee that these changes will not disrupt operations and financial performance. The company relies on the maintenance of satisfactory relationships with various government authorities for the ordinary conduct of business.

Company / Project Risk Factors

Growth and Valuation Factors Dependent on Success

The initial growth of CQC is dependent on the successful development of its Moorlands South-Pit operation. Further growth depends on development of the North-Resource area, and success in discovery and evaluation of coal resources for one or more of its West Emerald, Montrose and East Galilee projects.

The company may face delays, unexpected development costs or unexpected constraints to expansion, such as environmental approvals, mining grants and infrastructure access. Additional funds may not be sufficient to support potential development or expansion.

CQC has yet to complete detailed Feasibility Studies on its advanced and emerging projects, though to date the early-stage evaluation of the Moorlands Project appears promising.

We expect CQC to raise equity to fund its development in conjunction with bank debt, with potential for additional requirements to fund any additional infrastructure.

Land Use

CQC conducts its exploration and evaluation activities on granted EPCs (Exploration Permit-Coal), and plans to apply for MLs (Mining Licences) as appropriate for development.

Native title claims may have a material impact on proposed or existing operations. At this stage of evaluation and development no material issues are expected.

Environmental Issues

Various laws, regulations, terms and conditions of exploration and tenements set standards for environmental management including contamination, dust management, noise, rehabilitation, liability for greenhouse gas emissions and water, with penalties for violation of these standards. CQC has systems and controls in place and incurs costs to manage its environmental obligations.

Owner Operator vs Third Party Operator

CQC is planning on using third parties for mining, crushing and screening and haulage by road and rail. Industrial disputes, financial failure or default on the provision of services therefore have the potential to adversely affect CQC.

Operating Costs

Costs of key elements fuel, tyres, machinery and labour, have risen markedly in the past several years as part of an industry-wide trend. Rail freight and port charges for future rail haulage contracts and coal port facilities are expected to be higher than currently exist under user contracts with older established services.

Capital Costs

Capital costs to date are preliminary and are dependent on the means and cost of accessing infrastructure. Cost estimates for projects are also contingent on yet to be finalised and negotiated infrastructure (rail and port access) options.

Sales Contracts

CQC has a key cornerstone shareholder which may seek off-take, which we expect will be on commercial terms. However it is too early for detailed terms to be concluded.

For CQC's other projects, sales contracts have yet to be considered, so details of terms and conditions of sales contracts remain uncertain.

Market Risks

Commodity Price Risks

The company share price will be exposed to movements in the market price of metallurgical and thermal coals and exchange rates in the short term through market sentiment and in the long term with impact on cashflows. Any sales on the spot market or that are referenced to spot prices will be exposed to short term movement in the relevant coal prices. We have quantified the sensitivity of earnings forecasts to variations in prices relative to forecast which in the short run are likely to impact the market's pricing of the stock.

SWOT Analysis

Strengths

- Advanced thermal coal project (Moorlands) with low ash export thermal coal and low planned strip ratio, close to infrastructure.
- Significant maiden thermal coal resource at Yellow Jacket in CQC's East Galilee tenements.
- Experienced board and management.
- CQC's exploration licences West Emerald (metallurgical and thermal coal), Montrose (metallurgical and thermal coal) and Amberley (thermal coal), are close to rail infrastructure.
- Good quality thermal coal similar to the known brand of Blair Athol.

Weaknesses

- Will need to raise further capital to progress its key project (Moorlands) through feasibility studies and to develop the project.
- CQC's exploration licences East Galilee, and Wandoan East will require development of new rail infrastructure, by third parties, to be developed.
- CQC may need to rely upon negotiation in secondary markets for access to port capacity allocations. However we believe capacity is likely to be available on commercial terms.

Opportunities

- After development of the Moorlands project there is good potential for discovery of additional thermal, coking coal and or PCI coal on CQC's other exploration tenements, with further exploration and evaluation. Evaluation of a recent drilling program at the Yellow Jacket deposit has led to declaration of maiden Resources.
- Existing exporters are believed to hold port and rail capacity (take-or-pay) allocations in excess of their needs. CQC is seeking to secure port capacity from existing holders, on the secondary market.

Threats

- Lower than forecast export thermal coal prices, and or higher than forecast AUD exchange rates. AUD hedges are likely to be established to match net USD exposure to sales contracts, at least sufficient to cover operating costs.
- Success of introduction of shallow-draft tugs and barges into Indonesia may open up access to more thermal coal deposits not previously accessible by river and could increase potential for an oversupply of thermal coal in the Pacific region.

Corporate Overview

Background

Cuesta Coal Limited is a public (ASX) listed coal exploration company. It was incorporated on 27 September 2011, and listed on the ASX on 2 May 2012 with the issue of 66.883m shares at an issue price of $0.30 raising $20.1m, plus a transfer of 13.33m shares at $0.30 representing an additional $4m. Upon listing the total issued ordinary shares numbered 141.955m. The company aims to be a medium-sized low-cost producer of thermal and metallurgical coal.

CQC has a diverse portfolio of thermal and coking coal exploration prospects within the Bowen, Surat, Clarence-Moreton, Styx and Galilee basins. CQC's core projects are well situated geographically, mostly within reasonable distances to existing or proposed infrastructure.

The company is supported by a strong cornerstone investor, Beijing Gouli, and is targeting initial thermal coal production from its Moorlands Project by late 2016.

Main Projects

Moorlands

Moorlands is a high-vol, bituminous thermal coal project in the Bowen Basin, that is approaching feasibility evaluation. Proposed as an open cut operation near existing rail and power infrastructure, its strip ratios are low and coal quality is comparable to the nearby (now closed) Blair Athol project. Production is planned for late 2016 at an initial ROM rate of ~2.0 Mtpa. We consider that there is potential to increase to ~5 Mtpa once established.

Eastern Galilee

East Galilee is a group of thermal coal prospects targeting thermal coal equivalent to Galilee Basin coals, but located as outliers, east of the previously identified Galilee Basin's eastern margin. A maiden Resource on the Yellow Jacket prospect was announced 29 October 2013. Further data from a recent drilling program to provide coal quality data, is being evaluated.

West Emerald

The West Emerald project is located east and north of Anakie, west of Emerald in the Bowen Basin. The project is targeting coking, PCI and thermal coals in the Reid Dome Beds which have been poorly explored to date.

Montrose

The Montrose project is located in the Styx Basin covering the Styx coal measures. CQC believes it has potential to produce both thermal and coking coal products based on historical exploration and mining data. Montrose is close to the Bruce Highway and the main electrified northern railway line which can transport export coals to the Gladstone port facility some 230km away.

Amberley

The Amberley project is a thermal coal project located about 8 km SE of Jeebropilly mine and about 5 km from Ebenezer (former mine), near existing rail load-out facilities. The project is targeting Walloon coals for potential multi-seam thin-seam coal mining.

CQC is considering options to either expand the Resource or to divest it.

East Wandoan

East Wandoan is a thermal coal project in the Walloon Coals in the Surat Basin about 25 km NE of Wandoan. East Wandoan includes the Thorn Hill deposit with a 44 Mt JORC Resource. Development plans are contingent on development of export (rail) infrastructure.

Concept Projects

Bauple

The Bauple project is a greenfields prospect located east of Tiaro Qld. CQC plans to evaluate this prospect with up to 3-4 drill holes to test a gravity low targeting seams in the Tiaro Coal Measures.

Eromanga

The Eromanga greenfields prospect is within 2 EPCs covering a 120 km long area in the western Galilee Basin conceptually targeting deep thermal coal of the Betts Creek Beds. CQC is considering letting go of these licences.

East Acland

EPC 2613 was granted on 17 September 2013. We expect CQC may carry out a preliminary evaluation of the project with surface mapping and some drilling to test quality of coals present.

Project Status and 12 month Plan

PROJECT STATUS - SUMMARY		Project Identification	Exploration	Resource Definition	Mine Feasibility	Mine Development	Operating Mine
Moorlands	*Moorlands*						
Eastern Galilee	*Yellow Jacket*						
"" ""	*Karura*						
"" ""	*Snake Ck JV*						
Amberley	*Amberley*						
West Emerald	*EPC(A) 2093*						
Montrose	*EPC(A) 2128*						
East Wandoan							
Bauple							
Callide							
Eromanga							
East Acland							

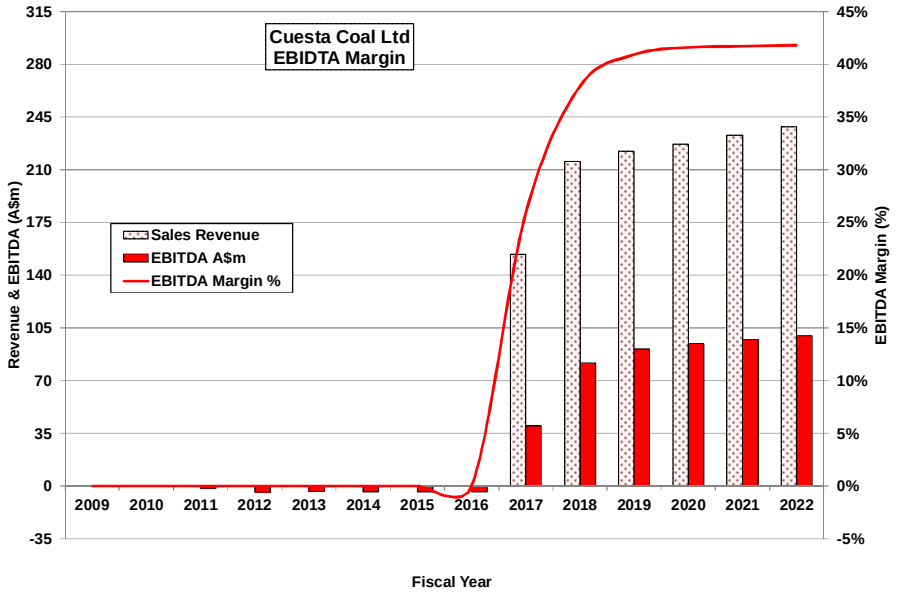
CQC is prioritising activity to focus on its Moorlands, Eastern Galilee and West Emerald projects.

Over the coming 12 month period Cuesta is aiming to complete the following:

- Maiden Reserve assessment at the Moorlands Project targeting a minimum of 11 years marketable reserves in the South Pit by the end of 2014.
- Submission of Mining Lease Application (MLA) for the Moorlands Project.
- Commencement of Bankable Feasibility Study for the Moorlands Project.
- Formalise a port & rail solution for 1.9mtpa of capacity for the Moorlands Project.
- Continued exploration and evaluation of Eastern Galilee through the Snake Creek Joint Venture.
- Assess PCI/Metallurgical Coal potential at West Emerald Project.
- Evaluate non-core projects to seek divestment or Joint Venture partnering options.

Summary Financials

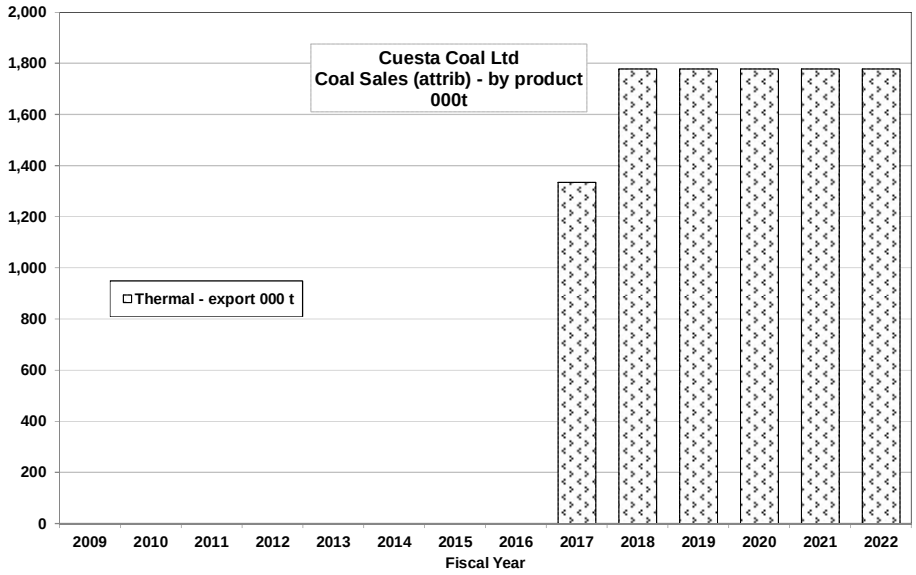
EBITDA Margins



Source: Matau Advisory

Forecasts indicate that with appropriate funding CQC's Moorlands project has potential to be a strong cash generating project. The forecast fob cash cost of about AUD 73/t (incl royalties) provides for an attractive EBITDA margin at forecast thermal coal prices.

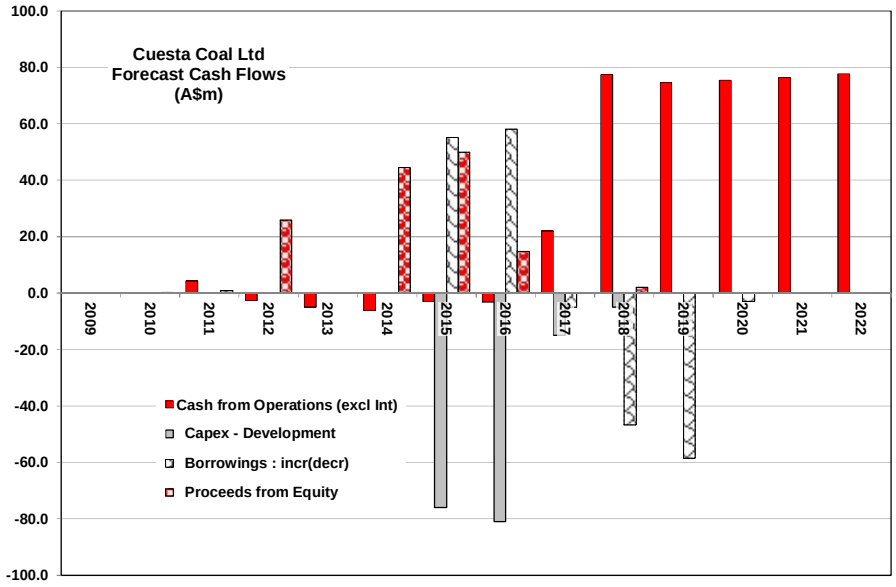
Forecast (attrib) Sales volumes by Product



Source: Matau Advisory

Attributable sales are forecast by Cuesta to be a single product, export thermal coal from mining at 1.9 Mtpa ROM, for the forecast period.

Operating Cashflow



Source: Matau Advisory

Operating cashflow is forecast to begin in FY2017 (late 2016), after project and feasibility funding of $167m provided in our case is raised, by debt and equity as indicated above.

CQC raised approximately $20m of equity in the December 13 HY. We forecast a raising of approximately $24m in the June 2014 HY to be directed toward ongoing evaluation and feasibility studies and about $50m in the June 2015 HY to be directed toward development costs for Moorlands.

The operating cashflow is forecast to be capable of repaying the debt in about four years at an available cashflow ratio of about 50%.

Balance Sheet

At 30 June 2013, CQC held $3.07m cash, had Total Assets of $51.9m, interest bearing liabilities of $8.5m (convertible Notes) and Total Equity of $37.9m. Its interest bearing liabilities were comprised of 10 million of convertible notes and zero debt and lease liabilities.

Subsequent to the end of June 2013 CQC used funds from a $12m share placement (at $0.18/share) to redeem $5m of the convertible note facility.

Dividend Policy

No dividends have been paid since listing, nor do we anticipate the Board considering payment of dividends until the company has been successfully generating positive cashflows from its initial development, Moorlands.

Declaration of dividends would be considered in conjunction with other potential uses of funds, including to develop additional projects or to acquire additional project assets, and with regard to the investment market conditions.

Project Funding

We have modelled the capital required for the development of Moorlands $167m, and assumed that debt funding would be able to be achieved for about 65% of the project funding requirements, and would be repaid out of operational cashflow.

We have not factored in any sale of equity in the project to a potential farm-in partner, which would reduce the capital funding obligation of CQC and most likely also provide CQC with additional cash to fund the equity component of its funding needs.

Tax Losses

n/a

Financial Instruments – Hedging

CQC has not put any hedging facilities in place to date. We believe CQC may consider putting forward facilities in for foreign exchange rates when it commits to contract sales of coal, for the term of the coal sales contract, for at least part of the exposure for the duration of the contract(s).

Exploration

CQC held $45.0m of capitalised exploration and evaluation expenditure, at cost, as at 30 June 2013, an increase from $12.9m in 2012.

Corporate Transactions

Cuesta Coal Limited (CQC) was incorporated on 27 September 2011 to acquire Blackwood Coal Pty Limited and its controlled entities ("Blackwood Coal"). As a consequence of the previous shareholders of Blackwood Coal becoming the major shareholders of the Group the transaction is deemed to be a reverse acquisition for accounting purposes. Therefore no goodwill on acquisition is carried.

ASX Listed in May 2012

Cuesta Coal Limited (CQC) listed on the ASX on 2 May 2012 with the issue of 66.883m shares at an issue price of $0.30 raising $20.065m, plus a transfer of 13.33m shares at $0.30 representing an additional $4m. Upon listing the total issued ordinary shares numbered 141.955m.

Orion Acquisition

The terms of the Orion Acquisition (21 Feb 2013) are staged, being comprised of a cash component and issue of a secured convertible note. The cash consideration was payable in three instalments as per the schedule below;

- An initial deposit of $2m on the date of executing the SSA;
- A second deposit of $3m on or before the 21st December 2012;
- As part of the SSA, the Company has negotiated that the 3rd instalment may be settled by the payment of $3.2m in cash and the issue of $10m of Convertible Notes to the Vendors.

Financial Terms of Convertible Notes

- 18 months from the 28th of February 2013;
- Interest rate of 9% for 12mths and 10% for the remaining period, paid quarterly;
- Notes may be converted by the Vendor at a 10% discount to 10 day VWAP. The ratio is determined by the face value ($1.00) of the note divided by 90% of the 10 day VWAP;
- There is no collar or floor to the conversion ratio;
- 50% 30 days prior to 27th November 2013; and
- 50% at the maturity date.

***Commercial Terms of the Convertible Notes*:**

- May be redeemed by Cuesta at any time by paying face value of the notes + accrued interest (no penalty interest).
- The Notes are secured against the shares in Hannigan & Associates.

We expect that CQC will prefer to redeem the convertible notes rather than have them converted and will provide for that event in a future capital raising. Our modelling assumes redemption of the notes.

Placement of $12m (Beijing Gouli)

5m Convertible Notes have been redeemed.

On 24 July 2013 CQC announced settlement of a $12 million placement to major shareholder Longluck Investment (Australia) Pty Ltd, a wholly-owned subsidiary of Beijing Gouli Energy Investment Co. On 22 February 2013, Cuesta had announced a Share Placement Agreement to raise a $12 million by issuing 66,666,667 new ordinary shares at A$0.18 per share.

We expect the balance of Convertible Notes will also be redeemed, not converted.

Of the proceeds, $5m has been used to redeem half of the vendor convertible notes issued for the recently acquired Orion Coal Project. The remaining $7 million will be used by Cuesta for working capital purposes, predominantly to fast-track the development of CQC's flagship Moorlands Project, which now incorporates the Orion Coal Project tenements.

Placement of $8m (Hanford Holdings)

On 24 October CQC announced an agreement to place 75m shares to Hanford Holdings Limited (Hanford) to raise $8.4m. The placement is in two phases, the first being for 50m shares at $0.11 /share, settled on 30 October 2013, and the second for 25m shares at $0.116/share to be settled after obtaining FIRB approval. Hanford is a Hong Kong-based investment company with focus on mining investments.

Board of Directors

Brian G Johnson – Non-Executive Chairman

Brian Johnson is a civil engineer with extensive experience in the construction and mining industries in Australia, South East Asia and North America. He was key in the establishment a number of successful public companies including Austral Coal Limited, South Blackwater Coal Limited, Portman Mining Limited and Mount Gibson Iron Limited.

He is Executive Chairman of Panterra Gold Limited. He was previously Chairman of South Blackwater Coal Limited and of Linc Energy Limited (from May 2006 to November 2010). He was appointed a Director and Chairman of CQC on 12 March 2013.

Matthew P Crawford – Managing Director & Chief Executive Officer

Matthew Crawford is a founding Director of Cuesta Coal Limited / Blackwood Coal Pty Limited. He has extensive coal industry experience in both Australia and Indonesia.

He initially joined Australian Char in 2000 and was seconded to the Griffin Coal Mining Company working on projects including trial shipments of coal to export markets, carbonisation and coking trials and evaluation of coal drying technologies and business development activities in the coal sector.

Matthew also worked as an engineering consultant and consulted to various areas of the mining sector. Between 2006 and 2010 he consulted to White Energy Company (WEC) with a key role in the commercialisation of the Binderless Coal Briquetting Technology including management and commissioning roles for plants in Australia and in Indonesia. He is director of a number of private companies and a member of the AusIMM and Australian Institute of Company Directors. He was appointed a Director of Cuesta Coal Limited on 31 October 2011.

Keith J McKnight – Executive Director & Chief Operating Officer

Keith McKnight is a founding Director of Cuesta Coal Limited / Blackwood Coal Pty Limited. He is a mechanical engineer with substantial Australian and international experience in engineering, procurement, contract management and project development.

Keith has a background in heavy mechanical engineering in Ireland on tendering, planning, procurement, installation and commissioning of mechanical systems for the Dublin Waste Water Treatment Works which was the largest in Europe at the time.

Keith moved to Australia in 2004 and joined White Energy Company Limited (WEC) in 2006 as project manager then became engineering manager in 2009. He worked on development of their Binderless Coal Briquetting Demonstration Facility in the Hunter Region of NSW and on the first commercial plant in East Kalimantan, Indonesia. Keith has significant Australian and International experience in engineering, procurement, contract management and project development. He was appointed a Director of Cuesta Coal Limited on 31 October 2011.

Brice K Mutton – Non-Executive Director

Brice Mutton is a geologist with over 35 years' experience in the resources industry. His experience ranges from grass roots exploration to mine operations and executive management, mainly in base metals, gold and coal. He held senior positions with the MIM group companies from 1974 to 1998 and from 1998 to 2000 was MD of Giants Reef Mining Limited. Since 2000 Brice has run his own exploration and mineral resources consultancy. He has been involved in leading edge work on underground gas outbursts. In the 2000s, he has conducted major evaluations and exploration programs in the Galilee Basin.

He is a Non-executive Director of Drummond Gold Limited. He was formerly a Non-executive Director of Apex Minerals NL. Brice is a Fellow of the AusIMM and Member of the AIG, GSA and SEG. He was appointed a Director of Cuesta Coal Limited on 31 October 2011.

Patrick J D Elliot – Non-Executive Director

Patrick has a background in merchant banking with extensive experience over 40 years across the mining and resources sector. This included experience in investment, financial and industrial management having previously been with Consolidated Goldfields Australia Limited, Morgan Grenfell Australia and Natcorp Investments.

From 1995 onwards Pat has actively been an equities investor specialising in early stage start-ups more specifically in the resource sector. Major involvements include Eastern Star Gas Limited and Sapex Limited.

Patrick is a Non-executive Chairman of Argonaut Resources NL, and of Platsearch NL and is a Non-executive Director of Global Geoscience Limited. Former Directorships include: Stevenson Group Limited (NZ), Australian Oriental Minerals, Crossland Uranium Mines Limited and Acuvac Limited. He was appointed a Director of CQC on 31 October 2011.

Huaixi Zheng – Non-Executive Director

Mr Zheng is a qualified mining engineer with a degree in Mineral Processing of Mining Engineering from North Eastern University in 1987 and with over 20 years of experience in the coal industry.

He has worked at China's most authoritative coal planning and processing department and at senior management level within China's largest coal companies. Since 2004, Mr. Zheng has been responsible for mergers and acquisitions, restructuring, management, exploration and operating coal projects at Beijing Guoli. Mr. Zheng was the Managing Director of Chaohua Coal mining company, during which time he successfully merged four coal mining companies and developed a total coal reserve of 500 million tonnes.

He is currently responsible for Beijing Guoli's investments in Australian coal projects. He was appointed a Director of Cuesta Coal Limited on 17 July 2012.

Ruoshui Wang – Non-Executive Director

Mr Wang is a Senior Executive of Beijing Guoli with over 15 years of experience in managing overseas investments in coal, property and agriculture. He holds a Bachelor and Masters Degree in Thermal Engineering and has a PhD in Management from Tsinghua University.

During his 10 year tenure with Beijing Guoli, Mr Wang has held a number of roles including Director of Beijing Guoli Energy Investment Co. Ltd, Assistant President of Sino-Australian International Trust Co. Ltd and more recently, as the Director and General Manager of a number of investment subsidiaries of Guoli. He was appointed as a Director of Cuesta Coal Limited on 27 November 2012.

Hanping Lui - Non-Executive Director

Mr Liu has been systematically trained in accounting and auditing, and has many years practical experience in various projects. He has a Bachelor of Mathematics and a Master of Law. He is familiar with modern internal audit standards, procedures and methodologies. Mr Liu has accumulated abundant internal audit and performance appraisal experience including the auditing many companies, including in the electrical power, banking, real estate, chemistry, and the IT sectors.

Mr Liu is familiar with comprehensive budget management theory, and corporate incentive models, such as equity, options, EVA et al. He has practical experience in many areas of financial and business operations and management. Due to his background of economic laws, Mr Liu has drafted a number of contracts, agreements and company rules and regulations. He was appointed a Director of Cuesta Coal on 18 July 2013.

Yong Xiao - Non-Executive Director

Mr Xiao is an experienced executive with Hanford Holdings, a Hong Kong based investment company with a focus on international mining investments. He has a Masters degree in Business Management and International Economics from the China Southwest University. He was appointed a Director of Cuesta Coal on 20 November 2013.

Major Shareholders (top 20)

Share Holder	Shares Held	% Total
Longluck Investment (Australia) Pty Ltd	136,666,667	47.74
Albion Ballymore Pty Ltd	35,798,346	12.5
Argonaut Resources NL	16,734,667	5.85
New Mangrove Resources Pty Limited	8,127,406	2.84
Waytop Investments Limited	6,764,644	2.36
ACN Mining Pty Limited	5,400,000	1.89
Anycall Pty Ltd <Richer Superannuation Fund A/C>	4,313,232	1.51
Inhowse Pty Ltd	4,086,364	1.43
New Mangrove Minerals Pty Ltd	3,925,000	1.37
Brice Mutton <Brice Mutton Super Fund A/C>	3,734,488	1.3
Silver Ledge Pty Ltd <The Silver Ledge>	2,555,614	0.89
HSBC Custody Nominees (Australia) Limited	2,065,128	0.72
Flannery Foundation Pty Ltd <The Flannery Foundation A/C>	2,000,000	0.7
Auresco Pty Ltd <The Avanis A/C>	1,912,242	0.67
Timothy Sean McManus + Elizabeth Mary-Louise McManus <The McManus Investment A/C>	1,910,000	0.67
Mr Raed Itaoui + Mrs Rachel Lee Itaoui	1,743,134	0.61
Angolet Pty Ltd	1,600,000	0.56
Bung Nominees Pty Ltd <Yewwww Family A/C>	1,398,561	0.49
Andrew Leigh Gorringe	1,277,808	0.45
GBR Napoli Pty Ltd <GBR Superannuation Fund A/C>	1,200,000	0.42
other share holders	43,021,018	15.03
Total Shares Issued	**286,234,319**	**100.00**

Source: Cuesta Coal 2013 Annual Report (Holdings as at 25 September 2013)

Significant Shareholders

Substantial Share Holders	Shares Held	% Total
Longluck Investment (Australia) Pty Ltd	136,666,667	47.74
Mathew Phillip Crawford	25,872,517	9.04
Keith James McKnight	25,231,680	8.81
Argonaut Resources NL	16,734,667	5.85

Source: Cuesta Coal 2013 Annual Report (as at 25 September 2013)

Longluck Investment (Australia) Pty Ltd is a wholly owned subsidiary of Beijing Gouli Energy Investment Co Ltd. Chinese FIRB, regulatory and shareholder approvals for investment in CQC were approved in 24 July 2013.

On 29 October 14m shares and 4.7m options were issued through conversion of performance rights to CQC executives. At the end of October 2013 Matthew Crawford holds 48.3m shares (16.08%) and Keith McKnight holds 47.6m shares (15.86%) in CQC.

The placement to Handford Holdings has diluted Longluck (Beijing Gouli) to about 36%.

Following completion of the agreement for placement of 75m shares to Hanford Holdings Limited, Hanford holds 19.98% of CQC. On this basis we estimate that Longluck's interest has diluted to 36.4%, and Matthew Crawford owns 12.9% and Keith McKnight 12.7% of CQC.

With the completion of the above transactions we estimate CQC will have a total of 375m shares outstanding (undiluted).

Beijing Gouli Energy Investment Co Ltd

Beijing Guoli is a CNY 4 billion (AUD 690 million) conglomerate focused on diversified private power generation, real estate development and investment. It was founded in 1993 and is equally owned between ten Chinese private and state-owned enterprises, holding 10% each, led by Zhangjiagang Zhonghe Rongtong Electric Power Science & Technology Development Co. Limited and Beijing Electric Power Industry Development Corporation. Beijing Guoli's investments cover a variety of sectors including energy generation, real estate, finance and chemicals.

Beijing Guoli currently has:

- 25% equity interest in Beijing Sanjili Energy Co Ltd which currently owns 5 power plants in China with total capacity of 10,000 Megawatts.
- Over 2.2 million m^2 of real estate projects developed in Beijing, Chongqing and throughout China.
- A controlling interest in Sino-Australian International Trust Company Limited.
- 90% interest in Lianyungang Sanjili Chemical Industry Co., Limited.

Beijing Guoli invested $5 million in CQC in February 2012 and $15 million as part of a $20 million capital raising when CQC successfully completed its IPO and listed on the ASX. CQC made a further placement of $12m to Beijing Guoli in July 2013.

We understand that Beijing Gouli may have power station thermal coal feed requirements for its Shanghai power stations, currently in operation and under construction, of about 16 Mtpa from about 2015 onwards. Its main power station is near Shanghai and has its own port facilities. Estimates are that about 5 Mtpa of thermal coal will need to be imported.

At this stage Beijing Gouli has no established off-take agreements in place with CQC.

Key Assumptions

Foreign Exchange & Commodity Prices

Assumptions			2011	2012	2013	2014	2015	2016	2017	2018	2019
AUDUSD	June HY	USD	1.035	1.033	1.014	0.930	0.930	0.900	0.840	0.815	0.800
	Dec HY	USD	1.031	1.039	0.920	0.940	0.920	0.890	0.830	0.810	0.800
	Dec Yr	USD	1.033	1.036	0.967	0.935	0.925	0.895	0.835	0.813	0.800
Hard Coking Coal	**JFY(Apr)**	**USD/t**	**291.25**	**192.50**	**155.25**	**160.00**	**165.00**	**170.00**	**175.00**	**180.00**	**187.50**
	June HY	USD/t	277.50	222.50	168.50	156.00	162.50	167.50	172.50	177.50	182.50
	Dec HY	USD/t	300.00	197.50	148.50	160.00	165.00	170.00	175.00	180.00	187.50
Semi-hard Coking Coal	**JFY(Apr)**	**USD/t**	**252.00**	**161.00**	**138.00**	**143.50**	**151.25**	**154.50**	**158.75**	**163.00**	**171.65**
	June HY	USD/t	251.25	193.00	142.00	140.00	148.00	152.50	157.00	161.00	165.00
	Dec HY	USD/t	250.75	163.00	133.50	143.00	151.50	154.50	158.50	163.00	171.65
PCI Coking Coal	**JFY(Apr)**	**USD/t**	**221.38**	**142.33**	**124.63**	**126.25**	**137.13**	**138.65**	**142.33**	**145.50**	**149.50**
	June HY	USD/t	227.50	162.90	132.50	123.00	133.75	137.00	141.35	144.05	146.75
	Dec HY	USD/t	219.00	146.00	118.25	125.00	137.50	138.25	142.05	145.50	149.50
Semi-soft Coking Coal	**JFY(Apr)**	**USD/t**	**203.74**	**130.58**	**109.04**	**109.38**	**125.75**	**123.56**	**126.44**	**128.25**	**130.50**
	June HY	USD/t	222.00	148.50	117.00	106.50	121.00	122.50	127.00	127.63	128.88
	Dec HY	USD/t	200.48	131.15	104.83	107.50	126.50	122.63	125.88	128.25	130.50
Thermal Coal	**JFY(Apr)**	**USD/t**	**130.00**	**114.55**	**95.00**	**87.00**	**92.00**	**104.00**	**110.21**	**111.00**	**111.00**
	June HY	USD/t	112.50	112.28	96.50	86.00	96.00	105.50	110.21	110.61	111.00
	Dec HY	USD/t	123.25	105.13	85.80	87.00	110.00	106.50	109.11	111.00	112.00

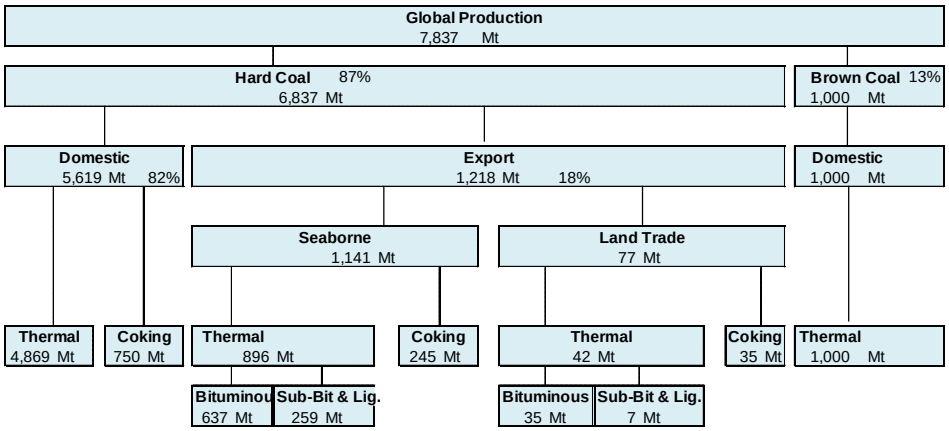
Source: Matau Advisory Pty Ltd

Note: JFY is the March-ending Japanese Financial Year from April to June.

Long term price forecasts are cast from the Dec 19 HY.

Commodity Market Review

A view of the global coal market structure is shown below. About 896 Mt of seaborne traded coal is thermal coal and 245 Mtpa is coking or metallurgical coal.



Source: Wood Mackenzie – 16 May 2013

The seaborne thermal coal market is 896 Mtpa (2012).

The seaborne coking coal market is 245 Mtpa (2012).

There has been significant growth in sub-bituminous and lignite coal exports in recent years, mostly from Indonesia.

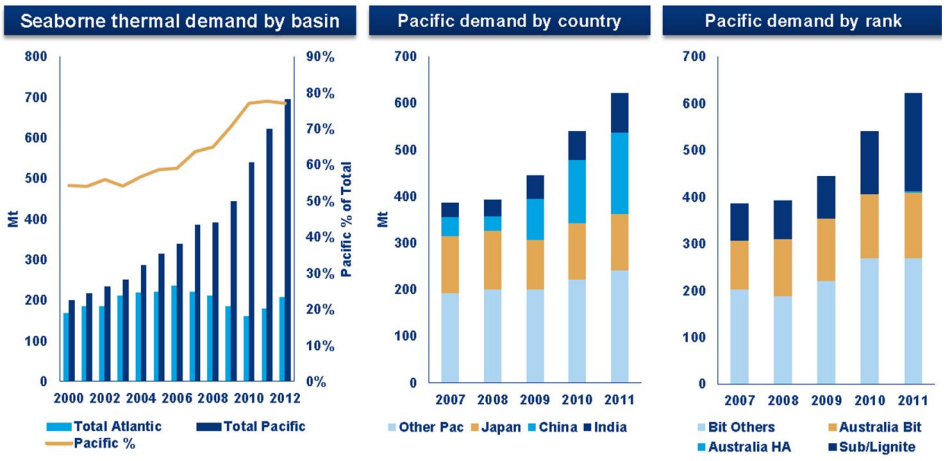
The seaborne thermal coal market is normally a distinctly regional market with the Atlantic Basin and Pacific Basin producers delivering the major proportion of their output into their respective regional markets. Indonesia and Australia are the major suppliers of thermal coal to the seaborne market, with other significant producing countries being Canada, Colombia and South Africa. The USA is not a consistent seaborne exporter of thermal coal, with recent activity being enhanced by low (competing) domestic gas prices and low shipping rates.

On the other hand the metallurgical (coking) coal market is a smaller but global market. Australia, Canada and USA are the main exporters of coking coal to the seaborne market. Mongolian coal is exported overland to China but we understand has not reached tidewater. Other prospective sources of metallurgical coal include Mozambique, Indonesia (Kalimantan) and Colombia, however each of these emerging suppliers has issues which usually include logistics and or quality.

Thermal Coal

Since 2000, Pacific Basin thermal coal has increased from a little above 50% of total trade to almost 80% of seaborne trade in 2012 according to Wood Mackenzie. This has been largely due to the increased off-take by China, India and other emerging Pacific countries. Japanese demand has grown only modestly by comparison. From a quality perspective much of the growth has been in sub-bituminous and lignite product while the growth in demand for higher quality Australian thermal coal has been slower.

The Pacific basin demand now represents almost 80% of total demand, up from 60% in 2000.



Source: Wood Mackenzie Coal Market Service (May 2013)

Wood Mackenzie forecasts world demand for seaborne thermal coal to increase from 896 Mtpa in 2012 to about 1,400 Mtpa in 2022, a compound annual growth rate (cagr) of 4.6% p.a. China's cagr for demand over the same period is forecast at 7.2% p.a. while India's cagr is forecast at 7.2% p.a.

Good quality Australian thermal coal, Newcastle specification, (6700 kcal/kg (ad) or 6,000 kCal/kg NAR basis) remains in good demand.

Japan continues to be heavily reliant on the low-ash good-quality Australian thermal coal, limited to a degree by technical constraints. However other countries such as Korea have diversified their blend composition, taking in a higher proportion of Indonesian coal (which often has lower calorific value / higher moisture, and may be higher in ash) at the expense of other suppliers, but has not reduced its Australian content by much.

Additionally there is now a small trade in Australian lower energy (5,500 kCal/kg adb) thermal coal toward the increased demand for the lower specification coals.

Demand for Australian high-ash thermal is beginning to grow.

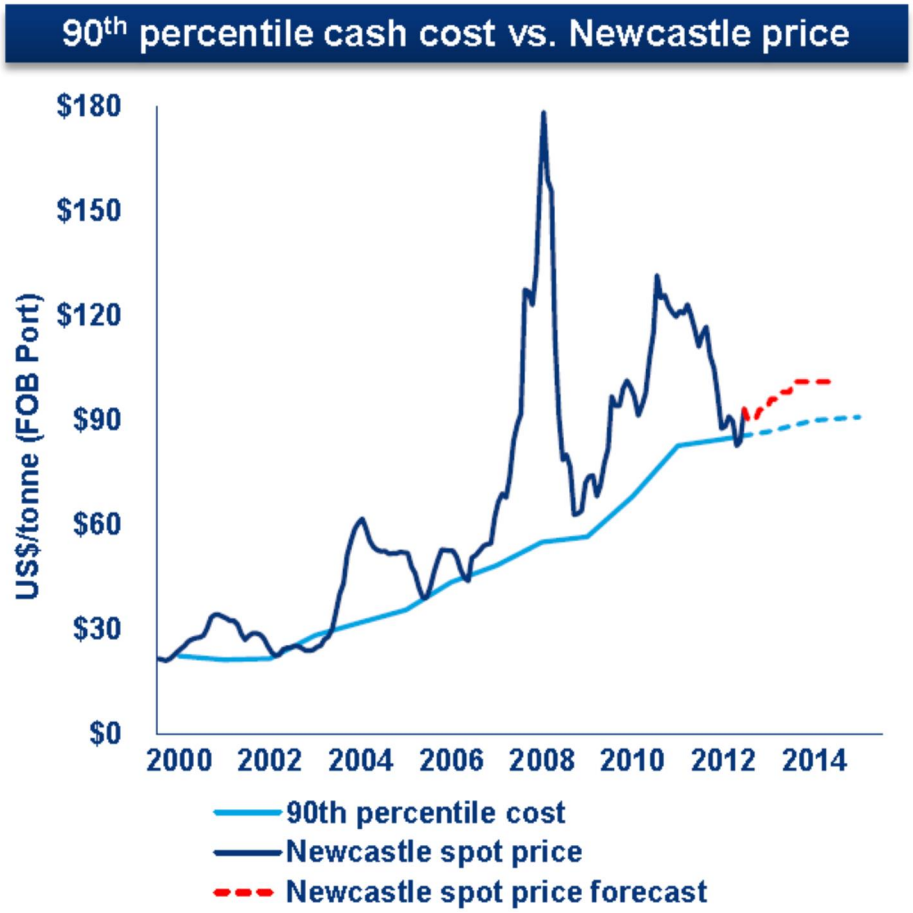
There are some concerns trade patterns for seaborne thermal coal, particularly from North and South America will be redirected toward Asia as demand growth from Europe and USA declines. However these sources will need to compete at a freight disadvantage to Indonesia and Australia, for the relatively lower value thermal coal, generating tight margins. We expect the shipping market to begin to approach balance again during 2014, after an over-supply condition since 2009. Freight rates are currently increasing. Shippers are ordering new vessels, anticipating a more balanced (shipping) market.

Much depends upon Australia and Indonesia's capacity to respond to demand increases with sufficient supply to limit the attractiveness of the Pacific Basin to Atlantic suppliers.

Low priced US domestic gas is making US domestic coal less competitive and less profitable. USA's compliance regulations are expected to force retirement of almost 40 GW of US power stations in 2016 according to Wood Mackenzie.

Contract thermal coal prices have long been influenced by the FOB cost of delivering high quality thermal coal from Newcastle NSW, respecting the significant share of the seaborne market delivered from that port.

The low points in NSW thermal coal fob price cycles reflect the NSW producers' fob cash costs.



Source: Wood Mackenzie Coal Market Service (May 2013)

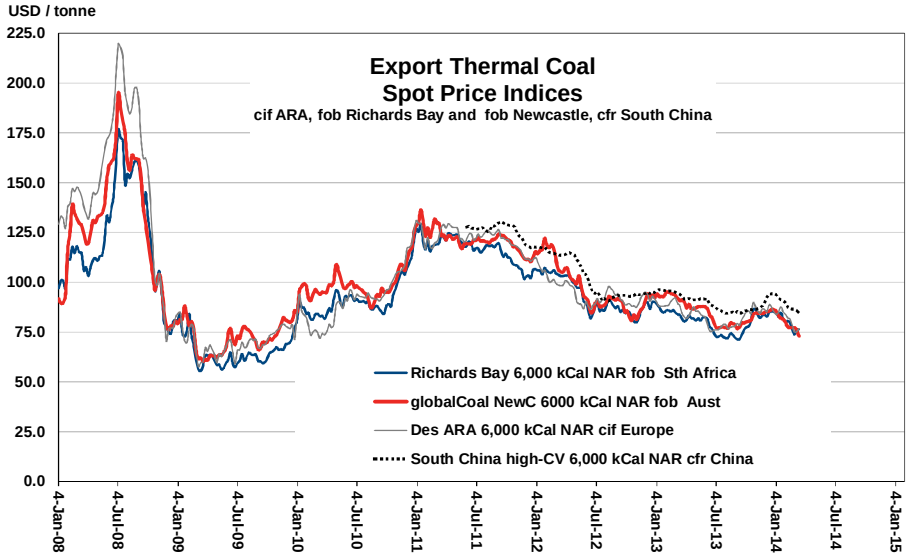
As shown above, operating FOB cash costs for Australian producers have increased since 2000 with periodic tight margin periods when prices respond to relative oversupply with less regard to FOB costs. We understand that Australian producers require approximately an AUD 25/t cash margin on average to sustainably discover, develop, produce and deliver coal into the seaborne market.

In May 2013, Wood Mackenzie calculated incentive pricing for new production and at spot prices prevalent in May 2013 estimated that if a 10% internal rate of return (IRR) was sought, then about 60% of new thermal coal production in Australia was at risk of being non-commercial.

If a 20% IRR was sought then about 90% of new thermal coal projects would be considered uncommercial. Wood Mackenzie's forecast long term price (2018), issued in May 2013, is approximately USD 120/tonne.

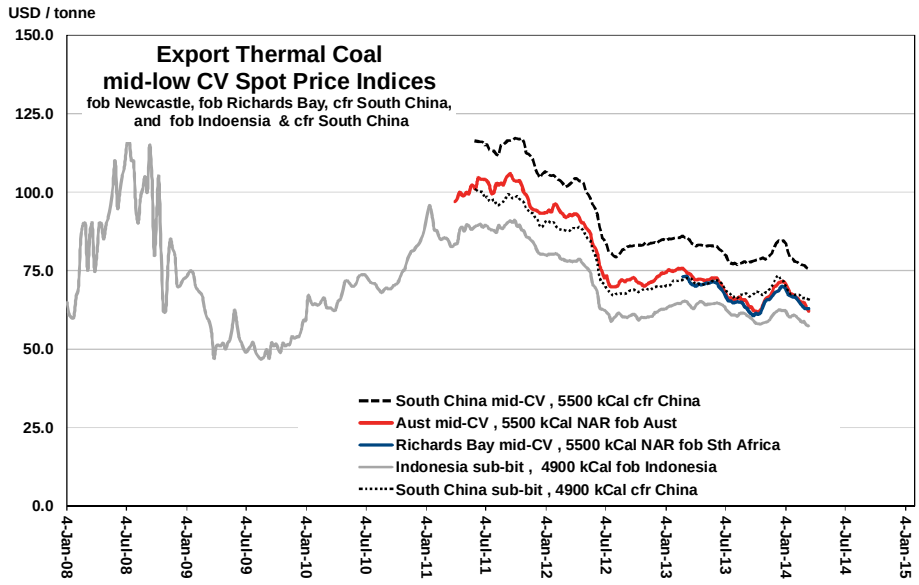
Until mid-May the AUDUSD rate had averaged about 1.03, and reduced to AUDUSD 0.940 in the December 2013 Qtr reflecting the reduction in the JFY reference thermal coal price from USD 115/t fob to USD 95/t fob for JFY2013/14.

Prices have broadly reduced since May 2013, as shown below.



Source: McCloskeyCoal, Matau Advisory.
nb: '6,700 kCal/kg gad basis' is equivalent to '6,300 kCal/kg gar basis', and '6,000 kCal/kg nar basis'. We have expressed prices here on a nar (net-as-received) basis.

The prices for newer low-CV coal specifications the trends have largely echoed those of the benchmark Australian (Newcastle) thermal coal.



Source: McCloskeyCoal, Matau Advisory

Metallurgical Coal

Prices

The March 2014 Qtr premium hard coking coal (HCC) reference price was agreed at USD 143/t FOB, down from the December Qtr price of USD 152/t FOB. During the March Qtr the average AUDUSD rate was 0.8919 (to date) following an average of 0.9264 in the December Qtr, providing a modest buffer to the USD price reduction.

The March Qtr LVPCI reference price was settled at USD 116/t FOB down from the December Qtr settlement of USD 121/t. Semi-Soft Coking coal settlement for the March 2014 Qtr was USD 103.5/t FOB down slightly from the USD 105.4/t for the December Qtr.

Demand

The primary demand driver for metallurgical coal is production of steel. In the near to medium term the production of steel will continue to be led by the Blast Furnace / Basic Oxygen Furnace route according to Neil Bristow (H&W WorldWide Consulting). Small electric arc furnaces (EAF) are not considered able to meet growth demands.

Coupled with low steel production over the past ~20 years, better coating technology which has extended steel product 'life, an increase in other 'tramp' elements in steel – requiring virgin iron units, China relies largely on BF/ BOF production and has not developed sufficient steel scrap to feed EAF to meet growth rates.

Global steel consumption rates are forecast to continue to grow over the next four years at between 4.4% and 5.9% p.a. Steel prices are forecast to increase slowly during 2013 as steel producers margins recover. However if demand is not as strong as forecast in 2013, there is still scope for an oversupply condition.

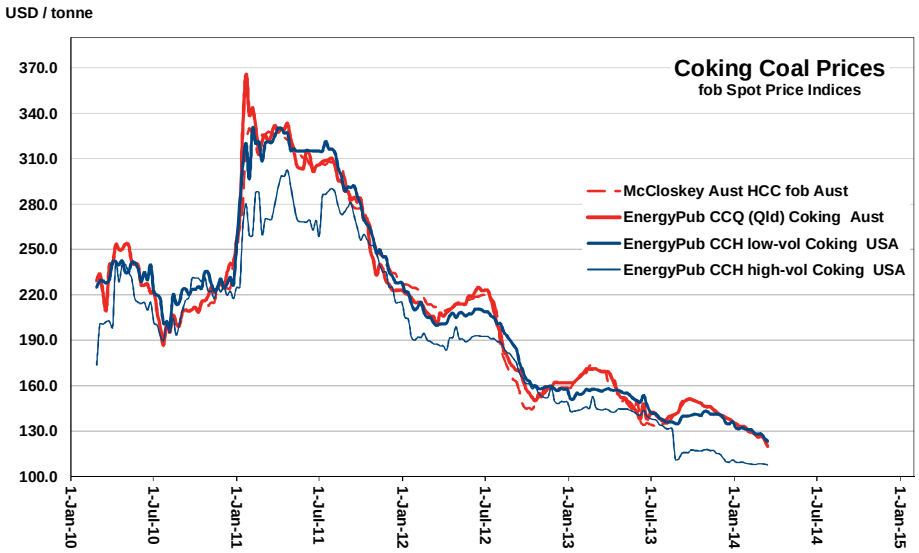
In the longer term China is expected to remain dominant, but as growth slows with the rate of urbanisation; however rising SE Asian economies and India are forecast to accelerate. Mature markets are forecast to grow slowly to 2020.

Adoption of heat recovery technology is leading to capacity to use a wider range of coking coals, and may lead to lower capital and operating costs for coking operations.

Direct reduction steel-making processes generally relies on low-cost gas and or power and is generally linked to EAF by providing virgin iron units to make higher quality steels via EAF routes.

Metallurgical coal supply is forecast to continue to be dominated by Australia, Canada and USA, with emerging supply coming from Indonesia, Mozambique and Mongolia. Increased operating costs are beginning to impact supply, particularly from Australia which is now considered a high cost supplier.

Generally new supply is proposed at locations further away from tidewater than in the Bowen Basin, Hunter Valley or the USA.



Source: McCloskeyCoal, Matau Advisory

Outlook

Thermal Seaborne Coal

Seaborne demand for thermal coal is forecast to grow from 896 Mt in 2012 to 1400 Mt by 2022 at cagr of 4.6% p.a. China will be a key demand driver from 227 Mt in 2012 to more than 600 Mt by 2022 at a cagr of 7.2%, according to Wood Mackenzie.

However the rest of Asia is forecast to have stronger growth than China's demand (from smaller bases). Domestic supply is generally forecast to be unable to keep pace with demand. China's demand exceeded that of Japan in 2010. India's import requirements are forecast to double by 2022 from 93 Mt in 2012 to 186 Mt in 2022. Australia supplied about 17% of global seaborne thermal coal in 2012 with a compound annual growth rate (cagr) of 5.6% forecast to 2020, increasing its share to 20% over that period.

Demand from Europe and USA is forecast to decline further due to legislation changes and stricter environmental regulations.

In recent weeks, Chinese commentators have observed that they believe that the coal (coking and thermal) prices are either at or are approaching bottoms. In the case of thermal coal, Chinese power stations are expected to need to begin buying for inventory in April or May, ahead of the summer power high-demand season.

Metallurgical Seaborne Coal

Australia currently supplies 55% of global seaborne metallurgical coal. Australian supply is forecast to grow at a compound annual growth rate (cagr) of 3.7% p.a. from 2012 to 2018. Global supply is forecast to grow at a cagr of 3.4% p.a. Meanwhile global demand is forecast to grow at a cagr of 3.9% p.a. over that period according to Neil Bristow of H&W Worldwide Consulting.

The outlook for metallurgical coal is directly linked to production of and therefore the outlook for steel. Analysts are universally forecasting slower growth rates for Chinese output, and for Chinese steel consumption, however the expectations are that Chinese growth will continue to be at robust rates.

According to the World Steel Organisation's Short Run Outlook (October 2013) the apparent steel demand growth rate for 2014 for China is 3.0% p.a., for the world excluding China at 3.6% p.a. and for the Emerging & Developing Economies at 3.8% p.a.

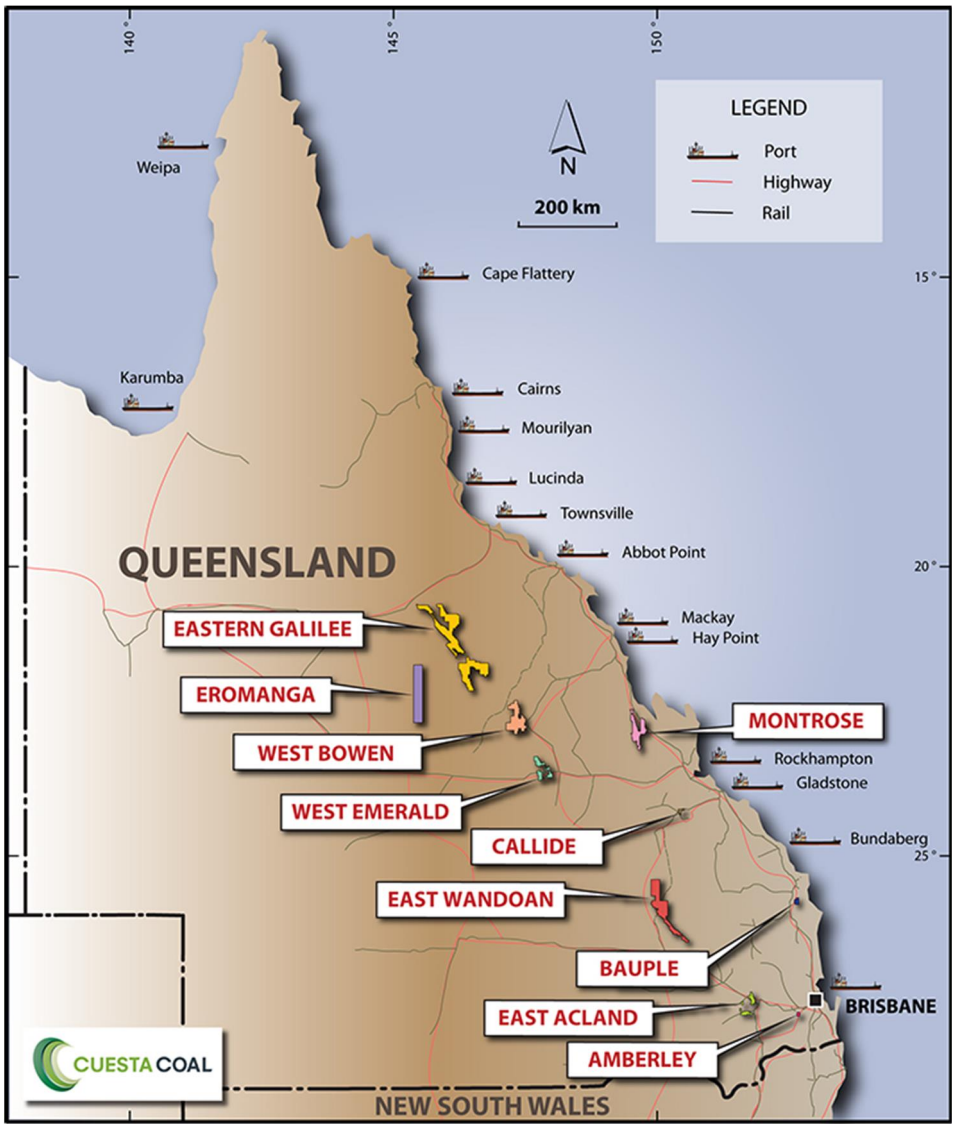
In Salva Resources March 2014 report a shift in demand growth is illustrated clearly by their comments: "China has largely been the story behind the Australian resources sector's success in recent years, but more and more it is looking as if India may challenge it's pre-eminence, particularly as its demand for coking coal soars to keep pace with domestic steel demand".

China is the largest single market for coking coal and iron ore, but may not necessarily have the highest growth rates. On the other hand, Indian forecasts have a history of being undershot.

Review of Operations

Cuesta Coal Limited (CQC)'s key operations are all located in Queensland, mostly in established coal producing basins and close to infrastructure.

Cuesta Coal – Project Location Plan



Source: Cuesta Coal

Cuesta Coal is focussing on evaluation and development of three key projects:

- The Moorlands project, in the West Bowen area;
- The West Emerald project;
- The Yellow Jacket and Kurara projects in the Eastern Galilee area.

The Thorn Hill project, in the East Wandoan project area was one that had been ear-marked for further focus, though with the recent announcement by Xstrata, stalling progress of the Wandoan project, and thereby of the Surat Basin Rail infrastructure, we expect work on Thorn Hill will be scaled back similarly.

Cuesta also has prospective greenfield projects elsewhere in Queensland's world-class coal basins and has been conducting a detailed internal geological desktop review. In the coming 6–12 months Cuesta will commence discussions with potential interested joint venture partners where these partners will provide capital expenditure to develop these prospective greenfield projects to identify the likelihood of economic coal resources. These areas include Montrose, Callide, Bauple, Amberley and Eromanga.

Cuesta Coal - Reserves & Resources

Project Resources (100% basis)	Project Basis %	Measured Mt	Indicated Mt	Measured & Indicated Mt	Inferred Mt	Total Resource Mt
Moorlands	*100%*	118.5	52.7	**171.2**	109.9	**281.1**
Eastern Galilee - Yellow Jacket	*100%*	0.0	0.0	**0.0**	364.1	**364.1**
Amberley	*100%*	0.0	0.0	**0.0**	54.7	**54.7**
Wandoan East-Thorn Hill	*100%*	0.0	22.1	**22.1**	22.5	**44.6**
Total Resources		118.5	74.8	**193.3**	551.3	**744.6**

Cuesta Coal (attrib.) Resources	Equity Interest %	Measured Mt	Indicated Mt	Measured & Indicated Mt	Inferred Mt	Total Resource Mt
Moorlands	100.0%	118.5	52.7	**171.2**	109.9	**281.1**
Eastern Galilee - Yellow Jacket	100.0%	0.0	0.0	**0.0**	364.1	**364.1**
Amberley	100.0%	0.0	0.0	**0.0**	54.7	**54.7**
Wandoan East-Thorn Hill	90.0%	0.0	19.9	**19.9**	20.3	**40.1**
Total Resources (attrib.)		118.5	72.6	**191.1**	549.0	**740.1**

Source: CQC Concept Study September 2013

West Bowen Project - Moorlands

Status

CQC holds a 100% interest in the Moorlands project. In November 2013 CQC announced its Concept Study for the Moorlands project. The company plans to undertake and commence a feasibility study in early 2014.

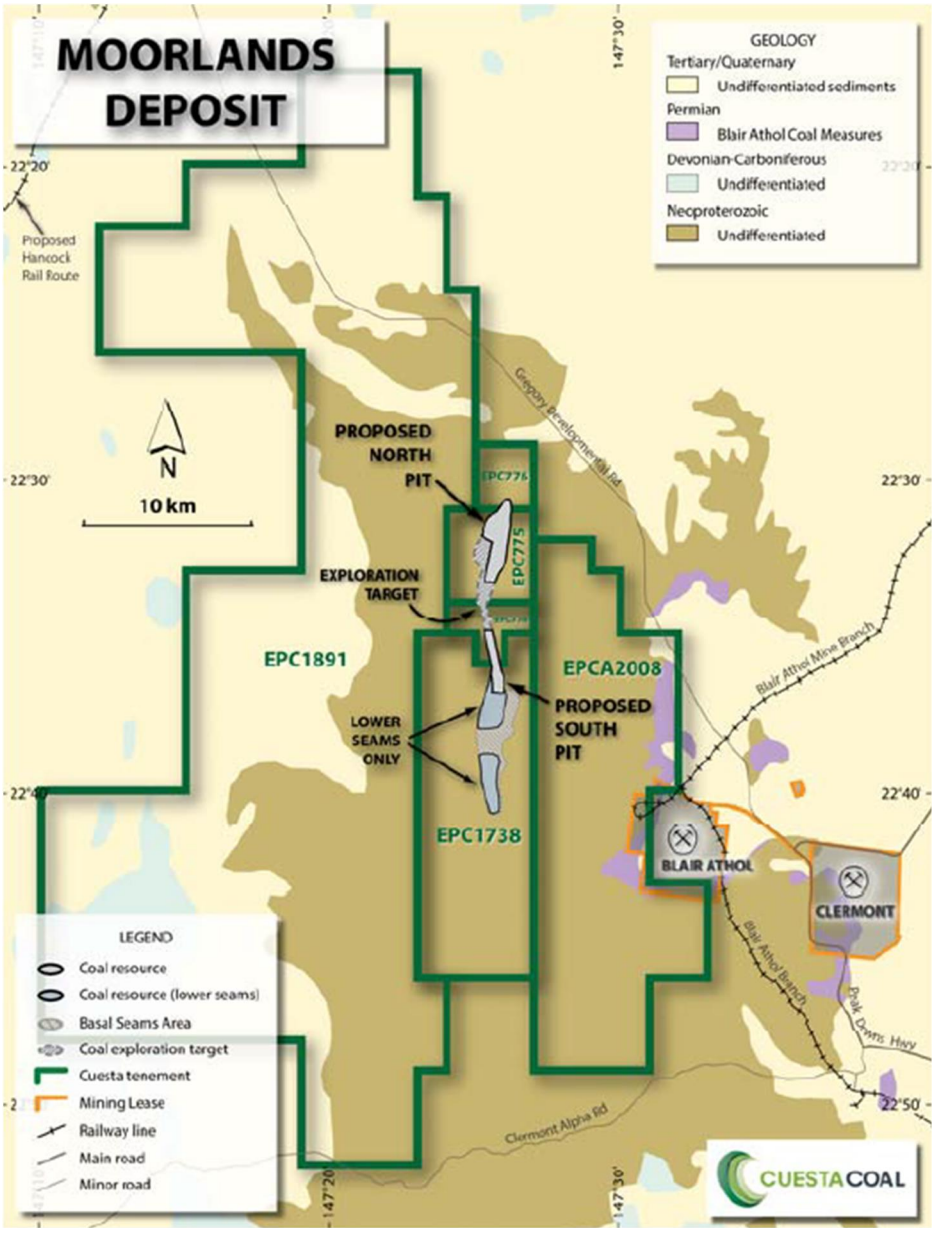
The Moorlands deposit is covered (from north to south) by the tenements EPC 766-North, EPC 775, EPC 776-South, and EPC 1738. Adjacent tenements include EPC 2008 to the east (under application by CQC), and EPC 1891 to the west (held by CQC).

CQC intends submitting a MLA over the Moorlands project soon.

Location

The Moorlands project is about 300 km south-west of Mackay Qld, about 25 km west of Clermont and 14 km north-west of RIO's recently closed Blair Athol mine. Moorlands is located on the western margin of the Bowen Basin coalfield.

Moorlands – Location Plan



Source: Cuesta Coal (26 June 2013)

Note the proximity to the highly regarded Blair Athol mine and to rail infrastructure.

Reserves & Resources

An updated Resource statement at Moorlands was announced in March 2014 and a maiden Reserve assessment is underway.

The Moorlands deposit is now reasonably well outlined with 124 drill holes. A total of 281 Mt of JORC Resources coal has been calculated for the Moorlands deposit (down to 200m of cover). Of the JORC Resource, 118.5 Mt is Measured, 52.7 Mt is Indicated and 109.9 Mt is Inferred Resource.

These Resources are within a geologically modelled total of 278 Mt of insitu coal to up to 200m of cover.

The Resource is defined as a Southern and a Northern Resource separated by a central zone with down-thrown, deeper cover.

Detailed JORC Resource updates were announced in March 2014 following completion of the 2013 drilling program. A maiden Reserve assessment is underway and anticipated to be completed soon.

Moorlands – Project Resources

Resource Category			B4	B5	B7	B8	B9	B11	B12	B13	Total Tonnes Mt
Measured	Volume	Mm^3	13.4	5.9	4.5	40.4	16.5	-	-	-	
	Thickness	m	6.98	2.44	1.45	9.54	3.50	-	-	-	
	Density	t/m^3	1.50	1.48	1.54	1.47	1.41	-	-	-	
	Tonnes	**Mt**	**20.1**	**8.7**	**7.1**	**59.3**	**23.3**	**-**	**-**	**-**	**118.5**
					7.1	*59.3*		-	-	-	
Indicated	Volume	Mm^3	12.6	3.7	3.3	13.2	3.4	-	-	-	
	Thickness	m	6.77	2.52	1.52	8.85	3.19	-	-	-	
	Density	t/m^3	1.47	1.46	1.50	1.47	1.40	-	-	-	
	Tonnes	**Mt**	**18.4**	**5.4**	**4.8**	**19.4**	**4.7**	**-**	**-**	**-**	**52.7**
Inferred	Volume	Mm^3	15.8	3.8	1.1	17.1	6.2	9.9	5.2	17.7	
	Thickness	m	6.83	1.54	1.34	9.45	2.95	2.74	0.66	2.27	
	Density	t/m^3	1.48	1.39	1.62	1.47	1.41	1.44	1.44	1.44	
	Tonnes	**Mt**	**23.3**	**4.7**	**1.7**	**25.2**	**8.8**	**13.2**	**7.5**	**25.5**	**109.9**
Total	**Tonnes**	Mt	**61.8**	**18.8**	**13.6**	**103.9**	**36.8**	**13.2**	**7.5**	**25.5**	**281.1**

Source: CQC. 4 March 2014 announcement.

Notes: JORC Resource at 27 February 2014. Complies with JORC Code (2012); Criteria of a depth cut-off of 250 metres, and a minimum seam thickness of 0.3m, have been used.

Target Seams / Formations

The Moorlands project is located in the western margin of the Bowen Basin in an area known as the Bendemeer Basin, which is about 13 km long, oriented approximately north-south, and is about 1.0-2.5 km wide.

The seams sought are equivalent to the Blair Athol horizons of Permian age. Overburden cover is comprised of weathered Permian horizons and some Tertiary material, and may be up to 45m deep in the South deposit and from 60m to 100m in the North deposit. The deposits are surrounded by the Anakie Metamorphics.

There are no basalts overlying the target seams in this area.

Thirteen coal seams of Blair Athol equivalents (described by some as Birimgin Formation) have been modelled within the project area. The primary target seams (B4, B8 & B9) have thicknesses from 4m to 10m, with secondary seams (B5 & B7) have thicknesses from 1.5m to 2.0m.

The modelled seams are named B1-B13 in order of stratigraphy. Most seams are comprised of a number of plies. The major coal seams are B4U, B4M, B8ML, B9U and B9; all with thicknesses greater than 3 metres.

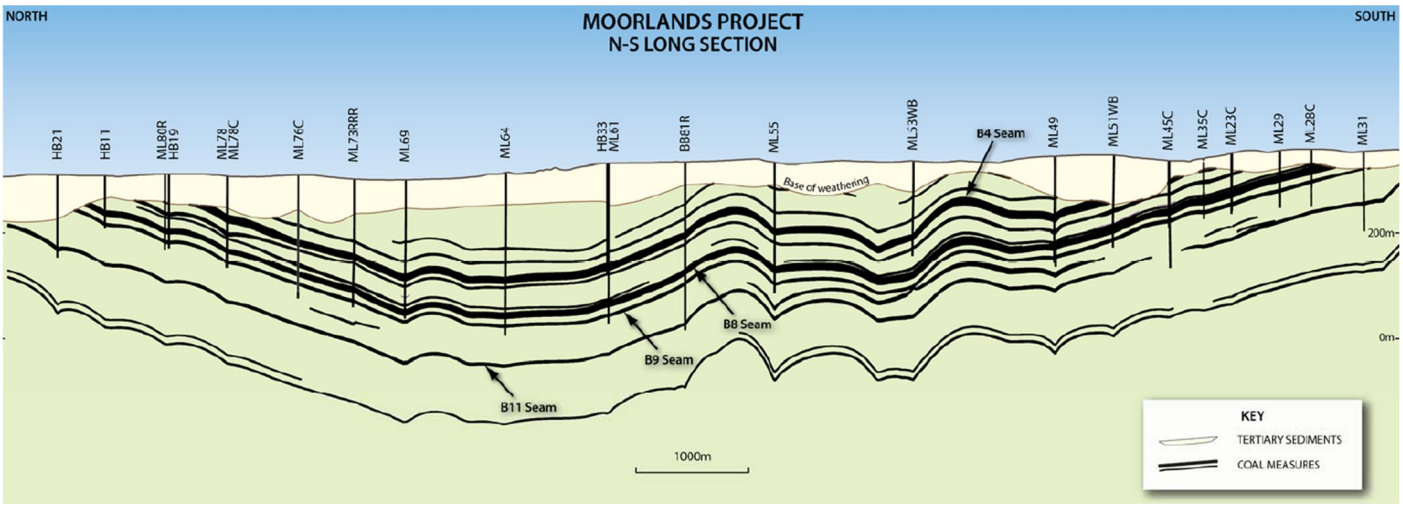
The number of relatively thick coal seams at reasonably shallow depths is attractive for open cut mining methods. Seams B7-B9 are present in the South Pit area and are relatively close together dipping gently northwards. At the basin margins the dips are steeper.

In the North Resource area, the seams dip more steeply to the south. This area includes seams B3 & B4 though seams B8 & B9 have a larger interval (up to 20m) of inter-burden between them.

CQC has drilled these seams to about 300m depth.

The shallowest depth to first coal seam is about 45m, with the greatest depth to first coal at 130m in EPC 775. The average depth of weathering is about 70m from surface but is shallower in the south.

Moorlands – Long Section



Source: Cuesta Coal – presentation 4 March 2014

Coal Quality

The coal is a sub-bituminous coal with low-moderate ash (adb), moderate specific energy (adb) and low to moderate sulphur (adb).

Quality Analysis	**South Pit**
Coal Type	**Thermal**
Inherent Moisture % (ad)	9.5
Ash % (ad)	10.4
Volatile Matter % (ad)	30.7
Fixed Carbon % (ad)	49.4
Specific Energy (ad)	6,077 kCal/kg 25.44 MJ/kg
Sulphur % (ad)	0.72
HGI (x)	59

Coal quality data from CQC's Independent Geologists Report (Prsntn-Dec 2012).

The samples evaluated for the above results were collected during drilling in 2012 from 6 cored holes in the Moorlands South Pit. Cored holes recovered samples from the B5, B7, B8 and B9 seams.

Product recovery rates are reported with an average of 90%, yielding a 10.4% ash product with an acceptable energy content of 6,077 kCal/kg (adb).

Washability recovery rates range between 87.1% and 96.8%. Xenith estimates that about 26% of the ROM coal feed will not require washing and will be run as a 'bypass' coal. This is coal with < 15% ash, primarily from seams B5 and B9.

The up to 10 metre thick B8 seam averages 98.3% recovery yielding product coal with 10.9% ash, energy content of 6,041 kCal/kg and 0.53% sulphur.

The 4m thick B9 seam averages 90.4% recovery yielding product coal with 9.0% ash, energy content of 6,139 kCal/kg and 0.65% sulphur.

Below is a comparison of average Moorlands coal quality, from the data currently available, with other Qld thermal coals.

The coal quality of the North pit area is very similar to that of the South pit area. The coverage of coal quality drill holes in the North area is not as good as for the South. Current drilling will allow a fully weighted coal quality, both in terms of raw vs product coal and North vs South pit areas.

Comparison of Coal Quality

		NSW avg	Qld avg	Qld Moorlands Thermal	Qld Blair Athol Thermal	Qld Clermont Thermal	Qld Springsure Creek Thermal	Qld New Acland Thermal	Qld Rolleston Thermal	Qld Ebernezer Thermal	Qld Jeebrobpilly Thermal
Moisture	% (ad)	1.9	4.1	9.5	5.5	6.0	9.5	3.7	9.5	4.0	5.0
Moisture	% (ar)	8.1	11.9				15.0				
Ash	% (ad)	17.8	15.4	10.4	8.7	10.0	10.5	13.0	7.5	14.0	13.0
Volatile Matter	% (ad)	27.5	23.4	30.7	27.6	27.6	26.4	40.8	30.0	39.0	40.0
Nitrogen	% (daf)				1.90	1.80		1.20	2.10	1.40	1.50
Total Sulphur	% (ad)	0.60	0.60	0.72	1.90	0.40	0.60	0.60	0.70	0.60	0.70
Specific Energy	kcal/kg (ad)	6,644	6,509	6,077	6,760	6,740	6,220	6,900	6,425	6,700	6,700
	MJ/kg	27.8	27.2	25.4	28.3	28.2	26.0	28.9	26.9	28.1	28.1
CSN (avg)					0.5	0.0	-	-	1.0	1.3	1.0
AFT (deg C)	deform				1,550	1,540	1,572	1,572	1,210	1,570	1,300
AFT (deg C)	flow				1,580	1,600	>1600	>1600	1,380	>1600	>1600
HG Index				59	60.0	56.0	40.0	40.0	53.0	40.0	40.0
Phosphorus	% (ad)				0.01	0.02	0.01	0.01	0.05	-	0.01

Sources: company data, Qld Natural Resources & Mines, Matau Advisory

Mining

Mining is currently planned to be by truck and excavator methods. At this stage this is an initial conservative approach. Further optimisation will be considered using other mining methods that may include draglines, cast-blasting, and or dozer-push.

The lowest strip ratio is estimated in the recent Concept Study in the proposed South Pit, over a 4 km length to be typically between 2 and 4 bcm/tonne, and averaging 3.2bcm/tonne over the life of mine.

A Mining Concept Study was completed in November with a focus on a potential 1.9Mtpa run of mine (ROM) project in the South Pit with a mine life of 30 years.

In the South Pit area there is about 45m of cover above the B8 seams.

Some overburden characterisation studies remain to be carried out.

Further metallurgical evaluation is needed to determine product characterisation and product splits.

The Northern Resource area of the deposit has a 6km zone with larger resource potential and will provide a longer term target for Cuesta with strip ratios typically between 4 and 8 bcm/tonne.

CQC anticipates an average of about 5:1 bcm/t for life of mine average, though subject to outcomes of recent drilling, some of the North Resource area may have a strip ratio as low as 3:1.

In the North Resource area there is up to 60-100m cover to the B1-B4 seams. In a central 1 km long zone of the deposit, the strip ratios exceeded 10:1.

Proposed 1.9 Mtpa ROM operation.

Moorlands - Concept Study

Strip ratio of 5 bcm/t chosen as a cut-off allowing a AUD 10/t margin.

Xenith Consulting Pty Ltd (Xenith) completed a Scoping Study for mining of the Moorlands project for CQC in November 2013. The cost estimates used by Xenith included in the study have a confidence level of +/- 30%. Key inputs include an average A$98/t sale price for thermal coal, AUD parity with USD with a real discount rate of 10%.

Moorlands' South-Pit average strip ratio is 3.2 bcm/t.

As part of this study a Margin Ranking assessment was made to understand the variation in profit (margin) with respect to waste strip ratios.

There is a central zone between South and North with more cover and higher strip ratios than in the proposed North and South pit areas.

An initial mining rate of 1.9 Mtpa ROM for the South-Pit area has been chosen to keep equipment, manning and capital requirements reasonably low but with sufficient output to generate reasonable cash flows. The Schedule at this rate has a life of 30 years.

The key parameters of the Base case are tabulated below.

Summary of Base Case Parameters

		Base Case
Moorlands Project		
Operator		Contractor
ROM Mining Rate	Mtpa ROM	2
Capital – Initial (1.9 Mtpa)	$m	167
Avg FOB Cost (excl royalties)	$/t	63
Royalties (est avg)	$/t	10
FOB Cost (est)	$/t	73
Moorlands Project NPV (Dec 2013)	$m	294
Cuesta Coal Limited		
unrisked DCF	$m	392
12 mo fwd disc Target Price	$m	175
Target Share Price	$	0.16
Risked (disc) EV (Dec 2013)	$m	128.9
EV/t (Dec 2013)	$/t Resource	0.17

Source: Cuesta Coal, Xenith

Production

A three year time-frame is being considered for development prior to production, with first coal planned for 2016. We have assumed production in the second half of calendar 2016.

The Scoping Study suggests an initial (ROM) mining rate of <2.0 Mtpa. We have evaluated potential to ramp up to 5 Mtpa.

The forecast FOB cash operating costs (excl royalties) is about A$63/tonne. We anticipate royalties to be approximately an additional $10/tonne, (based on our price forecasts) giving a total FOB cost of A$73/t.

Exploration

A 50 hole drilling campaign for 2013 has been undertaken to enable Cuesta to commence a detailed Feasibility Study for the Moorlands Project in early 2014.

In addition to historic work carried out by Pacific Coal (RIO) there are a number of potential coal exploration targets in EPC 1891 and EPCA 2008. The targets are based on gravity anomalies, with similar characteristics to that of the Moorlands deposit, which have not been tested to date. Subject to further exploration, an Exploration Target of between 0-50Mt has been placed on these areas. Exploration in the central zone between the North and South Pit areas has to date shown very little coal seam development at economic depths.

Water / Power

Water: Drilling of piezometer holes has been completed and hydrological evaluation is in progress and will continue to be monitored over the next 12 months. Construction of a dam with capacity for about 2 years supply, would cost in the order of $0.4m.

Power: The Blair Athol infrastructure has spare power capacity, beyond the amount being drawn by the Clermont project, to which CQC should be able to tie in. Approximately 11 km of power line would need to be constructed.

Native Title / Heritage

We understand that CQC has been in discussions with the Wangang and Jagalingou (W&J) aboriginal people regarding Native Title considerations, and that discussions have been productive.

Strategic Cropping Land (SCL): We understand that there is no SCL over the planned project area that impacts the planned operations. There are three landowners on the Moorlands project area.

Environmental

Topography is generally flat. Baseline environmental studies are under way including water monitoring. These will be part of the Environmental Management Plan (EMP) process.

The EMP process is adopted for development projects with plans for less than 1.9 Mtpa ROM to be permitted. To ramp up to 5 Mtpa ROM coal a full Environmental Impact Statement (EIS) would have to be undertaken.

Transport / Infrastructure

CQC is considering a rail spur located near the existing Blair Athol rail load-out facility. CQC has included costs of $30m for this stand-alone rail loop in its capital estimates. Access to the Blair Athol loop and load-out would be a plus.

Power is anticipated to be brought in from Blair Athol.

Port capacity is anticipated to be available subject to negotiation most likely from existing holders who have more capacity allocation than their needs. Potential alternatives for port capacity include: Dalrymple bay Coal Terminal (DBCT), an existing port with 85 Mtpa capacity, Dudgeon Point Coal Terminal with planned 90 Mtpa capacity, and Abbott Point Coal (T0) Terminal with 25 Mtpa before any expansion.

Rail capacity is anticipated to be able to be allocated once port capacity allocation has been established.

The Blair Athol load-out is 278 km by rail to DBCT. Alternatively, the distance to Abbott Point via the northern rail link would be about 380 km. Negotiations are in progress.

We believe that CQC is focussing on obtaining capacity through DBCT.

Balance Resources Pty Limited has been engaged to complete a review of all port and rail options.

Off-take Agreements

No off-take agreements have been formalised, though we anticipate interest in off-take from CQC's cornerstone shareholder Beijing Gouli.

Capital

Concept study estimates are for capital requirements of $167m for a contract-operator basis.

The contract-operator estimates include approximately $140m of project capital costs, $20m for costs of the Feasibility Study and the balance for contingency.

The CHPP is estimated to require capital of about $86m, a rail spur and loop about $30m and digging a box-cut about $15m.

Eastern Galilee

Status

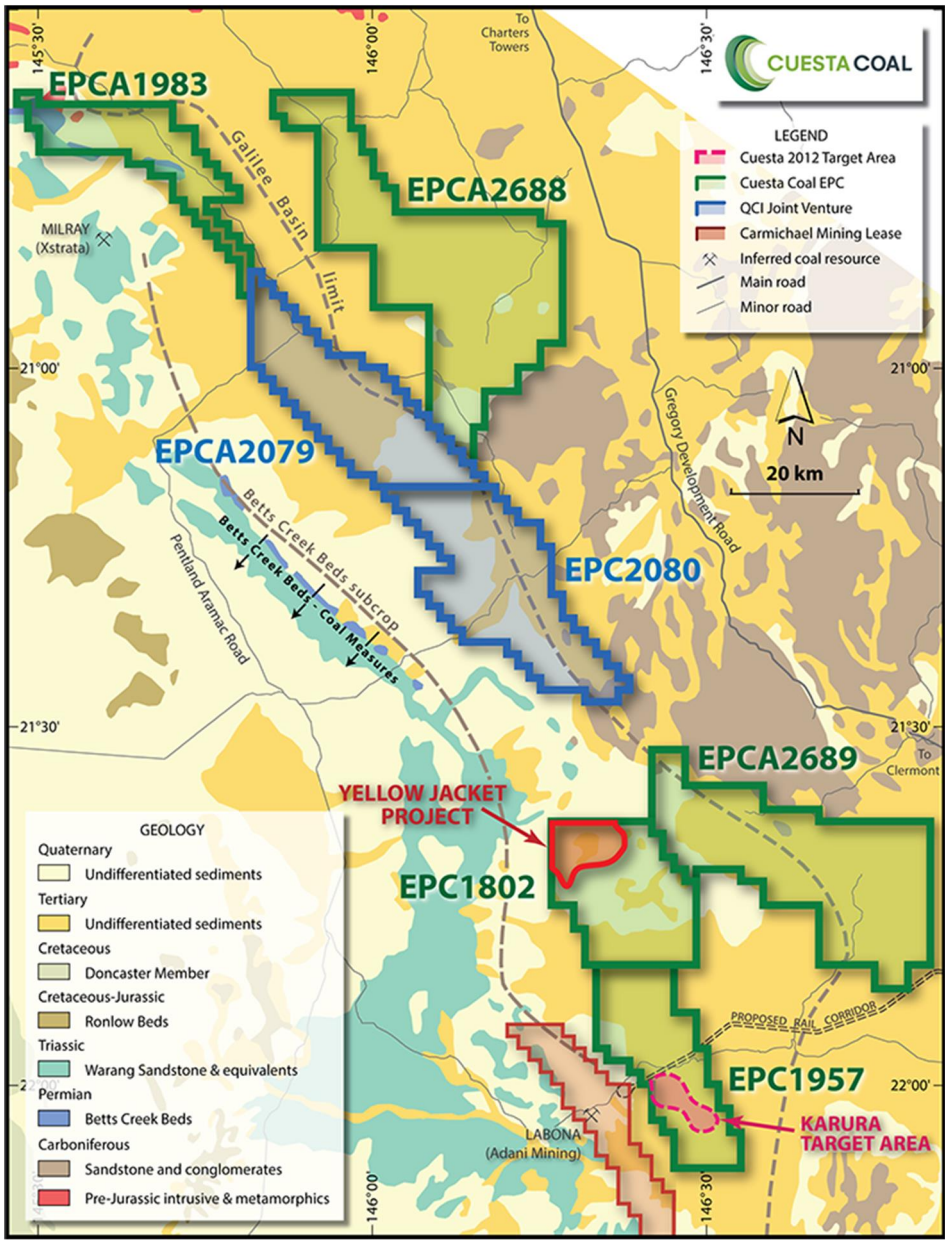
CQC holds 100% interest in the tenements EPCA 1983, 2688 & 2689 and EPC 1802. Within these tenements, two project areas have been identified to date: Yellow Jacket and Karura. CQC holds a 90% interest in Karura (EPC 1957) with Australia Pacific Coal (AQC) holding a 10% interest, carried to feasibility.

A Joint Venture (Snake Creek) was announced with QCI (Galilee) Pty Ltd (a subsidiary of Hancock Coal) with regard to EPCA 2079 and EPCA 2080 on 8 August 2012. EPC 2079 was granted in March 2014. QCI is able to earn up to a 51% interest in the two tenements with expenditure of $3m in two separate tranches.

Location

The tenements in this group are located west of the Gregory Development Road to the W and NW of Clermont and South of Charters Towers. Several other major projects are nearby. Adani's Carmichael, and associated proposed infrastructure crosses the EPC 1957 (Karura project) area. Other than this association the area is currently not well served by infrastructure nor services, and will need development of a major project and or several smaller deposits simultaneously to attract appropriate infrastructure and services.

Eastern Galilee – Geology and Location Plan



Source: CQC Presentation 12 December 2012

Reserves & Resources

CQC has an overall Exploration Target of 200-3,000 Mt for the East Galilee project.

Two prospects have been identified to date, the Yellow Jacket project, and the Karura project.

CQC has recently announced definition of maiden Inferred Resource of 364.1 Mt for the Yellow Jacket.

Yellow Jacket has an Exploration Target of 200-1,000 Mt, while Karura has an Exploration Target of 0-300 Mt.

Resource Category	Seams		Galilee C	Basin D	Total
Measured	Volume	Mm^3	-	-	
	Thickness	m	-	-	
	Density	t/m^3	-	-	
	Tonnes	**Mt**	**-**	**-**	-
Indicated	Volume	Mm^3	-	-	
	Thickness	m	-	-	
	Density	t/m^3	-	-	
	Tonnes	**Mt**	**-**	**-**	-
Inferred	Volume	Mm^3	184.5	54.4	
	Thickness	m	4.16	1.52	
	Density	t/m^3	1.53	1.51	
	Tonnes	**Mt**	**282.2**	**81.9**	364.1
Total	**Tonnes**	Mt	**282.2**	**81.9**	**364.1**

Source: Cuesta Coal Ltd

Target Seams / Formations

CQC is targeting thermal coal resources in coal seams of the Betts Creek Beds, or equivalents. These are being sought at depths of <200m. The Betts Ck beds are considered to be time-equivalent to coal deposits in the Bowen Basin.

In the Yellow Jacket area, seams dip to the WNW, while at Karura seams are almost flat-lying.

Coal Quality

Typical Analysis

Coal Type	**Thermal**
Moisture (% adb)	9-12%
Ash	7-21 %
Volatile Matter	26-30 %
Fixed Carbon	42-49 %
Specific Energy (adb)	5,600 kCal/kg

Coal quality data from CQC's Independent Geologists Report (Presentation-Dec 2012)

Mining

We expect mining plans will be by open cut methods.

Exploration

During exploration in 2012, coal was intersected over approximately 15.2 sq km, at depths of less than 130m from surface, with two seams present in all holes across the drilled area.

A small drilling program was conducted in the June 2013 Qtr to further test the extent of the resource area and to obtain additional coal-quality data. These data are being evaluated.

Evaluation of historical regional seismic lines indicated syncline structures present in both Yellow Jacket and Karura that have the potential to preserve the Permian coal measures of the Betts Creek Beds east of the known Galilee Basin sub-crop. This has now been demonstrated in Yellow Jacket through the drilling activities in 2011 and 2012.

The syncline structure in Yellow Jacket matches the gravity survey conducted earlier this year. There are very similar geological properties in the Karura target area as there are in the Yellow Jacket project, which warrant further exploration to verify the presence of coal.

It is anticipated that a thirteen hole scout drilling campaign can test the presence of coal measures in the Karura project area.

Initial exploration by Cuesta Coal, supports the concept that the Betts Creek Beds are more widely developed than previously thought. Should further work support the idea of separate structural depressions and/or infolded coal bearing strata within the Cuesta Coal permits, and given the vast areas covered by the permits, then it is likely that a substantial resource may be delineated.

Depending if one or several deposits are outlined, the resource potential may be between 200 Mt and perhaps 3,000 Mt.

We expect that pending approval of the Snake Creek EPCA 2079, any drilling of the Snake Ck prospect is likely to occur in 2014.

Water / Power

At the eastern edge of the Galilee Basin, this project is considered somewhat remote and relatively poorly serviced by export and power infrastructure. It will rely on development of third party projects to attract the required infrastructure for development. There are a number of other adjacent projects in a similar condition that may consider merging interests in order to do so.

Native Title / Heritage

Discussions regarding Native Title have been held with the Wangang and Jagalingou (W&J) aboriginal people, and have been constructive. We understand that the Bidjara people have claim to ground in the east of EPC 1802, but their area does not include the Yellow Jacket project area.

Environmental

There are not believed to be any Strategic Cropping Land issues. Most of the ground is under grazing or pastoral uses.

Transport / Infrastructure

CQC's EPCs 1802, 1957 and EPCA 2689 are located generally north of the proposed rail corridors by companies associated with the Alpha, Carmichael and China First coal projects. The proposed transport routes are located approximately 50 – 100km to the south of these tenements. It is proposed that these rail corridors will link up with the Abbot Point Coal Terminal complex and its associated expansion plans.

As shown on the above location plan, Adani's proposed rail route passes through EPC 1957, close to CQC's Karura project.

Cuesta Coal EPCAs 1983, 2079, 2080, 2347 and 2688 are located 50–100km to the south of the Mt Isa to Townsville Railway Line. Guildford Coal Limited has announced an agreement with the Port of Townsville for its Hughenden Project, marking the potential for export through that bulk port, (which currently ships metal concentrate from Mt Isa).

Off-take Agreements

Coal from both the Galilee and Surat basins has been tested extensively throughout Asia with several power utilities known to have signed Letters of Intent to lock down future coal volumes, according to IHS. However the time-frames for delivery of coal from the Galilee Basin have been slipping, with the GVK project delivery being pushed back a year to 2017.

However CQC has not to date concluded any agreements with regard to off-take from this project.

Snake Creek JV

A Joint Venture, Snake Creek, was announced with QCI (Galilee) Pty Ltd (QCI) with regard to EPCA 2079 and EPCA 2080 on 8 August 2012.

QCI is a subsidiary of Hancock Prospecting. It also holds tenements immediately west of EPCA 2079. QCI is able to earn up to a 51% interest in the two tenements with expenditure of $3m in two separate tranches. We expect drilling to further evaluate this venture will commence in 2014. We expect that CQC will continue to be operator of the JV until QCI earns >50% interest in the JV.

Value Implications

Based on this buy-in a current value of approximately $6m could be implied for the Snake Creek JV licences (EPCs 2079 and 2080), and similar values for CQC's 100% owned tenements (EPCAs 1983, 2688, 2689 and EPCs 1802 and 1957) in the East Galilee area. We have assigned a value of $12m to CQC's interests here. We note that the EPC 1082 and 1957 have defined prospects (Yellow Jacket and Karura) while Resources have yet to be outlined on the Snake Ck JV.

West Emerald

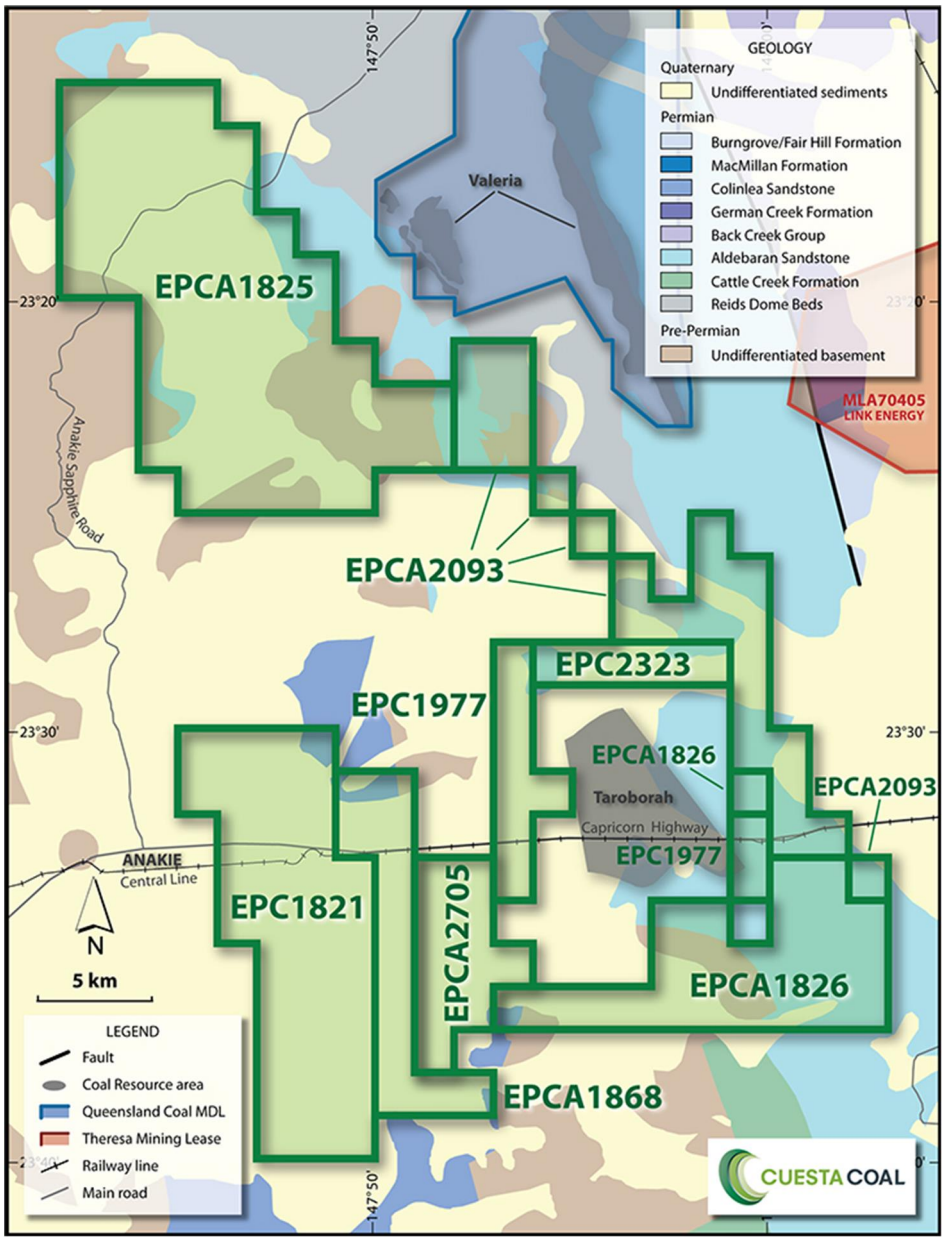
Status

The West Emerald project is in the Western Bowen Basin. The tenements EPC1821, EPC1977, EPC2323, EPC2093 and applications EPCA1825, EPCA 1826 and EPCA 2705 are all held 100% by CQC. CQC is targeting resources of thermal and metallurgical coal in this area. EPC 2093 was granted on 23 July 2013.

Location

The West Emerald project is located about 15 km west of Emerald in the Bowen Basin in Qld. The tenements are also in close proximity to the Valeria (RIO), Taraborah (Shenhuo Int'l) and Theresa (LNC) thermal and SSCC coal projects.

West Emerald – Location Plan



Source: CQC Presentation 12 December 2012

Reserves & Resources

Resources have yet to be declared. Further evaluation and drilling is required.

CQC has an Exploration target of 50-200 Mt for the West Emerald projects.

Target Seams / Formations

The seams targeted within the Reid Dome Beds are the Capella Seam (splits C4, C5, & C6), Llandillo Seam and Gardner Seam for metallurgical and export thermal coal.

At RIO's semi-soft coking and thermal Valeria deposit coal occurs in several seams within the Early Permian Aldebaran Sandstone and Reids Dome beds that dip between 5-15 degrees to the east.

Coal Quality

The anticipated coal quality parameters (below) are derived from the adjacent Taraborah and Valeria deposits.

Coal Type	**Thermal**	**Metallurgical**
Moisture (% adb)	7-9%	3-5 %
Ash	5-10 %	9-12 %
Volatile Matter	30-36 %	28-32 %
Fixed Carbon	50-55 %	54-58 %
Specific Energy (adb)	6,500 kCal/kg	6,800-7,000 kcal/kg

Coal quality data derived from Taraborah and Valeria coal quality data. (CQC Presentation-Dec 2012)

Mining

We expect mining plans will be by open cut methods.

Production

n/a

Exploration

A small wide-spaced exploration program began during the June 2013 quarter and was completed in the southern part of the project area. CQC is collating these data and will provide updates with results when results are completed.

Proximity of the Taraborah and Valeria deposits, coupled with the absence of adequate exploration in this area makes it an attractive prospect.

Stratigraphic data suggest the Reids Dome Beds have up to 12 individual seams identified to date. The Reids Dome Beds have been poorly explored by comparison with the German Creek/Moranbah Coal Measures and the Rangals, hence this appears to be a very prospective opportunity, given the proximity of the Taraborah and Valeria deposits. Sequence stratigraphy suggests that the coal seams can be divided into upper and lower coal measures separated by nearly 250m of sediments.

Drill testing in the area was primarily conducted in the late-1960's to mid-1970's and is typically in the range of 200ft to 300ft (approx. 60-90 metres). This is inadequate given today's economic climate and the seam separation. The shallow drilling combined with complex structure including folding in the Denison Trough's may explain the reason why in the 1960-70 period, the seams appeared to be discontinuous and sporadic. There is potential for extensions to existing deposits along with significant exploration upside. Drill testing to depths of 500m (plus) is suggested to incorporate the entire seam sequence stratigraphy.

CQC has carried out some scout drilling and is awaiting the grant of the main areas before mobilising a core-rig to obtain better definition of seams and coal quality data.

Water / Power

The Fairbairn Dam, south of the tenements, is a potential source of water. Access to grid power should be readily achievable given the location within 20 km of Emerald.

Native Title / Heritage

CQC have been in discussion with the Bidjara aboriginal people with regard to Native title considerations. Discussions are understood to have been productive.

Environmental

We believe that there is no Strategic Cropping Land (SCL) in this area that impacts the area of interest. However the Fairbairn State Forest covers some of the southern end of the tenement area.

Transport / Infrastructure

The West Emerald project is located in close proximity to major coal deposits, being Taroborah (Shenhou) and Valeria (Rio Tinto). Emerald itself has a significant local workforce of skilled personnel already established in the mining and related industries. The Kestrel mine located 35km to the east of the West Emerald Project is currently producing 4.2Mt of coking and thermal coal exporting through the Port of Gladstone. This mine is in the process of being ramped up to an annual production rate in excess of 5Mtpa.

Off-take Agreements

n/a

Capital

n/a

Montrose

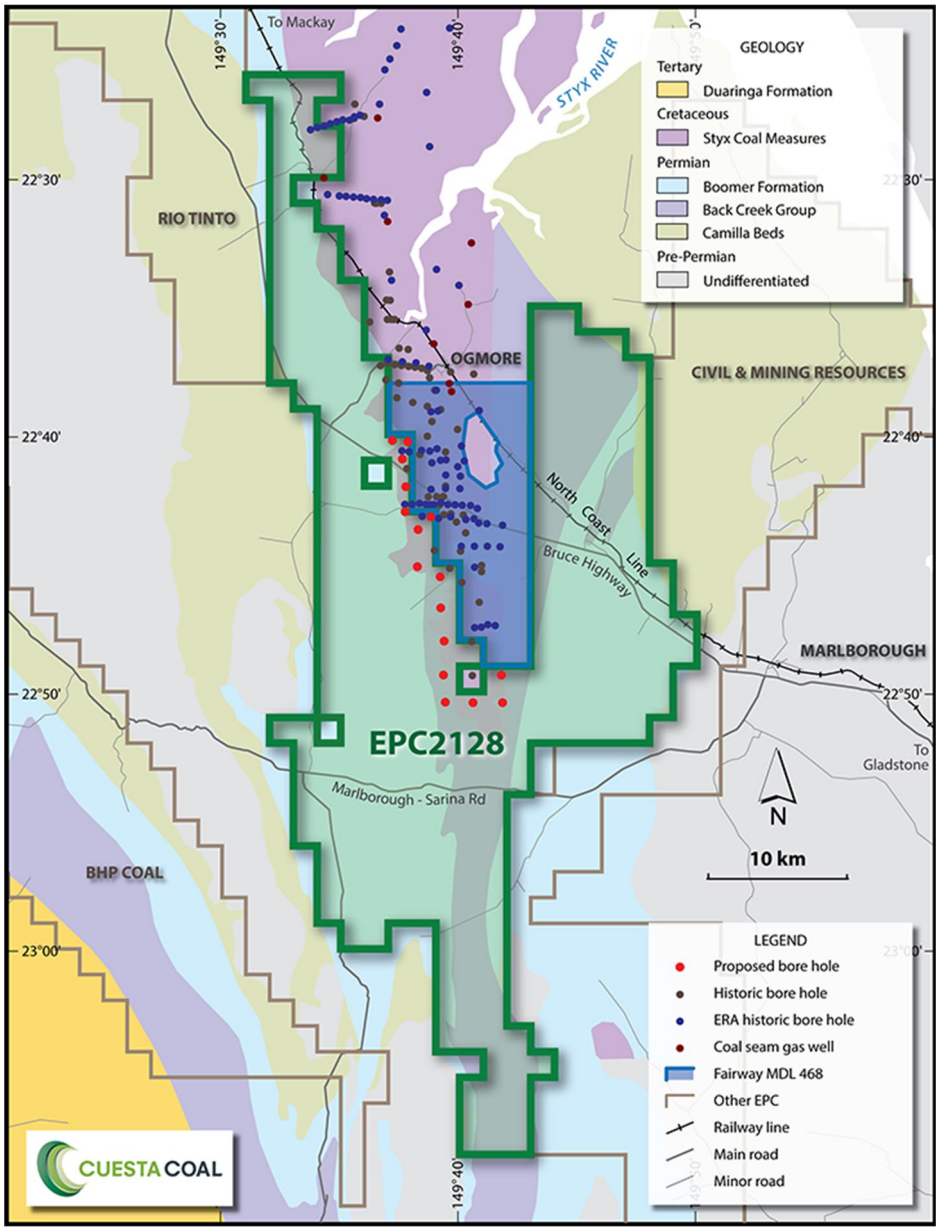
Status

The Montrose project is a significant land holding over part of the Styx Basin of 958km^2. It has potential to produce both thermal and coking coal products based on information sourced from historical exploration and mining data.

Location

Montrose is located west of Marlborough, about 170 km south of Mackay and about 100 km NE of Rockhampton.

Montrose – Location and Geology Plan



Reserves & Resources

CQC has an exploration Target of 50-200 Mt of coking / PCI and thermal coal for the Montrose project.

Target Seams / Formations

CQC will look at the Styx Basin coal seams but is interested in evaluating metallurgical coal targets of Permian age of the Back Creek Group below the Styx horizons for coking coal deposits that may be extracted using underground mining methods.

Coal Quality

Past drilling in the Styx Basin by coal-seam-gas explorer Arrow Energy reported promising coal-seam-gas occurrences. If underground methods are employed CQC may need to apply gas drainage methods to the seams prior to mining. Gas drainage technology has improved markedly in the past 20 years.

Mining

We expect that if the deeper seams are proved up, that underground mining methods will be considered.

Production

n/a

Exploration

The deposition of Bowen Basin coal measures may exist as part of the Back Creek Group within the project area.

Past exploration activity has been limited, focused on the testing of shallow coal potential beside the main North Coast Rail Line.

New Hope (Coal) defined a historic resource of 4 million tonnes of coal in the west of the Styx Basin. Waratah Coal has now been granted tenure to validate and further define the resource.

Relatively recent exploration has defined two new seam packages towards the base of the Styx Basin which occurs within the project area. EPCA 2128 lies in the Connors Arch which is a trough like formation thought to contain Bowen Basin sedimentation. Exploration will target coal seams in the Lower Permian Back Creek Group which are equivalent to the German Creek Coal measures which host high quality coking coal.

The Permian depositional history here is relatively unknown, but recent geological interpretation has outlined this region as an area where high rank metallurgical coals may be present. The Permian formation is predominantly masked by the younger cover.

CQC plans to conduct a review of open-file available gravity and aeromagnetic information to identify targets for scout drilling in 2013. Once targets have been identified the Company proposes to drill 6–10 open holes to depth of 400m to verify the presence of metallurgical coal. 1–2 strategically placed cored holes to obtain coal quality data will be drilling in areas of best intersections.

A Desktop Study has been completed by SRK Consulting. SRK have defined a small exploration program with which to test the target areas.

Drilling of this project is anticipated in 2014.

Water / Power

n/a

Native Title / Heritage

n/a

Environmental

n/a

Transport / Infrastructure

The project area has significant infrastructure; the Bruce Highway, a major northern thoroughfare, passes through the area. Running sub-parallel to the highway is the main electrified northern railway line which can transport export coals to the Gladstone port facility some 230km away.

Off-take Agreements

n/a

Capital

n/a

Amberley

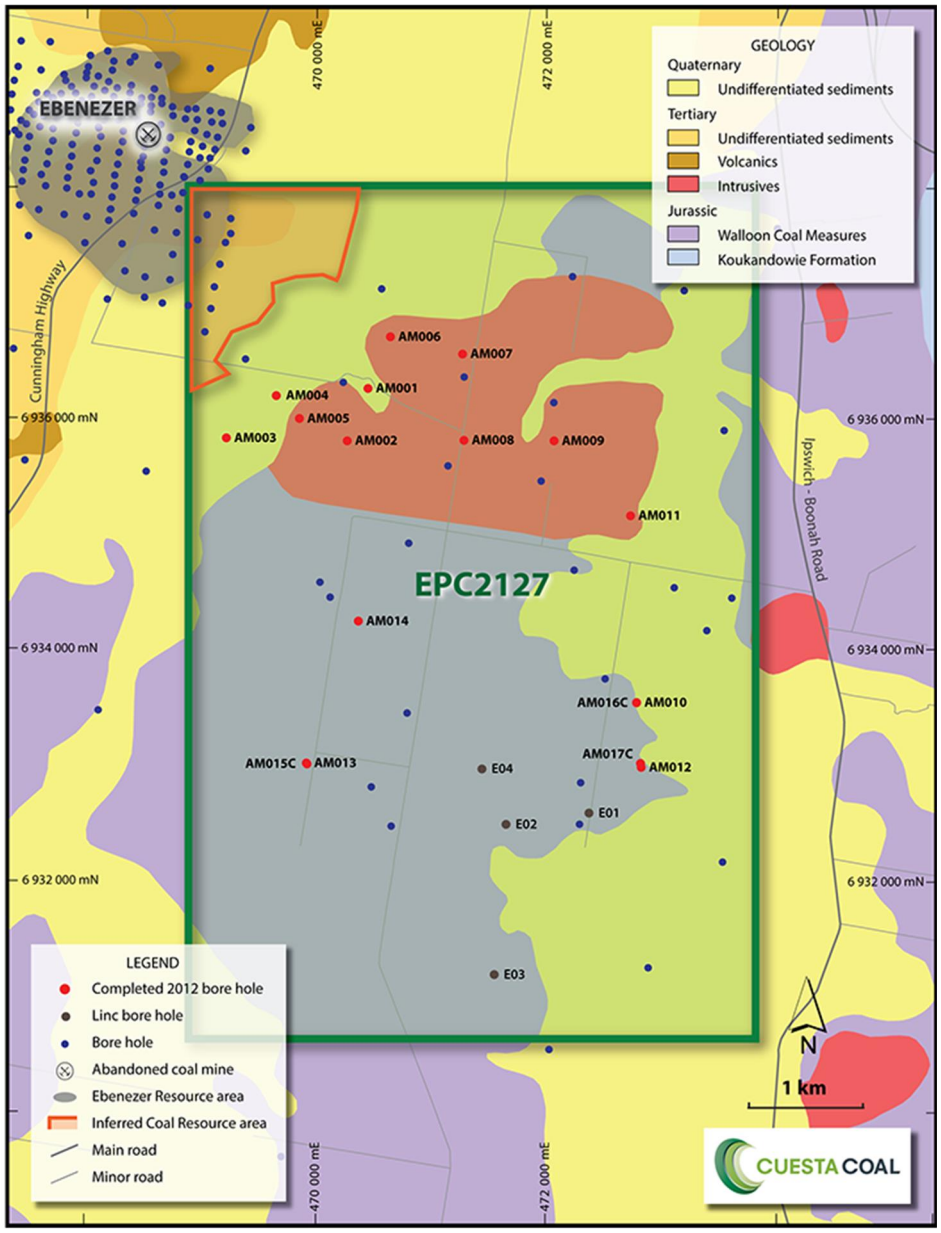
Status

The Amberley Deposit (EPC 2127) comprises 12 sub-blocks covering an area of 36.5km2. The nearby Ebenezer Mine has historically produced both domestic and export quality thermal coal. We expect CQC to further evaluate Amberley by drilling. We believe it may then consider a JV arrangement or disposal.

Location

Amberley is located and is located approximately 8km south east of the Jeebropilly Coal Mine and 5km from the former producing Ebenezer Mine.

Amberley Location and Geology Plan



Source: CQC Presentation 12 December 2012

Reserves & Resources

Initial thermal coal resources have been defined to depths of <120m, to date.

Resources	**Mt**
Measured	-
Indicated	-
Measured & Indicated	**-**
Inferred	54.7
Total	**54.7**

CQC has an Exploration Target range of 40-60 Mt for the Amberley Project.

Target Seams / Formations

The coal seams that sub-crop in these tenements are of the Walloon Coal Measures in the Clarence-Moreton Basin. These are being targeted down to less than 120 metres from surface. The deposit is a multi-seam, thin-seam resources. Coal measures in this region are banded Walloon Coal measures, similar to those at Ebenezer and at Jeebropilly.

The Amberley Project deposit is situated along strike extensions of existing known coal deposits and is found in eight seam groups – UNA, UNB, A, B, C, D, E & F. Cuesta's 2012 drilling intersected between 2 to 8 seams with individual seam ply thickness varying from 0.1m to 1.9m, sufficient confidence in seam correlation was achieved.

Coal Quality

Typical Analysis

Coal Type	**Thermal**
Moisture (% adb)	9-12%
Ash	7-21 %
Volatile Matter	26-30 %
Fixed Carbon	42-49 %
Specific Energy (adb)	5,600 kCal/kg

Coal quality data from CQC's Independent Geologists Report (Prsntn-Dec 2012)

Mining

Any future mining plans are anticipated to be planned with open-cut truck and shovel methods. Multi-seam, thin-seam mining in the Walloon Coals is practised very successfully by New Hope Corporation at Acland.

Production

n/a

Exploration

We expect that CQC will drill several holes to further evaluate this project.

Water / Power

n/a

Native Title / Heritage

The land under these tenements is free-hold land, therefore no Native Title considerations are expected.

Environmental

n/a

Transport / Infrastructure

Amberley is located to the east of the Cunningham Highway and about 5 km from the former producer Ebenezer mine which has a rail load-out facility.

Access to port capacity through Brisbane is a potential constraint.

Port capacity allocation through Port of Brisbane may be delayed pending development of available capacity in the port, or ability to source capacity held but not in use.

During FY2012 CQC lodged an expression of interest for a 0.8–1.2Mtpa allocation for the Port of Brisbane for the future development of the Amberley Project.

Off-take Agreements

n/a

Capital

n/a

East Wandoan

Status

The tenements in the East Wandoan group EPC 1987 & EPC 1955 are held 90% by CQC and EPC 2237 is held 100% by CQC. The tenements cover the sub-crop of the Walloon Coal Measures in the north-eastern Surat Basin, and largely lie adjacent to or along strike from projects The Range, Bottle Tree and Bushranger, held by Stanmore Coal and Cockatoo Coal.

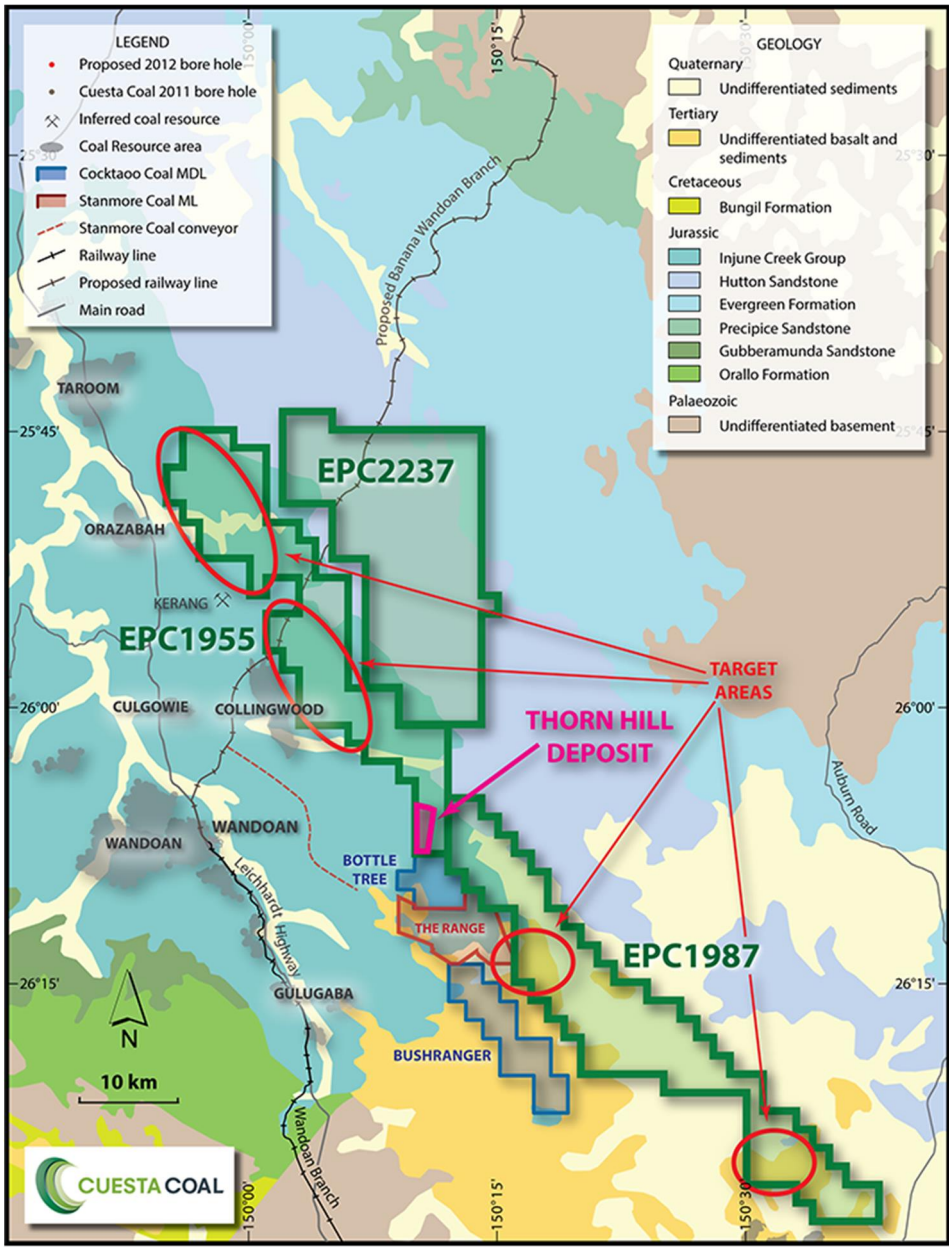
Glencore's decision to not proceed with its Wandoan project will significantly delay development of the Surat Basin Rail.

Glencore's decision to not proceed with its Wandoan project means that development of the vital Surat Basin Rail infrastructure project is most likely to be significantly delayed.

Location

The Thorn Hill deposit is located about 25 km east of Wandoan town and Glencore's Wandoan project, and north of Cockatoo Coal's 'Bottle Tree' and Stanmore's 'The Range'.

East Wandoan Location Plan



Source: CQC Presentation 12 December 2012

Reserves & Resources

Inferred Resources of 23.9 Mt have been outlined to date at the Thorn Hill Deposit (90% CQC).

CQC has an Exploration Target of 40-200 Mt for the East Wandoan project.

Target Seams / Formations

The coal seams are of the Walloon coal Measures in the northern Surat Basin. These are being targeted down to less than 120 metres from surface. These are multi-seam, thin-seam resources.

The majority of the deposit is at depths less than 110m from the surface. The coal seams are shallow dipping to the south-west at 1 to 2 degrees. Based on the data to date an average stripping ratio has been calculated to be the base of seam D at 8.3:1 bcm/t.

Coal Quality

Walloon thermal coals are noted for low sulphur, low nitrogen and usually low ash contents, providing a cleaner burning thermal coal than most other regions.

Mining

We expect that multi-seam, thin-seam mining methods will be planned for development of these coals.

Production

n/a

Exploration

We expect activity on the East Wandoan tenements will be pared back severely to a holding basis, until an export transport solution is successfully put forward.

Water / Power

n/a

Native Title / Heritage

n/a

Environmental

We understand the Wandoan East area is not materially impacted by Strategic Cropping Land (SCL) issues.

Transport / Infrastructure

Development of adequate transport infrastructure is a limitation and constraint.

The East Wandoan Project has the proposed route for Surat Basin Rail running through the centre portion of EPC 1955. The Surat Basin Rail line will link up with Wiggins Island Coal Export Terminal (WICET) which will allow the Surat Basin coal deposits to be developed for the export coal market.

At this stage it appears that with Glencore proposing to slow down or defer development of certain projects, the infrastructure may be further delayed.

Several of the junior emerging coal companies with projects in the Surat Basin are believed to have begun to evaluate other options for transport of project coal, and or for other projects while Surat Basin infrastructure is delayed.

In order to take coal 166 km north from Wandoan to Banana, producers could consider a private haul road (potentially along the SBR easement) and use off-road road trains making transport costs over that section about 8 cents / tonne.km, compared to what we believe to be about 5-6 cents/tonne.km for SBR.

Alternatively a haul route 60-70 km south to Miles would reach the rail line to Brisbane, though operators would have to contend with the restrictions of the Brisbane urban network and port of Brisbane capacity.

Slurry pipelines could also be considered.

Off-take Agreements

Coal from both the galilee and Surat basins has been tested extensively throughout Asia with several power utilities known to have signed Letters of Intent to lock down future coal volumes. However the near-term prospect of determining time-frames for coal from the Surat Basin is poor.

Capital

n/a

Bauple

Status

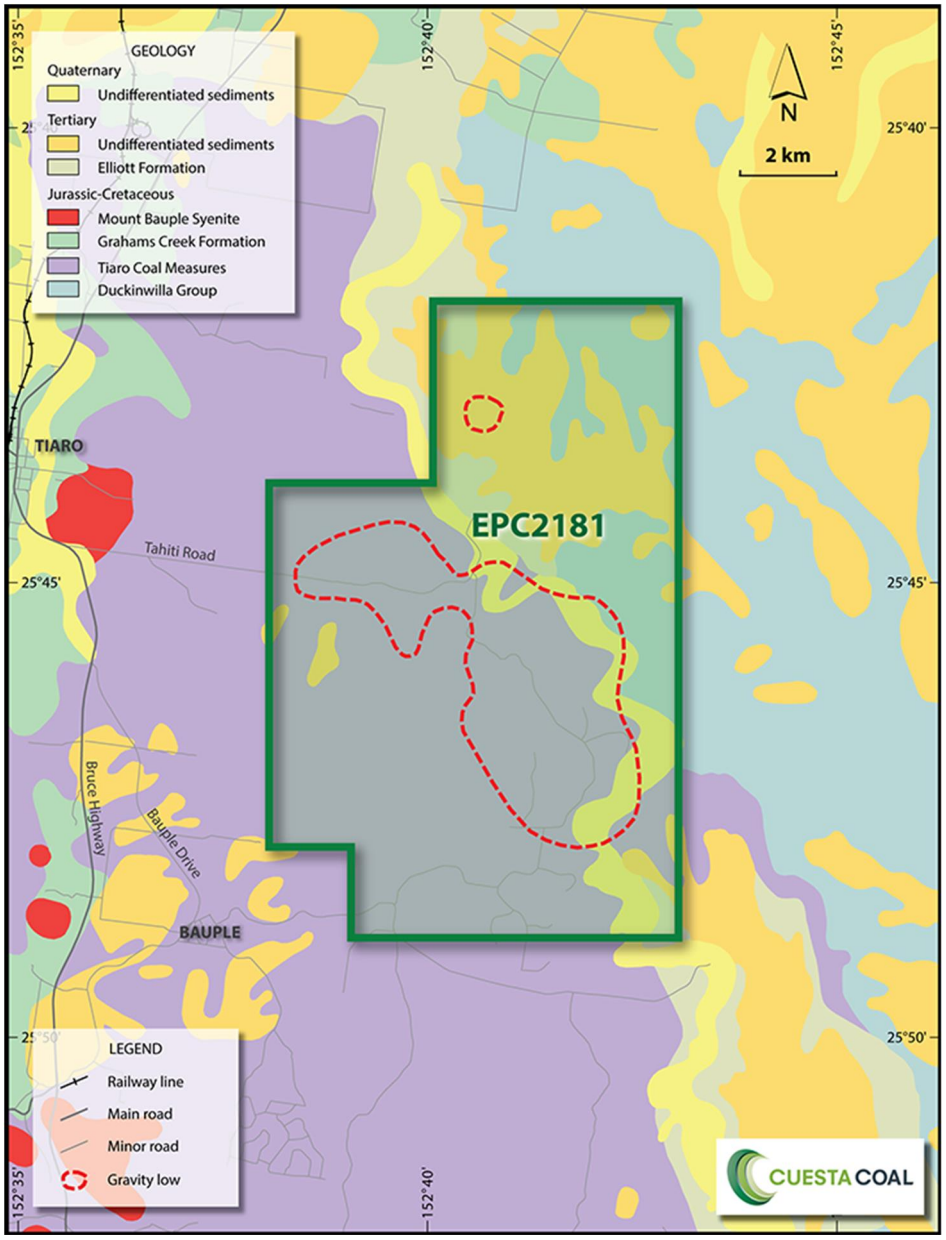
The Bauple Project is contained within EPC 2181, 100% owned by CQC.

The area is gently undulating and forested, being in part covering a State Forest. Access in the area is largely by means of cleared tracks.

Location

The area is located 25km south of Maryborough and 3 km to the east of Tiaro. Tiaro is located 190 km north of Brisbane. The Bruce Highway and Northern Railway pass to the west of the area.

Bauple – Location and Geology Plan



Source: Cuesta Coal

Reserves & Resources

n/a

Target Seams / Formations

CQC is targeting seams in the Tiaro Coal Measures.

Where it is unaffected by the intrusions the coal appears to be of bituminous rank, with an air dried moisture of around 5%, ash content of 16% to 20%, and Specific Energy of around 26 MJ/kg.

Mining

We believe open cut methods of mining will be considered.

Production

n/a

Exploration

Coal development at Bauple appears variable both in thickness and lateral development. Coal Core (Qld) Pty Ltd held the area in 2009-10 under EPC 967 and drilled one cored hole within the current permit area. No significant coal intersections have been identified in the drilling to date.

There has been very little exploration of this area and as yet no definitive test hole has been drilled. Some limited exploration is warranted to determine if any significant coal is developed in the sequence. It is believed too little is known of the area at present to indicate a Resource target.

CQC plans to evaluate a gravity low anomaly with about 3-4 drill holes.

Water / Power

n/a

Native Title / Heritage

n/a

Environmental

n/a

Transport / Infrastructure

n/a

Off-take Agreements

n/a

Capital

n/a

Eromanga

Status

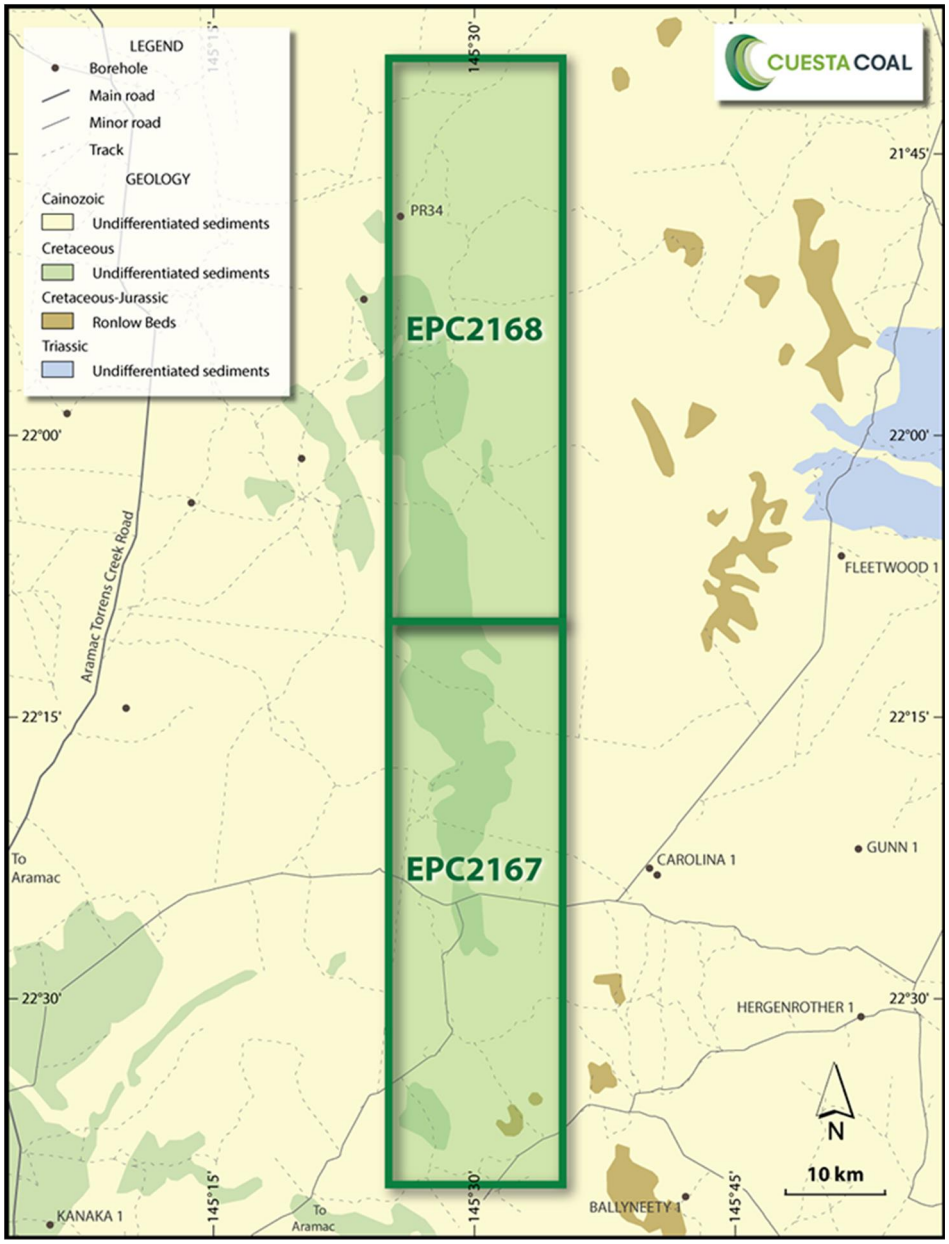
CQC, through Blackwood Coal has 2 EPCs (2167 and 2168) in the Eromanga Basin (in the western Galilee area) totalling 1740km2, which is targeted at Jurassic Cretaceous equivalents.

We believe CQC may consider releasing these tenements in favour of focussing on better located ground in its portfolio.

Location

The licences are located approximately 120 km north of Barcaldine.

Eromanga Location and Geology Plan



Source: CQC presentation 12 December 2012

Reserves & Resources

n/a

Target Seams / Formations

Coal has been documented in water bores at down hole depths ranging from 130 to 190 metres with intersection up to 15.2 m thick. These seams are possibly deep thermal coal of the Galilee Betts Creek beds.

Mining

n/a

Production

n/a

Exploration

The Eromanga Project is based on the premise that the Birkhead Formation, the lateral equivalent of the Walloon Coal Measures is developed in the area and is likely to contain coal.

Some preliminary exploration is warranted to establish if in fact this is true and whether coals of sufficient quality and thickness to justify exploitation may be developed. Should coal seams prove to be developed in the sequence and given the extensive strike length contained within the permits a target resource of up to 350Mt may be defined.

Water / Power

This project is relatively remote from support infrastructure.

Native Title / Heritage

n/a

Environmental

n/a

Transport / Infrastructure

This project is relatively remote from support infrastructure.

Off-take Agreements

n/a

Capital

n/a

Callide

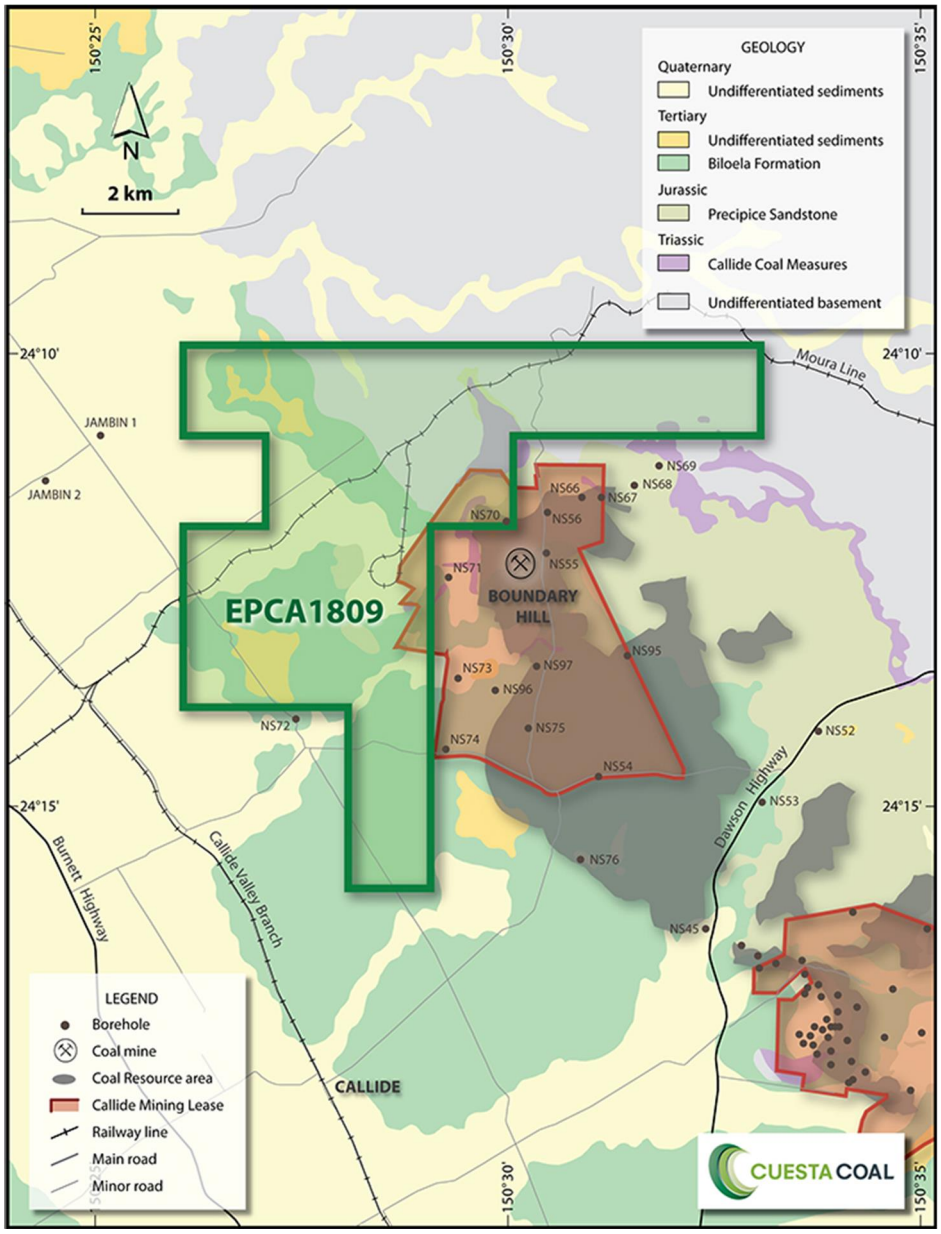
Status

The Callide Project is based around EPCA 1809, an Application submitted in July 2009. The Application comprises 18 sub-blocks covering an area of 56.4 km2.

Location

The permit is located immediately to the west of the Boundary Hill Mine, one of the three mines owned and operated by Anglo American on the Callide Coalfield.

Callide – Location and Geology Plan



Source: CQC, 12 December 2012 presentation

Target Seams / Formations

n/a

Coal Quality

n/a

Mining

We expect any mining would be by open cut methods.

Production

The (Anglo American) Boundary Hill mine produces approximately 10Mtpa and supplies the local Callide Power station.

Exploration

Five open holes were drilled by Thiess in this area, all of which passed through up to 45m of Tertiary sediments before intersecting granitic basement. The disappearance of the Coal Measures immediately west of the mine indicates that the north western edge of the Basin is terminated by a normal fault with perhaps 100m or more of displacement.

The entire permit has not been explored and there is a chance that further occurrences of Callide Coal Measures may occur in down faulted blocks beneath the Tertiary cover.

CQC will progress evaluation of the tenement upon award of the EPC 1809.

Water / Power

Callide is relatively close to state power grid infrastructure.

Native Title / Heritage

The traditional owners of the area are the Palmtree Wuturu and Gangulu people, who have a Cultural Heritage Investigation Management Agreement with Anglo American's Callide operation since 2004.

Environmental

In general the topography is flat open grazing country although there are some local steep sided mesas with retained native vegetation.

Transport / Infrastructure

The main railway between Moura and Gladstone runs through the area and Gladstone is located 90 km to the east.

Off-take Agreements

n/a

Capital

n/a

East Acland

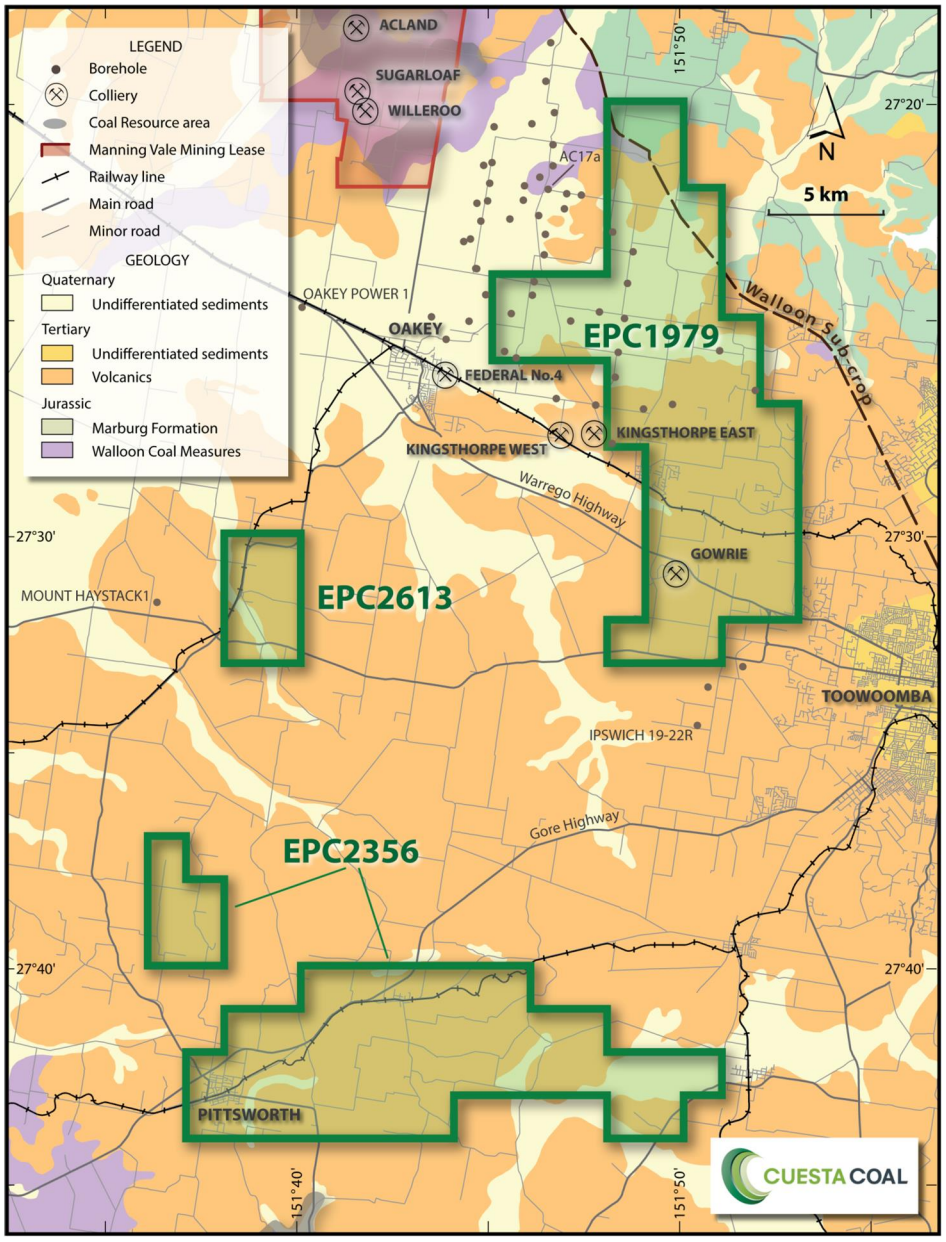
Status

EPC 2613 (East Acland) was granted on 17 September 2013. Together with EPCs 1979 and 2356 make up CQC's East Acland licences.

Location

The East Acland group of tenements are located to the east and south of Oakey, approximately 120 km west of Brisbane. The operating New Acland mine is located to the NW of CQC's licences.

Geology and Location – East Acland



Source: Cuesta Coal Ltd

Reserves & Resources

n/a

Target Seams / Formations

The coal seams targeted are of the Walloon Coal Measures as are currently mined in the nearby Acland deposit by New Hope Corporation. These are multi-seam, thin-seam resources.

The Walloon coals are well recognised as a good energy thermal coal which has a lower CO2 emission than most other thermal coals and is usually also low in NOx and SOx emissions.

Mining

We expect mining would be by open cut multi-seam, thin-seam mining methods, comparable to those employed at NHC's Acland project.

Production

n/a

Exploration

With CQC's current focus on Moorlands, we do not expect immediate activity on East Acland. However in line with the other greenfields projects we anticipate development of a program of initial evaluation to map out and identify initial drilling targets over the next few years. The geology plan (above) shows a number of historic mine locations in the area.

Water / Power

n/a

Native Title / Heritage

We believe that the ground held is almost all free-hold ground so no Native Title issues are anticipated.

Strategic Cropping Land (SCL) criteria would need to be evaluated to determine if an assessment and determination will need to be undertaken.

Environmental

n/a

Transport / Infrastructure

n/a

Off-take Agreements

n/a

Capital

n/a

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Contact Details

Andrew D Pedler

Director

Matau Advisory Pty Ltd

Mo: +61 412 122 778

Em: adpedler@tpg.com.au