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28 February 2013

ASX Limited
20 Bridge Street
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Cuesta Coal Limited ACN 153 351 994

ASX Code: CQC

CLEANSING NOTICE

Notice under section 708A(12C)(e) of the *Corporations Act 2001* (Cth) for the purposes of ASIC Class Order [CO 10/322] *On-sale for convertible notes issued to wholesale investors*

This notice is given by Cuesta Coal Limited (**Issuer**) under section 708A(12C)(e) of the *Corporations Act 2001* (Cth) (**Act**) (as inserted by ASIC Class Order [CO 10/322] *On-sale for convertible notes issued to wholesale investors*).

On 28 February 2013 (**Issue Date**), the Issuer issued AUD\$10,000,000 secured convertible notes due 28 August 2014 (**Notes**) to Eolai Pty Limited ACN 100 521 471 (for \$5,000,000) and Ian MacLeod-Cary & Associates Pty Limited ACN 065 409 672 (for \$5,000,000) (the "**Noteholders**") (**Issue**), as part consideration under the Share Sale Agreement (**SSA**) to acquire 100% of the issued capital of Hannigan & Associates Pty Limited (**Hannigan**). For the avoidance of doubt, no cash is being received by the Issuer upon the Issue of the Notes.

The Notes were issued without a disclosure document under Part 6D.2 of the Act.

The principal assets of Hannigan are Queensland Exploration Permits for Coal No. 775 and 776 (**Tenements**).

Details of the SSA were provided in the Issuer's Notice of Extraordinary General Meeting dated 11 January 2013.

The Issue of the Notes was approved by the Issuer's members at an Extraordinary General Meeting on 21 February 2013 for the purposes of Listing Rule 7.1.

1. Effect of Issue on CQC

The issue of the Notes will result in:

- an increase in the indebtedness of the Issuer by an amount of AUD\$10,000,000. The indebtedness created by the issue of the Notes will be reduced to the extent that the Notes are converted to ordinary shares as, and if, Noteholders exercise their rights of conversion. On conversion, the Issuer's equity capital will increase by that number of shares issued upon conversion in accordance with the conversion formula as detailed below.
- satisfaction of the Issuer's obligation to meet the quarterly interest payment on the Notes in accordance with the terms of the Convertible Note Deed (**Note Deed**).

In terms of the number of shares that may be issued on conversion of the Notes, the below table shows the dilution of existing Shareholders on the basis of the current conversion price of the Notes and the current number of ordinary shares on issue as at the date of this Notice.

The table also shows:

- two examples where the Company converts 50% of the Notes on issue and 100% of the Notes on issue; and
- two examples of where the conversion price of the Notes has decreased by 50% and increased by 100% as against the current conversion price as at the date of this notice.

		Dilution		
		\$0.068 50% decrease in Conversion Price	\$0.135 Conversion Price	\$0.27 100% increase in Conversion Price
Conversion of 5,000,000 Notes	Number of Ordinary Shares issued on Conversion	73,529,412 Shares	37,037,037 Shares	18,518,519 Shares
	Voting Dilution of Existing Shareholders	33.48%	16.86%	8.43%
Conversion of 10,000,000 Notes	Number of Ordinary Shares issued on Conversion	147,058,824 Shares	74,074,074 Shares	37,037,037 Shares
	Voting Dilution of Existing Shareholders	66.96%	33.73%	16.68%

The table has been prepared on the following assumptions:

- (i) The number of ordinary shares on issue is 219,622,713;
- (ii) The conversion price is \$0.135, being 90% of the 10 day VWAP calculated as at close of trade on 27 February 2013;
- (iii) No options are exercised into Shares before the date of conversion of the Notes;
- (iv) The voting dilution reflects the aggregate percentage dilution against the issued capital at the time of conversion; and
- (v) The table shows only the effect of issues of ordinary shares upon conversion of the Notes, and does not include the effect of issues under the 15% placement capacity under Listing Rule 7.1 or the 10% placement capacity under Listing Rule 7.1A.

2. Rights and liabilities attaching to the Convertible Notes

Issuer	Cuesta Coal Limited (the Issuer and together with its subsidiaries, the Group and each a Group Company)
Subscriber	Eolai Pty Limited ACN 100 521 471 (for \$5,000,000) and Ian MacLeod-Cary & Associates (for \$5,000,000) (Noteholders)
Transaction	Subscription for \$10,000,000 principal amount of secured convertible notes (Notes) convertible into fully paid-up ordinary shares of the Issuer (Shares)
Rank	The Notes constitute a secured obligation of the Issuer to the extent of the amount outstanding. Each Share issued upon the conversion ranks equally in all respects with all Ordinary Shares at the conversion date.
Security	<p>The Notes have been secured by:</p> <ul style="list-style-type: none"> • a charge over the issued capital of Hannigan; • upon approval of the members of the Issuer, a general security agreement will be granted by Hannigan in respect of all the assets of Hannigan; and • until the granting of the above general security agreement over the assets of Hannigan is granted, the Issuer is granting a general security agreement in respect of all the assets of the Issuer. <p>(the Security Documents)</p>
Issue Price	No cash is payable by the Noteholders for their subscription for the, Notes or Shares under the Deed. The Notes are allotted and issued to the Noteholders in part satisfaction of the consideration payable by the Issuer under the SSA.
Maturity Date	28 August 2014
Face Value	Each Note has a Face Value of \$1.00.
Interest	9% per annum in the first 12 months after the Issue Date and 10% per annum thereafter.

<p>Conversion</p>	<p>The Noteholder may convert the Notes into Shares as follows:</p> <ul style="list-style-type: none"> • in the 30 day period prior to 27 November 2013, 50% of the Noteholder's Notes; • in the 30 day period prior to the Maturity Date, all of the Noteholder's Notes; and • all of the Noteholder's Notes upon the occurrence of a Trigger Event (defined below) <p>The formula for calculating the number of Shares to be issued on conversion is as follows;</p> $N = \frac{F}{V}$ <table border="1" data-bbox="528 748 1031 1106"> <tr> <td>Where</td> <td>N =</td> <td>The number of Shares</td> </tr> <tr> <td></td> <td>F =</td> <td>The face value of the Notes</td> </tr> <tr> <td></td> <td>V =</td> <td>90% of the volume weighted average trading price of the Issuer's shares over the 10 Business Days ending on the Business Day preceding the Conversion Date.</td> </tr> </table>	Where	N =	The number of Shares		F =	The face value of the Notes		V =	90% of the volume weighted average trading price of the Issuer's shares over the 10 Business Days ending on the Business Day preceding the Conversion Date.
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<p>Trigger Event</p>	<p>A Trigger Event occurs upon:</p> <ul style="list-style-type: none"> • a Takeover Event (defined below); • a Change in Control(defined below);; • an Insolvency Event(defined below);; or • an Event of Default(defined below); <p>A Takeover Event means any proposal or transaction including by way of an on-market or off-market takeover bid or acquisition of shares in the Issuer under Chapter 6 of the Corporations Act (Act) or an arrangement under item 7 of section 611 of the Act and that, if completed, would mean a person would:</p> <ul style="list-style-type: none"> • acquire a relevant interest in more than 20% of the capital of the Issuer; • acquire all or a material part of the business assets or undertaking of the Issuer; • acquire control of the Issuer, within the meaning of section 50AA of the Act; or • otherwise acquire or merge (including by way of a reverse takeover bid or dual listed companies structure) with the Issuer. 									

	<p>A Change in Control means that there is a change in:</p> <ul style="list-style-type: none"> • the shareholding of the Issuer; or • the composition of the Issuer's board of directors (or the board of directors of its ultimate holding company if applicable), <p>which has the effect (or is reasonably likely to have the effect) of vesting Control (as defined in Section 50AA of the Act) of the Issuer in persons or corporations different from those holding such Control as at the date of the Note Deed;</p> <p>The terms "Event of Default" and "Insolvency Event" are defined further below.</p>
Takeover Event	<p>In the event that the issue of Shares would result in a Noteholder being in breach of the takeover provisions of the Act, the Noteholder may, at its option, direct the Issuer to:</p> <ul style="list-style-type: none"> • treat the conversion notice as being for the maximum number of Shares that could be issued to a Noteholder without breaching the Act; and • in respect of the excess Notes promptly convene a meeting of the shareholders of the Issuer to pass a resolution under section 611 (item 7) of the Act to approve the issue of the Shares, and use its best endeavours to obtain that shareholder approval (including ensuring the directors of the Issuer provide a recommendation in favour of the resolution), <p>save that any excess Notes, in respect of which Shares are not issued to the Noteholder under this clause before the Maturity Date, will be redeemed</p>
Anti-dilution	<p>In the event of certain dilutive events such as subdivision, consolidation and bonus shares, the number of Shares into which the Notes may convert will be adjusted to take into account the event and to rectify any dilution of the Noteholder's holding of Shares.</p>
Placement Capacity	<p>In the event that the issue of Shares would result in the Issuer being in breach of Listing Rule 7.1 and 7.4 and such other relevant ASX Listing Rules, the Noteholder may, at its option, direct the Issuer to:</p> <ul style="list-style-type: none"> • treat the conversion notice as being for the maximum number of Shares that could be issued to the Noteholder without breaching Listing Rule 7.1; and • in respect of the excess Notes promptly convene a meeting of the shareholders of the Issuer to pass a resolution to approve the issue of the Shares under Listing Rule 7.1 and 7.4 and such other relevant ASX Listing Rules, and must use its best endeavours to obtain that shareholder approval <p>save that any excess Notes, in respect of which Shares are not issued to the Noteholder under this clause before the Maturity Date, will be redeemed</p>

Redemption	<p>The Issuer may by notice in writing to the Noteholder redeem any of the Notes at any time and from time to time after the Issue Date provided the Face Value of the Notes being redeemed is no less than \$1,000,000.</p> <p>If any Notes have not been Converted prior to the Maturity Date, the Company will redeem those Notes in cleared funds on the Maturity Date</p>
Redemption upon Event of Default	<p>If an Event of Default (defined below) occurs, the Noteholder may then or at any subsequent time by notice to the Issuer declare the Face Value and all accrued interest to be immediately due and payable, and the Issuer must immediately pay that money for the full amount of any money contingently owing under the Note Deed.</p> <p>Events of Default under the Note Deed include:</p> <ul style="list-style-type: none"> • (default in payment) if the Issuer makes default in the payment of any moneys in respect of the Notes and such default remains outstanding for a period of 20 Business Days after receiving written demand for payment from a Noteholder; • (unremedied breach) if the Issuer commits a breach of a covenant, condition or obligation imposed on under this Deed or the Security Documents and that breach (if capable of being remedied) has not been remedied within 20 Business Days after receiving notice of the breach from the Noteholder requiring that breach to be remedied; • (winding up) if an order is made or a resolution is effectively passed for the winding up of the Issuer except for the purposes of a reconstruction or amalgamation with the prior written consent of the Noteholder (such consent not to be unreasonably withheld); • (insolvency) if an Insolvency Event (defined below) occurs in relation to the Issuer; • (appointment under legislation) a person is appointed under any legislation to investigate or manage any part of the affairs of the Issuer; • (false representation) any representation, warranty or statement made or repeated in or in connection with the Deed is untrue or misleading in any material respect (whether by omission or otherwise) when so made or repeated or becomes untrue or misleading which would have a material adverse effect when taken as a whole. <p>An Insolvency Event under the Note Deed includes:</p> <ul style="list-style-type: none"> • if an application is filed for the winding up of the Issuer or any of its subsidiaries (winding up application); • if an order is made for the winding up of the Issuer or any of its Subsidiaries; • the Issuer is in liquidation;

	<ul style="list-style-type: none"> • if the Issuer's shareholders or any of its subsidiaries pass a resolution for its winding up being wound up as part of a reconstruction not involving insolvency; • if a receiver, receiver and manager, controller (as defined in section 9 of the Act), or similar person is appointed to, or the holder of a security interest takes (or appoints an agent to take) possession of, any property of the party or any of its subsidiaries; • if a provisional liquidator is appointed to the Issuer or any of its subsidiaries; and • if the Issuer takes any steps toward entering into, or enters into, any compromise or arrangement with one or more of its
Negative Covenants	<p>The Issuer undertakes to the Noteholder under the Note Deed that it will not, and it will ensure that none of its subsidiaries will do certain things including the following:</p> <ul style="list-style-type: none"> • change the capital structure of the Issuer or the rights in respect of any securities or institute a winding up or other reorganisation of the Issuer; • purchase, redeem, cancel or convert (other than the Notes in accordance with the Deed) any security other than any management or vendor performance shares or options which are already issued as at the date of the Deed and referred to in the Company's prospectus for its initial public offering; • sell, lease, transfer, assign, create any trust over or beneficial interest in, or otherwise deal with the Tenements or other property the subject of the Security Documents (Secured Property); • create any security interest over the Tenements or the Secured Property except in the ordinary and proper course of business; • approve or materially change a business plan or budget which would or could result in a material adverse change in respect of Hannigan, Tenements or the Secured Property; • take any action which constitutes or results in any material alteration to the nature of the Issuer's business; • dispose of, offer to dispose of or agrees to dispose of Hannigan; • or allot, issue, grant an option in respect of the share capital of Hannigan; <p>enter into, or offer to enter into or agree to enter into, any agreement or commitment which would require expenditure, or the foregoing of revenue, by the company of an amount which would or could result in a material adverse change in respect of the Hannigan, the Tenements or the Secured Property;</p>

Transferability	A Noteholder may, at any time, notify the Issuer in writing it wishes to transfer all or some of its Notes provided the aggregate Face Value of the Notes being transferred is no less than \$1,000,000. Upon notifying the Issuer that wishes to transfer the Notes, the Issuer may, within 20 business days, redeem those Notes. If the Issuer does not redeem the Notes, the Noteholder is permitted to transfer those Notes on the terms notified to the Issuer.
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A copy of the Note Deed was attached Issuer's Notice of Extraordinary General Meeting dated 11 January 2013.

2. Rights and liabilities attaching to shares issued on conversion of the Notes

Shares issued on conversion of the Notes will rank equally in all respects with all other Shares on issue. The following is a broad summary of the rights which are attached to Shares.

Voting Rights	At a general meeting each shareholder present in person or by proxy, company representative or attorney is entitled to one vote on a show of hands. Upon a poll, every shareholder present in person or by proxy, company representative or attorney is entitled to one vote for each Share that the shareholder holds.
General Meetings	Each shareholder is entitled to receive notice of, to be present and to vote at a general meeting of the Issuer. Further, each shareholder is entitled to receive all notices, accounts and other documents required to be furnished to shareholders under the Issuer's constitution or the Act.
Dividend Rights	There is no entitlement to a dividend other than that determined by Directors from time to time. The Shares will rank equally with all other issued Shares in the capital of the Issuer for the purposes of participation in any dividend paid out of profits of the Issuer. The Directors are not anticipating paying dividends at this stage of the Issuer's development.
Rights on Winding up	Subject to any special rights or restrictions attached to shares of a particular class issued by the Issuer, if on a winding up there are enough assets to repay all capital to shareholders, all capital must be repaid to the shareholders and any surplus must be distributed among the shareholders in proportion to the amounts paid on their respective shares before the winding up began. If there are not enough assets to repay all capital to shareholders, the available assets must be distributed among the shareholders in proportion to the amounts paid on their respective shares before the winding up began (without the necessity of a call up).
Offer of Shares	Subject to the Act and the Listing Rules, the Issuer may issue Shares and grant options over unissued Shares on any terms, with any rights or restrictions attached to the Shares, at any time and for any consideration the Directors decide.

Transfer of Shares	Subject to the Issuer's constitution, the Listing Rules and the Act, Shares are freely transferable. Shares may be transferred where applicable through an electronic trading system, or by a proper instrument in writing delivered to the Issuer and the transferor is deemed to remain the holder of the Share until the name of the transferee is entered into the Issuer's register of members.
Variation of Rights	The Issuer may only modify or vary the rights attaching to any class of shares with the consent in writing of the shareholders with at least 75% of the votes in the class or the sanction of a special resolution passed at a meeting of the holders of the issued shares of that class.

4. Compliance with continuous disclosure

As a disclosing entity, the Issuer is subject to regular reporting and disclosure obligations. Copies of documents lodged with the Australian Securities and Investments Commission (**ASIC**) in relation to the Issuer may be obtained from, or inspected, at an ASIC office.

As at the date of this notice, the Issuer has complied with:

- (i) the provisions of Chapter 2M of the Act, as they apply to the Issuer; and
- (ii) section 674 of the Act, as it applies to Issuer.

The Issuer will provide a copy of any of the following documents free of charge, to any person on request:

- (i) a copy of its financial report most recently lodged with ASIC;
- (ii) a copy of any half-year report lodged with ASIC after lodgement of of that annual financial report and before the lodgement of this cleansing notice; and
- (ii) a copy of any continuous disclosure notices given after the lodgement of that annual financial report and before lodgement of this cleansing notice.

5. Information excluded from continuous disclosure notices

The Issuer is not aware of any information that:

- (i) has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules; and
- (ii) is information that investors and their professional advisers would reasonably require for the purposes of making an informed assessment of:
 - (a) the assets and liabilities, financial position and performance, profits and losses and prospects of the Issuer; and
 - (b) the rights and liabilities attaching to the Notes being issued.

Yours sincerely,



Megan McPherson
Company Secretary
Cuesta Coal Limited