



COMPANY Cuesta Coal | CQC | IPO price \$0.30/share

Date: 4th May 2012

RECOMMENDATION Restricted | Market Capitalisation at IPO price \$57m

EVENT Cuesta Coal IPO | Cuesta drilling program well underway and neighbours activity | Lists 11 am 4th May

KEY POINTS

- Drilling is ahead of plan, announced: http://www.cuestacoal.com.au/content_common/ns-cuestaupdate.seo
- As promised, significant newsflows are expected near term. Drilling results from East Wandoan exploration project will be out soon after listing, while Amberley project drilling already started.
- Resource upgrade projected within 2 months

DETAIL

CQC raises \$20m for an active 24 month exploration program

- Cuesta Coal (CQC) lists on the ASX on 4th May with a prospectus issue that raised \$20m in cash. A further \$4m was raised from the transfer of 13.33m shares to be paid to pre-listing convertible note holder Argonaut Resources (ARE), all at \$0.30/share. ARE remains a significant supporter and CQC shareholder with 8.73% .
- Capital raised plus recent disclosed cash of ~\$6.2m will be applied to undertake a 24 month drilling program on six key coal exploration projects targeting at least 0.8 billion tonnes and to complete coal exploration acreage acquisitions of \$3.9m. Other cash uses are for remaining IPO costs of \$2.3m and \$4m will be paid to Argonaut Resources, a pre-listing quasi-debt supporter that converted their remaining debt to become a significant CQC shareholder.
- Core programs are already advanced with CQC booking **56.3mt of coal JORC Inferred Resource** at three projects – **West Bowen** (27.3mt near to Rio Tinto's Blair Athol), **East Wandoan** (23.9mt, close to the proposed Surat rail link) and **Amberley** (5.1mt, next to a key New Hope operating mine with rail link to Port of Brisbane).

Key activities over the 2012 - *drilling has already commenced, material results start next month*

- At **East Wandoan** CQC commenced in March and **completed in April**, an expanded 39 hole (up from 32) near surface exploration drill program. Aimed at increasing the size, certainty and quality of the resource, Management are encouraged by results to date, with independent assessment likely to be completed in June 2012.
- At the **Amberley** project, an 18 drill hole program **has commenced** and that CQC aim to conclude this month, targeting shallow coal. The exploration licence is close to existing coal mines and infrastructure.
- CQC plans to complete by July, drilling the **West Bowen** project aiming to increase resource at CQC's most advanced project.
- By September, CQC expect to drill **East Galilee** project, identified in the Prospectus as CQC's largest exploration target in the core program.

- Recently acquired data may allow the **West Emerald** project to delineate more specific targets or possibly a new JORC resource, where CQC are targeting PCI coal. This will be drilled in 2012 or 2013 depending upon weather.

Infrastructure developments – adds value to some of CQC's large 11,000km² acreage position

- Recent industry activity has potential to raise the value of CQC's blocks including **Adani's rail initiative** which brings their branch line close to CQC's **East Galilee** block.
- Xstrata's key environmental court win aids its proposed development of the 22mtpa **Wandoan** mine that underwrites the Southern Missing Link rail construction, bringing rail close to CQC's **East Wandoan** project.
- Stanmore Coal received extra funding for definition drilling to JORC Measured stage at The Range to secure 0.4mt coal supply, aiding its project development. This can lower development hurdles for CQC's nearby project.

Important Information: This document is for information purposes only. Octa Phillip has been appointed by the lead manager Austock Securities Limited to participate in this IPO. All information contained in this report is either from the IPO replacement Prospectus dated 6 March 2012 or Cuesta's website www.cuestacoal.com.au or other publicly available information sources. Refer to the back page.

News flow aplenty – Cuesta Coal's drilling and neighbours activity

Strategy – targeted exploration then portfolio management – joint venture, divest and develop

Cuesta Coal (CQC) has an active two-year program of exploration with a focus on six core resource projects, three of which have to date successfully delineated JORC compliant Inferred Resources of 56.3mt. CQC's strategy to date has been to first carefully identify, select and acquire exploration projects and secondly, to then add value by basic geological investigation, drilling and sampling.

CQC will continue with the exploration phase primarily at its key six projects. Further success provides the company options for active asset portfolio management. That is to either:

- Sell value-added exploration licences or seek joint ventures that raise CQC's financial capacity, or to
- Acquire nearby acreage/resources with synergies to accelerate development or lower project unit cost

Timetable of CQC's expected activities – news flow starts soon – and keeps coming

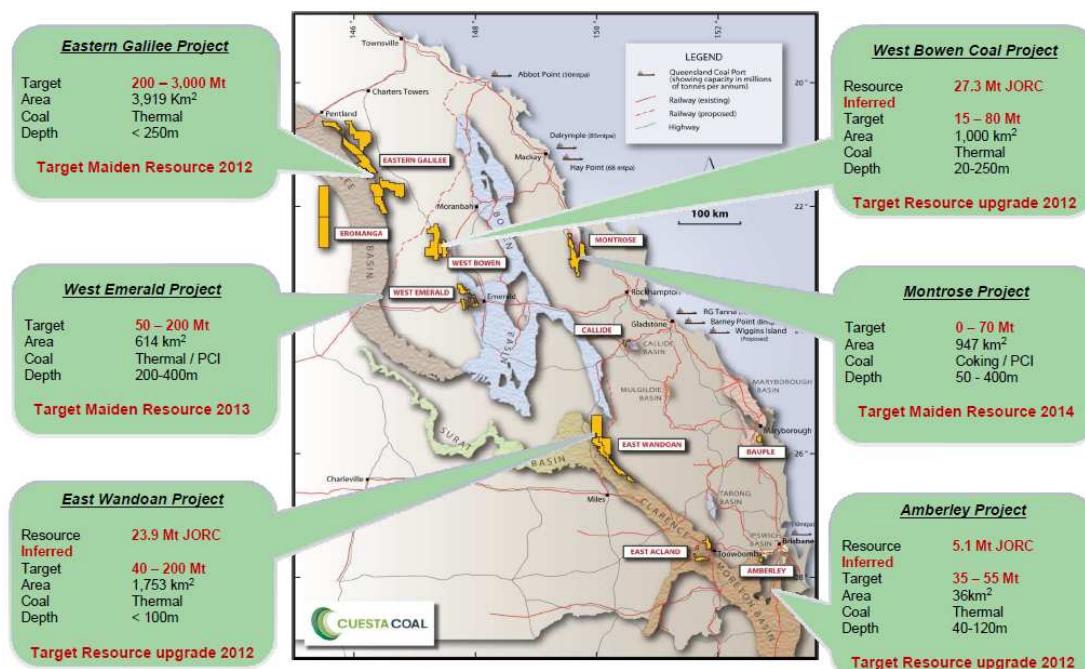
CQC have outlined the expected completion dates for programs this year.

- Concluded May'12: **East Wandoan** – 39 hole shallow drill program to update resource size and definition
- May'12: **Amberley** – 18 hole program targeting shallow coals
- July'12: **West Bowen** 26 hole drill program, aimed at boosting resource at CQC's most advanced project
- September'12: **East Galilee** 23 hole drill program, identified in the Prospectus as CQC's largest exploration target in the core program.
- Weather permitting, by late 2012 – **West Emerald** drilling to define or expand JORC resources with metallurgical coal potential.

For 2013

- Program for 2013 – follow-up drilling on 2012 program and;
- Test the coastal **Montrose** block for a new coking coal exploration concept

Queensland exploration – *Diverse portfolio of coal areas, products and infrastructure exposure*



Source: Cuesta Coal Presentations February 2012

East Wandoan – expanded 39 hole program completed – *with good news on infrastructure*

On 16th March CQC commenced and completed in April a 39 hole, 4,138 metre exploration drill program at East Wandoan. This program was expanded by 7 holes and includes 4 cored holes. Aimed at increasing the size, certainty and quality of the resource, CQC management are encouraged by results to date, with full independent assessment completed in coming months. East Wandoan's current JORC inferred resource is 23.9mt and CQC disclosed prospectus target is for a further 40 – 200mt in this area.

CQC's licence is close to Stanmore's The Range development proposal and Cockatoo Coal's Bottletree resource.

Xstrata's March 2012 win in the Qld Land & Environment Court aids development of a proposed 22mtpa **Wandoan** mine that can underwrite the Southern Missing Link rail construction. Stanmore Coal received extra funding for definition drilling to Measured stage at The Range to secure 0.4mt coal supply. These events assist these projects' development and lower the development hurdles for Cuesta's nearby **East Wandoan** project.

Amberley – 18 hole program has started

An 18 drill hole program has commenced at Amberley project including 4 cored holes and is scheduled to finish in May 2012. Current JORC inferred resource is 5.1mt and CQC disclosed prospectus target is for a further 35 – 55mt in this area. The area nearby hosts coal mines at the re-starting Ebenezer mine 5km north-east and New Hope's Jeebropilly mine which are linked to infrastructure. An economic coal find may prove even more valuable to incumbent miners in the area.

West Bowen project – the Moorlands Deposit – next in line for drilling 26 holes

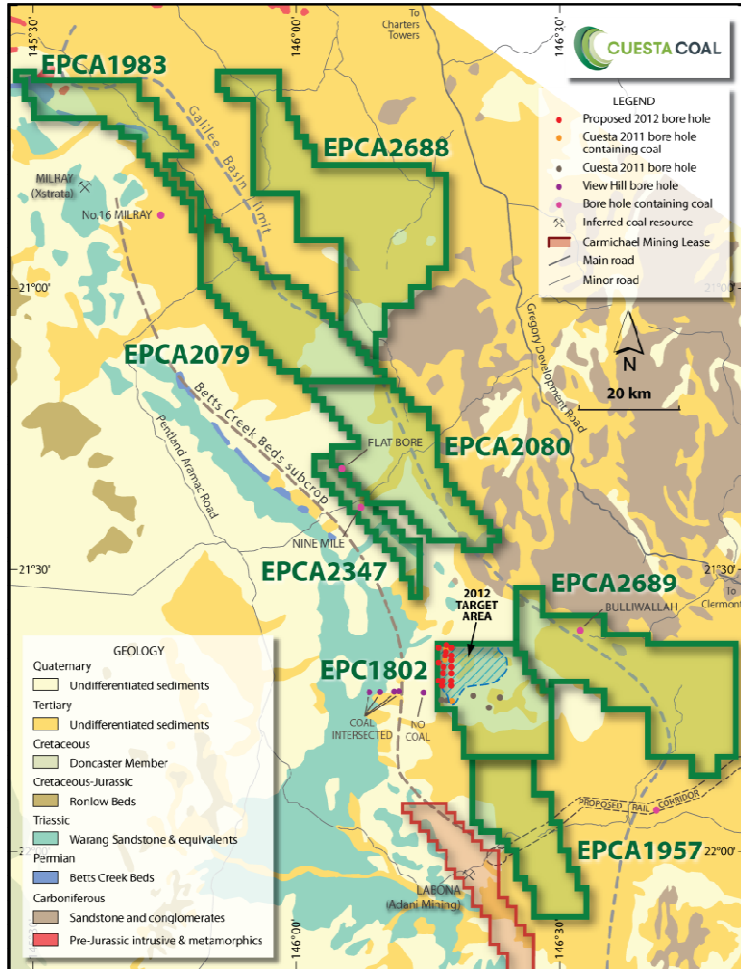
In late May/June, CQC plan to start drilling at the West Bowen project (Moorlands thermal coal deposit) targeting 15 to 80mt of additional coal to the currently booked 27.3mt JORC Inferred Resource. Moorlands is within 15km from the under-utilised rail spur to Rio Tinto's Blair Athol as this coalfield nears exhaustion.

Eastern Galilee project – vital new rail infrastructure developments a step closer – drill by September

In the SeptQtr'12, CQC plan to drill 17 open holes and 6 cored holes in this project targeting thermal coals in an interpreted Galilee Basin extension. They aim to secure a JORC resource in an area where 2011 scout drilling interested coal at moderate depths. CQC has published target size for this project area at 200mt to as much as 3 billion tonnes, representing CQC's largest target in their six core projects exploration portfolio.

Adani's 60mtpa Carmichael mine development's proposed rail corridor has been revealed to come within 40km of CQC's East Galilee resource in EPC1802. CQC's other Galilee blocks are also well positioned to access this rail, and the other rail infrastructure solutions still on the table, including from Hancock Prospecting and QR National.

Adani's eastern rail corridor – see lower right Adani block in red - is close to CQC's East Galilee resource at EPC1802



← Cuesta Coal's key licence EPC 1802

← Adani's proposed rail corridor

← Adani's proposed 60mtpa mine – red licence

Source: Cuesta Coal releases

West Emerald – nearby Taroborah development and new geological data – welcome news

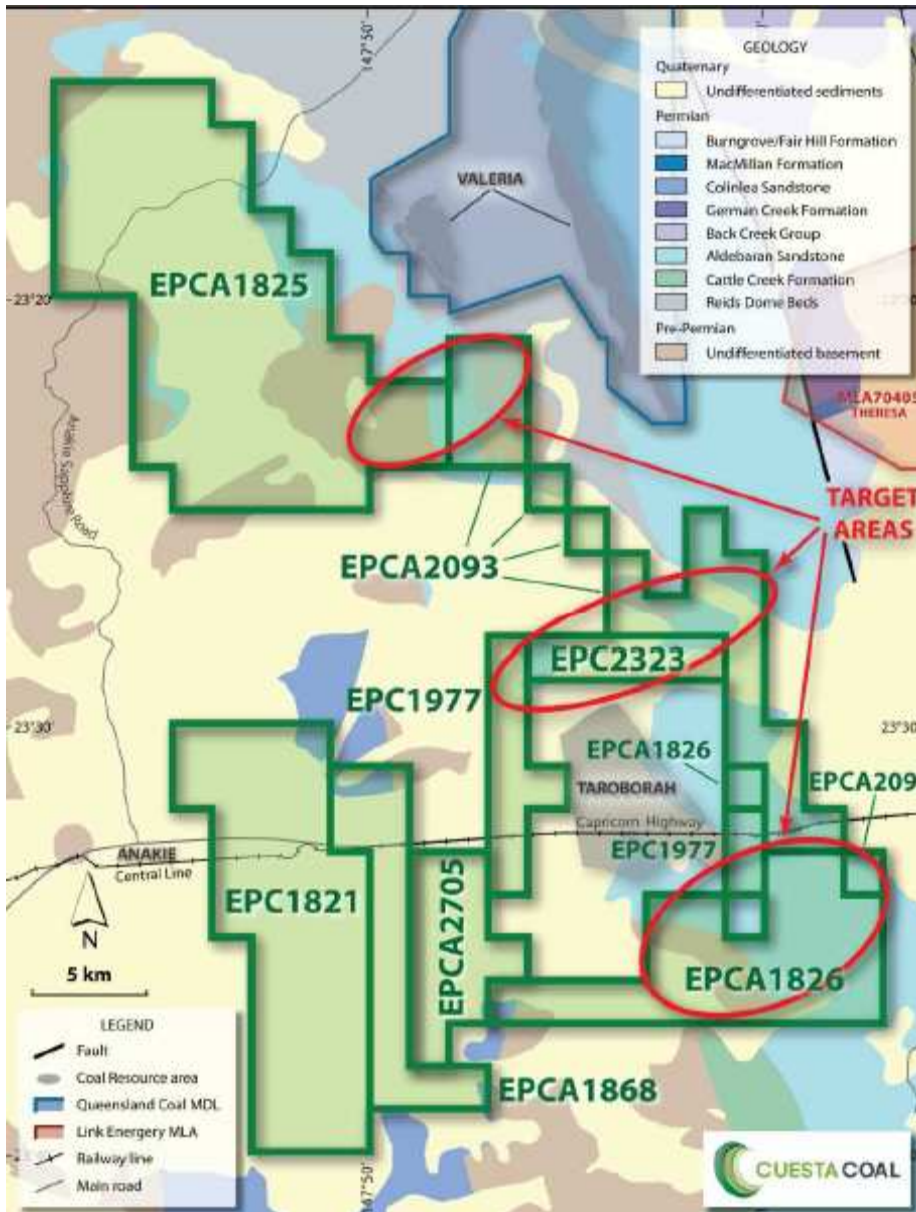
CQC has recently acquired past drilling data which may allow the **West Emerald** project to obtain more specific drilling targets or possibly enough to declare a new JORC resource. This aids in designing an exploration program, that could begin by late 2012, weather and rig availability permitting. CQC is targeting 50 to 200mt in both open pit and underground PCI coal resources. See the map below referenced from the CQC Prospectus.

CQC received notice of stakeholder engagement process from Shenhua International Group seeking to develop the open pit and then underground (2 to 5mtpa) Taroborah coal project. CQC's acreage surrounds this project, with the improved prospect that Taroborah coal is likely to extend into CQC's West Emerald acreage.

CQC's project is close to well-developed rail infrastructure connected to Gladstone ports including the 27mt

Wiggins Island Coal Export Terminal (WICET), currently under construction and able to be expanded to ~50mt for Stage 2 over time and ultimately ~80mtpa (Source: WICET).

West Emerald project – surrounds Taroborah proposed development and close to Rio Tinto’s Valeria deposit



Source: Cuesta Coal Prospectus

Summary of CQC’s Prospectus - *projects and targets*

Drill Priority	Project	Coal Basin	Depth metres	Expected coal type	Open-cut Potential	JORC Coal Resource	Exploration Target mt.	
						Inferred	Low	High
Focus Projects								
2012	West Bowen	Bowen	20-250	Thermal	Mostly o/c	27.3	15	30
2013	W. Bowen exte	Bowen	20-250	Thermal	Mostly o/c	-	0	50
2012	East Wandoar	Surat	<120	Thermal	Mostly o/c	23.9	40	200
2012	Eastern Galilee	Galilee	<200	Thermal	Mostly o/c	-	200	3,000
2012	West Emerald	Bowen	200-300	Therm./ PC	U/g	-	50	200
2012	Amberley	Clarence-Moreton	<120	Thermal	Mostly o/c	5.1	40	60
2013	Montrose	Styx, Bowen Ext.	50-400	Therm./ Coking	O/c & U/g	-	0	70
Lower Priority Project Options								
2013+	East Acland	Clarence-Moreton	<120	Thermal	Mostly o/c	-	50	150
2013+	Eromanga	Eromanga	<150 >500	Thermal	Mostly o/c Underground	-	400	2,850
2013+	Bauple	Maryborough	<150	PCI/Therm	Mostly o/c	-	Evaluating - no est.	
2013+	Callide	Callide	<300	Thermal	Mostly u/g	-	Evaluating - no est.	
Totals						56.3	795	6,610

Source: Cuesta Coal Prospectus

Pre-investment assists the quick roll-out of the exploration program

Prior to the IPO, CQC efficiently spent \$8m on defining targets and delineating JORC resources and prioritise programs. These efforts provide CQC a springboard to quickly embark upon its two year, \$16.2 to \$24.3m budgeted exploration program. This ensures that CQC shareholders will be receiving regular supply of news in an active exploration program in 2012-13.

Shareholding structure

The top 20 shareholders account for ~78.9% of the 191.6m ordinary fully paid shares issued. Major shareholders include Beijing Gouli Energy Investment Co affiliates hold 70m or ~36.5% of ordinary shares. Argonaut Resources NL hold 8.7%. Albion Ballymore Pty Ltd hold 6.96%.

Should you have any queries, please do not hesitate to contact your Octa Phillip adviser.

www.OctaPhillip.com

OFFICE LOCATIONS AND DISCLOSURE

Melbourne	Sydney	Perth	Gold Coast	Adelaide
Level 12, 15 William St Melbourne VIC 3000 Phone: +61 3 8601 2000 Fax: +61 3 9600 1138	Level 9, 56 Pitt Street Sydney NSW 2000 Phone: +61 2 9233 9600 Fax: +61 2 9251 9368	21/140 St Georges Tce Perth WA 6000 Phone: +61 8 9324 5111 Fax: +61 8 6316 4425	Level 9, 1 Corporate Ct Bundall QLD 4217 Phone: 1300 331 098	Level 1, 16 Varden St Adelaide SA 5000 Phone: 1300 658 906

Important Information

Disclosure of Economic Interests

This document is for information purposes only. Octa Phillip has been appointed by the lead manager Austock Securities Limited to participate in this IPO. All information contained in this report is either from the IPO replacement Prospectus dated 6 March 2012 or Cuesta's website www.cuestacoal.com.au or other publicly available information sources. No part of the compensation received by the person who prepared this report was, is or will be directly or indirectly related to this report.

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Disclosure of Corporate Involvement

Section 734(6) Statement:

- Cuesta Coal Limited ('Cuesta') offered 80-113m shares at \$0.30 each under a prospectus issued in February 2012 ("Prospectus").
- The Prospectus can be obtained from www.cuestacoal.com.au.

Austock Securities Limited acted as Lead Manager to the IPO and will receive fees for these services. Octa Phillip will receive fees including a fee for successful applications.
