



**COMPANY** Cuesta Coal Ltd| CQC | \$0.12/share

Date: 20June2012

**RECOMMENDATION** Spec Buy | Very High Risk | \$0.37/share target

**EVENT** Cuesta boosts resource | East Wandoan JORC rises 20.7mt to 44.6mt

#### **KEY POINTS**

##### **East Wandoan – *the Thorn Hill deposit* – Indicated JORC resource boosts development credentials**

- East Wandoan project's shallow JORC Resource has expanded by 87% from an Inferred 23.9mt to 44.6mt, including a tighter delineated 22.1mt of Indicated Resource following its recent 39 drill hole ~\$0.6m program.
- This meets our expectations, opening up more upside in targets to the south-east and north-west of the resource.
- Coal quality tests indicate a moderate energy thermal coal typical of the Surat basin, which will likely require some washing to be saleable. An "Indicated" Resource aids CQC's ability to start rail/port discussions.

##### **New JORC at Amberley by August, Galilee and West Bowen drilling next**

- Amberley project's 4 core hole drilling program resumed after some wet weather. This data and 14 holes recently drilled should see expansion of a shallow lying JORC resource by a factor of 3, from 5.1mt by August.
- CQC's program will soon shift to the Galilee – its largest coal target; or to the West Bowen Moorlands deposit, depending upon timing of grant of access approvals. We expect both these important projects to be drilled by early DecQ'12.
- This may allow to time to drill West Emerald by year end, where we expect newly acquired data to form basis of desk-top study and upgraded resource target of PCI and/or high-energy thermal coal.

##### **Delivering on promises – total JORC Resource up 37% only 6 weeks into listing – and more to come**

- CQC's overall EV/JORC resource falls from \$0.20 to \$0.15/tonne. More competitive with more JORC on the way.
- Catalysts for performance include additional expansions of JORC resources at Amberley and West Bowen and maiden resource declarations at West Emerald and East Galilee this year. Also potential for sale or farm-out of some projects could demonstrate value added since listing.

**Speculative Buy recommendation and target price \$0.37/share unchanged.**

---

Important: Octa Phillip was appointed by the lead manager Austock Securities Limited to participate in the IPO of Cuesta Coal which concluded in May 2012 and received fees. Octa Phillip has an economic interest of around 3% of the undiluted securities of the issuer detailed in this report. For Disclosures refer to the back page under "Disclosure of Corporate Involvement"

## INVESTMENT OVERVIEW

### East Wandoan– Indicated JORC resource boosts development credentials

Drilling and coal quality work at EPC 1955 East Wandoan project has delineated a total of 44.6mt of JORC resource in 4 discrete coal seams in the Taroom Measures. This has expanded the JORC resource by 87% from an Inferred 23.9mt and now includes a tighter delineated 22.1mt of Indicated resource following its recent 39 drill hole program costing ~\$0.6m. Next steps will be to do step-out drilling, probably next year, to expand resource and large diameter coring for coal wash tests.

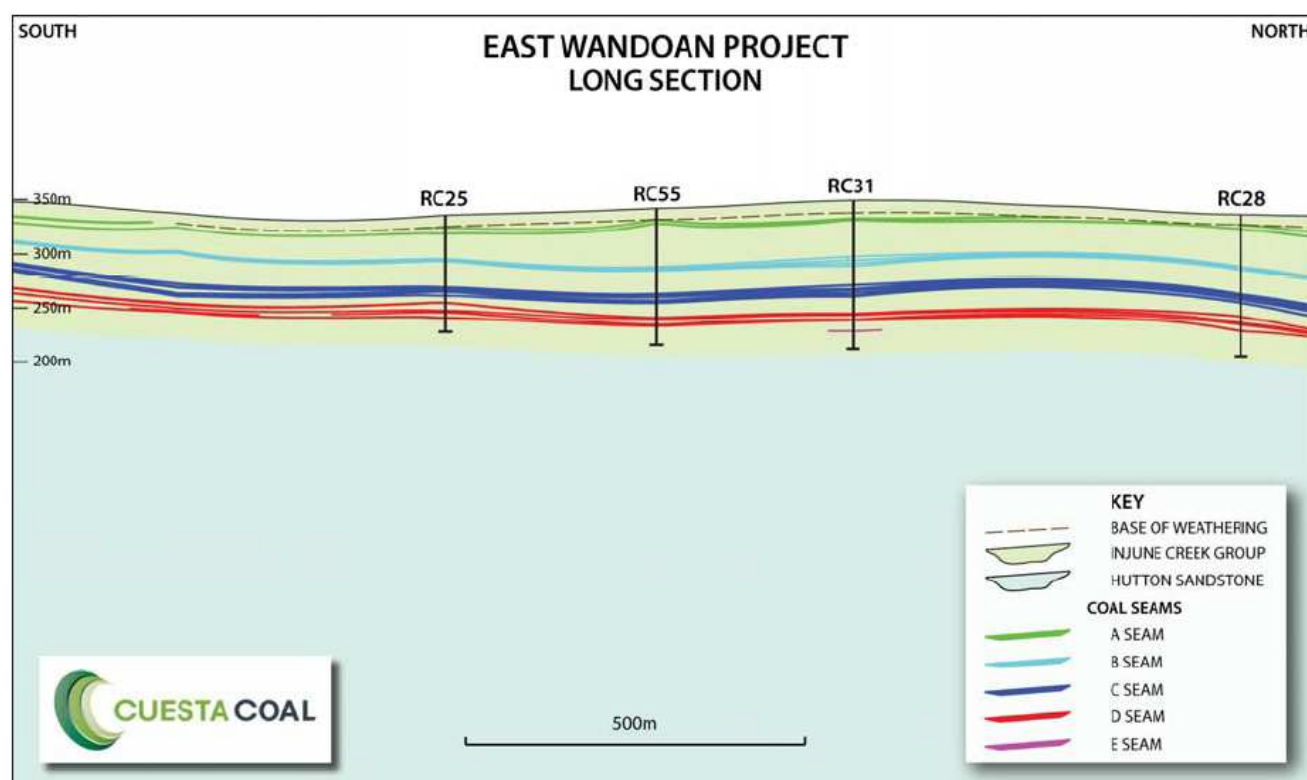
These results meet our expectations and opens up further upside in targets to the east and north-west of the resource. Importantly, an Indicated Resource aids CQC's ability to start rail/port discussions and discussions with neighbours on development options.

#### Thorn Hill Resource increased 87%

Taroom Seam mil. tonnes	A	B	C	D	E	Total	At Listing	Change
Measured	-	-	-	-	-	-	-	
Indicated	-	8.5	9.9	3.7	-	22.1	0.0	
Inferred	3.8	4.3	8.3	6.1	-	22.5	23.9	
Totals	3.8	12.8	18.2	9.8	-	44.6	23.9	87%

Source: Cuesta Coal 20 June 2012 announcement

The overall resource is a multi-seam and relatively shallow deposit, which we estimate on previously released drilling data to have an indicative strip ratio under 10 BCM: 1 tonne ROM coal. The shallow dipping deposit dips to the south-west.



Source: Cuesta Coal 20 June 2012 announcement

### Coal quality – typical of the area's thermal coal

Coal quality tests support CQC's discovery being a moderate energy and ash thermal coal typical of the Surat

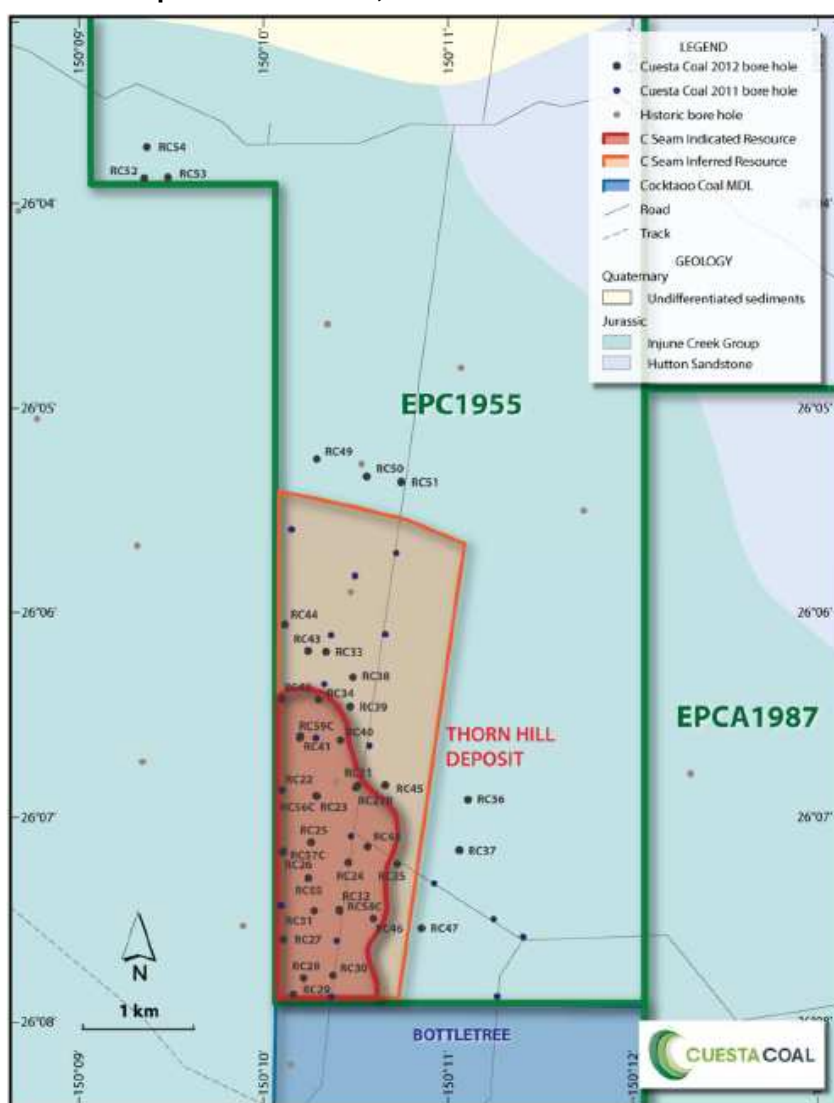
basin, which will likely require some washing to be saleable.

The data came from 8 cored holes and more tests are required to provide indication of wash yields. CQC's analysis of findings to date show potential for selective mining that could enable a portion of the resource to be direct shipping coal, by-passing the need for washing, though this will also require further study.

#### Raw Coal Quality Analysis for Thorn Hill Deposit

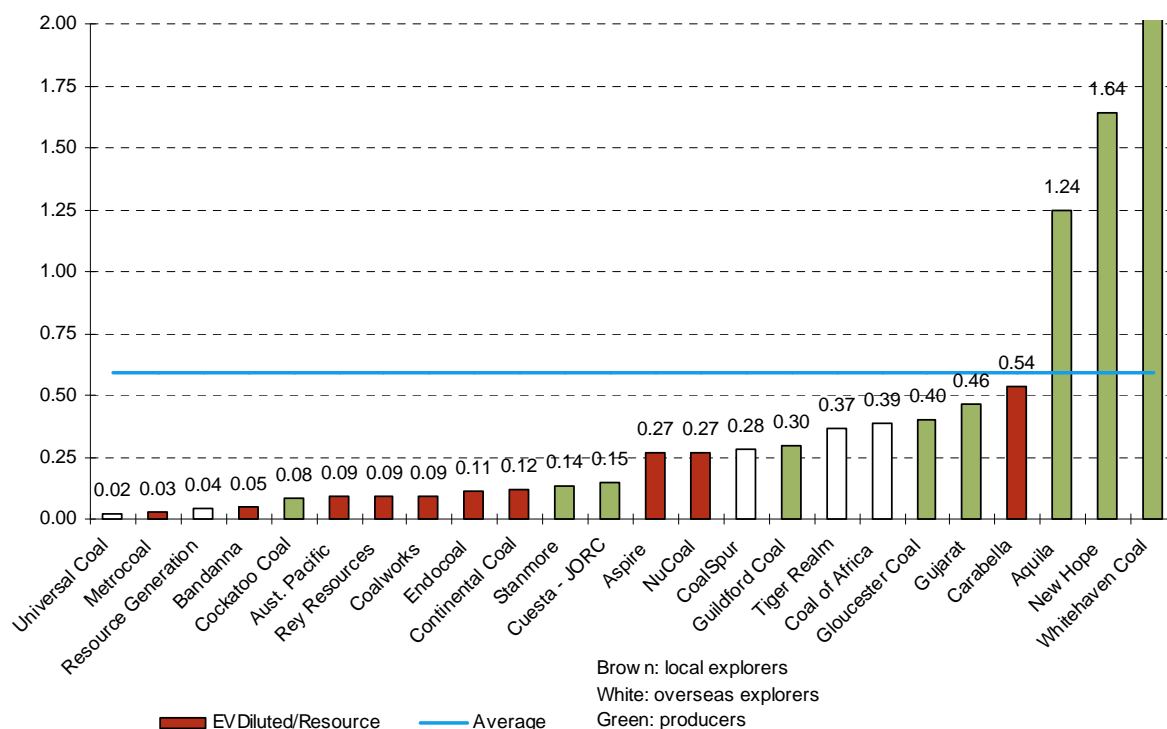
Seam	No. of Cored Holes	Inherent Moisture	Ash	Volatile Matter	Fixed Carbon	Relative Density	Specific Energy	Total Sulphur
		% (a.d)	% (a.d)	% (a.d)	% (a.d)	g/cc (a.d)	Mj/kg (a.d)	% (a.d)
A	3	7.8	20.0	39.8	32.5	1.44	23.26	0.45
B	8	7.6	18.7	39.3	34.5	1.44	23.81	0.44
C	7	7.4	20.0	37.8	34.8	1.46	23.42	0.45
D	4	6.7	18.1	38.9	36.3	1.43	24.55	0.46
E	1	5.4	19.7	38.8	36.1	1.44	24.62	0.50

#### Thorn Hill deposit – drill holes, Inferred and Indicated Resource area



CQC sees further upside south-east and north of the Indicated Resource. Coal intersections in the north west could provide extra resource in time.

## Enterprise Value per tonne of JORC Resource – CQC moderate value at \$0.15/t, and before more 2012 drilling



## Delivering on promises – total JORC Resource up 37% in 6 weeks since listing

CQC's overall EV/JORC resource falls from \$0.20 to \$0.15/tonne. More competitive with more JORC on the way. Catalysts for performance include additional expansions of JORC resources at Amberley and West Bowen and maiden resource declarations at West Emerald and East Galilee this year. Later there is also potential for sale or farm-out of some projects could demonstrate value added since listing.

Speculative Buy recommendation and target price \$0.37/share remain unchanged.

### Octa Phillip valuation summary

Cuesta Coal	Equity	JORC	Resource Target		Target	Discovery
Price & Mkt Cap	Wgt'd by	Inferred	Low	High	Probability	Success
\$0.12	target	Resource	mt	mt	Wghted	Mean Case
\$24m	%	mt			\$m	\$m
West Bowen	100%	27.3	15	80	13	22
East Wandoan	90%	40.1	17	167	13	27
Amberley	100%	5.1	35	55	10	23
Eastern Galilee	98%	-	200	2,950	55	315
West Emerald	100%	-	50	200	9	33
Montrose	100%	-	0	70	2	12
4 additional blocks	99%	-	448	2,990	5	24
Total Program		72.5	765	6,512	106	456
Net Cash at IPO					23	23
Exploration & other costs					-13	-22
Interest Received					1	1
Total Valuation					116	458
Undiluted Valuation: \$/share					<b>\$0.61</b>	
Contingent capital					23.1	23.1
Total Valuation					139.5	481
Fully diluted Valuation: \$/share					<b>\$0.41</b>	<b>\$1.42</b>

**Vesting of performance shares** – no impact on our valuation as we had already accounted for these.

The resource calculation of 44.6 Mt of JORC Indicated and Inferred Resource at Thorn Hill satisfies the condition precedent for the issue of the Series Two Shares under the executive share and option plan to issue relevant Directors a total of 18 million fully paid ordinary shares and 6 million unlisted options (exercisable at 25cents, expiry date 31 Dec 2015). These securities are subject to a 24 month escrow period from the date of the ASX listing.

Should you have any queries, please do not hesitate to contact me on +612 9233 9635.

**Lawrence Grech**

Resource Analyst

**Octa Phillip Securities Limited**

Level 9, 56 Pitt Street Sydney NSW 2000

Phone: +612 9233 9635

Mobile: +61 404 052 913

[www.octaphillip.com](http://www.octaphillip.com)

Please consider the environment before printing this email.

---

---

## Recommendation Criteria

### Investment View

Octa Phillip Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

### Risk Rating

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

#### Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of Lawrence Grech about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

The following person(s) do not hold an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

- the author of this report
- a member of the immediate family of the author of this report

#### Disclaimer/Disclosure

This publication has been prepared solely for the information of the particular person to whom it was supplied by Octa Phillip Securities Limited ("Octa Phillip") AFSL 246827. This publication contains general securities advice. In preparing the advice, Octa Phillip has not taken into account the investment objectives, financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice in this publication is appropriate in light of your particular investment needs, objectives and financial situation. Octa Phillip and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication. Octa Phillip believes that the advice and information herein is accurate and reliable, but no warranties of accuracy, reliability or completeness are given (except insofar as liability under any statute cannot be excluded). No responsibility for any errors or omissions or any negligence is accepted by Octa Phillip or any of its directors, employees or agents. This publication must not be distributed to retail investors outside of Australia.

#### Disclosure of Corporate Involvement - Section 734(6) Statement:

- Cuesta Coal Limited ('Cuesta') offered 80m shares at \$0.30 each under a prospectus issued in February 2012 ("Prospectus"). The Prospectus can be obtained from [www.cuestacoal.com.au](http://www.cuestacoal.com.au).
- Offers of shares was made in, or accompanied by, a copy of the Prospectus.

Austock Securities Limited acted as Lead Manager to the IPO and received fees for these services. Clients of Octa Phillip Securities were able to participate in this offer. Octa Phillip Securities received a fee for successful applications. Octa Phillip has an economic interest of around 3% of the undiluted securities of the issuer detailed in this report. Octa Phillip seeks to do work with those companies it researches. Octa Phillip receives commissions from dealing in securities. As a result, investors should be aware that Octa Phillip may have a conflict of interest that could affect the objectivity of this report.

Octa Phillip Securities reports are available on Bloomberg, Reuters, FactSet and [www.OctaPhillip.com](http://www.OctaPhillip.com)