



## Cuesta Coal Ltd (CQC)

East Wandoan drill results exceed expectations - Amberley now drilling

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### Four Key Points

- CQC completed 39 drill holes at EPC1955 East Wandoan project - newly named Thornhill Deposit. This has exceeded Management's expectations, with full results due in June.
- Drill results encouragingly show a shallow deposit with indicative strip ratio of under 10:1 and over a wider area - solid steps to seek further resource delineation.
- Drilling now at the Amberley project, close to Ebenezer coal development. An 18 hole program is aimed at expanding its current 5.1mt JORC resource towards a target of 40mt.
- CQC has active newsflow in 2012 - West Bowen and Galilee drilling to come plus Thornhill & Amberley resource upgrade.

### Active news flows in 2012

**CQC raised \$20m in April for an active ~\$16.2m**, 24 month exploration program. Total cash of \$26.5m will also fund \$10.3m in acquisition, fund raising and administration costs. CQC's unlisted options may provide up to \$23m by late 2015.

**CQC's strategy** is to selectively acquire and explore to add value. Success provides options to joint venture projects or selectively to divest or acquire leases with synergy benefits.

**CQC has six core Qld projects with 56.3mt JORC Inferred Resource.** Advanced projects with Inferred Resource include – 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 the rail link to Port of Brisbane. This is part of an extensive 11,000km<sup>2</sup> land position. A solid team with 100yrs coal experience manages the program.

**The 2012 exploration program is yielding results** exceeding management's expectation at East Wandoan. This program will lead to an upgrade of the resource. Full results are due in June. This shallow deposit is close to Cockatoo Coal's Bottletree deposit and Stanmore's The Range Project. As infrastructure is developed nearby and resource upgraded, our initial \$12m valuation is likely to rise.

**Drilling has commenced at Amberley** aiming to conclude this month and to find a shallow coal resource of ~40mt. The close-by Ebenezer mine re-development may provide options to cost effectively develop or sell this asset. CQC's most advanced project is **West Bowen**. CQC seeks to complete a drilling program by July. Drilling then follows at **East Galilee** – CQC's largest core exploration target. Weather permitting West Emerald may also be drilled this year.

**Valuation \$0.41/share, 12mth price target at 10% discount \$0.37/share.** Our approach values current resources and probability of discovery on defined targets. Our fully diluted risked valuation is \$0.41/share. Success over all blocks generates an un-risked \$1.44/share valuation. Risks include material exploration program failure and weak coal markets.

### Recommendation

### Speculative Buy

Current Share Price	\$0.15
12 Month Price Target	\$0.37
Price Target Methodology	NPV
Total Return (Capital + Yield)	146%
NAV / Share	\$0.41
Market capitalisation	\$29m
Liquidity – Daily Value	\$0.2m

### Two year program to test over 0.8 billion tonnes coal targets

Yr to Dec	(\$m)	2012	2013	Total
Total Exploration Expenditure		\$8.5	\$7.7	\$16.2
Other costs – incl acquisitions		\$8.7	\$1.6	\$10.3
Cash plus IPO cash raised		\$26.5		

### Program's target resources and mean valuation case

Cuesta Coal	JORC Inferred Resource mt	Resource Target		Target Probability Wghted \$m	Discovery Success Mean Case \$m
		Low mt	High mt		
IPO price & raising	\$0.30				
	\$24m				
West Bowen	27.3	15	80	13	22
East Wandoan	23.9	40	200	12	29
Amberley	5.1	35	55	10	23
Eastern Galilee	-	200	3,000	56	320
West Emerald	-	50	200	9	33
Montrose	-	0	70	2	12
4 additional blocks	-	<u>450</u>	<u>3,000</u>	<u>5</u>	<u>25</u>
Total Program	56.3	790	6,605	106	464
Net Cash at IPO				23	23
Exploration & other costs				<u>-13</u>	<u>-22</u>
Interest Received				1	1
Total Valuation				116	466
Undiluted Valuation: \$/share				<u>\$0.61</u>	
Contingent capital				23.1	23.1
Total Valuation				139.3	489
Fully diluted Valuation: \$/share				<u>\$0.41</u>	<u>\$1.44</u>

### Important information

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"

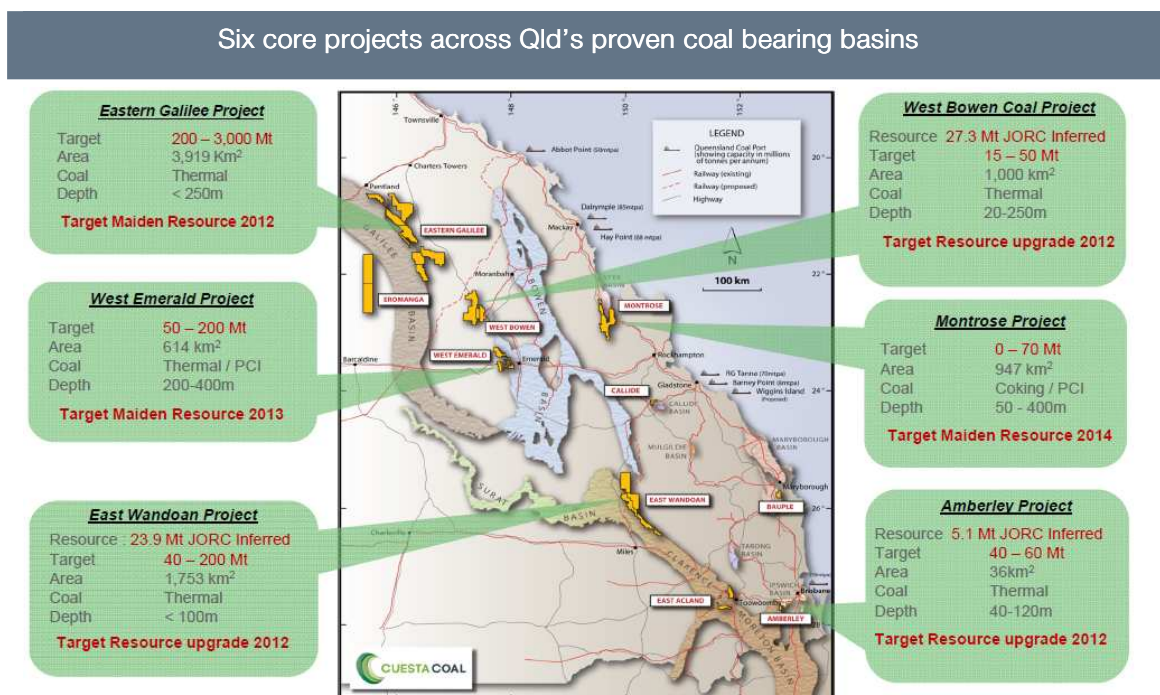
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Source: CQC Prospectus and Presentations

# News flow aplenty – Cuesta Coal’s drilling and neighbours activity

## CQC raised \$20m in April for an active 24 month exploration program

Two year exploration program focussed on six core projects in Qld

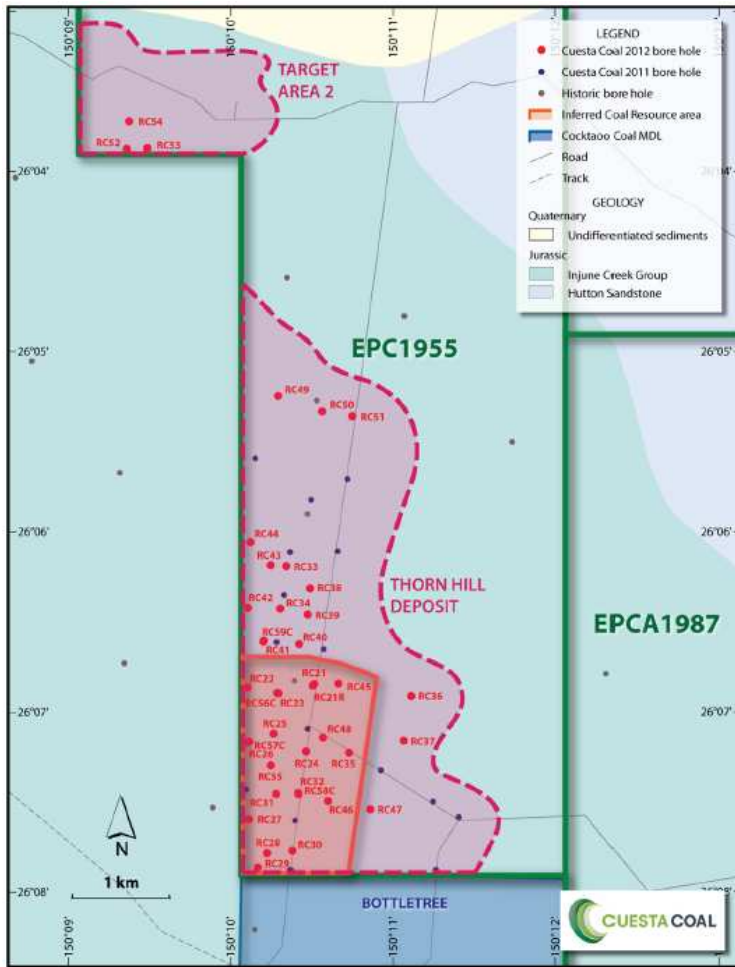
- Cuesta Coal (CQC) listed on the ASX on 4<sup>th</sup> May with a prospectus issue that raised \$20m in cash. A further \$4m was raised from the transfer of 13.33m shares to be paid to pre-listing convertible note holder Argonaut Resources (ARE), all at \$0.30/share. ARE remains a significant shareholder and supporter of CQC with 8.73%.
- Capital raised plus recent prospectus disclosed cash of ~\$6.2m will be applied to undertake a 24 month drilling program on six core 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 supporter that converted remaining debt to become a significant CQC shareholder.

CQC aim to boost its current 56.3mt JORC inferred resource

Core programs include three advanced exploration projects that CQC has booked a total of 56.3mt of coal JORC Inferred Resource – 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).

First program extends Initial discovery

## East Wandoan drilling – exceeds Management’s expectations



### East Wandoan exploration licence

Detail of drill holes reported up to 8<sup>th</sup> May 2012

Drill hole density in south-west part of the block is aimed at converting part of the JORC “Inferred” Resource to more closely defined “Indicated” Resource category

Target Area 2 is a newly discovered coal bearing area for follow-up drilling, probably in 2013.

At East Wandoan CQC has released drill results on its expanded 39 hole, up from an initial 32

Expect JORC resource revision in June 2012

planned. This is shallow exploration drill program was aimed at increasing the size and depth of knowledge of the resource, new called the Thornhill deposit. Management have said that results have exceeded their expectations. An independent assessment likely to be completed in June 2012 and may result in a larger total JORC resource, with a portion of the find being classified as Indicated – a higher category of certainty of resource than Inferred category.

Average 6 metres of cumulative coal intersections of Taroom measure thermal coals were encountered in drill holes at depths between 9m to 121m. Mean depths encountered was around 80m, providing an rough stripping ratio of around 10bcm:1 tonne coal in situ. This round of drilling also extended coal found to a new area 5km NW called Target area 2.

**Remainder of 2012 program – high activity**

Amberley is currently drilling

At the **Amberley** project, an 14 open hole and 4 cored drill holes program **has commenced**. CQC aim to conclude the program this month and is targeting shallow coal. Current JORC inferred resource is 5.1mt and CQC disclosed prospectus target is for a further 40 – 60mt in this area.

Aim to expand upon its current 5.1mt JORC resource

The area nearby hosts coal mines at OGL Resources’ Ebenezer mine development, 5km north-east, now in development to re-open. Amberley is also close to New Hope’s Jeebropilly mine which is linked to infrastructure. An economic coal find at Amberley could be aided in its development by its location. It may prove even more valuable to incumbent miners in the area and be an asset to ultimately divest and use proceeds to develop other projects.

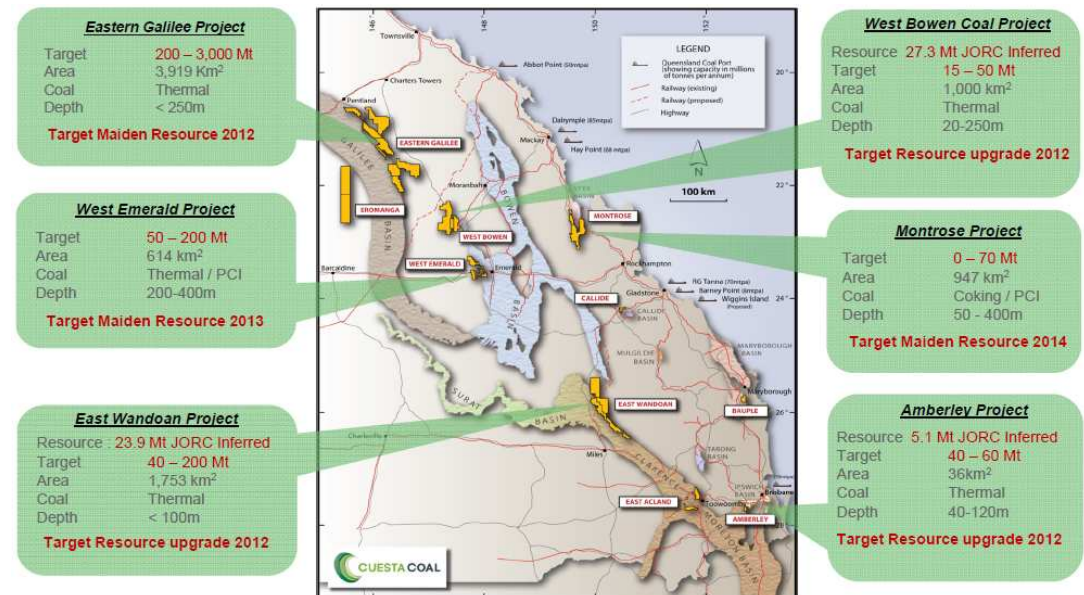
**Queensland exploration – Diverse portfolio of coal areas, products and infrastructure exposure**

Six core exploration projects span Qld:

Diverse basins

Accessing different infrastructure

Variety of thermal and PCI coking coal targets



**Next drilling - West Bowen, East Galilee and then West Emerald**

West Bowen is CQC’s most advanced project – close to under utilised infrastructure

CQC plans to complete drilling the **West Bowen** project by July 2012. The program aims to increase resource total at CQC’s most advanced project. The West Bowen project – called Moorlands deposit - is targeting 15 to 50mt of additional thermal 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.

By September, CQC expects to drill **East Galilee** project, identified in the Prospectus as CQC’s largest exploration target in the core program. The plan is to drill 17 open holes and 6 cored holes in this project, targeting thermal coals in an interpreted extension of the Galilee Basin. CQC aims to secure a JORC resource in an area where scout drilling in 2011 interested coal at moderate depths. CQC has published target size for this project area at 200mt to as much as 3 billion tonnes. 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. *See map on pages following*

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 largely upon weather and drill rig scheduling. See more detailed background on West Emerald in pages following.

## Highlighting two high potential programs

**CQC’s biggest target**

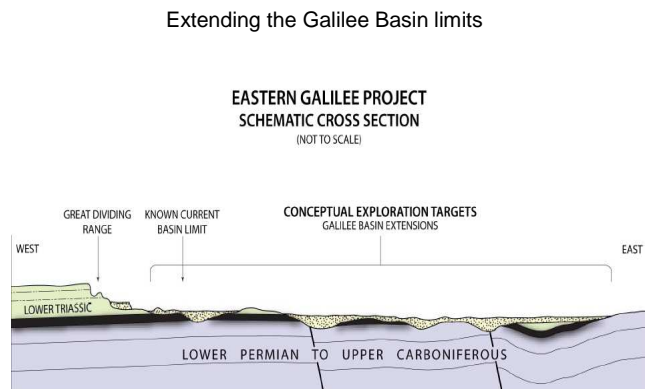
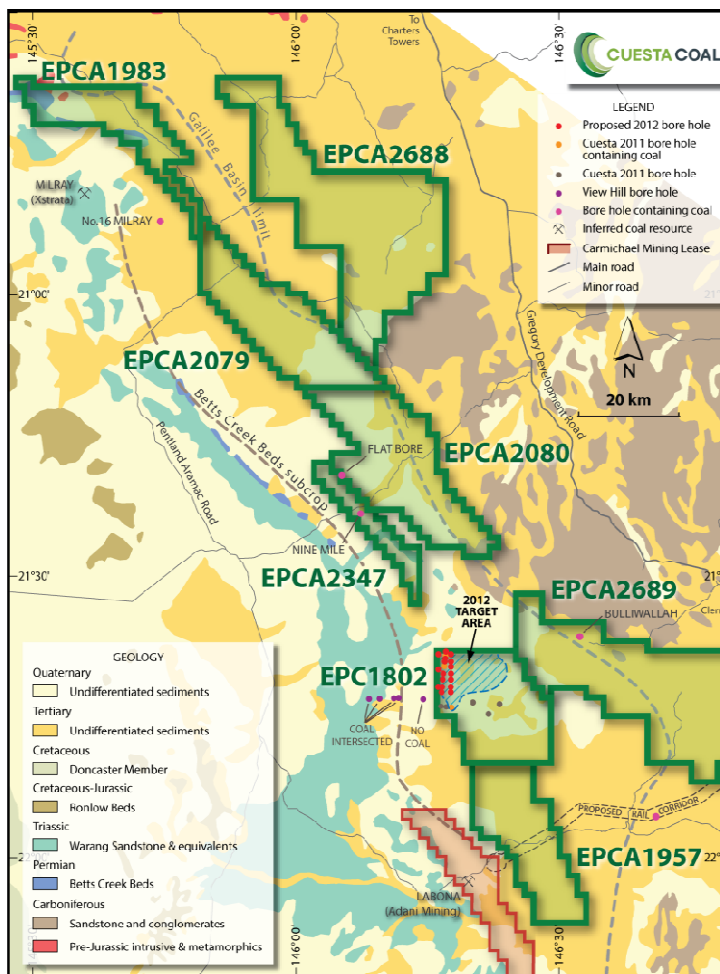
### Eastern Galilee project – vital new rail infrastructure developments a step closer

**To drill by Sept 2012**

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 maiden JORC coal resource 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.

**New rail developments can make the Galilee Basin coal accessible to export markets**

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 is also a developer of the proposed Dudgeon Point export terminal near Mackay that may provide CQC capacity.



- ← CQC has applications for additional EL’s to test Galilee Basin eastward extension
- ← 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**

Local mine initiatives and new data ... upgrades this prospect for infrastructure and geology

PCI coking coal target

CQC has recently acquired past drilling data which may allow the West Emerald project to obtain more specific drilling targets. There may even be enough data to declare a new JORC resource. This information 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 from the CQC Prospectus.

CQC received notice of stakeholder engagement process from Shenhua International Group. It seeks to develop an open pit and then underground 2 to 5mtpa called the Taroborah coal project. CQC's acreage surrounds this project and there is a 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 and ultimately ~80mtpa (Source: WICET).

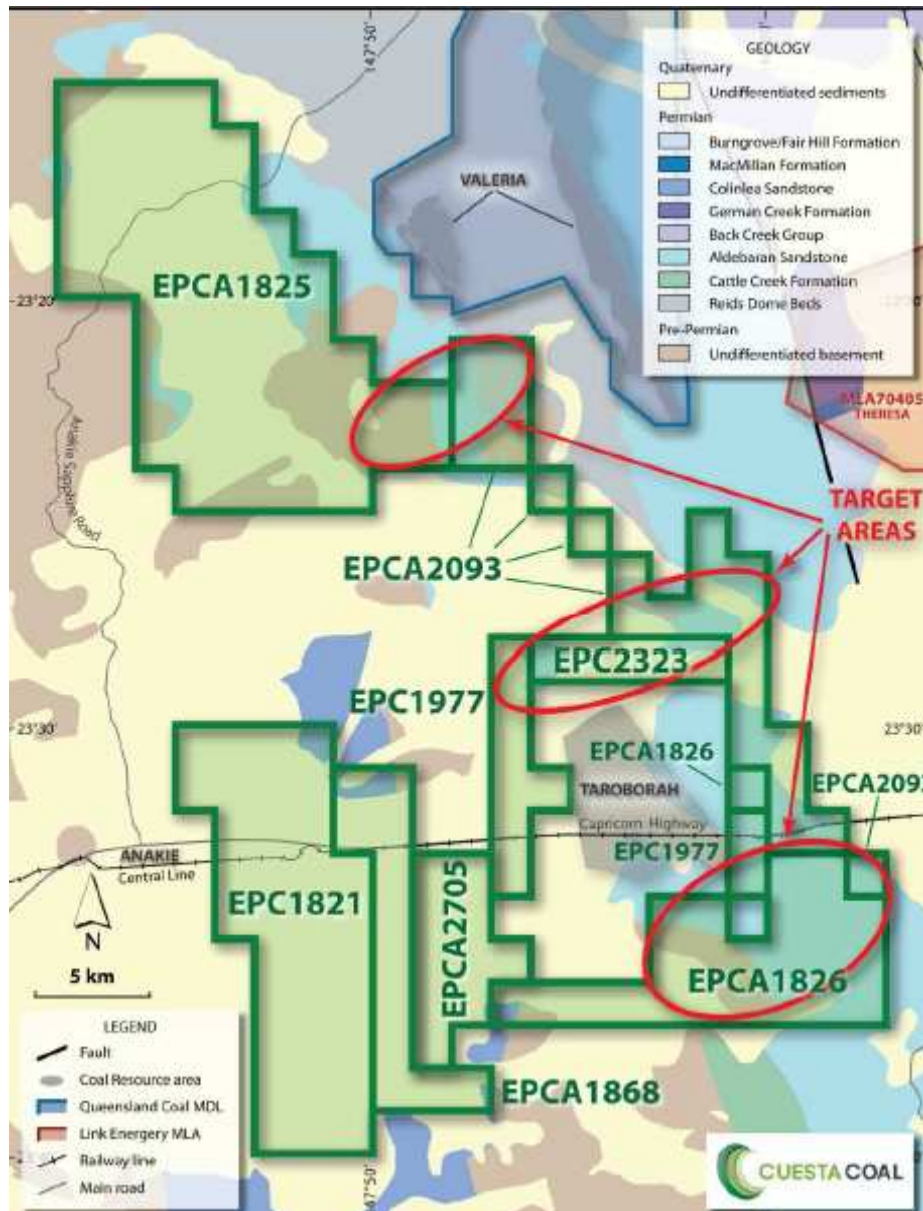
**West Emerald project**

– Surrounds Taroborah proposed development and close to Rio Tinto's Valeria deposit

West Emerald project lies to the south and west of Rio Tinto's proposed Valeria mine deposit

It also surrounds the Taroborah despot owned by Shenhua International

The area is renown for its high energy and PCI coals as well as near important rail infrastructure that can link to port of Gladstone



Summary of CQC's Prospectus - projects and targets

Six core projects top this list for CQC to explore a variety of targets and coal types.

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 exten	Bowen	20-250	Thermal	Mostly o/c	-	0	50	
2012	East Wandoan	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./ PCI	U/g & O/c	-	50	200	
2012	Amberley	Clarence- Moreton	<120	Thermal	Mostly o/c	5.1	35	55	
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	Maryboroug	<150	PCI/Therm.	Mostly o/c	-	Evaluating - no est.		
2013+	Callide	Callide	<300	Thermal	Mostly u/g	-	Evaluating - no est.		
Totals						56.3	790	6,605	

Source: CQC Prospectus

## Octa Phillip Valuation and Price target

### Octa Phillip's Valuation

Cuesta Coal IPO price & raising \$0.30 \$24m	JORC Inferred Resource mt	Resource Target		Target Probability Wghted \$m	Discovery Success Mean Case \$m
		Low mt	High mt		
West Bowen	27.3	15	80	13	22
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Undiluted Valuation: \$/share				<b>\$0.61</b>	
Contingent capital				23.1	23.1
Total Valuation				139.3	489
Fully diluted Valuation: \$/share				<b>\$0.41</b>	<b>\$1.44</b>

Source: Octa Phillip estimates, CQC Prospectus and announcements

### Octa Phillip's valuation - \$0.41/share risked

Valuation is \$0.41/share  
Fully diluted for  
performance shares and  
unlisted options.

We see significant upside  
on a multi-area success  
case

Octa Phillip provides a valuation of the CQC exploration program in the table above. Our approach is to value the program by applying probability of discovery to CQC's anticipated resource coal targets as outlined in the prospectus. We have applied market-related value per tonne of "expected" coal finds which we define as JORC inferred resource. This values the prospects at \$0.13/tonne using the low resource target. We then deduct the costs of the program.

In practice, good coal prospects are drilled up to more defined status including "Indicated" and "Measured" JORC code resource levels. This can lead to far higher market values for JORC resources per tonne.

Our target probability weighted valuation is the average between the low and high case. This comes to \$0.41/share value, fully diluted for CQC's performance shares and full options conversion. The options have exercise prices from \$0.20/share to \$0.30/share (see capital structure below) and could add \$23m in cash. These raisings and level of dilution are uncertain and not guaranteed.

The success case is meant to show the potential upside if an individual project makes the anticipated discovery. In aggregate the value could reach \$1.44/share. However we caution that not all exploration programs are likely to be successful or lead to assets that will be valued by the industry at levels indicated in our analysis.

### Octa Phillip's price target - \$0.37/share risked

We recognise a 10%  
discount to valuation in  
our price target

A successful track record  
can see discounts fall or  
valuation materially rise

Octa Phillip have applied a 10% discount to our Octa Phillip risked valuation to derive a 12 month price target. We believe that current market circumstances have seen small capitalisation resource company's trade below fundamental valuations.

While our valuations are risked for geology and incorporate market assessments in valuation of resource tonnes, establishment of a successful track record can see either discount to assessed value contract, or a material rise in the basic valuation.

## Strategy, Capital Structure and Ownership

### Strategy – targeted exploration then portfolio management

Explore then  
joint venture,  
divest and/or  
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 six core projects. Further success provides the company options for active asset portfolio management 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



## 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 to prioritise programs. These efforts have provided a springboard to quickly embark upon its two year, ~\$16.2m budgeted exploration program, of which \$1.1m has already been committed. This ensures that CQC shareholders will be receiving regular supply of news in an active exploration program in 2012 and 2013.

## Shareholding structure

Top 20 own 79%

Beijing Gouli Energy  
major shareholder and  
supporter

Board reveals buying on-  
market

The top 20 shareholders account for ~78.95% of the 191.6m ordinary fully paid shares issued. Major shareholders include Beijing Gouli Energy Investment Co affiliates hold 70m or 36.53% of ordinary shares. Argonaut Resources NL holds 8.73%. Albion Ballymore Pty Ltd (founders) holds 6.99%. Other Board and Management hold around 2.6% of the stock. Directors have revealed on 14<sup>th</sup> May 2012 that they have added to holdings by purchases on-market since CQC has listed on the ASX.

## Capital Structure

Cuesta - Capital structure	No. of units (m)	Notes
<b>Total Shares on issue</b>	<b>191.6</b>	
20¢ Unlisted Options (Dec 2015) - issued	8.0	Allotted during 2010
25¢ Unlisted Options (Dec 2015) - issued	51.0	Allotted during 2010 to seed investors and convertible note holders, 12mth voluntary escrow agreements to be entered into prior to listing for significant holders.
Performance Shares (Dec 2012) - contingent	42.0	10m shares linked to delineation of 45mt at West Bowen, 18m shares for 40mt at East Wandoan and 14m shares for 120mt of JORC inferred resource in other separate projects
25¢ Performance Options (Dec 2015) - contingent	14.0	3.33m options linked to delineation of 45mt at West Bowen, 6m options for 40mt at East Wandoan and 4.67m options for 120mt of JORC Inferred resource across specific projects.
Vendor Performance Shares – EPC 1802 -contingent	16.7	Linked to delineating 100mt JORC Inferred resource for 6.7m shares and 10m linked to 100mt JORC Measured Resources on EPC 1802.
30¢ Vendor Performance Options - contingent	16.7	Linked to delineating 100mt JORC Inferred resource for 6.7m options and 10m linked to 100mt JORC Measured Resources on EPC 1802.
<b>Total</b>	<b>340.0</b>	

Management are incentivised to efficiently explore core areas to discover coal with performance shares and options. Vendor performance shares relate to minimum performance on Eastern Galilee block.

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

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## Research

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## Corporate Finance &amp; ECM

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## Institutional Sales

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Colin Eichenberger	+61 3 9618 8214	Institutional Research Sales	Matthew White	+61 3 8633 9882	Institutional Sales Trading
Craig Stephens	+61 3 8633 9881	Trader	Michael Cori	+61 2 9233 9640	Head of Hedge Fund Sales
Gavin Todd	+61 2 9233 9639	Institutional Research Sales	Robert Wood	+61 3 8633 9880	Institutional Sales
Graeme Philipson	+61 2 9233 9610	Institutional Sales Trading	William Cleland	+61 3 9618 8223	Institutional Research Sales

## Capital Management

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Andrew Sekely	+61 2 9994 5507	Private Wealth	Mark Wiseman	+61 3 9618 8228	Private Wealth
Ben Ikin	+61 3 9618 8231	Private Wealth	Matthew Carey	+61 2 9233 9602	Private Wealth
Charlie Heerey	+61 3 9618 8240	Private Wealth	Michael Jeffery	+61 2 9233 9619	Private Wealth
Chris Walker	+61 3 8633 9928	Private Wealth	Nathaniel Doust	+61 2 9233 9646	Private Wealth
Craig Bailie	+61 3 9618 8279	Private Wealth	Nicholas Perez-Mathews	+61 3 8633 9921	Private Wealth
Dane Parsons	+61 7 3149 8627	Private Wealth	Nick Madden	+61 2 9994 5502	Private Wealth
Daniel McFarlane	+61 3 8633 9917	Private Wealth	Nigel Ormiston	+61 7 3149 8628	Private Wealth
Daniel Rees	+61 3 8633 9922	Private Wealth	Oksana Wainwright	+61 2 9994 5501	Private Wealth
Darren Levy	+61 3 9618 8252	Private Wealth	Owen Beattie	+61 2 9233 9621	Private Wealth
David Dwyer	+61 2 9233 9643	Private Wealth	Patricia Harrison	+61 2 9994 5505	Private Wealth
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Graham Johnstone	+61 3 9618 8246	Private Wealth	Patrick Verhoeven	+61 3 8633 9927	Private Wealth
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Jason Norval	+61 2 9233 9625	Private Wealth	Philip Rhead	+61 2 9994 5509	Private Wealth
Joe Durak	+61 2 9994 5513	Private Wealth	Prasanna Wickramatunge	+61 3 9618 8270	Private Wealth
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## 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

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#### 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.

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