



Octa Phillip
FINANCIAL GROUP

Research

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

Date: 17 April 2012

RECOMMENDATION | Restricted | Market Capitalisation at IPO price \$57.4m to \$67.4m

EVENT Cuesta Coal IPO | News flow aplenty - Cuesta drilling and neighbours activity

KEY POINTS **Octa Phillip Securities Limited/Austock are acting as lead managers to the IPO**

CQC seeking funding for an active 24 month exploration program

- Cuesta Coal's (CQC) prospectus seeks to raise a minimum of \$24m and maximum of \$34m and closes on the 20th April and listing is likely in the following week (subject to confirmation by the ASX).
- Capital raised plus current 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.
- Some 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 next four months - drilling has already commenced

- On 16th March CQC commenced a 32 hole, near surface coal exploration drill program at **East Wandoan** to be completed during May 2012. Success could increase the size, certainty and coal quality of the coal resource.
- Drilling then moves to **West Bowen** project, aimed at increasing the resource at CQC's most advanced project.
- 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 increases the likelihood this project will be drilled by late 2012. We report below on neighbour activities that upgrade this exploration area that is close to rail.
- Later this year CQC aim to drill at East Galilee, while Amberley and Montrose plus the other mentioned core projects should receive follow-up drilling and or project definition studies in 2013.

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.
- Stanmore Coal received extra funding for definition drilling to Measured stage at The Range to secure 0.4mt coal supply to aid project development. These can lower development hurdles for CQC's **East Wandoan** project.

PRE-IPO REPORT available to *Sophisticated Investors* – please contact the author or your Octa Phillip advisor

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.

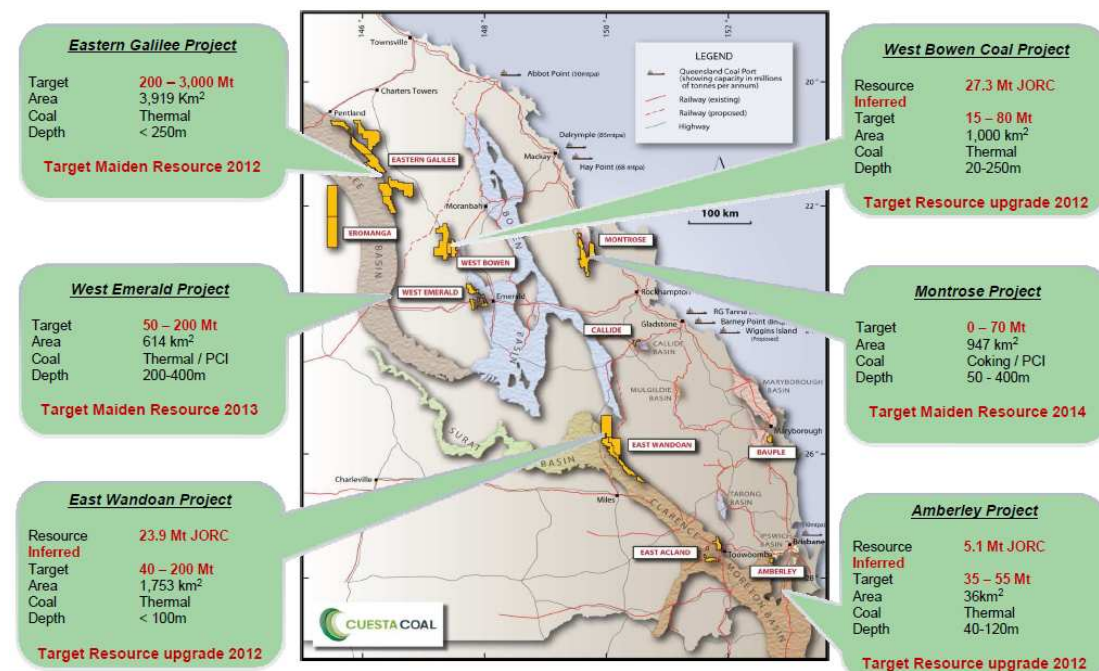
CQC will continue with the exploration phase primarily at its key six projects. Further success provides the company options for active asset portfolio management. That is to either:

- 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 activities – news flow starts soon – and keeps coming

- May 2012: **East Wandoan** – 32 hole drill program concludes and will update size and definition of resource
- May 2012: **West Bowen** drilling is next aimed at boosting resource at CQC's most advanced project by July
- July 2012: Recently acquired data may allow the **West Emerald** project to delineate CQC's fourth area with a JORC resource or increase clarity of specific targets
- Other programs for 2012 – To drill at both **Amberley** project in the Surat Basin to expand current JORC resource, and at the **East Galilee** project, identified in the Prospectus as CQC's largest exploration target
- Program for 2013 – **West Emerald** drilling to define or expand JORC resources with metallurgical coal potential, follow-up drilling on 2012 program and test the coastal **Montrose** block coking coal exploration concept

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



Source: CQC Prospectus

East Wandoan – 32 hole drill program is well advanced – *with good news on infrastructure*

On 16th March CQC commenced a 32 hole, 3,000 metre, exploration drill program at East Wandoan, with current operations on track for completion in May 2012. Targeting an expanded open-pit near surface coal resource and with 6 cored holes, the program is aimed at increasing the size and certainty of the coal resource that lies 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.

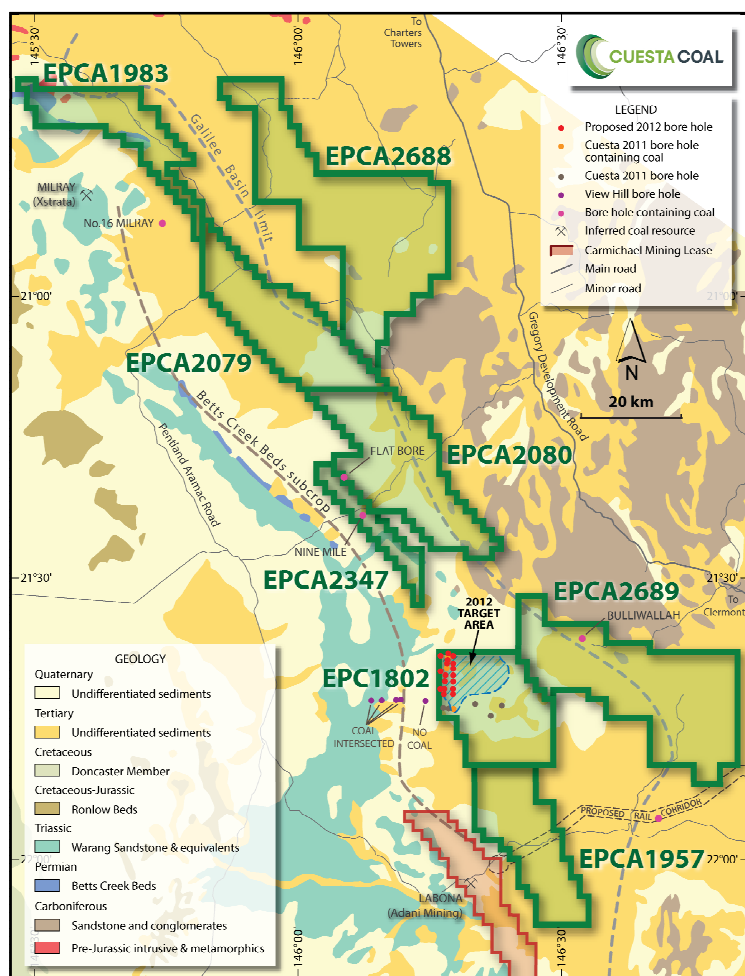
West Bowen project – the Moorlands Deposit – next in line for drilling

In May 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 <15km from the under-utilised rail spur to Rio Tinto's Blair Athol as this coalfield nears exhaustion.

Galilee Basin – vital new rail infrastructure developments a step closer

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



Source: Cuesta Coal releases

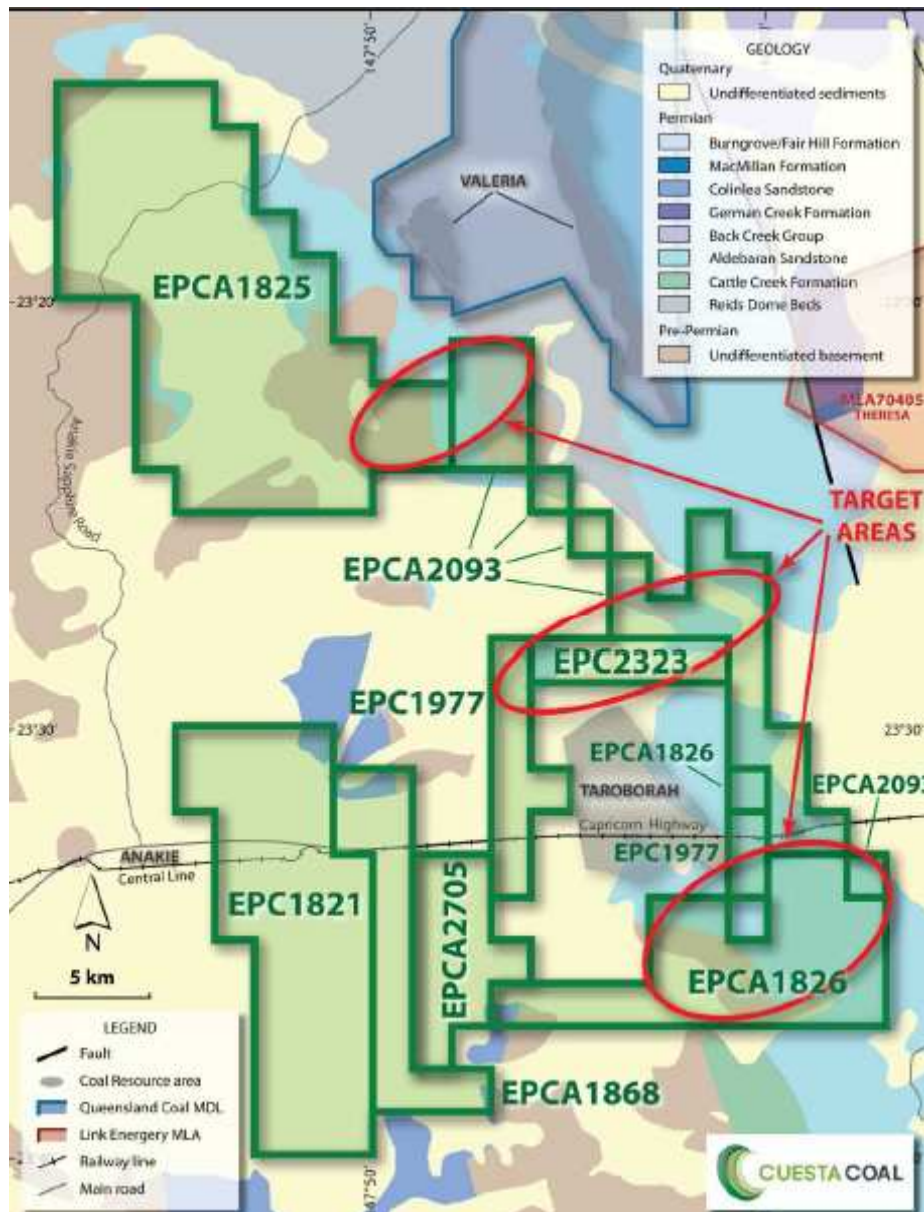
West Emerald – nearby Taroborah development and new data – welcome news

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, where CQC is targeting a PCI coal resource.

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	Expected coal type	Open-cut Potential	JORC Coal Resource	Exploration	Target
			metres			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	Maryborou	<150	PCI/Thern	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

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.

Should you have any queries, please do not hesitate to contact me on +61 2 9233 9635 .

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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.

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Disclosure of Corporate Involvement

Section 734(6) Statement:

- Cuesta Coal Limited ('Cuesta') is offering 80-113m shares at \$0.30 each under a prospectus to be issued in February 2012 ("Prospectus").
- The Prospectus will be available and obtained from www.cuestacoal.com.au.
- Offers of shares will be made in, or accompanied by, a copy of the Prospectus.
- A person should consider the Prospectus in deciding whether to acquire the shares.
- Anyone who wants to acquire the shares will need to complete the application form that will be in or will accompany the Prospectus.

Austock Securities Limited will act as Lead Manager to the IPO and will receive fees for these services. Clients of Octa Phillip Securities are able to participate in this offer. Octa Phillip Securities will receive a fee for successful applications. These fees are detailed in the Prospectus.