Steaming ahead towards production

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SINCE listing in May, Cuesta Coal has lofty ambitions in Queensland, but the coal explorer has the projects to match. By Alex Paull - *RESOURCESTOCKS**

Drilling at Moorlands

Despite the recent struggles in the thermal coal market, Queensland-based junior Cuesta Coal is primed to cash in on a commodity rebounding on the back of increased demand in Asia.

Cuesta chairman Brice Mutton said the outlook on the thermal coal market is extremely positive because energy is the major driver of any industrialised country.

He said substantial growth in Asia was one of the drivers behind the future prospects.

Managing director Matthew Crawford echoed Mutton's sentiments, saying the thermal coal market had stabilised, and because there were a few fundamental shifts in supply and demand, he expected to see a slow increase in the thermal coal price.

"We're moving into an interesting phase where the spot price is somewhere between $A80-87 a tonne, but there are some major companies entering into 12-18-month contracts in the order of $96-98/t, so the long-term contracts are actually higher than the stock prices," he said.

Relative infancy on the Australian Securities Exchange has done little to quell Cuesta's ambition to move from exploration through to development and towards production.

Due to the current capital markets, Crawford is acutely aware of the company's exploration spend, and he said it was vital that budgets were maintained to make sure exploration programs were delivered on time, on schedule and on budget.

Crawford said the company has a 3-5-year timeframe to transition from an explorer to developer and producer, with the West Bowen project earmarked to go into production first for a number of reasons.

"The Moorlands deposit and the West Bowen project overall is at the forefront of our minds," Crawford said.

"We'll concentrate our exploration and development spend over the next few years on that project to fast-forward production for us.

"Its proximity to infrastructure, low stripping ratio and thick seams are why it's more advanced.

"We think the coal quality can be exported and there will be markets for it."

The project was buoyed by Rio Tinto's decision to close the neighbouring Blair Athol mine.

"The closure of Blair Athol could prove to be a benefit for us," Crawford said.

"Nothing's confirmed, but we're investigating a few options to utilise that infrastructure potential."

Cuesta had expressed a desire to deploy more drilling into the Moorlands deposit, and reaped the rewards when two target areas were identified in October.

“One is an open cut target, which we’re going to focus on, and we’ve got the longer-term underground potential towards the south of the open cut deposit,” Crawford said.

What attracted Cuesta to the deposit were two seams (B8 and B9) which Crawford said were significant from an economic point of view.

Both seams were quite thick, with B8 grading between 8-12m in thickness and B9 between 3-4m in thickness.

“Then there are some seams above that which we believe we can mine. And with the stratigraphic column, the gaps between the coal measures are nicely spaced for open cut mining, so that’s a good benefit for us,” Crawford said.

“We knew from what we did last year that there was potential to find quite a rich coal seam close to the surface coal deposit, so we did some exploration and we’ve had some pretty impressive intersections.”

Crawford said quite a lot of coal had been identified at the maximum depth of 120m, with the majority identified at a depth of less than 100m.

“So we think the stripping ratio is going to come out somewhere around 5:1, which is pretty attractive,” Crawford said.

“And because it’s so close to the surface and close to infrastructure we think it’s something that we’ll move into, doing a scoping study over the wet season.”

Cuesta is now in the process of completing six cored holes, which will enable analysis on each of the coal seams.

“In our West Bowen tenure overall we’ve got some additional target areas where we’re going to do some scout drilling next year.”

Crawford said the company’s vision in the long-term was to identify a number of medium-sized coal deposits which would feed a central coal handling and preparation plant, with an eye towards a scoping study starting in February.

Crawford told *RESOURCESTOCKS* in September that he was excited to explore the company’s other landholdings in the Eastern Galilee Basin, and that testing had exceeded expectations.

“We were excited about it last year because we had intersected coal further east of the Galilee Basin coal measures sub-crop line,” Crawford said.

“This year we’ve completed 15 holes and, because each one of these has intersected coal, we’ve actually got coal intersected over 15sq.km and it’s still open to the east and the southeast.”

This drilling and the coal intersections enabled a new name to be given to the area: Yellow Jacket.

Crawford said all the coal had been intersected at less than 130m from the surface.

“That shows the potential for an open cut mine, which we think is important from an economic point of view for future development,” Crawford said.

The results were so good that Cuesta expanded the program with step-out drilling in an easterly direction for another 3km and another 3km in a southeasterly direction.

Crawford hopes that once the drilling is completed they will have an understanding of the potential footprint of the resource.

What also makes Yellow Jacket such a promising prospect is its proximity to the Adani railway line.

“It’s only 30km to the south, and the coal in the area is in nice chunky seams, with two distinct seams across the area,” Crawford said.

Cuesta’s foothold in Eastern Galilee was strengthened when it signed a joint venture and farm-in agreement with QCI (Galilee) Pty Ltd, a Queensland-based coal company and a wholly owned subsidiary of Hancock Prospecting.

Crawford said the opportunity to collaborate with QCI was important for a number of reasons.

“We believe they have good technical skills in-house and, obviously, their parent company is in the coal business in a big way in Queensland in the Galilee Basin.

“So we wanted someone who was reputable, respected and in that space,” Crawford said.

“Cuesta has 4000sq.km in the Eastern Galilee and we needed someone to assist with the development of those, so QCI was a great find for us.”

QCI will link up with Cuesta on two of the Eastern Galilee tenements -EPCA 2079 and EPCA 2080 to the north of Yellow Jacket – in a JV known as the Snake Creek Joint Venture.

QCI can only earn 51% interest in those two exploration permits for coal if they invest $3 million on exploration activities.

The JV and farm-in agreement is conditional upon exploration permits being granted, and Cuesta expects that to happen in the first half of 2013.

While Cuesta’s Eastern Galilee tenements are in strong positions, the company’s operations at Amberley have also returned startling results.

With drilling completed for 2012, Crawford said, there had been a 10-fold increase in the JORC resources in the area to around 55 million tonnes.

“Before it was about 5Mt and we did some infill drilling where there was historic drill holes, and it’s increased to around 55Mt,” Crawford said.

“We will probably do a little bit of infill drilling to take the resource from inferred to indicated, and then we might have to either contemplate finding a strategic partner to assist in the development of it or look to commence mine scoping studies in our own right.”

Cuesta also harbours high hopes for its Thorn Hill deposit, as it completed all activities for the deposit this year.

Crawford said the company was currently investigating what to do for drilling on the project next year in terms of ensuring shareholder value.

But as far as financial positions go, Cuesta finds itself in a fortunate place.

“At the moment we have $18.2 million in the bank and we have sufficient funding for the next two years of exploration,” Crawford said.

“We have a large supportive cornerstone investor in Beijing Guoli, who are committed to the coal industry and are aligned with the board and management’s vision.”

Armed with plenty of upside, Cuesta is hellbent on sticking to its plan.

With Crawford forecasting significant resource increases over the next 12-18 months, the future looks bright for Cuesta as it makes the transition from an explorer to a producer.