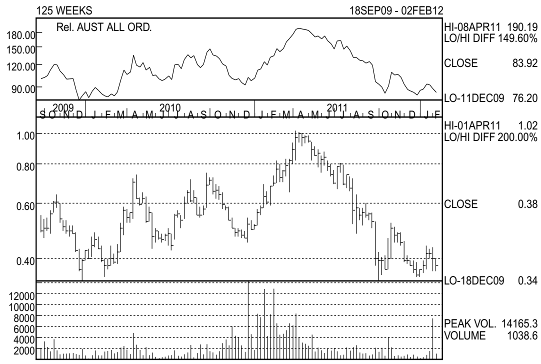

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FY Jun	2011A	2012E	2013E
Adj EPS - Basic	(0.02)	(0.01)	0.00
P/AEPS	NM	NM	NM
Cash Cost	NA	NA	NA
Prod.	0	0	0

All values in AUD unless otherwise noted.

COMPANY UPDATE | COMMENT

FEBRUARY 3, 2012

Resource Generation Ltd. (ASX: RES)

H1 FY12 result immaterial - Awaiting progress on approvals and key agreements

Outperform
Speculative Risk

Price:	0.40	**Price Target:**	0.80
		Implied All-In Return:	103%
Shares O/S (MM):	257.9	**Market Cap (MM):**	102
Dividend:	0.00	**Yield:**	0.0%
NAVPS:	1.56	**P/NAVPS:**	0.3x
BVPS:	0.52	**P/BVPS:**	0.8x

Major shareholders: Integrated Coal Mining 11.6%
Priced as at 3.00pm on February 3, 2012.

Event

Resource Generation reported its H112 financials.

Investment Opinion

RES reported a H112 underlying loss of $0.8m, in-line with RBCe and a minor improvement on the $3m loss in H111. The reported profit of $0.7m was boosted by the sale of Tasmanian coal tenements ($1.5m). The result, however, is in our view immaterial from a valuation perspective given the pre-development stage of the Boikarabelo project. We expect near term catalysts to be the receipt of the final two approvals for the project and commercial agreements with Eskom and TransNet; these would be positive. As previously reported, cash balances declined to $21m (net cash $20m), sufficient to fund the operation until approvals and commercial agreements are reached, at which point funding will be sought for development.

Approvals: We look for RES to receive the NEMA (environmental) approval for the rail spur in early 2012; this was originally due in July however due to minor variations to the application a second EIA was required. The IWULA water usage license is now at a 'mature stage'; this was targeted by year-end however no time frame was advised in the Dec-qtrly. The Mining Right continues to remain under appeal, however, RES is confident this will be confirmed. Further delays would be disappointing, but not unexpected.

Transnet/Eskom agreements: An MoU for rail haulage was signed with Transnet in the Dec-qtr; this is a positive step but does not represent a binding agreement. There was no update on the discussions with Eskom for offtake, however, we believe the negotiations are progressing well. We believe the formalisation of agreements with both parties should be key stock drivers.

Funding: The Company reported in the Dec-qtrly that there continues to be strong interest from debt funders for the project; however, completion of due diligence requires formal agreements with Eskom and Transnet.

Outperform, $0.80: We continue to see substantial value in the Boikarabelo project. We expect key drivers of near-term value to be an Eskom offtake and Transnet rail haulage agreement. Our NAV of A$1.56 incorporates more conservative capex, costs, timing, and price assumptions than management's. Our target of A$0.80 adjusts our NAV for an equity raising ($350m at $0.75) before applying a 25% risk weighting for development risks.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

Exhibit 1: Earnings summary

		Dec-10 Actual	Dec-11 Actual	yoy %	Dec-11 Estimate	a vs e%
Sales Revenue	A$m	0.0	0.0		0.0	
Total Revenue	A$m	0.0	0.0		0.0	
EBITDA	A$m	-3.3	-1.8	46%	-2.5	29%
D&A	A$m	-0.1	-0.1	15%	0.0	
EBIT	A$m	-3.4	-1.8	45%	-2.5	27%
Interest	A$m	0.4	1.1	193%	0.6	79%
PTP	A$m	-3.0	-0.8	75%	-1.9	60%
Tax	A$m	0.0	0.0	64%	0.6	-101%
NPAT Underlying	A$m	-3.0	-0.8	74%	-1.3	42%
NPAT Reported	A$m	-3.5	0.7	119%	-1.3	-152%
EPS Underlying	A$ cps	-1.3	-0.3	76%	-0.5	42%
EPS Reported	A$ cps	-1.5	0.3	118%	-0.5	-152%

Source: Company data, RBC Capital Markets estimates

Exhibit 2: Earnings changes

		FY12E NEW	FY12E OLD	%	FY13E NEW	FY13E OLD	%
Sales Revenue	A$m	0	0		0	0	
Total Revenue	A$m	0	0		0	0	
EBITDA	**A$m**	**-4**	**-5**	**14%**	**-5**	**-5**	**0%**
D&A	A$m	0	0		0	0	
EBIT	A$m	-4	-5	13%	-5	-5	0%
Interest	A$m	2	1	41%	2	2	-3%
PTP	A$m	-3	-4	30%	-3	-3	-2%
Tax	A$m	1	1	-50%	1	1	2%
NPAT Underlying	**A$m**	**-2**	**-3**	**21%**	**-2**	**-2**	**-2%**
NPAT Reported	A$m	-1	-3	76%	-2	-2	-2%
EPS Underlying	A$ cps	-0.8	-1.0	21%	-0.3	-0.3	-2%
EPS Reported	A$ cps	-0.2	-1.0	76%	-0.3	-0.3	-2%

Source: RBC Capital Markets estimates

Exhibit 3: Summary Financials

Resource Generation

ASX: RES	Share Price: (A$ps)	0.40	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A$0.80
	Mkt Cap: (A$MM)	102	Issued shares (m)	258	Risk Qualifier:	Speculative	NAV:	A$1.56

ASSUMPTIONS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Exchange Rate	**A$/US$**	**0.99**	**1.00**	**0.96**	**0.93**	**0.90**	**0.84**
Exchange Rate	**US$/ZAR**	**7.00**	**7.43**	**7.23**	**7.38**	**7.50**	**7.75**
Thermal coal (FY avg)	**US$/t**	**106**	**126**	**111**	**98**	**90**	**90**
Coking coal (FY avg)	**US$/t**	**189**	**176**	**135**	**123**	**115**	**113**

RATIO ANALYSIS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Shares on issue	MM	258	258	608	608	608	608
EPS reported	A¢	-2.0	-0.2	-0.3	-2.5	-4.1	4.9
EPS (pre sig. items)	A¢	-1.8	-0.8	-0.3	-2.5	-4.1	4.9
P/E	**x**	**nmf**	**nmf**	**nmf**	**nmf**	**nmf**	**8.1x**
CFPS	A¢	(0.6)	(0.8)	(0.3)	(2.5)	(3.8)	12.1
P/CF	x	nmf	nmf	nmf	nmf	nmf	3.3x
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield	**%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Franking Level	%	0%	0%	0%	0%	0%	0%
Book value per share		0.52	0.51	0.65	0.62	0.58	0.68
P/Book value	x	0.8x	0.8x	0.6x	0.6x	0.7x	0.6x
R.O.E. (pre sig items)	%	-3%	-2%	0%	-4%	-7%	7%
R.O.A. (pre sig items)	%	-4%	-3%	-1%	-1%	0%	13%
Interest Cover	x	4.7x	2.6x	2.2x	-0.3x	0.0x	2.9x
EBITDA per share	A$ps	-0.02	-0.02	-0.01	-0.01	0.00	0.24
EV/EBITDA	**x**	**nmf**	**nmf**	**nmf**	**nmf**	**37.6x**	**0.5x**

EARNINGS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Sales Revenue	A$MM	0	0	0	0	17	361
Other Revenue	"	0	0	0	0	0	0
Total Revenue	"	**0**	**0**	**0**	**0**	**17**	**361**
Operating costs	"	0	0	0	0	(10)	(208)
Operational EBITDA	"	**0**	**0**	**0**	**0**	**7**	**153**
Exploration Expense/Write-offs	"	(1)	0	0	0	0	0
Corporate & Other Costs	"	(5)	(4)	(5)	(5)	(5)	(5)
EBITDA	"	**(6)**	**(4)**	**(5)**	**(5)**	**2**	**148**
D&A	"	(0)	(0)	0	0	(1)	(11)
EBIT	"	**(6)**	**(4)**	**(5)**	**(5)**	**2**	**138**
Net Interest	"	1	2	2	(17)	(36)	(47)
Profit Before Tax	"	**(5)**	**(3)**	**(3)**	**(22)**	**(35)**	**91**
Tax Expense	"	0	1	1	7	11	(28)
Minorities	"	(0)	0	0	0	(1)	(33)
Net Profit After Tax	"	**(5)**	**(2)**	**(2)**	**(15)**	**(25)**	**30**
Significant Items (post tax)	"	(1)	1	0	0	0	0
Reported NPAT	"	**(5)**	**(1)**	**(2)**	**(15)**	**(25)**	**30**

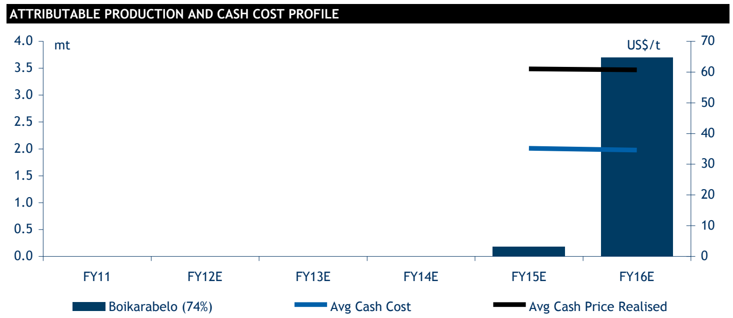
CASHFLOW		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Operational Cash Flow	**A$MM**	**-2**	**-3**	**-5**	**-5**	**2**	**148**
Net Interest	"	1	1	2	(17)	(36)	(47)
Tax Paid and Other	"	(0)	(0)	1	7	11	(28)
Net Operating Cashflow	"	**(2)**	**(2)**	**(2)**	**(15)**	**(23)**	**74**
Exploration	"	(7)	(7)	(7)	(7)	(7)	(7)
Capital Expenditure	"	(9)	0	(240)	(320)	(242)	(8)
Investments	"	(1)	0	0	0	0	0
Sale of PPE and Other	"	(3)	2	0	0	0	0
Net Investing Cashflow	"	**(20)**	**(5)**	**(247)**	**(327)**	**(249)**	**(15)**
Dividends Paid	"	0	0	0	0	0	0
Debt	"	0	0	200	400	0	0
Equity Issuance	"	50	0	263	0	0	0
Other	"	(8)	(1)	0	0	0	0
Net Financing Cashflow	"	**42**	**(1)**	**463**	**400**	**0**	**0**
Net change in cash	"	**20**	**(8)**	**214**	**58**	**(272)**	**59**

BALANCE SHEET		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Cash & Equivalents	A$MM	25	16	230	287	15	74
PP&E & Mine Development	"	34	34	274	594	835	833
Exploration	"	68	75	82	89	96	103
Total Assets	"	**140**	**137**	**597**	**982**	**958**	**1,021**
Debt	"	1	1	201	601	601	601
Total Liabilities	"	**5**	**5**	**205**	**605**	**605**	**605**
Total Net Assets / Equity	"	**134**	**132**	**393**	**377**	**353**	**416**
Net Debt / (Cash)	"	(24)	(15)	(29)	313	586	527
Gearing (net debt/(nd + equity)	%	(22%)	(13%)	(8%)	45%	62%	56%
Gearing (net debt/equity)	%	(18%)	(12%)	(7%)	83%	166%	127%

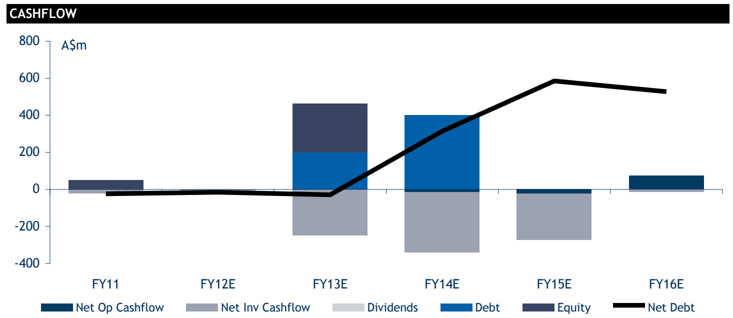
ATTRIBUTABLE MINE STATS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Coal Production (equity)							
Boikarabelo (74%)	mt	0.0	0.0	0.0	0.0	0.2	3.7
Total coal production	**mt**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**3.7**
Coal Sales (equity)							
SSCC	mt	0.0	0.0	0.0	0.0	0.0	0.0
Thermal - Export	mt	0.0	0.0	0.0	0.0	0.1	1.9
Thermal - Domestic	mt	0.0	0.0	0.0	0.0	0.1	1.9
Total coal sales	**mt**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**3.7**
Avg Cash Price Realised	US$/t	0.0	0.0	0.0	0.0	61.0	60.7
Avg Cash Cost	**US$/t**	**0.0**	**0.0**	**0.0**	**0.0**	**35.1**	**34.6**
Cash Margin	US$/t	0.0	0.0	0.0	0.0	25.9	26.2

RESERVES AND RESOURCES (Mt)	Resources	Reserves	
			EV/t Resource
Waterberg #1 SW	426	314	0.02
Waterberg #1 NE	552	-	
Witkopje S & Kalkpan	664	431	**EV/t Reserve**
Draai Om	791	-	
Witkopje N	688	-	0.10
Total	**3122**	**745**	

ATTRIBUTABLE PRODUCTION AND CASH COST PROFILE



CASHFLOW



EQUITY DCF VALUATION			
Projects	**A$MM**	**A$ps**	
Boikarabelo (74%)	408	1.58	
Corporate	-25	-0.10	
Net Cash / (Debt)	20	0.08	**P / NPV**
Net Equity Value (@ 8% real d.r.)	**403**	**1.56**	**0.3x**
Shares on issue (m)	258		

Source: Company data, RBC Capital Markets estimates

Valuation

Our NAV for the Stage 1, 6mtpa development is A$1.56. We model a more conservative development path than management forecasts: we incorporate $850m capex vs. the targeted $750m, and we also assume a 12-month delay to startup, with first coal from Q2 2015. In setting our price target, we consider the need for an equity raising. We adjust our base case NAV to incorporate the dilutive effects of a $350m raising at $0.75 per share. While this is at a premium to the current share price, we consider that by the time a potential equity raising is required RES will have completed its rail agreements, Eskom offtake, approvals, BFS and debt funding, and as such will be materially de-risked, which would be expected to see the share price trade higher. Furthermore, given the degree of risk that remains with the project in terms of timeline, capex, and development hurdles, we set our price target at a 25% discount to our equity-raising-adjusted NAV. This is a greater-than-usual discount for development projects in our bulk commodities coverage universe, reflecting a view that the market is likely to more heavily discount the project given that it is in South Africa.

Price Target Impediment

As with all mining companies, world economic growth, commodity prices, and currency fluctuations could materially affect Resource Generation's earnings and valuation. There is also material development risk, with a possibility that the project takes longer and costs more to develop than management estimates. Infrastructure access poses a risk for Resource Generation: without rail-haulage agreements, it will not be able to get its product to market, undermining the project's viability. A sales agreement with Eskom will also be key to underpinning the economic viability of the project, and this is yet to be secured. In addition, the mining rights, water usage, and rail development approval are yet to be granted.

Company Description

Resource Generation is developing the Boikarabelo thermal coal project in the Waterberg coal fields, 300km north of Johannesburg, South Africa. The resource is substantial at 3bt. Stage 1 targets production of 6mtpa, split between 3mtpa export thermal coal and 3mtpa domestic thermal coal sales. Capital costs are estimated at $552m and at this stage are unfunded. Operating costs are forecast to be extremely favourable; we estimate an overall average unit cost of approximately US$33/t, benefiting from 0.6:1 strip ratios. The development is at an advanced stage, with the majority of work done and final approvals anticipated over the next three to six months. Offtake has been arranged for 1.5mt of the export coal, a port allocation is in place, and a domestic sales agreement with Eskom is under negotiation as is a rail-haulage agreement with Transnet. Longer-term, RES envisages a substantial expansion to 18mtpa production.

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An analyst involved in the preparation of this report has visited certain material operations of Resource Generation Ltd..

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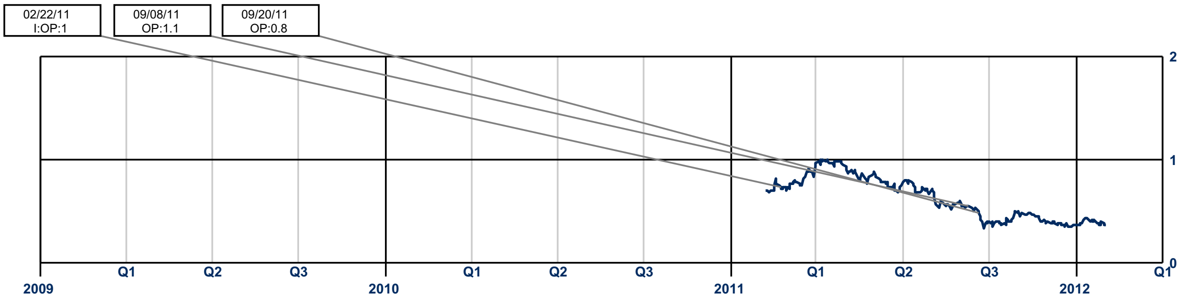
Distribution of Ratings
RBC Capital Markets, Equity Research

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	781	51.80	217	27.78
HOLD[SP]	655	43.40	143	21.83
SELL[U]	72	4.80	5	6.94

Rating and Price Target History for: Resource Generation Ltd. as of 02-01-2012 (in AUD)



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RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

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