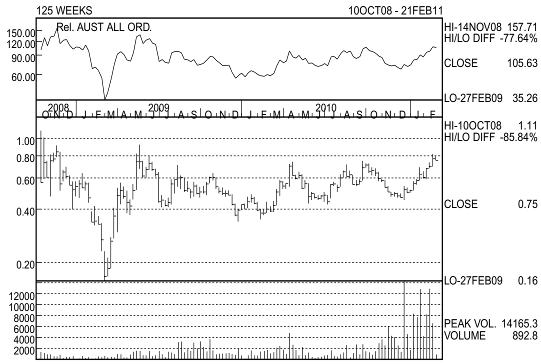
INITIATION | COMMENT

FEBRUARY 22, 2011

Resource Generation Ltd. (ASX: RES)

An emerging South African coal play, cheap, with re-rating potential - Outperform



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FY Jun	2010A	2011E	2012E
Adj EPS - Basic	(0.02)	(0.02)	(0.01)
P/AEPS	NM	NM	NM
Cash Cost	NA	NA	NA
Prod.	0	0	0

All values in AUD unless otherwise noted.

Outperform
Speculative Risk

Price:	0.74	**Price Target:**	1.00
		Implied All-In Return:	36%
Shares O/S (MM):	239.0	**Market Cap (MM):**	176
Dividend:	0.00	**Yield:**	NM
NAVPS:	1.68	**P/NAVPS:**	0.4x
BVPS:	0.51	**P/BVPS:**	1.4x

Priced as of market close Australian EDT, February 22, 2011.

Event

We initiate coverage of Resource Generation with a rating of Outperform, Speculative Risk and a $1.00 price target.

Investment Opinion

Resource Generation is developing the Boikarabelo Project in the Waterberg region of South Africa. The deposit is large scale, with a 3.1bt resource. Plans call for 6mtpa production, split 50/50 between domestic and export thermal coal sales. Key approvals and agreements are expected by mid-2011, allowing construction to commence in Q4 2011. Capex is estimated by the company at $552m. First coal is expected two years later in Q4 2013. The stock is among the cheapest on the ASX on EV/t metrics and is trading at a 26% discount to our conservatively estimated NAV based price target. We initiate with an Outperform rating, and $1.00 price target.

Multiple near-term potential catalysts to drive re-rating: RES expects its mining right in Q1, and its water-usage and rail-development approval in Q2. Eskom and Transnet agreements are also expected to be in place by mid-year. These will be shortly followed by BFS completion, then debt and equity funding in Q3. Each stage of this process will contribute to the de-risking of the project, which should result in valuation up-lift.

Eskom and Transnet agreements key: We see the biggest project risks stemming from: 1) Eskom offtake agreement - we see strong domestic demand but believe that the RES timetable may be aggressive in terms of securing an agreement; and 2) securing a haulage agreement with Transnet. RES is confident there is sufficient capacity on the existing network for its export tonnage; however, historically Transnet has struggled to deliver to targeted capacity. This may make it difficult for it to sign additional haulage agreements.

Price target $1.00 - Very conservative: In calculating our $1.68 NAV, we incorporate more conservative capex, cost, timing and pricing assumptions than management. In setting our $1.00 price target we adjust our NAV for an equity raising, before applying a 25% risk weighting for development risks. This conservative approach suggests there is likely to be material upside as the project de-risks over the next six months as approvals, agreements, and funding advance. Longer term, the company may seek to expand to 18mtpa, on this basis our NAV would lift to $3.43-$4.91.

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

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 23.

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Investment Thesis

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 expected to be extremely favourable; we estimate an overall average unit cost of approximately US$33/t benefiting from 0.6:1 strip ratios. These low strip ratios help offset the relatively low yields, estimated to be 50%. 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 and a port agreement is in place. A domestic sales agreement with Eskom is under negotiation as is a rail-haulage agreement with Transnet. Longer term, RES envisage a substantial expansion to 18mtpa production.

RES own 74% of the project, with BEE partners holding the balance. Management own 5.3% of RES, MD Paul Jury and Executive Director Steven Matthews have extensive coal industry experience. Most recently, both were Executive Directors of Resource Pacific, a Hunter Valley based coal company that was sold to Xstrata in a contested bidding process for $1.09b in February 2008.

Near term catalysts: Approvals, key agreements, and funding all anticipated over next six months

We expect several key catalysts over the next six months to move the Boikarabelo project forward and drive a material re-rating in RES. In particular, final approvals are due by mid-year, Transnet rail haulage and Eskom offtake agreements are also anticipated by mid-year. Once these approvals and agreements are in place, the BFS will be finalised. Following this, RES will move forward with debt and equity financing; this is expected to be arranged in Q3 2011. Work on the debt financing is advancing now, enabling debt funding (~$350m) to be in place soon after the BFS is complete. The company expects an equity component (~$200m) will be raised shortly thereafter. Construction is expected to commence in Q4 2011, and a two year construction period is envisaged resulting in first coal from late 2013.

Appealing valuation, although not without risk

We consider Resource Generation to offer one of the most appealing value opportunities in the Australian listed coal space. It is trading at a material 56% discount to our base case NAV, and trades on sector low EV/resource multiples. Approvals are still required; however, we are comfortable that these should not pose any problems. The Eskom sales contract and Transnet rail-haulage agreement are critical items; these will underpin the viability of the project and as such also pose the greatest risk to value realisation. Timing is also likely to be a risk, with moving forward in South Africa unlikely to be done rapidly.

Initiate with Outperform, $1.00 Share price target

We initiate coverage with a rating of Outperform, Speculative Risk. Our price target of $1.00 is set at a 25% discount to our conservatively estimated NAV post adjusting for the dilutive effects of a forecast $250m raising at $1 per share. As RES advances the project over the next six months we expect the stock to re-rate and the current valuation discount to narrow.

Valuation: NAV $1.68

Our NAV for the Stage 1, 6mtpa development is $1.68. We model a more conservative development path than management forecasts. We incorporate $700m capex vs. the targeted $552m; we also assume a 12-month delay to start up, with first coal from end 2014. We model unit costs of US$33/t, approximately 10% above management expectations. Even on this basis, value is apparent, with the stock trading at a 56% discount to our NAV.

The scale of the resources provides significant optionality in the form of expansion potential. If domestic demand grows as anticipated, RES is likely to look to a second-stage expansion to 18mtpa. If infrastructure is available, the sales split could be maintained at 50/50 domestic/export, which would further enhance the value of such an expansion. An expansion to 18mtpa but lifting domestic sales only sees our NAV lift to $3.43; an expansion to 18mtpa where the export/domestic sales split is maintained at 50/50 drives an estimated NAV of $4.91. We assume capex 50% above the company guidance and a 2019 start up for these expansion scenarios.

We are assuming a LT thermal coal export price of US$80/t FOB (for 5800 kcal/kg NAR) and domestic price of US$30/t FOT (for 4400 kcal/kg NAR). Sensitivity to these metrics is material. A $5/t increase in both prices would lift our NAV from $1.68 to $2.31.

On an EV/tonne basis the company is trading at $0.06 per tonne of resource and $0.26 per tonne of reserve. This compares to an average for thermal coal-development companies of $1.03 and $6.90. For further comparison, coal-based M&A over the last three years has seen transactions across a wide EV/tonne range; thermal projects have ranged from $0.07 to $3.81 per tonne of resource.

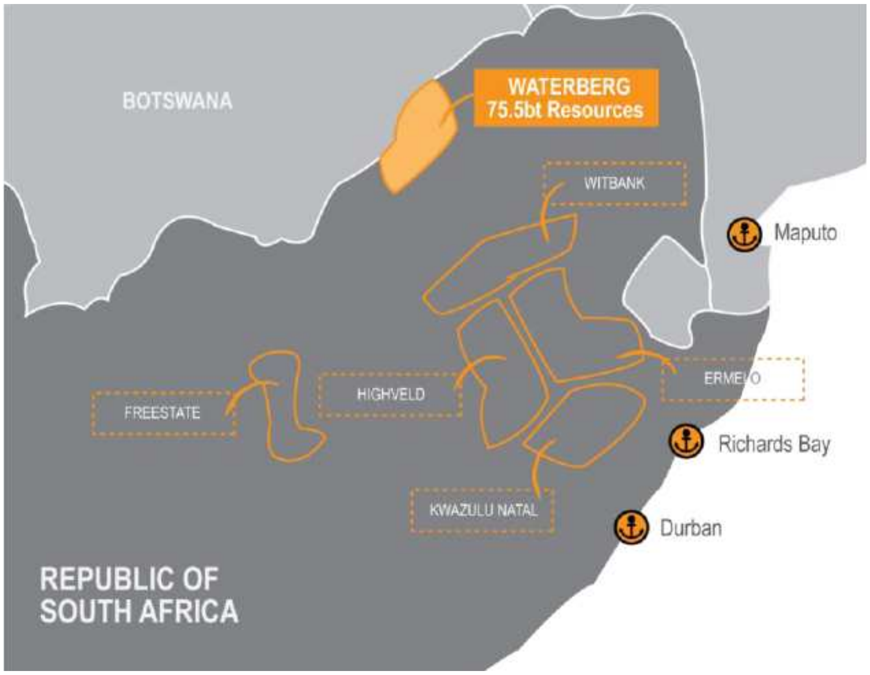
Share Price Target - $1.00; Speculative Risk Rating

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 $250m raising ($50m more than management anticipates) at $1 per share. While this is at a premium to the current share price of $0.74, we consider that by the time an 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.

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 NAV post adjusting for the equity raising. 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 it is in South Africa. This results in a price target of $1.00.

We apply a Speculative Risk rating. This reflects our assessment of the balance sheet rather than inherent project risk. Given the need for further funding, equity raisings have been flagged by the company.

Exhibit 1: South African coal districts & Resource Generation location in Waterberg



Source: Company reports

Key Positives

- **Large scale:** Resource Generation's 3.1bt resource base is significant and positions it well to be a major player in supplying South Africa's growing power needs, while also being of high enough quality to ultimately position RES as a major exporter if infrastructure is developed. Despite the low 50% yields, the resource is large enough to easily underpin the expanded case production scenario of 30mtpa. Current reserves of 745mt cover approximately 35% of the resource area, indicating material upside potential.

- **Low cost:** Strip ratios of 0.6:1 and a shallow seam up to 130m thick support a very low cost mining operation, ensuring Resource Generation can be a profitable producer through the cycle. We estimate total mining costs (including royalties) of about US$15/t. Transport and port charges lift FOB costs for the exported tonnes to about US$50/t, still attractively low.

- **Strong demand:** South Africa's need to boost power generation has been widely flagged for some years. Eskom has struggled to keep pace with growing demand, highlighted by the load shedding events of early 2008. De-mothballing of old facilities has ensured that this has not been necessary again, however, over the next 20 years Eskom anticipates a need for a further 50GW of power supply, with coal fired power generation likely to continue to make up the majority of supply.

- **Right location:** As a sign of things ahead, one of the two power stations Eskom has under construction is located in the Waterberg region, near RES's project. This is only the second in the region, but importantly it signals a move away from the traditional power generation/coal-producing region of the Witbank and surrounds. Mines there have been struggling to maintain production, while deteriorating quality has been flagged as a problem by Eskom. With the next major coal fired power plant development, Coal 3, also to be in the Waterberg it is clear the region is going to become an increasingly important coal and power supply base for South Africa in coming years. RES, with its 3.1bt resource, has an early-mover advantage.

- **Successful management team:** Management own 5.3% of the company. MD Paul Jury and fellow Executive Director Steven Matthews have long term coal industry experience. Most recently, both worked together as Executive Directors of Resource Pacific which was sold to Xstrata in February 2008 for $1.09b. This sale came following a contested bidding process between Xstrata and New Hope. Prior to any bids being made the market capitalisation of Resource Pacific was $440m.

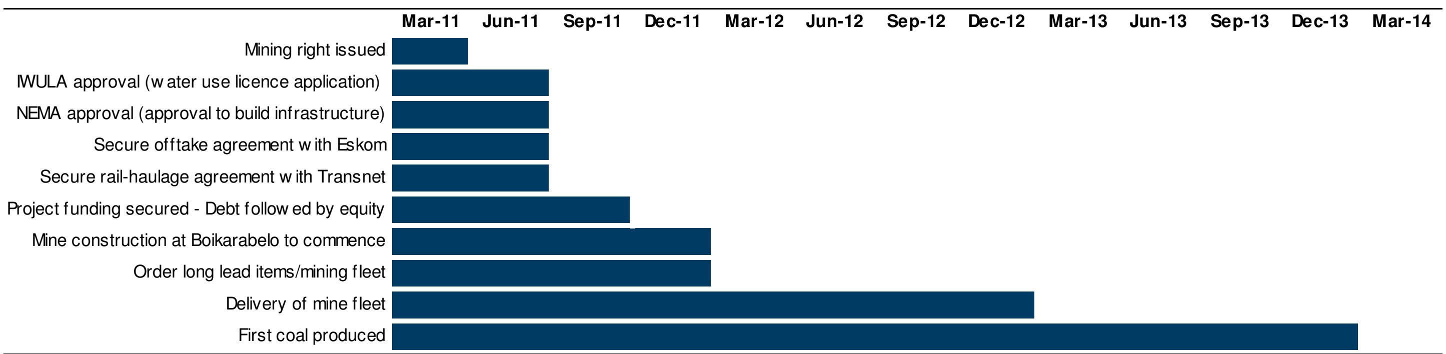
Key Catalysts

- **Rail agreement:** Resource Generation's ability to export its targeted 3mtpa hinges on securing a haulage agreement with Transnet, and they are in the process of negotiating terms. Minor modifications to the line are needed north of Pyramid South, the key junction immediately north of the Witbank region; below this point capacity to Witbank and to export ports is not a limitation.
- **Eskom offtake agreement:** Without a domestic supply agreement with Eskom, the project is unlikely to be viable. We think it is logical for Eskom to support the development of new, large-scale operations, and would be very surprised if a contract was not forthcoming. Eskom's current annual consumption of coal is about 120mt; given traditional suppliers are struggling to maintain quantity and quality, we think Resource Generation offers Eskom an attractive new source of supply.
- **Final approvals:** Resource Generation is expecting three final approvals before mid-year: the mining rights, its water license and the approval to construct the 36km rail spur. The mining right is expected in Q1, the others are expected by mid-year.
- **Offtake contracts:** RES has two export offtake contracts in place covering 1.5mtpa with Indian counterparties. The group is looking to secure offtake agreements for the remaining 1.5mt of its export production with two other parties.
- **BFS & Funding:** With the approvals, Eskom agreement and rail haulage in place, RES will have the final elements necessary to complete its BFS and then move forward with debt financing. We expect this to be secured by Q3 2011.
- **Expansion decision:** Longer term, a decision to expand production would be materially value enhancing. This is, however, unlikely for at least the next two to three years. It is likely to be contingent on Eskom demand and power generation build, and the ability to lift exports materially will require infrastructure upgrades north of Pyramid South.

Key Risks

- **Infrastructure access:** If RES is unable to secure an agreement with Transnet, the project is not viable. We understand negotiations are well advanced.
- **Domestic sales agreement:** Without a buyer for the 3mtpa of domestic quality coal, the project is uneconomic. As we outline above, we see the risk of failing to secure an agreement with Eskom as minimal. A larger issue is what price RES can secure.
- **Funding:** Given the substantial amount of debt funding required (US$350m-US$400m), the ability to raise it is also a key risk. However, once all the required elements to complete the BFS are achieved, project risks will be minimised, which should reduce the chances of not being able to raise the debt.
- **Development risk:** As with all mining developments, RES will be subject to standard development risk around timing and capital costs. With the project being based in South Africa, it is likely timing will be under more pressure than usual.

Exhibit 2: Forecast development timetable



Source: Company reports

Exhibit 3: Summary Financials

Resource Generation

ASX: RES	Share Price: (A$ps)	0.74	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A$1.00
	Mkt Cap: (A$MM)	176	Issued shares (m)	239	Risk Qualifier:	Speculative	NAV:	A$1.68

ASSUMPTIONS		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Exchange Rate	**A$/US$**	**0.88**	**0.95**	**0.94**	**0.89**	**0.84**	**0.79**
Exchange Rate	**US$/ZAR**	**7.84**	**7.56**	**8.13**	**8.38**	**8.63**	**8.88**
Thermal coal (FY avg)	**US$/t**	**78**	**100**	**104**	**98**	**89**	**83**
Coking coal (FY avg)	**US$/t**	**100**	**157**	**148**	**125**	**110**	**118**

RATIO ANALYSIS		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Shares on issue	MM	159	239	489	489	489	489
EPS reported	A¢	-2.1	-1.9	-1.0	-0.9	-3.3	0.9
EPS (pre sig. items)	A¢	-2.1	-1.9	-1.0	-0.9	-3.3	0.9
P/E	**x**	**nmf**	**nmf**	**nmf**	**nmf**	**nmf**	**>50x**
CFPS	A¢	(0.1)	(0.9)	(1.0)	(0.9)	(3.3)	4.1
P/CF	x	nmf	nmf	nmf	nmf	nmf	17.9x
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		0.54	0.52	0.75	0.75	0.71	0.75
P/Book value	x	1.4x	1.4x	1.0x	1.0x	1.0x	1.0x
R.O.E. (pre sig items)	%	-4%	-4%	-1%	-1%	-5%	1%
R.O.A. (pre sig items)	%	-5%	-5%	-1%	-1%	-1%	7%
Interest Cover	x	4.4x	4.4x	-2.3x	-4.8x	-0.3x	1.7x
EBITDA per share	A$ps	-0.03	-0.03	-0.01	-0.01	-0.01	0.13
EV/EBITDA	**x**	**nmf**	**nmf**	**nmf**	**nmf**	**nmf**	**10.0x**

EARNINGS		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Sales Revenue	A$MM	0	0	0	0	0	164
Other Revenue	"	0	0	0	0	0	0
Total Revenue	**"**	**0**	**0**	**0**	**0**	**0**	**164**
Operating costs	"	0	0	0	0	0	(97)
Operational EBITDA	**"**	**0**	**0**	**0**	**0**	**0**	**67**
Exploration Expense/Write-offs	"	(0)	0	0	0	0	0
Corporate & Other Costs	"	(4)	(6)	(5)	(5)	(5)	(5)
EBITDA	**"**	**(4)**	**(6)**	**(5)**	**(5)**	**(5)**	**62**
D&A	"	(0)	(0)	0	0	0	(4)
EBIT	**"**	**(4)**	**(6)**	**(5)**	**(5)**	**(5)**	**57**
Net Interest	"	1	1	(2)	(1)	(19)	(35)
Profit Before Tax	**"**	**(3)**	**(5)**	**(7)**	**(6)**	**(24)**	**23**
Tax Expense	"	0	0	2	2	7	(7)
Minorities	"	0	0	0	0	0	(11)
Net Profit After Tax	**"**	**(3)**	**(5)**	**(5)**	**(4)**	**(16)**	**4**
Significant Items (post tax)	"	0	0	0	0	0	0
Reported NPAT	**"**	**(3)**	**(5)**	**(5)**	**(4)**	**(16)**	**4**

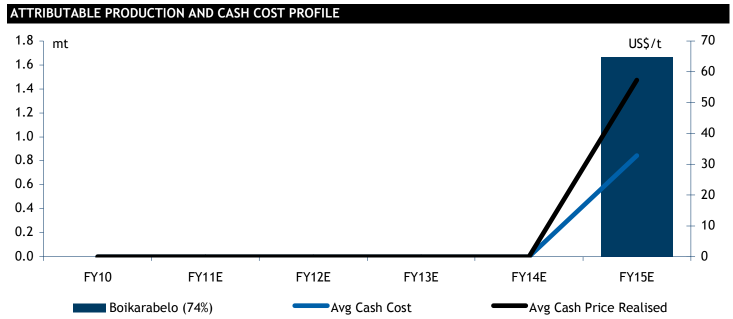
CASHFLOW		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Operational Cash Flow	**A$MM**	**-1**	**-4**	**-5**	**-5**	**-5**	**62**
Net Interest	"	1	1	(2)	(1)	(19)	(35)
Tax Paid and Other	"	0	0	2	2	7	(7)
Net Operating Cashflow	**"**	**(0)**	**(2)**	**(5)**	**(4)**	**(16)**	**20**
Exploration	"	(4)	(7)	(4)	(4)	(4)	(4)
Capital Expenditure	"	(24)	(2)	(70)	(280)	(280)	(76)
Investments	"	0	0	0	0	0	0
Sale of PPE and Other	"	0	0	0	0	0	0
Net Investing Cashflow	**"**	**(28)**	**(9)**	**(74)**	**(284)**	**(284)**	**(80)**
Dividends Paid	"	0	0	0	0	0	0
Debt	"	0	0	450	0	0	0
Equity Issuance	"	30	39	250	0	0	0
Other	"	0	0	0	0	0	0
Net Financing Cashflow	**"**	**30**	**39**	**700**	**0**	**0**	**0**
Net change in cash	**"**	**1**	**28**	**621**	**(288)**	**(300)**	**(60)**

BALANCE SHEET		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Cash & Equivalents	A$MM	6	34	655	367	67	7
PP&E & Mine Development	"	23	27	97	377	657	729
Exploration	"	61	66	70	74	78	82
Total Assets	**"**	**92**	**129**	**824**	**820**	**804**	**819**
Debt	"	0	1	451	451	451	451
Total Liabilities	**"**	**6**	**5**	**455**	**455**	**455**	**455**
Total Net Assets / Equity	**"**	**87**	**124**	**369**	**365**	**348**	**364**
Net Debt / (Cash)	"	(6)	(33)	(204)	84	384	444
Gearing (net debt/(nd + equity)	%	(8%)	(37%)	(124%)	19%	52%	55%
Gearing (net debt/equity)	%	(7%)	(27%)	(55%)	23%	110%	122%

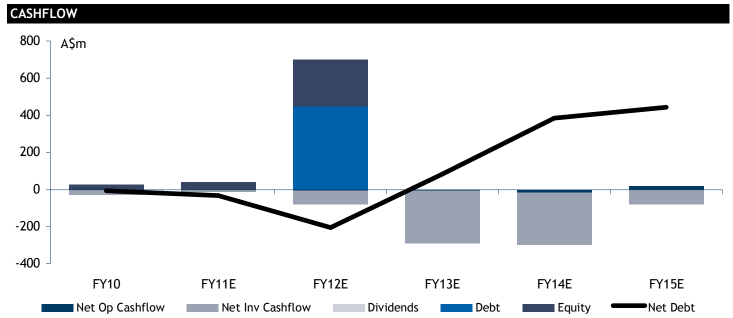
ATTRIBUTABLE MINE STATS		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Coal Production (equity)							
Boikarabelo (74%)	mt	0.0	0.0	0.0	0.0	0.0	1.7
Total coal production	**mt**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.7**
Coal Sales (equity)							
SSCC	mt	0.0	0.0	0.0	0.0	0.0	0.0
Thermal - Export	mt	0.0	0.0	0.0	0.0	0.0	0.8
Thermal - Domestic	mt	0.0	0.0	0.0	0.0	0.0	0.8
Total coal sales	**mt**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.7**
Avg Cash Price Realised	US$/t	0.0	0.0	0.0	0.0	0.0	57.3
Avg Cash Cost	**US$/t**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**32.8**
Cash Margin	US$/t	0.0	0.0	0.0	0.0	0.0	24.5

RESERVES AND RESOURCES (Mt)	Resources	Reserves	EV/t Resource
Waterberg #1 SW	426	314	-0.01
Waterberg #1 NE	552	-	
Witkopje S & Kalkpan	664	431	**EV/t Reserve**
Draai Om	791	-	
Witkopje N	688	-	-0.04
Total	**3122**	**745**	

ATTRIBUTABLE PRODUCTION AND CASH COST PROFILE



CASHFLOW



EQUITY DCF VALUATION			
Projects	**A$MM**	**A$ps**	
Boikarabelo (74%)	390	1.63	
Corporate	-26	-0.11	
Net Cash / (Debt)	36	0.15	**P / NPV**
Net Equity Value (@ 8% real d.r.)	**400**	**1.68**	**0.4x**
Shares on issue (m)	239		

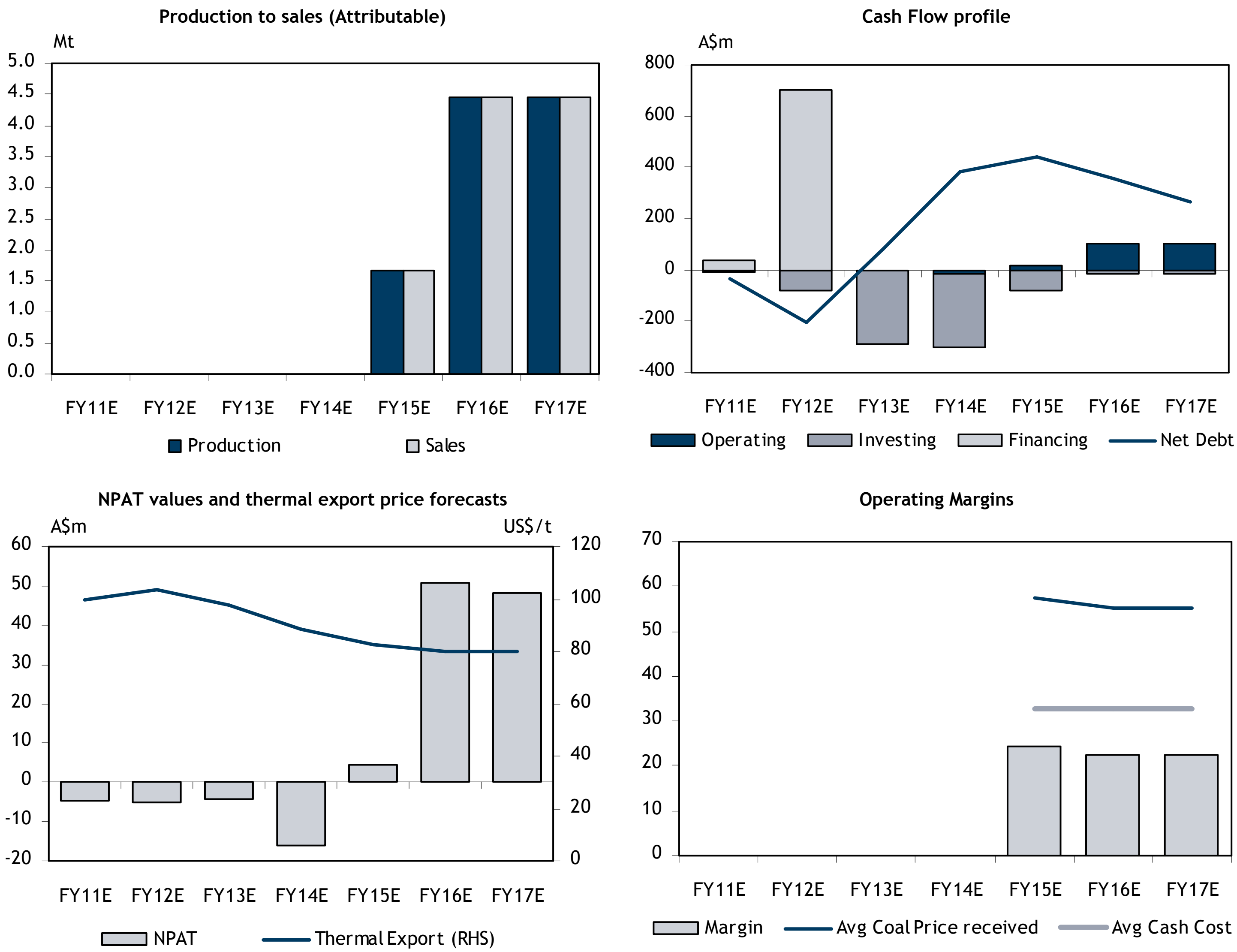
Priced as of market close Australian EDT, February 22, 2011.
Source: Company reports; RBC Capital Markets estimates

Financial Summary

RES raised $30m in November by way of an institutional placement at $0.50 per share. The company ended the year with cash on hand of $37m, this should be sufficient to carry it through until development commences in Q4 2011. The company has flagged that it will seek to raise debt and equity financing post completion of the BFS. On the targeted timetable, this should ensure financing is in place by Q3, which will then allow construction from Q4 2011. The company's current capital cost estimate is $552m, which is expected to be financed approximately 65% debt / 35% equity.

The company has stated it expects to issue Information Memorandums to banks shortly. Once necessary mining approvals are in place and the BFS complete, this should mean RES will be able to move forward on debt financing quickly, subsequent to this RES plans to raise equity. With an equity raising of at least $200m likely to be required, we expect it to be significantly dilutive given current market capitalisation of $184m. However, ahead of any equity raising, mine approvals, Eskom offtake, Transnet rail agreement, port allocation and debt financing will all have to be in place; as such, we could expect that any equity raised would be at a substantial premium to current levels as the project will have been materially de-risked once it gets to the equity financing stage.

Exhibit 4: Summary Financials



Source: RBC Capital Markets estimates

Valuation and Share Price Target

We have valued Resource Generation under several scenarios. We outline each below:

RBC Base Case – Conservative 6mtpa

Under this scenario we assume

- Capex of $700m vs. guidance of $552m.
- Start up Q4 2014 vs. guidance of Q4 2013.
- Costs of US$15/t FOT for domestic sales and US$50/t FOB for export sales.
- Domestic price of US$30/t, management suggest that this is at the lower end of possible outcomes.
- Export price in line with RBC thermal coal forecasts. (long term US$80/t FOB).
- Tax break until capex repaid, thereafter 28% domestic tax rate as per South Africa law.
- We use an 8% real discount rate in line with RBC standard for all mining companies.

This results in an NAV of $1.68 per share.

Management Assumptions

If we use management assumptions ($552m capex and start-up Q4 2013), our NAV increases to $2.15 per share.

Expansion Case 1: 18mtpa - exports 3mtpa, domestic 15mtpa

Under this scenario we assume an expansion to 18mtpa from 2019, but hold exports at 3mtpa. We allow for capex of $750m, approximately 50% above management guidance. This results in an NAV of $3.43.

Expansion Case 2: 18mtpa - exports 9mtpa, domestic 9mtpa

In this scenario, we use the same estimates as above; however, we assume the mix can be held constant at 50/50 domestic export sales. Under this scenario our NAV increases to $4.91.

Consistent across all scenarios is a domestic price assumption of US$30/t and our long term export price of US$80/t. We also assume the US$15/t FOT costs for domestic sales and US$50/t FOB for export sales.

For the expansion case to proceed we will likely need to see several key developments: a comprehensive upgrade to the rail network, go ahead of Eskom's Coal 3 project, and for exports, additional port capacity. Given the long-dated nature of these developments, we would consider these scenarios "blue sky" in nature, but at least they highlight the potential upside that the scale of RES's deposit offers.

Exhibit 5: NAV analysis

		RBC Base Case	Management Guidance	Expansion 1	Expansion 2
Stage 1					
Capital costs	A$m	700	552	700	700
Avg operating costs	US$/t	33	~30	33	33
First production		Q4 2014	Q4 2013	Q4 2014	Q4 2014
Domestic sales	Mt	3	3	3	3
Export sales	Mt	3	3	3	3
NAV	**A$ps**	**$1.68**	**$2.15**		
Stage 2					
Capital costs	A$m		500	750	750
Avg operating costs	US$/t			33	33
First production				2019	2019
Domestic sales	Mt			15	9
Export sales	Mt			3	9
NAV	**A$ps**			**$3.43**	**$4.91**

Source: RBC Capital Markets estimates

Exhibit 6: NAV Breakdown

	Base Case		Expansion Case 1	
Project	**A$m**	**A$ps**	**A$m**	**A$ps**
Boikarabelo (74%)	390	1.63	810	3.39
Corporate	-26	-0.11	-26	-0.11
Net Cash / (Debt)	36	0.15	36	0.15
Equity Valuation	**400**	**1.68**	**821**	**3.43**
Shares on issue (m)	239			

Source: RBC Capital Markets estimates

Share price target $1.00

In setting our share price target we adopt the most conservative NAV above, our 6mtpa scenario. We then account for the dilutive effect of a $250m raising at $1 per share (funding the 35% equity portion of our above-guidance $700m capex estimate), and then apply a further 25% discount to account for the development stage of the project and South African country risk. This results in a target of $1.00

Exhibit 7: Share price target

NAV	$400m
Shares	239m
Equity raised	$250m
Price	$1.00
New Shares	250m
Total NAV	$650m
Total Shares	489m
Adjusted NAV per share	$1.33
Risk weighting	75%
Share price target	**$1.00**

Source: RBC Capital Markets estimates

The table below shows the sensitivity analysis of raising money at various share prices and the impact on our base case NAV of $1.68.

Exhibit 8: NAV sensitivity to equity raising price.

Raising ($m)	Price	Issued Shares (m)	Total NAV ($m)	Total Shares (m)	Adjusted NAV per Share
250	**0.70**	357	650	596	**1.09**
250	**0.80**	313	650	551	**1.18**
250	**0.90**	278	650	517	**1.26**
250	**1.00**	**250**	**650**	**489**	**1.33**
250	**1.10**	227	650	466	**1.40**

Source: RBC Capital Markets estimates

Valuation Sensitivity Analysis

The long life nature of the project means our NAV is highly levered to our LT assumptions. The tables below illustrate NAV sensitivity to long term domestic and export coal prices, project start up dates, and capex.

Exhibit 9: NAV Sensitivity to Long-Term Coal price assumptions - Domestic and Export

		Domestic Price US$/t										
		26	28	30	32	34		26	28	30	32	34
	70	0.78	0.92	1.03	1.16	1.29	70	-53%	-45%	-38%	-31%	-23%
Export	75	1.10	1.23	1.36	1.48	1.61	75	-34%	-26%	-19%	-11%	-4%
US$/t	80	1.41	1.55	**1.68**	1.80	1.94	80	-16%	-7%	**0%**	7%	15%
	85	1.73	1.87	1.98	2.12	2.24	85	3%	11%	18%	27%	33%
	90	2.05	2.17	2.31	2.42	2.55	90	22%	29%	38%	44%	52%

Source: RBC Capital Markets estimates

Exhibit 10: NAV Sensitivity to costs - Capex and Cash costs

		Capex A$m										
		552	650	700	750	800		552	650	700	750	800
	31	2.13	1.96	1.86	1.76	1.65	31	27%	17%	11%	5%	-1%
Cash	33	1.96	1.78	**1.68**	1.57	1.47	33	17%	6%	**0%**	-6%	-12%
Costs	34	1.78	1.60	1.49	1.39	1.30	34	6%	-5%	-11%	-17%	-22%
US$/t	35	1.60	1.41	1.31	1.22	1.11	35	-5%	-16%	-22%	-27%	-34%
	36	1.42	1.23	1.13	1.03	0.93	36	-15%	-27%	-32%	-39%	-44%

Source: RBC Capital Markets estimates

Exhibit 11: NAV Sensitivity to costs - Capex and Project start up

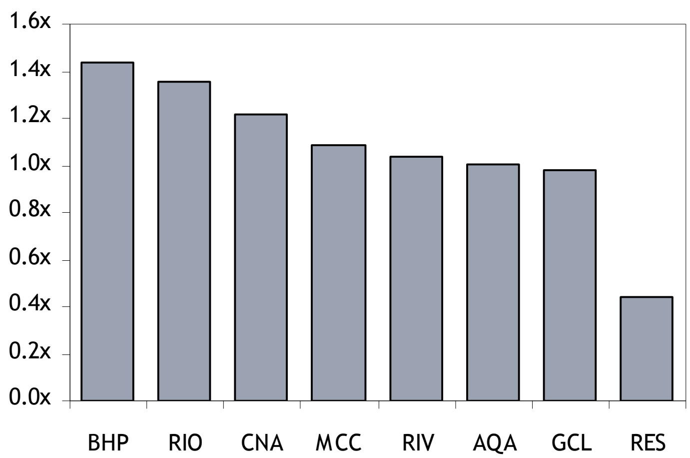
		Capex A$m										
		552	650	700	750	800		552	650	700	750	800
	Dec-13	**2.15**	1.96	1.85	1.74	1.63	Dec-13	**28%**	17%	11%	4%	-3%
Start	Jun-14	2.05	1.87	1.76	1.65	1.55	Jun-14	22%	11%	5%	-1%	-8%
Up	Dec-14	1.96	1.78	**1.68**	1.57	1.47	Dec-14	17%	6%	**0%**	-6%	-12%
	Jun-15	1.86	1.69	1.59	1.49	1.40	Jun-15	11%	1%	-5%	-11%	-17%
	Dec-15	1.77	1.61	1.51	1.42	1.32	Dec-15	6%	-4%	-10%	-15%	-21%

Source: RBC Capital Markets estimates

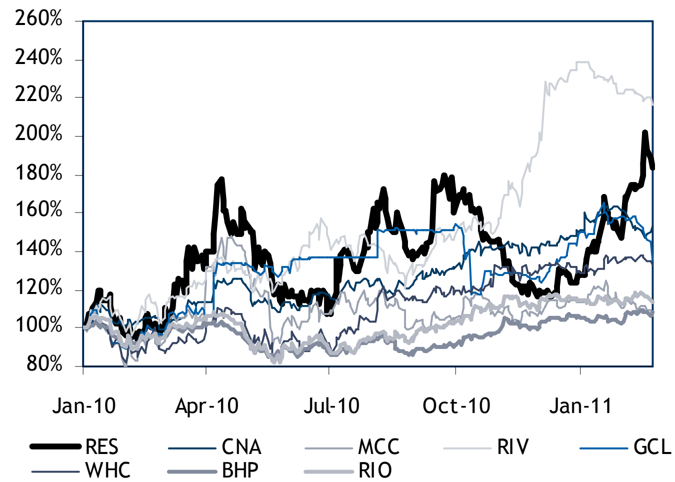
It is evident under most realistic price, capex, cost and timing scenarios that there is significant value in the Boikarabelo project. We consider achieving the near-term resolution of approvals, Eskom contract and Transnet rail haulage agreement will significantly de-risk the project. This should drive a re-rating in the share price towards our assessed valuation. We note the significant upside to our estimates should management deliver on its targeted capex of $552m and project start up in the December quarter 2013; this would imply an NAV of $2.15 vs. our base case NAV of $1.68.

Exhibit 12: Peer comparison charts

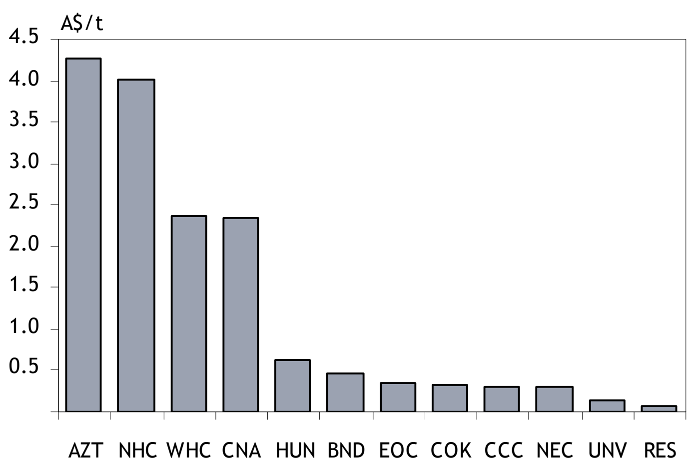
P/NAV



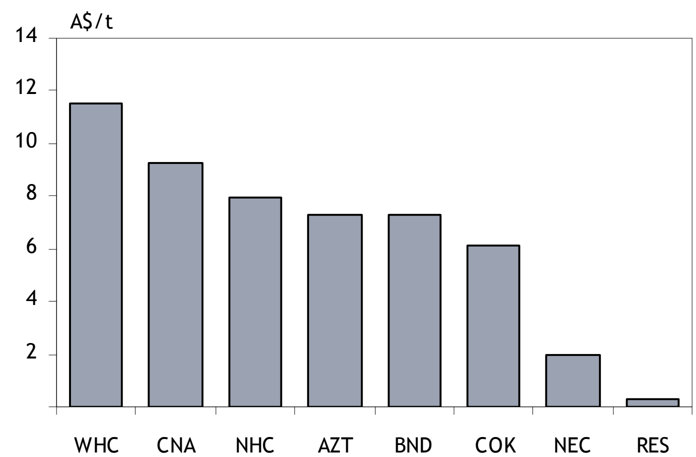
Relative Performance



EV/JORC resources



EV/JORC reserves



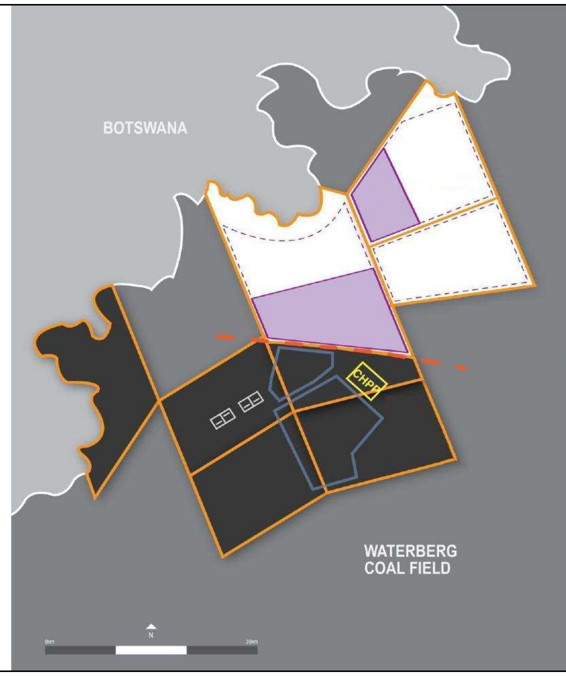
Priced as of market close Australian EDT, February 22, 2011.
Source: Company data (NHC: New Hope Corporation; WHC: Whitehaven Coal; HUN: Hunnu Coal; BND: Bandanna; EOC: Endo Coal; COK: Cockatoo Coal; CCC: Continental Coal; NEC: Northern Energy; UNV: Universal Coal); RBC Capital Markets estimates

Asset Summary – Boikarabelo Project

Boikarabelo is comprised of two deposits: Ledjadja and Waterberg #1, with Ledjadja being the more substantial and the planned mining development. The deposits are in the Waterberg coalfields of Limpopo Province, located 300km north of Johannesburg, bordering Botswana. The region contains 40% of South Africa's coal resource, with the major active mine being Exxaro's 50mtpa Grootegeluk operation. Key approvals are outstanding, these include the Mining Right, the IWULA (Integrated Water Usage License Application) and development approval for the rail under NEMA (National Environmental Management Act). These are anticipated to be in place by mid-year.

Exhibit 13: Boikarabelo project snapshot

Resource Generation ownership	70% Ledjadja, 74% Waterberg 1
Mine type	Open cut
ROM production	12mtpa
Saleable production	**6mtpa**
Targeted first exports	Q4 2013
Capital Expenditure	**A$552m**
RBC cash cost estimate	**US$30/t (FOB)**
Sales split	3mtpa Export 3mtpa Domestic
Rail	~1050km to RBCT
Port	RBCT, Durban, Maputo
Resource	3.1bt
Reserve	**745mt**
Target mine life	30+ years
Estimated strip ratio (t : t)	0.6:1
Off-take	0.5mtpa, 20yrs, Bushan Steel 1mtpa, 20yrs, Calcutta Electric

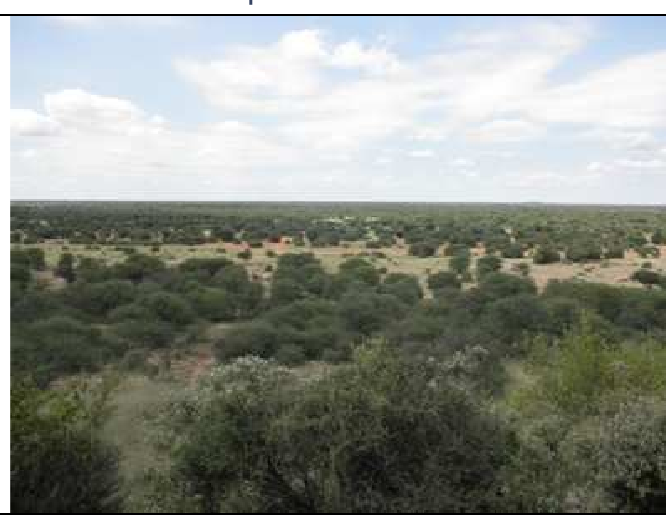


Source: Company reports, RBC Capital Markets estimates

Reserves and Resource

The project has a combined total resource of 6.4bt; approximately 50% of this is shale interburden, and removal of this from the resource leaves a total resource of 3.1bt. The saleable coal reserve stands at 745mt, of which 431mt is Kalkpan North and Witkopje South, which make up the deposits targeted for the first stage of production. The orebody is clearly defined to the south where it is cut off along a fault. This clear natural resource delineation provides for a sterilized area that is the planned location for the processing plant and site infrastructure.

Exhibit 14: Fault defining south boundary of resource; Land area for CHPP and stockpiles



Source: RBC

The orebody is clearly defined to the south where it is cut off along a fault. This clear natural resource delineation provides for a sterilized area that is the planned location for the processing plant and site infrastructure.

Given the large scale of the resource, no further extension or infill drilling is planned. The current reserve covers approximately 35% of the resource area, suggesting total reserve, if drilled out, could come to approximately 2bt.

The scale of reserve should easily support 30+year of mining at the 6mtpa rate (12mtpa ROM), while the resource would suggest 30+ years of mining at the targeted 18mtpa rate is also possible.

Exhibit 15: Boikarabelo Resources and Reserves (mt, 100%)

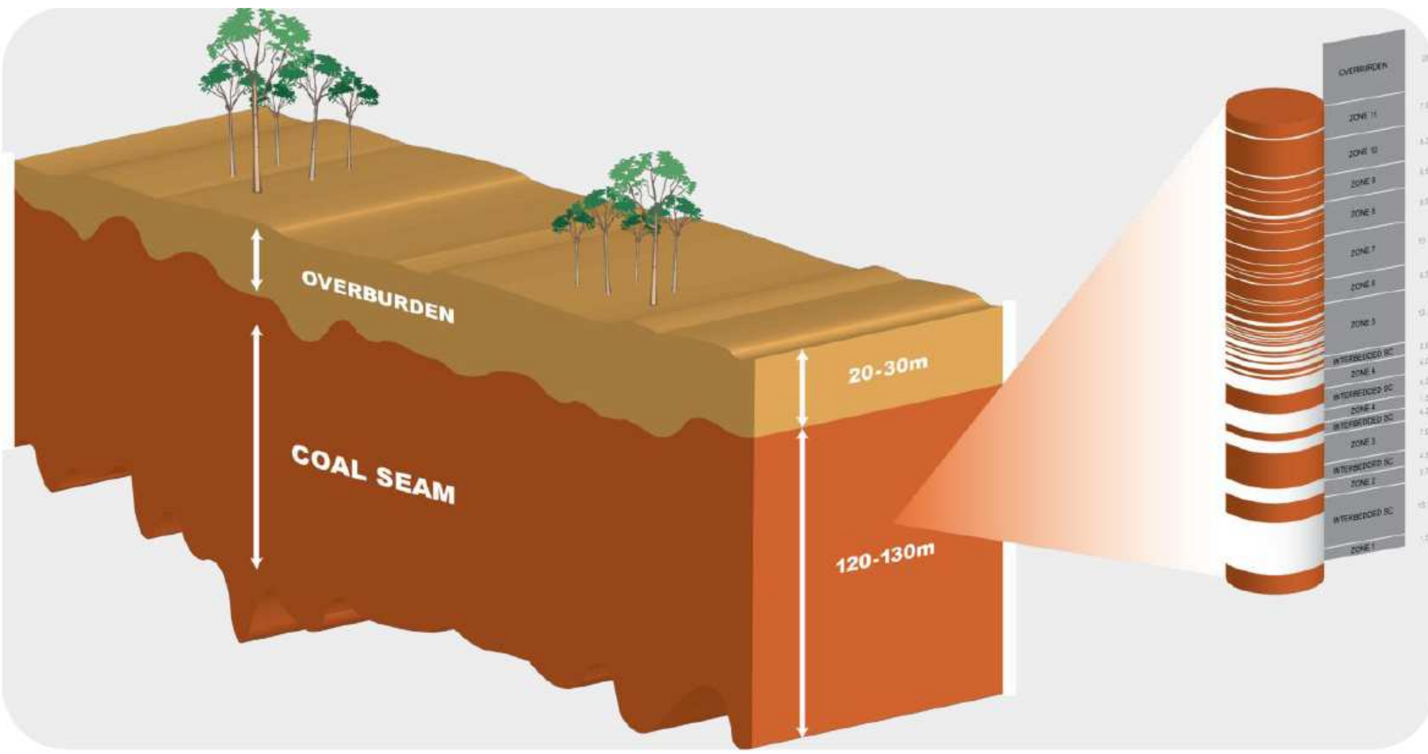
	Inferred	Indicated	Measured	Total Resource	Probable Reserve
Waterberg #1 SW			426	426	314
Waterberg #1 NE		552		552	
Witkopje S & Kalkpan			664	664	431
Draai Om	791			791	
Witkopje N	688			688	
Total	**1480**	**552**	**1091**	**3122**	**745**

Source: Company reports

Mining

Mining will be standard drill and blast, truck and shovel. Mining will be owner-operator, and technically very straightforward. The seam is shallow, under 20m-30m of overburden, the strip ratio of 0.6:1 is very low and the seam is extremely thick. The overall seam width is 120m-130m, although there are multiple layers of interburden, in particular at lower depths. Plies in the upper half of the seam range from 6.5m to 13.5m, with very thin layers of interburden.

Exhibit 16: Boikarabelo coal seam



Source: Company reports

Processing

The CHPP will be a 3500t/hr plant, utilising standard primary, secondary and tertiary crushing, and flotation to produce the two product streams. The two product streams will be: 1) a 24% ash, 4100kcal (NAR) domestic thermal product; and 2) a 14% ash, 5700kcal (NAR) export thermal product. Moisture is low in both, 4.2% in the domestic product and 4.7% in the export product. The plant is designed in a modular fashion and can be expanded easily if required.

Power

RES has signed a power-supply agreement with Eskom that will require transmission infrastructure to be constructed, which is incorporated into the $552m capex total. As an alternative, RES is also in discussions with a potential IPP partner who would develop a small scale power station on site and sell the power back to RES.

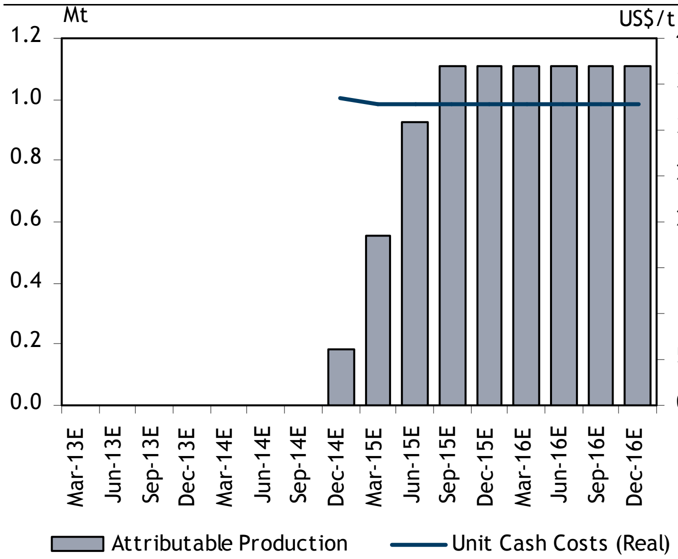
Water

Hydrological test work on the local borefield has indicated sufficient water to supply 10 years of operations. RES has submitted its Integrated Water Usage License Application (IWULA), for which approval is expected by mid 2011.

Cash Costs

The low strip ratio and flat, thick seam ensures the fleet requirements are minimal and mining costs are low. Resource Generation is finalising its cost work for the BFS and hasn't provided final guidance as yet; we estimate a FOT cost (including royalty) of US$15/t and an FOB cost of US$50/t.

Exhibit 17: Boikarabelo production and cash cost profile – Stage 1



Cash Cost Profile

LOM average, US$/t	Real
Royalties	2.9
Mining	10.2
Washing	2.0
Rail	12.2
Port	3.9
Admin	1.5
Unit Cash Cost	**32.7**

Source: Company reports, RBC Capital Markets estimates

Offtake and Marketing

Resource Generation has two offtake contracts in place for export tonnage. The first was signed with Integrated Coal Mining Ltd (ICM), part of India's RPG group, in September 2010. The agreement covers 1mtpa for three years, then 2mtpa for 17 years. The coal will be delivered to Calcutta Electric Supply Corporation (CESC), India's third largest power supplier. CESC is an affiliate of Integrated Coal Mining. Pricing will be set in line with the international annual benchmark price. At the time of signing the offtake contract, ICM took up a placement of 10% of RES shares at $0.575.

The second offtake contract was signed with Bushan Steel in December 2010. The agreement covers 0.5mtpa of coal for five years, then a minimum of 0.5mtpa for the next 15 years. Pricing for this contract will be spot at the time of shipments. Bushan is an Indian steel maker, currently producing 2.5mtpa of steel, expanding to 5mtpa by Oct 2012. The supply of coal is targeted for the expansion of Bushan's power generation capacity; this currently stands at 300MW.

Under both agreements, deliveries will commence following the commissioning of the mine, thus RES has no potential liabilities in the event the commissioning of the mine is delayed. Resource Generation is looking to secure two more offtake agreements covering the remaining Stage 1 export tonnes of 1.5mtpa.

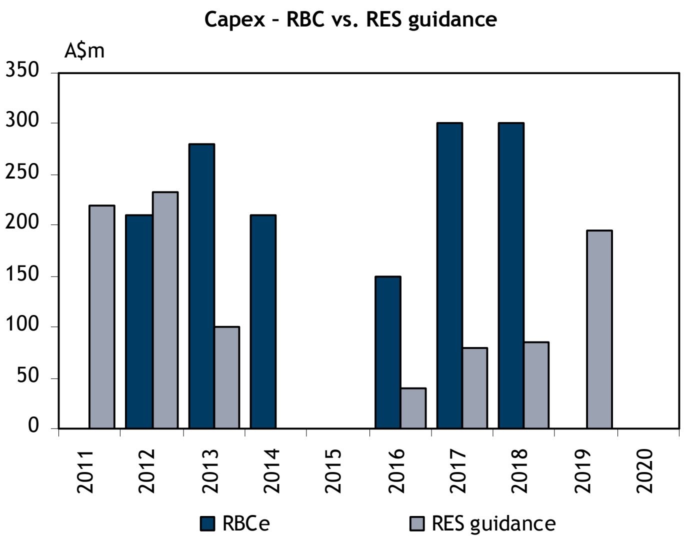
Negotiations with Eskom over a domestic sales agreement are ongoing. This will be critical to underpinning the economic viability of the project. We consider Eskom's domestic demand to be strong enough to support a 3mtpa offtake agreement with RES; this is primarily a function of the pressure current Mpumulanga-based producers are under to deliver targeted rates of production. We discuss this further in the section on Eskom below.

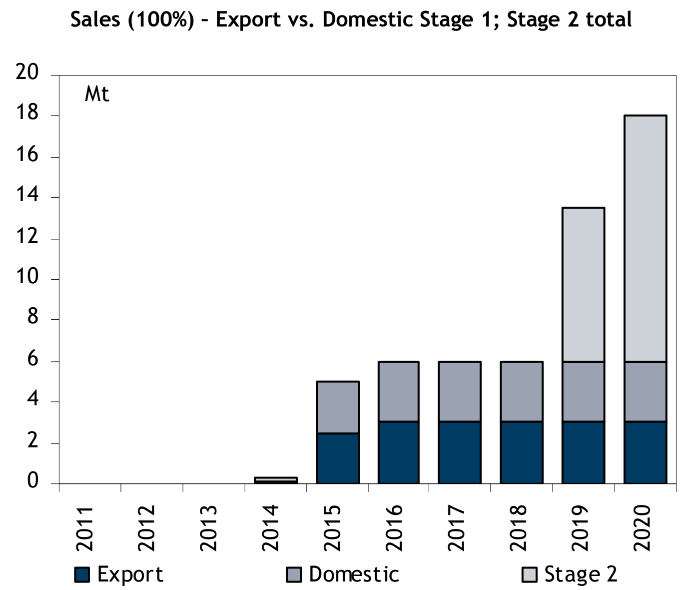
We note that Firestone Energy has recently signed a Memorandum of Understanding with Eskom for the supply of coal from its Waterberg Coal Project (held in JV with Sekoko Coal of South Africa); this deposit is located to the east of the RES deposits, immediately adjacent to Exxaro's Grootegeluk mine. The agreement covers the supply of 525ktpa from 2012 to 2015, lifting to 1mt from 2015 to 2018; the coal will be supplied to the Matimba power station, Eskom's operational power station in the area. This agreement shows Eskom is looking to secure additional supply from the area.

Capital Requirements

Stage 1 capex is estimated at $552m covering mine development, site infrastructure, the CHPP and the 36km rail spur to the existing network. We conservatively assume capex of $700m. To lift from the 6mtpa Stage 1 rate of production to the potential Stage 2 18mtpa rate of production, Resource Generation expects capital costs for the expansion to be low, given much of the supporting infrastructure is to be built in Stage 1. Current estimates are about an additional $500m.

Exhibit 18: Capex and production profile - Stage 1 and Stage 2 development



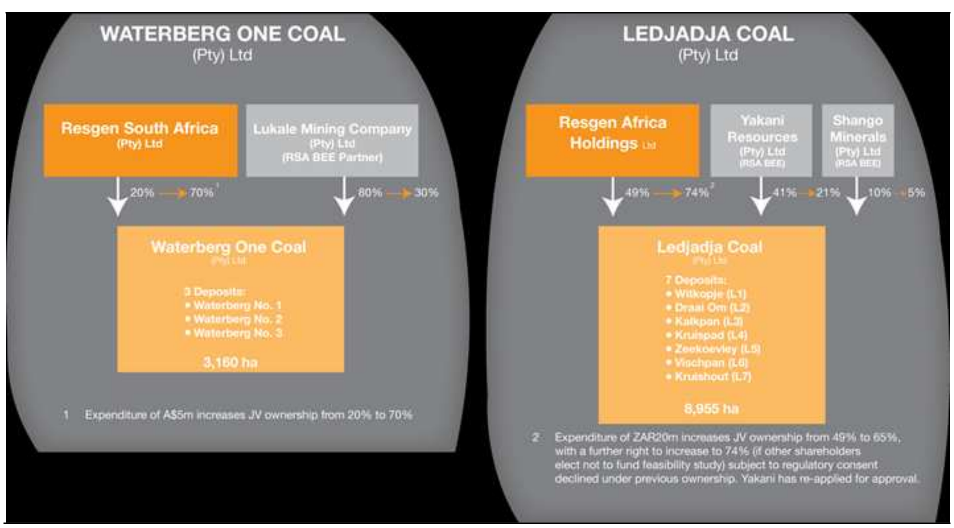


Source: Company reports, RBC Capital Markets estimates

BEE & Community Support

RES has its BEE structure in place. Each of the RES potential developments has a slightly different structure. The Waterberg #1-3 deposits (held under Waterberg One Coal Pty Ltd), has a BEE partner with a 30% interest. The Ledjadja deposit, (targeted for development and held under Ledjadja Coal Pty Ltd) has two BEE partners who own a total of 26%.

Exhibit 19: RES BEE structure



Source: Company reports

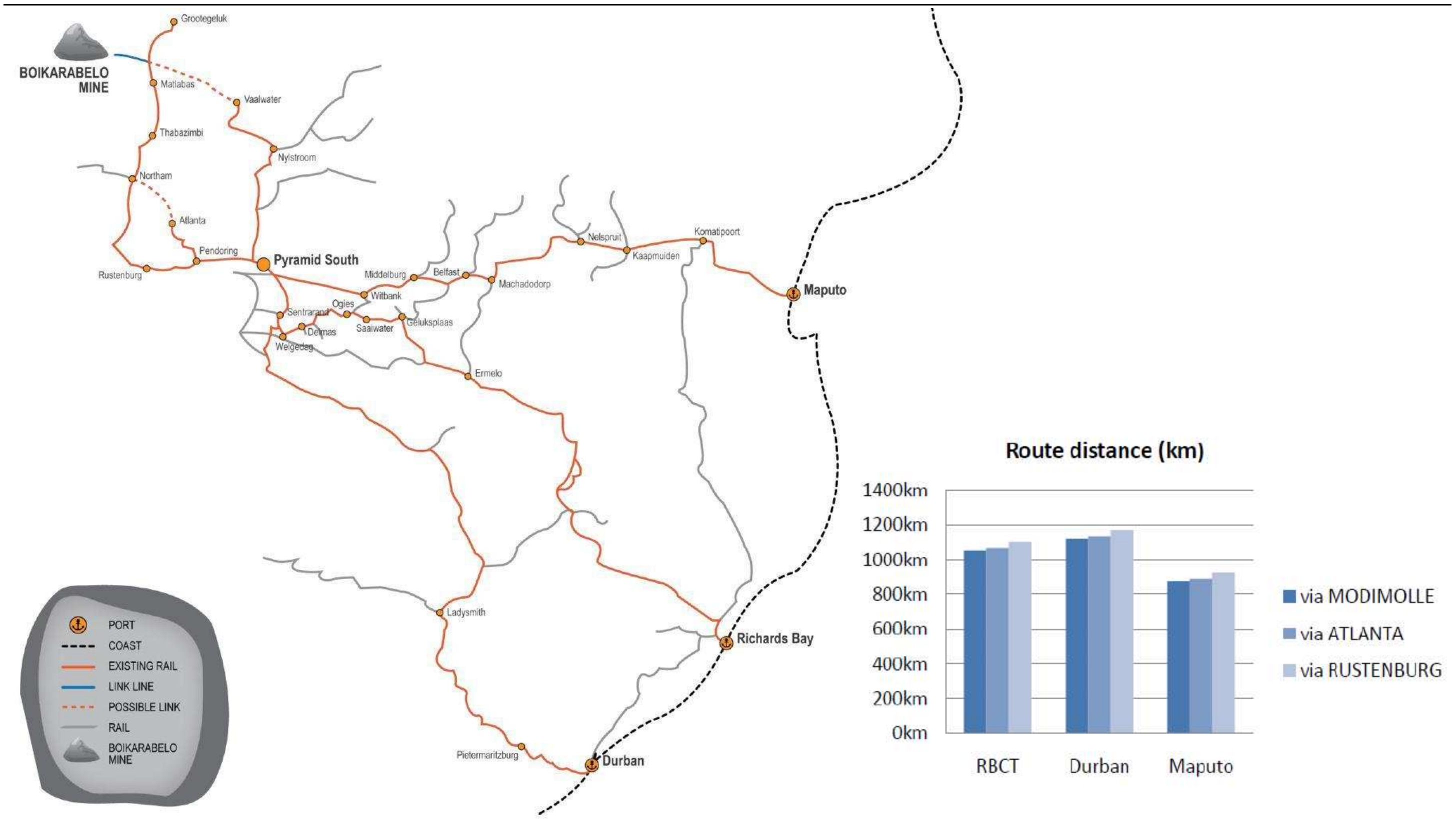
We believe the community support for the project and mining in general is strong. At the major regional town of Lephalele, the expansion of Exxaro's Grootegeluk and the construction of the new Medupi power station are creating jobs, as well as supporting development of training centres, new housing, and shopping centres. We were surprised by the level of activity and development in the town when we visited.

Infrastructure Summary

Rail - Spur Construction

RES is well advanced with the development plans for the rail spur linking its site into the rail system. The final hurdle is the approval under the National Environmental Management Act (NEMA). The spur will be 36km, largely running parallel to an existing road. RES either owns the land or in the case of one property, has a servitude to use the land for the rail spur, essentially eliminating the risk of any objection to the development.

Exhibit 20: Rail & Port infrastructure



Source: Company reports

Rail - Haulage Agreement

A rail-haulage agreement with Transnet remains a key hurdle for RES. Coal will need to be hauled to the Witbank power stations for domestic sales, and to coal-export terminals for the export tonnes. Coal will initially be railed along a 36km spur, which RES will construct, linking it to the network. Coal will then be hauled via Pyramid South onto either the Witbank or out to export ports. Haulage distances are material: RBCT and Durban are 1000+ km, Maputo is closer at 850km, although it is a less likely outcome for exports given more limited capacity constraints.

RES is comfortable that capacity exists on the current line beyond Pyramid South. North of Pyramid South some minor modifications will be necessary. How these will be funded remains a discussion point with Transnet.

Longer term, RES and Transnet are assessing options for a larger-scale lift in rail capacity. RES is in discussions with Transnet regarding a potential PPP structure to enable it to lift rail capacity further and support the Stage 2 expansion. This would require more significant work on the rail line – increasing axle loads to 26t, electrifying the line, a bypass of an older section of the track and additional rolling stock. We do not factor this development into our base case valuation.

Notably, given the rail distance, it is going to represent the majority of the FOB costs for export. RES estimates transport will make up 60% of its FOB costs. We estimate that this will come to approximately US$30/t, or approximatelyUS$0.03/km tonne.

Port

There are four potential port solutions for RES: RBCT, RBCT Dry Bulks, Durban and Maputo. RES has arrangements in place sufficient for it to be comfortable that it has capacity to export 3mtpa. The nature of these arrangements remains confidential. The table below summarises the ownership and capacity at each of these ports.

Exhibit 21: Potential port solutions

Existing Facilities	Richards Bay Coal Terminal	Richards Bay Dry Bulk Terminal	Durban	Maputo
Owner/Operator	RBCT is owned by coal companies and controlled by the three major producers (Anglo American, BHP, Xstrata)	Navitrade, a subsidiary of Grindrod	Bulk Connections, a subsidiary of Bidvest	Matola, a subsidiary of Grindrod
Authority	National Ports Authority	Transnet Ports	National Ports Authority	CFM
Capacity	91 mtpa.	3mtpa	3mtpa	3mtpa
	Limited to 70mtpa by Transnet Freight Rail capacity. Further capacity easily achievable.			Expansion to 6mtpa underway. Further expansion to 10mtpa planned.
Ship capacity	180,000t	Panamax	45,000t	50,000t
Loading Rates	10,000tph	20,000tpd	1,000tph currently being increased to 2,500tph	15,000tpd

Source: Company reports

The estimated capacity of RBCT is 91mt; however, it struggles to deliver on this due to rail restrictions. In 2010 it exported 63mt. We understand access is achievable through paying the existing port allocation holders spot charges; port usage charges would be additional on top of the spot-access fee. This is the most favourable export port as it is the only one capable of handling capesize vessels, although achieving a permanent allocation is unlikely given it is controlled by the major coal exporters. RBCT Dry Bulks (owned and operated by Transnet) can take Panamaxes; Durban and Maputo are restricted to Handymaxes.

Maputo port is underway with expansions lifting from 3mtpa to 6mtpa (of which 1.5mtpa will be for manganese) and then 10mtpa; most of the additional capacity has been secured by Coal of Africa. Further expansions are currently being examined. Durban currently has 3mtpa of capacity and is looking at going to 5mtpa. Primary exports from Durban are manganese, although we understand these are going to be diverted elsewhere.

The Eskom Factor & South African domestic power supply

Eskom is a South African state-owned enterprise that is the primary producer of electricity in South Africa and the largest producer of electricity in Africa. Eskom generates ~95% of electricity consumed in South Africa, and ~45% of that consumed in all of Africa. Eskom's energy business comprises one of the world's largest portfolios of electricity generating power stations, with an average of ~230,000 GWh generated per annum. The company's operations are primarily spread throughout South Africa, with satellite operations in other African nations of Mali, Senegal, Mauritania and Uganda. Power generation is largely coal-fired based, contributing ~90% of electricity in FY2010, with the remainder sourced from a combination of hydro, gas, nuclear and wind.

Given the significant proportion of coal-fired generation, it is a natural consequence that Eskom is the largest consumer of coal in South Africa, procuring more than half of production. Eskom's demand for coal is set to increase as it proceeds through its seven-year R485b expansion plans to 2012, which has already added ~4,900MW of additional capacity. Longer term, Eskom estimates that South Africa needs to build 40,000MW of new electricity generation capacity by 2025. At present ~12,000MW is under construction through new power stations (Medupi, Kusile and Ingula) and a return-to-service program across several previously mothballed stations.

Exhibit 22: Eskom Current planned capacity expansion (MW)

	Status	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	Total
Grootvlei	Return to service	800								800
Komati	Return to service	125	325	300						750
Arnot	Expansion	70	30							100
Medupi	New station				1588	794	1588	794		4764
Kusile	New station					1600	800	1600	800	4800
Ingula	New station				338	1014				1352
Total		995	355	300	1926	3408	2388	2394	800	12566

Source: Eskom

Coal-fired power generation expanding and shifting to the Waterberg - Positive for RES

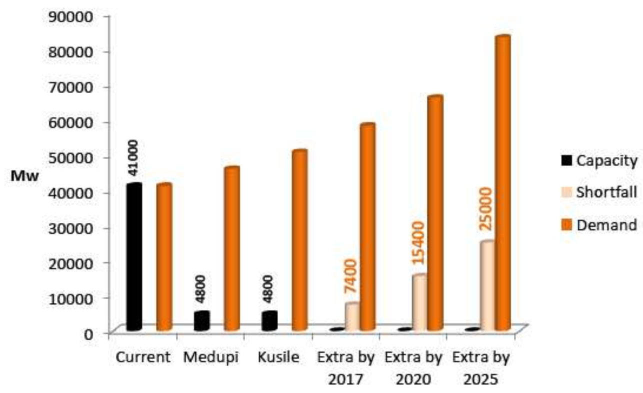
In the near term, Eskom's expansion is focused on two new stations: Medupi (4800MW, ramping up from 2012, supplied by Exxaro's Grootegeluk mine) and Kusile (4800MW, ramping up from 2014, supplied by Anglo) adding 10GW of new capacity to the current base load generation of approximately 35GW.

As a sign of things to come, Medupi will be located in the Waterberg region. Only one of the existing 10 stations is currently in the Waterberg; the remainder are all located within 200km of each other in the coal fields of Mpumalanga. These coal fields currently produce about 80% of South Africa's coal. Since 2008 Eskom has also been working through a de-mothballing program at three other coal fired power plants, which so far has added 2.2GW of capacity, with a further 1.5GW still to come on stream. The next stage of expansion is expected to be Coal 3. Plans for Coal 3 are well advanced, and three potential Waterberg sites are marked as the potential locations. This is slated as a 5GW plant. While plans are advanced, at this stage there is no plan to progress it further. With RES located in this region, we would consider it a natural supplier to Eskom's growing power needs, which will increasingly be Waterberg based.

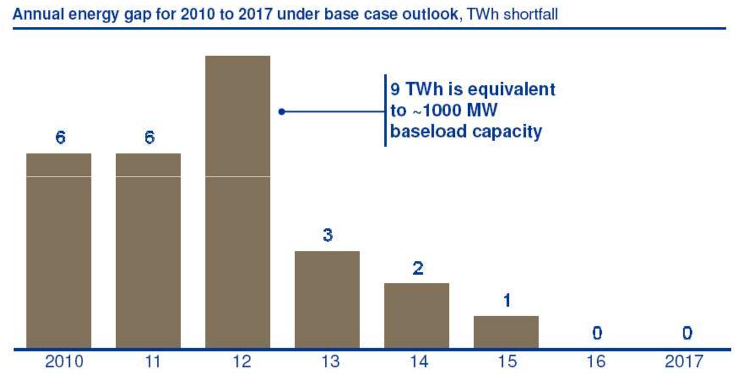
Longer term, Eskom forecasts a need for a further 50GW of capacity by 2028. An increasing proportion of incremental power generation will be nuclear, hydro and wind; however, coal will continue to fuel at least 50% of South Africa's power. Clearly, this buildout will require significant growth in coal production. Eskom burnt 123 million tons of coal last fiscal year. The two new power plants, Medupi and Kusile, will begin generating power from 2012, ultimately adding up to 30 million tons to Eskom's annual requirement. As the buildout continues, coal demand will rise with it; meanwhile, with the existing coal mines struggling to fulfil current requirements we see sufficient demand from Eskom to support a 3mtpa offtake agreement from RES. Eskom's growing coal demand from the Waterberg has been recently demonstrated by the MoU it signed in February 2011 with Firestone/Sekoko for the supply of 0.5-1mtpa of coal over a six year period from 2012.

Exhibit 23: South African power demand forecast

Eskom Power Demand Forecast



Eskom Forecast Shortfall



Source: Company reports, Eskom

Along with the additional volume of coal that will be required, Eskom has also highlighted quality issues with the current supply. The following comments are from its September 30, 2010 results:

- *"The quality of coal received at certain stations remains a concern. This negatively impacts boiler performance and our efforts to optimise energy output. Some contracts are being renegotiated."*
- *"The quality of coal has deteriorated over the past few years and has greatly affected the performance of some stations. This situation directly contributed to the high particulate emissions."*

Financing remains Eskom's key obstacle. Funding is in place for the developments underway (the government has injected R20bn in equity and has had to guarantee up to R350b worth of loans). Longer term, electricity pricing is likely to have to rise in South Africa to facilitate continued investment. Current plans call for tariffs to rise by 25% per year for three years from 2010.

In addition to the coal supply issues, Eskom has also flagged infrastructure issues. Trucking is not going to be a viable solution going forward, certainly not for Waterberg coal. Eskom is currently investing in rail-unloading capacity, which will also serve coal coming down from the Waterberg.

Exhibit 24: Waterberg power supply: Matimba power station; Construction of Medupi

Source: RBC

Shareholding Structure

Resource Generation has a widely held share base; the top 20 shareholders held ~54% of total shares as at 16 December 2010. Liquidity is not a concern, in our view, given the two major shareholders, Integrated Coal Mining and Scodella Inc, only have minor stakes of 7.5% and 6.4%, respectively. Management own 5.3%.

Exhibit 25: Substantial shareholders

Shareholder	Shareholding
Integrated Coal Mining	7.5%
Scodella Inc	6.4%
Citicorp Nominees	5.5%
CS Fourth Nominees	5.3%
Total	**24.7%**

Source: Company reports, IRESS

Board and Management

The Resource Generation board is comprised of:

- Brian Warner (**Chairman, Non-executive**) has considerable experience and skills in both the mining and finance industries. He recently retired as the senior resources analyst at Citibank, a position he had held for six years. He is a metallurgist and in his early career worked with Peko Wallsend, Agnew Nickel Mining and Seltrust as a metallurgist, project manager and operations manager. His last 20 years were spent as a senior mining research analyst with several international merchant banking groups including Citibank, Deutsche Bank and Credit Suisse First Boston.
- Paul Jury (**Managing Director**) has more than 30 years' experience in managing businesses, the last 25 years in the coal sector. His positions have included Chief Financial Officer of Coal & Allied Industries Limited, Finance Director of Coal Mines Australia Limited, Executive Chairman of Oceanic Coal Australia Limited and Managing Director of Resource Pacific-Holdings Limited.
- Scott Douglas (**Non-Executive Director**) has considerable experience in investor relations, project management and strategic corporate advice. Mr Douglas has provided corporate advice, business development and capital raising services to a number of junior resource companies and was instrumental in the formation and ASX listing of Ironclad Mining Limited ($20m capital raising). He also held a business development and marketing role with Scimitar Resources Limited.
- Steve Mathews (**Executive Director**) has more than 25 years' corporate finance and commercial experience, including 14 years in the coal industry. His previous positions were as a senior executive with Coal Mines Australia Limited, Billiton Coal Australia, BHP Billiton's Hunter Valley Energy Coal division and Resource Pacific Holdings Limited.
- Geoffrey (Toby) Rose (**Non-Executive Director**) is a geologist with more than 45 years' experience in the NSW coal and minerals industry. He was awarded the Order of Australia for contributions to mining and minerals research. For 10 years until 1992 he was Director General of the New South Wales Department of Mineral Resources and Chair of the Mines Subsidence Board. Subsequent directorships include non-executive roles with Coal Mines Australia Limited, Billiton Coal Australia and Resource Pacific Holdings Limited.

Valuation

Our NAV for the Stage 1, 6mtpa development is $1.68. We model a more conservative development path than management forecasts: we incorporate $700m capex vs. the targeted $552m, and we also assume a 12-month delay to start up, with first coal from end 2014. 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 $250m raising ($50m more than management anticipates) at $1 per share. While this is at a premium to the current share price, we consider that by the time an 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. In addition, 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 NAV post adjusting for the equity raising. 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 it is in South Africa. This results in a price target of $1.00.

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 envisage 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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Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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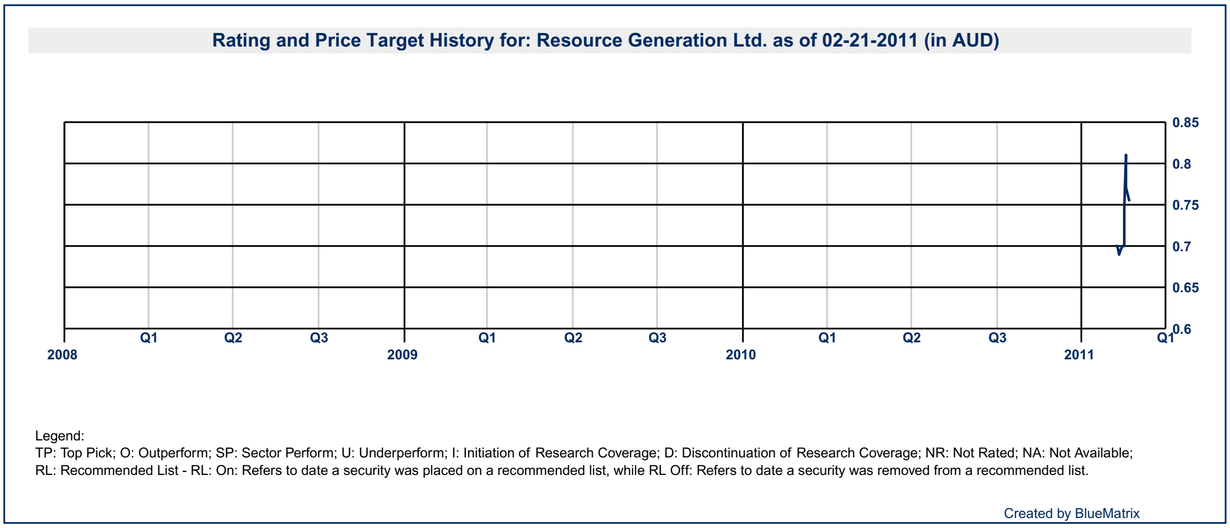

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