30 July, 2010

Resource Generation (RES) — Buy

Building A Billion-Dollar Coal Project

Event

Resource Generation (RES) has made significant progress on the Boikarabelo project in South Africa in recent months, with land acquired to facilitate mine development, reduced upfront capex and modification of the mine plan to enable **maximum early cashflow and cost-effective ramp-up** to match forecasts of growing domestic demand.

The mine is rapidly progressing towards development in 2011, and based on our assumptions for construction of a domestic and export focused coal mine, we derive a **project valuation of US$1,100m** or an upfront NPV/capex ratio of 2.3:1.

RES recently received Section 11 approval to move to 74% ownership of the Ledjadja tenements central to the Boikarabelo project, and listed on the Johannesburg Stock Exchange (JSE: RSG) mid-July.

Valuation and Recommendation

Our current, risk-adjusted **valuation on RES is increased to A$1.52ps** (from A$1.15ps), taking only 35% of our Discounted Cashflow (DCF) valuation for the Boikarabelo project in South Africa, and incorporating a 60/40 debt/equity funding arrangement from FY11. First exports are planned for 2013.

The company is presently in discussions regarding finalisation of transport options for export coal, supply of domestic coal, initially into the local spot domestic market, and later, the contract market, and also project funding.

Approval of the environmental & social plan is anticipated later in 2010, which will pave the way for progress of the discussions above.

With the project being progressively de-risked, we anticipate the **share price will continue to be re-rated ahead of formal go-ahead in 2011**, hence we believe at current prices, the stock remains exceptional value.

We retain a BUY on RES for those investors seeking leveraged thermal coal exposure, **increasing our price target to A$1.60ps.**

YE 30 June A$M	2009 (A)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Coal Sales (Mtpa)	0.0	0.0	0.0	0.0	1.0
Exports (Mtpa)	0.0	0.0	0.0	0.0	0.5
Revenue	0.0	0.0	0.0	0.0	63.0
EBITDA	-1.7	-1.5	-3.8	-4.8	10.9
NPAT	-1.4	-0.5	-9.2	-15.2	-12.4
-EPS (cents)	-1.61	-0.28	-4.90	-4.38	-3.60
-P/E ratio	NA	NA	NA	NA	NA
Net Cashflow (A$m)	-1.2	-0.5	-8.9	-14.4	-20.3
-CFPS (cents)	-1.4	-0.3	-4.7	-4.1	-5.9
Dividends (cps)	0	0	0	0	0

Investment Summary

Share Price $ps	**$0.65**
Target Price (12 month) $ps	**$1.60**
Energy	
www.resgen.com.au	
Issued Capital M (diluted)	**172.5M**
Market Cap $M	**$113M**
Gearing (Net Cash) est.	**A$6M**
Analyst Name	**Geoff Muers**

Changes to Forecasts

Recommendation was		Buy
Price Target was $ps		A$1.15ps
Profit 2010	Chg by 0% from	NA
EPS 2010	Chg by 0% from	NA

Share Price Chart

Year Hi-Lo $ps			**$0.74 - $0.34**
Avg Monthly Vol (M)			**0.5**
Performance %	**1 m**	**3 m**	**12 m**
Absolute	14.6%	-7.6%	-5.2%
Rel Top 200	20.2%	3.3%	-4.4%

Shareholders

Shareholders	%
CVC	8.1%
Commonwealth Bank of Australia	8.0%
Paul John Jury	7.4%
Equitas Nominees A/C Scodella Inc	7.2%

Company Activities

Resource Generation Limited (RES) is presently focused on development of the Boikarabelo thermal coal project in South Africa

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Valuation

Current risk-adjusted valuation of A$1.52ps

Our risk-adjusted valuation of RES is A$1.52ps. Our valuation assumptions are shown below:

- **Project construction mid-2011:** RES currently anticipates achieving preliminary funding arrangements by early 2011;
- **Production by 2013:** Assumes an initial rate of 3.0Mtpa exports and 3.0Mtpa domestic supply (12Mtpa ROM), with expansion to 40Mtpa ROM by year 8 (refer to Figure 4, p4);
- **Coal price & exchange rate:** Export coal price of US$75/t Richard's Bay & base-case domestic price of ZAR220 (US$31/t) mine-gate. Exchange rate of Rand to $US of 7.1:1 long term vs 7.4:1 spot. We have used the spot rate for our valuation and capex translation to A$ terms (US$0.90);
- **Capital & Operating costs:** Assumes initial capex of A$520m (allows for a 15% contingency on company estimate of A$453m), and operating cost of US$17.7/t domestic (US$13.80/t in Stage 2) and US$60.70/t export (US$55.40/t in Stage 2). Our operating costs incorporate a 10% contingency on our expected costs for Stage 1;
- **Taxation Benefits:** We have assumed no tax is payable until year 8 of the project, at a rate of 28%, due to up-front capital, interest and other deductions;
- **Corporate Costs:** Includes an allowance for corporate overheads and interest payable relating to debt facilities, discounted for risk at the same rate as the project (65% discount);
- **Free-carry of equity partner:** We have allowed for the minority interest capital to be contributed by RES, which is deductible from the capital-base for calculation of future minority interest dividends (26%).

Project valuation of US$1,100m

We obtain an NPV of US$1,100m for the Boikarabelo project (RES's 74% share is US$815m). We note using spot exchange rates, this valuation improves 7%. A real, post-tax discount rate of 8.2% was used in this calculation.

Our target price of A$1.60 has been derived by discounting the NPV by 65% to account primarily for funding risks and uncertainty ahead of go-ahead in 2011. Our previous target price was A$1.15ps. Note that as the various completion risks are reduced our target price is likely to be revised upwards, depending on the timing and level of future dilution to issued capital. We have conceptually allowed for some dilution in FY11 in our valuation, offset by net capex spend/debt, hence current project valuation of A$317m (below) is approximate only.

Valuation Summary Table

Figure 1: Summary Valuation

Appraised Valuation				
	Discount	**(A$M)**		**(A$/share) - fully diluted**
Boikarabelo (74%) - post tax	65%	316.6		1.69
Est. Cash (30 June, 2011)		12.8		0.07
Other Projects		5.0		0.03
Corporate Allowances	65%	(49.8)		(0.27)
Total Current Valuation		**284.5**		**$ 1.52**
			P/NPV	0.40
A$/US$ for valuation		0.90		
Price Target		106%		**$ 1.60**

Note: Refer to FinSum p7 for details of valuation assumptions

The sensitivity table below indicates a relatively low sensitivity to capex, however high sensitivity to changes in coal pricing (namely domestic) and operating costs. It is worth noting we have already built in a 10% opex and a 15% capex contingency into our assumptions, along with conservative pricing, hence we see upside to our valuation should the project be delivered ahead of our modelled estimates.

NPV sensitivity to key inputs

Figure 2: Valuation sensitivity

Sensitivity	A$ps
Valuation change on ±10% export coal price	0.26
Valuation change on ±10% domestic coal price	0.32
Valuation change on ±10% ZAR/US$	0.06
Valuation change on ±10% opex	0.37
Valuation change on ±10% capex (upfront)	0.05

RISK STATEMENT The analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw advisor before making any investment decision.

Key Milestones & Timeline

RES continues to advance development of the Boikarabelo coal project in South Africa, with recent and forecast milestones expected as follows:

Recent & Forecast Project Timeline

- **April-June, 2010**: Mine plan further refined, with reduction of capex, further progress of discussions on infrastructure;
- **Late June, 2010**: Mines Department Section 11 approval received to move from 49% to 74% ownership of the Ledjadja tenements in South Africa, part of the Waterberg coal project;
- **14 July, 2010**: RES listed on the Johannesburg Stock Exchange (JSE:RSG);
- **Sep-October, 2010**: Formal government submissions post consultation period on environmental, social issues;
- **Oct-December, 2010**: Letters of intent, or other similar agreements established regarding supply of coal to the domestic market;
- **Oct-December, 2010**: Initial mandates established for project funding, via a consortium of banks;
- **Jan-March, 2011:** Approval of Mining Lease Application (MLA) and initial funding to order long-lead items and pre-construction engineering work;
- **July, 2011:** Finalisation of bank finance arrangement, and formal go-ahead of project.
- **August 2011-December, 2012:** Project construction, finalisation of port/rail access, and construction of coal preparation plant and associated infrastructure;
- **Jan-March, 2013:** First sales of coal to the domestic and export markets.

Resources & Reserves

Reserves, resources

The company's recently quoted resource and reserve table is below. Total reserves of 603.3Mt could be expanded following processing of recent drilling data (25 holes currently being analysed). The current reserve base is sufficient to support the current mine plan, hence further drilling is not necessary, though we expect a limited amount of drilling going forward to establish coal parameters in other project areas for strategic planning purposes. Existing reserves represent about 23% of the exploration licence area, hence only a small portion of the resource potential has been tested.

The 120m coal sequence is interbedded with shale horizons, however the resources quoted below refer to coal only. Under the current mine plan, the shale is removed and placed in out-of-pit dumps during the early years of mining, and then returned to the pit voids in later years.

Figure 3: Total Reserves & Resources

Resource/Reserve Table	**Inferred Resource**	**Indicated Resource**	**Probable Reserve***
Waterberg JV			
W1		569.5	302.4
Ledjadja Coal JV			
Witkopje			300.9
Draai Om, Kalkpan, Witkopje	1735.5		
Total Boikarabelo Project	**1735.5**	**569.5**	**603.3**

* Additional to quoted resources

Mine Planning

Preliminary engineering conducted as part of Mining Rights Application

Detailed mine planning has been carried out for the project, including preliminary engineering design, as part of submission of the Mining Rights Application (MRA). RES now owns all the properties in the region which will be directly impacted by the mining and processing operations, having spent over A$24m on land acquisition in the last six months.

The project is being designed in two stages:

- **Stage 1**: Mining up to 12Mtpa ROM coal, producing 3Mtpa of domestic and 3Mtpa of export thermal coal. This will enable markets to be established, the mine to be constructed with less capital and flexibility of project ramp-up;
- **Stage 2**: Mining of 40Mtpa ROM coal producing over 20Mtpa of domestic coal and 5Mtpa of export coal. Currently, this is anticipated to begin in year 7 (2018), with flexibility on timing relating to additional power generation capacity in the area (see Appendix 1 for Demand Chart). Forecast project earnings at the EBIT level are also illustrated in Appendix 1.

The current plan has mining commencing in the Ledjajdja area (Figure 5). Much of the overburden is free digging, with an average depth of less than 20m. The overall strip ratio is anticipated to commence at about 1:1, and progress to around 0.6:1 in the first stage of the project. The second stage of the project would also have a low strip ratio (0.6:1). The coal sequence does require blasting due to shale bands.

The mining approach outlined in the PFS was for a selective mining approach, which delivered a higher yield (74%) by mining the top half of the seam only in the first phase. The current approach is to mine the entire seam, which produces a 50% yield, however delivers a lower operating cost in Stage 1. In Stage 2 we anticipate yield rising to 65% with the higher proportion of domestic coal sold.

The entire 120m coal sequence will be mined in the first phase, using a single 50m^3 electric rope shovel, with a fleet of 6, 300t haul trucks. This capacity could shift up to 20Mtpa of ROM coal, or 60% above the intended initial capacity. It is estimated to take around 5yrs to reach the bottom of the pit.

Potential to produce a semi-soft coking coal

Coal would be transported by truck or conveyor to domestic power users, however we have assumed mine-gate pricing in our assumptions. There is potential for the project to produce a semi-soft coking product, however we have not incorporated any sales into our model, and this provides upside.

Figure 4: Current Production Estimates

(Mtpa)	FY13	FY14-FY18	FY18	FY19	FY20	FY21+
ROM	2.0	12.0	12.0	20.0	36.8	40.0
Domestic Sales	0.5	3.0	3.0	8.0	16.0	21.0
Export Sales	0.5	3.0	3.0	3.0	5.0	5.0
Total Sales	1.0	6.0	6.0	11.0	21.0	26.0

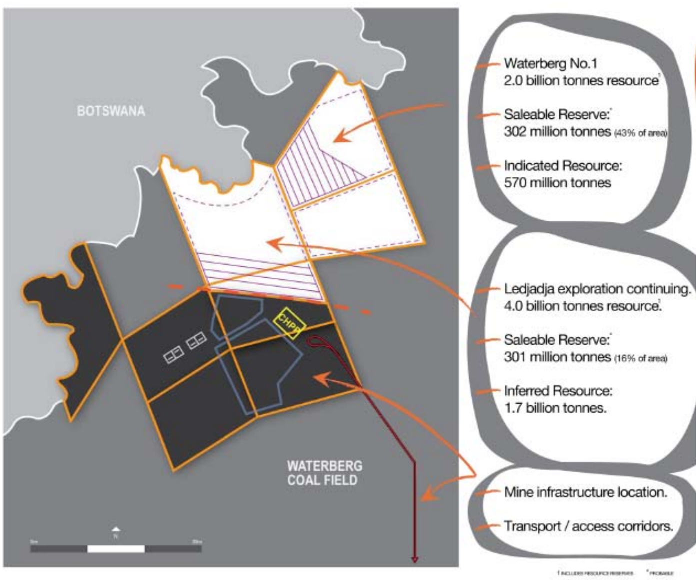


Figure 5: Infrastructure Location

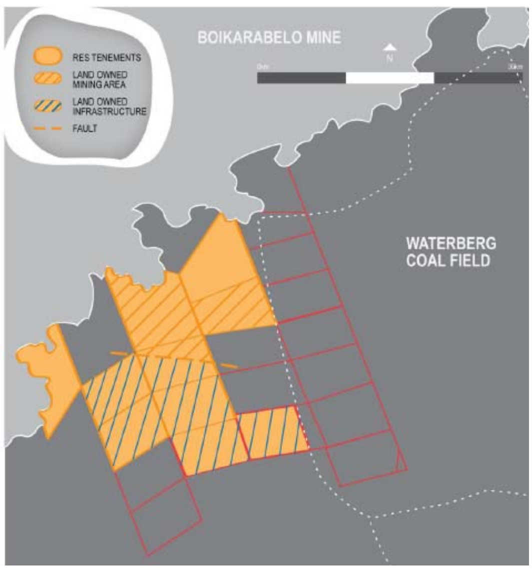


Figure 6: Land Ownership

Capital & Operating costs

The capital cost of A$700m outlined in the Preliminary Feasibility Study (PFS) has been considerably refined and reduced, with cost savings in the wash-plant design and fleet costs (reduced size).

Estimated capital has been reduced from A$700m to A$453m

More detailed design work and scheduling has enabled a reduction to A$453m. Against this published company estimate, we are allowing for A$520m for Stage 1 (15% contingency). The company quotes the Coal Handling and Preparation Plant (CHPP) will cost A$181m of the total, with exposure to the South African Rand as the plant will be constructed in-country. We are applying a 3.5% appreciation of the local currency in our forward estimates (compared to recent spot pricing), in contrast to the 7% depreciation we forecast for the A$ against the US$ (US$0.83 long term).

RES has not published in detail anticipated project operating costs on a per tonne basis. We anticipate the domestic coal mining operations will be relatively low cost, at US$17.70/t initially and US$13.80/t in Stage 2. The cost of exporting coal is predicted to be high in the early years due to trucking/rail costs.

We estimate an export cost of US$60.70/t in the first stage of the project, declining to US$55.40/t in the second stage with a rail siding constructed to the project.

Additional US$240m cost relating to Stage 2

We have allowed an additional US$240m capital in years 6-7 of the project to construct the rail facilities (~50km) and provide additional mining equipment (rope-shovel, trucks). We note capex estimates are high risk at this stage until transport contracts are finalised, expected to be early-mid 2011.

Coal Markets & Pricing

Richards Bay prices trading above US$90/t recently

Richards Bay coal has historically traded at around a US$5-10/t discount to Newcastle coal, primarily relating to the lower relative calorific value (6000Kcal/kg vs 6300Kcal/kg). We anticipate the export thermal product of RES will be of a lower grade than typical specification (5800Kcal/kg estimated, refer to Appendix 1) hence we are applying a US$10/t or a 12% discount to our pricing assumption for the product. The pricing is also influenced by freight rates, hence due to the shorter shipping distance to key markets (Asia, India), in times of low freight rates the pricing differential will often narrow. In recent weeks, Richards Bay coal has been trading at around US$90/t FOB compared to Newcastle at US$95/t.

Project retains strong leverage to export markets

To illustrate the leverage the export side of the project is likely to have, at our base assumption of US$75/t FOB the coal generates a margin of just over US$14/t. Taking current prices, this margin increases to over US$29/t. There is strong demand reported for 'lower grade' export coals from importers in India and elsewhere, and our price appears conservative compared to recent coal pricing. Key markets China and India demand are expected to continue to show strong growth (Figures 7, 8 below).

Production of coal in South Africa has stalled at around 250mt over the past five years but is anticipated to increase going forward in response to rising domestic demand (Eskom is the State owned utility). Domestic supply remains under pressure as the existing production areas are in decline, whilst Eskom is building new domestic coal fired generation capacity. Like in NSW, domestic prices are also rising due to export pressures. These developments mean RES is well placed to be a long-term supplier of domestic coal. Refer to Appendix 1 for a supply/demand chart on the domestic power situation.

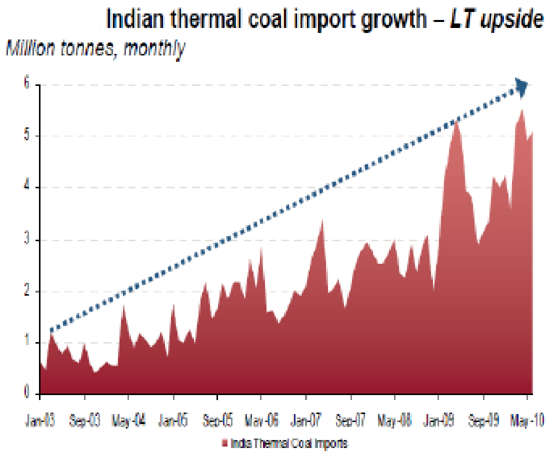


Figure 7: Growing Indian Demand (RES, July 2010)

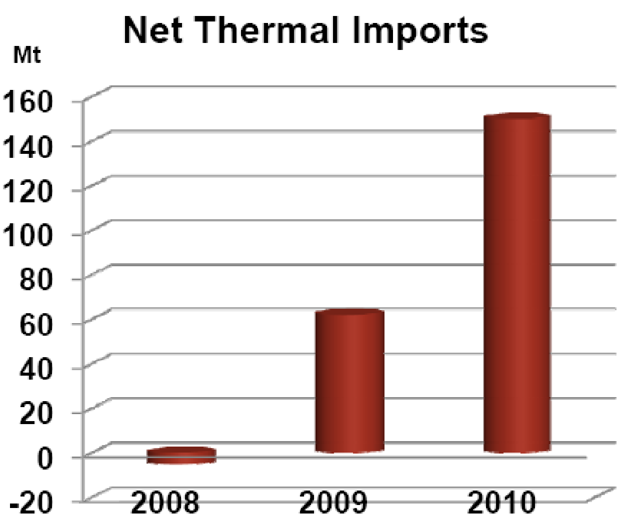


Figure 8: Growing Chinese Imports (REY, July 2010)

Transport & Port

Complex access to port and rail facilities, though obtainable

Whilst access to rail and port facilities is complex, due to both the current ownership structure of Richards Bay (RBCT) and the Government-run Transnet, the company does not believe there will be any major impediments to obtaining rail and port access. The rail is presently under-utilised, and with minor track upgrades, it is anticipated rail access to the port is obtainable under commercially appropriate terms. Discussions with Transnet are ongoing. RBCT is reportedly under-utilised due to the inability of operators to supply sufficient coal (falling reserves, production) and reported rail capacity constraints. Currently, traders are accessing spot cargoes out of RBCT, and RES has experienced strong interest from buyers in Asia and Europe who would be willing to take export coal of the type being proposed by RES.

We anticipate finalisation of agreements relating to port and rail access at about the same time as the project reaches a final bankable stage by mid-2011. The company is also investigating port options at Durban to the south and Maputo, Mozambique in the north.

Project Funding

A 60/40 mixture of debt and equity funding is envisaged

Initial discussions with both South African and international finance houses have commenced, with a view to establishing relationships ahead of project funding in 2011. The company reports a strong level of interest in involvement with the project, and is examining the best finance structure to ensure maximum long term value for equity holders. A mixture of debt and equity at perhaps a 60/40 ratio is envisaged, and has formed the basis of our model. Obviously any assumptions with regard to financing are high risk at this stage, with the appropriate debt structure yet to be determined. Our estimates with respect to financing have been summarised on p7. In summary:

- We have anticipate full tax deductibility of all capital, and interest costs, hence no tax is payable until year 8 of the project, at a rate of 28%;
- We have allowed for peak project debt funding of A$390m in 2013, which places the stock on an initial debt cover ratio over 2.2x on average for the first two years of the project. We have allowed for a 9% cost of debt;
- We have also assumed payback of project equity funding for the purposes of calculating minority interest (BEE partner has a non-contributing 26% stake).

Key to RES is the long-tail investment potential of a 20Mtpa domestic supply arrangement

Obviously the project is sensitive to funding arrangements, including the debt/equity mix and cost of funds. Any assumptions with regard to equity funding are subject to a high degree of risk, particularly over pricing and timing. We anticipate further clarity on the likely capital structure to emerge over the next twelve months. The key to RES is the long-tail investment potential of a 20Mtpa domestic supply arrangement. For comparison NSW power coal provider Centennial Coal (CEY) currently supplies about 9-10Mtpa of domestic coal. CEY was recently subject to an A$2.4b takeover from Thai power group Banpu.

Conclusion

RES is focused on development of the Boikarabelo project, and continues to deliver on key project milestones. Due to the size of the resource, the growing shortage of coal supply in South Africa and rising domestic power needs, RES appears well placed to finalise project development in 2011.

Project should be underpinned by domestic sales contracts

The project has the ability to produce a range of products to suit markets, including semi-soft coking coal. We have not assumed production of semi-soft coking coal, however clearly any exports into this market have the potential to add substantial value. The initial capital requirements are relatively modest, and the project should be underpinned by domestic offtake arrangements, which we expect to be in place following formal project approval.

The US$1,100m project NPV under our assumptions indicates how robust the economics appear, hence the investment case appears compelling based on current equity market pricing. The project is highly leveraged to coal prices, hence remains suitable for investors who are seeking this exposure.

Shaw Stockbroking

Resource Generation (RES)

August 3, 2010

Share Price	(A$)	**0.65**	
Listed Shares (August, 2010)	(m)	174	*Diluted*
Mkt Cap.	(A$M)	113	*Diluted*

Year end 30 June

Profit & Loss (A$M)	**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Revenue	-	-	-	-	63.0
+Other Income	0.0	0.0	-	-	-
-Operating Costs	(1.7)	(1.5)	(3.8)	(4.8)	(52.1)
-Exploration/Other costs	-	-	-	-	-
EBITDA (underlying)	**(1.7)**	**(1.5)**	**(3.8)**	**(4.8)**	**10.9**
-Depreciation & Amortisation	(0.1)	-	-	-	(2.5)
EBIT	**(1.7)**	**(1.5)**	**(3.8)**	**(4.8)**	**8.4**
-Net Interest	0.4	1.0	(5.4)	(10.4)	(25.2)
Pre-Tax Profit	**(1.4)**	**(0.5)**	**(9.2)**	**(15.2)**	**(16.8)**
-Tax	-	-	-	-	-
-Minorities	-	-	-	-	(4.4)
Net Profit (underlying)	**(1.4)**	**(0.5)**	**(9.2)**	**(15.2)**	**(12.4)**
Abnormals/adjust	(13.8)	(3.0)	-	-	-
Reported Profit	**(15.1)**	**(3.5)**	**(9.2)**	**(15.2)**	**(12.4)**

Cash Flow (A$M)	**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Pretax Profit	(1.4)	(0.5)	(9.2)	(15.2)	(16.8)
+Depreciation & Amort.	0.1	-	-	-	2.5
+Waste Adjustment/other	-	-	-	-	-
-Tax Paid	-	-	-	-	-
- Working capital/Other	0.1	(0.0)	0.4	0.8	(6.0)
Operating Cashflow	**(1.2)**	**(0.5)**	**(8.9)**	**(14.4)**	**(20.3)**
-Exploration Expenditure	(3.9)	(4.0)	(1.9)	(1.1)	(0.5)
-Dividends Paid (capital adj)	-	-	-	-	-
-Growth Capex	(2.7)	(24.2)	(54.1)	(272.1)	(200.6)
-Acquisitions/Sales	0.0	-	-	-	-
Surplus Cashflow	**(7.8)**	**(28.7)**	**(64.8)**	**(287.6)**	**(221.5)**
+ Equity Raising	11.4	29.6	11.5	180.5	4.4
+ Debt Drawdown	-	-	60.0	110.0	220.0
+ Other Cash Items	-	-	-	-	-
Increase in Cash	**3.6**	**1.0**	**6.7**	**2.9**	**2.9**

Balance Sheet (A$M)	**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Cash	5.1	6.1	12.8	15.7	18.6
Receivables	0.5	1.5	1.8	2.0	5.7
Inventories	-	-	-	-	5.0
Other	-	-	-	-	-
PP&E, Expl & Dev	56.2	84.4	140.4	413.6	612.2
Total Assets	**61.8**	**92.0**	**155.0**	**431.3**	**641.6**
Payables	0.6	1.3	2.0	3.0	5.7
Provisions	0.1	0.2	0.5	2.0	3.0
Tax Liabilities	-	-	-	-	-
Debt	-	-	60.0	170.0	390.0
Other	3.9	3.9	3.9	3.9	3.9
Total Liabilities	**4.6**	**5.4**	**66.4**	**178.9**	**402.6**
Outside Equity Interest (net)	-	-	-	-	-
Shareholder Equity	**57.2**	**86.6**	**88.6**	**252.4**	**239.0**

Ratio Analysis		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
No Shares (Yr Av. Est.)	M	230	131	177	308	345
No Shares (Fully diluted)	M	85	168	188	346	346
EPS (Diluted Capital)	¢	-17.8	-2.1	-4.9	-4.4	-3.6
PER	x	-0.6	0.0	-12.2	-34.3	-15.6
EPS Growth	%	na	na	na	na	na
CFPS (fully diluted)	¢	-1.4	-0.3	-4.7	-4.1	-5.9
PCFR	x	-7.9	0.0	-12.7	-36.2	-9.5
DPS	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0%	0%
Payout Ratio	%	0	0	0	0%	0%
Interest Cover	x	inf.	inf.	inf.	-8	-1
Gearing: ND/E	%	na	na	53	61	155
Gearing: ND/(ND+E)	%	na	na	35	38	61
EV/EBITDA	x	-86.3	0.0	0.0	0.0	0.0
EBIT Margin	%	na	na	na	na	13.3
Return On Assets	%	-2.8	-1.6	-2.5	-1.1	1.3
Return On Equity	%	-2.4	-0.5	-10.4	-6.0	-5.2
Eff. Tax rate	%	0.0	0.0	0.0	0.0	0.0

Assumptions		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Average spot A$	US$	0.75	0.89	0.88	0.85	0.84
Average spot ZAR/US	ZAR	8.50	7.50	7.35	7.20	7.10
Richards Bay Thermal	US$/t	102	67	85	83	77
Richards Bay Semi-Soft	US$/t	188	99	120	117	109
Domestic Price Assumption	ZAR/t	0.0	0.0	0.0	242.0	220
Equity Production (74%)		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
ROM Coal	Mtpa	0.0	0.0	0.0	0.0	2.0
Domestic Thermal	Mtpa	0.0	0.0	0.0	0.0	0.4
Export Thermal	Mtpa	0.0	0.0	0.0	0.0	0.5
Total Coal Sold	Mtpa	0.0	0.0	0.0	0.0	0.9
Segment Analysis		**2009A**	**2010F**	**2011F**	**2012F**	**2013F**
Waterberg Project (100%)						
Revenue	US$m	0.0	0.0	0.0	0.0	53.0
Total cash costs	US$m	0.0	0.0	0.0	0.0	39.2
EBITDA	A$m	0.0	0.0	0.0	0.0	13.8
Domestic Thermal Cost	US$/t	0.0	0.0	0.0	0.0	17.7
Export Thermal Cost (FOB)	US$/t	0.0	0.0	0.0	0.0	60.7

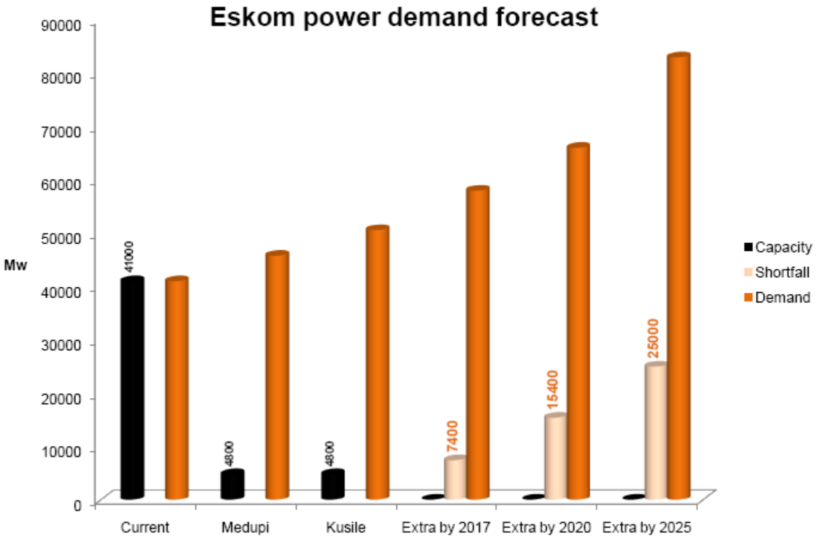
Sensitivity	**A$ps**
Valuation change on ±10% export coal price	0.26
Valuation change on ±10% domestic coal price	0.32
Valuation change on ±10% ZAR/US$	0.06
Valuation change on ±10% opex	0.37
Valuation change on ±10% capex (upfront)	0.05

Appraised Valuation	Discount	**(A$M)**		**(A$/share) - fully diluted**
Boikarabelo (74%) - post tax	65%	316.6		1.69
Est. Cash (30 June, 2011)**		12.8		0.07
Other Projects		5.0		0.03
Corporate Allowances	65%	(49.8)		(0.27)
Total Current Valuation		**284.5**		**$ 1.52**
			P/NPV	0.43
A$/US$ for valuation		0.90		
Price Target		106%		**$ 1.60**

* Note: Valuation assumes A$12m raising at A$0.80ps FY11 (issued capital of 183m diluted), A$190m raising at A$1.20ps in FY12. WACC for project DCF is 8.2% real post tax, assuming 60/40 debt/equity mix and applied to all capital. Corporate allowances include interest on peak debt funding of A$390m (9%), corporate costs. **Valuation adjusted for capex/debt at 30 June, 2011.

Last Updated: 2/08/2010

Appendix 1



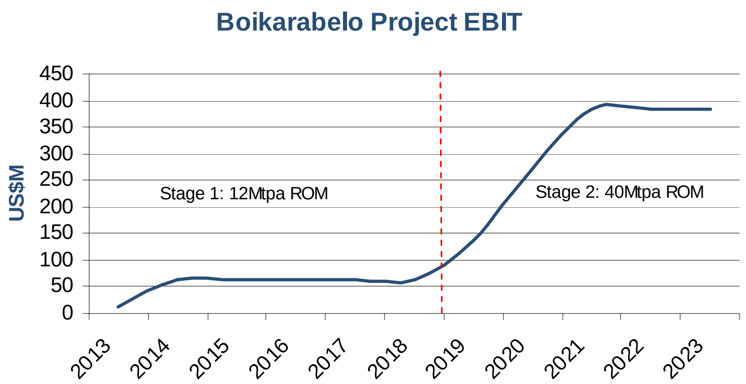
Source: RES presentation

Potential Product Specifications

Product coal specifications

Product coal specifications	Semi Soft Coking Coal	Export Thermal Coal	Domestic Thermal Coal
Ash %	10	14	29
kcal/kg (nar)	6,770	5,800	4,400
Swelling index	4		
Volatile %	38	33	26
Sulphur %	0.7	0.7	0.7
Total moisture %	8.6	8.6	8.4
Inherent moisture %	4.6	4.6	4.4

Source: RES presentation



Source: Shaw Estimates

Company Directors

Mr Paul J Jury (MD)
Mr Geoffrey (Toby) Rose
Mr Stephen (Steve) J. Matthews
Mr Scott R. W. Douglas

Company Activities

Resource Generation Limited (RES) is presently focused on development of the Boikarabelo thermal coal project in South Africa.

Disclosures and Disclaimers

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