

22 March, 2010

Resource Generation (RES)

Buy

Coal Project Gathers Momentum

Summary

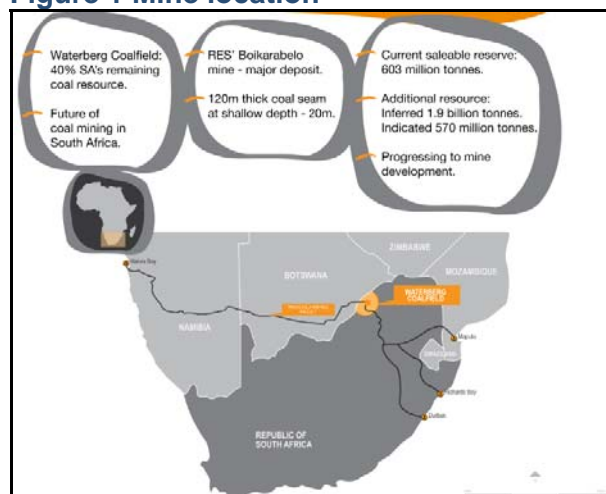
Plans to develop the Boikarabelo coal project in the Waterberg area of South Africa have progressed following completion of a prefeasibility study (PFS). Planned output now is ~11mtpa of ROM coal producing 4mtpa of domestic and 3mtpa of export thermal coal by 2013. The larger export tonnage, higher export coal prices and reduced capex have considerably improved our project NPV to A\$873 m (100% basis). RES is hopeful of obtaining coal contracts and mining rights within 12 months so that mine construction can commence. Completion risks remain significant but the stock offers considerable upside for the patient and risk-tolerant investor. Reserves of 603mt and resource of 1.7bt have been identified and both categories are expected to increase. Listing on the Johannesburg stock exchange is planned by mid-2010.

Valuation & Recommendation

We value RES's 74% of the Boikarabelo Project at \$646m, equivalent to \$3.86/share, unfunded and based on the company's preliminary feasibility (PFS). Our target price of A\$1.15ps has been derived using a 75% discount to account for risk relating to timing and possible production and cost variations prior to completion of a BFS. The value of cash and land has also been taken into account.

Notwithstanding its speculative nature, we recommend buying RES shares in anticipation of likely significant share price appreciation assuming completion of key milestones relating to offtake contracts, obtaining mining rights and arranging adequate funding for project development.

Figure 1 Mine location



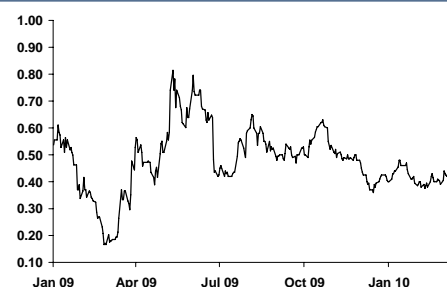
Investment Summary

Share Price \$ps	\$0.57
Target Price (12 month) \$ps	\$1.15
Energy	
www.resgen.com.au	
Issued Capital M (diluted)	168M
Market Cap \$M	A\$95M
Net Cash (Dec'31 '09)	A\$17.7M
Analyst Name	Geoff Muers

Changes to Forecasts

Recommendation was	Buy
Price Target was \$ps	A\$0.80ps

Share Price Chart



Year Hi-Lo \$ps	\$0.93 - \$0.30		
Avg Monthly Vol (M)	0.5		
Performance %	1 m	3 m	12 m
Absolute	10.5%	13.1%	0.6%
Rel Top 200	6.7%	10.9%	-28.6%

Shareholders

	%
CVC	7.6%
Paul Jury	7.4%
Scodella P/L	7.2%

Company Activities

Resource Generation Limited (RES, formerly Comdek Ltd (CDS)) is investing in coal and energy resource projects in the Waterberg coalfields, South Africa, Tasmania and Cameroon.

Disclaimer: Shaw, and its wholly owned subsidiary Shaw Corporate Finance Pty Limited, acted for the company in the role of Underwriter within the past 12 months, for which they received a fee. Shaw, its associates, employees and authorised representatives have an interest in the financial products of the Company.

Valuation

DCF valuation of A\$4.04ps on RES

We presently have a DCF valuation of A\$4.04ps on RES, and adopting a 75% risk discount this reduces to A\$1.15ps. Our valuation assumptions are shown below:

- **Project construction mid 2011:** RES currently anticipate achieving project approval and preliminary funding arrangements by early 2011. We note some risk to this timeline;
- **Production by early 2013:** Assumes an initial rate of 3.0Mtpa exports and 4.0Mtpa domestic supply, with expansion to 40Mtpa ROM by year 8;
- **Coal price & exchange rate:** Long term export coal price of US\$75/t Richard's Bay & domestic price of ZAR220/t (mine-gate). Exchange rate of Rand (ZAR) to A\$ of 7.1:1 long term vs 6.7:1 spot. We have used a higher, conservative rate for our valuation in A\$ terms. Long term A\$/US\$ of 0.83;
- **Capital & Operating costs:** Assumes initial capex of ZAR4470m (A\$667m at spot FX) and operating cost of A\$21/t domestic and A\$80/t export;
- **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;
- **Addition of land value & net cash (Dec'09):** As shown below, we have allowed for the land value and net cash.

Current valuation of A\$1.15ps

We obtain an NPV of A\$646m for RES's 74% share (at 7.3:1 ZAR/A\$). We note using spot exchange rates, this valuation improves 9%. A discount rate of 9.8% was used in this calculation based on a CAPM rate of 7.8% plus a sovereign risk penalty of 2%.

Our target price of A\$1.15 has been derived by discounting the NPV by 75% to account for risk and adjusting for cash and recent land acquisitions. Our previous target price was A\$0.80ps. 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.

Valuation Summary Table

Appraised Valuation			
	Multiple	(A\$m)	(A\$/share) - fully diluted
Boikarabelo	74%	646.2	3.86
Land Value		13.9	0.08
Net Cash (Debt)-Dec'31 '09		17.7	0.11
Total DCF Valuation		677.8	\$ 4.05 9.8% Nominal DCF
Multiple for Project Risk/funding	25%	193.1	1.15
Implied Price Target:			\$ 1.15

The sensitivity table below indicates a relatively low sensitivity to capex however high sensitivities to rail freight costs and coal prices.

NPV sensitivity to key inputs

NPV Sensitivity	Assumption	% increase for 10% rise
100% project NPV (ZARm)	6,401	
74% share (A\$m)	646	
Domestic coal price (ZAR/t)	220	24%
Export coal price (US\$/t)	75	18%
Opex		-14%
Rail		-18%
Delay by 1 year		-9%
100% Initial Capex (ZARm)	4,469	-5

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.

Executive Summary

Progress over the last 8 months

Since our last major report RES has advanced its coal project on several fronts:

- The project name has been changed to Boikarabelo or 'being responsible' in the local Sesotho dialect.
- Probable reserves have been increased to 603mt defined from only 23% of the project area. Inferred resources are enormous at 1.7bt in the areas currently planned to be mined or 1.9bt including two smaller Waterberg JV properties.
- Section 11 Approval has been obtained confirming the right to increase ownership on the Waterberg JV properties to 70%. The same approval has been requested for the Ledjadja JV properties where ownership can increase to 74%.
- A PFS was completed that defined production parameters but also highlighted the need to reduce capex and rail freight operating costs.
- Seven parcels of land have been purchased on which the company will be able to mine coal and construct infrastructure.
- RES has applied for mining rights for the Ledjadja properties where initial production is planned.

Smaller domestic scenario envisaged, with early exports

Of particular significance to us was the release of the planned production schedule used in the PFS. The original concept of a ~40mtpa ROM primarily domestic thermal operation has been delayed until 2020 in favour of a smaller ~12-15mtpa ROM operation producing 3-5mtpa of export thermal coal and a similar quantity of domestic thermal coal that most likely will be sold to Witbank power stations. The need to access these markets highlights the necessity to link the Boikarabelo mine to the Transnet network via a 50km rail line and then to pursue export port allocation.

The original, generous A\$960m capex was also trimmed as a more accurate picture emerged of the project. Now the ZAR4469 estimate (A\$667m at spot FX) includes allocations for the rail link, power supply and reticulation and water supply but is still considered to be generous since an emerging bulk mining plan could reduce the size and cost of the mining fleet. We have included additional capex of ZAR1,050m to expand the mine to 40mtpa ROM.

In our analysis mining and processing costs remain in line with previous estimates however rail costs have been increased to ZAR375/t (~A\$50/t) and ZAR100/t (~A\$15/t) for freight to port and to Witbank respectively. The Company expects a more reasonable rate of ZAR210/t may apply to port.

Increase in expected rail costs

The above changes plus a US\$20/t increase in benchmark export thermal coal price to US\$80/t ex Richards Bay (spot ex NSW is >US\$90/t) have improved 100% project NPV to A\$873m (ZAR 6,200m at spot FX) or A\$3.86 /share for RES's 74% stake in Ledjadja. The valuation compares favourably with our previous base case NPV of ZAR2,233m (A\$344m at the time).

Increase to coal price expectations

Applying for Mining Rights also represents a significant step since the application must contain extensive documentation regarding the economic and financial modelling for the project, an Environment Management Plan and a Social and Labour Plan. RES maintains this is a more onerous process than the equivalent Australian application.

Although we maintain a bullish picture for the Boikarabelo project, development risks remain high. Clearly, without sales contracts for the planned mine output plus rail and port allocation for the export component, financing such a project is likely to be difficult.

Development risk remains high

Working in the company's favour however is the status of the South African domestic market which remains under pressure as the current coal producing areas face diminishing reserves while Eskom, South Africa's power authority, remains committed to a substantial expansion of the country's power supply. This is against the backdrop of domestic price pressure due to a firm export market and as RBCT capacity increases (Figures 2, 3).

Figure 2: SA domestic coal demand (RES Feb 2010 presentation, Page 6)

Shortage of coal supply in South Africa

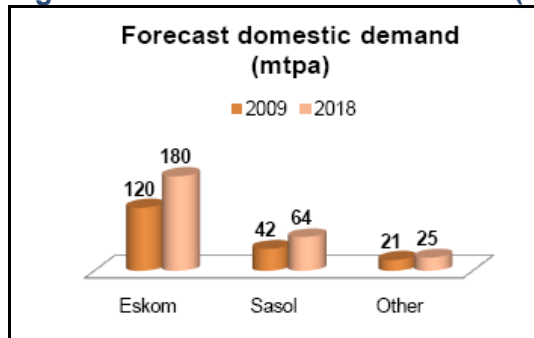
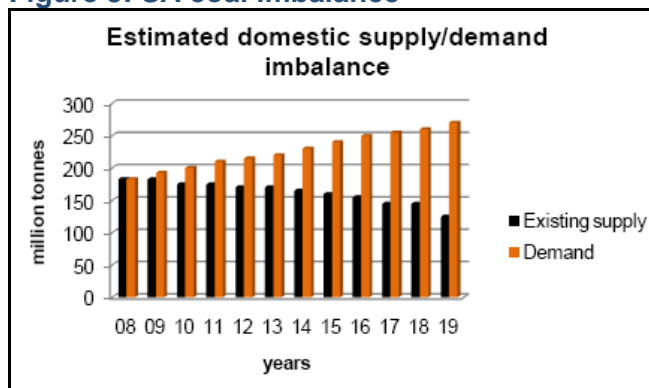


Figure 3: SA coal imbalance



The company remains confident that by the end of the year contracts or letters of intent will have been signed so that construction of a mine can commence. In the interim, work proceeds at quite a hectic pace to ensure that all necessary approvals will have been obtained for preparation of a BFS.

Resources & Reserves

The company's recently quoted reserves and resources were defined in the Ledjadja Coal JV (LCJV) where RES can earn up to 74% in JV with the BEE groups Yakani Resources and Shango Minerals. Reserves are now 301mt in L1, and from only ~16% of the L1 land area, together with an additional 1.74bt of resources in L2.

The expenditure of ZAR20 million (~ A\$3 million) on exploration and development activities will enable RES to increase its rights in the LCJV from 49% to 65%, with a further entitlement to increase to 74%, subject to final regulatory consent that has been applied for by the BEE partners. ZAR16.7 million had been spent by the end of December 2009. Drilling is currently targeting the L1/L3 boundary and L3 and should result in further conversion into probable reserves. Expenditure of US\$5 million will increase RES's rights in the Waterberg JV from its current 20% to 70%. US\$3.3 million has been spent to date however no immediate drilling is planned for the Waterberg JV following delineation of both reserves and resources in W#1. Reserves & Resources

Reserves, resources expected to increase

Figure 4: Total Reserves & Resources

	Inferred Resource *	Indicated Resource *	Probable Reserve
Waterberg One Coal JV			
W#1		569.5	302.4
Ledjadja Coal JV			
Witkopje (L1)			300.9
Draai Om (L2), Kalkpan (L3), Witkopje(L1)	1735.5		
Total Boikarabelo Project	1735.5	569.5	603.3
W#2 & W#3	123.4		
Total	1858.9	569.5	603.3

* indicates shale content removed

Production

Reserves, resources expected to increase

In our initiating report two production scenarios were investigated, a domestic only scenario and a combined export/domestic scenario. At this time the company quoted only an inferred resource in the Waterberg JV properties of ~2Bt, 96% of which was located in W1 (Koert Louw Zyn Pan). Now ~600mt of reserves have been defined together with ~2.3Bt of resources implying that RES does not have reserve/resource issues.

The company also plans to exploit the export market from the outset but due to current rail and port limitations, expects to market only 4mtpa and to simplify the operation, will produce export thermal only. In addition, due to the nature of the ROM coal mined and in the interests of maximising yield, a similar quantity of domestic quality thermal would be produced and sold most likely to Witbank located power generators.

Mine Location

Current planning calls for mining to commence in the two adjacent LCJV properties L1 and L3 (Witkopje and Kalkpan) with mine infrastructure located on RES owned properties to the south and west of mining operations as shown in Figure 8. Mining in W#1 would occur at a later stage hence Mining Rights have been only applied for the LCJV. Current landholdings are shown in Figure 9 with RES rather than the JVs the owner.

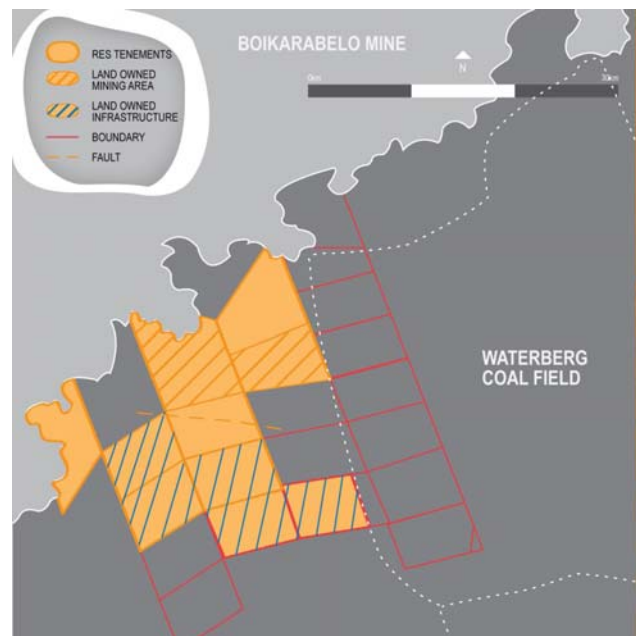
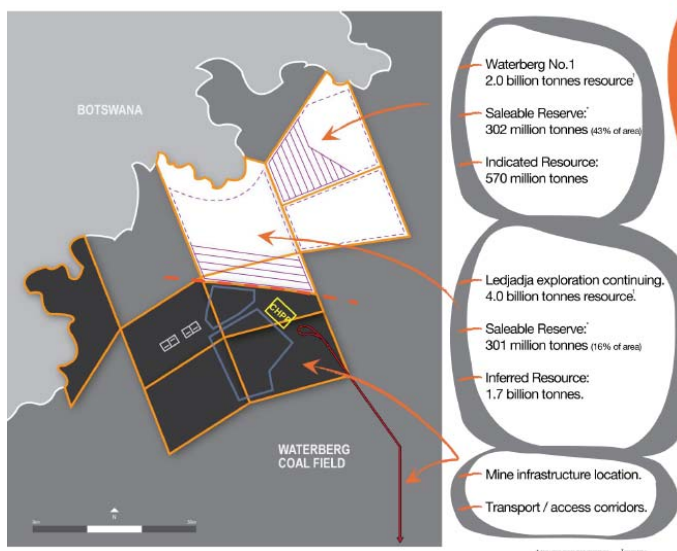


Figure 5: Proposed mine & infrastructure

Figure 6: Land ownership

Source: Company presentations

Mining and production

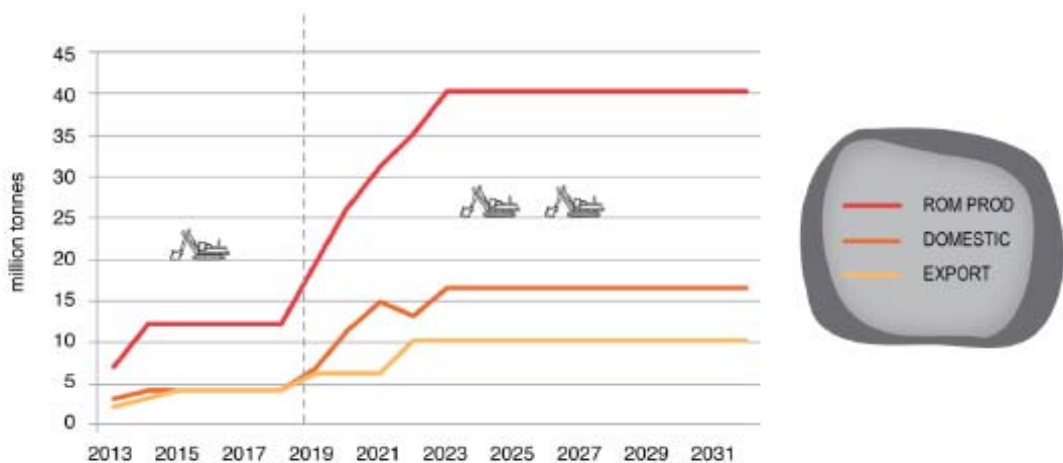
Low strip-ratio, free-digging

Much of the overburden is free digging and given the 20m depth, would result in a low strip ratio of ~0.6bcm/t in the early years. Bulk mining is currently favoured although larger zones of interburden will be removed prior to washing.

The first 5 zones or ~60m of a possible 120m will be mined in the early years using a single 50m³ electric rope shovel matched with 6x240t trucks. This combination can shift 12m bcm per year equivalent to 20mtpa of ROM coal and ~7mtpa of saleable coal.

When production is ramped up to ~40mtpa of ROM over 4 years, strip ratio will be reduced and a second shovel will be required. Eventual saleable production should be ~26mtpa with a domestic component of 15-17mtpa.

Figure 7: Pre-feasibility Study Production



Simple washing plant envisaged

The coal preparation plant (CPP) feed stockpile must provide flexibility for ROM coal to be by-passed directly to the domestic product or to undergo single or two stage washing. The initial A\$250m, 15mtpa ROM CPP itself is relatively simple comprising 2x1,100tph screens coupled with a high gravity module for domestic coal production and a low gravity module for export quality. The higher throughput would require additional screens and cyclones but given the initial investment in ROM and product pads and conveyors, rail load-out facilities and other infrastructure, should cost less than A\$50m.

Figure 8: Forecast production

(Mtpa)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Mine life (yrs)	30									
ROM	5.4	10.8	10.8	10.8	10.8	10.8	10.8	40.0	40.0	40.0
Domestic to Witbank	2	4	4	4	4	4	4	6	6	6
Domestic to Coal #3								15	15	15
Export thermal	1.5	3	3	3	3	3	3	5	5	5

Simple washing plant envisaged

Our forecast production in Figure 8 is slightly different to that shown in Figure 7. We have taken a simple approach until final designs become available regarding product splits and individual product yields so have assumed a total wash plant yield of 65%. In addition, if bulk mining is adopted, then some yield could be lost in favour of a lower mining cost. Yields should improve in the high throughput years when a second module is added and more domestic coal is produced.

Note that our estimates are conservative since we show export coal peaking at 5mtpa after year 8 whereas RES expects ~10mtpa in later years.

Figure 8 also indicates 15mtpa being sold to Coal #3. This was the name applied to the third Waterberg power station Eskom had proposed to construct near RES's leases. It was to be a replica of the 4,800MW Medupi plant currently under construction and its future is discussed later in this document.

Operating Costs

Low operating costs anticipated

With relatively cheap power and labour plus minimal overburden and thick coal seams, costs should be low. Our estimates for mining and processing have not been significantly altered and result in a 'free on transport' cost of ~A\$21/t. This would be reasonable for an Australian based open pit operation but possibly high for a South African mine with such a low strip ratio.

We calculate unit costs of ~ZAR147/t ex-mine gate for 4Mtpa domestic coal sales in years 1-7 and ZAR82/t at 21Mtpa saleable from year 8 and ~A\$80/t for domestic coal and export thermal respectively implying that RES should generate profits from both coal products. At the higher throughput, lower mine unit costs would result in even greater profit margins. We also expect that the company's initiatives regarding its rail options could lead to a substantial reduction in transport costs to port. As stated earlier in this report, a 10% reduction in operating costs would improve our NPV by 14% while a 10% reduction in rail charges would improve NPV by 18%.

Figure 9, taken from a recent company presentation, highlighted that in the PFS, rail costs for transport to an export port such as Durban or Maputo accounted for ~40% of revenues.

Figure 10 shows Pre Feasibility operating estimates (RES presentations).

PFS Operating Estimates

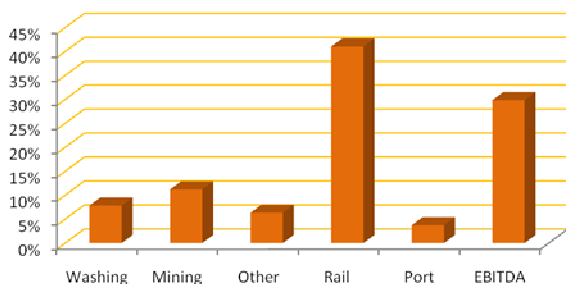


Figure 9: Cost breakdown & EBITDA margin (PFS)

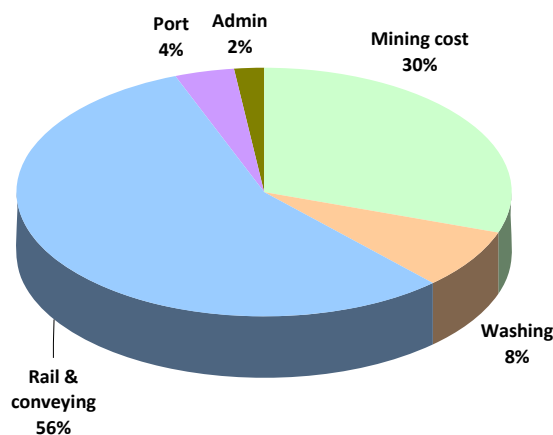


Figure 10: PFS Operating Cost Breakdown

Capital Cost

Capex may reduce

We have taken the capex estimate from the PFS (A\$700m at ZAR/A\$ of 6.4:1 vs spot at 6.7:1), however note on our forecast long term ZAR/A\$ exchange rate of ZAR7.1:1 vs 6.4:1 used in the PFS, capex reduces 10%. The two main components of anticipated capital cost are the mining fleet and the coal preparation (prep) plant. While a complete rethink of the mining fleet is underway we understand the A\$250m designated for the prep plant is a good estimate, based on the relatively simplistic design compared to some coal plants (ie NSW Hunter Valley).

Selective mining was previously planned in the interests of maximising yield and minimising prep plant costs. However additional wash tests indicated that yield would not suffer significantly if a bulk mining approach was adopted with major interburden seams removed prior to washing. Consequently the number of units of mining equipment is being reassessed and cost reductions are likely.

The company believes capex estimates are conservative

It is also worth noting that a provision of ~A\$50m has been made for power supply and reticulation and that ~A\$70m has been provided for a rail link from the mine to the Transnet system. Little information has been divulged regarding water supply however the company has indicated that adequate supplies have been identified and allowed for in the estimate.

We have assumed that the full A\$700m would be spent during the two years before the 2013 start but an additional A\$150m would be spent to expand the operation to the 40mtpa ROM rate. This comprises:

- A\$50m for a second 50m³ shovel;
- A\$15m for a conveyor to link the mine to a local power station;
- A\$50m for additional modules in the prep plant;
- A\$35m contingency (the \$700m includes a A\$13m contingency)

The project is not capex sensitive. A 10% capex reduction would improve NPV by 5%.

Rail Access

The PFS assumed that moving coal from the Waterberg to a port would be an expensive exercise. Originally we had assumed that if large tonnage were to be produced from RES's mine then most if not all would be delivered to a nearby power station by conveyor. Any export material would be trucked to the nearest rail head at the Grootegeluk mine before being consigned to a port.

It was also known that the 72mtpa Richards Bay Coal Terminal (RBCT) and its associated rail system were fully allocated as was the additional 19mtpa capacity provided in its recent expansion. It is also apparent that the RBCT port and rail suffer from similar problems experienced by the major coal exporting facilities in Queensland and NSW (DBCT and PWCS respectively).

Coordination of coal loading at the mines, unloading at the port and loading coal into ships seems fraught with difficulties such that full capacity of the ports is seldom utilised. Furthermore, the precise cause of this inefficiency is almost impossible to pinpoint with mines blaming rail that in turn blames the port operator.

Proposed spur-line to Transnet system

Company analysis indicated that coal transport would consume ~40% of PFS revenues (Figure 9) while in our analysis rail accounts for more than 50% of operating costs (Figure 10).

RES has concluded that a 50km rail link from the Boikarabelo mine to the Transnet system is the first step in reducing this impost and has provided ~\$70m for its implementation. The link, shown in the upper left hand corner of Figure 12, will provide access to the domestic markets, in particular the Witbank area, and east coast ports. Final design will depend on the carrier and final route selected beyond Pyramid South that in turn will depend on the port or ports selected.

The company has also initiated a more comprehensive study into all aspects of the various lines that radiate from Pyramid South to the ports to evaluate modifications that could further reduce operating costs. Leasing of locomotives and wagons is also being investigated since a first pass analysis indicates significant cost benefits A rail corridor from the mine must be surveyed and access granted by landowners although this is not expected to raise any issues since it is expected to run parallel to an existing road.

RES is also involved in a scoping study for the Trans Kalahari Rail Project connecting the Waterberg region to the port of Walvis Bay in Namibia through Botswana. Costs of ZAR375/t or ~A\$55/t have been used in the PFS and we have adopted this unit cost in our estimates together with ZAR100/t for costs of rail to a Witbank located power station. Our results shown in Figure 10 indicate a similar situation to the PFS results namely that the rail component appears expensive compared to optimal outcomes.

PFS Estimated Capex

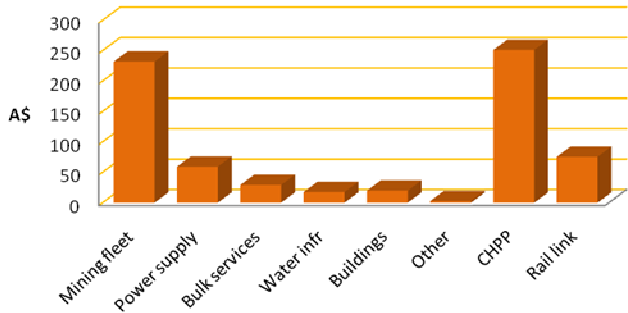


Figure 11: RES capital cost estimate



Figure 12: Transnet rail system showing RES link

Port Access

Port Access Negotiations ongoing

Access to the South African ports of Durban and Richards Bay (Bulk Terminal) and Maputo in Mozambique is being investigated and we understand that all three ports could currently accommodate small export tonnages and each facility is considering an expansion.

In addition, while RBCT superficially is fully allocated, opportunities exist for spot sales as has often been the case with similar facilities in Australia.

The company remains confident that port access will not become a limiting factor however negotiations for port access necessarily depend on sales contracts that we believe should be forthcoming given the growing demand.

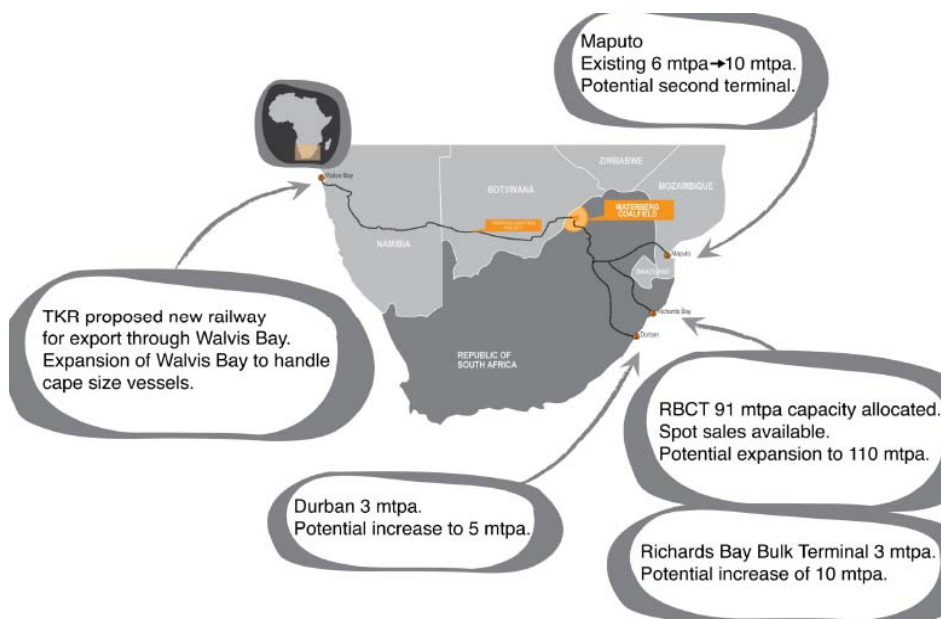


Figure 13: Port location & expansion potential

Appendix 1: South African Coal Industry

Note that some of the information in this section was obtained from “A strategic Analysis of South Africa’s Coal Mining Industry” by Frost & Sullivan August 2009, articles published in Business Day and from Wikipedia.

General

South Africa’s power supply suffered a crisis in January 2008 when a near collapse of the power grid forced mines and businesses to close. Since then the situation has improved after several small power stations were recommissioned and, thanks to the financial downturn, energy demand fell by 4.2% (~1,300MW) during FY09.

Limited reserve margin

However, Eskom’s reserve margin (estimated to be between 3- 8%) is very tight and little improvement can be expected until 2012 when the first of the 4,800MW Medupi sets is commissioned followed in 2013 by some of the 4,800MW Kusile sets.

It is also likely that before then South Africa’s GDP will have recovered as will power demand. Eskom’s own projections indicate that a moderate demand growth of 2.3% (based on 4% pa economic growth) would require ~19,000MW by 2025. Higher economic growth of 6% pa would require ~40,000MW by 2025 or ~2,200MW per year by 2017.

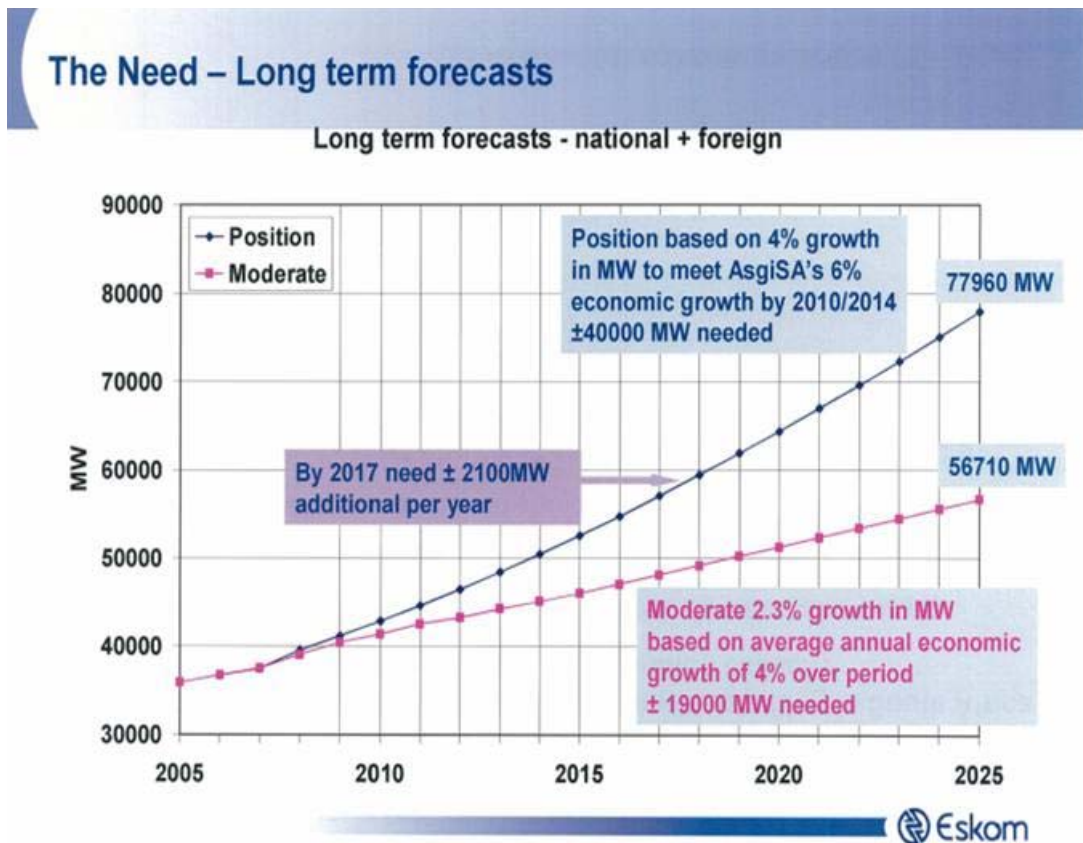


Figure A. Eskom’s projected power requirements (LT Forecast graph)

Source: Eskom data

General

Similar to other power markets (ie Australia) South Africa faces the prospect of rapidly rising electricity prices in coming years to fund decades of under-investment

To put these numbers into perspective, Eskom's maximum capacity currently is 40,503MW of which its 13 coal fired stations contribute 34,294MW from an installed capacity of ~38,000MW. The utility therefore has to prepare itself for a doubling of capacity in 15 years; a truly mammoth commitment given that it describes the combined Medupi, Kusile and the 1,350MW Ingula pumped storage undertaking as bigger than the Three Gorges Dam project. Construction of the Medupi station is also claimed to require more steel than the world's tallest building, the Burj in Dubai.

Eskom is also expecting a funding shortfall of ~ZAR22b between now and FY13 that has caused completion of the ~ZAR145b Kusile project to be delayed by 12 months and cancellation of its commitment to Coal#3.

This shortfall was caused by the recent downturn that resulted in a pre-tax loss of ~ZAR13b for FY09 and a lower than expected tariff increase allowed by NERSA the National energy regulator. Eskom had requested 53% but was given 27.5%. Power cost will rise of 45¢/kWh from April this year followed by 52.3¢/kWh in 2011 and 2012 and 65.85¢/kWh in 2012 and 2013. Suburban dwellers will not suffer the full increases. The attraction of Kusile to an equity partners and Coal #3 to an IPP probably improved due to these price hikes.

Supply & Demand

South African coal production has increased from ~220mt in the late 1990s to a current 250mtpa with most of this output mined from the Witbank/Highveld/Ermelo areas.

These three coal fields currently hold ~74% of the country's reserves however Witbank is the most important since geologically it is relatively undisturbed compared with the Highveld field where sills and dykes affect mining and coal quality. Ermelo is less productive than Witbank but is located at the junction of export rail lines to RBCT.

The Waterberg boasts ~40% or 76bt of South Africa's total resources but has only one operating mine, Grootegeluk that produces ~ 20mtpa, 15mtpa of which is sold to Eskom. Waterberg is expected to become more productive into the future as reserves in the Witbank/Highveld areas are depleted. Eskom also recognised the longer term importance of the Waterberg field having commenced construction of Medupi and in the recent past, indicated that two additional Medupi sized stations (Coal#3 and Coal#4) would be constructed here.

The Waterberg contains 40% of SA's coal resources

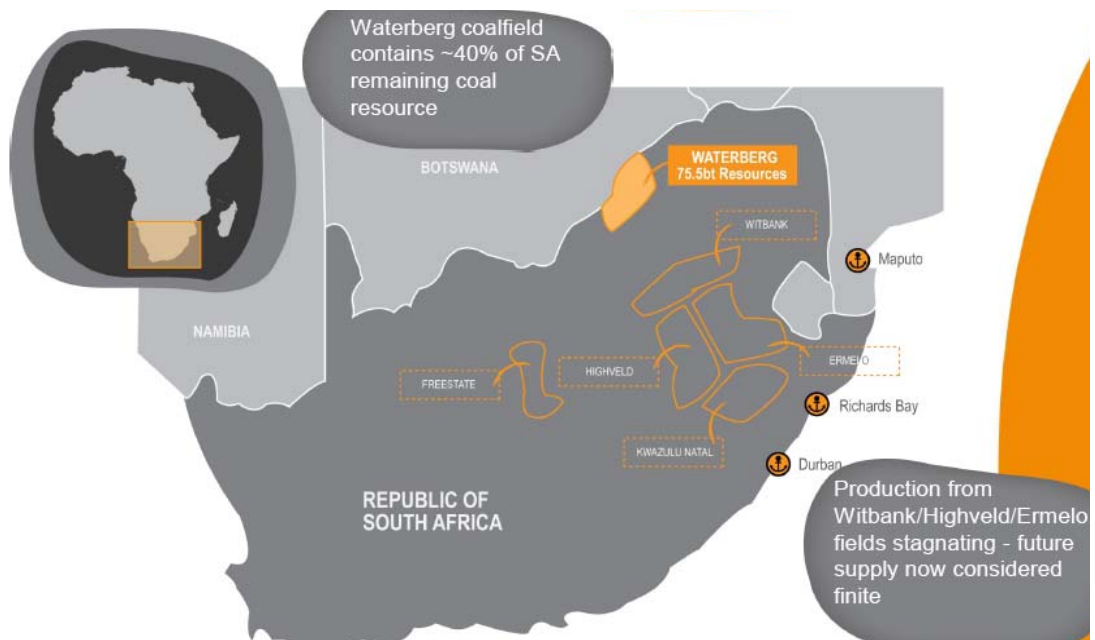
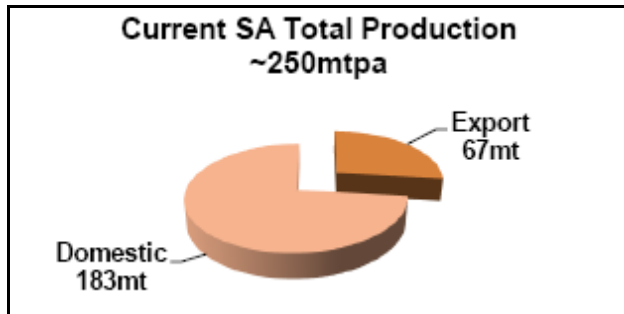


Figure B: South African coal fields (RES presentation P5)

Exports have stagnated

Exports have stagnated over the past 10 years at 68-70mtpa due to rail and port bottlenecks however domestic consumption growth has averaged ~2.6% over the same period and currently accounts for ~74% or ~183mt of total production.

Figure C: South African coal demand split

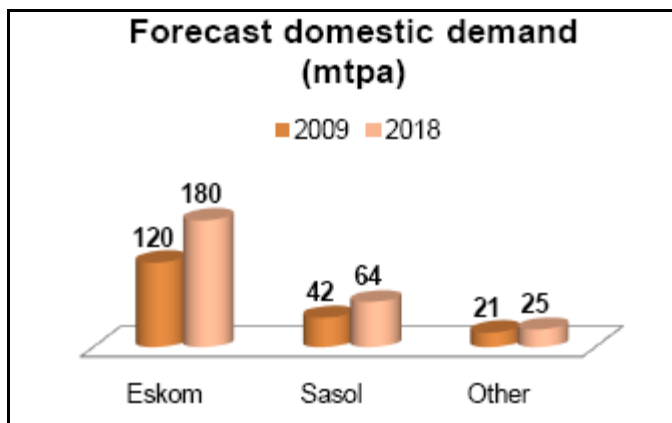


Source: Company presentation

Domestic coal demand to increase rapidly

As Figure C indicates domestic demand is forecast to boom with both Eskom and Sasol planning major expansions. Eskom currently accounts for 66% or 120mtpa of domestic production with Sasol requiring 42mtpa or 23% for its synthetic fuel production.

Figure D: South African projected domestic coal demand



Source: Company presentation

Both of these consumers intend to expand production substantially. Eskom has recently re-commissioned the Camden, Grootvlei and Komati power station that generate ~3,800MW requiring ~13.3mtpa of coal while Medupi and Kusile alone will require ~30mtpa when fully commissioned with Coal#3 or its replacement requiring an additional 15mtpa. Indeed, Eskom's recently retired CEO stated that "Eskom will require 180-200mt of coal per year from 2018, up from 120-130mt at the moment."

Meanwhile Sasol has announced feasibility studies into a new coal-to-liquids (CTL) plant at Mafutha in the Waterberg and a 20% expansion of its Secunda CTL plant. These project combined, could require an additional 25mtpa of coal.

Clearly producers will remain under pressure to keep pace with such domestic demand. Loyalties may also be stretched as Transnet and RBCT continue to debottleneck rail and port services that could open an additional 30mt of export capacity into a market where prices continue to recover.

Production

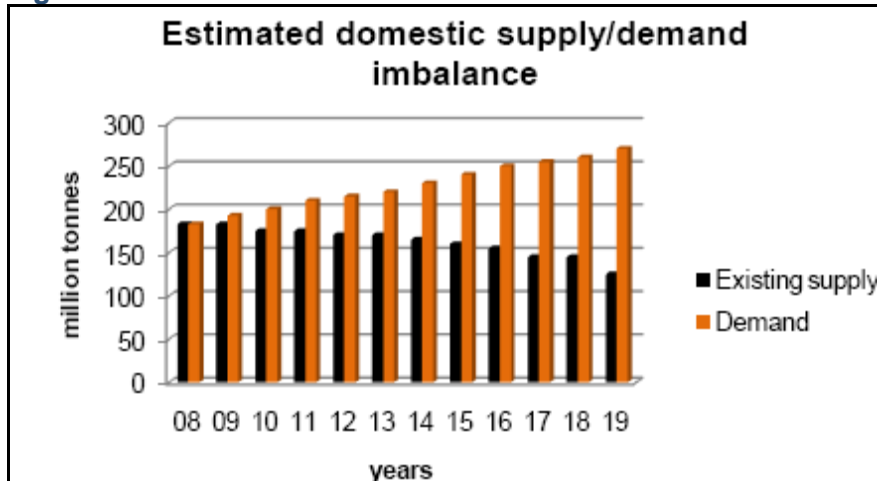
South African production has stagnated around 250mt for the past five years but is expected to register small increases in 2010 in response to rising Eskom demand and infrastructure spending associated with the FIFA World Cup. Several factors have contributed to this stagnation:

Other coalfields are in decline

- Depleted reserves in the Witbank and Ermelo coalfields;
- Difficult geological conditions particularly in the Highveld coalfield;
- Depleted reserves in the KwaZulu Natal region that will result in the closure of several mines by 2020.

The following figure indicates the potential shortfall as existing mines are depleted although it is unlikely to materialise since almost all of the coal mining majors in South Africa plan to expand. Nevertheless, the pressure will be on to fill such a gap and opportunities exist for development in the Waterberg since the region can guarantee domestic supply for decades into the future.

Figure E: Domestic coal shortfall



Source: Company presentation

Company Directors

Mr Paul J Jury (MD)
Mr Geoffrey (Toby) Rose
Mr Stephen (Steve) J Matthews

Mr Scott R W Douglas (CH)

Company Activities

Resource Generation Limited (RES) is currently developing a coal project in the Waterberg coalfield of South Africa.

Disclosures and Disclaimers

Shaw Stockbroking ABN 24 003 221 583 ('Shaw') is a participant of ASX Limited and holder of Australian financial services licence number 236048.

ANALYST CERTIFICATION

The Research Analyst who prepared this report hereby certifies that the views expressed in this document accurately reflect the analyst's personal views about the Company and its financial products.

The Research Analyst has not been, is not, and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report. As at the date of this report the Research Analyst does not have an interest in the financial products of the Company.

DISCLAIMER

This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs ('personal circumstances'). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your personal circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client advisor.

This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so.

This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it.

If you rely on this report, you do so at your own risk. Any projections are estimates only and may not be realised in the future. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence.

DISCLOSURE

Shaw will charge commission in relation to client transactions in Financial Products and Shaw client advisers will receive a share of that commission. Shaw, its associates and their respective officers and employees may in the future earn fees and commission from dealing in the subject company's Financial Products.

Shaw, and its wholly owned subsidiary Shaw Corporate Finance Pty Limited, acted for the company in the role of Underwriter within the past 12 months, for which they received a fee. Shaw, its associates, employees and authorised representatives have an interest in the financial products of the Company.

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.