Shaw Research

Company Report

29 March, 2011

Resource Generation (RES) BUY

A Major New Coal Producer

We reinitiate coverage on Resource Generation Limited (RES) with a BUY recommendation, with a valuation and 12 month price target of A$1.72. RES offers a good investment opportunity, with a significant coal deposit in South Africa and an experienced management team de-risking the company. RES is developing its Boikarabelo coal project with first production targeted for late 2013.

Valuation and Recommendation

Using conservative assumptions we value RES at A$421M. We have a **BUY** recommendation and 12 month price target in line with our valuation of A$1.72/share. The valuation increases to A$992M (A$4.06/share) if the stage 2 expansion at Boikarabelo increases both export and domestic products to 8.0 Mtpa from 2019.

World Class Resource – RES has identified a JORC compliant resource of 3.1Bt at its Boikarabelo coal project. Probable reserves of 744.8 Mt have been defined in just 35% of the project area. The coal is near surface and with a low strip ratio offers a low cost mining solution. The Waterberg coal field currently has only one operating mine however it is expected to be a major supplier of South African coal in the future as deposits mature and environmental concerns around the current main producing Witbank coalfield increase, presenting an early mover advantage for RES.

Boikarabelo Coal Project – the project is at an advanced stage of development with RES receiving notification that it has been granted a 30 year Mining Right for its Ledjadja tenement. The project will be developed in two stages. Stage 1 will produce 12 Mtpa run of mine (ROM) coal yielding 3 Mtpa of thermal coal for the export market and 3 Mtpa of thermal coal for domestic users. Stage 2 will increase ROM output in 2019 to 32 Mtpa lifting domestic sales to 15 Mtpa with no change to the export output of 3 Mtpa.

Offtake – RES has secured two export offtake contracts with Indian coal consumers. The company has not yet secured a market for its domestic coal product. It should be noted that as the Waterberg region has been identified as the future of South Africa's coal industry, there are likely to be many domestic supply opportunities for RES in the future.

Proven Management – RES has a proven and experienced management team in place that previously developed the Newpac coal mine prior to it being acquired by Xstrata in 2008.

YE 30 June A$M	2014F	2015F	2016F	2017F	2018F
Total Operating Revenue	146	293	293	293	293
EBITDA	58	117	117	117	117
Dep & Amort	25	25	24	24	27
EBIT	32	92	93	93	90
Net Interest	-24	-45	-45	-45	-46
NPBT	8	47	48	49	44
Tax	2	13	13	14	12
NPAT (pre exceptional)	6	34	34	35	31

Investment Summary

Share Price $ps	**$0.86**
Target Price (12 month) $ps	**$1.72**
Energy	
http://www.resgen.com.au/	
Issued Capital M	**244M**
Market Cap $M	**$204M**
Gearing ND/(ND+E)	**Net Cash**
Analyst Name	**Andrew Sullivan**

Share Price Chart

Year Hi-Lo $ps	**$.94 - $.42**
Avg Monthly Vol (M)	**1.2**

Performance %	**1 m**	**3 m**	**12 m**
Absolute	19.4%	52.2%	41.0%
Rel Top 200	19.1%	50.1%	40.2%

Shareholders

	%
Integrated Coal Mining Limited	7.5%
Commonwealth Bank of Australia	7.3%
Equitas Nominees A/C Scodella Inc	6.4%
Paul Jury	4.9%

Company Activities

Exploration and development of energy related resources

Level 15, 60 Castlereagh Street Sydney NSW 2000 Tel (02) 9238 1238
Level 20, 90 Collins Street Melbourne VIC 3000 Tel (03) 9268 1000
55 Phillip Street Parramatta NSW 2150 Tel (02) 9891 5644
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Financial Summary

Assumptions

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Exchange Rate (A$/US$)	0.88	0.94	0.88	0.85	0.84	0.83	0.83	0.83	0.83	0.83
Thermal Price (US$/t)	77.00	95.00	93.25	87.25	85.01	85.01	85.01	85.01	85.01	85.01
Thermal Domestic Price (ZAR/t)	0.00	0.00	0.00	0.00	255.00	255.00	255.00	255.00	255.00	255.00

Production

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Boikarabelo										
Semi Soft Coking Coal ('000t)	0	0	0	0	0	0	0	0	0	0
Export Thermal Coal ('000t)	0	0	0	0	1500	3000	3000	3000	3000	3000
Domestic Thermal Coal ('000t)	0	0	0	0	1500	3000	3000	3000	3000	15000

Profit and Loss (A$m)

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Total Operating Revenue	0	0	0	0	146	293	293	293	293	600
EBITDA	-4	-1	-1	-1	58	117	117	117	117	240
Dep & Amort	0	1	6	18	25	25	24	24	27	33
EBIT	-4	-2	-8	-20	32	92	93	93	90	207
Net Interest	1	2	-7	-31	-44	-45	-45	-45	-46	-53
NPBT	-3	-1	-15	-50	-11	47	48	49	44	153
Tax	0	0	0	0	0	13	13	14	12	43
NPAT (pre exceptional)	-3	-1	-15	-50	-12	34	34	35	31	110
Exceptional Items (after tax)	0	0	0	0	0	0	0	0	0	0
NPAT (reported)	-3	-1	-15	-50	-12	34	34	35	31	110

Cash Flow (A$m)

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Gross Cash Flow	-1	-1	-1	-1	34	93	117	117	117	189
Net Interest	1	2	-7	-31	-44	-45	-45	-45	-46	-53
Income Taxes Paid	0	0	0	0	0	-13	-13	-14	-12	-43
Net Operating Cashflows	0	1	-8	-32	-10	35	59	59	59	93
Maintenance Capex	0	0	0	0	0	0	0	0	0	0
Expansion Capex	-23	0	-222	-279	-43	-1	-1	-43	-143	-143
Exploration & Evaluation	-4	0	0	0	0	0	0	0	0	0
Free Cash Flow	-27	1	-230	-311	-53	34	58	16	-84	-50
Net Investing Cash Flows	-28	0	-222	-279	-43	-1	-1	-43	-143	-143
Net Financing Cash Flows	30	41	250	250	50	-3	-9	-14	151	-56
Net Cash Flows	1	42	20	-61	-3	31	49	2	67	-106
Closing Cash Balance	6	48	68	7	4	35	84	86	152	46

Balance Sheet (A$m)

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Cash & Equivalents	6	48	68	7	4	35	84	86	152	46
Total Current Assets	8	48	68	7	40	107	157	158	225	194
Net PPE	23	22	237	498	515	491	468	487	603	713
Total Non Current Assets	84	83	299	559	577	553	530	549	664	774
Total Current Liabilities	2	0	0	0	12	24	24	24	24	50
Borrowings	0	0	250	500	550	550	550	550	720	720
Total Non Current Liabilities	4	4	254	504	554	557	560	563	735	771
Total Shareholders Equity	87	127	112	62	50	79	102	119	130	148

Growth

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Sales Growth	nm	nm	nm	nm	nm	101%	0%	0%	0%	105%
EBITDA	nm	nm	0%	0%	nm	103%	0%	0%	0%	104%
NPAT	nm	nm	nm	237%	nm	nm	2%	1%	-10%	252%
EPS	nm	nm	nm	237%	nm	nm	2%	1%	-10%	252%

Per Share Ratios

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
PE Ratio	nm	nm	nm	nm	nm	6.4	6.3	6.2	6.9	2.0
Price to Book Value	1.2	1.4	1.9	3.5	4.3	2.8	2.1	1.8	1.7	1.5
Price to NTA	1.2	1.4	1.9	3.5	4.3	2.8	2.1	1.8	1.7	1.5
EPS (A¢)	-3	0	-6	-21	-5	14	14	14	13	45
DPS (A¢)	0	0	0	0	0	0	0	0	0	0
Dividend Yield (%)	0%	0%	0%	0%	0%	3%	5%	8%	10%	42%
Payout Ratio	0	0	0	0	0	17	33	50	67	83
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
CFPS (A¢)	0	0	-3	-13	-4	14	24	24	24	38
Book Value (A¢)	72	62	46	25	21	32	42	49	53	61
NTA (A¢)	72	62	46	25	21	32	42	49	53	61

Operating Ratios (%)

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Op EBITDA Margin	0%	0%	0%	0%	40%	40%	40%	40%	40%	40%
Op EBIT Margin	0%	0%	0%	0%	22%	31%	32%	32%	31%	34%
D&A / Sales	nm	nm	nm	nm	nm	9%	8%	8%	9%	5%
Interest Cover - EBIT	4	1	-1	-1	1	2	2	2	2	4
Interest Cover - GFCF	1	1	0	0	1	2	3	3	3	4
Tax Rate	0%	0%	0%	0%	0%	28%	28%	28%	28%	28%
ROA	-4%	-1%	-6%	-11%	-2%	5%	5%	5%	4%	12%
ROE	-5%	-1%	-12%	-58%	-21%	52%	38%	32%	25%	80%

Cash Flow Analysis

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Gross CF / Op EBITDA	28%	90%	100%	100%	59%	79%	100%	100%	100%	79%
Maint Capex / Sales	nm	nm	nm	nm	nm	0%	0%	0%	0%	0%
Total Capex / Sales	nm	nm	nm	nm	nm	0%	0%	15%	49%	24%
Maint Capex / Deprec	nm	nm	nm	0%	0%	0%	0%	0%	0%	0%
Total Capex / D&A	nm	nm	nm	0%	168%	6%	3%	180%	524%	435%
Maint Capex / GFCF	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Growth Spend $M	23	0	222	279	43	1	1	43	143	143

Balance Sheet Analysis

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Net Debt $M	-6	-48	182	493	546	515	466	464	568	674
Net Debt / Equity	-7%	-38%	162%	796%	1083%	655%	458%	390%	438%	456%
Debt / Equity	0%	0%	223%	808%	1092%	700%	542%	462%	556%	487%
Working Capital $M	0	0	0	0	24	48	48	48	48	98
Work. Cap / Sales	nm	nm	nm	nm	nm	16	16	16	16	16
D & A / PPE	nm	nm	nm	4%	5%	5%	5%	5%	5%	5%
Current Ratio	nm	nm	nm	46	3	4	6	6	9	4

Capital Structure

Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Opening Balance	77.1	164.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4
Placement/Pro-Rata Issue	87.4	80.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Options Exercised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing Balance	164.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4
FPOWA	120.7	204.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4
EFPOWA	120.7	204.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4

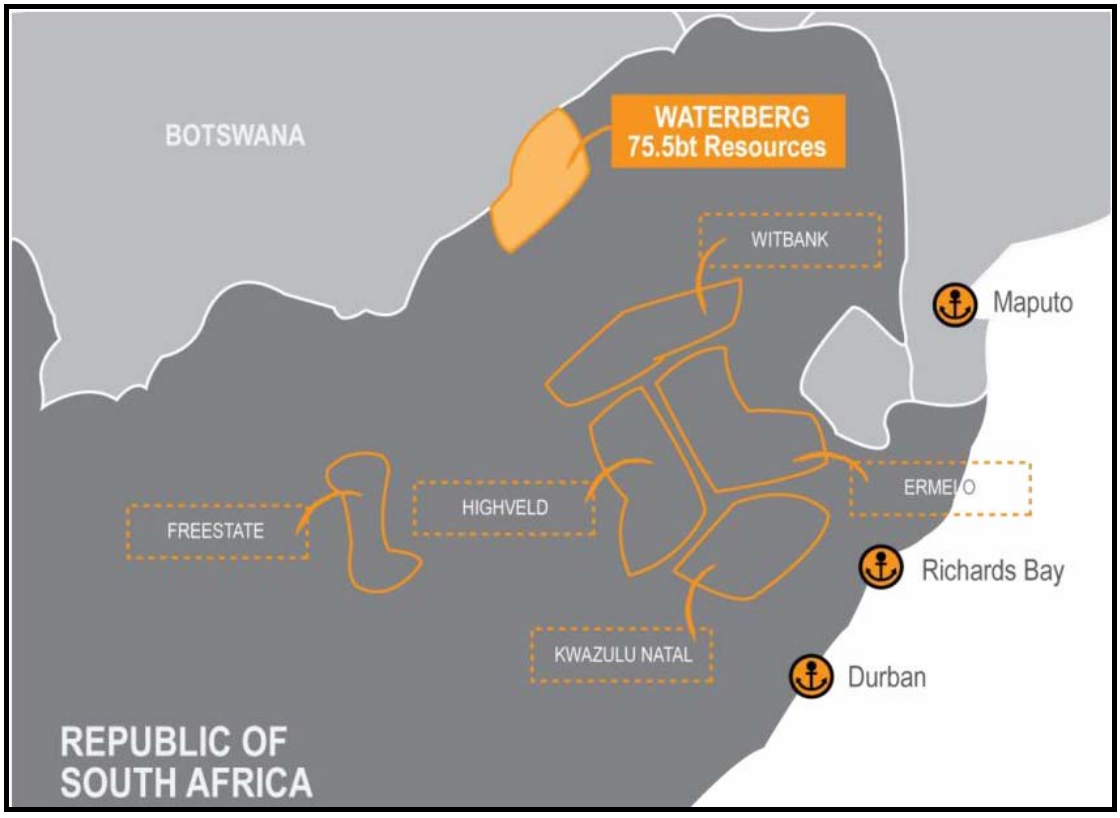
Project Summary

Developing a new mine in the Waterberg

RES is developing the Boikarabelo coal project in South Africa's Waterberg coalfield. The project is located west of the town of Lephalale near the border with Botswana, Figure 1.

The Waterberg coalfield contains approximately 40% of South Africa's coal resources and the level of both coal mining and power generation in the area is likely to increase as these activities diminish in other regions of the country such as Mpumalanga (the Witbank and Ermelo coalfields).

Figure 1: Boikarabelo Coal Project Location



Source: RES

2014 Stage 1: 12 Mtpa ROM

The Stage 1 development at Boikarabelo will produce 12 Mtpa run of mine (ROM) coal, which will be processed through a 2 stage coal preparation plant to produce 3 Mtpa of thermal coal for the export market and 3 Mtpa of thermal coal for domestic users.

2019 Stage 2: 32 Mtpa ROM

RES anticipates output will be increased in 2019. The Stage 2 expansion is scheduled to coincide with the potential construction of a third coal fired power station in the Waterberg and will take ROM output to 32 Mtpa through the addition of a second mining fleet and full utilisation of the original equipment. At this time supply of domestic thermal coal will increase to 15 Mtpa with no change to the export output of 3 Mtpa.

Eskom developing second regional power station Medupi.

Potential for third power station.

The Waterberg coalfield is largely undeveloped with Exxaro's Grootegeluk coal mine the only operation in the area currently supplying the Matimba power station, which is owned and operated by the South African government's power utility Eskom. Eskom's second power station in the region, Medupi, is under construction and is due to begin commissioning in 2012 to be fully operational by 2016. In addition, the South African power utility is believed to be assessing a third power station for the region. RES is currently working to secure domestic coal offtake contracts.

Valuation

NPV = A$421M
A$1.72/share

Our DCF base case valuation of the Boikarabelo coal project is A$421M. The share valuation of A$1.72 is established using current issued shares of 244M and as such assumes the Stage 1 project finance package is 100% debt funded.

Table 1 shows the major project assumptions used to develop Shaw's financial model for the Boikarabelo coal project.

Table 1: Base Case Model Parameters

Long Term Exchange Rate	ZAR8.43:US$ (ZAR7.00:A$)
Long Term Export Thermal Coal Price	US$85.00/t
Long Term Domestic Thermal Coal Price	ZAR255/t US$30.25/t)
Corporate Tax Rate	28%
Royalty	5% of revenue
Start up	December 2013 (FY14)
Stage 1 Production Export Thermal	3 Mtpa (14% ash)
Stage 1 Production Domestic Thermal	3 Mtpa (29.6% ash)
Stage 2 Production Export Thermal	3 Mtpa (14% ash)
Stage 2 Production Domestic Thermal	15 Mtpa (29.6% ash)
Operating Cost Export	ZAR395/t (A$56.43/t)
Operating Cost Domestic	ZAR155/t (A$22.14/t)
Stage 1 Capital Cost	ZAR4,000M (A$552M)
Stage 2 Capital Cost	ZAR2,800M (A$400M)
Life of mine	26 years
RES interest	74%
Discount Rate	12.5%
Total JORC Resources (Inferred, Indicated & Measured)	3,121.8 Mt
Probable Reserve	744.8 Mt

Source: Shaw

Note: We have ascribed no value to the company's Australian (coal in Tasmania) or Cameroon (uranium) assets at this point due to their early stage of development.

Table 2: Valuation Sensitivity to Discount Rate

Discount Rate	9%	10%	11%	**12.5%**	15%
NPV	A$719M	A$617M	A$529M	**A$421M**	A$284M
$/share	A$2.94	A$2.52	A$2.17	**A$1.72**	A$1.16

Source: Shaw

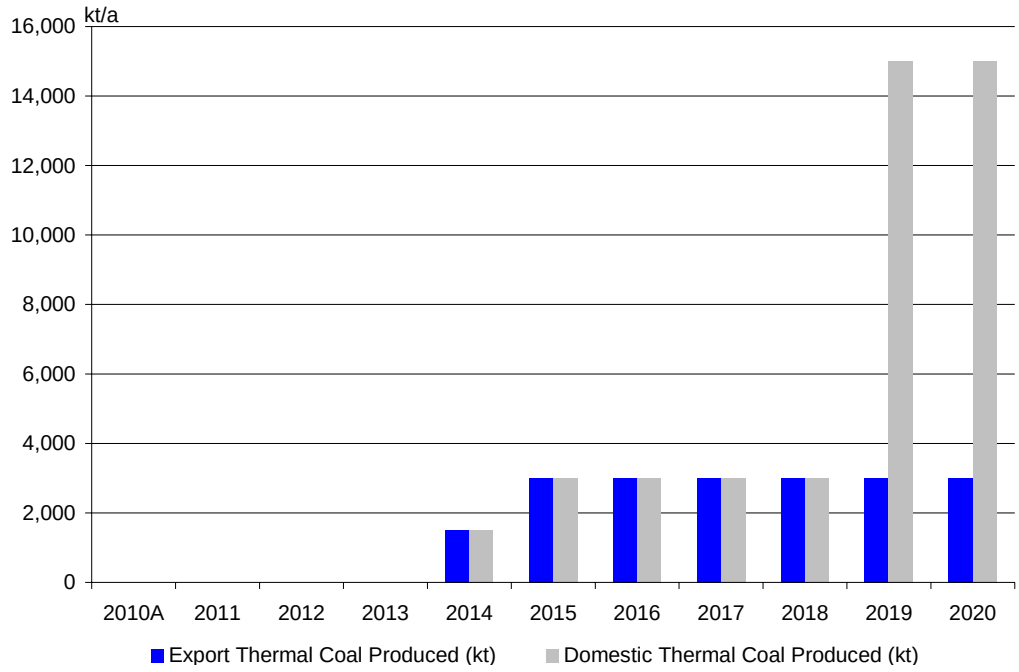
Production Scenarios

RES has identified significant reserves and resources at the Boikarabelo coal project. There is sufficient material to expand coal production in the future as market demand arises. Our base case assumes that domestic coal production increases in 2019 assuming that Eskom develops a third power station in the Waterberg region, Chart 1.

Chart 1: Production Forecast

Export thermal - 3 Mtpa

Domestic thermal - 3 Mtpa increasing to 15 Mtpa



Source: Shaw

We believe the production profile for our base case valuation is conservative given the size of the Boikarabelo coal project's coal reserve. There are a number of alternate production scenarios which may unfold as the Waterberg coalfield is developed including:

- Upgrading of rail and port infrastructure to support increased export tonnages;
- Development of additional coal fired power stations by either Eskom or Independent Power Producers, increasing domestic demand;
- Sale of domestic coal to existing power stations in the Mpumalanga region;
- Development of other coal consuming industry, such as coal to liquids, increasing domestic demand.

As the second coal producer in the Waterberg behind Exxaro, RES's Boikarabelo coal project positions the company well as an early mover in a region with significant future potential for numerous sources of energy production.

Increasing Stage 2 export tonnage to 8 Mtpa increases the NPV to A$992M

The global outlook for thermal coal demand remains robust. RES has already secured two export offtake contracts to supply coal into the Indian market. It is likely that if RES can secure the necessary rail and port infrastructure to support increased export tonnage the demand will be there when the Stage 2 expansion is complete. If this occurs, Shaw believes the Stage 2 Export/Domestic coal production output will continue at the same ratio as Stage 1, resulting in production of 8 Mtpa of export coal and 8 Mtpa of domestic coal, Chart 2.

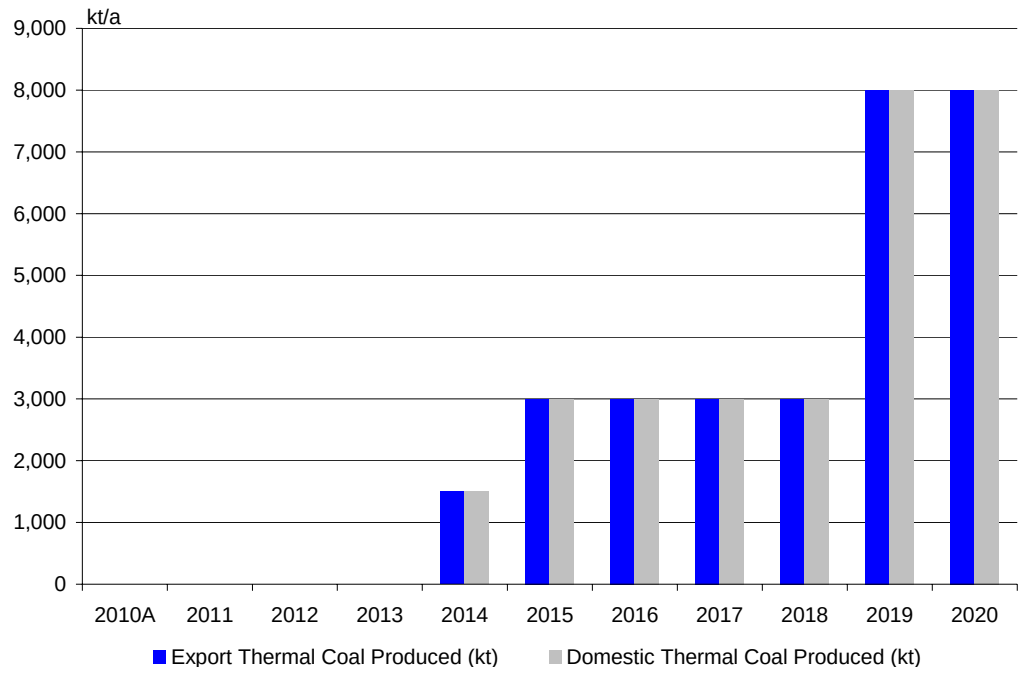
Under this expanded export coal scenario our valuation increases to A$4.06/sh or an NPV of A$922M.

Chart 2: Production Forecast – Expanded Export Coal Demand

Stage 2 expanded scenario

Export thermal - 3 Mtpa
Increasing to 8 Mtpa

Domestic thermal - 3 Mtpa
increasing to 8 Mtpa



Source: Shaw

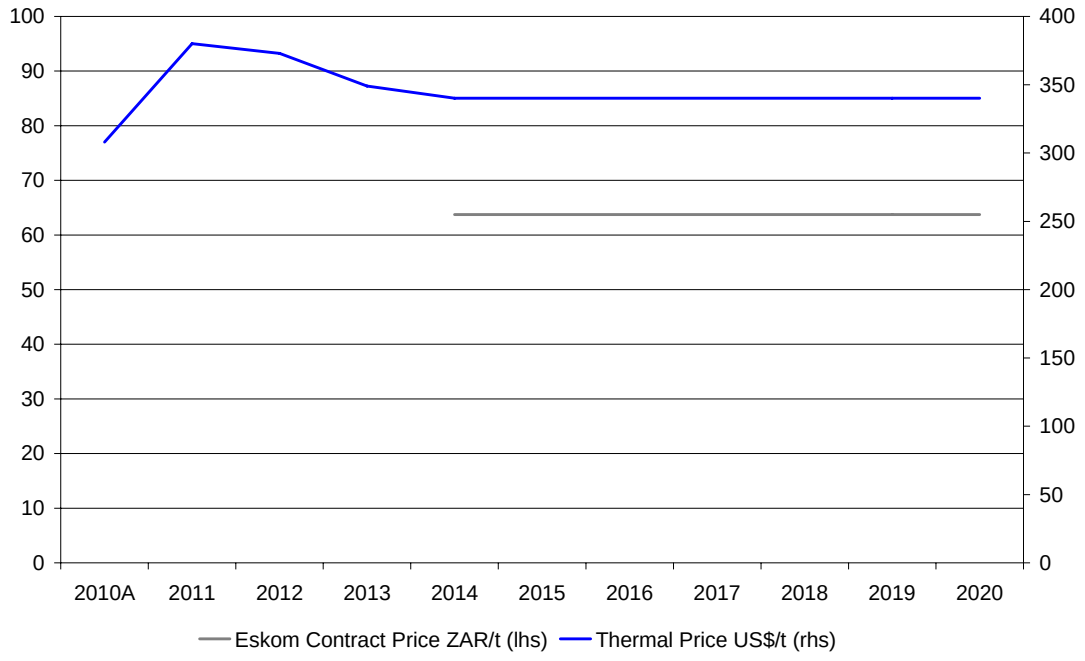
Commodity Price Assumptions

Chart 3 shows Shaw's coal price assumptions with export thermal coal settling at US$85/t in the long term equivalent to A$102.40/t at our long term exchange rate of A$:US$0.83. Meanwhile the price received for domestic coal within South Africa is assumed to be ZAR255/t or A$36.43/t.

Chart 3: Coal Prices Forecast

Long Term –
A$:US$0.83
US$:ZAR8.43

Export Thermal US$85/t
Domestic Thermal
ZAR255/t



Source: Shaw

Thermal coal market growth expected to remain strong

The seaborne thermal coal market experienced compound annual growth of more than 6% between 1994 and 2009. The market is expected to experience continued growth over the medium term as developing nations, particularly in Asia, continue the trend of industrialisation and urbanisation. Historical demand trends are likely to increase as per capita electricity consumption in countries such as China and India move towards those of industrialised nations. The shift in consumption from these nations will support coal pricing above long-term historical averages at a point which allows the economic development of new deposits.

Sensitivity Analysis

Table 3 shows the NPV sensitivity to our key model assumptions.

Sensitivity analysis of the key model input parameters shows coal prices have the greatest impact on project NPV. The project is more sensitive to domestic coal pricing because of the higher production rate following expansion under the base case.

It should also be noted that the NPV is highly sensitive to the cost of railing export coal to the port. We have assumed ZAR260/t for rail, over 60% of the total operating costs for export product, a ±10% change in rail costs changes the project NPV by 17%.

Table 3: NPV Sensitivity to Key Model Assumptions

Base Case NPV = A$421M

	Base Case Assumption	+10%		-10%	
		NPV	% Change	NPV	% Change
Export coal price	US$85/t	A$541M	28.6%	A$295M	-29.9%
Domestic coal price	ZAR255/t	A$555M	32.0%	A$278M	-33.8%
ZAR:US$	ZAR8.43:US$	A$492M	17.0%	A$328M	-22.1%
Operating costs	ZAR395/t (export) ZAR155/t (domestic)	A$348M	-17.3%	A$492M	17.1%
Stage 1 capital costs	ZAR3,950M	A$377M	-10.4%	A$464M	10.3%
Stage 2 capital costs	ZAR2,800M	A$398M	-5.3%	A$439M	4.5%

Source: Shaw

Table 4 shows the NPV sensitivity to the discount rate used in our model.

Value accretion will be high once project risks are mitigated and discount rates reduce.

Table 4: NPV Sensitivity to Discount Rate

Discount Rate	NPV	% Change	Valuation
10%	A$617M	46.6%	A$2.52/sh
12.5%	A$421M	0%	A$1.72/sh
15%	A$284M	-32.5%	A$1.16/sh

Source: Shaw

Valuation and Price Target

Using a DCF valuation, Shaw's base case valuation for RES's Boikarabelo coal project is A$421M or A$1.72/sh.

Risks

Domestic Offtake

RES has not secured a domestic offtake contract at this point. We view this as the highest risk to the Boikarabelo coal project. If RES is unable to secure a buyer for its domestic coal product it will need to reassess the scope of the project. If this were to occur the challenge will be to rework the coal quality to achieve an acceptable trade off between yield and product quality that is suitable for the export market and maintains the economic feasibility of the project.

Export Offtake

RES has importantly secured two export offtake contracts with Indian thermal coal importers. The contracts account for 2.5 Mtpa of export material from year 4 of the project and reduce the risk of the export product.

Infrastructure

The Boikarabelo coal project is highly reliant on the ability to rail export coal to port and potentially domestic customers in the Mpumalanga area. Output from RES's proposed Waterberg operation requires infrastructure capacity to be upgraded or developed for the delivery of either export coal or domestic product.

Funding

Stage 1 A$552M
Stage 2 A$400M

The development of the mine will require funding in 2011 to meet the late 2013 production deadline. It is likely RES will use a combination of debt and equity to fund Stage 1 of the Boikarabelo coal project, however Shaw has assumed 100% debt until details of any equity component are known to calculate the dilution effect.

Project Milestones

RES must complete the following as it develops the Boikarabelo coal project.

2011

- Secure project funding;
- Commence mine construction;
- Order mine fleet.

2012

- Complete mine construction;
- Delivery of mine fleet.

2013

- Commence operations.

Asset

RES has a portfolio of resources including coal deposits in South Africa and Australia and uranium in Cameroon. The company's main focus is on development of the Boikarabelo coal project in South Africa.

South Africa – Boikarabelo Coal Project

Waterberg ~40% of South Africa's coal reserves

South Africa is a major producer and exporter of coal, most of which comes from the maturing Witbank coalfields. The future of South Africa's coal industry lies in the Waterberg coalfield which accounts for approximately 40% of the country's reserves however currently has only one operating mine. RES's Boikarabelo coal project is located in the Waterberg coalfield.

36 km to existing rail line

The Boikarabelo tenements are 36 km by proposed rail link to the existing rail system that provides access to domestic markets and to the ports of Maputo, Richards Bay and Durban for export shipments.

The Boikarabelo coal project tenement area consists of two projects called Ledjadja and Waterberg No. 1.

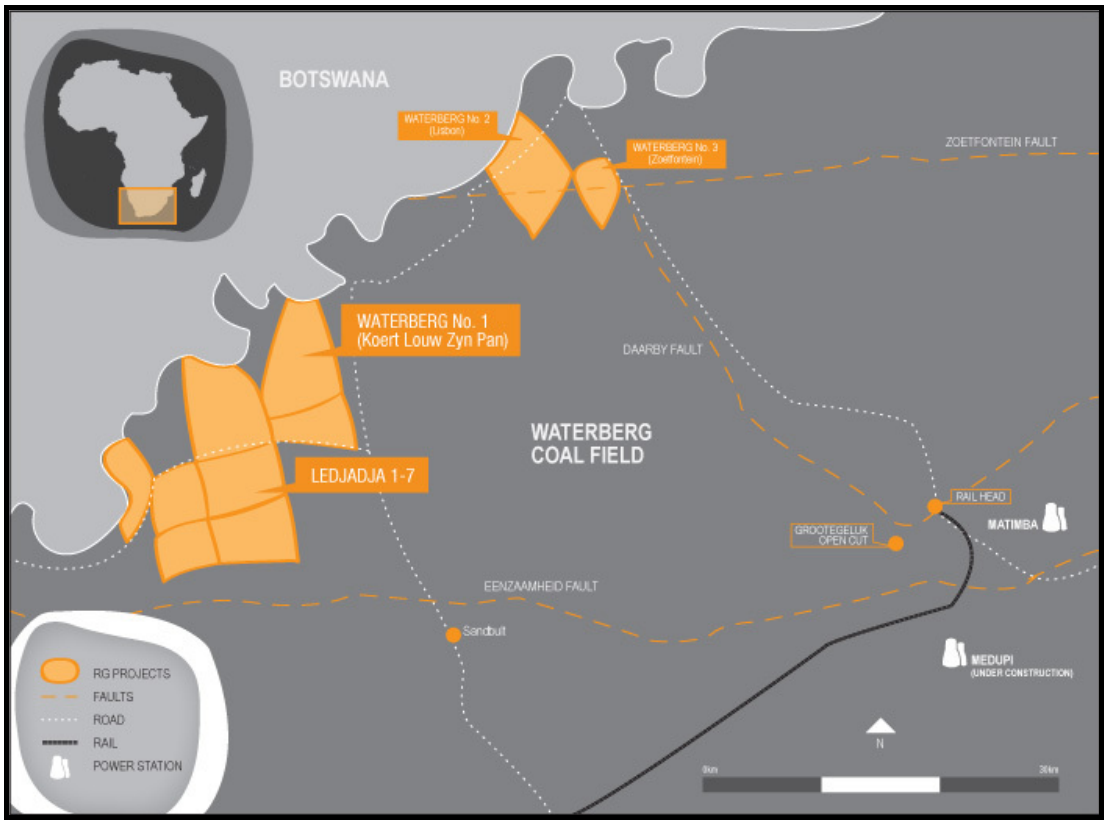
30 Year Mining Right Granted

The tenements owned by Ledjadja form the Boikarabelo Project. RES has received notification that Ledjadja has been granted a 30 year Mining Right by the South African Department of Minerals and Energy (DME). Execution of formal documentation and establishment of a A$2M rehabilitation deposit is expected to be completed by the end of April 2011.

The Waterberg No. 1 tenement (also known as Koert Louw Zyn Pan), owned by Waterberg One Coal, is known as the Boikarabelo Extended Project and is contiguous with the Boikarabelo Project, Figure 2.

RES has purchased 8,397 hectares of land which is flat and accessible and will allow development of the mine to proceed quickly when funding is received.

Figure 2: Waterberg Coal Field South Africa



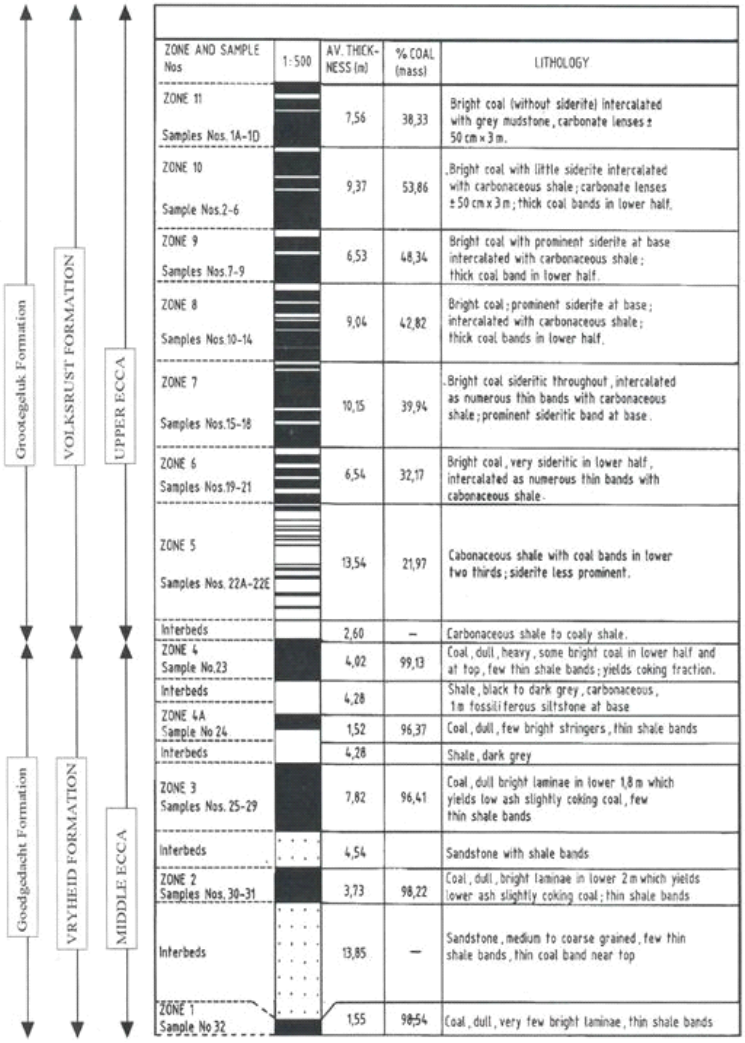
Source: RES

Geology

The coal seams of the Waterberg Coalfield occur in the Volksrust and Vryheid Formations of the Karoo Sequence. Numerous coal seams ranging from a few millimetres up to 8 m occur over a stratigraphic thickness of approximately 120 m. These coal seams are grouped into eleven coal bearing zones that can be correlated across the coalfield. Zones 1-4 fall within the Vryheid formation (Figure 3) over a stratigraphic interval of ±40 m and have thicknesses ranging from 1.5 to 5.5 m. Generally the ash content of these seams increases upwards from ±20% to 45%. Zones 5-11 occur within the Grootegeluk formation and consist of rapidly alternating mudstone and thin coal seams occurring over a stratigraphic interval of up to 70 m to form what is generally known as composite seams. Run of mine (ROM) coal from zones 5-11 range from about 45%-65% ash content and requires beneficiation to obtain a blend coking coal and a middling suitable for power generation. A sharp peak in P_2O_5 content (up to 10%) in the coal ash of zones 4 and 5 makes both zones unsuitable as a source of metallurgical coal.

The Boikarabelo coal seam, which ranges in thickness from 120 to 130 m, is covered by 20 to 30 m overburden meaning a low strip ratio of less than 1:1 which is suitable for low-cost, open-cut mining. The deposit has a number of zones with varying quality thermal and soft coking coal. Figure 3 shows a generalised stratigraphic column of the coal zones from the Waterberg coalfield.

Figure 3: Generalised Stratigraphic Column of the Zones Coal



ZONE AND SAMPLE Nos	1:500	AV. THICK-NESS (m)	% COAL (mass)	LITHOLOGY
ZONE 11 Samples Nos. 1A-1D		7,56	38,33	Bright coal (without siderite) intercalated with grey mudstone, carbonate lenses ± 50 cm × 3 m.
ZONE 10 Sample Nos.2-6		9,37	53,86	Bright coal with little siderite intercalated with carbonaceous shale; carbonate lenses ± 50 cm x 3 m; thick coal bands in lower half.
ZONE 9 Samples Nos.7-9		6,53	48,34	Bright coal with prominent siderite at base intercalated with carbonaceous shale; thick coal band in lower half.
ZONE 8 Samples Nos.10-14		9,04	42,82	Bright coal; prominent siderite at base; intercalated with carbonaceous shale; thick coal bands in lower half.
ZONE 7 Samples Nos.15-18		10,15	39,94	Bright coal sideritic throughout, intercalated as numerous thin bands with carbonaceous shale; prominent sideritic band at base.
ZONE 6 Samples Nos.19-21		6,54	32,17	Bright coal, very sideritic in lower half, intercalated as numerous thin bands with cabonaceous shale.
ZONE 5 Samples Nos. 22A-22E		13,54	21,97	Cabonaceous shale with coal bands in lower two thirds; siderite less prominent.
Interbeds		2,60	–	Carbonaceous shale to coaly shale.
ZONE 4 Sample No.23		4,02	99,13	Coal, dull, heavy, some bright coal in lower half and at top, few thin shale bands; yields coking fraction.
Interbeds		4,28		Shale, black to dark grey, carbonaceous, 1m fossiliferous siltstone at base
ZONE 4A Sample No 24		1,52	96,37	Coal, dull, few bright stringers, thin shale bands
Interbeds		4,28		Shale, dark grey
ZONE 3 Samples Nos. 25-29		7,82	96,41	Coal, dull bright laminae in lower 1,8 m which yields low ash slightly coking coal, few thin shale bands
Interbeds		4,54		Sandstone with shale bands
ZONE 2 Samples Nos. 30-31		3,73	98,22	Coal, dull, bright laminae in lower 2 m which yields lower ash slightly coking coal; thin shale bands
Interbeds		13,85	–	Sandstone, medium to coarse grained, few thin shale bands, thin coal band near top
ZONE 1 Sample No.32		1,55	98,54	Coal, dull, very few bright laminae, thin shale bands

Source: GeoCoal

Reserves and Resources

RES has identified a significant coal deposit in the Waterberg coalfield with JORC compliant resources of 3,122 Mt in addition to probable reserves of 744.8 Mt of coal, Table 5. The area covered by this reserve amounts to only 35% of the resource bearing tenements.

Table 5: Boikarabelo Coal Project Resources and Reserves

	Waterberg #1 SW	Waterberg #1 NE	Witkopje S & Kalkpan	Draai Om	Witkopje N	Total
Inferred				791.3	688.3	**1,4796.6**
Indicated		551.7				**551.7**
Measured	426.3		664.2			**1,090.5**
Total Resource	426.3	551.7	664.2	791.3	688.3	**3,121.8**
Probable Reserve	**314.2**		**430.6**			**744.8**

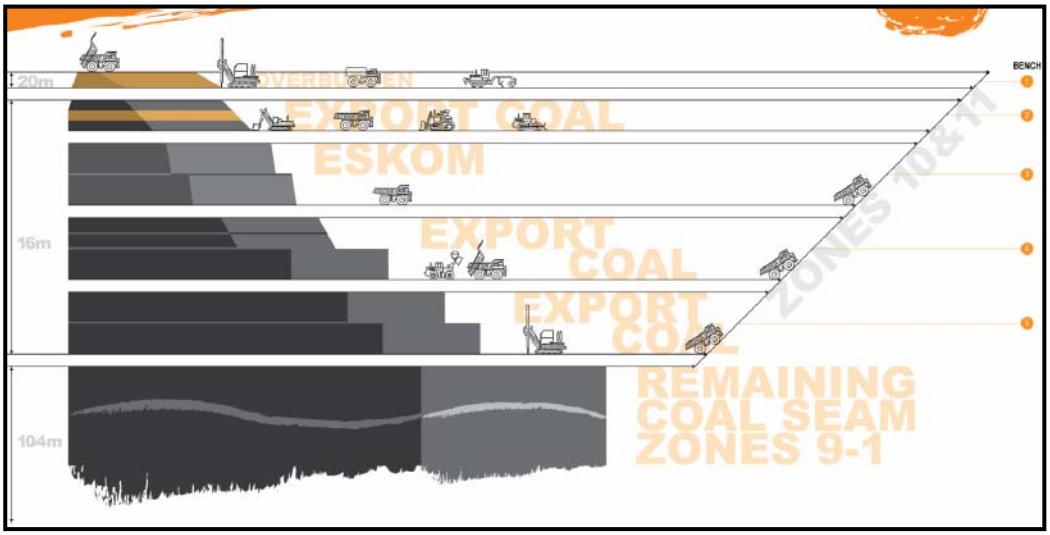
Source: RES

Mining

The shallow overburden means that a small fleet of equipment can produce high volumes of coal. Multiple mining benches as shown in Figure 4 will provide the flexibility to extract the coal quality required.

RES will likely utilise 1 x 50m^3 bucket electric shovel and 6 x 240 t trucks in Stage 1 of the Boikarabelo coal project, for a ROM capacity of 20 Mtpa. This capacity is greater than required for Stage 1 and as such provides a level of redundancy into the mine planning.

Figure 4: Mine Bench Sequences



Source: RES

Coal Quality & Processing

Yield
Export coal 25%
Domestic coal 25%

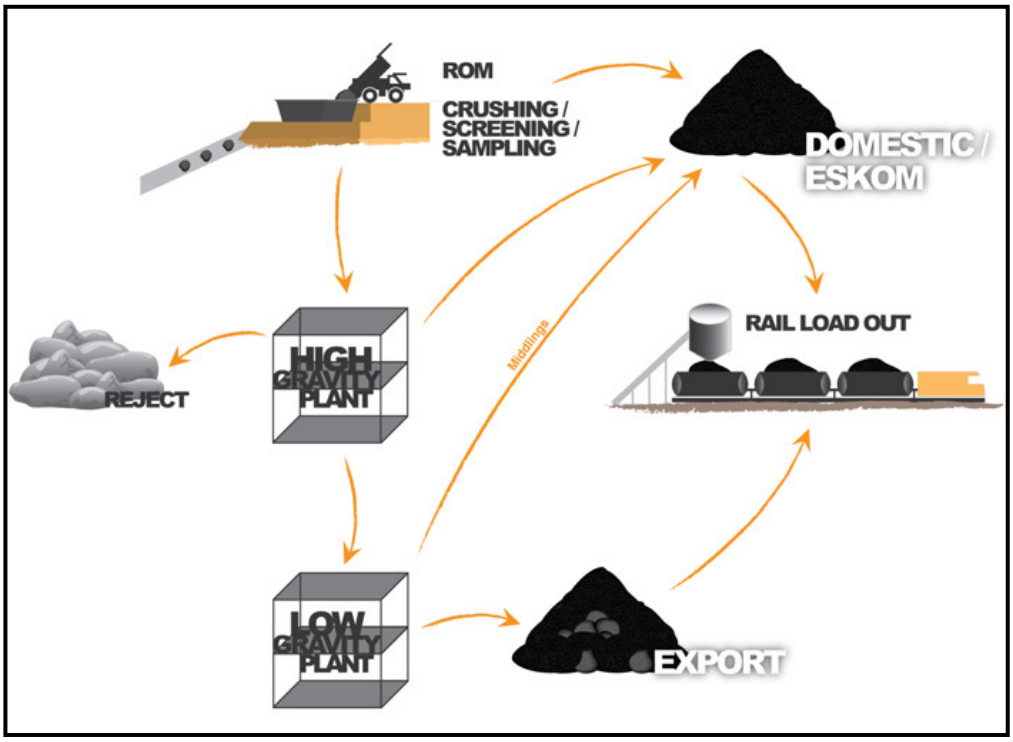
We have assumed an overall yield of 50% for the life of mine, or domestic coal yield of 25% and export coal yield of 25%.

The export coal quality target specification is 14% ash, 24 MJ/kg net as received.

The domestic coal quality target specification is 30% ash, 17 MJ/kg net as received.

ROM coal will be processed through a two stage Coal Handling and Processing Plant (CHPP) to produce the domestic and export quality products as shown in Figure 5.

Figure 5: CHPP



Source: RES

Infrastructure

Rail - Transnet

CoalLink is a Transnet Freight Rail specialist business unit that transports South Africa's export coal from mine to port. Starting at Mpumalangas's coal mines, the 580 km line travels from the Highveld and terminates at Richards Bay. The double line is bi-directionally signaled and fully electrified. The trains typically consist of two 100 wagon trains coupled together which stretch 2.5 km and are loaded to 20,800 gross tonnes.

Transnet also transports coal and related products domestically and for exports via Durban and Maputo in Mozambique. Maintenance of the Maputo Rail Corridor has been neglected, and despite commitments from both South Africa and Mozambique the Maputo Rail Corridor remains with limited capacity.

The Transnet network requires expansion to increase rail capacity to match existing port capacity.

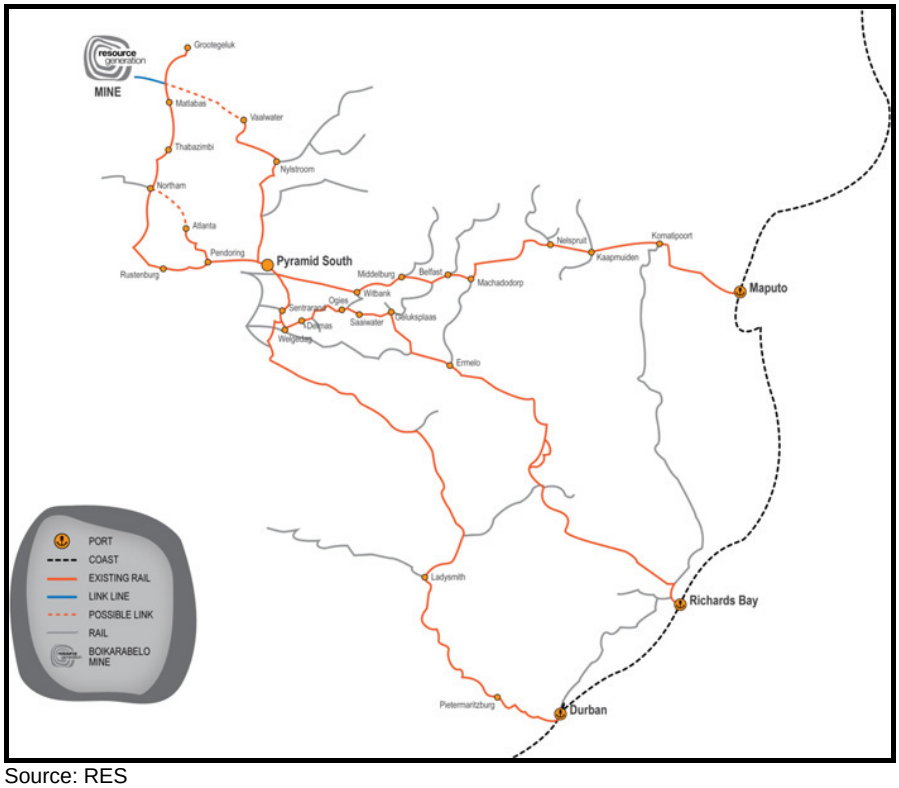
A rail link exists from Exxaro's Grootegeluk Coal Mine and connects up to the Transnet rail network. The rail is a multi-user line and is currently underutilised.

A proposed new railway to Walvis Bay in Namibia, if constructed, would also offer access to export markets.

Approval for rail line connecting to existing Transnet system pending

RES has selected its preferred easement for a 36 km rail line to connect the Boikarabelo coal project to the existing Transnet system, which already has rail connections to the ports of Maputo, Richards Bay and Durban. RES has submitted an application according to the National Environmental Management Act (NEMA) to secure the necessary regulatory and environmental approvals for the rail easement. The application was lodged in January 2011 and is expected to be received in approximately 6 months.
RES is investigating a number of rail corridor alternatives, as shown in Figure 6, to three ports on the east coast of Africa.

Figure 6: Rail Options

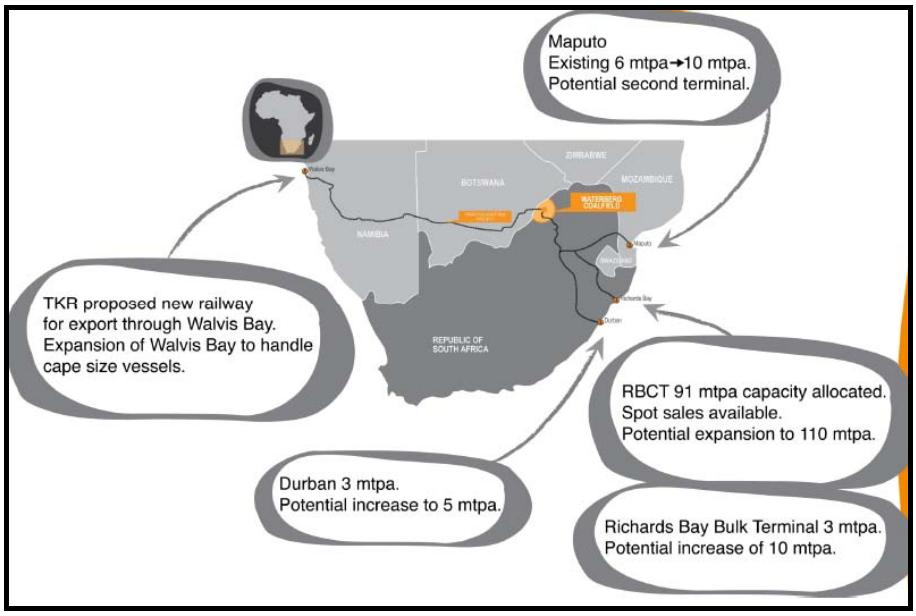


Source: RES

Port

RES intends to utilise one or more of four existing port facilities at Richards Bay (2), Durban and Maputo. We believe it is unlikely the Trans Kalahari Rail will be developed in the near term and as such is not considered an option for exporting coal.

Figure 7: Port Options



Source: RES

Water

RES has identified sufficient water for stage 1 of the project is available from groundwater boreholes on the mine properties that the company already owns. Use of this water is subject to receiving an Integrated Water Use Licence which was applied for in January 2011.

In addition RES has been chosen as the preferred party to construct, operate and maintain a wastewater treatment plant at Marapong, approximately 50 km from Boikarabelo. The plant will treat municipal effluent and water generated will be pumped to the mine site via a new pipeline. The cost of the plant is already included in Stage 1 CAPEX.

Offtake Options

Export Offtake	RES has secured two export offtake contracts with Indian thermal coal users. The contracts account for 2.5 Mtpa of export material from year 4 of the project and reduce the risk of the export product. The first contract is with Integrated Coal Mining Limited (ICM). ICM will purchase coal for 20 years from RES at a rate of 1 Mtpa for three years and 2 Mtpa for a further 17 years. ICM also subscribed for a 10 per cent shareholding in RES in September 2009. The second contract is with Bhushan who will purchase 0.5 Mtpa of thermal coal for the first five years of production from the Boikarabelo mine and a minimum 0.5 Mtpa for a further 15 years. The price will be at international market prices at the time of each shipment.
Domestic Offtake	RES has not secured a domestic offtake contract at this point. We view this as the highest risk to the Boikarabelo coal project. If RES is unable to secure a buyer for its domestic coal product it will need to reassess the scope of the project. The approval of a Mining Right for Ledjadja will enhance RES's ability to secure a domestic offtake contract.
Matimba Power Station	Exxaro currently supplies coal to Eskom's only operating power station in the Waterberg, Matimba, from the Grootegeluk Coal Mine (GCM). It is unlikely RES will gain an ongoing contract of size to supply coal to Matimba however it is possible that they will be able to sell some coal to the power station.
Medupi Power Station	Supply to Eskom's Medupi power station, currently under construction, has been contracted to Exxaro, however it is possible that a portion of the 14.6 Mt of coal required may be awarded to a new entrant to the Waterberg region to encourage diversity of supply.
Mpumalanga Power Stations	Eskom has 11 operating coal fired power stations in Mpumalanga with total power generation capacity of 29,980 MW providing the majority of the country's electricity. In a statement made by Eskom in February 2011, the organisation stated "*it is looking at options to ensure security of supply for its power stations over the long term*". With current mines in the Mpumalanga regions coalfields maturing it is possible Eskom will look to emerging producers from the Waterberg coalfield to satisfy any demand shortfall. Receipt of the Mining Right demonstrates to Eskom RES's ability to supply coal to its power stations in the future.
Independent Power Producers	Eskom has initiated an Independent Power Producer (IPP) programme to facilitate the role of the private sector in supplying South Africa's future electricity needs. IPP's offer another potential source of demand for RES's domestic coal output.
Coal-to-liquids	Coal-to-liquids (CTL): Sasol had selected the Waterberg coalfield as part of its prefeasibility study into the proposed Mafutha CTL project. However, the project's future is currently uncertain given a statement released by Sasol in September 2010 stating that "progress into the feasibility phase within the originally envisaged timeline", pending clarity on "the large-scale coal gasification tests and the provision of a commercially viable carbon capture and storage (CCS) solution".

Strategy and Management

Strategy

RES's strategy is to develop high grade "energy" related resources into viable and competitive mining operations. Accelerated shareholder value will be delivered through the delivery of physical mining activity.

RES has a portfolio of resources including low overburden, inexpensive to mine coal deposits in South Africa and Australia as well as potentially low cost uranium deposits in Cameroon. Exploration programs are underway and, in addition in the case of South Africa, mine approval processes that can lead to the commencement of cash flow positive mining operations in as short a timeframe as possible.

Board

Brian Warner, Non-Executive Chairman	Mr Warner 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 6 years. Brian 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 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	Mr Jury has over 30 years experience in managing businesses, the last 25 years being in the coal sector. Paul's 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	Mr Douglas has considerable experience and skills 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 and held a business development and marketing role with Scimitar Resources Limited.
Steve Matthews, Executive Director	Mr Matthews has over 25 years corporate finance and commercial experience, including 14 years in the coal industry. Steve's 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 AO, Non-Executive Director	Toby 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 Toby 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

Corporate Structure And BEE Partners

RES has two Black Economic Empowerment (BEE) partners Lukale Mining Company (Pty) Limited (Lukale) and Fairy Wing Trading 136 (Pty) Limited (FWT).

Lukale is the company's BEE partner for the Waterberg One Coal project. While FWT is the company's partner for the Ledjadja Coal project.

Ledjadja Coal	Ledjadja Coal (Pty) Limited is a private company incorporated in South Africa in which RES has an indirect (through Resgen Africa Holdings) 74% equity shareholding, FWT hold the remaining 26%.
Waterberg One Coal	Waterberg One Coal (Pty) Limited is also a private company incorporated in South Africa in which RES has an indirect (through Resgen SA) 20% equity shareholding and rights to increase that to 70% with Lukale holding the remaining interest.

Company Directors

Mr Brian Warner
Mr Paul Jury
Mr Steve Matthews
Mr Scott Douglas
Mr Geoffrey Rose

Company Activities

Exploration and development of energy related resources

Information for Company Activities is sourced from Huntley Investment Information Pty Ltd.

Disclosures and Disclaimers

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