Growth Equities & Company Research

Polo Resources

Initiation of Coverage:
Buy at 3.775p with 6.5p Target Price

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In less than two years as a listed company Polo Resources has moved swiftly to create a portfolio of investment interests in coal, but increasingly Uranium. This is a company that boasts a management team with a proven track record of value creation, a strong balance sheet and a track record of being able to secure institutional funding and, we believe an attractive portfolio of investments. The value of those investments, let alone the ability of managers to add value is not, we believe, reflected in the current share price. We believe that Polo is an attractive asset for those seeking a way to invest in a portfolio of non oil energy assets and that the current price of the shares offers a highly attractive buying opportunity. We initiate our coverage, at 3.775p, with a stance of **buy** and a target price of 6.5p.

Key Data	
EPIC	PRL
Share Price	3.775p
Spread	3.7p – 3.85p
Total no of shares	2,346.6 million
Market Cap	£88.6 million
12 Month Range	1.65p – 8.625p
Net Cash	£1.7 million (after WME, Impact Minerals and Uranex investments)
Market	AIM
Website	www.poloresources.com
Sector	Resources
Contact	Neil Herbert, Managing Director Tel: +27 82 404 36 37

Uranium and coal mining company Polo Resources listed on AIM in September 2007 and now owns a portfolio of investments in Spain, Australia, Namibia, Botswana, Bangladesh and Tanzania as well as a joint venture exploration project in Mongolia. Established in May 2007, the shelf company sprang to life after the successful sale of AIM listed uranium company Uramin to Areva for $2.7 billion in July 2007, with Uramin founding director, Stephen Dattels bringing an experienced team, including Uramin's finance director from 2005-2007 Neil Herbert and director Jim Mellon, on to this new opportunity. At Uramin the team had generated returns of in excess of 1000% for their investors and the desire is to achieve similar success with Polo.

Having initially invested in coal assets during a period of strong coal demand, the company's focus has – during the past year - shifted to uranium – an area where the management has a proven track record – in anticipation of a period of growing – and unmet – demand for the commodity. Most uranium is sold over the counter on long term contracts to utilities which are desperate to secure supply for their nuclear power stations which must continuously be kept fed with fuel. Unrefined uranium (U308 or 'Yellowcake') is a relatively placid material, requiring significant refining before use in power stations, thus trade, which is controlled by the IAEA (International Atomic Energy Agency), really only become restrictive once the mineral is enriched. The Strategic Arms Reduction Treaty (START), part of which sees Russia supplying the US with its surplus military uranium supplies for American commercial nuclear reactors, expires on the 5th December 2009 and could mark a significant point in the global uranium market. Negotiations for a replacement agreement are underway.

Polo's assets comprise significant stakes in eight listed coal and/or uranium companies and a joint venture with major US coal miner Peabody Energy Corporation in Mongolia. In descending order of size, Extract Resources (9.06% of company) is an Australian listed company developing uranium assets in Namibia, Caledon Resources (26.2%) is an Australian and AIM listed coal miner operating in the prolific Bowen Basin of Queensland, GCM Resources (29.8%) is an AIM listed coal explorer focused on Bangladesh, A-Cap Resources (19.9%) is an ASX listed developer of uranium in Botswana, Australian company Berkeley Resources (15.07%) is looking to return its Spanish uranium assets to production, ASX listed West Australian Metals (11.1% subject to shareholder approval) is developing its main uranium asset in Namibia, Impact Minerals (19.98% subject to shareholder approval) is developing a portfolio of assets including uranium in Australia and southern Africa, and ASX listed Uranex (5.98%) has JORC compliant uranium resources in Tanzania and Western Australia. Polo's joint venture with Peabody covers 57 coal and 25 uranium licences spread throughout Mongolia, with Peabody having bought its way in to the venture by providing funds for at least the next 2 years of exploration and development.

Our valuation of Polo is based upon the current market value of its investment portfolio holdings and the initial benchmark value provided by Peabody's buy-in to Polo's Mongolian exploration prospects. In this respect the former is worth approximately £139.5 million and the latter c.£13.5 million. Investors should be cognisant that the Mongolian JV offers tremendous upside not captured in the price Peabody paid, while Polo's investments in listed explorers, at least two of which appear to be the subject of an intense bid battle offer material upside from current prices. With 2,346.6 million Polo shares in issue we derive a valuation of 6.5p per share but on both the quoted side and from the Peabody JV there is a very real prospect that our valuation will have to be revised upwards during the next 12 months. At 3.775p, we initiate our coverage with a stance of **buy**.

Year to 30th June	Sales (US$ Million)	Pre-tax Profit (US$ Million)	Earnings Per Share (cents)	Price Earnings Ratio	Dividends Per Share (cents)	Dividend Yield (%)
2008A^	0	(6.7)	(1.12)	NA	0	0.0
2009E	0	(7.0)	(0.32)	NA	0	0.0
2010E	0	(8.0)	(0.37)	NA	0	0.0

^ 23rd May 2007 to 30th June 2008

Background

Polo Resources was incorporated on the 23rd of May 2007 and existed as a shell company until its listing on AIM in September 2007 at 5p per share. The listing came with the intention of establishing the company as an international coal exploration and mining group, at a time when coal was seen as a highly attractive investment. The company was formed by ex-Uramin employee Stephen Dattels and Uramin advisor Michael Beck just prior to Uramin beings sold to Areva for $2.7 billion in one of the major success stories of AIM. Polo began by acquiring a broad portfolio of coal and auxiliary uranium licences in Mongolia before taking a strategic interest in the ASX listed, Bangladesh and South African focused, resource development company GCM Resources plc in February 2008.

The signing of a joint venture with the world's largest private-sector coal company Peabody Energy Corporation was announced on the 27th of January 2009 and revised on the 31st of March, with Peabody set to invest up to US$25.8 million to receive a 50% interest in a joint venture entity in Mongolia. Peabody is major player in the global coal market with its coal fuelling approximately 2% of the world's electricity from its customer base in 21 nations across 6 continents. The venture will be named Peabody-Polo Resources BV with Polo contributing all of its coal, uranium and other mineral interests in Mongolia. Peabody's investment should be sufficient to fund, at least, the next two years of operations.

Polo announced on the 4th of March 2009 that it had acquired £4.7 million worth of 8.5% unsecured convertible 2010 loan notes in Caledon Resources Plc, an AIM listed coal miner operating in Queensland, Australia. The note investment came after the company had built its stake in Caledon up to almost 55 million shares (26.2%) through a number of on-market share purchases over the previous 15 months. Caledon is believed to have received a number of bid approaches in recent months.

With a wealth of uranium experience in the company and the belief that an expected increase in demand for uranium is unlikely to be matched by supply, Polo has made several investments in the uranium sector in quick succession. Beginning with Namibian focused Extract Resources in early 2009, Polo, via a series of on-market share acquisitions, has taken its holding to 9.06%. Rio Tinto has also been building a stake in Extract and market commentators believe that it will, in due course, launch a full bid.

Having already acquired 500,000 shares in the Spanish uranium explorer Berkeley Resources, Polo purchased an additional 10 million shares and 5 million attaching options on the 23rd March 2009, while subsequent purchases have taken Polo's holding in Berkeley to 18,610,074 shares. ASX listed Berkeley has a JORC compliant resource of 16.9 million pounds of U308 at its most advanced asset, the Salamanca project.

Polo acquired 19.9% of the shares of A-Cap Resources on the 6th May 2009. It is an ASX listed resource company focused on developing and broadening the resource base of its 44,500 tonne U308 Letlhakane uranium project in Botswana.

A further two strategic acquisitions were announced on the 5th of June 2009. The first was the purchase of 49.56 million shares (11.1%) at A$0.12 each, as well as receiving 24.78 million attaching options (exercisable at A$0.25 by 30th June 2011) in ASX listed uranium explorer West Australian Metals Limited (WME). The second was the subscription for a total of 18,668,326 shares (19.98%) in Western Australian uranium, gold, platinum group metals (PGM) and nickel explorer Impact Minerals Limited for a total cost of A$3 million. These share investments, while minority holdings, represent cornerstone stakes and give Polo significant influence on each company's board. Polo takes a very active role in all of its investments and, given the strength of its board, Polo's close involvement is usually welcome.

Finally, on the 25th of June Polo announced a 5.98% investment in Tanzanian and Australian uranium company Uranex NL with 5.7 million shares acquired for A$2.28 million.

Operations

Polo's initial charter was as a pure coal explorer but through a combination of opportunity and circumstance, the company has since transformed into a uranium and coal company with a global asset portfolio.

<u>Direct Investment</u>

Peabody Joint Venture

Since its inception in May 2007, Polo has acquired 57 coal and 25 uranium licences across Mongolia. The main focus of Polo's work has been on the Ereen, Union and Khashaat projects in the North and West of the country, with Ereen having entered commercial trial mining in October 2008. However, having arranged to sell its output to a local power station, the station's failure to pay for Ereen's output meant a decision was made to suspend the mine's production. Meanwhile, Polo has defined a NI 43-101 compliant resource estimate of 44.5 million tonnes in the Measured category, 50.2 million tonnes in the Indicated category and 38.4 million tonnes in the Inferred category at its Union project.

Polo sees Mongolia as a new frontier in minerals exploration with the country's tremendous resources historically inaccessible due to poor infrastructure and unforgiving, if spectacular, geography. Polo's interest has particularly been pricked by the thick seams of coal it has consistently found and, while the company has coal prospects all over the country, it is the South Gobi projects close to the Chinese border that offer the greatest potential. South Gobi is approximately the size of the coal rich Bowen Basin in Queensland Australia but vastly under-explored. While the Chinese coal market is immense, suppliers are unlikely to get international prices selling into their market. However, the fact that the coal is easily accessible from open pit mines, and thus cheap to extract, means that such operations are still commercial. The key for Polo is on the technical and marketing side of the business and it is here that it has sought external assistance.

Having independently built up its licences in Mongolia, Polo entered into a joint venture with Peabody Energy Corporation in January 2009. The new deal (having been revised from an earlier agreement) announced on the 31st of March 2009 will see Polo transferring all of its Mongolian assets into a Dutch registered company **Peabody-Polo Resources BV**, into which Peabody will contribute cash to develop these same assets. Peabody will initially contribute $10 million, a further $13 million within 12 months and up to $2.8 million more if potential acquisitions, that Polo had already identified, are made. Of the initial $10 million, $2.5 million will go directly to Polo as compensation for expenses Polo has already incurred. Each company will have a 50% stake in the new entity but, in addition to its stake, Polo will receive a 1% or $0.5 per tonne royalty on the coal produced from its own contributed assets, as well as 50% of the net sale proceeds from any sale of these same assets. In addition to its stake, Peabody will receive a commission for mineral sales and marketing from the JV, as well as receiving 404,866,875 warrants to subscribe for Polo shares representing 15% of the enlarged capital of Polo. Peabody has big plans for Mongolia, but is looking to establish a small project in South Gobi as soon as 2011 in order to generate early cash flows to fund the expansion of its operations in the region.

Given its limited resources, Polo has enlisted American Patriot, which helped broker the Polo / Peabody JV, to manage its share of the Mongolian venture. American Patriot will receive 60 million Polo shares, a place on the Polo board, $300,000 per annum, 25% of any royalty payments received by Polo on mineral sales (1% or $0.5 per tonne) and 20% of Polo's share of any assets sales over $50 million. Having found it difficult to translate development success into cash generating commercial success, the American Patriot management agreement not only brings in a more experienced operator, but frees up the Polo team to concentrate on its uranium investments.

Portfolio Investments

Uranium

The management of Polo has a strong background in uranium having been involved in the foundation and growth of Uramin and its subsequent acquisition by Areva. This experience, along with the belief that with the wider acceptance of uranium as a critical future, non carbon generating, energy solution will create a severe shortage in its supply, has prompted Polo's new focus on this controversial resource. Polo's exposure to uranium is through investments is listed uranium explorers and peripheral prospects at its joint venture in Mongolia.

Extract Resources, owners of the Husab uranium project in Namibia, released a resource estimate in early July 2009 on zone 1 for its Rossing South prospect of 145 million pounds of U308 at 449 ppm. A similar statement is due for zone 2 in August and Extract believes the combined U308 resource of both zones could be up to 250 million pounds with both zones open down dip. The second Husab prospect of Ida Dome has a maiden resource of 25.1 million pounds of U308 but with early reports putting Ida's eventual resource in the region of 300 million pounds at up to 300 ppm, Husab's total project resource could be in excess of 500 million pounds of U308.

Polo holds 20,731,461 shares (9.06%) in the ASX and TSX listed Extract, while Rio Tinto and Kalahari Minerals are also major Extract shareholders. While Rio appears relaxed about the timeframe for Husab's development, Kalahari and Polo believe that with the potential project so large, it makes sense to develop it in isolation and thus realise the greatest possible value from its maturity. At the current pace of development, production is currently anticipated for 2013 but, should a JV or takeover materialise, this timeframe could be brought forward. Market commentators believe that at some stage Rio will launch a bid for Extract but with Polo and Kalahari owning significant blocking stakes it will be forced to pay a fair price.

On the 5th of June 2009, Polo signed a subscription agreement to purchase 49.56 million shares (11.1% of the enlarged capital base) at A$0.12 each, together with 24.78 million attaching options (exercisable at A$0.25 by 30th June 2011) in **West Australian Metals Limited** (WME). WME is an ASX listed uranium exploration and development company operating in close proximity to Extract Resources in Namibia. The company's flagship asset is an 80% interest in the Marenica Uranium project in the Damara Province of Namibia, a region already hosting the uranium mines at Rossing (70 kilometres South), Langer Heinrich and Trekkopje (30 kilometres South). Exclusive Prospecting Licence (EPL) 3287 (incorporating Marenica) covers 706 square kilometres and already has a

JORC compliant Inferred resource of 111 million tonnes at an average U308 grade of 140 ppm for a total of 34 million pounds of U308. WME is raising a total of A$9.9 million (issue of 82.6 million shares at A$0.12 each) to fund its exploration and development plans at Marenica which, we understand, is with a view to upgrading at least some of its JORC resource from Inferred to Indicated - an important component in its Scoping Study which has an expected completion date of December 2009.

The acquisition of 31,888,770 shares (19.9%) for A$6.38 million in **A-Cap Resources** on the 6th of May 2009 Polo, saw Polo take a significant stake in this ASX listed company raising funds to develop its Letlhakane uranium project in the East of Botswana. Polo's investment was made via A-Cap's recent A$10 million share placement which raised the money to complete a feasibility study and fund further exploration at its 44,500 tonne U308 (280 Mt at 158 ppm) project. Grade wise, Letlhakane is on the low side but there is significant upside to both this and the resource quantity. Technical support is needed to better define the extraction strategy, but the resource is accessible via free digging (no blasting) and this adds to its attraction. Having said that, a scoping study has already been completed at Letlhakane which estimated capital costs of $169 million, operating cash costs of $33 per pound, an annual production of 2.2 million pounds of U308 and mine life between 7 and 11 years depending on the price of uranium. The current schedule would see the alkaline heap leach processing facility at Letlhakane entering production in 2012.

Also on the 5th of June 2009, Polo announced that it had subscribed for a total of 18,668,326 shares in **Impact Minerals Limited**. The acquisition will be made in two tranches with the first consisting of 11,150,000 shares (at A$0.1607) for a consideration of A$1,791,805, while the second is for 7,518,326 (also at A$0.1607) for a consideration of A$1,208,195. The purchase is subject to Impact shareholder approval set for mid July and also includes a provision for Polo to maintain its 19.98% stake in Impact for the next two years should the company make further equity issues. Listed on the ASX in November 2006, Impact Minerals currently has five uranium, nickel, PGM and gold projects spread across Western Australia, Queensland and southern Africa. The company's most advanced project is the 100% owned Quinns Lake and neighbouring 20% owned Yarrabubba uranium and nickel projects in Western Australia, with Impact owning around 40% of the JORC compliant resource of 3.92 million tonnes at 450 ppm for a contained resource of 4 million pounds of uranium oxide. Impact's existing joint venture (JV) with Impala Platinum is exploring for nickel and PGM's in southern Africa, while JV's are currently in negotiation at both its 100% owned prospects in Botswana (uranium) and Drummond Basin in Queensland (gold). Of perhaps future significance is that Impact's Botswana uranium prospect is in the same geological province as A-Cap's Letlhakane licence and thus Impact must be confident of replicating A-Cap's success.

Polo's investment in **Berkeley Resources** comprises 18,610,074 million shares (15.07%) and 5 million options at A$0.75 expiring in 2013. Berkeley Resources is an AIM and ASX listed company with 450,000 hectares of uranium prospects concentrated in the west of Spain. The Salamanca 1 project has been the main focus of Berkeley's work thus far and, covering an area of around 280,000 hectares, the company has defined a JORC compliant Indicated and Inferred resource of 13.6 million tonnes at an average grade of 564 ppm (parts per million) for 16.9 million pounds of U308.

A February 2008 scoping study estimated an initial capital cost of $109 million, processing 1.5 mtpa (million tonnes per annum) and cash operating costs of $25 per pound of U308. Berkeley is in a strategic alliance with Areva, which is providing technical and marketing assistance and, having received the right to acquire most of ENUSA's uranium mining and exploration assets, currently on care and maintenance including permits to product up to 950 tonnes per annum of U308 at its Quercus mine, production could be brought on line by 2012. With the mine having operated in the past, capital expenditure and permitting hurdles can expect to be lower than on a green field project. The project's risk is lowered further with the good resource grades and, with utilities currently heavily reliant on a small number of mines, Polo believes that Berkeley will not have any trouble selling the product.

Broadening its Southern African uranium holdings into Tanzania, Polo announced on the 25th of June that it had subscribed for 5.7 million of the 11.8 million shares ASX listed **Uranex NL** recently issued by way of a placement. At a cost of A$2.28 million, Polo's holding will represent 5.98% of Uranex's enlarged share capital. With the aim of becoming Tanzania's first uranium producer, Uranex plans to use the A$4.7 million in total funds raised to accelerate the development of Manyoni and Mkuju in addition to general working capital requirements. Uranex's main asset is the 100% owned Manyoni (Bahi) project in the centre of Tanzania which recently commenced a pre-feasibility study after a scoping study confirmed the project's economic potential. With a JORC Inferred resource of 15 million pounds of contained U3O8 at a 100ppm cut off grade, Uranex is looking to bring Manyoni on line some time in 2010. The company's second Tanzanian project is the 100% owned Mkuju tenement in the south of the country which is currently the subject of downhole probe surveys aimed at providing an insight into the potential for a large uranium deposit, after the assessment of various uranium anomalies returned good results. Several tenements in Australia are highlighted by the wholly owned Thatcher Soak project in Western Australia which, with a JORC complaint resource of 11 million pounds of U3O8 at an average grade of 290 ppm (150 ppm cut off), is eagerly awaiting the results of a scoping study due very soon.

Coal

Although uranium has always figured in Polo's portfolio, the company's initial focus was on coal as its initial investment in Mongolia sought to supply the burgeoning Chinese market. However, while the focus has shifted somewhat to uranium, coal still forms a significant part of Polo's portfolio with two investments in coal companies and the Mongolian JV.

Polo holds 26.2% stake in AIM and ASX listed coal mining company **Caledon Resources** as well as £4.7 million worth of 8.5% unsecured convertible loan notes expiring in 2010. Caledon acquired its blue chip asset, the Cook Colliery in the Bowen Basin of Queensland Australia, in 2006 and returned the asset to production in 2007. Production was forecast at 900 tonnes of coal in 2009 but a deterioration in coal markets meant the company has opted to scale this figure back to 400 tonnes. Caledon's other project, Minyango, is adjacent to Cook and has had a scoping study completed which confirmed its economic feasibility. A full feasibility study is now scheduled at a project currently holding a JORC compliant resource estimate of 342 million tonnes of coal. The Bowen Basin covers an area of over 60,000 square kilometres and contains Australia's largest coal reserves. This prolific area has attracted immense interest and made it very expensive to secure a prospect. on 19th January Caledon announced that it had received a number of corporate approaches but that these were all at an early stage. In an upbeat quarterly report issued on April 23rd it stated that discussions were still ongoing.

GCM Resources owns the Phulburi coal project in the north of Bangladesh which has a JORC compliant resource of 572 million tonnes of coal. Polo owns 29.83% of GCM and while Polo looked at making a takeover offer for GCM in May 2008, it decided that the takeover process would detract from both companies focus and so a formal approach was never made. The attraction of Phulburi is obvious, as besides the fact that there is a very large resource identified, the project is ideal for servicing the immense Indian market via the railway line that traverses the project area. Having had a full feasibility study completed on Phulburi in 2005, social unrest under the military government halted any chance of development and so the project was mothballed. However, with the democratic election of a new ruling party in January 2009 and the country's power shortage at the top of the political agenda, it would appear that the time is right to push Phulburi forward and achieve the necessary consents for development. While we could speculate as to the likelihood and timeframe of Phulburi's development, the fact that it will take some time for the new government to finalise its coal policy as well as the historic opposition to the project from international non-government organisations (NGOs), means short-term consent is unlikely. With this ambiguity in mind, GCM set about diversifying its business and made a number of acquisitions. The accumulation of a 37% holding in Peoples Telecom and Information Services via its subsidiary Bangladesh Telecommunications is understood to be with a view to lubricating Phulburi's application rather than a pure investment play. GCM's less politically motivated investments are a 17.85% interest in ASX listed uranium explorer Aura Energy Ltd, a 2% holding in Asia Pacific diversified mining group Regent Pacific Group Ltd, 4.8% of South African coal miner Coal of Africa and c.4% of Polo Resources.

Strategy

Polo Resources began life as a shelf company focused on acquiring coal assets during a period when the outlook for coal was strong. While coal will retain an important place as an energy source for the foreseeable future, a global desire to move towards non carbon sources of fuel in order to combat the perceived threat of global warming means that in the long term alternative energy sources are likely to erode coal's dominant position in power generation. Given that backdrop and with management's inherent experience in uranium, Polo has adjusted its focus to uranium which, although has unique issues of its own, appears to be gaining momentum as an important component of the worlds energy supply solution.

While Polo only has one direct operational investment (Peabody JV), the fact that it holds significant positions in each of its equity investments means Polo has a representative on each company's board. This representation gives Polo a voice in how its investments are operated and is a key strategy in influencing how its investments are managed, with even minority interests often being enough to drive through major changes.

Having acquired significant stakes in five listed uranium companies, Polo remains on the lookout for further portfolio investment opportunities in companies with a well defined path to development / extraction (eg defined uranium resource, no excessive permitting / infrastructure / political issues) and trading at an attractive price. Indeed, Polo's assembly of five uranium investments in Southern Africa – Extract and WME in Namibia, A-Cap and Impact in Botswana, and Uranex in Tanzania - not only reflects this defined development path criteria, but is a clear indication of the company's interest in one of the few remaining regions offering good value for uranium investors. However, with so much uranium experience within the company, Polo is also actively looking for advanced exploration projects to acquire and manage itself. Having participated in the last uranium boom with Uramin, the Polo board has found it difficult to find value in the current market but remains vigilant to any opportunities that may arise. With a strong net cash position – and net realisable assets - Polo has the technical and financial capability to move quickly on such opportunities.

SWOT Analysis

Strengths

Strong net cash position – Polo is debt free and has cash in the bank of £1.7 million. This liquidity provides the company with great flexibility to add to its portfolio in a market heavily weighted in favour of cashed up acquirers. This is most recently demonstrated by its investment in WME, where Polo's share holding was acquired at a discount of more than 40% to the company's prevailing share price.

Diversified portfolio – with both direct (JV) and portfolio (share holdings) investments spread across Mongolia, Spain, Bangladesh, Namibia, Botswana and Australia, Polo is well diversified and has ensured that a single failure doesn't overly affect the company.

Experienced and highly credible management team – the Polo team has a balanced mixture of individuals from different backgrounds providing complementary skills. The fact that a five employees – Directors Dattels and Herbert, together with technical advisor Douglas Christopherson, advisor Michael Beck and non-executive director Jim Mellon - worked for Uramin during its rapid rise and subsequent sale means the team are not only compatible but successful.

No funds committed – with Peabody funding the Mongolian JV for the next 2 years and the remainder of Polo's assets share investments not requiring further cash calls, means Polo has no funds committed for at least the next 2 years. This frees the company up to manage its current portfolio and pursue further acquisitions.

Weaknesses

Too thinly spread – while diversification is generally a good thing, there can be problems if the sheer breadth of operations leaves the company unable to bring individual projects into production within reasonable time frames. This is less of a problem for Polo's portfolio approach to investment, but the fact that American Patriot has been brought in to handle the company's Mongolian JV shows a level of over-commitment already exists.

Control over investments – despite Polo's share investments each being significant holdings, the fact that none are majority holdings means that Polo can be at the ultimate mercy of decisions taken by others. This is perhaps most evident with its holding in Extract Resources, where its own plans for the company are not shared by all other major shareholders.

Opportunities

Mongolia – with the dual attributes of being resource rich and dramatically under explored, Mongolia would normally be high on the list for mineral companies to explore. However, the fact that accessibility is a significant issue means the development of Mongolia's resources has lagged well behind similar resource rich regions. Polo, through its JV with Peabody, has a strong early mover advantage.

Value realisation – Polo's strategy of investing in companies with avant-garde or underutilised assets means it has been able to acquire a portfolio of high potential, if risky, assets at attractive prices. In particular the realisation of the potential of Caledon and Extract could be realised very quickly as a result of corporate action.

Nuclear proliferation – the use of uranium as a source of 'clean' power has been debated for decades and if it wasn't for the material's volatility and waste, there is little doubt it would already be widely accepted. The advance of technology has mitigated some of these risks and, with global warming having moved up the political agenda in the last few years, many countries have adopted nuclear power as a core part of their future power strategy.

<u>Threats</u>

Coal's accelerated redundancy – while the shear prevalence of coal power stations globally, along with the various new methods to reduce its environmental impact (eg carbon capture, cleaner burning coal), means that coal is likely to remain a highly demanded commodity for decades yet, an accelerated decline would have obvious implications for coal miners. While coal's decline could mark uranium's rise, Polo's coal investments could be severely impacted.

Nuclear being usurped – as an energy rich commercial fuel source, uranium is unparalleled, but with the continued development of renewable power sources (eg wind, solar, tidal) and research into nuclear fusion, the alternatives to nuclear fission may become compelling enough to negate the need for fission and its well known drawbacks. Were uranium to become redundant or universally unfavourable, uranium miners would be obvious casualties.

Common resource sector risks – the risk that exploration fails to uncover economic reserves, that unfavourable changes are made to government legislation and social unrest are all threats experienced throughout the resources sector. While some degree of mitigation is possible, there is a cost to such management.

Directors

Executive Chairman - Stephen Dattels. Formerly a director and executive vice president of corporate finance at Barrick Gold Corporation where he contributed to the company's rise from a market capitalisation of $10 million to $2 billion by the time he departed in 1987, Dattels has since established a number of resource companies operating all over the globe. Chairman and founder of AIM listed coal miner Caledon Resources, Co-founder and Managing Director of AIM listed Kazak nickel and chrome developer Oriel Resources Plc and recently founder of Chinese focused thermal coal project investor CCEC Ltd. However, perhaps Dattels most high profile role was as founder of AIM listed uranium explorer Uramin Inc which was sold to French uranium company Areva for $2.7 billion, over 10 times its pre-bid market capitalisation, in July 2007.

Managing Director - Neil Herbert. Finance director of the Uramin success story from inception to post Areva sale, Herbert previously held the same role with Galahad Gold Plc, International Molybdenum Plc, Kalahari Diamond Resources Plc and HPD Exploration Plc. Herbert began his career with PricewaterhouseCoopers where he became a fellow of the Association of Chartered Certified Accountants. Since entering the mining sector Herbert has also held the roles of Group Financial Controller of Antofagasta plc and Chief Financial Officer of Brancote Holdings plc, the latter another AIM success story having been acquired by Meridian Gold for $368 million in 2002.

Chief Executive Officer for Australia - Paul Ingram. Holding a bachelor of applied science (geology) degree and member of the Australian Institute of Mining and Metallurgy and the Mining Industry Consultants Association, Ingram has over 30 years of mineral exploration and development experience. Currently a director at both A-Cap Resources and Impact Minerals, and previously Managing Director of Menzies Gold Ltd and Exploration Director of Caledon Resources PLC, Ingram has designed and implemented innovative techniques for exploring in remote areas.

Senior Non-Executive Director – Guy Elliott. A director of AIM listed E&P company Aurelian Oil & Gas and private Denver based E&P company Direct Petroleum Exploration Inc, Elliott co-founded alternative asset management firm F3 Capital Management and emerging markets hedge fund manager Croesus Capital Management. He was also manager of proprietary trading at HSBC New York, and has worked for EBF & Associates as a portfolio manager, Merrill Lynch in their fixed income securities division and Cargill trading fixed income, foreign exchange and derivatives.

Non Executive Director – Jim Mellon. Appointed June 2009. Mellon has been a fund and asset manager for nearly thirty years. He is an avid participant in a number of markets, in particular the stock markets of emerging nations. Mr. Mellon started his career with GT Management Plc in 1978. In July 1984, he moved to the Thornton Group where he was Managing Director of the Asian operation. From 1988 to 1990, he was an Executive Director of Tyndall Holdings Plc, responsible for business expansion and corporate development. Mr Mellon is the founder, principal shareholder and co-Chairman of the Regent Pacific Group, quoted on the Hong Kong Stock Exchange. He is also founder, principal shareholder and a Non-Executive Director of Charlemagne Capital and Non-Executive co-Chairman of Emerging Metals Limited, both listed on the AIM market.

Non Executive Director – Bryan Smith, Appointed June 2009. Smith has more than 30 years of experience in the securities industry and is a recognised leader in the Canadian financial industry. He began his career in 1967 with Nesbitt Thomson. In 1973 he joined Draper Dobie Limited, holding subsequently senior roles, including Vice President and Director. Mr Smith has also held the role of Senior Vice President of Gardner Watson Limited, now Dean Witter, and Senior Vice President and Director of Walwyn Stodgell Limited. Mr Smith was a co-founder and Director of Burgundy Asset Management. He was pivotal in the firm's growth to its position as top Canadian equity performer in 2000 and ranking in the number two position for the past five years.

Shareholders

Polo Resources currently has 2,346,645,623 ordinary shares in issue. Those shareholders with a significant holding of more than 3% are:

Name	Shares	Percentage
TPG Axon Partners	108,950,000	4.64%
Chiropo Comapany SA	100,714,286	4.29%
Luxor Capital Group, L.P.	96,630,630	4.12%
RAB Capital plc	96,240,425	4.10%
Regent Pacific Group Limited	92,040,000	3.92%
Capital Research & Management Company	84,759,900	3.61%
GCM Resources plc	74,800,000	3.19%

In addition, Polo has 149,000,000 options and 415,455,111 warrants in issue.

Valuation

Our valuation of Polo is conservative and we regard it as highly probable that our 6.5p sum of the parts target price will have to be increased materially during the coming 12 months.

The valuation starts with the listed investments where we have used the market value of Polo's holding based on the current share price. Since at least two of Polo's investments (Extract and Caledon) are at the centre of bid activity there is every reason to expect a short term increase to the current NAV of the investment portfolio.

For the Mongolian joint venture, we have used the consideration paid by Peabody to acquire its 50% stake as the valuation benchmark. This valuation methodology assumes that markets are efficient and that the current share price accurately reflects the true value of the company, while also assuming the price paid by Peabody equals the value present in the joint venture – clearly not the case if Peabody hopes to profit from its investment. As such we also see clear upside potential from this valuation benchmark.

The table below shows Polo's current holding in the securities of each company in its portfolio, the current price of each company's shares and the resulting value of Polo's holding. Note, we have ignored the potential value of the 5 million options Polo holds in Berkeley and the 24.8 million options it holds is West Australian Metals, given their binary value profile.

Company	Polo Holding	Share Price	Value	Exchange
Caledon Resources	54,985,196	57p	£31,341,562	AIM
GCM Resources	15,220,985	88.25p	£13,432,519	AIM
Extract Resources	20,751,461	A$6.36	£65,989,646	ASX
Berkeley Resources	18,610,074	A$0.96	£8,932,836	ASX
A-Cap Resources	31,888,770	A$0.36	£5,739,979	ASX
West Australian Metals	49,560,000	A$0.205	£5,079,900	ASX
Impact Minerals	18,668,326	A$0.145	£1,353,454	ASX
Uranex NL	5,700,000	A$0.44	£1,254,000	ASX
TOTAL			£133,123,895	

Assumed exchange rate: AUD/GBP = $2.0

Other investments	Value
Caledon Resources - 8.5% loan note	£4,700,000
Net cash	£1,700,000
TOTAL	£6,400,000

POLO TOTAL	£139,523,895

Peabody is contributing a total of $23 million in cash to acquire its 50% interest in the current assets of the Mongolian joint venture, and hence we have valued Polo's remaining stake in the JV at $23 million or £13.5 million (at USD/GBP = $1.70) here. While there is undoubted value in the 1% or $0.5 per tonne royalty Polo will receive on the coal produced, as well as the receipt of 50% of the net sale proceeds from any sale of these same assets, we cannot quantify their value at this stage.

Adding the £134.8 million of Polo's liquid assets (including net cash of £1.7 million) to the £13.5 million of the Mongolian JV and £4.7 million in Caledon loan notes, with 2,346.6 million shares in issue, we derive a valuation of 6.5p per Polo share. The nature of an investment company is that its share price often trades at, or at a discount to, its net asset value and, while Polo brings major exploration potential in Mongolia to its portfolio, there is no getting away from the fact that Polo's major investments are listed and as such there is likely to be some "investment discount". However we would argue that the track record of the Polo management team means that the discount to fundamental value is likely to be minimal.

Polo has a targeted strategy of investing in well defined, yet underappreciated uranium and (historically) coal explorers where there is major upside potential as identified by a very experienced and successful management team. We initiate coverage of Polo Resources with a target price of 6.5p and, at 3.775p, our stance is **buy**.

Year to 30th June	Sales (US$ Million)	Pre-tax Profit (US$ Million)	Earnings Per Share (cents)	Price Earnings Ratio	Dividends Per Share (cents)	Dividend Yield (%)
2008A^	0	(6.7)	(1.12)	NA	0	0.0
2009E	0	(7.0)	(0.32)	NA	0	0.0
2010E	0	(8.0)	(0.37)	NA	0	0.0

^ 23rd May 2007 to 30th June 2008

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