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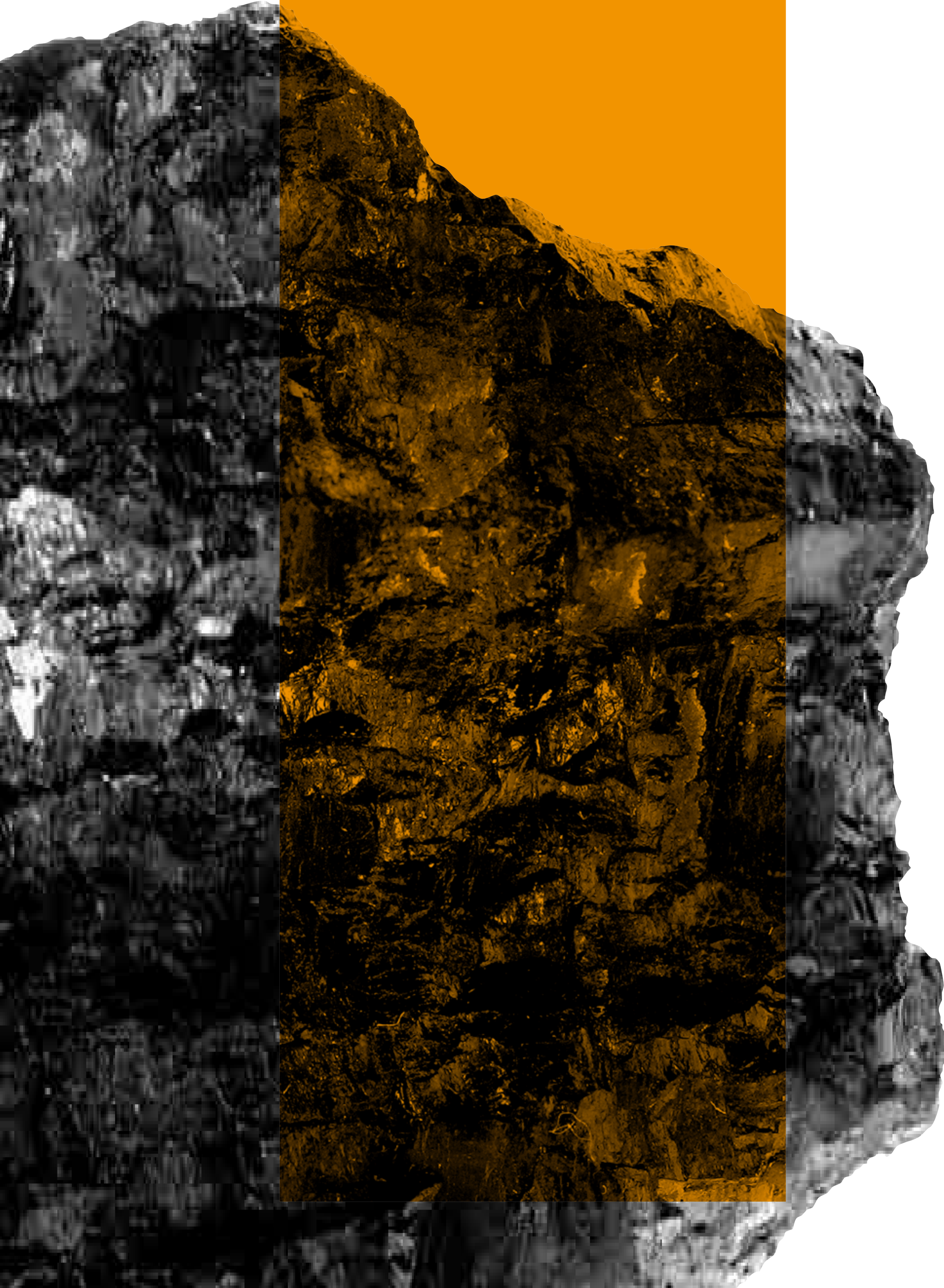
Annual Report and Accounts for the year ended 31 December 2010



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Caledon
Resources plc

Caledon Resources plc is a public company quoted on AIM and ASX. The Group's operations are situated in a region of strategic importance within the Bowen Basin, surrounded by some of Queensland's premier coking and thermal coal mining operations. The Group produces coking and thermal coal from the cook mine and is developing the nearby Minyango deposit.

Contents

Overview

Our Business at a Glance	1
Chairman's Statement	2
Review of Operations	4
Financial Review	10
Company Information	13
Directors' Biographies	14

Governance

Directors' Report	16
Corporate Governance Statement	21
Report of the Remuneration Committee	24
Statement of Directors' Responsibilities	26
Report of the Independent Auditors	27

Accounts

Consolidated Income Statement	28
Consolidated Balance Sheet	29
Company Balance Sheet	30
Consolidated Statement of Changes in Equity	31
Company Statement of Changes in Equity	32
Consolidated Cash Flow Statement	33
Company Cash Flow Statement	34
Notes to the Financial Statements	35

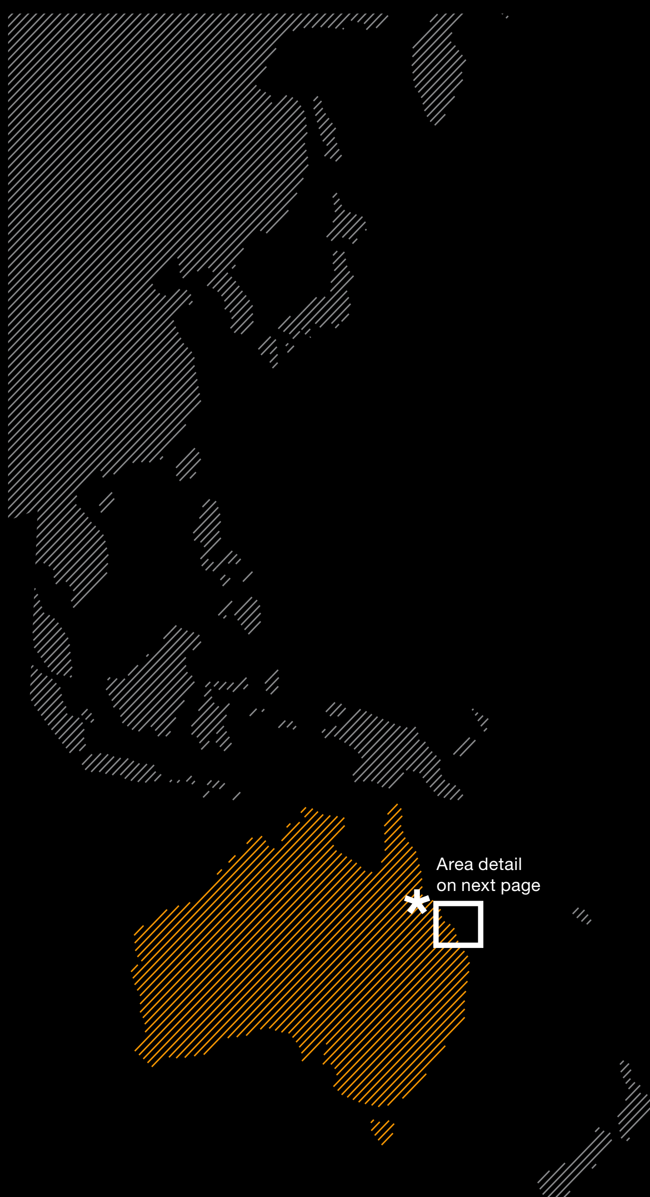
Our Business at a Glance

Our operations

The Cook underground coal mine produces coking and thermal coals in a ratio of approximately 80% coking to 20% thermal. Annual production of saleable product is building with 2011 planned to increase by 165,000 tonnes to 700,000 tonnes. In the longer term the Company is targeting a minimum of 1 million tonnes of saleable product. The coal from the Cook mine is railed to the port of Gladstone for export.

The Company has also commenced a feasibility study for an underground mine on the nearby Minyango deposit which is forecast to produce coking and thermal coal in a ratio of approximately 62% coking to 38% thermal with a target production of 3 million tonnes. Development of this mine is dependent on the timing of the proposed new Wiggins Island Coal Export Terminal next to the existing port facilities at Gladstone.

Caledon is a foundation shareholder in the company established by a consortium of coal producers to build the Wiggins Island Terminal and was allocated 4 million tonnes of the 27 million tonne first phase scheduled for completion in 2014.



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Resources as defined in accordance with the JORC Code[1]

1 Cook Mine

	mt
Measured	90
Indicated	105
Inferred	265
	460

The Cook Mine produces a low ash coking coal and is a recognised brand in the coking coal market. A thermal coal by product is also produced. There are two substantial coal seams at Cook Mine, the Castor seam and approximately 15 to 20 metres below, the Argo seam. Caledon is mining the Argo seam which produces a coking coal to thermal coal split of approximately 80 to 20.

2 Minyango Coal Deposit

	mt
Measured	47
Indicated	104
Inferred	1065
	1216

The Minyango deposit is located 15 kilometres north of the Cook mine. Caledon's inclusion in Stage 1 of the proposed new Wiggins Island Coal Terminal (scheduled for completion in 2014) sets the timeline for development of this proposed underground coking/ thermal coal mine.

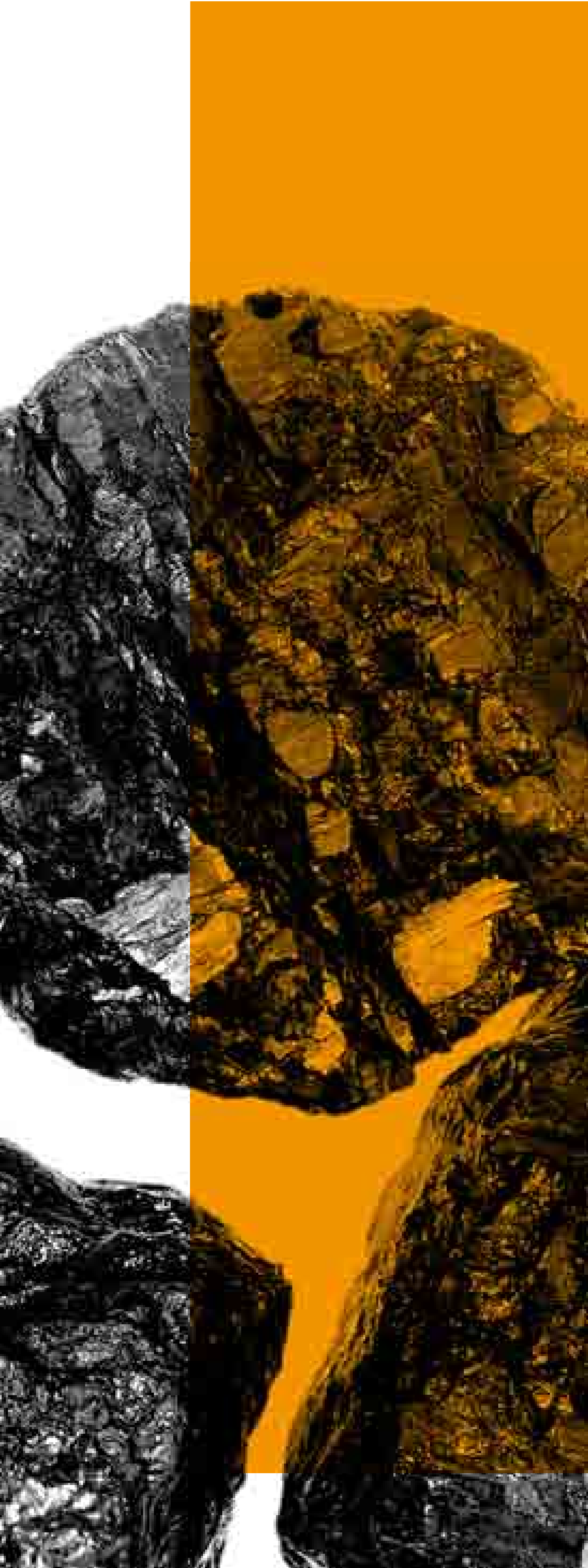
1. The information in this announcement relating to the Cook Coal Resource estimate is based on information compiled by Mr Yoga Suryanegara who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Suryanegara was a full-time resource geologist employed by Caledon at the time of the resource estimation. Mr Suryanegara has more than 13 years' experience as a coal geologist in the resources industry involving exploration and evaluation assignments at operating coal mines and coal exploration areas in a number of coal basins throughout the world. With this level of experience, which is relevant to the style of mineralisation and the type of deposit under consideration and to the activity which he is undertaking, he is adequately qualified as a Competent Person as defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves – The JORC Code, 2004 Edition (Effective December 2004) and consents to the inclusion in this report of the matters based on his information in the form and context in which it appears. The information compiled by Mr Suryanegara has also been independently reviewed.

Chairman's Statement

Market conditions in 2011 continue to improve and production has been steady despite the impact of widespread flooding.

/ Financial

While the tax loss of A$11.8m for the year (2009: A$11.4m) was a disappointing result, it needs to be put in the context that it included an A$3.5m charge against the carrying value of the 2013 convertible notes and A$2.8m (pre tax) of 'nominal' interest charged against both the 2010 and 2013 convertible notes. More importantly, the second half of the year was a significant improvement over the first from an operational perspective and this trend has continued from mid January 2011 when Cook returned to normal operations after the Queensland flooding. In this regard the board would like to acknowledge the special efforts put in by many of our employees who ensured Cook's quick recovery at a time when many were dealing with their own flood related issues.



/ Corporate

The Company received an unsolicited approach during 2010 that resulted in a conditional offer of £1.12 per share being offered by Guangdong Rising Assets Management Company Ltd ('GRAM') by way of a Scheme of Arrangement. Despite considerable effort by GRAM to secure Chinese Government regulatory approvals in satisfaction of a number of the key preconditions, these have not been received at the time of writing. The Company remains optimistic that these approvals are imminent

/ Financing

The Company undertook a number of financing activities in 2010 and early 2011 that in combination have left the balance sheet in a much more robust position with the only corporate debt at the time of writing being £4.2m of 8.5% convertible notes due in 2013. The replacement of most of the Company's debt with equity removes a significant cash drain (in the form of debt servicing costs) which can now be directed at growing the business to the benefit of shareholders and employees.

/ Board and Management

The Board underwent significant change during the year with the resignations of Graham Mascall, Nick Clarke and Stephen Dattels as Non-Executive Directors and the appointments of Stephen Bywater and David Treadwell to partially fill those vacancies. I would like to thank Graham, Nick and Stephen for their contribution to Caledon's development and look forward to working with the current Board in maximising value for our shareholders.

We also had a change in senior management during the year with Executive Director Peter Seear being appointed to the new role of Business Development and Brett Garland being appointed Chief Operating Officer.

/ Wiggins Island

In September 2010 the Company received notification that it had been allocated 4Mt of capacity in the proposed new Wiggins Island Coal Terminal scheduled to be operational in 2014. This was a major milestone in the Company's growth profile as existing export infrastructure in the region is fully committed and without this allocation the development timeline for the proposed new Minyango mine was uncertain.

/ Outlook

The early outlook for coking coal prices in 2011 looked robust with strong demand from steel makers being met by restricted supply as a result of the extensive flooding in Queensland and ultimately infrastructure capacity constraints as mines return to normal operations. This can be seen by the 45% increase in reported prices for hard coking coal for the April to June contract period.

/ Conclusion

On behalf of shareholders I would like to take this opportunity to thank members of the board, the management team and all the Group's employees for their efforts during 2010 as we look forward to a much more rewarding 2011.

David de Jongh Weill
Chairman

Review of operations

The Cook Mine produces a low ash coking coal and is a recognised brand in the coking coal market. It also produces a thermal coal by-product.

Cook Mine

Bowen Basin, Queensland, Australia

/ Operations

The recovery in coal prices and demand that became apparent in the latter part of 2009 continued throughout 2010 and appears to be accelerating in 2011, particularly since the impact of extended periods of rain and occurrences of flooding have significantly impacted Australian coking and thermal coal supply capacity.

The strengthening in US$ prices has to some extent been offset by the simultaneous rise in value of the A$. The average US$ price received during the year was 46% higher at US$160/t (2009: US$109/t), but revenue received per tonne in A$ was only 23% higher at A$174/t (2009: A$141/t) due to the average exchange rate for the year rising to US$:A$0.92 (2009: US$:A$0.77).

The progression of price and exchange rate is detailed in the following table.

		Average Price and Exchange Rate					
		H1 09	H2 09	2009	H1 10	H2 10	2010
Coking	US$/t	125.67	107.35	116.88	**151.73**	**196.71**	**175.57**
Thermal	US$/t	70.30	69.93	70.03	**102.22**	**92.40**	**96.31**
Average	US$/t	120.91	98.92	109.45	**143.33**	**174.28**	**160.17**
A$:US$		0.70	0.88	0.77	**0.89**	**0.95**	**0.92**
Coking	A$/t	179.42	121.25	151.52	**170.16**	**207.67**	**190.04**
Thermal	A$/t	102.40	83.19	88.17	**118.84**	**97.60**	**106.06**
Average	A$/t	172.81	112.67	141.48	**161.46**	**183.99**	**173.72**

Caledon moved to quarterly coking coal pricing in 2010. Based on agreed contract pricing and relevant shipment timing the average coking coal price for Q1 2011 period is forecast to be approximately US$200/t.

In response to the recovery in demand, plans were adopted to expand production to meet the market opportunity. Late in 2009 the number of production crews employed increased from 6 to 8 in order to fully crew 2 mining sections and during the first half of 2010 the number of production crews was increased to 12 to fully man 3 mining sections.

The ability to increase production during the first half of 2010 was initially constrained by the lack of opportunity to deploy a secondary extraction miner section. Cook had equipment for two development sections and up to two secondary extraction sections, but development of the South Argo area had not yet reached a stage where a secondary extraction section could be deployed and developed and secondary extraction resources in North Argo were fully consumed in the first 6 weeks of 2010. It was therefore decided to implement a place change section using a non-bolting miner and mobile bolting rig in an area between pit bottom and the previous North Argo workings to permit deployment of an additional production section. Unfortunately issues with roof control made this system relatively unproductive and, when secondary extraction coal became available in August 2010, the place change operation was discontinued.

Production in the last quarter of 2010 was impacted by flood related closures to access roads to the site and by a decision to cease operations between Christmas and the New Year to perform major maintenance work.

Review of operations

Cook Mine continued

		Quarterly Production Performance							
		2009				**2010**			
		Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Coal Mined	t x 1000	174.9	129.2	138.7	161.2	**150.9**	**174.4**	**186.0**	**169.8**
Coal Produced Coking	t x 1000	118.5	90.7	87.6	109.1	**98.2**	**96.5**	**120.5**	**115.6**
Thermal	t x 1000	22.1	18.6	22.8	15.2	**13.5**	**26.6**	**28.5**	**27.3**
Recovery	%	78%	79%	82%	76%	**75%**	**70%**	**80%**	**83%**
Coking Split	%	84%	83%	79%	88%	**88%**	**78%**	**81%**	**81%**

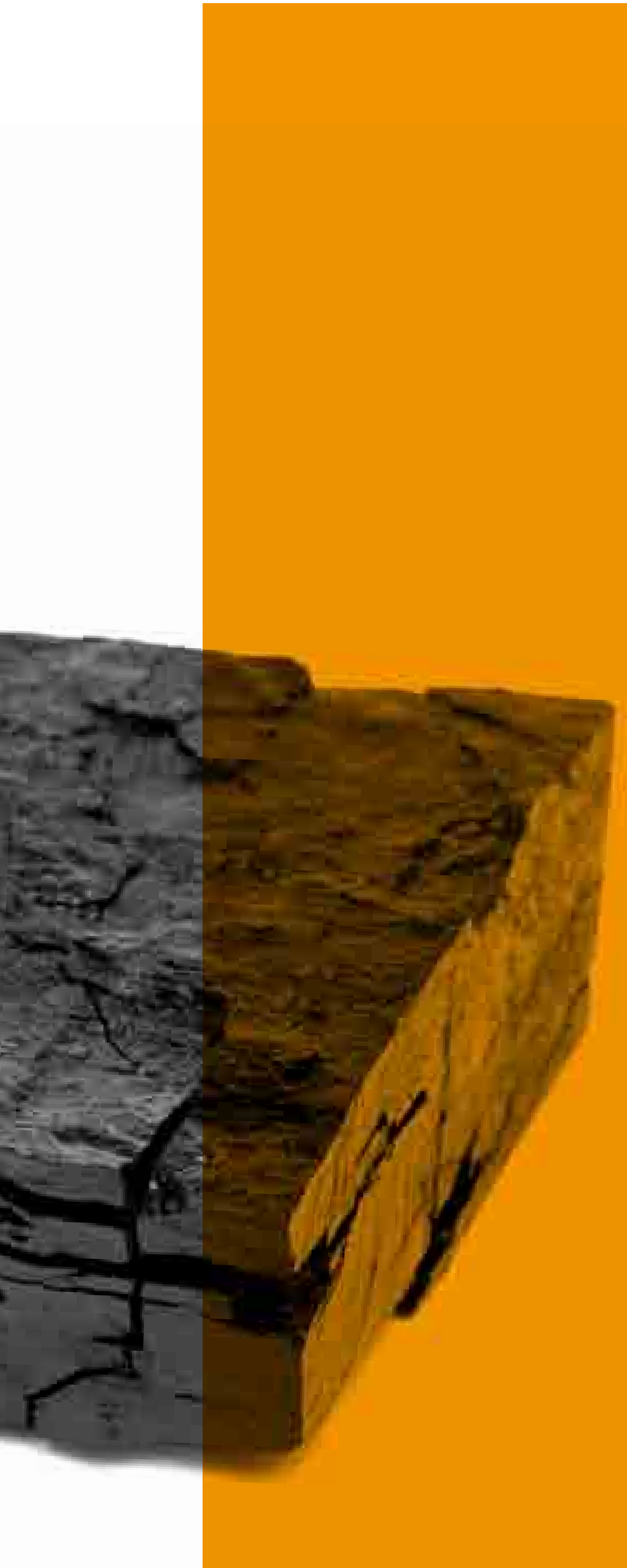
Production of raw coal in January 2011 was limited to 54kt by flood related road closures preventing employees from attending the site. The ability to haul to the CHPP and to rail was also affected. Nevertheless, barring further weather events, the Company is still targeting 700kt of saleable production in 2011.

Coal processing performance improved as the proportion of feed sourced from secondary extraction, which delivers higher recovery than does development coal, increased. Performance in the first half was also affected by the need to take a thickening band of shale in the roof in the down dip area of the South Argo development panels. Future development panels are being planned to avoid the need to take as much of this shale.

Costs of sales were A$90.9m (2009: A$71.8m) for 535kt of coal sold (2009: 479kt). Cost of sales on a unit basis was A$170/t (2009: A$150/t) up 13%.

As illustrated in the table below the percentage of coal extracted in sumping, rather than in development, has a significant impact on unit costs. The lower availability of sumping coal in 2010 contributed to higher unit costs for the year. The proportion of coal to be mined by sumping in 2011 is expected to approach 40%.

		H1 09	H2 09	**H1 10**	**H2 10**	2009	**2010**
Cost of Sales	A$m	39.1	32.7	**43.1**	**47.8**	71.8	**90.9**
Coal Sold	t x 1000	229.4	249.5	**244.0**	**291.2**	478.9	**535.2**
Cost/tonne	A$/t	170.6	131.1	**176.7**	**164.2**	150.0	**169.9**
% Sumped		21%	52%	**13%**	**31%**	37%	**22%**



Other increases in unit costs arose from:

- higher state royalties as a consequence of higher realised prices;
- higher rail charges resulting from increased haulage rates and reduced ability to avoid take or pay charges;
- a small increase in labour rates;
- a substantial increase in maintenance expenditure to conduct major overhauls;
- excavating the wash plant tailings dam to provide room for future production;
- increased cost of working in challenging strata conditions in the Magatar panel; and
- lower product recovery from run of mine coal feed.

These influences were partially offset by better absorption of fixed costs on increased throughput which would have been greater if it were not for the impact of the flooding.

The Group continues to seek opportunities to improve operating efficiencies and production effectiveness to further drive unit costs down to sustainable levels.

/ Environment

The very heavy rains and associated flooding created some environmental challenges in the last quarter of the year resulting in Cook reporting several minor water quality exceedences from its discharge water. Having reported this to the regulator, no further action has been taken by them at this time. On a broader note, the Company is pleased to report that it continues to work well with its near neighbours and that no complaints were received during the year making it the fourth in a row that this situation has prevailed.

/ Safety

While there was only one Lost Time Injury ('LTI') in 2010 it was one too many as the Company targets zero injuries across its operations. On a positive note it has been over one year since the last LTI at Cook which demonstrates that with the Company's systems and procedures combined with the continued positive effort and attitude of our employees that such a target is achievable.

Review of operations

Minyango

Minyango

Bowen Basin, Queensland, Australia

Activity on the project increased in the second half of the year when it became clear that Caledon was included in Stage 1 of the proposed new Wiggins Island Coal Export Terminal project. A Mining Lease Application has now been lodged with the Queensland government and the voluntary Environmental Impact Statement to support this application has commenced. Work has also commenced on the final feasibility study and this will intensify as 2011 progresses.

In December 2010 the Company announced a 256% increase in the Minyango resource estimate to 1,216Mt. The estimate is reported in accordance with the 2004 version of the JORC Code.

Seam	In Situ Coal Resources (Mt)						
	Coal Thickness > 1.5 M						
	Seam Depth to 500m			Seam Depth Below 500m			Total
	MEA[1]	IND[2]	INF[3]	MEA[1]	IND[2]	INF[3]	
Total	**47**	**100**	**680**	**-**	**-**	**30**	**857**

Seam	In Situ Coal Resources (Mt)						
	Coal Thickness 1 M to 1.5 M						
	Seam Depth to 500m			Seam Depth Below 500m			Total
	MEA[1]	IND[2]	INF[3]	MEA[1]	IND[2]	INF[3]	
Total	**-**	**4**	**340**	**-**	**-**	**15**	**359**
Grand Total	**47**	**104**	**1,020**	**-**	**-**	**45**	**1,216**

1 MEA = Measured Resources Category
2 IND = Indicated Resources Category
3 INF = Inferred Resources Category

/ Wiggins Island Coal Terminal

During September 2010 the Company was advised that it had been allocated 4Mt of the 27Mt Stage 1 capacity of the proposed new Wiggins Island Coal Terminal to be built at Gladstone. The port is forecast to be operational in 2014, subject to a decision to proceed which is expected in Q2 2011. Caledon's tonnage allocation is subject to signing a 10 year Take or Pay contract and meeting certain funding obligations. These include funding the Company's share of the Stage 1 operating costs incurred prior to financial close and potentially participating in its proportionate share of the Preference Securities. For further information refer to note 26.

/ **Corporate**

Possible Cash Acquisition

On 8 November 2010 Caledon and GRAM announced the possible acquisition of Caledon by GRAM at a cash price of £1.12 per share or CDI. Any announcement by GRAM of a firm intention to make an offer for Caledon pursuant to Rule 2.5 of the City Code was subject to satisfaction or waiver of the following pre-conditions;

i. the unanimous recommendation of the Board of Caledon of the terms of any such offer, having been advised by RBC Capital Markets that the terms of such an offer are fair and reasonable;

ii. the receipt of all necessary approvals from regulatory authorities in China relating to the Possible Acquisition, including the following:
   - project approval for outbound investment from the National Development and Reform Commission of China on behalf of the State Council;
   - project approval for outbound investment from the State-owned Assets Supervision and Administration Commission on behalf of the State Council;
   - approval for outbound investment from Ministry of Commerce of China; and
   - approval for the remittance of foreign exchange out of China from the State Administration of Foreign Exchange of China; and

iii. finalisation by GRAM of the terms of its financing for the Possible Acquisition.

At the time of writing GRAM had not yet received the necessary Chinese government regulatory approvals.

Private Placement of Equity

The Placing raised a total of £48.6m, with net proceeds, after the expenses of issue, amounting to approximately £46.0m.

Following repayment on 4 February 2011 of approximately £18.3m of loans due to Polo Resources Limited ('Polo'), including accrued interest and associated fees and expenses (see next paragraph), Caledon expects to use the remaining proceeds to provide working capital to cater for business interruptions caused by flooding in the Queensland region and meet the Company's funding obligations for the Wiggins Island Coal Export Terminal

Following the subscription by Polo for 21,226,324 shares in the Placing, the amount due from Polo to Caledon in respect of this subscription was set off against the amount due by Caledon to Polo under the Loan facilities of £14.5m and AU$4m due 28 February 2011 (and described further in notes 9 and 13), which totaled A$29.3m (£18.3m) including the associated fees and interest.

Mark Trevan
Managing Director

Financial Review

/ Results from operations

The Group made a loss after tax for the year of A$11.8m compared to a loss of A$11.4m for the previous financial year. The basic loss per share for the year was 5.4 cents compared with loss per share of 5.4 cents in 2009.

The Group generated a loss from operations of A$11.4m on revenue of A$93.0m, compared to a loss from operations of A$19.8m and revenue of A$67.8m for the previous financial year.

Sales volume for 2010 was 431kt (2009: 403kt) of coking and 104kt (2009: 76kt) of thermal product and the average price (coking and thermal coal combined) increased 22.8% to A$173.72/t (2009: A$141.48/t).

Costs of sales were A$90.9m (2009: A$71.8m), 26.6% higher than in 2009.

Details of prices realised, exchange rates and unit costs are included in the commentary on Cook Mine above.

Administrative expenses were A$13.4m (2009: A$15.7m) down 14.6%. The principal contributors to the decrease in administrative expense were: FX losses being substantially lower at A$0.5m compared with A$2.3m incurred in 2009 and there being no redundancy costs in the year compared to the cost incurred in 2009 of A$1.3m. Net of FX losses and redundancy costs, administrative expenses amounted to A$12.9m (2009: A$12.1m), up 6.6%. Administrative expenses are detailed in note 4.

/ Fundraising activities

£4.2m 8.5% unsecured loan notes due 2013

In February 2010 the Company completed a private placement of £4.2m nominal 8.5% unsecured convertible loan notes due 2013, each with a par value of £50,000 to certain existing shareholders and other investors.

The funds were raised to provide additional working capital for the Company including the potential lodgement of a bid bond associated with the Wiggins Island tonnage allocation process.

Asset finance loan

Westpac Banking Corporation ('Westpac')

The outstanding portion of the A$9m asset finance facility provided by Westpac was repaid in full in March 2010.

Commonwealth Bank of Australia ('Commonwealth Bank')

The assets financed by Westpac were refinanced by the Commonwealth Bank for A$4.5m for a two year term at an interest rate of 9.48% p.a. commencing June 2010. The Company's ABM25 miner and Prairie haulage system were sold to the bank and leased back from the bank under a hire purchase agreement as security for the loan.

Private placement

In July 2010 the Company completed a private placement of 7.1m ordinary shares at 30 pence per share raising gross proceeds of £2.1m (A$3.8m).

£27.5 million 2010 8.5% unsecured loan notes

On 5 July 2010 the remaining £14.5m loan notes were repaid in full (2009: £18m). See note 9 for further details.

Polo loan facilities

On 27 April 2010 Caledon entered into facility agreements relating to a £18m secured term loan facility and a A$4m secured term loan facility. £14.9m of the £18m loan facility was drawn down on 2 July 2010 and the A$4m loan facility was drawn down in full on 23 July 2010.

Both loan facilities were repaid in full together with the associated fees and interest on 4 February 2011 (see notes 22 and 26 for more details).

/ Financing costs

The interest charged on borrowing for the year was A$7.3m (2009: A$7.7m) and comprised interest charged on the 2010 and 2013 loan notes, asset finance loan, and the Polo loan facilities.

The interest charged on the 2010 and 2013 loans notes has been calculated in accordance with IAS 39 ('Financial Instruments: recognition and measurement') and results in a higher amount being charged to the income statement of A$4.4m (2009: A$6.4m) compared to A$1.6m (2009: A$3m), being the actual amount paid during the year. See note 15 for further details.

A finance charge of A$3.5m was incurred in respect of the 2013 loan notes as the conversion price of these loan notes is in sterling whilst the functional currency of the Company is Australian dollars. The conversion element of these loan notes is recognised separately in the balance sheet as a derivative financial liability and is valued at fair value with changes to fair value recognised in the income statement as they arise. This is an accounting charge and therefore has had no impact on cash or corporate tax.

/ Financial position

The Group's balance sheet at 31 December 2010 and comparatives at 31 December 2009 are summarised below:

	2010 A$'000	2009 A$'000
Non-current assets	**166,539**	159,411
Current assets	**23,769**	22,832
Total assets	**190,308**	182,243
Current liabilities	**(48,709)**	(45,424)
Non-current liabilities	**(13,364)**	(6,839)
Total liabilities	**(62,073)**	(52,263)
Net assets	**128,235**	129,980

The increase in non-current assets was primarily due to a rise in the deferred tax asset and related mainly to the tax losses arising from the Australian operations.

Total borrowings have decreased from A$35.2m at 31 December 2009 to A$34.1m (see note 15) at 31 December 2010. The movement is attributable to the issue of new loan notes (increase of A$3.5m), the draw down of short term loan facilities provided by Polo (increase of A$30.7m), the conversion of loan notes (decrease of A$6.0m), the 2010 loan note redemption (decrease of A$25.6m), foreign exchange gains (decrease of A$4.9m), unwinding expense (increase of A$2.6m) and the asset finance loan (decrease of A$1.4m).

/ Inventories

Included within inventories were coal stocks valued at A$2.2m (2009: A$2.3m), representing 2.9kt of run of mine coal stocks (2009: 4.2kt) and 17.1kt of product stocks (2009: 25.5kt) held at year end.

/ Cash flows

The net cash outflow from operating activities for the year was A$8.9m (2009: A$17.7m net cash outflow).

Net cash used in investing activities was A$4.8m (2009: A$6.7m), including amounts of A$4.8m paid for property, plant and equipment (2009: A$6.1m); and A$0.6m of exploration expenditure incurred on the Minyango project (2009: A$1.4m), less A$0.6m from interest received (2009: A$0.9m).

Financial Review continued

A total of A$46.2m (2009: A$0.2m) of debt and equity was issued during the year comprising A$3.9m received from the issue of ordinary shares (2009: A$0.2m), A$7.6m (£4.2m) from the issue of the 2013 loan notes, A$30.3m from the drawdown of the Polo loan facilities and a A$4.5m asset finance loan from Commonwealth Bank. A$25.6m of this was used to redeem the 2010 loan notes and a further A$5.9m (2009: A$2.3m) was used to repay the asset finance loan from Westpac Bank. Net cash generated from financing activities was A$14.8m (2009: A$5.2m used).

The resulting year end cash and cash equivalents held totalled A$14.3m (2009: A$13.6m) of which A$10.4m (2009: A$8.9m) was restricted use cash relating to the Wiggins Island Coal Terminal Project (refer to note 25 for more information).

Manish Kotecha
Chief Financial Officer

Company Information

Directors and advisers

Directors	David de Jongh Weill	(Non-Executive Chairman)
	Mark Frederick Trevan	(Managing Director)
	Peter Kenneth Seear	(Executive Director)
	George Gregory Salamis	(Non-Executive Director)
	Stephen Bywater	(Non-Executive Director)
	David Spencer Treadwell	(Non-Executive Director)
Company Secretary	Jeremy Gorman	
Registered Office	**United Kingdom** Lacon House 84 Theobald's Road London WC1X 8RW **Australia** Level 2 87 Wickham Terrace Brisbane Queensland 4000 Australia	
Company number	3993115	
Nominated Adviser and Nominated Broker	**Royal Bank of Canada Europe Limited** 71 Queen Victoria Street London EC4V 4DE	
Registered Auditors	**BDO LLP** 55 Baker Street London W1U 7EU	
Solicitors to the Company (English law)	**Nabarro LLP** Lacon House 84 Theobald's Road London WC1X 8RW	
Solicitors to the Company (Australian law)	**Blake Dawson LLP** Riverside Centre 123 Eagle Street Brisbane Queensland 4000 Australia	
Registrars	**United Kingdom** Computershare Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH **Australia** Computershare Level 19 307 Queen Street Brisbane Queensland 4000 Australia	

Directors' Biographies

David de Jongh Weill aged 52
Non-Executive Chairman

Mr Weill started his professional career with Salomon Brothers in 1983 in derivative products sales and trading. He subsequently became active in proprietary trading for Salomon Brothers in International Fixed Income and Foreign Exchange. Mr Weill left Salomon in 1989 to develop an international proprietary trading activity with Greenwich Capital Markets.

Thereafter, in 1992, Mr Weill developed his own fund management activity with funds under management growing to over $1.2 billion. From 1998, he has focused on private equity investment, predominantly in natural resource and media and technology companies. Mr Weill has acquired considerable experience in proprietary trading in international financial markets, investment management, corporate finance, and corporate governance. Mr Weill is a founder and partner of Chiliogon Partners LLP.

Mr Weill holds a Bachelor of Business Administration, magna cum laude in International Business from the University of Georgia, a Masters of Business Administration from the London Business School, a Masters of Science in Law and Accounting from the London School of Economics and a Masters of Science in Decision Sciences at the London School of Economics. Mr Weill was called to the Bar of England and Wales by the Honourable Society of Lincoln's Inn and is a member of the Honourable Society of the Middle Temple.

David Weill is Chairman of the Remuneration Committee.

Mark Trevan aged 54
Managing Director

Prior to joining Caledon in September 2006 Mr Trevan spent 25 years with Rio Tinto plc in senior executive roles in the areas of marketing, general commercial, corporate strategy and project feasibility. He joined Rio Tinto's Queensland coal subsidiary in 1997 as general manager marketing and through various corporate reorganisations also became responsible for the marketing of Rio Tinto's Coal and Allied subsidiary and its Indonesian Kaltim Prima operations.

Mr Trevan is also a member of the Health, Safety and Environment ('HSE') committee.

Peter Seear aged 58
Business Development Director

Mr Seear has been actively engaged in the coal mining industry since 1977. He commenced his career immediately upon graduation from Coventry University in 1977. He became a Chartered Engineer in 1983 and he then proceeded to work for several contract coal mining companies. Additionally, he spent time with underground coal mining equipment manufacturers as an engineer, including 10 years with Joy Mining Machinery Ltd in South Africa and in North America. Mr Seear also holds a PMD degree from the Harvard School of Business.

George Salamis aged 44
Non-Executive Director

Mr Salamis is one of the founding shareholders of Caledon and held the position of Managing Director and Chief Executive Officer until August 2007. Following his resignation as CEO, the Company asked Mr Salamis to remain as a Director in a Non-Executive capacity.

Prior to this, he held senior management positions with well-established mining companies most notably Placer Dome Inc. and Cameco Corporation. His career in the mining industry spans over 20 years involving assignments in many different regions of the world, on various resource commodities. In recent years, he has also played integral executive and non-executive roles, in several large M&A transactions and major financing initiatives in the mining industry. Mr. Salamis, currently president and CEO of Edgewater Exploration Limited, holds a graduate degree in Geology from the Université de Montréal/École Polytechnique.

Mr Salamis is a member of the ('HSE') committee.

David Treadwell aged 41
Non-Executive Director

Mr Treadwell is currently a Partner in Treadwell Partners LLP and has been closely involved with Caledon for a number of years. He was a founding Partner, in 2000, of Cheyne Capital Management (UK) LLP ('Cheyne'), which was a lead and long-term investor in the Company's issue of Convertible Loan Notes in 2007. He previously spent six years at Morgan Stanley as a portfolio manager within its Private Client Services Division.

Mr Treadwell left Cheyne in 2009 to establish Treadwell Partners, which provides services to corporates, brokerages and high net worth individuals. He is also a director of Lexantha Capital Limited.

Mr Treadwell is Chairman of the Audit Committee.

Steve Bywater aged 59
Non-Executive Director

Mr Bywater, is a director of GCM Resources plc and Coal of Africa Limited. He has had a distinguished career in the resources industry, developing and operating a total of 14 large-scale open pit mining operations. Before joining GCM in January 2006 he was chief operating officer of Rio Tinto Coal Australia where he oversaw seven mining operations, producing 60 million tonnes of coal per year. He was previously general manager operations for Robe River Mining, General Manager Mine Operations for Rio Tinto's Hamersley Iron operations and general manager at Mount Isa Mines in both Mining and Metallurgical Operations.

Mr Bywater has a BSc in Engineering Geology and Geotechnics from Portsmouth University and a MSc in Rock Mechanics and Excavation Engineering from Newcastle-Upon-Tyne University. He is a Fellow of both the Australasian Institute of Mining and Metallurgy and the Australian Institute of Management.

Mr Bywater is a member of the Audit Committee and is Chairman of the ('HSE').

Directors' Report

The Directors present their annual report and the audited Group financial statements for the year ended 31 December 2010.

Principal activities
The principal activity of the Group is coal mining and exploration and the principal activity of the Company is a holding company.

Business review and future developments
The purpose of this review is to show how the Group assesses and manages risk and uncertainty and adopts appropriate policies and targets. Further details of the Group's business and expected future developments are also set out in the Chairman's Statement on pages 2 to 3 and in the Review of Operations on pages 4 to 9.

Principal risks and uncertainties
The Group operates in an uncertain environment that may result in increased risk, cost pressures and schedule delays. The following are some of the key risks that face the Group:

Coal price
The market place of coal is volatile and is affected by numerous factors beyond the Group's control.

Exploration and development risk
There is no assurance that the Group's exploration activities will be successful, and statistically few properties that are explored are ultimately developed into producing mines.

The Group's operations may also be curtailed, delayed or cancelled as a result of economic, environmental and political conditions in the area of operation.

Financing
The development of the Group's properties will depend upon the Group's ability to obtain financing primarily through the raising of new equity capital, but also by means of joint venture of projects, debt financing, farm downs or other means. There is no assurance that the Group will be successful in obtaining the required financing. If the Group is unable to obtain additional financing as needed some interests may be relinquished and/or the scope of the operations reduced.

Environmental and other regulatory requirements
Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. Before exploration and production can commence on any properties, the Group must obtain regulatory approval and there is no assurance that such approvals will be obtained. No assurance can be given that new rules and regulations will not be enacted or existing rules and regulations will not be applied in a manner which could limit or curtail the Group's operations.

Key performance indicators
The key performance indicators of the Group are as follows:

	2006	2007	2008	2009	**2010**
Coal mined in tonnes	–	255,300	548,000	604,000	**681,000**
Sales in tonnes	–	168,400	463,000	479,000	**535,000**
Revenue per tonne		US$75	US$183	US$137	**US$160**
Lost time injuries (number of injuries)	–	2	6	1	**1**
Earnings/(loss) per share	(7.0)cents	(23.0)cents	4.3cents	(5.4)cents	**(5.4)cents**
AIM share price at 31 December (pence)	36.0p	36.0p	8.5p	48p	**99p**
ASX share price at 31 December (cents)	–	–	20 cents	85 cents	**152 cents**
Cash at bank at 31 December (including restricted use cash)	A$27.8m	A$24.0m	A$44.2m	A$13.6m	**A$14.3m**

Results and dividends
The results of the Group for the year ended 31 December 2010 are set out on page 28. Further information is disclosed in the Financial Review on pages 10 to 12.

The Directors do not recommend payment of a dividend for the year (2009: nil). The loss will be transferred to reserves.

Directors and Directors' interests
The Directors at the date of these financial statements who served throughout the year, and their interests in the Ordinary Shares in the Company are as follows:

	Ordinary Shares of 0.5p held at 30 March 2011	Ordinary Shares of 0.5p held at 31 December 2010	Ordinary Shares of 0.5p held at 1 January 2010
David Weill	**–**	–	–
Mark Trevan	**60,000**	60,000	60,000
Peter Seear[1]	**5,146,263**	5,146,263	5,146,263
George Salamis	**1,037,500**	1,037,500	1,037,500
Stephen Bywater[2] (appointed 30 June 2010)	**107,100**	107,100	107,100[1]
David Treadwell[3] (appointed 31 August 2010)	**115,000**	115,000	115,000[1]

1 The interest of Peter Seear comprises his proportion of the MTP Consideration shares whether held directly or via the Seear Family Trust.
2 Held at date of appointment.
3 A further 500,000 Caledon Shares and £250,000 nominal of the Company's 8.5% Convertible Loan Notes due 2013 are owned by trusts under which David Treadwell and his family can benefit.

Graham Mascall, Nicholas Clarke and Stephen Dattels, who were directors at 1 January 2010, resigned with effect 23 April 2010, 30 April 2010 and 4 November 2010, respectively.

The Directors' interests in share options are as follows:

	Scheme	Options at 01.01.10	**Options at 31.12.10**	Exercise price	Date of grant	First date of exercise	Final date of exercise
M Trevan	A	1,421,685	**1,421,685**	40p	14.12.06	14.12.06	14.12.16
	B	425,241	**425,241**	74p	26.05.08	26.05.09	26.05.18
P Seear	B	314,024	**314,024**	74p	26.05.08	26.05.09	26.05.18
G Salamis	A	250,000	**250,000**	10p	11.04.03	11.04.04	11.04.13
	A	600,000	**600,000**	15p	29.04.03	29.04.04	29.04.13
	A	350,000	**350,000**	18.75p	22.11.05	22.11.06	22.11.15
	A	1,777,106	**1,777,106**	40p	14.12.06	14.12.06	14.12.16
G Mascall (resigned 23 April 2010)	A	250,000	**250,000**	10p	11.04.03	11.04.04	23.04.11
	A	125,000	**125,000**	40p	14.12.06	14.12.06	23.04.11
N Clarke (resigned 30 April 2010)	A	250,000	**250,000**	40p	14.12.06	14.12.06	30.04.11

'A' options
The above options marked 'A' have all been granted under the Finelot plc[1] unapproved 2000 Discretionary Share Option Scheme, and have no performance conditions.

The right granted to subscribe for Ordinary Shares for options issued prior to 14 December 2006 is exercisable up to 10 years from the date of grant with the right being exercisable in respect of one third of the Ordinary Shares to which it relates following the first, second and third anniversary from the date of grant.

The right granted to subscribe for Ordinary Shares for options granted on 14 December 2006 is exercisable up to seven years from the date of grant with the right being exercisable on 14 December 2006 in respect of one third of the Ordinary Shares to which it relates. The remaining options will be exercisable in three equal amounts following the first, second and third anniversary from the date of grant.

'B' options
The above options marked 'B' were all granted under the Caledon Resources plc 2006 Share Option Scheme, and were exercisable between 26 May 2009 and 25 May 2018, subject to meeting performance conditions in relation to an increase in production levels of saleable coal; the reduction of unit production costs; and an increase in shareholder value. The performance conditions were not met in full and these options granted to directors are not capable of being exercised except in the event of a subsequent change of control of the Company.

Ordinary Shares resulting from the exercise of any such rights will rank pari passu in all respects with the Ordinary Shares in issue at the time of such exercise.

Further information is provided in note 19.

1 The share option scheme was adopted when the Company was called Finelot plc. On 14 April 2003 the Company changed its name to Caledon Resources plc.

Directors' Report continued

Annual General Meeting

Resolutions will be proposed at the forthcoming Annual General Meeting, as set out in the formal Notice which will be mailed to shareholders in due course.

In accordance with the Company's Articles of Association, David Treadwell and Stephen Bywater, who were appointed during the year, will retire at the Annual General Meeting and offer themselves for election. In addition, George Salamis will retire by rotation and, being eligible, intends to offer himself for re-election. David Treadwell, Stephen Bywater and George Salamis are engaged under letters of appointment which are terminable on one month's notice.

Additional Information for ASX investors

(i) As a public company incorporated in England and Wales, Caledon is subject to the City Code on Takeovers and Mergers (the Code). Subject to certain exceptions and limitations, a mandatory offer may be required to be made under Rule 9 of the Code broadly where:
   (i) a bidder and any persons acting in concert with it acquire shares carrying 30% or more of the voting rights of a target company; or
   (ii) if a bidder, together with any concert parties, increases its holding where its holding is not less than 30% but not more than 50% of the voting rights. Rule 9 requires a mandatory offer to be made in cash and at the highest price paid by the bidder (or any persons acting in concert with it) for any interest in shares of the relevant class during the 12 months prior to the announcement of the offer.

   In addition, save in certain specified circumstances, rule 5 of the code imposes restrictions on acquisitions which increase a person's total number of voting rights in Caledon (when aggregated with those of his concert parties) to 30% or more of the total voting rights of the company or if he, together with his concert parties, having an interest in 30% or more of such voting rights, acquires more voting rights up to (and including) a total of 50%.

   Where a bidder obtains acceptances of at least 90% of the shares subject to a takeover offer (which excludes any shares held by it or its concert parties) and acceptances of at least 90% of the voting rights carried by the shares subject to the offer, it can require the remaining shareholders who have not accepted the offer to sell their shares on the terms of the offer.

(ii) Caledon is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act (Corporations Act 2001 (Cth)) dealing with the acquisition of shares (including substantial holdings and takeovers).

Corporate governance

The Company's compliance with the principles of corporate governance is explained in the corporate governance statement on pages 21 to 23.

Ordinary Share capital

Details of issues of Ordinary Share capital during the year are set out in note 18.

The Company's Ordinary Shares with a nominal value of 0.5 pence each represent 100% of its total share capital. At a meeting of the Company every member present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder. Holders of Ordinary Shares are entitled to receive dividends. On a winding-up or other return of capital, holders are entitled to share in any surplus assets pro rata to the amount paid up on their Ordinary Shares. The shares are not redeemable at the option of either the Company or the holder. There are no restrictions on the transfer of shares.

Significant shareholders

As at 1 March 2011, so far as the Directors are aware, the top twenty shareholders (other than the interests held by Directors) who are directly or indirectly interested in the nominal value of the Company's share capital are as follows:

	Number of Ordinary Shares held	Ordinary Shares as % of issued share capital
Polo Resources Ltd	83,311,520	29.90%
Ingalls & Snyder LLC	23,173,700	8.32%
JP Morgan Asset Management	13,429,500	4.82%
Watami Trading Ltd	12,046,175	4.32%
Deutsche Bank Prop Trading/Market Maker Account	10,776,657	3.87%
Goldman Sachs Prop Trading/Market Maker Account	9,691,244	3.48%
BlackRock Inc	9,405,406	3.38%
Royal Bank of Canada	7,761,764	2.79%
JP Morgan Securities Ltd	7,563,628	2.71%
Morgan Stanley Securities Prop Trading/Market Maker Account	5,273,861	1.89%
UBS Private Banking	4,623,591	1.66%
SG Asset Management	4,226,498	1.52%
Credit Suisse Prop Trading/Market Maker Account	3,587,148	1.29%
Nordea	3,000,042	1.08%
Cheyne Capital Management	2,722,222	0.98%
Bank Sarasin & Cie AG	2,479,015	0.89%
James Capel Nominees Limited (stock lending account)	2,192,007	0.79%
Citigroup Prop Trading/Market Maker Account	2,036,184	0.73%
Hermes Pension Management	1,967,515	0.71%
Hadron Capital LLP	1,800,000	0.65%

As at 1 March 2011 there were 1,182 registered holders (including CDI holders) of Ordinary Shares in the Company. The table below shows the distribution of shareholders by size of holding:

Size of holding	Number of shareholders
1 – 1000	333
1,001 – 5,000	371
5,001 – 10,000	150
10,001 – 100,000	211
100,001 – and over	117

As at 1 March 2011 the total number of shareholders holding less than a marketable parcel in the Ordinary Shares of the Company was 56.

Ordinary Shares under escrow

As at 1 March 2011 the total number of Ordinary Shares on issue under escrow was 46,000 and related to shares held by 46 employees with 1,000 shares each for which the escrow period will end on 4 June 2011 or upon termination of employment with the Caledon Group, whichever occurs first.

Payments to suppliers

The Group and Company has no formal code or standard which deals specifically with the payment of suppliers. However, the Group's and Company's policy on the payment of all creditors is to ensure that the terms of payment, as specified and agreed with the supplier, are not exceeded. Trade creditors as at 31 December 2010 for the Group represent 7 days (2009: 15 days), and for the Company represent 33 days (2009: 41 days) as a proportion of the total amount invoiced by suppliers during the year ended on that date.

Events after the reporting date

See note 26 for further information.

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 24 of the financial statements.

Directors' Report continued

Financial risk management

Financial risk factors

The Group's multi-national operations expose it to a variety of financial risks: market risk (foreign currency exchange rates and interest rates), liquidity risk, and credit risk.

(i) Market risk

The market price of coal is volatile and is affected by numerous factors beyond Caledon's control.

(ii) Foreign exchange and interest rate risk

Revenue from operations is received in United States dollars and the majority of costs are in Australian dollars. A small percentage of operating expenses are also incurred in pounds sterling. Accordingly, foreign exchange fluctuations may adversely affect the Group's financial position and operating results.

A specific financial risk relates to the Group's £4.2m convertible loan notes issued in February 2010 as the Group does not hedge against non-Australian dollar denominated interest-bearing liabilities. The Group has managed interest rate risk by borrowing at fixed interest rates. For details on the £4.2m convertible loan notes please see note 15.

(iii) Liquidity risk

Prudent liquidity risk management in the context of the Group implies maintaining sufficient cash or marketable securities in the necessary currencies to be able to pay creditors as and when they fall due.

The bulk of the Group's cash balances are held in Australian dollar denominated floating rate deposits as required to fund its short-term requirements.

(iv) Credit risk

Cash balances are deposited with banks with a high credit rating.

Donations

There were no charitable or political donations during the current or prior year.

Disclosure of information to auditors

So far as each Director at the date of approval of this report is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

The current senior statutory auditor has acted in the capacity for six years, the Ethical Standards set a maximum of five years before rotation unless the audit committee decides that serving additional years is necessary to safeguard audit quality whilst the Company goes through a period of change. In light of the possible cash acquisition of the Company the Audit Committee are of the view that retention of the senior statutory auditor whilst this is undertaken will safeguard audit quality.

BDO LLP have expressed their willingness to continue in office as auditors, and a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board

Jeremy Gorman
Company Secretary
30 March 2011

Corporate Governance Statement

The Company, which is listed on both AIM and the ASX, is not formally required to comply with the UK Corporate Governance Code (formerly *the Combined Code, as amended in June 2008*) (the 'UK Corporate Governance Code'), which applies to Companies which are Fully Listed on the London Stock Exchange. However, the Board has given consideration to the provisions set out in Section 1 of the UK Corporate Governance Code. The Directors support the objectives of this code and intend to comply with those aspects which they consider relevant to the Group's size and circumstances.

The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations ('ASX Recommendations') in the reporting period. These recommendations are guidelines designed to produce an efficiency, quality or integrity outcome. The recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its own circumstances, the company has the flexibility not to follow it. Where a company has not followed all the recommendations, the annual report must identify which recommendations that have not been followed and give reasons for not following them. A description has been included at the end of this statement which states the areas where the Company considered it was not appropriate to comply with a particular recommendation, and the related reasons.

Details of the key areas relating to the UK Corporate Governance Code and the ASX Principles are set out below. A statement of the Directors' responsibilities in respect of the financial statements is set out on page 26. Below is a brief description of the role of the Board and its committees, including a statement regarding the Group's system of internal financial control.

The workings of the Board and its committees

The Board of Directors

The Board currently comprises a Non-Executive Chairman, (David Weill), two Executive Directors (Mark Trevan and Peter Seear) and three further Non-Executive Directors (Stephen Bywater, George Salamis and David Treadwell).

The Board considers that Stephen Bywater, George Salamis and David Treadwell meet the criteria for independence included in the ASX Best Practice Recommendations and that they are independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement.

An agreed procedure exists for Directors in the furtherance of their duties to take independent professional advice. With the prior approval of the Chairman, all Directors have the right to seek independent legal and other professional advice at the company's expense concerning any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. If the Chairman is unable or unwilling to give approval, Board approval will be sufficient. Newly appointed Directors are made aware of their responsibilities through the Company Secretary. The Company does not make any provision for formal training of new Directors.

The Company has established properly constituted Audit; Remuneration; Health, Safety and Environment; and Nomination Committees of the Board with formally delegated duties and responsibilities.

Conflicts of interest

Following the changes arising under the Companies Act 2006, the Board confirms that it has instituted a process for reporting and managing any conflicts of interest held by Directors. Under the Company's Articles of Association, the Board has the authority to approve such conflicts.

A Shareholder Relationship Agreement was in place during the period 1 January 2010 until 24 June 2010 between the Company and Polo in order to manage *inter alia* potential conflicts of interest in respect of Stephen Dattels, who resigned from the Board on 4 November 2010. Under the terms of this agreement, Polo Resources Limited ('Polo') had the right to nominate two Directors to the Board of the Company, and had nominated both Stephen Dattels and David Weill.

Company materiality threshold

The Board acknowledges that assessment on materiality and subsequent appropriate thresholds are subjective and open to change. As well as the applicable laws and recommendations, the Board has considered quantitative, qualitative and cumulative factors when determining the materiality of a specific relationship of Directors.

Ethical standards

As part of the Board's commitment to the highest standard of conduct, the Company adopts a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers such matters as:

- responsibilities to shareholders
- compliance with laws and regulations
- relations with customers and suppliers
- ethical responsibilities
- employment practices
- responsibility to the environment and the community.

Board meetings

Board meetings are held on average every two months. Decisions concerning the direction and control of the business are made by the Board, and a formal schedule of matters specifically reserved for the Board is in place.

Generally, the powers and obligations of the Board are governed by the UK Companies Act 2006, the Australian Corporations Act, and the other laws of the jurisdictions in which it operates. The Board is responsible, inter alia, for setting and monitoring Group strategy, reviewing trading performance, ensuring adequate funding, examining major acquisition opportunities, formulating policy on key issues and reporting to the shareholders. These areas are set out in more detail in a formal Schedule of Matters Reserved for the Board.

The Audit Committee

The Audit Committee comprised the following Directors during the year:

Graham Mascall (Committee Chairman, resigned 23 April 2010)
Nicholas Clarke (resigned 30 April 2010)
David Treadwell (appointed as Committee Chairman and a member on 3 February 2011)
Stephen Bywater (appointed as a member on 3 February 2011)

Corporate Governance Statement continued

During the period 23 April 2010 until 3 February 2011 the Audit Committee did not operate and all relevant matters were dealt with by the full Board.

The Committee provides a forum for reporting by the Group's external auditors. Meetings are held on average once a year and are also attended, by invitation, by the executive Directors.

The Audit Committee is responsible for reviewing a wide range of financial matters including the annual and half year results, financial statements and accompanying reports before their submission to the Board and monitoring the controls which ensure the integrity of the financial information reported to the shareholders.

The Remuneration Committee

The Remuneration Committee comprised the following Directors during the year:

Nicholas Clarke (Committee Chairman, resigned 30 April 2010)
Graham Mascall (resigned 23 April 2010)
David Weill (appointed as Committee Chairman and a member on 3 February 2011)
Stephen Bywater (appointed as a member on 3 February 2011)

During the period 23 April 2010 until 3 February 2011 the Remuneration Committee did not operate and all relevant matters were dealt with by the full Board.

The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Remuneration Committee determines the contract terms, remuneration and other benefits for the Executive Directors, including performance related bonus schemes, compensation payments and option schemes. The Board itself determines the remuneration of the Non-Executive Directors.

A report from the Remuneration Committee appears on pages 24 to 25.

Health, Safety and Environment Committee

The Company's Health, Safety and Environment Committee ('HSE Committee') is composed of three members and is chaired by Stephen Bywater, an independent Non-Executive Director. The other members of the Committee are Mark Trevan, an Executive Director, and George Salamis, a Non-Executive Director.

The HSE Committee assists the Board in formulating the Group's health, safety and environment policies as they affect the Group's operations, including monitoring compliance with national and international standards and reviewing management's investigations of incidents or accidents that occur in order to assess whether policy improvements are required.

The HSE Committee meets formally at least twice a year and otherwise as required.

The Nomination Committee

The Nomination Committee comprised the following Directors during the year:

Graham Mascall (resigned 30 April 2010)
Nicholas Clarke (resigned 23 April 2010)

Since 23 April 2010 the Nomination Committee has not operated and all relevant matters have been dealt with by the full Board.

Internal financial control

The Board is responsible for establishing and maintaining the Group's system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the Group concerned and the risk to which it is exposed, and by its very nature can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors are conscious of the need to keep effective internal financial control, particularly in view of the cash resources of the Group. Due to the relatively small size of the Group's operations, the Directors are very closely involved in the day-to-day running of the business and as such have less need for a detailed formal system of internal financial control. The Directors have reviewed the effectiveness of the procedures presently in place and consider that they are still appropriate to the nature and scale of the operations of the Group.

Continuous disclosure and shareholder communication

The Board is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market. In accordance with continuous disclosure requirements under the ASX Listing Rules, the Company has procedures in place to ensure that all price sensitive information is identified, reviewed by management and disclosed to the ASX in a timely manner.

All information disclosed to the ASX or the London Stock Exchange is posted on the company's website http://www.caledon.com. Shareholders are forwarded documents relating to each Annual General Meeting, being the Annual Report, Notice of Meeting and Explanatory Memorandum and Proxy Form, and are invited to attend these meetings

Managing business risk

The Board constantly monitors the operational and financial aspects of the company's activities and is responsible for the implementation and ongoing review of business risks that could affect the Company. Duties in relation to risk management that are conducted by the Directors include but are not limited to:

- Initiate action to prevent or reduce the adverse effects of risk
- Control further treatment of risks until the level of risk becomes acceptable
- Identify and record any problems relating to the management of risk
- Initiate recommend or provide solutions through designated channels
- Verify the implementation of solutions
- Communicate and consult internally and externally as appropriate
- Inform investors of material changes to the company's risk profile.

Ongoing review of the overall risk management program (inclusive of the review of adequacy of treatment plans) is conducted by external parties where appropriate. The Board ensures that recommendations made by the external parties are investigated and, where considered necessary, appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

Going concern
In January 2011 the Company raised approx. £46m net of costs from the issue of new Ordinary Shares. The funds raised are sufficient for the Company to operate without the requirement to raise further capital in the foreseeable future. For further information please see note 26.

Accordingly the financial statements have been prepared on a going concern basis. As at 31 December 2010 the Group's cash and cash equivalent stood at A$14.3m of which A$10.4m was restricted use cash. The Group intends to operate within its cash resources.

ASX Best Practice Recommendations
The Board believes that the Company complies with the vast majority of the ASX Recommendations. The exceptions to these are the following areas:

Principle 1, Recommendation 1.1: Matters Reserved for the Board and Matters for delegation to senior executives: The Board has a formal schedule of Matters Reserved for the Board, but does not have a formal schedule of Matters for delegation to senior executives. The Board believes that such a schedule is not required, due to the focused nature of the Company's operations, its relatively small size and the proximity of the Executive Directors to the Company's operations.

Principle 2, Recommendations 2.1 and 2.2: Only three out of six directors are independent Non-Executive Directors, as defined by the ASX Recommendations, and the Chairman is not an Independent Director. The Board believes that it comprises sufficient independent members for a company of its limited size and scope.

Principle 4, Recommendation 4.2: the Company's Audit Committee has two members, rather than the recommended number of three. The Board believes that its Audit Committee has sufficient members for a company of its limited size and scope, considering also the experience of other members of senior management. The Board further notes that it is compliant with the requirements of the UK Corporate Governance Code which requires a two-member Audit Committee for smaller companies (defined as those not within the FTSE-350 index).

Principle 7: The Board does not currently operate a formal Risk Policy. However, the Board believes that it operates a sufficiently rigorous risk framework (outlined above) appropriate to a company of its limited size and scope.

Report of the Remuneration Committee

The Remuneration Committee (the 'Committee') comprised, during the year ended 31 December 2010, the following members:

Nicholas Clarke (resigned as Committee Chairman and a member on 30 April 2010)
Graham Mascall (resigned 23 April 2010)
David Treadwell (appointed as Committee Chairman and a member on 3 February 2011)
Stephen Bywater (appointed as a member on 3 February 2011)

During the period 23 April 2010 until 3 February 2011 the Remuneration Committee did not operate and all relevant matters were dealt with by the full Board.

Remuneration packages are determined with reference to market remuneration levels, individual performance and the financial position of the Company and the Group.

The Board determines the remuneration of Non-Executive Directors within the limits set by the Company's Articles of Association. They have letters of engagement with the Company and their appointments are terminable on one month's or three months' written notice on either side.

None of the Directors has a service contract which is terminable on greater than one year's notice.

On 21 September 2000 the Company adopted 'The Finelot plc[2] Unapproved 2000 Discretionary Share Option Scheme' in which the Directors participate. This option scheme was closed on 14 December 2006 with the result that no further grants of options will be made under it (but without prejudice to existing rights granted under it).

On 14 December 2006 the Board adopted the Caledon Resources plc 2006 Share Option Scheme (the 'New Share Option Scheme'). The New Share Option Scheme is not approved by HM Revenue & Customs, and provides incentives by way of options granted with an exercise price equal to the market value of relevant shares (as at the date of grant).

For further information please refer to page 17 of the Directors' Report.

The remuneration of the Directors during the year was as follows:

	Salaries 2010 A$	**Fees 2010 A$**	**Non-cash benefits 2010 A$**	**Car allowance 2010 A$**	**Pension costs 2010 A$**	**Total 2010 A$**	Total 2009 A$
David Weill	**50,421**	**–**	**–**	**–**	**–**	**50,421**	59,537
Mark Trevan	**490,000**	**–**	**25,445**	**–**	**5,900**	**521,345**	524,119
Peter Seear	**350,000**	**–**	**3,480**	**25,000**	**–**	**378,480**	378,196
George Salamis	**50,421**	**–**	**–**	**–**	**–**	**50,421**	59,537
Nicholas Clarke (resigned 30 April 2010)	**21,349**	**–**	**–**	**–**	**–**	**21,349**	59,537
Graham Mascall (resigned 23 April 2010)	**17,031**	**–**	**–**	**–**	**–**	**17,031**	59,537
Stephen Dattels (resigned 4 November 2010)	**–**	**43,303**	**–**	**–**	**–**	**43,303**	59,226
Stephen Bywater	**24,166**	**–**	**–**	**–**	**–**	**24,166**	–
David Treadwell	**16,016**	**–**	**–**	**–**	**–**	**16,016**	–
Robert Alford (resigned 23 January 2009)	**–**	**–**	**–**	**–**	**–**	**–**	664,891
	1,019,404	**43,303**	**28,925**	**25,000**	**5,900**	**1,122,532**	1,864,580

2 The share option scheme was adopted when the Company was called Finelot plc. On 14 April 2003 the Company changed its name to Caledon Resources plc.

The current terms of appointment of the Directors are as follows:

	Salaries or fees p.a.	Pension contributions %	Date of contract	Notice period (months)
Executive Directors				
Mark Trevan	A$490,000	1	31.08.06	12
Peter Seear	A$350,000	–	25.09.06	12
Non-Executive Directors				
David Weill	£30,000	–	22.07.08	3
Stephen Bywater	£30,000	–	05.07.10	1
David Treadwell	£30,000	–	31.08.10	1
George Salamis	£30,000	–	17.12.06	1

On behalf of the Remuneration Committee

David Weill
Remuneration Committee Chairman
30 March 2011

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditors Report
to the members of Caledon Resources plc

We have audited the financial statements of Caledon Resources plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statement in changes in equity, the consolidated and company balance sheet, the consolidated and company cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors
As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion:
- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' Remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Scott Knight
(senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
30 March 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement
for the year ended 31 December 2010

	Note	2010 A$'000	2009 A$'000
Revenue		**92,968**	67,750
Cost of sales		**(90,916)**	(71,837)
Gross profit/(loss)		**2,052**	(4,087)
Administrative expenses	4	**(13,440)**	(15,705)
Loss from operations		**(11,388)**	(19,792)
Finance income	5	**5,282**	3,844
Loss on revaluation of derivative financial liability		**(3,532)**	–
Other finance expense		**(7,483)**	(7,802)
Total finance expense	5	**(11,015)**	(7,802)
Loss for the year before taxation		**(17,121)**	(23,750)
Tax credit		**5,298**	12,388
Loss for the year attributable to equity holders of parent company		**(11,823)**	(11,362)
Basic and diluted loss per share expressed in cents per share	12	**(5.4)**	(5.4)

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010

	2010 A$'000	2009 A$'000
Loss after taxation	**(11,823)**	(11,362)
Other comprehensive income:		
Upward revaluation of available for sale investment	**453**	381
Total comprehensive income for the year	**(11,370)**	(10,981)

The notes on pages 35 to 59 form part of these financial statements.

Consolidated Balance Sheet
as at 31 December 2010

	Note	2010 A$'000	2009 A$'000
Assets			
Non-current assets			
Intangible assets	7	**45,279**	44,660
Property, plant and equipment	8	**81,569**	81,935
Financial asset – available for sale investment	10	**988**	535
Deferred tax asset	11	**38,703**	32,281
		166,539	159,411
Current assets			
Inventory	12	**5,326**	4,399
Trade and other receivables	13	**4,181**	4,830
Cash	14	**3,816**	4,662
Restricted use cash	14	**10,446**	8,941
		23,769	22,832
Total assets		**190,308**	182,243
Liabilities			
Current liabilities			
Borrowings	15	**28,516**	35,163
Derivative financial liability		**7,653**	–
Provisions	16	**1,896**	1,421
Trade and other payables	17	**10,644**	8,840
		48,709	45,424
Non-current liabilities			
Borrowings	15	**5,579**	–
Provisions	16	**1,972**	1,826
Deferred tax liability	11	**5,813**	5,013
		13,364	6,839
Total liabilities		**62,073**	52,263
Capital and reserves attributable to shareholders			
Share capital	18	**2,470**	2,345
Share premium	20	**154,925**	145,458
Other reserves	20	**(206)**	(206)
Revaluation reserve	20	**834**	381
Option premium on convertible loan	20	**–**	10,229
Foreign currency translation reserve	20	**11,414**	11,414
Retained earnings	20	**(41,202)**	(39,641)
		128,235	129,980
Total equity and liabilities		**190,308**	182,243

The financial statements were approved by the Board of Directors and authorised for issue on 30 March 2011.

Mark Trevan
Director

The notes on pages 35 to 59 form part of these financial statements.

Company Balance Sheet
as at 31 December 2010

	Note	2010 A$'000	2009 A$'000
Assets			
Non-current assets			
Property, plant and equipment	8	**3**	4
Investment – available for sale investment	10	**988**	535
Deferred tax asset	11	**168**	168
Amounts due from Group companies	13	**200,565**	186,375
		201,724	187,082
Current assets			
Trade and other receivables	13	**118**	122
Cash and cash equivalents	14	**115**	2,343
		233	2,465
Total assets		**201,957**	189,547
Liabilities			
Current liabilities			
Borrowings	15	**27,143**	30,457
Derivative financial liability		**7,653**	–
Trade and other payables	17	**210**	248
		35,006	30,705
Non-current liabilities			
Borrowings	15	**3,603**	–
Total liabilities		**38,609**	30,705
Capital and reserves attributable to shareholders			
Share capital	18	**2,470**	2,345
Share premium	20	**154,925**	145,458
Revaluation reserve		**834**	381
Option premium on convertible loan	20	**–**	10,229
Foreign currency translation reserve	20	**964**	964
Retained earnings	20	**4,155**	(535)
		163,348	158,842
Total equity and liabilities		**201,957**	189,547

The financial statements were approved by the Board of Directors and authorised for issue on 30 March 2011.

Mark Trevan
Director

The notes on pages 35 to 59 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2010

	Share capital A$'000	Share premium A$'000	Capital reserve A$'000	Revaluation reserve A$'000	Foreign currency translation reserve A$'000	Options premium on convertible loan A$'000	Retained earnings A$'000	Total A$'000
At 1 January 2009	2,338	145,266	(206)	–	11,414	10,229	(28,639)	140,402
Total comprehensive income for the year	–	–	–	381	–	–	(11,362)	(10,981)
Issue of shares	7	192	–	–	–	–	–	199
Equity settled share based payments	–	–	–	–	–	–	360	360
At 1 January 2010	**2,345**	**145,458**	**(206)**	**381**	**11,414**	**10,229**	**(39,641)**	**129,980**
Total comprehensive income for the year	**–**	**–**	**–**	**453**	**–**	**–**	**(11,823)**	**(11,370)**
Issue of shares	**125**	**9,467**	**–**	**–**	**–**	**–**	**–**	**9,592**
Conversion and redemption of loan notes	**–**	**–**	**–**	**–**	**–**	**(10,229)**	**10,229**	**–**
Equity settled share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**33**	**33**
At 31 December 2010	**2,470**	**154,925**	**(206)**	**834**	**11,414**	**–**	**(41,202)**	**128,235**

The notes on pages 35 to 59 form part of these financial statements.

Company Statement of Changes in Equity
for the year ended 31 December 2010

	Share capital A$'000	Share premium A$'000	Revaluation reserve A$'000	Foreign currency translation reserve A$'000	Options premium on convertible loan A$'000	Retained earnings A$'000	Total A$'000
At 1 January 2009	2,338	145,266	–	964	10,229	804	159,601
Total comprehensive income for the year	–	–	381	–	–	(1,699)	(1,318)
Issue of shares	7	192	–	–	–	–	199
Equity settled share based payments	–	–	–	–	–	360	360
At 1 January 2010	**2,345**	**145,458**	**381**	**964**	**10,229**	**(535)**	**158,842**
Total comprehensive income for the year	**–**	**–**	**453**	**–**	**–**	**(5,572)**	**(5,119)**
Issue of shares	**125**	**9,467**	**–**	**–**	**–**	**–**	**9,592**
Conversion and redemption of loan notes	**–**	**–**	**–**	**–**	**(10,229)**	**10,229**	**–**
Equity settled share based payments	**–**	**–**	**–**	**–**	**–**	**33**	**33**
At 31 December 2010	**2,470**	**154,925**	**834**	**964**	**–**	**4,155**	**163,348**

The notes on pages 35 to 59 form part of these financial statements.

Consolidated Cash Flow Statement
for the year ended 31 December 2010

	Note	2010 A$'000	2009 A$'000
Cash flow from operating activities			
Loss before taxation		**(17,121)**	(23,750)
Adjustments for:			
Finance income	5	**(5,282)**	(3,844)
Finance expense	5	**11,015**	7,802
Depreciation	8	**5,154**	4,964
Disposal of property plant and equipment	8	**4**	–
Equity settled share-based payment expense	19	**33**	360
Foreign exchange differences		**(17)**	61
Net cash flow from operating activities before changes in working capital		**(6,214)**	(14,407)
(Increase)/decrease in inventories	12	**(927)**	2,444
Increase/(decrease) in payables	17	**2,299**	(6,915)
Decrease in receivables	13	**635**	6,370
Net cash flow from operating activities before interest and taxation paid		**(4,207)**	(12,508)
Interest paid	5	**(4,348)**	(3,509)
Taxation paid	6	**(326)**	(1,682)
Net cash flow from operating activities		**(8,881)**	(17,699)
Investing activities			
Payments for property, plant and equipment	8	**(4,792)**	(6,108)
Payments for patents and trademarks	7	**–**	(16)
Interest received	5	**638**	912
Exploration costs capitalised	7	**(620)**	(1,443)
Net cash flow from investing activities		**(4,774)**	(6,655)
Financing activities			
Issue of ordinary shares	18	**3,865**	199
Issue of convertible loans	15	**7,599**	–
Short term loan facilities	15	**30,284**	–
Issue of asset finance loan	15	**4,500**	–
Repayment of asset finance loan	15	**(5,857)**	(2,341)
Repurchase of convertible loan notes	15	**(25,575)**	(3,066)
Net cash flow from financing activities		**14,816**	(5,208)
Net increase/(decrease) in cash and cash equivalents in the year		**1,161**	(29,562)
Cash and cash equivalents at the beginning of the year	14	**13,603**	44,165
Effect of foreign exchange rate changes on cash and cash equivalents		**(502)**	(1,000)
Cash and cash equivalents at the end of the year	14	**14,262**	13,603

Company Cash Flow Statement
for the year ended 31 December 2010

	Note	2010 A$'000	2009 A$'000
Cash flow from operating activities			
Loss before taxation		**(5,560)**	(1,700)
Adjustments for:			
Finance income		**(7,783)**	(6,256)
Finance expense		**10,561**	7,078
Depreciation	8	**1**	7
Equity settled share-based payment expense	19	**33**	360
Foreign exchange differences		**(18)**	(2,871)
Net cash flow from operating activities before changes in working capital		**(2,766)**	(3,382)
Decrease in payables	17	**(6)**	(131)
(Increase)/decrease in receivables	13	**(11)**	158
Net cash flow from operating activities before interest and taxation paid		**(2,783)**	(3,355)
Interest paid	5	**(4,053)**	(2,932)
Taxation paid	6	**(12)**	(1,166)
Net cash flow from operating activities		**(6,848)**	(7,453)
Investing activities			
Loans (issued)/repaid		**(11,054)**	9,328
Interest received		**4**	37
Net cash flow from investing activities		**(11,050)**	9,365
Financing activities			
Issue of ordinary shares	18	**3,865**	199
Issue of convertible loan notes		**7,599**	–
Short term loan facilities		**30,284**	–
Repurchase of convertible loan notes	15	**(25,575)**	(3,066)
Net cash flow from financing activities		**16,173**	(2,867)
Net decrease in cash and cash equivalents in the year		**(1,725)**	(955)
Cash and cash equivalents at the beginning of the year	14	**2,343**	4,298
Effect of foreign exchange rate changes on cash and cash equivalents		**(503)**	(1,000)
Cash and cash equivalents at the end of the year	14	**115**	2,343

Notes to the Financial Statements for the year ended 31 December 2010

1. Principal accounting policies

The Company is a limited liability company incorporated and domiciled in the United Kingdom. The address of its registered office is Lacon House, 84 Theobald's Road, London, WC1X 8RW. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements for the year ended 31 December 2010 have been prepared on the basis of all IFRS and interpretations adopted by the European Union that are mandatory for periods ending 31 December 2010.

The IFRS financial information has been drawn up on the basis of accounting policies consistent with those applied in the financial statements for the year to 31 December 2009. The following standards, interpretations and amendments to existing standards have been adopted for the first time in 2010:

International Accounting Standards (IAS/IFRS)

Standard	Description	Effective date
IAS 27	Amendment – Consolidated and separate financial statements	1 July 2009
IFRS 3	Revised – Business Combinations	1 July 2009
IAS39	Amendment – Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009
IAS39	Amendment Reclassification of financial assets: effective date and transition	1 July 2009
IFRIC 9 & IAS39	Amendment – Embedded Derivatives	1 January 2010
IFRS 2	Amendment – Group cash settled share-based payments	1 January 2010
IFRS 1	Amendment – Additional exemptions for first-time adopters	1 January 2010
Improvements to IFRSs	Amendments to various statements issued 6 May 2010	1 January 2010

International Financial Reporting Interpretations (IFRIC)

Standard	Description	Effective date
IFRIC 16	Hedges of Net Investment in a Foreign Operation	1 January 2010
IFRIC 17*	Distributions of non-cash assets to owners	1 January 2010
IFRIC 18*	Transfers of assets from customers	1 January 2010

The adoption of these standards, interpretations and amendments did not affect the Company results of operations or financial positions.

Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

Standard	Description	Effective date
IAS 32	Amendment – Classification of Right Issues	1 February 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRS 1	Amendment – First Time Adoption of IFRS	1 July 2010
IAS 24	Revised – Related Party Disclosures	1 January 2011
IFRIC 14	Amendment – IAS 19 Limit on a defined benefit asset	1 January 2011
IFRS 7*	Amendment – Transfer of financial assets	1 July 2011
IFRS 1*	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
Improvements to IFRSs (2010) *	Miscellaneous amendments resulting from the IASB's annual improvements projects	1 January 2011
IAS 12*	Deferred Tax: Recovery of Underlying Assets	1 January 2012
IFRS 9*	Financial instruments	1 January 2013

The Group has not yet assessed the impact of IFRS 9. Except for the amended disclosure requirements of IAS 24 the above revised standards, amendments and interpretations are not expected to materially affect the Group's reporting or reported numbers.

* Not yet endorsed by European Union.

The Group financial information is presented in Australian dollars ('A$') and values are rounded to the nearest thousand dollars (A$'000).

Profit\(loss) from operations is stated after charging and crediting all operating items excluding finance income and expense.

Notes to the Financial Statements continued
for the year ended 31 December 2010

1. Principal accounting policies continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Caledon Resources plc is the ultimate parent and ultimate controlling party of the Group.

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement, statement of comprehensive income and related notes.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the executive management team including the Managing Director, Chief Operating Officer and the Chief Financial Officer.

Revenue

Revenue from the sale of coal is recognised upon the delivery of goods to customers. Interest income is recognised on a proportional basis taking into account the effective interest rates applicable to the financial assets.
All revenue is stated net of the amount of sales tax.

Property, plant and equipment

Property, plant and equipment are stated at cost on acquisition less depreciation. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

Proven mining properties are depreciated using a unit of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves. Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives.

The annual rate of depreciation for each class of depreciable asset is:

Buildings	5% – 10%
Plant and equipment	7% – 33%
Computers and related hardware	33%
Fixtures, fittings and office machinery	20%
Motor vehicles	20%

The carrying value of property plant and equipment is assessed annually and any impairment is charged to the income statement.

Assets in the course of construction are capitalised in the construction in progress account. Costs capitalised include the purchase price of the asset and any costs directly attributable to bringing it into working condition for its intended use. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. Construction in progress is not depreciated.

Investments in subsidiaries

Fixed asset investments in subsidiary undertakings held by the Company (note 9) are shown at cost less provisions for impairment. The cost of acquisition includes directly attributable professional fees and other expenses incurred in connection with the acquisition.

Impairment

The carrying amounts of non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset or cash-generating unit at the lower amount.

1. Principal accounting policies continued
The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 12% that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Group's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses and reversals of impairment losses previously included in the income statement under the same category are included within other operating expenses in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the FIFO method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Leased assets
Finance leases
Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a 'finance lease'), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Operating leases
Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease') amounts payable under the lease are charged to the income statement on a straight-line basis over the lease term.

Borrowing costs
Borrowing costs incurred in respect of general borrowings are recognised in profit or loss as they accrue, using the effective interest method. There are no borrowings directly attributable to the acquisition, construction or production of qualifying assets.

Foreign currency
The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Company and its main subsidiaries, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items is included in profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Australian dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Notes to the Financial Statements continued for the year ended 31 December 2010

1. Principal accounting policies continued

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic resources will result and that outflow can be reliably measured.

Mine rehabilitation

Provisions are made for the estimated rehabilitation costs relating to areas disturbed during the mines' operation up to reporting date but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cash flows.

The estimated cost of rehabilitation includes the current cost of recontouring, topsoiling and revegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which may be incurred due to the impact of possible changes in environmental legislation.

The amount of the provision relating to rehabilitation of mine infrastructure and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a liability with a corresponding asset included in property, plant and equipment.

At each reporting date the rehabilitation liability is remeasured in line with changes in discount rates and timing or amount of costs to be incurred. Changes in the liability relating to rehabilitation of the mine infrastructure or dismantling obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the income statement as it occurs.

If the change results in a liability that exceeds the carrying amount of the asset, the asset is written down to nil and the excess is recognised immediately in the income statement. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the write-down recognised in the income statement in the period in which it occurs.

Unproven mining properties and royalty agreements

Unproven mining properties and royalty agreements, including mineral licences which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

Exploration and evaluation assets

All costs associated with mining development and investment are capitalised on a project-by-project basis pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overheads. When a decision is made to proceed to development, the related expenditures will be transferred to proven mining properties. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the company, the related costs will be written off.

The recoverability of exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

Related party transactions

IAS 24, 'Related Party Disclosures', requires the disclosure of the details of transactions between the reporting entity and related parties. In the consolidated financial statements, all transactions between Group companies are eliminated.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

1. Principal accounting policies continued

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

In relation to the disclosures made in note 14 and note 24:
The Group does not hold or issue derivative financial instruments for trading purposes.

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group did not have any financial assets designated as held to maturity, held for trading nor has it designated any financial assets as being at fair value through profit and loss. Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

The Group's accounting policy for each category is as follows:

Loans and receivables

Loans and receivables (including trade receivables) are measured at initial recognition at fair value and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents comprise cash on hand and demand, deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Available-for-sale

Financial assets designated as available for sale are initially recognised at fair value, being the consideration given including, where appropriate, acquisition costs associated with the investment. The Group's investments in quoted shares are designated as 'available-for-sale' financial assets and are included in non-current assets. Such investments are subsequently carried at fair value, with any gains or losses arising from changes in fair value being recognised in equity. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Fair value is based on market value at the balance sheet date.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of a financial asset classified as available for sale, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as an indicator that the financial asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on financial assets are not reversed through the income statement.

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group classifies all its financial liabilities apart from derivative financial liabilities as held at amortised cost. The Group classifies its derivative liabilities as fair value through profit or loss.

Notes to the Financial Statements continued
for the year ended 31 December 2010

1. Principal accounting policies continued
All financial liabilities including trade payables and borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet.

Share-based payments
The Group issues equity-settled share-based payments to its employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Convertible debt
2010 convertible loan notes
The proceeds received on issue of the Group's 2010 convertible loan notes are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost (see above).

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently re-measured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

2013 convertible loan notes
The proceeds received on the issue of the Group's 2013 convertible loan notes are allocated between the liability and conversion elements. As the conversion price of these loan notes is in sterling whilst the functional currency of the Company is Australian dollars the conversion element of these loan notes is recognised separately in the balance sheet as a derivative financial liability and is valued at fair value with changes to fair value recognised in the income statement as they arise.

Share capital
Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Groups ordinary shares are classified as equity instruments.

For the purposes of the disclosures given in note 18, the Group considers its capital to be total equity. There have been no changes in what the Group considers to be capital since the previous period.

The Group is not subject to any externally imposed capital requirements.

2. Critical accounting estimates and judgements
The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Accounting judgements
(i) Impairment of mining properties
In accordance with the accounting policy stated above, the Group tests annually to see whether mining properties have suffered any impairment. The recoverable amount of cash generating units is the greater of their value in use and fair value less costs to sell. The value-in-use calculations require the use of estimates.

(ii) Income taxes
The Group is subject to income taxes in two jurisdictions and has significant carried forward tax losses. Significant judgement is required in determining provisions for income taxes and in determining deferred tax assets based on assessment of probability that taxable profits will be available against which carried forward losses can be utilised.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income statement in the period in which such determination is made.

2. Critical accounting estimates and judgements continued

Accounting estimates

(i) Provisions for liabilities

As a result of exploration activities the Group is required to make provision for the restoration of mining sites. Refer to note 16.

(ii) Intangible assets arising on acquisition

To the extent that intangible assets arise on acquisition, the Group estimates the economic life of these assets and amortises them over the relevant period. Refer to note 7.

(iii) Share-based compensation

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 19.

(iv) Depreciation on proven mining properties

In order to calculate depreciation on proven mining properties on a unit of production basis, the Group estimates commercially recoverable reserves to be 36.9 million tonnes (2009: 37.6 million tonnes). The recoverable reserves to be used in the calculation are assessed annually. The Cook Mine currently has JORC compliant resources of 406 million tonnes. Refer to note 8.

3. Segmental analysis

The Group has three reportable segments:

- Cook – this segment is involved in the production and sale of coal from the Cook Mine In Australia
- Minyango – this segment is involved in the exploration of coal within the Minyango licence area in Australia
- Head Office Operations – this segment is the head office of the Group

The operating results of each of these segments are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and assess their performance.

The segment results for the year ended 31 December 2010 are as follows:

Year ended 31 December 2010	**Cook A$'000**	**Minyango A$'000**	**Head Office operations A$'000**	**Group A$'000**
Revenue	**92,968**	**–**	**–**	**92,968**
Operating (loss)/profit	**(8,458)**	**(148)**	**(2,782)**	**(11,388)**
Finance expense	**(454)**	**–**	**(10,561)**	**(11,015)**
Finance income	**569**	**66**	**4,647**	**5,282**
Loss before taxation	**(8,343)**	**(82)**	**(8,696)**	**(17,121)**
Taxation	**5,829**	**(206)**	**(325)**	**5,298**
Loss for the year	**(2,514)**	**(288)**	**(9,021)**	**(11,823)**

All revenues in the current and previous year are attributable to three external customers based in Australia.

The segment results for the year ended 31 December 2009 are as follows:

Year ended 31 December 2009	Cook A$'000	Minyango A$'000	Head Office operations A$'000	Group A$'000
Revenue	67,750	–	–	67,750
Operating loss	(15,878)	(85)	(3,829)	(19,792)
Interest expense	(724)	–	(7,078)	(7,802)
Interest income	856	18	2,970	3,844
Loss before taxation	(15,746)	(67)	(7,937)	(23,750)
Taxation	12,282	728	(622)	12,388
Loss for the year	(3,464)	661	(8,559)	(11,362)

Notes to the Financial Statements continued for the year ended 31 December 2010

3. Segmental analysis continued

Other segment items included in the income statement are as follows:

Year ended 31 December 2010	Cook A$'000	Minyango A$'000	Head Office operations A$'000	Group A$'000
Depreciation	(5,153)	–	(1)	(5,154)
Impairments of assets	–	–	–	–
Share based compensation charges	–	–	(33)	(33)
	(5,153)	–	(34)	(5,187)

Year ended 31 December 2009	Cook A$'000	Minyango A$'000	Head Office operations A$'000	Group A$'000
Depreciation	(4,957)	–	(7)	(4,964)
Impairment of assets	–	–	–	–
Share based compensation charges	–	–	(360)	(360)
	(4,957)	–	(367)	(5,324)

The segment assets and liabilities at 31 December 2010 and capital expenditure for the year then ended are as follows:

Year ended 31 December 2010	Cook A$'000	Minyango A$'000	Head Office operations A$'000	Group A$'000
Segment assets	140,150	48,761	1,397	190,308
Segment liabilities	(21,868)	(1,596)	(38,609)	(62,073)
Segment net assets/(liabilities)	118,282	47,165	(37,212)	128,235
Capital expenditure	4,792	–	–	4,792

All material non-current assets other than deferred tax and financial instruments are owned by Australian subsidiaries and located in Australia.

The segment assets and liabilities at 31 December 2009 and capital expenditure for the year then ended are as follows:

Year ended 31 December 2009	Cook A$'000	Minyango A$'000	Head Office operations A$'000	Group A$'000
Segment assets	132,442	48,281	1,520	182,243
Segment liabilities	(20,229)	(1,329)	(30,705)	(52,263)
Segment net assets/(liabilities)	112,213	46,952	(29,185)	129,980
Capital expenditure	2,636	3,472	–	6,108

4. Expense by nature

Administrative expenses:

	2010 A$'000	2009 A$'000
Auditors' remuneration	**333**	344
Depreciation of property, plant and equipment[1]	**124**	126
Staff costs (excluding redundancy costs)	**2,505**	2,464
Redundancy costs	**–**	1,292
Share based payments	**33**	360
Professional and consultancy	**1,964**	1,622
Marketing and promotion	**94**	127
Third party selling costs	**2,696**	2,031
Loss/(profit) on disposal of property, plant and equipment	**1**	(1)
Insurance	**1,760**	1,898
Environment and safety	**401**	289
Training and development	**240**	112
Travel and accommodation	**484**	378
Communication and IT	**217**	268
Property costs	**569**	566
Foreign exchange losses	**548**	2,320
Other expenses	**1,471**	1,509
Total administrative expenses	**13,440**	15,705

1. A$5.0m (2009: A$4.8m) of depreciation on property, plant and equipment was charged to cost of sales.

Audit services:

	2010 A$'000	2009 A$'000
Fee for the audit of annual accounts	**100**	118
Auditing of accounts of associates of the Company under legislation	**99**	70
Other fees to auditors:		
Taxation services	**104**	156
Other	**30**	–
	333	344

Staff costs:

	Group		Company	
	2010 A$'000	2009 A$'000	2010 A$'000	2009 A$'000
Wages and salaries (excluding redundancy costs)	**22,972**	18,779	**373**	618
Redundancy costs	**–**	1,292	**–**	643
Equity settled share based payment expense	**33**	360	**33**	360
Social security costs	**2,294**	2,134	**40**	55
	25,299	22,565	**446**	1,676

The average monthly number of employees (including executive Directors) of the Group and Company during the year is:

	Group		Company	
	2010 Number	2009 Number	2010 Number	2009 Number
Operational	**130**	104	**–**	–
Administration	**28**	35	**7**	7
	158	139	**7**	7

Notes to the Financial Statements continued for the year ended 31 December 2010

4. Expense by nature continued

Key management compensation:

	2010 A$'000	2009 A$'000
Salaries	**1,773**	1,997
Fees	**43**	93
Bonus	**19**	52
Payments for loss of office	**–**	628
Equity settled share based payment expense	**30**	322
Non-cash benefits	**85**	50
Pension costs	**6**	6
Social security costs	**163**	180
	2,119	3,328

The key management figures given above include the Directors, Chief Financial Officer, Commercial Manager and the Logistics Manager.

Directors' emoluments

The Directors' emoluments are disclosed in the Report of the Remuneration Committee on pages 24 to 25. Non-cash benefits received by the Directors are recognised above. No retirement benefits are accruing to Directors under pension schemes. The Directors receive reimbursement for reasonable expenses.

The highest paid Director had emoluments totalling A$521,345.

A$50,421 (2009: A$59,537) was paid to Sierra Consulting in respect of services provided by George Salamis. A$Nil (2009: A$657,217) was paid to Liberty Consulting in respect of services provided by Robert Alford. A$43,303 (2009: A$59,226) was paid to Conister Trust plc in respect of services provided by Stephen Dattels.

5. Finance income and expense

	2010 A$'000	2009 A$'000
Interest expense on borrowings	**(7,324)**	(7,655)
Unwinding of discount on provision	**(159)**	(147)
Loss on revaluation of derivative financial liability	**(3,532)**	–
Total finance expense	**(11,015)**	(7,802)
Foreign exchange gain on borrowing and cash	**4,643**	2,932
Interest income receivable on bank deposits	**639**	912
Total finance income	**5,282**	3,844
Net finance costs	**(5,733)**	(3,958)

The loss on the revaluation of the derivative financial liability has arisen as a result of the accounting treatment applied to the £4.2m 2013 8.5% unsecured loan notes. As the conversion price of these loan notes is in sterling whilst the functional currency of the Company is Australian dollars the conversion element of these loan notes is recognised separately in the balance sheet as a derivative financial liability and is valued at fair value with changes to fair value recognised in the income statement as they arise. This is an accounting charge and therefore has had no impact on cash.

The foreign exchange gains relate primarily to borrowings held in currencies different to the functional currency of the Company. These were previously classified within administrative expenses.

6. Taxation

Tax charged in the income statement

	2010 A$'000	2009 A$'000
Current income tax		
In respect of current year	**314**	622
In respect of prior year	**10**	–
	324	622
Deferred income tax		
In respect of current year	**(6,021)**	(13,363)
In respect of prior year	**399**	353
	(5,622)	(13,010)
Total tax charge	**(5,298)**	(12,388)

Reconciliation of the total tax charge

The tax assessed on the profit on ordinary activities for the period is different from the standard rate of corporation tax in the UK. The charge for the period can be reconciled to the profit per the income statement as follows:

	2010 A$'000	2009 A$'000
Loss before taxation	**(17,121)**	(23,750)
At standard rate of Corporation tax at 28% (2009: 28%)	**(4,794)**	(6,650)
Non-deductible expenses	**2,250**	555
Double tax relief	**–**	(219)
Unutilised losses	**412**	89
Australian withholding tax suffered	**314**	622
Research and development tax concessions	**(3,079)**	(5,961)
Adjustments in respect of previous periods	**399**	353
Higher tax rates on overseas earnings	**(231)**	(867)
Utilisation of brought forward losses	**(560)**	–
Capital allowances in excess of depreciation	**(9)**	(310)
	(5,298)	(12,388)

7. Intangible assets

	Exploration and evaluation costs A$'000	Unproven mining properties A$'000	Royalty agreements A$'000	Trademarks and patents A$'000	Total A$'000
Cost					
At 1 January 2009	4,085	39,109	8,555	5	51,754
Additions	1,443	–	–	16	1,459
At 1 January 2010	**5,528**	**39,109**	**8,555**	**21**	**53,213**
Additions	620	–	–	–	620
At 31 December 2010	**6,148**	**39,109**	**8,555**	**21**	**53,833**
Aggregate impairment/amortisation					
At 1 January 2009	–	–	(8,552)	–	(8,552)
Amortisation for the year	–	–	(1)	–	(1)
Total impairment/amortisation at 1 January 2010	**–**	**–**	**(8,553)**	**–**	**(8,553)**
Amortisation for the year	–	–	(1)	–	(1)
Net book value 2010	**6,148**	**39,109**	**1**	**21**	**45,279**
Net book value 2009	5,528	39,109	2	21	44,660
Net book value 2008	4,085	39,109	3	5	43,202

Notes to the Financial Statements continued for the year ended 31 December 2010

8. Property, plant and equipment

	Land and buildings A$'000	Proven mining properties A$'000	Plant and equipment A$'000	Office and computer equipment A$'000	Furniture and fixtures A$'000	Motor vehicles A$'000	Construction in progress A$'000	Total A$'000
Cost								
At 1 January 2009	1,587	51,744	32,352	512	80	62	1,227	87,564
Additions	3,472	–	–	–	–	–	2,636	6,108
Transferred from construction in progress	–	511	2,987	58	11	29	(3,596)	–
Disposals	–	–	–	–	–	(10)	–	(10)
At 1 January 2010	5,059	52,255	35,339	570	91	81	267	93,662
Additions	–	–	–	5	–	–	4,787	4,792
Transferred from construction in progress	–	–	2,758	38	9	–	(2,805)	–
Disposals	(2)	–	(1)	(5)	–	–		(8)
At 31 December 2010	**5,057**	**52,255**	**38,096**	**608**	**100**	**81**	**2,249**	**98,446**
Depreciation								
At 1 January 2009	242	1,040	5,158	228	76	29	–	6,773
Depreciation charge	143	811	3,904	97	1	8	–	4,964
Disposals	–	–	–	–	–	(10)	–	(10)
At 1 January 2010	385	1,851	9,062	325	77	27	–	11,727
Depreciation charge	143	922	3,987	92	2	8	–	5,154
Disposals	–	–	(1)	(3)	–	–	–	(4)
At 31 December 2010	**528**	**2,773**	**13,048**	**414**	**79**	**35**	**–**	**16,877**
Net Book value 2010	**4,529**	**49,482**	**25,048**	**194**	**21**	**46**	**2,249**	**81,569**
Net Book value 2009	4,674	50,404	26,277	245	14	54	267	81,935
Net book value 2008	1,345	50,704	27,194	284	4	33	1,227	80,791

Company	Office and computer equipment A$'000	Furniture and fixtures A$'000	Total A$'000
Cost			
At 1 January 2009	133	76	209
Additions	–	–	–
Disposals	–	–	–
At 1 January 2010	133	76	209
Additions	–	–	–
Disposals	–	–	–
At 31 December 2010	**133**	**76**	**209**
Depreciation			
At 1 January 2009	122	76	198
Depreciation charge	7	–	7
At 1 January 2010	129	76	205
Depreciation charge	1	–	1
At 31 December 2010	**130**	**76**	**206**
Net book value 2010	**3**	**–**	**3**
Net book value 2009	4	–	4
Net book value 2008	11	–	11

9. Investments in subsidiaries

The investment in Caledon Overseas Holdings Limited is held at the nominal value of £1 (2009: £1).

The Group has the following subsidiary undertakings:

	% interest 2010	% interest 2009	Country of incorporation	Activity
Caledon Overseas Holdings Limited	**100**	100	England	Holding company
Caledon Coal Pty Limited	**100**	100	Australia	Holding company
CC Pty Limited	**100**	100	Australia	Mining production
Mining Technology Partnerships Pty Limited	**100**	100	Australia	Mining technology
Blackwater Coal Pty Limited	**100**	100	Australia	Mining exploration
Caledon MC Jersey Limited	**100**	100	Channel Islands	Holding company
Hazelhurst Holdings Limited	**100**	100	British Virgin Islands	Mining exploration
Finelot Trading Company Limited	**100**	100	England	Non-trading

10. Available-for-sale investments

	Group and Company A$'000
Carrying value	
At 1 January 2009	154
Revaluation of investment	381
Impairment of investment	
At 1 January 2010	**535**
Revaluation of investment	453
At 31 December 2010	**988**

As at 31 December 2010 the market value of the Group's investment in Dynasty Gold Corporation had increased to A$988,175.

11. Deferred tax

Group	**2010 A$'000**	2009 A$'000
Deferred tax assets:		
Arising on employee share options	**168**	168
Employee benefits	**505**	370
Provision for rehabilitation	**108**	60
Tax losses	**37,734**	31,557
Other temporary differences	**188**	126
Total deferred tax assets	**38,703**	32,281
Deferred tax liabilities:		
Depreciation	**(4,188)**	(3,701)
Other temporary differences	**(1,625)**	(1,312)
Total deferred tax liabilities	**(5,813)**	(5,013)
Net deferred tax asset	**32,890**	27,268

A deferred tax asset has been recognised for the benefit of losses carried forward based upon projections prepared by management using assumptions for future commodity prices and production volumes.

Movement on deferred tax

Group	**2010 A$'000**	2009 A$'000
At 1 January	**27,268**	14,258
Amount credited to profit and loss	**5,622**	13,010
At 31 December	**32,890**	27,268

Notes to the Financial Statements continued for the year ended 31 December 2010

12. Inventory

	Group		Company	
	2010 A$'000	2009 A$'000	**2010 A$'000**	2009 A$'000
At cost:				
spare parts and consumables	**3,095**	2,120	**–**	–
	3,095	2,120	**–**	–
At net realisable value:				
Work in progress	**278**	243	**–**	–
Finished goods	**1,953**	2,036	**–**	–
	2,231	2,279	**–**	–
	5,326	4,399	**–**	–

The amount of inventories that were recognised in cost of sales in the year was A$48,000 (2009: A$2.5m).

13. Trade and other receivables

	Group		Company	
	2010 A$'000	2009 A$'000	**2010 A$'000**	2009 A$'000
Current assets:				
Trade receivables	**–**	3,690	**–**	–
Other receivables	**3,346**	400	**64**	37
Prepayments	**835**	740	**54**	85
	4,181	4,830	**118**	122
Non-current assets:				
Amounts owed by subsidiary undertakings	**–**	–	**200,565**	186,375
	–	–	**200,565**	186,375
Total debtors	**4,181**	4,830	**200,683**	186,497

The fair value of receivables is not significantly different from the carrying value.

Amounts owed by subsidiary undertakings relate solely to Caledon Overseas Holdings Limited ('COHL') which pays an interest rate of 9.5% on the element of the loan that is equivalent to the amount remaining as a loan between COHL and Caledon Coal Pty Limited ('CCPL'). This approximates to the market rate of interest. No interest is charged on the balance of this loan as this is considered to be performing the function of equity.

14. Cash and cash equivalents

	Group		Company	
	2010 A$'000	2009 A$'000	**2010 A$'000**	2009 A$'000
Cash at bank and in hand	**3,816**	4,662	**115**	2,343
Restricted use cash	**10,446**	8,941	**–**	–
	14,262	13,603	**115**	2,343

The Group's cash and cash equivalents balances may be analysed between fixed and floating rates by currency as follows:

	2010 A$'000	2009 A$'000
Floating rate cash and cash equivalents		
Australian dollars	**121**	6,625
Sterling	**115**	2,184
US dollars	**3,580**	191
	3,816	9,000
Fixed rate cash and cash equivalents		
Australian dollars	**10,446**	4,603
	14,262	13,603

14. Cash and cash equivalents continued
The interest rate in respect of floating rate assets is based on bank base rates such as LIBOR while the effective interest rate on the fixed rate cash and cash equivalents was 5.89% (2009: 4.07%). Cash is deposited with reputable financial institutions with a high credit rating.

15. Loans and borrowings

	Group		Company	
	2010 A$'000	2009 A$'000	**2010 A$'000**	2009 A$'000
Current loans and borrowings				
Convertible loan	**–**	30,457	**–**	30,457
Polo loan facility	**27,143**	–	**27,143**	–
Asset finance loan	**1,373**	4,706	**–**	–
	28,516	35,163	**27,143**	30,457
Non–current loans and borrowings				
Convertible loan	**3,604**	–	**3,603**	–
Asset finance loan	**1,975**	–	**–**	–
	5,579	–	**3,603**	–
Total loans and borrowings	**34,095**	35,163	**30,746**	30,457

£27.5 million 2010 8.5% unsecured loan notes
On 5 July 2010 the remaining £14.5m loan notes were repaid in full (2009: £18m). The principal terms were as follows:
- Interest is payable at 8.5% per annum, payable semi annually
- The principal is to be repaid on 5 July 2010
- The loan notes can be converted at any time during the period at a conversion price of 50 pence.

During the year £3.5m loan notes were converted into 7m Ordinary Shares at a conversion price of 50 pence.

£4.2 million 2013 8.5% unsecured loan notes
On 5 February 2010 the Company issued £4.2m convertible loan notes. Due to the currency of this loan (GBP) being different to the functional currency of the Company (A$) the convertible element of this loan is recognised as a derivative liability as required under International Financial Reporting Standards. This derivative liability has been revalued, using a valuation model, from A$4.2m in February 2010 to A$7.7m at the year end with an A$3.5m expense being taken to the income statement. This movement in the valuation is primarily due to the rise in the Caledon share price since the issue of the convertible loan. The valuation of the convertible element is judgemental as it is based upon various assumptions which are input into the valuation model.

The principal terms are as follows:
- Interest is payable at 8.5% per annum, payable semi annually
- The principal is to be repaid on 5 February 2013
- The loan notes can be converted at any time during the period at a conversion price of 47.5 pence.

Asset finance loan
Westpac Banking Corporation ('Westpac')
The outstanding portion of the A$9m asset finance facility provided by Westpac was repaid in full in March 2010.

Commonwealth Bank of Australia ('Commonwealth Bank')
The assets financed by Westpac were refinanced by the Commonwealth Bank for A$4.5m for a two-year term at an interest rate of 9.48% p.a. commencing June 2010. The company's ABM25 miner and Prairie haulage system are sold to the bank and leased back from the bank under a hire purchase agreement as security for the loan.

£18 million loan facility from Polo Resources Limited
On 27 April 2010 Caledon entered into a facility agreement relating to a £18m secured term loan facility. The principal terms were as follows:
- Full repayment of loan to be on or before 31 October 2010. This was later extended to 28 February 2011
- The loan was secured against the share capital of Hazelhurst Holdings Limited
- Interest was payable monthly at a rate of 10% per annum
- Facility fee of £409,000.

£14.9m of this loan was drawn down on 2 July 2010 and was repaid in full on 4 February 2011 (see notes 22 and 26 for more details).

Notes to the Financial Statements continued
for the year ended 31 December 2010

15. Loans and borrowings continued

A$4 million loan facility from Polo Resources Limited

On 27 April 2010 Caledon entered into a facility agreement relating to a A$4m secured term loan facility. A$3.1m of these funds were used to lodge a bid bond in respect of the Wiggins Island Commitment Deed. The balance was used to contribute to the Group's share of Wiggins Island project design and implementation costs. The principal terms were as follows:

- Full repayment of loan to be on or before 31 October 2010. This was later extended to 28 February 2011.
- The loan was secured against the share capital of Hazelhurst Holdings Limited.
- Interest was payable monthly at a rate of 10% per annum.
- Arrangement fee of 8%.

This loan was drawn down in full on 23 July 2010 and was repaid in full on 4 February 2011 (see notes 22 and 26 for more details).

16. Provisions

Group	Employee A$'000	Rehabilitation A$'000	Total A$'000
At 1 January 2009	751	1,838	2,589
Additional provisions raised	2,348	–	2,348
Unwinding of discount	–	147	147
Amounts used	(1,837)	–	(1,837)
At 1 January 2010	**1,262**	**1,985**	**3,247**
Additional provisions raised	462	–	462
Unwinding of discount	–	159	159
At 31 December 2010	**1,724**	**2,144**	**3,868**

In accordance with Queensland state government legislative requirements, a provision for mine rehabilitation has been recognised in relation to the Group's coal mining operations. The basis of accounting for mine rehabilitation is shown in the principal accounting policies.

Employee provisions relate to annual leave entitlements for employees based in Australia.

Provisions are expected to be utilised as follows:

	Group		Company	
	2010 A$'000	2009 A$'000	**2010 A$'000**	2009 A$'000
Current liabilities	**1,896**	1,421	**–**	–
Non-current liabilities	**1,972**	1,826	**–**	–
	3,868	3,247	**–**	–

17. Trade and other payables

	Group		Company	
	2010 A$'000	2009 A$'000	**2010 A$'000**	2009 A$'000
Trade payables	**1,285**	1,884	**2**	14
Other payables	**774**	461	**–**	–
Other taxation and social security	**190**	122	**13**	15
Accruals and deferred income	**8,395**	6,373	**195**	219
	10,644	8,840	**210**	248

The fair value of payables is not significantly different from the carrying value.

18. Share capital

	2010 No.	2009 No.
Authorised:		
Ordinary Shares of 0.5 pence each	**446,745,231**	446,745,231
Issued and fully paid:		
Ordinary Shares of 0.5 pence each	**224,633,849**	209,983,849

18. Share capital continued

	2010 £'000	2010 A$'000	2009 £'000	2009 A$'000
Authorised:				
Ordinary Shares of 0.5 pence each	**2,234**	**–**	2,234	–
Issued and fully paid:				
Ordinary Shares of 0.5 pence each	**1,123**	**2,470**	1,050	2,345

Share issues during the year

Ordinary shares

	No.	Exercise/ share issue price A$	A$'000
At 1 January 2009	209,323,849		2,338
Options exercised	410,000	0.36	4
Options exercised	250,000	0.21	3
At 1 January 2010	**209,983,849**		**2,345**
Options exercised	**250,000**	**0.18**	**2**
Options exercised	**300,000**	**0.33**	**3**
Conversion of 2010 loan notes	**6,800,000**	**0.82**	**56**
Conversion of 2010 loan notes	**200,000**	**0.88**	**2**
Placing of new Ordinary Shares	**7,100,000**	**0.53**	**62**
At 31 December 2010	**224,633,849**		**2,470**

Capital

As described in note 1 the Group considers its capital to comprise total equity. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through capital growth in the short term and both capital growth and distributions in the medium to long term. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, for example through altering its dividend policy, new share issues, or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives. The Group considers a gearing ratio of up to 20% to be acceptable depending on the relative costs of debt and equity at the time.

The Group's gearing ratio at the balance sheet date is shown below:

	2010 A$'000	2009 A$'000
Cash and equivalents (including restricted use cash)	**(14,262)**	(13,603)
Convertible loan	**3,604**	30,457
Short term loan facilities	**27,143**	–
Asset finance loan	**3,348**	4,706
Net debt/(funds)	**19,833**	21,560

	2010 A$'000	2009 A$'000
Share capital	**2,470**	2,345
Share premium	**154,925**	145,458
Other reserves	**(206)**	(206)
Revaluation reserve	**834**	381
Option premium on convertible loan	**–**	10,229
Foreign currency translation reserve	**11,414**	11,414
Retained earnings	**(41,202)**	(39,641)
Total capital	**128,235**	129,980
Gearing ratio	**15%**	16%

Notes to the Financial Statements continued for the year ended 31 December 2010

19. Share based payments

The Finelot[3] plc Unapproved 2000 Discretionary Share Option Scheme ('Option Scheme') was adopted on 21 September 2000 and is not approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988. The Option Scheme is governed by Rules and is administered by the Directors of the Company, or a duly authorised committee thereof. The principal terms of the Share Option Scheme were amended pursuant to a resolution of the Directors dated 17 March 2003. The amendments made to the scheme were: (1) amending the definition of 'Employee' so that it includes Directors and Non-Executive Directors; and (2) amending rule 2.2 of the scheme so that in relation to the grant of options over a total of 1,750,000 shares to certain Directors and employees the price at which such option could be exercised should be determined by the Directors rather than being fixed by the rules of the Share Option Scheme.

On 14 December 2006 this scheme was closed. On the same date the Company adopted the Caledon Resources PLC 2006 Share Option Scheme (the 'New Share Option Scheme'). The New Share Option Scheme was not approved by HM Revenue & Customs, and provides incentives by way of options granted with an exercise price equal to market value of the relevant shares (as at the date of grant). A summary of the principal terms of the New Share Option Scheme is set out below.

Administration

The Company's Remuneration Committee (the 'Committee') is responsible for administering the New Share Option Scheme. Grant of options and eligibility Options to acquire shares in the Company may be granted under the New Share Option Scheme to any employee or Executive Director of the Company or its subsidiaries.

Period for the grant of options

Options can be granted within 42 days following the announcement of the Company's interim and/or final results for any period. In exceptional circumstances, options may be granted at other times.

Exercise price

The option exercise price per Ordinary Share is determined by the Committee but will be no less than the market value (or its nominal value, if higher) of the Ordinary Shares on the date of grant (with market value being taken as the average midmarket closing price for the three immediately preceding dealing days).

Performance test

The Committee shall impose objective conditions on the exercise of options based on corporate financial performance.

On 26 May 2008 the Company granted 2,779,714 share options to the Directors and senior management under the New Share Option Scheme. The share options were granted at an exercise price of 74 pence and were granted subject to certain performance conditions. Subject to these being satisfied the share options would vest and could be exercised as follows:

- as to one-third of the total number of Ordinary Shares originally subject to the share options granted on the first anniversary of the date of grant;
- as to one-third of the total number of Ordinary Shares originally subject to the share options granted on the second anniversary of the date of grant; and
- as to the remainder, on the third anniversary of the date of grant.

As the performance criteria in respect of these options granted to Directors and staff have not been met in full, only 143,273 of the options granted to staff are capable of being exercised other than in the event of a subsequent change in control of the company.

3 The share option scheme was adopted when the Company was called Finelot plc. On 14 April 2003 the Company changed its name to Caledon Resources plc

19. Share based payments continued

The following options are outstanding for Ordinary Shares:

	Options at 01.01.09	Options granted	Options lapsed	Options exercised	Options at 01.01.10	Options lapsed	Options exercised	**Options at 31.12.10**	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors	250,000	–	–	–	250,000	–	–	**250,000**	10.00p	11.04.03	11.04.04	11.04.13
Other	250,000	–	–	–	250,000	–	–	**250,000**	10.00p	11.04.03	11.04.04	23.04.11
Directors	600,000	–	–	–	600,000	–	–	**600,000**	15.00p	29.04.03	29.04.04	29.04.13
Directors	350,000	–	–	–	350,000	–	–	**350,000**	18.75p	22.11.05	22.11.06	22.11.15
Directors	3,198,791	–	–	–	3,198,791	–	–	**3,198,791**	40.00p	14.12.06	14.12.06	14.12.13
Other	250,000	–	–	–	250,000	–	–	**250,000**	40.00p	14.12.06	14.12.06	30.04.11
Other	125,000	–	–	–	125,000	–	–	**125,000**	40.00p	14.12.06	14.12.06	23.04.11
Directors	739,265	–	–	–	739,265	–	–	**739,265**	74.00p	26.05.08	26.05.09	26.05.18
Staff	150,000	–	–	–	150,000	–	–	**150,000**	16.25p	19.08.05	19.08.06	19.08.15
Staff	150,000	–	–	–	150,000	–	–	**150,000**	18.75p	22.11.05	22.11.06	22.11.15
Staff	426,505	–	–	–	426,505	–	–	**426,505**	40.00p	14.12.06	14.12.06	14.12.13
Staff	120,000	–	–	–	120,000	–	–	**120,000**	63.75p	22.09.03	22.09.04	22.09.13
Staff	1,190,000	–	–	–	1,190,000	–	–	**1,190,000**	74.00p	26.05.08	26.05.09	26.05.18
Other	250,000	–	–	(250,000)	–	–	–	**–**	10.00p	11.04.03	11.04.04	18.03.09
Other	250,000	–	–	–	250,000	–	(250,000)	**–**	10.00p	11.04.03	11.04.04	23.01.10
Other	250,000	–	–	–	250,000	–	–	**250,000**	10.00p	11.04.03	11.04.04	23.04.11
Other	410,000	–	–	(410,000)	–	–	–	**–**	16.25p	19.08.05	19.08.06	18.03.09
Other	616,667	–	(616,667)	–	–	–	–	**–**	18.75p	22.11.05	22.11.06	18.03.09
Other	300,000	–	–	–	300,000	–	(300,000)		18.75p	22.11.05	22.11.06	23.01.10
Other	200,000	–	(200,000)	–	–	–	–	**–**	40.00p	14.12.06	14.12.06	18.03.09
Other	2,132,527	–	–	–	2,132,527	(2,132,527)	–	**–**	40.00p	14.12.06	14.12.06	23.01.10
Other	125,000	–	–	–	125,000	–	–	**125,000**	40.00p	14.12.06	14.12.06	23.04.11
Other	250,000	–	–	–	250,000	–	–	**250,000**	40.00p	14.12.06	14.12.06	30.04.11
Other	160,000	–	(160,000)	–	–	–	–	**–**	63.75p	22.09.03	22.09.04	18.03.09
Other	450,449		(450,449)	–	–	–	–	**–**	74.00p	26.05.08	26.05.09	23.01.10
Total	**12,569,204**	**–**	**(1,427,116)**	**(660,000)**	**10,482,088**	**(2,132,527)**	**(550,000)**	**7,799,561**				

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted.

The total fair value of options issued is spread over the vesting period of the options. The share-based payment charge for the year was A$33,000 (2009: A$360,000).

The expected life of the options is based on academic research and is not necessarily indicative of exercise patterns that may occur. Volatility is calculated with reference to comparative entities share price volatility and reflects the assumption that the comparator's volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

20. Reserves

The following describes the nature and purpose of each reserve within owners' equity.

Share premium	Amount subscribed for share capital in excess of nominal value.
Capital reserve	Amounts resulting from the merger of subsidiary investments.
Foreign currency translation reserve	Gains/losses arising on retranslating the net assets of overseas operations into sterling.
Option premium on convertible loan	Amount of proceeds on issue of convertible debt relating to the equity component (i.e. option to convert the debt into share capital).
Revaluation reserve	Gains/losses arising on the revaluation of the Group's investments available-for-sale.
Retained earnings	Cumulative net gains and losses less distributions made.

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The Company's loss for the year was A$5,572,000 (2009: loss A$1,699,000).

Notes to the Financial Statements continued
for the year ended 31 December 2010

21. Loss per Ordinary Share

Basic loss per share ('LPS') is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares outstanding during the year.

In order to calculate diluted LPS, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares according to IAS 33. Dilutive potential Ordinary Shares include the convertible loan notes and share options granted to employees and Directors where the exercise price (adjusted according to IAS 33) is less than the average market price of the Company's Ordinary Shares during the year. In 2010 the potential Ordinary Shares are anti-dilutive and therefore diluted LPS has not been calculated. At the balance sheet date there were 16,641,666 (2009: 44,542,823) potentially dilutive Ordinary Shares.

	2010			2009		
	Loss A$'000	**Weighted Average number of shares (thousands)**	**Per share amount (cents)**	Loss A$'000	Weighted average number of shares (thousands)	Per share amount (cents)
Basic LPS						
Loss attributable to ordinary shareholders	**(11,823)**	**218,948**	**(5.4)**	(11,362)	209,884	(5.4)
Diluted LPS	**(11,823)**	**218,948**	**(5.4)**	(11,362)	209,884	(5.4)

22. Related party transactions

IAS 24 'Related Party Transactions' requires the disclosure of the details of material transactions between the reporting entity and related parties. Details of transactions with Polo are disclosed below. Details of key management remuneration is included in the financial statements.

Polo Resources Limited ('Polo')

Relationship agreement

Caledon entered into a relationship agreement on 22 July 2008 ('Agreement') with Polo. This Agreement deals with certain aspects of the relationship between the Company and Polo, so as to ensure that the Company and its subsidiaries are operated independently from Polo and companies associated with it ('Polo Companies'). The Agreement also imposes share dealing restrictions on the Polo Companies at times when any Director of the Company, who has a business relationship with any Polo Company or who is nominated or proposed to the Board by any such party ('Non-Independent Director'), is in possession of unpublished price sensitive information or inside information in relation to the Company.

This agreement was terminated on 24 June 2010.

Purchase of loan notes

On 11 February 2010 Polo acquired £2.5m, 2013 8.5% unsecured loan notes of the Company. For further information see note 9.

On 4 March 2009 Polo acquired £4.7m, 2010 8.5% unsecured convertible loan notes of the Company. These notes were repaid in full on 5 July 2010.

Caledon – Polo Merger

On 27 April 2010 the Company entered into discussions with Polo for the potential combination of the two companies. Under the terms of the possible offer and subject to a number of pre-conditions, Polo would be prepared to make an all share offer for the entire issued and to be issued share capital of Caledon.

Additionally, Caledon and Polo entered into two loan facility agreements ('Loan Facilities'). Under the first agreement, Polo provided a short term credit facility for up to £18m to Caledon to be used, if required, to aid funding of the repayment of Caledon's 8.5 per cent convertible loan notes due 5 July 2010. Under the second agreement, Polo provided a credit facility for up to A$4m to Caledon to be used, if required, in the potential lodgement of a bid bond associated with the Wiggins Island tonnage allocation process. See notes 15 and 26 for further details.

On 24 June 2010 the Company and Polo jointly agreed to terminate the merger discussions. This was primarily due to market volatility which prevented the parties from reaching mutually agreeable terms for any such merger.

On 30 June 2010 the Company issued 7,100,000 new ordinary shares to Polo at 30 pence per share.

23. Lease commitments

Operating lease commitments – minimum lease payments

Finance lease commitments – minimum lease payments

The outstanding portion of the asset finance loan secured from Westpac in March 2008 was refinanced in March 2010 by a A$4.5m loan from Commonwealth Bank. See note 15 for more information.

Future minimum lease payments as at 31 December 2010 are as follows:

	2010 A$'000	2009 A$'000
Within one year	**1,619**	4,743
After one year but not more than five years	**2,038**	–
Minimum lease payments	**3,657**	4,743
Less future finance charges	**(309)**	(37)
Present value of minimum lease payments	**3,348**	4,706

The present value of future lease payments are analysed as:

	2010 A$'000	2009 A$'000
Current liabilities	**1,373**	4,706
Non-current liabilities	**1,975**	–
	3,348	4,706

24. Financial instruments

In common with all other businesses, the Group and Company (the 'Group') is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group from which financial instrument risk arises, are as follows:

Group

	2010 A$'000	2009 A$'000
Loans and receivables at amortised cost		
Trade and other receivables	**3,346**	4,090
Cash and cash equivalents (including restricted use cash)	**14,262**	13,603
Available for sale investment	**988**	535
Financial liabilities held at amortised cost		
Trade and other payables	**10,454**	8,718
Borrowings	**34,095**	35,163

Company

	2010 A$'000	2009 A$'000
Loans and receivables at amortised cost		
Trade and other receivables	**64**	37
Cash and cash equivalents	**115**	2,343
Available for sale investment	**988**	535
Financial liabilities held at amortised cost		
Trade and other payables	**197**	233
Borrowings	**30,747**	30,457

Notes to the Financial Statements continued
for the year ended 31 December 2010

24. Financial instruments continued

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk arises principally from the Group's trade receivables and investments in cash deposits. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument.

The Group holds its cash balances across more than six bank accounts with two different banks in the UK and Australia. The Group seeks to deposit cash with reputable financial institutions with strong credit ratings.

Trade receivables

The Group generated the vast majority of its revenue from two customers. These customers are well established businesses with excellent credit ratings, therefore no allowances for credit losses on trade receivables are made. On average trade receivables are settled within 30 days from the date the invoice is issued.

The maximum exposure to credit risk equals the carrying value of these items in the financial statements.

The Board receives monthly reports summarising the turnover and trade receivable balance of the Group's operating activities in Australia.

The following table illustrates the concentrations of credit risk within the Group as at the balance sheet date.

Revenue and trade receivables aging

	Revenue	Trade receivables			
	A$'000	Total A$'000	Current A$'000	30 days past due A$'000	60 days past due A$'000
2010	**92,968**	**–**	**–**	**–**	**–**
2009	67,750	3,690	3,690	–	–

There are no external revenue or trade receivables in the Company.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of one year. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on its long-term borrowings, this is further discussed in the interest rate section below.

On 5 February 2010 the Company raised £4.2m of debt finance to provide additional working capital for the Company including the potential lodging/lodgement of a bid bond associated with the Wiggins Island tonnage allocation process. For further information see note 15.

24. **Financial instruments** continued

The Board receives cash flow projections on a monthly basis as well as information on cash balances.

Maturity analysis

Group

2010	**Total A$'000**	**on demand A$'000**	**in 1 month A$'000**	**Between 1 and 6 months A$'000**	**Between 6 and 12 months A$'000**	**Between 1 and 3 years A$'000**
Trade and other payables	**10,644**	**471**	**8,123**	**2,050**	**–**	**–**
Borrowings	**34,095**	**–**	**–**	**27,143**	**1,373**	**5,579**

2009	Total A$'000	on demand A$'000	in 1 month A$'000	Between 1 and 6 months A$'000	Between 6 and 12 months A$'000	Between 1 and 3 years A$'000
Trade and other payables	8,840	471	4,821	3,548	–	–
Borrowings	35,163	–	–	4,706	30,457	–

Company

2010	**Total A$'000**	**on demand A$'000**	**in 1 month A$'000**	**Between 1 and 6 months A$'000**	**Between 6 and 12 months A$'000**	**Between 1 and 3 years A$'000**
Trade and other payables	**210**	**–**	**210**	**–**	**–**	**–**
Borrowings	**30,747**	**–**	**–**	**27,143**	**–**	**3,604**

2009	Total A$'000	on demand A$'000	in 1 month A$'000	Between 1 and 6 months A$'000	Between 6 and 12 months A$'000	Between 1 and 3 years A$'000
Trade and other payables	248	–	29	219	–	–
Borrowings	30,457	–	–	–	30,457	–

The Group endeavours to match the maturity of its current assets with its current liabilities to mitigate liquidity risk.

Market risk

Market risk arises from the Group's use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). A 0.5% increase in the interest rates will increase interest income and pre-tax profits by A$62,000 (2009: A$136,000). Borrowings at fixed rates will not be affected by movements in interest rates.

Consistent with industry practice, the Group enters into contracts with customers for the supply of coal at fixed prices into the future. Inherently, fluctuations in market prices may affect the profitability of these contracts.

Interest rate risk

It is the Group's policy to eliminate interest rate risk over the cash flows on its long-term debt finance through the use of fixed rate instruments such as its 8.5% convertible loan.

Fixed floating rate financial assets

Note 14 provides an analysis of the Group's fixed and floating financial assets.

Interest rate risk profile and maturity analysis of financial liabilities

Note 15 provides an analysis of the Group's fixed and floating financial liabilities. As at 31 December 2010 there were liabilities of A$34.1m at fixed interest rates (2009: A$35.2m) of which A$28.5m fall due within one year (2009: A$35.2m) and A$5.6m falls due after more than one year (2009: A$nil).

Currency risk

The Group is exposed to currency risk through its revenues arising in US dollars and its loan notes and head office costs being in sterling within entities that have Australian Dollar functional currencies. The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (primarily Australian dollars) with the cash generated from their own operations in that currency.

Notes to the Financial Statements continued for the year ended 31 December 2010

24. Financial instruments continued

The Group has no formal policy in respect of foreign exchange risk, however, it reviews its currency exposures on a monthly basis. Currency exposures relating to monetary assets held by foreign operations are included within the Group Income Statement. The Group also manages its currency exposure by retaining the majority of its cash balances in Australian dollars and sterling, being relatively stable currencies.

The Group is exposed to currency risk on its revenues as the price of coal is denominated in US Dollars. The Group has not hedged against this risk as it is not currently practical. The Group monitors the exchange rate between the US and Australian Dollar on a monthly basis to determine whether there is a need to hedge against this risk.

A US10 cent increase in the value of the Australian dollar against the US dollar will decrease revenues and pre-tax profits by A$8.3m (2009: A$6.8m).

A 5 pence decrease in the value of the Australian dollar against pound sterling will increase both the 2013 loan note liability and Polo short term loan facility and decrease pre-tax profits by A$2.2m (2009: A$3.4m).

Currency exposures

In so far as is possible the Group manages its foreign currency exposures by minimising cross currencies and retaining cash balances in strong, stable currencies.

	2010 A$'000's Assets/(liabilities) held			2009 A$'000's Assets/(liabilities) held		
Group	**£GB**	**US$**	**CA$**	£GB	US$	CA$
Australian dollars	**(34,377)**	**3,580**	**988**	(28,400)	3,821	535

	2010 A$'000's Assets/(liabilities) held			2009 A$'000's Assets/(liabilities) held		
Company	**£GB**	**US$**	**CA$**	£GB	US$	CA$
Australian dollars	**(34,377)**	**–**	**988**	(28,400)	–	535

Fair value

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates and by applying year end exchange rates.

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of bank loans and other loans due in more than one year the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The fair value of available for sale financial assets are determined by reference to the share price at the year end date. The only available for sale financial asset was quoted on a stock exchange, this qualifies as tier one valuation under IFRS 7.

The fair value of the derivative financial liability is determined by reference to a valuation model at the year end date. This qualifies as tier three valuation under IFRS 7.

Borrowing facilities

The Group had no undrawn committed borrowing facilities available at 31 December 2010 (2009:nil).

25. Contingent liabilities

Rail Freight Agreement

The Group has a contract for railing of 500kt of coal each year from the mine site to the port. To the extent that the Group rails less than 500kt in any financial year the Group is liable to pay 'take or pay' penalties at the rate of approximately A$5.57/t (2009: A$5.80/t) on the shortfall below the contract quantity. It should be noted that the Group frequently rails coal using third party rail freight contractual entitlements and is therefore able to rail more than the Group contract tonnage in any year, but may be liable for take or pay charges even when Group railings exceed the Group rail contract tonnage.

25. Contingent liabilities continued

Wiggins Island Coal Terminal Project

The Group is engaged as a participant in the Wiggins Island Coal Terminal project. The participation contract provides that the cost of the project will be borne by the ultimate participants in the project in the form of a fee for service, provided that the project proceeds.

If the project does not proceed or if the Group withdraws from the project then the Group will be required to finance its share of the feasibility and design costs incurred.

Potential liabilities as at 31 December on account of feasibility and design costs comprised:

- A$2.9m (2009: A$2.5m) funded by the State of Queensland and secured by bank guarantees
- A$3.0m (2009: A$ nil) advanced to the WICET consortium, treated as a debtor in the accounts, which would not be recoverable if the project did not proceed.

The Group has also provided an A$3.1m (2009: A$ nil) bid bond bank guarantee to the WICET consortium which will be forfeited if the Group fails to execute a take or pay agreement.

26. Events after the reporting date

£48 million private placing

On 13 January 2011, Caledon announced a conditional placing ('Placing') with institutional investors of 54,000,000 new Ordinary Shares of 0.5p or CHESS Depositary Interests at a price of 90p or A$1.42. On 19 January 2011, 16,847,577 Ordinary Shares were allotted in accordance with the authority granted by shareholders at the Company's Annual General Meeting held on 30 June 2010, and these shares were admitted to trading on AIM on that day. Allotment of the balance of the Placing, amounting to 37,152,423 Ordinary Shares, was approved by shareholders at a General Meeting held on 3 February 2011, and 37,152,423 Ordinary Shares were allotted and admitted to trading on AIM on 4 February 2011.

The Placing raised a total of £48.6m, net proceeds of issue amounting to £46.0m. Following repayment on 4 February 2011 of approximately £18.3m of loans due to Polo, including accrued interest and associated fees and expenses, (details below), Caledon expects to use the remaining proceeds to provide working capital to cater for business interruptions caused by flooding in the Queensland region and meet the Company's funding obligations for the Wiggins Island Coal Export Terminal prior to the project's financial close scheduled for April 2011.

Repayment of Polo loan facilities

Following the subscription by Polo Resources Limited for 21,226,324 shares in the Placing, the amount due from Polo to Caledon in respect of this subscription was set off against the amount due by Caledon to Polo under the Loan facilities of £14.5m and A$4m due 28 February 2011 (and described further in notes 9 and 13 to these accounts), together with the associated fees and interest, totalling A$29.3m (£18.3m).

Wiggins Island Coal Terminal Project

In the three months to 31 March 2011 the Group advanced a further A$1.9m to WICET as part of its contribution to feasibility and design costs bringing the total loan amount to A$4.9m. The balance of this loan amount at financial close will either be repaid by WICET or offset against the preference equity subscription referred to below.

Caledon entered into a Subscription Agreement in March 2011 for up to A$37m in preference equity as part of the WICET fund raising campaign. How much of this subscription is actually taken up at financial close will depend on the level of third party interest in this instrument. The Company provided A$10.2m collateral in support of this subscription.

Exercise of Share Options

In March 2011, 166,667 options over Ordinary Shares of 0.5 pence each ('Ordinary Shares') were exercised by employees under the Company's 2000 Discretionary Share Option Scheme. The 166,667 Ordinary Shares will rank *pari passu* with existing Ordinary Shares.

Notes

Designed and produced by **Emperor Design Consultants Ltd**
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