

Identifying and exploiting potential

Annual Report and Accounts
for the year ended 31 December 2004



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Caledon Resources PLC is a China-focused gold explorer, possessing an attractive portfolio of advanced stage exploration projects in China.



INTRODUCTION

Caledon Resources' primary aim is to enhance shareholder value through the evaluation of under-explored gold districts in Asia. The company is currently focused on project evaluations and exploration for gold deposits throughout China. In the past, the group's target of choice has been sediment hosted disseminated ('Carlin-type') gold deposits situated in southern China, although other styles of mineralisation are now being assessed if they have multi-million ounce potential.

Caledon's principal area of focus is the Golden Triangle region of Southern China, having focused to date on Guangxi and Yunnan Provinces. In addition to on-going exploration in Southern China at projects such as Mojiang the group has opened other avenues of growth, through investments in Afcan Mining and Dynasty Gold Corporation, advanced resource explorers in China.

On Afcan's TJS Gold Project, situated in Qinghai Province, the company has recently announced results from a positive Bankable Feasibility Study, demonstrating sustainable future gold production of 140,000 ounces per year over an 8 year mine life. Afcan is on-track to develop their gold mine in 2005.

At Dynasty's Hatu gold project, situated in Xinjiang Province, the company has been able to demonstrate gold potential of 1.2 to 1.7 million ounces. Dynasty is in the process of upgrading their resource classification at Hatu, in addition to advancing their other highly prospective properties in Western China.

Caledon, through its partnership with the Chenghua Group, is also evaluating a number of advanced acquisition opportunities in various parts of China. Our partners at Chenghua have the access to negotiate joint venture deals on at least 20 existing mines and advanced projects in China.



CHAIRMAN'S REPORT: ROBERT J ALFORD

A year of achievement and a platform for growth

The company has made significant strides in gold exploration and in its new objective of investments in junior mining companies operating in China, although I acknowledge it may have been a frustrating year for some shareholders. However, I am confident that we have prepared a platform for growth and will reward our investors in the foreseeable future.

On our first priority, that of gold exploration where our operating management had a head start on most western competitors, we have made considerable progress. We systematically generated exploration targets in the field, mapping, sampling, trenching, and advancing all of our projects to an initial drilling stage. Four separate projects were drilled in 2004, using four imported drill rigs, drilling over 6,000 metres in two provinces. This represents a creditable achievement, considering the geographic spread of the projects and the logistical challenges. We owe a tribute to our field crews for their efforts.

A combination of persistence and a systematic approach to exploration has paid off. Relative success in the field was met in the initial reconnaissance drilling phases at Hengxian, Gaolong and Badu. But huge success was achieved at our Mojiang gold project in Yunnan province, surpassing management's expectations on the first pass of drilling. Our exploration team could not recall a drill programme in which 100 per cent of the first pass reconnaissance drill holes had intercepted economic grades over such extensive widths.

ENHANCED GROWTH STRATEGY

On the corporate front, persistence has also paid off by the effective broadening of our strategy vis-à-vis the Chinese resource sector. One year ago, Caledon was an exploration-only junior resource company. Realising the risks involved in an exploration-only approach, Caledon has since evolved into a company with wider interests in the fragmented Chinese resource sector, which should provide a platform for future expansion.

We have adopted a strategy that gives our shareholders increased leverage to the Chinese resource sector through a balanced combination of exploration, together with strategic investments in other China juniors and through the pursuit of opportunistically driven acquisitions in China. This strategy was initiated midway through the year, followed by the announcement of several strategic investments made in China resource explorers.

In mid-2004, Caledon's management recognised the value and upside potential in the Tanjianshan Gold Project, Quinghai province, owned by Toronto Stock Exchange listed Afcan Mining (TSX: AFK). Between then and now the resource and estimated reserves have risen from 600,000 to 1.3 million ounces following a positive feasibility study. Caledon acquired a 19 per cent stake in Afcan with an option to increase to 26 per cent through the exercise of warrants on or prior to 19 November 2006. At the year end the investment had a market value of approximately £3.5m, £0.8m above its cost in our balance sheet. In December 2004 Caledon negotiated another strategic investment in Dynasty Gold (TSX.V: DYG), where it agreed to purchase a 15 per cent stake in the emerging Chinese resource explorer. Dynasty owns an excellent portfolio of properties in western China. The investment in Dynasty was completed after the year end in January 2005.



“The company has made significant strides in gold exploration and in its new objective of investments in junior mining companies operating in China.”

ROBERT J ALFORD CHAIRMAN

**CALEDON RESOURCES
2005 OUTLOOK**

Caledon signed a letter of intent on 14 March 2005 with Toronto Stock Exchange listed Butler Developments Corporation ('Butler') (TSX-V: BTB). The letter of intent grants Butler an option to acquire the group's existing Guangxi province gold projects, including Hengxian, Gaolong and Badu. The deal excludes the advanced stage Mojiang gold project situated in Yunnan.

On completion of the above transaction the majority of the company's resources will be focused on advancing Mojiang where the company expects to continue drilling throughout 2005. Several drill rigs are at work on the project and continue to define broad and continuous zones of low-grade non-refractory gold, enveloping more restricted zones of bonanza-grade gold. At Mojiang we expect to be at an inferred resource stage, by the end of the current year.

The company will also continue to pursue a number of opportunities on the advanced project acquisition front in China, through its partners at the Chenghua group and through other means. The network of connections that we have established will also facilitate the search for such acquisitions. In addition, the company is studying further strategic investment alternatives in the Chinese resource sector with private Chinese and with publicly traded western juniors, which could enhance shareholder value in the long term.

On the management side, Stephen Dattels stepped down as chairman to pursue his other activities. Part of the original founding group and a key driver during the company's initial phase, he felt that his work had been largely done. His talent and enthusiasm will be missed by all. I have accepted the role of chairman on an interim basis and the company is actively looking for a permanent chairman with relevant mining experience.

In December 2004 the company appointed Canaccord Capital (Europe) Limited as its nominated advisor and stockbroker. Canaccord are the largest mining finance stockbroking firm in London. We look forward to working closely with them in the future.

We now have multiple growth avenues to pursue and much work ahead of us. Systematically, we will explore growth avenues on all fronts; exploration, strategic investments and acquisitions.

**ROBERT J ALFORD
CHAIRMAN**

11 April 2005



OPERATIONAL REPORT AND REVIEW

We have fulfilled the obligations and commitments made to our Chinese partners to conduct intensive exploration programmes on all of our projects. This included the training and employment of a China based workforce, the importing of four drill rigs, the drilling of over 6,000 metres at four separate projects and the collecting of over 12,000 samples, leading to successful results at most of our projects.



DECEMBER

Caledon announces intention to take a stake in Dynasty Gold Corp

Caledon agreed to purchase a stake in China gold resource explorer Dynasty Gold (TSX.C: DYG). Dynasty Gold are the largest mineral title holders in China, focusing on the prolific gold districts in the northwest. At Dynasty's Hatu gold project, situated in Xinjiang Province, the company has been able to demonstrate gold potential of 1.2 to 1.7 million ounces. Dynasty is in the process of upgrading their resource classification at Hatu, in addition to advancing their other highly prospective properties in Western China.



DECEMBER

Completion of JV at Mojiang

Caledon concludes its Joint Venture with the Mojiang Mining Company at the Mojiang gold project, situated in southwest Yunnan. The conclusion of this agreement paves the way for the initiation of a first pass reconnaissance drill programme on the project. Initial results were highly encouraging, with all holes drilled by Caledon reporting consistent near surface economic gold mineralisation over widths ranging from 16 metres to a maximum of 72 metres.

NOVEMBER

Drilling Results – Golden Triangle Projects, China

In November 2004, Caledon released results from the Gaolong, Badu and Hengxian projects. All three projects reported low grade gold intercepts over widths of up to 40 metres. Additional zones were identified and follow-up drill work was planned.



NOVEMBER

Caledon completes placement in emerging Chinese gold producer Afcan Mining

In an effort to broaden and diversify our China portfolio, Caledon completed its first investment in Canadian listed China resource explorer, Afcan Mining corporation (TSX:AFK). On Afcan's TJS Gold Project, situated in Qinghai Province, the company has announced results from a positive Bankable Feasibility Study, demonstrating sustainable future gold production of 140,000 ounces per year over an eight year mine life. Afcan is on track to develop their gold mine in 2005.



SEPTEMBER

Initiation of drilling at Hengxian Gold Project, Guangxi

Work was re-initiated at the Hengxian gold project in Guangxi province. Target areas included areas of near surface mineralisation on extension from the open pits where access was not previously available.

AUGUST

Caledon completes two new deal agreements in China

Caledon completed two transactions in August, 2005. The first was with the Chenghua group, a China based company with access to more than 20 advanced stage and gold producing projects in China.



JULY

Drilling commences at Galong/Badu

A first-pass drill programme was initiated at the Badu and Gaolong gold projects situated in northwest Guangxi province. The programmes targeted areas that had previously been mapped by Caledon's field crews and were known to contain broad zones of low grade, disseminated gold mineralisation. The initiation of drilling represented the culmination of almost one year's worth of field work conducted in the region.

FEBRUARY

Caledon initiates drilling programme at Longtoushan

After a long hiatus on the project caused by delays in the importing of drill rigs into the country, Caledon initiated a drill programme on the Longtoushan gold project. Several holes were drilled from specially prepared underground drill chambers, targeting depth continuity below the main deposit. The drill results quickly showed that the gold zones at Longtoushan lacked economic grades at depth. No further work was proposed at the project.

Led by Paul Ingram and his staff of geologists and technicians, the group can claim that we fulfilled the obligations and commitments made to our Chinese partners to conduct intensive exploration programmes on all of our projects.

The effort conducted in the field during the 2004 field season resulted in the establishment of a strong technical team, the importing of four drill rigs into the country, the drilling of over 6,000 metres at four separate projects in two provinces, and the collecting of over 12,000 samples in the field. In the end, this massive field programme did achieve its intended objective: gold discoveries on most projects tested.

Caledon's management views relationship building as an integral part of project work, not just a corporate function. This excellent relationship that we've developed on the ground as a result of our promises delivered, should pay dividends for years to come for Caledon and its shareholders.

THE PROJECTS

In 2004 we undertook project work in two provinces, field evaluations leading to corporate transactions with Afcan and Dynasty, advanced acquisition-related field evaluations with our partners at Chenghua and reconnaissance field work in proximity to our existing project bases. We are pleased to report successful results from the majority of our projects, with a particular emphasis on the Mojiang project in Yunnan Province.

By consistently intercepting ore-grade and sub ore-grade disseminated gold mineralisation over extensive widths, our drilling on the various projects in the Golden Triangle continues to generate excitement. We believe there is potential for major gold discoveries in the region. The knowledge that we have gained from these first-pass reconnaissance drill programmes will allow us to vector in on specific areas of interest in the follow-up programmes to come in 2005. In general terms, less than 10 per cent of the target areas have been explored in these first rounds of reconnaissance drilling. Caledon has barely scratched the surface on these projects and looks forward to conducting the follow-up exploration work.

| | |
|-----------------------|------------------------------------------------------------|
| PROJECT | MOJIANG |
| DEAL STRUCTURE | 70/30 JOINT VENTURE WITH THE MOJIANG MINING COMPANY |
| LOCATION | YUNNAN PROVINCE, 240 KM SOUTH WEST OF KUNMING |

DESCRIPTION

The Mojiang gold deposit has produced over 300,000 ounces of gold, with recorded mining going back over 500 years. At present, the majority of the gold mining operation is focused on gold production from small scale open pit mining. Gold mineralisation occurs over a strike length of 3,100 metres and ranges in width from 50 to 200 metres. Within this zone, individual ore bodies occur as oxidised near-surface zones that are being mined by open-cut. The open-cut ore averages between 2-3 g/t gold and is largely oxidised. Southeast of the open cut mining, 2 to 10 metres thick, banded quartz lodes averaging 10 g/t gold occur, and present an excellent chance for the discovery of bonanza grade gold deposits.

High grade mineralisation at Mojiang is hosted in a series of moderately dipping veins, displaying classic colloform and crack-seal banded textures. Multiple parallel veins, averaging up to 12 metres wide, have been shown to host grades in excess of 30 g/t. The veins, enveloped by large low grade sulphide breccia haloes, are hosted in sediments and mafic rocks near the contact between thrust Paleozoic sediments and metamorphosed mafic rocks belonging to a regional scale ophiolite complex.

WORK CONDUCTED IN 2004

- Extensive geological mapping and channel sampling work on site.
- Drill pad preparation and road building.
- 13 shallow reverse circulation drill holes for a total of 1,006 metres, drilled.

WORK SUMMARY

All holes drilled by Caledon reported consistent near surface economic gold mineralisation over widths ranging from 16 metres to a maximum of 72 metres. The assays consistently highlighted stacked, sub-horizontally orientated gold mineralised zones associated with low sulphidation epithermal style quartz veins and related breccias. In some cases, bonanza high grades were intercepted over widths in excess of 20 metres, reporting grades of up to 46.67 g/t gold. The widely spaced holes completed



at Mojiang cover a surface strike length of over 650 metres near the crest of Mojiang Hill.

The following tables highlight assay results from channel sampling and drilling at Mojiang:

MOJIANG CHANNEL SAMPLING RESULTS

| Channel Number | Gold Mineralised Interval |
|----------------|---------------------------|
| Channel 1 | 4.64 g/t gold over 24 m |
| Channel 2 | 1.10 g/t gold over 36 m |
| Channel 3 | 2.18 g/t gold over 26 m |
| Channel 4 | 1.33 g/t gold over 50 m |
| Channel 5 | 1.71 g/t gold over 22 m |
| Channel 6 | 1.67 g/t gold over 22 m |
| Channel 7 | 7.75 g/t gold over 2 m |

MOJIANG DRILL RESULTS - PHASE 1 RECONNAISSANCE DRILL PROGRAMME

| hole id | from | to | intercept |
|-----------|------|----|------------------|
| MJRC001 | 0 | 54 | 54 m @ 1.11 g/t |
| MJRC002 | 0 | 20 | 20 m @ 0.91 g/t |
| MJRC003 | 0 | 72 | 72 m @ 1.92 g/t |
| including | 0 | 16 | 16 m @ 4.30 g/t |
| including | 12 | 16 | 4 m @ 8.56 g/t |
| MJRC004 | 0 | 38 | 38 m @ 1.58 g/t |
| MJRC005 | 0 | 16 | 16 m @ 1.25 g/t |
| including | 28 | 64 | 36 m @ 1.01 g/t |
| MJRC006 | 0 | 48 | 48 m @ 1.28 g/t |
| MJRC007 | 0 | 20 | 20 m @ 4.34 g/t |
| MJRC008 | 0 | 32 | 32 m @ 1.25 g/t |
| MJRC009 | 26 | 44 | 18 m @ 1.16 g/t |
| MJRC010-A | 0 | 4 | 4 m @ 0.91 g/t |
| MJRC010-A | 16 | 26 | 10 m @ 12.28 g/t |
| MJRC010 | 0 | 16 | 16 m @ 0.78 g/t |
| MJRC010 | 16 | 36 | 20 m @ 46.67 g/t |
| including | 16 | 20 | 4 m @ 184.50 g/t |
| including | 24 | 28 | 4 m @ 28.04 g/t |
| MJRC011 | 0 | 16 | 16 m @ 1.44 g/t |
| MJRC011 | 44 | 48 | 4 m @ 1.64 g/t |
| MJRC012-A | 8 | 12 | 4 m @ 9.67 g/t |
| MJRC012 | 0 | 18 | 18 m @ 1.79 g/t |
| MJRC013 | 0 | 28 | 28 m @ 1.39 g/t |
| MJRC013-A | 0 | 21 | 21 m @ 1.40 g/t |

OPERATIONAL REPORT AND REVIEW

continued



| | |
|-----------------------------------------------------------------------------------|-----------------------------------------|
| PROJECT: | GAOLONG |
|  | |
| DEAL | 81/19 JV WITH THE GUANGXI |
| STRUCTURE: | TIANLIN GAOLONG GOLD MINE LTD CO |
| LOCATION: | NORTH WEST GUANGXI PROVINCE |

DESCRIPTION

Gold has actively been mined at Gaolong by Caledon's partners at Guangxi Tianlin Gaolong Gold Mine Ltd Co for over 10 years. At Gaolong, surface and limited underground mining can be traced in a semi-continuous manner over a strike length in excess of 3 km, with mining widths averaging 10 to 30 metres, to a maximum of 60 metres wide.

The Gaolong mine itself is ranked in the top two gold producers in the province and has been cited by the United States Geological Survey (USGS) as having distinct similarities to the 15 million ounce Betze ore body situated in Northern Nevada, USA (USGS OP 02-131).

WORK CONDUCTED IN 2004

- Extensive geological mapping and channel sampling work.
- Drill pad preparation and road building.
- 12 shallow reverse circulation holes, approximately 1,200 metres, drilled.

WORK SUMMARY

Drilling conducted in 2004 was spread over an extensive area of jasperoid alteration surrounding the Gaolong dome complex, and clearly demonstrated the continuous nature of the disseminated gold mineralisation in the region. To summarise, the drilling successfully intersected large zones of disseminated low grade mineralisation, up to 40 metres in width, that include zones of higher grade mineralisation (up to 5.72 g/t gold over 7 metres). The following tables provide a summary of the best channel sampling and drill results obtained from the Gaolong project during the 2004 field season:

SUMMARY OF THE BEST CHANNEL SAMPLES

3.10 g/t Au over a width of 26 m

2.87 g/t Au over a width of 15 m

1.44 g/t Au over a width of 20 m


SUMMARY OF THE BEST DRILL SAMPLES

GDRC001: 40 m @ 1.40 g/t including 24 m @ 1.80 g/t

GLRC003: 18 m @ 1.01 g/t including 5 m @ 2.23 g/t

GLRC005: 14 m @ 1.91 g/t including 3 m @ 5.79 g/t

GLRC006: 7 m @ 1.43 g/t

| | |
|------------------------------------------------------------------------------------|-----------------------------------------|
| PROJECT: | BADU |
|  | |
| DEAL | 81/19 JV WITH THE GUANGXI |
| STRUCTURE: | TIANLIN GAOLONG GOLD MINE LTD CO |
| LOCATION: | NORTH WEST GUANGXI PROVINCE |

DESCRIPTION

Gold mineralisation at Badu is currently being mined from a series of gently dipping sediments situated at the Permian/Triassic contact. Reports from local Chinese miners have indicated that gold is found both in the quartz veins and as disseminations within the wall rock.

WORK CONDUCTED IN 2004

- Extensive geological mapping and channel sampling work.
- Drill pad preparation and road building.
- 27 shallow reverse circulation holes, 2,663 metres, drilled.

WORK SUMMARY

Drill results collected during the 2004 field season were consistent with surface sampling conducted in the region, in proximity and at a distance from known mine workings. Widely spaced reconnaissance drilling to date has only been conducted within one mineralised corridor at Badu of which there are several on the project remaining untested.

The following table provides a summary of the drill results obtained at Badu:

| hole id | from | to | intercept |
|-----------|------|----|-----------------|
| 2 | 52 | 64 | 12 m @ 0.96 g/t |
| 3 | 20 | 44 | 24 m @ 2.56 g/t |
| including | 22 | 35 | 13 m @ 4.20 g/t |
| 5 | 36 | 40 | 4 m @ 1.89 g/t |
| 6 | 48 | 61 | 13 m @ 1.22 g/t |
| 8 | 8 | 12 | 4 m @ 1.65 g/t |
| 15 | 48 | 52 | 3 m @ 1.90 g/t |
| 16 | 0 | 12 | 12 m @ 1.43 g/t |

| | |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------|
| PROJECT | HENGXIAN |
|  | |
| DEAL | 70/30 JV WITH THE GUANGXI |
| STRUCTURE | TAIFU GOLD AND MINERALS DEVELOPMENT LTD CO (TAIFU) |
| LOCATION | CENTRAL GUANGXI PROVINCE |

DESCRIPTION

Gold mineralisation at Hengxian is currently being mined in a zone measuring over 3 metres long and up to 800 metres wide, trending along a major east north east structure that extends for over 10 km. The mineralised zone is host to at least five parallel gold bearing structures which have been recognised on the surface. The gold mineralisation at Hengxian is hosted in near vertical, silicified breccias and in shallow dipping disseminated inter-formational replacement of favourable lithologies.

Given the deposit style and the past mining history in conjunction with the recent surface sampling, Caledon believes there is strong potential at Hengxian to define a major gold ore body. Little modern exploration has been conducted on the entire structural zone.

WORK CONDUCTED IN 2004

- Extensive mapping and channel sampling work.
- Drill pad preparation and road building.
- 16 drill holes (11 reverse circulation and five diamond) with approximately 1,827 metres, drilled.

WORK SUMMARY

Continuous channel samples have returned results consistent with an earlier drilling programme conducted by a Chinese geological team, where only 14 drill holes were performed over a strike length of about 3 km (best historical intercept reported a grade of 3.24 g/t gold over a 133 metres width). Caledon's sampling programme was conducted sporadically along approximately 2.4 km of surface workings and was designed to obtain a better understanding of the lithological and structural controls of gold mineralisation on surface, as a lead-up to drilling.

A limited first-pass reverse circulation drill programme was initiated in mid-March 2004. The first phase of drilling at Hengxian was aimed at obtaining orientation information along the large zone of alteration and gold mineralisation evident from the 2500 metres of continuous open-cut workings. The programme was limited to 11 drill-holes in order to verify extensions to mineralisation below and adjacent to some of the open pits as well as to allow proper planning for the upcoming major drilling programme.

Caledon's drilling contractors encountered difficult ground conditions caused by the oxidised and fractured nature of the mineralisation and, as such, several of the originally planned drill holes were abandoned and did not reach their objectives. In addition, the drill crews were not able to initiate drilling in key, high potential areas of the project, due to ongoing mining operations within the open pit.

The following tables provide a summary of surface channel sampling and drilling results obtained at Hengxian:

| channel sample gold grade | channel sample width |
|---------------------------|-------------------------------------|
| 2.89 g/t | 35 m (including 2.0 4g/t over 20 m) |
| 2.76 g/t | 8 m |
| 3.65 g/t | 6 m |
| 4.12 g/t | 8 m |
| 2.36 g/t | 35 m |

| hole id | from | to | intercept |
|---------|------|----|-----------------|
| HXRC001 | 32 | 44 | 12 m @ 2.02 g/t |
| HXRC002 | 74 | 75 | 1 m @ 1.37 g/t |
| HXRC006 | 45 | 46 | 1 m @ 1.16 g/t |
| HXRC007 | 63 | 64 | 1 m @ 1.42 g/t |
| HXRC008 | 12 | 16 | 4 m @ 1.06 g/t |
| HXRC008 | 41 | 44 | 3 m @ 2.20 g/t |
| HXRC009 | 11 | 20 | 9 m @ 1.29 g/t |
| HXRC009 | 55 | 58 | 3 m @ 1.22 g/t |
| HXRC010 | 50 | 56 | 6 m @ 0.91 g/t |
| HXRC011 | 37 | 42 | 5 m @ 1.58 g/t |

LIQUIDITY AND CAPITAL RESOURCES

The company completed three private placements with institutional investors during the year. These financings netted approximately £5.4 million to the company. The working capital position at year end was £2.7 million.

INVESTMENTS

AFCAN MINING CORPORATION

In November 2004 Caledon used part of the proceeds from the above placing to complete an investment in Toronto Stock Exchange ('TSX') listed Afcan Mining Corporation (TSX:AFK). Under the terms of the placing, Caledon subscribed to 23,852,117 units of Afcan representing 19 per cent of the enlarged issued and outstanding shares of the company on an undiluted basis and 26 per cent on a partially diluted basis assuming exercise of its warrants. Each unit is priced at Cdn\$0.25 and consists of one common share and one half-warrant. Each two half-warrants entitle Caledon to purchase one common share at a price of Cdn\$0.375 per share on or prior to 19 November 2006. The investment in Afcan, amounted to approximately Cdn\$5.96 million (£2.7 million approximately), and will be used to help fund the construction of Afcan's gold mine in China. The shares and the warrants issued as part of the units are subject to a four month lock-in period.

DYNASTY GOLD CORPORATION

On 14 January 2005 Caledon completed an investment of Cdn\$1,845,000 (£772,000) in Dynasty Gold Corporation ('Dynasty'), an advanced stage China gold explorer. Dynasty is a Vancouver based company and is listed on the Toronto Ventures Exchange. The non-brokered private placement in Dynasty consisted of the purchase of 4,500,000 share units at a price of Cdn\$0.41. This equity stake represents approximately 15 per cent of the issued and outstanding shares of Dynasty. Each share unit consists of one common share and one half-warrant of which each whole warrant entitles Caledon to purchase one common share at an exercise price of Cdn\$0.70 per share for up to 24 months from the date of closing. The shares and warrants issued will be subject to a four

month lock in from the date the private placement was completed. The proceeds of the offering will be used to fund the exploration and development of Dynasty's projects in western China.

On 29 March 2005 Caledon signed a subscription agreement to invest a further Cdn\$220,500 (£97,000) in Dynasty. The non-brokered private placement in Dynasty consisted of the purchase of 630,000 share units at a price of Cdn\$0.35. The additional investment was made to maintain the company's level of investment in Dynasty at 15 per cent. Each share unit consists of one common share and one half-warrant of which each whole warrant entitles Caledon to purchase one common share at an exercise price of Cdn\$0.50 per share for up to 24 months from the date of closing. The shares and the warrants issued will be subject to a four month lock-in from the date the private placement is completed.

Dynasty's Hatu gold project is the company's current main focus. All projects hold high potential for discovery, with large zones of gold mineralisation identified in the past year's exploration.

RESULTS OF OPERATIONS

The Group incurred a net loss of £1.8 million for the year ended 31 December 2004 compared to a net loss of £1.4 million for the 17 month year ended 31 December 2003. The company incurred a loss per share of 0.79p for the year ending 31 December 2004 compared to a loss per share of 1.24p for the period ending 31 December 2003.

GEORGE SALAMIS MANAGING DIRECTOR

11 April 2005



DIRECTORS' REPORT

The directors present their Annual Report and the audited group financial statements for the year ended 31 December 2004. The corresponding amounts are for the 17 month period ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the group are mining exploration.

PRIVATE EQUITY PLACINGS

On 8 November 2004 the company issued 90,422,225 ordinary shares of 0.1p each at 4.5p per share with institutional investors.

On 19 November 2004 the company issued 10,575,000 ordinary shares of 0.1p each at 4.5p per share with institutional investors.

On 29 November 2004 the company issued 23,000,000 ordinary shares of 0.1p each at 4.5p per share with institutional investors.

These placings raised a total of £5.4m after expenses.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The group's performance during the year and expected future developments are described in the operational report and review on page 4.

RESULTS AND DIVIDENDS

The directors do not recommend payment of a dividend for the period (2003: nil). The loss of £1,826,000 (2003: loss £1,395,000) will be transferred to reserves.

POST BALANCE SHEET EVENTS

DYNASTY GOLD CORPORATION

On 14 January 2005 Caledon completed an investment of Cdn\$1,845,000 (£772,000) in Dynasty Gold Corporation ('Dynasty'), an advanced stage China gold explorer. Dynasty is a Vancouver based company and is listed on the Toronto Ventures Exchange. The non-brokered private placement in Dynasty consisted of the purchase of 4,500,000 share units at a price of Cdn\$0.41. This equity stake represents approximately 15 per cent of the issued and outstanding shares of Dynasty. Each share unit consists of one common

share and one half warrant of which each whole warrant entitles Caledon to purchase one common share at an exercise price of Cdn\$0.70 per share for up to 24 months from the date of closing. The shares and the warrants to be issued will be subject to a four month lock-in from the date the private placement was completed. The proceeds of the offering will be used to fund the exploration and development of Dynasty's projects in western China.

On 29 March 2005 Caledon signed a subscription agreement to invest a further Cdn\$220,500 (£97,000) in Dynasty. The non-brokered private placement in Dynasty consisted of the purchase of 630,000 share units at a price of Cdn\$0.35. The additional investment was made to maintain the company's level of investment in Dynasty at 15 per cent. Each share unit consists of one common share and one half-warrant of which each whole warrant entitles Caledon to purchase one common share at an exercise price of Cdn\$0.50 per share for up to 24 months from the date of closing. The shares and the warrants to be issued will be subject to a four month lock-in from the date the private placement is completed.

BUTLER DEVELOPMENTS CORPORATION

On 14 March 2005 the company signed a letter of intent with Toronto Stock Exchange listed Butler Developments (TSX-V: BTD). The letter of intent grants Butler an option to acquire the group's existing Guangxi province gold projects, including Hengxian, Gaolong and Badu. The deal excludes the advanced stage Mojiang gold project situated in Yunnan, where drilling is ongoing by the company.

The consideration for Butler's acquisition of the group's existing Guangxi province gold projects will be a direct equity interest in Butler. In addition, it is contemplated that part of the transaction would involve a share bonus to be paid to Caledon upon any future discoveries. It is also proposed that Caledon's experienced and China seasoned exploration team act as project operators on the various Guangxi projects. Caledon would also be entitled to two seats on Butler's board of directors.

Butler intends to fully fund exploration on the projects over the next two years, maintaining the existing commitments agreed upon by Caledon in 2003 with their partners in the province.

DIRECTORS AND DIRECTORS' INTERESTS

The directors of the company who all held office for the entire year and their interests are as follows:

| | Notes | Number of shares held as at 31.12.04 | Number of shares held as at 31.12.03 |
|-----------------------------------------------|-------|--------------------------------------|--------------------------------------|
| Stephen R Dattels (resigned 15 February 2005) | 1 | 17,485,310 | 8,000,000 |
| George G Salamis | | 4,687,500 | 4,687,500 |
| Paul A Ingram | 2 | 17,187,500 | 17,187,500 |
| Robert Alford | 3 | 750,000 | 750,000 |
| Graham Mascall | | - | - |
| Cathy Horton | | - | - |

- The interests of Stephen Dattels are 3,300,000 ordinary shares in which he is beneficially interested and the 6,200,000 ordinary shares held by the Investec Trust Guernsey Limited as trustee for Mr Dattels. Mr Dattels' wife, Mrs J Dattels holds 7,985,310 ordinary shares in her own name.
- The interests of Paul Ingram are held by Siam Resources Ltd, a company in which Paul Ingram is a director and shareholder.
- The interests of Robert Alford are held by Portman Welbeck as trustees for the R J Alford Guernsey Trust.

The directors' interests in share options are as follows:

| | Options at 1.1.04 | Options at 31.12.04 | Exercise price | Date of grant | First date of exercise | Final date of exercise |
|-----------------|----------------------|------------------------|-------------------|------------------|---------------------------|---------------------------|
| Stephen Dattels | 1,250,000 | 1,250,000 | 2p | 11.4.03 | 11.4.04 | 11.4.13 |
| George Salamis | 1,250,000 | 1,250,000 | 2p | 11.4.03 | 11.4.04 | 11.4.13 |
| George Salamis | 3,000,000 | 3,000,000 | 3p | 29.4.03 | 29.4.04 | 29.4.13 |
| Paul Ingram | 1,250,000 | 1,250,000 | 2p | 11.4.03 | 11.4.04 | 11.4.13 |
| Robert Alford | 1,250,000 | 1,250,000 | 2p | 11.4.03 | 11.4.04 | 11.4.13 |
| Graham Mascall | 1,250,000 | 1,250,000 | 2p | 11.4.03 | 11.4.04 | 11.4.13 |
| Cathy Horton | 1,250,000 | 1,250,000 | 2p | 11.4.03 | 11.4.04 | 11.4.13 |

During the year no options were granted, exercised or lapsed.

These options have been granted under the Finelot plc unapproved 2000 Discretionary Share Option Scheme.

The right granted to subscribe for ordinary shares 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 in each of the years 2004, 2005 and 2006.

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.

Following his resignation Stephen Dattels remains fully entitled to the share options granted to him by the year end.

SIGNIFICANT SHAREHOLDERS

As at 7 April 2005, so far as the directors are aware, the only persons (other than the interests held by directors) who are directly or indirectly interested in 3 per cent or more of the nominal value of the company's share capital are as follows:

| | Number of ordinary shares held | Ordinary Shares as per cent of issued share capital |
|---------------------------------------------|--------------------------------------|-----------------------------------------------------------------|
| The Bank Of New York (Nominees) Limited | 36,400,000 | 11% |
| Credit Suisse First Boston Nominees Limited | 23,863,700 | 7% |
| BBHISL Nominees Limited | 18,170,000 | 5% |
| The Bank Of New York (Nominees) Limited | 12,778,416 | 4% |
| Willbro Nominees Limited | 10,247,353 | 3% |
| Chase Nominees Limited | 11,381,024 | 3% |
| Hing Shun Trading Ltd | 9,375,000 | 3% |
| HSBC Global Custody Nominee (Uk) Limited | 8,685,840 | 3% |

PAYMENTS TO SUPPLIERS

The company has no formal code or standard which deals specifically with the payment of suppliers. However, the 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 2004 represents 30 days as a proportion of the total amount invoiced by suppliers during the period ended on that date.

DONATIONS

During 2004 the Company made a charitable donation of £1,600 to the Irish Youth Foundation. No other charitable or political donations were made in the current or prior year.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the next Annual General Meeting.

MANISH KOTECHA COMPANY SECRETARY

11 April 2005

CORPORATE GOVERNANCE

The company, being listed on the Alternative Investment Market, is not required to comply with the Combined Code. However the company has given consideration to the code provisions set out in Section 1 of the Combined Code of 2003 ('the Code') on Corporate Governance annexed to the Financial Services Authority Listing Rules. The directors support the objectives of the Code and intend to comply with those aspects which they consider relevant to the group's size and circumstances. Details of these are set out below. A statement of the directors' responsibilities in respect of the financial statements is set out on page 12. 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 two executive and three non-executive directors. The non-executive directors are independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

The board meets on average every two months and 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.

THE AUDIT COMMITTEE

The Audit Committee comprised the following directors during the year:

Robert Alford
Graham Mascal
Cathy Horton

The committee provides a forum for reporting by the group's external auditors. Meetings are held twice a year and are also attended, by invitation, by the executive directors. The present Committee chairman is Robert Alford.

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:

Robert Alford
Graham Mascal
Cathy Horton

The present Committee chairman is Robert Alford.

The Committee is responsible for recommending to the board the terms and conditions of employment of the executive directors.

A report from the Remuneration Committee appears on page 11.

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 limited cash resources of the group. Due to the relatively small size of the group's operations, the executive 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.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The group's cash and liquid resources stood at £2.7m at 31 December 2004 excluding the £2.7m investment in Afcan. Its committed spend for the following 12 months is forecast at £1.9m, which included an investment of £772,000 into Dynasty Gold Corporation, a Vancouver based company listed on the Toronto Ventures Exchange. All remaining spend will be discretionary. The group will seek to raise additional equity to fund future exploration programmes when required and the group will operate within its cash resources.

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee ('the Committee') was chaired by Robert Alford and comprised, during the year ended 31 December 2004, Robert Alford, Graham Mascal and Cathy Horton. The current composition of the Committee remains unchanged.

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

The board determines the remuneration of non-executive directors within the limits set by the Company's Articles of

The remuneration of the directors is as follows:

| | Fees £ | Salary £ | Consultancy fees £ | Total 2004 £ | Total 2003 £ |
|------------------|----------------|-------------|--------------------------|--------------------|--------------------|
| Stephen Dattels | 66,206 | - | - | 66,206 | 58,065 |
| George Salamis | 82,564 | - | - | 82,564 | 66,977 |
| Paul Ingram | 65,846 | - | - | 65,846 | 88,407 |
| Robert Alford | 20,000 | - | - | 20,000 | 10,938 |
| Graham Mascal | 20,000 | - | - | 20,000 | - |
| Catherine Horton | - | - | - | - | - |
| | 254,616 | - | - | 254,616 | 224,387 |

Catherine Horton waived her entitlement to fees of £15,000.

On behalf of the Remuneration Committee

ROBERT ALFORD
COMMITTEE CHAIRMAN
 11 April 2005

Association. They have letters of engagement with the company and their appointments are terminable on six months' written notice on either side.

None of the directors have service contracts which are terminable on greater than one year's notice.

On 21 September 2000 the company adopted 'The Finelot plc Unapproved 2000 Discretionary Share Option Scheme' in which the directors participate. For further information please refer to page 9 of the directors' report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Information published on the Internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CALEDON RESOURCES PLC

We have audited the financial statements which comprise the group profit and loss account, the group statement of total recognised gains and losses, the group and company balance sheets, the group cash flow statement and the related notes.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's report, review of operations, the directors' report, the corporate governance report and the report of the Remuneration Committee.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2004 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS LLP CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

London
12 April 2005

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2004

| | | Year ended 31.12.04 £000 | 17 month period to 31.12.03 £000 |
|----------------------------------------------------|---------------------------|--------------------------------|-------------------------------------------|
| | Note | | |
| TURNOVER | – Discontinued operations | – | 7 |
| Cost of goods sold | – Discontinued operations | – | (7) |
| GROSS PROFIT | – Discontinued operations | – | – |
| Administrative expenses | – Continuing operations | (1,854) | (1,343) |
| | – Discontinued operations | – | (60) |
| | | (1,854) | (1,403) |
| OPERATING LOSS | – Continuing operations | (1,854) | (1,343) |
| | – Discontinued operations | – | (60) |
| Net Interest receivable and similar income | | 2 | (1,403) |
| | | 3 | 28 |
| | | (1,854) | (1,403) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | (1,826) | (1,395) |
| Tax on loss on ordinary activities | | 4 | – |
| RETAINED LOSS FOR THE FINANCIAL PERIOD | | 13 | (1,826) |
| Loss per share – basic and diluted | | 15 | (0.79p) |
| | | (1,826) | (1,395) |

The discontinued operations shown in the period ended 2003 related to the group's former activities.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2004

| | Year ended 31.12.04 £000 | 17 month period to 31.12.03 £000 |
|----------------------------------------------------------------|--------------------------------|-------------------------------------------|
| LOSS FOR THE FINANCIAL PERIOD | (1,826) | (1,395) |
| Foreign exchange translation differences | (30) | – |
| TOTAL LOSSES RECOGNISED SINCE LAST FINANCIAL STATEMENTS | (1,856) | (1,395) |

GROUP BALANCE SHEET

as at 31 December 2004

| | Notes | December 2004 £000 | December 2003 £000 |
|-------------------------------------------------------|-------|--------------------------|--------------------------|
| FIXED ASSETS | | | |
| Intangible fixed assets | 6 | 203 | 266 |
| Tangible fixed assets | 7 | 78 | 79 |
| | | 281 | 345 |
| CURRENT ASSETS | | | |
| Investments | 9 | 2,715 | – |
| Debtors | 10 | 158 | 208 |
| Cash at bank and in hand | | 2,687 | 1,806 |
| | | 5,560 | 2,014 |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 11 | (175) | (200) |
| NET CURRENT ASSETS | | 5,385 | 1,814 |
| NET ASSETS | | 5,666 | 2,159 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 12 | 2,804 | 2,680 |
| Share premium | 13 | 10,514 | 5,275 |
| Other reserves | 13 | (91) | (91) |
| Profit and loss account – deficit | 13 | (7,561) | (5,705) |
| TOTAL EQUITY SHAREHOLDERS' FUNDS | 14 | 5,666 | 2,159 |

The financial statements on pages 14 to 28 were approved by the board of directors on 11 April 2005 and were signed on its behalf by:

GEORGE G SALAMIS
 DIRECTOR

COMPANY BALANCE SHEET

as at 31 December 2004

| | Notes | December 2004 £000 | December 2003 £000 |
|-------------------------------------------------------|-------|--------------------------|--------------------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | 7 | 48 | 60 |
| Investments | 8 | 313 | 313 |
| | | 361 | 373 |
| CURRENT ASSETS | | | |
| Investments | 9 | 2,715 | – |
| Debtors: amounts falling due after one year | 10 | 1,703 | 929 |
| Debtors: amounts falling due within one year | 10 | 84 | 179 |
| Cash at bank and in hand | | 2,556 | 1,436 |
| | | 7,058 | 2,544 |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 11 | (140) | (185) |
| NET CURRENT ASSETS | | 6,918 | 2,359 |
| NET ASSETS | | 7,279 | 2,732 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 12 | 2,804 | 2,680 |
| Share premium | 13 | 10,514 | 5,275 |
| Profit and loss account – deficit | 13 | (6,039) | (5,223) |
| TOTAL EQUITY SHAREHOLDERS' FUNDS | | 7,279 | 2,732 |

The financial statements on pages 14 to 28 were approved by the board of directors on 11 April 2005 and were signed on its behalf by:

GEORGE G SALAMIS
 DIRECTOR

GROUP CASH FLOW STATEMENT

| | Notes | Year ended 31.12.04 £000 | 17 month period to 31.12.03 £000 |
|-------------------------------------------------------------------------|-------|--------------------------------|-------------------------------------------|
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | a | (1,734) | (1,344) |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 29 | 15 |
| Interest paid | | (1) | (7) |
| Net cash inflow from returns on investments and servicing of finance | | 28 | 8 |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Purchase of tangible fixed assets | | (32) | (86) |
| Purchase of current asset investment | | (2,693) | – |
| Cost of acquisition of current asset investment | | (22) | – |
| Net cash outflow for capital expenditure and financial investment | | (2,747) | (86) |
| CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING | | (4,453) | (1,422) |
| MANAGEMENT OF LIQUID RESOURCES | | | |
| Movement on deposits | | (1,300) | (1,057) |
| Cash outflow from management of liquid resources | | (1,300) | (1,057) |
| FINANCING | | | |
| Issue of ordinary shares | | 5,600 | 3,426 |
| Cost of issue of shares | | (237) | (354) |
| CASH INFLOW FROM FINANCING | | 5,363 | 3,072 |
| (DECREASE)/INCREASE IN NET CASH IN THE PERIOD | c | (390) | 593 |

NOTES TO THE GROUP CASH FLOW STATEMENT

(A) RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | Year ended 31.12.04 £000 | 17 month period to 31.12.03 £000 |
|---------------------------------------------------|--------------------------------|-------------------------------------------|
| Operating loss | (1,854) | (1,403) |
| Depreciation of tangible fixed assets | 33 | 16 |
| Amortisation of intangible fixed assets | 63 | 47 |
| Loss on sale of assets | – | 1 |
| Decrease in stocks | – | 18 |
| Decrease/(increase) in debtors | 40 | (22) |
| Decrease in creditors | (16) | (1) |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | (1,734) | (1,344) |

(B) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN THE NET CASH

| | Year ended 31.12.04 £000 | 17 month period to 31.12.03 £000 |
|-----------------------------------------------|--------------------------------|-------------------------------------------|
| (Decrease)/increase in net cash in the period | (390) | 593 |
| Increase in liquid resources | 1,300 | 1,057 |
| Movement in net cash arising from cash flows | 910 | 1,650 |
| Foreign exchange movement | (9) | (30) |
| NET CASH AT START OF PERIOD | 1,781 | 161 |
| NET CASH AT END OF THE PERIOD | 2,682 | 1,781 |

(C) ANALYSIS OF NET CASH

| | At 1.1.04 £000 | Cash flow £000 | Foreign exchange £000 | At 31.12.04 £000 |
|------------------------------|----------------------|-------------------|-----------------------------|------------------------|
| Cash | 749 | (410) | (9) | 330 |
| Bank overdraft | (25) | 20 | – | (5) |
| | 724 | (390) | (9) | 325 |
| Increase in liquid resources | 1,057 | 1,300 | – | 2,357 |
| NET CASH | 1,781 | 910 | (9) | 2,682 |

PRINCIPAL ACCOUNTING POLICIES

A summary of the more important accounting policies, which have been applied consistently for all periods covered by this report, is set out below.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with currently applicable accounting standards in the United Kingdom and under the historical cost convention.

BASIS OF CONSOLIDATION

On 27 July 2000, the company merged with Finelot Trading Company Limited. The merger was effected by way of a share exchange for the whole of the issued share capital of Finelot Trading Company Limited. The financial statements have been prepared under merger accounting principles, as set out in Financial Reporting Standard No 6 (Acquisitions and Mergers), in relation to the merger. Under merger accounting principles the results and cash flows of the company and Finelot Trading Company Limited have been combined from the beginning of the period in which the merger occurred. Subsequent acquisitions have been included in full under acquisition accounting (see note 8). No profit and loss account has been presented for the company as permitted by section 230 of the Companies Act 1985.

Please see note 8 for further information.

TURNOVER

Turnover in respect of discontinued operations represents the sale of works of art, merchandise and commission receivable on the sale of goods and services, net of VAT.

FIXED ASSET INVESTMENTS

Investments held as fixed assets are stated at cost less provision for any impairment to their carrying value.

CURRENT ASSET INVESTMENTS

Current asset investments are held at the lower of cost and net realisable value.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life, as follows:

Office, computer equipment, furniture and motor vehicles:
3-5 years on a straight-line basis.

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the difference between the cost of acquisition and the fair value of the identifiable net assets acquired. Goodwill arising on acquisitions is capitalised in accordance with FRS 10 and amortised on a straight line basis over their useful economic lives which for Blackwatch Resources (BVI) Ltd is five years.

EXPLORATION AND EVALUATION

During the initial stage of a project, costs are charged to the profit and loss account in the year the costs are incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is carried forward and transferred to tangible fixed assets if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are written off. If an undeveloped project is sold, any gain or loss is included in operating profit, such transactions being a normal part of the group's activities. Where expenditure is carried forward in respect of a project which may not proceed to commercial development for some time, provision is made against the possibility of non-development by charge against profits over a period of up to seven years. When it is decided to proceed with development, any provisions made in previous years are reversed to the extent that the relevant costs are recoverable. At 31 December 2004, all projects were at an early stage of exploration and hence all exploration costs have been expensed.

ENVIRONMENTAL PROVISIONS

Appropriate and adequate provision is made for rehabilitation costs over the estimated period of exploration activity. As at 31 December 2004 no environmental damage had occurred and hence no provisions exist.

OPERATING LEASES

Amounts payable under operating leases are charged against income on a straight-line basis over the lease term.

FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken to the profit and loss account as they arise. Results of overseas subsidiaries are translated at average rate and their balance sheets at the year end rate.

DEFERRED TAXATION

FRS 19 'Deferred tax' requires deferred taxation to be recognised in full in respect of transactions or events that have taken place by the balance sheet date and which could give rise to an obligation to pay more or less taxation in the future. Deferred tax assets are only recognised to the extent they are deemed recoverable. The group has chosen not to discount deferred tax balances, as permitted by FRS 19.

NOTES TO THE ACCOUNTS

1 SEGMENTAL ANALYSIS

| | Turnover by origin and destination | | Loss before tax | | Net assets | |
|-----------|---------------------------------------|------|-----------------|---------|--------------|-------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Corporate | - | 7 | (1,268) | (1,112) | 5,494 | 1,858 |
| China | - | - | (558) | (283) | 172 | 301 |
| | - | 7 | (1,826) | (1,395) | 5,666 | 2,159 |

2 OPERATING LOSS

The operating loss is stated after charging:

| | 2004 £000 | 2003 £000 |
|-----------------------------------------------------------------|--------------|--------------|
| Amortisation of intangible fixed assets | 63 | 47 |
| Depreciation of tangible fixed assets | 33 | 16 |
| Operating lease rentals – property | 53 | 52 |
| Auditors' remuneration – audit (company £37,000; 2003: £30,000) | 45 | 38 |

Fees paid to auditors in respect of other services were: £nil (2003: £8,000 for tax compliance services)

3 NET INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2004 £000 | 2003 £000 |
|---------------------------------------|--------------|--------------|
| Interest on bank overdrafts and loans | (1) | (7) |
| Bank interest receivable | 29 | 15 |
| | 28 | 8 |

4 TAXATION

No current or deferred tax charge has arisen in the current year or prior period.

| | 2004 £000 | 2003 £000 |
|----------------------------------------------------------------------|----------------|--------------|
| Loss on ordinary activities before taxation | (1,826) | (1,395) |
| Tax credit using the standard rate of Corporation Tax at 30 per cent | (548) | (419) |
| Expenses not deductible for tax purposes | 71 | 10 |
| Unutilised losses | 476 | 409 |
| Depreciation in excess of capital allowances | 1 | - |
| Current tax charge | - | - |

Future tax charges will continue to be affected by the available loss relief. The group has a deferred tax asset position as follows:

| | 2004 | | 2003 | |
|--------------------------------|--------------------|----------------------|--------------------|----------------------|
| | Recognised £000 | Unrecognised £000 | Recognised £000 | Unrecognised £000 |
| Accelerated capital allowances | (2) | - | (3) | - |
| Unutilised losses | 2 | 825 | 3 | 349 |
| Other timing differences | - | - | - | - |
| | - | 825 | - | 349 |

5 DIRECTORS AND STAFF

| | 2004 £000 | 2003 £000 |
|-----------------------|--------------|--------------|
| Directors' emoluments | 255 | 224 |

Please see report of the Remuneration Committee on page 11 for further information.

The highest paid director had emoluments totalling £82,564.

During the period £66,206 (2003: £58,065) was paid to Regent Mercantile Bancorp in respect of Stephen Dattels' director's fees; £82,564 (2003: £66,977) was paid to Sierra Consulting in respect of George Salamis' director's fees. £65,846 (2003: £40,320) was paid to Siam Resources Ltd, and £nil (2003: £48,087) was paid directly to Paul Ingram in respect of his director's fees.

No retirement benefits are accruing to directors (2003: nil) under pension schemes.

| | 2004 £000 | 2003 £000 |
|--------------------------------|--------------|--------------|
| Directors' fees and emoluments | 255 | 224 |
| Wages and salaries | 490 | 277 |
| Social security costs | 20 | 14 |
| | 765 | 515 |

The average monthly number of persons (including executive directors) employed by the group during the period was:

| | 2004 Number | 2003 Number |
|----------------|----------------|----------------|
| Technical | 21 | 3 |
| Administration | 18 | 7 |
| | 39 | 10 |

6 INTANGIBLE ASSETS - GOODWILL

| | £000 |
|--------------------------------------------------|------------|
| COST | |
| AT 1 JANUARY 2004 AND AT 31 DECEMBER 2004 | 313 |
| AMORTISATION | |
| At 1 January 2004 | 47 |
| Charge for the year | 63 |
| AT 31 DECEMBER 2004 | 110 |
| NET BOOK VALUE | |
| AT 31 DECEMBER 2004 | 203 |
| At 31 December 2003 | 266 |

NOTES TO THE ACCOUNTS

continued

7 TANGIBLE FIXED ASSETS

| Group | Office and computer equipment £000 | Furniture and fixtures £000 | Motor vehicles £000 | Total £000 |
|----------------------------|---------------------------------------|--------------------------------|------------------------|---------------|
| COST | | | | |
| At 1 January 2004 | 41 | 34 | 11 | 86 |
| Additions | 16 | 3 | 13 | 32 |
| AT 31 DECEMBER 2004 | 57 | 37 | 24 | 118 |
| DEPRECIATION | | | | |
| At 1 January 2004 | 3 | 3 | 1 | 7 |
| Charge for the year | 16 | 12 | 5 | 33 |
| AT 31 DECEMBER 2004 | 19 | 15 | 6 | 40 |
| NET BOOK VALUE | | | | |
| AT 31 DECEMBER 2004 | 38 | 22 | 18 | 78 |
| At 31 December 2003 | 38 | 31 | 10 | 79 |

| Company | Office and computer equipment £000 | Furniture and fixtures £000 | Total £000 |
|----------------------------|---------------------------------------|--------------------------------|---------------|
| COST | | | |
| At 1 January 2004 | | 32 | 34 |
| Additions | | 11 | 3 |
| AT 31 DECEMBER 2004 | | 43 | 37 |
| DEPRECIATION | | | |
| At 1 January 2004 | | 3 | 3 |
| Charge for the year | | 13 | 13 |
| AT 31 DECEMBER 2004 | | 16 | 16 |
| NET BOOK VALUE | | | |
| AT 31 DECEMBER 2004 | | 27 | 21 |
| At 31 December 2003 | | 29 | 31 |

8 FIXED ASSET INVESTMENTS

| Company | £000 |
|----------------------------|------------|
| COST | |
| At 1 January 2004 | 313 |
| Additions | – |
| AT 31 DECEMBER 2004 | 313 |

The group has the following subsidiary undertakings:

| | Per cent interest | Country of incorporation | Activity |
|--------------------------------------|-------------------|--------------------------|--------------------|
| Blackwatch Resources (BVI) Limited | 100 | British Virgin Islands | Mining exploration |
| Blackwatch Resources China Limited * | 85 | P.R. of China | Mining exploration |
| Caledon Resources China Limited * | 80 | P.R. of China | Mining exploration |
| Finelot Trading Company Limited | 100 | England | Non-trading |

* Investments held by Blackwatch Resources (BVI) Limited

8 FIXED ASSET INVESTMENTS CONTINUED

In addition the group has entered into the following agreements, relating to unincorporated entities operating gold mining exploration in China:

| | Per cent interest |
|------------------------|-------------------|
| Hengxian Gold Mine | 70 |
| Longtaushan Gold Mine | 85 |
| Gaolong-Badu Gold Mine | 85 |
| Mojiang Gold Mine | 70 |

During the exploration phase the group effectively controls all the above operations and bears 100 per cent of all costs. As a result all the above have been included in full in these consolidated accounts under acquisition accounting, with no minority interest yet existing.

9 CURRENT ASSET INVESTMENTS

| | Balance sheet value £000 | Market value £000 |
|----------------------------|-----------------------------|----------------------|
| COST | | |
| At 1 January 2004 | – | |
| Additions | 2,715 | |
| AT 31 DECEMBER 2004 | 2,715 | 3,526 |

The Company purchased 23,852,117 units at 25 cents per unit in November 2004 in Afcan Mining Corporation ('Afcan') a Canadian based company listed on the Toronto Stock Exchange. This investment represents 19 per cent of the share capital of Afcan.

10 DEBTORS

| | Group | | Company | |
|-----------------------------------------------|--------------|--------------|--------------|--------------|
| | 2004 £000 | 2003 £000 | 2004 £000 | 2003 £000 |
| Amounts falling due within one year: | | | | |
| Other debtors | 96 | 185 | 26 | 165 |
| Prepayments | 59 | 15 | 58 | 14 |
| | 155 | 200 | 84 | 179 |
| Amounts falling due after more than one year: | | | | |
| Amounts owed by subsidiary undertakings | – | – | 1,700 | 921 |
| Other debtors | 3 | 8 | 3 | 8 |
| | 3 | 8 | 1,703 | 929 |
| Total debtors | 158 | 208 | 1,787 | 1,108 |

Amounts owed from subsidiaries are unsecured and interest free.

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | 2004 £000 | 2003 £000 | 2004 £000 | 2003 £000 |
| Unsecured bank overdrafts | 5 | 25 | 5 | 25 |
| Trade creditors | 54 | – | 54 | – |
| Other creditors | 6 | 61 | – | 56 |
| Other taxation and social security | 9 | 28 | 5 | 24 |
| Accruals and deferred income | 101 | 86 | 76 | 80 |
| | 175 | 200 | 140 | 185 |

NOTES TO THE ACCOUNTS

continued

12 SHARE CAPITAL

| | 2004 Number | 2004 £000 | 2003 Number | 2003 £000 |
|------------------------------|----------------------|--------------|----------------|--------------|
| AUTHORISED | | | | |
| Ordinary shares of 0.1p each | 1,533,726,157 | 1,534 | 1,533,726,157 | 1,534 |
| Deferred shares of 0.1p each | 2,466,273,843 | 2,466 | 2,466,273,843 | 2,466 |
| ISSUED AND FULLY PAID | | | | |
| Ordinary shares of 0.1p each | 338,194,556 | 338 | 213,363,999 | 213 |
| Deferred shares of 0.1p each | 2,466,273,843 | 2,466 | 2,466,273,843 | 2,466 |
| | 2,804,468,399 | 2,804 | 2,679,637,842 | 2,679 |

CAPITAL REORGANISATION

On 11 April 2003 the company reorganised its share capital as follows:

- (a) Each issued ordinary share of 10p was subdivided and converted into:
- 1 new ordinary share of 0.1p each; and
 - 99 deferred shares of 0.1p each.

The new ordinary shares, subject to their having a par value of 0.1p, carry identical rights, on a share-for-share basis, to the ordinary shares that they replaced, i.e. each new ordinary share of 0.1p carries the same rights as one existing ordinary share of 10p, save to the extent that they have a par value of 0.1p.

The restrictions attaching to the deferred shares, which were not listed, render them effectively valueless. The deferred shares carry no rights to receive notice of, attend, speak or vote at any general meeting of the company, nor to receive dividends or capital distributions, save that on a return of assets on a winding up, the deferred shares entitle the holder to the amounts paid upon such shares after the repayment of £10,000,000 per new ordinary share. No certificates were issued to shareholders in respect of deferred shares and the deferred shares are not quoted on any recognised investment exchange.

- (b) Each unissued ordinary share of 10p was divided into 100 new ordinary shares of 0.1p each. Again, the new ordinary shares carry identical rights to the ordinary shares they replaced, save to the extent that they have a par value of 0.1p.

PRIVATE PLACEMENTS

On 8 November 2004 the company issued 90,422,225 ordinary shares of 0.1p each at 4.5p per share with institutional investors.

On 19 November 2004 the company issued 10,575,000 ordinary shares of 0.1p each at 4.5p per share with institutional investors.

On 29 November 2004 the company issued 23,000,000 ordinary shares of 0.1p each at 4.5p per share with institutional investors.

EXERCISE OF OPTIONS

In June 2004 two staff members exercised a total of 416,666 options each. Accordingly the company issued 416,666 ordinary shares of 0.1p each at 2p per share and 416,666 ordinary shares of 0.1p each at 3p per share.

SHARE WARRANTS

The following warrants are outstanding for ordinary shares:

| Warrants at 1.1.04 | Warrants issued/ (lapsed) | Warrants at 31.12.04 | Exercise price | Date of grant | First date of exercise | Final date of exercise |
|-----------------------|------------------------------|-------------------------|-------------------|------------------|---------------------------|---------------------------|
| 2,500,000 | (2,500,000) | – | 2p | 11.4.03 | 11.4.04 | 1.3.08 |

On 17 March 2003 the company executed a share warrant instrument, the principal terms of which are as follows:

- (a) the board may issue warrants to such persons as it determines giving any such persons the right to subscribe for ordinary shares in the company at a subscription price of 2p per share;
- (b) the right granted to any person to subscribe for ordinary shares is exercisable up to a period ending on 1 March 2008 with the rights being exercisable in respect of one third of the ordinary shares to which it relates in each of the years 2004, 2005 and 2006;
- (c) 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;
- (d) in the event of any capitalisation of reserves or profits or subdivision or consolidation of the ordinary shares then the number of ordinary shares the subject of warrants and the subscription price payable may be adjusted in such manner as the auditors confirm to be fair and reasonable;
- (e) the warrants are transferable; and
- (f) no application has been or is intended to be made to the London Stock Exchange or any other recognised investment exchange, for any of the warrants to be listed or otherwise traded.

Following the change in the company's Nominated Advisor from Williams de Broë to Canaccord Capital Europe Limited on 13 December 2004 the 2,500,000 warrants granted to Williams de Broë in April 2003 lapsed.

12 SHARE CAPITAL CONTINUED

SHARE OPTIONS

The following options are outstanding for ordinary shares:

| | Options at 1.1.04 | Options (exercised) | Options at 31.12.04 | Exercise price | Date of grant | First date of exercise | Final date of exercise |
|-----------|----------------------|------------------------|------------------------|-------------------|------------------|---------------------------|---------------------------|
| Directors | 7,500,000 | – | 7,500,000 | 2p | 11.4.03 | 11.4.04 | 11.4.13 |
| Directors | 3,000,000 | – | 3,000,000 | 3p | 29.4.03 | 29.4.04 | 29.4.13 |
| Staff | 1,250,000 | (416,666) | 833,334 | 2p | 11.4.03 | 11.4.04 | 11.4.13 |
| Staff | 1,250,000 | (416,666) | 833,334 | 3p | 29.4.03 | 29.4.04 | 29.4.13 |
| Staff | 1,750,000 | – | 1,750,000 | 4p | 13.6.03 | 13.6.04 | 13.4.13 |
| Staff | 1,400,000 | – | 1,400,000 | 12.75p | 22.9.03 | 22.9.04 | 22.9.13 |

During the year the average share price was 6.78p and the share price range was 3.75p to 15.25p.

In June 2004 two staff members exercised a total of 416,666 options each.

The Share 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 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 8,750,000 shares to Stephen Dattels, Robert Alford, Cathy Horton, Paul Ingram, George Salamis, Graham Mascall and Manish Kotecha 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.

13 RESERVES

| Group | Share premium £000 | Other reserves £000 | Profit and loss account £000 |
|----------------------------|--------------------------|---------------------------|------------------------------------|
| At 1 January 2004 | 5,275 | (91) | (5,705) |
| Loss for the year | – | – | (1,826) |
| Foreign exchange movements | – | – | (30) |
| Issue of shares | 5,476 | – | – |
| Share issue expenses | (237) | – | – |
| AT 31 DECEMBER 2004 | 10,514 | (91) | (7,561) |

| Company | Share premium £000 | Profit and loss account £000 |
|----------------------------|--------------------------|------------------------------------|
| At 1 January 2004 | 5,275 | (5,223) |
| Loss for the year | – | (816) |
| Issue of shares | 5,476 | – |
| Share issue expenses | (237) | – |
| AT 31 DECEMBER 2004 | 10,514 | (6,039) |

The company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The company's loss for the year was £816,000 (2003: £756,000).

NOTES TO THE ACCOUNTS

continued

14 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

| | 2004 £000 | 2003 £000 |
|--------------------------------------------|----------------|--------------|
| Loss for the year | (1,826) | (1,395) |
| Foreign exchange movements | (30) | – |
| Issue of ordinary shares (net of expenses) | 5,363 | 3,386 |
| Opening equity shareholders' funds | 2,159 | 168 |
| CLOSING EQUITY SHAREHOLDERS' FUNDS | 5,666 | 2,159 |

Although the deferred shares are non-equity under FRS 4, due to the restrictions on them, they are effectively valueless and therefore all shareholders' funds have been attributed to equity.

15 LOSS PER ORDINARY SHARE

The loss per share of 0.79p (2003: loss 1.24p) has been calculated on the basis of the loss of £1,826,000 (2003: loss £1,395,000) and on 230,500,597 (2003: 112,879,790) ordinary shares, being the weighted average number of ordinary shares in issue during the year ended 31 December 2004.

16 FINANCIAL COMMITMENTS

The group had annual commitments under non-cancellable operating leases as follows:

| | 2004 £000 | 2003 £000 |
|------------------------------------|--------------|--------------|
| LAND AND BUILDINGS | | |
| Expiring within two and five years | 57 | 57 |
| | 57 | 57 |

The group's commitments under joint venture agreements are set out in note 17.

17 RELATED PARTY TRANSACTIONS

Financial Reporting Standard 8, 'Related Party Transactions', requires the disclosure of the details of material transactions between the reporting entity and related parties. The company has taken advantage of exemptions under Financial Reporting Standard 8 not to disclose transactions between more than 90 per cent owned group companies. Details of other related party transactions are:

- In May 2003 Blackwatch Resources Limited (Blackwatch) and the China National Gold Guangxi Corporation (CNGGC) agreed to jointly establish and invest in a subsidiary called Blackwatch Resources China Limited ('BRCL') in Nanning, Guangxi Province, China, and hereby entered into a Contract ('the Contract'). The Contract requires Blackwatch to invest a total of US\$1,500,000 within two years from 23 May 2003. As at 31 December 2004, £962,237 (2003: £511,674) had been invested into BRCL.
- In August 2004 Blackwatch Resources Limited (Blackwatch) and the Chenghua Industrial Corporation Limited ('Chenghua') agreed to jointly establish and invest in a subsidiary called Caledon Resources China Limited ('CRCL') in China, and hereby entered into a Contract ('the Contract'). The Contract requires Blackwatch to invest a total of US\$1,500,000 within two years from 5 August 2004. As at 31 December 2004, £124,576 had been invested into BRCL.
- Caledon charged £75,164 (2003: £nil) to Oriel Resources plc a company with certain common directors and shareholders for the use of Caledon's London offices. £7,299 was outstanding at the year end (2003: £nil).
- Caledon charged £22,351 (2003: £nil) to Everfor Diamonds plc a company with certain common directors and shareholders for the use of Caledon's London offices. £5,922 was outstanding at the year end (2003: £nil).

18 FINANCIAL INSTRUMENTS

The group's financial instruments comprise of cash and liquid resources, and various items, such as accounts receivable and accounts payable, that arise directly from its operations.

The main risks arising from the group's financial instruments are interest rate risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

SHORT-TERM DEBTORS AND CREDITORS

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

INTEREST RATE RISK PROFILE AND MATURITY ANALYSIS OF FINANCIAL LIABILITIES

The following table provides an analysis of the group's interest rate risk in relation to its floating rate interest financial liabilities as at 31 December 2004 all of which fall due within one year. At 31 December 2004 there were no liabilities at fixed interest rates or liabilities without interest rates.

FLOATING RATE FINANCIAL LIABILITIES

| | December 2004 £000 | December 2003 £000 |
|-----------------|--------------------------|--------------------------|
| CURRENCY | | |
| Sterling | 5 | 25 |
| | 5 | 25 |

In respect of floating rate liabilities, the interest rate is based on the bank base rates of LIBOR.

INTEREST RATE RISK PROFILE OF FINANCIAL LIABILITIES

FLOATING RATE FINANCIAL ASSETS

| | December 2004 £000 | December 2003 £000 |
|------------------|--------------------------|--------------------------|
| CURRENCY | | |
| Sterling | 171 | 571 |
| US dollars | 125 | 215 |
| Canadian dollars | 3 | 2 |
| Chinese RMB | 31 | 18 |
| | 330 | 806 |

In respect of floating rate assets, the interest rate is based on the bank base rates of LIBOR.

FIXED RATE FINANCIAL ASSETS

| | December 2004 £000 | December 2003 £000 |
|-----------------|--------------------------|--------------------------|
| CURRENCY | | |
| Sterling | 2,357 | 1,000 |
| | 2,357 | 1,000 |

The weighted average interest rate for the period was 3.64 per cent (2003: 3.09 per cent), with a weighted average maturity of one week (2003: one week).

BORROWING FACILITIES

The group had no undrawn committed borrowing facilities available at 31 December 2004.

NOTES TO THE ACCOUNTS

continued

18 FINANCIAL INSTRUMENTS CONTINUED

CURRENCY EXPOSURES

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

| | 2004 £000s | | | 2003 £000s | | |
|----------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Assets/(liabilities) held GBP | Assets/(liabilities) held USD | Assets/(liabilities) held CDN | Assets/(liabilities) held GBP | Assets/(liabilities) held USD | Assets/(liabilities) held CDN |
| FUNCTIONAL CURRENCY | | | | | | |
| UK sterling | – | 62 | 2,715 | – | 192 | 10 |
| China Yuan Renminbi | 22 | 73 | – | 194 | – | – |
| | 22 | 135 | 2,715 | 194 | 192 | 10 |

FAIR VALUE

Given the short-term nature of the financial assets and liabilities there is no material difference between their book values and their fair values.

19 POST BALANCE SHEET EVENTS

DYNASTY GOLD CORPORATION

On 14 January 2005 Caledon completed an investment of Cdn\$1,845,000 (£772,000) in Dynasty Gold Corporation ('Dynasty') an advanced stage China gold explorer. Dynasty is a Vancouver based company and is listed on the Toronto Ventures Exchange. The non-brokered private placement in Dynasty consisted of the purchase of 4,500,000 share units at a price of Cdn\$0.41. This equity stake represents approximately 15 per cent of the issued and outstanding shares of Dynasty. Each share unit consists of one common share and one half-warrant of which each whole warrant entitles Caledon to purchase one common share at an exercise price of Cdn\$0.70 per share for up to 24 months from the date of closing. The shares and the warrants to be issued will be subject to a four month lock-in from the date the private placement was completed. The proceeds of the offering will be used to fund the exploration and development of Dynasty's projects in western China.

On 29 March 2005 Caledon signed a subscription agreement to invest a further Cdn\$220,500 (£97,000) in Dynasty. The non-brokered private placement in Dynasty consisted of the purchase of 630,000 share units at a price of Cdn\$0.35. The additional investment was made to maintain the company's level of investment in Dynasty at 15 per cent. Each share unit consists of one common share and one half-warrant of which each whole warrant entitles Caledon to purchase one common share at an exercise price of Cdn\$0.50 per share for up to 24 months from the date of closing. The shares and the warrants to be issued will be subject to a four month lock-in from the date the private placement is completed.

BUTLER DEVELOPMENTS CORPORATION

On 14 March 2005 the company signed a letter of intent with Toronto Stock Exchange listed Butler Developments Corporation (TSX-V: BTB). The letter of intent grants Butler an option to acquire the group's existing Guangxi province gold projects, including Hengxian, Gaolong and Badu. The deal excludes the advanced stage Mojiang gold project situated in Yunnan, where drilling is on-going by the company.

The consideration for Butler's acquisition of the group's existing Guangxi province gold projects will be a direct equity interest in Butler. In addition, it is contemplated that part of the transaction would involve a share bonus to be paid to Caledon upon any future discoveries. It is also proposed that Caledon's experienced and China-seasoned exploration team act as project operators on the various Guangxi projects. Caledon would also be entitled to two seats on Butler's board of directors.

Butler intends to fully fund exploration on the projects over the next two years, maintaining the existing commitments agreed upon by Caledon in 2003 with their partners in the province.

DIRECTORS AND ADVISERS

DIRECTORS

Robert John Alford (Chairman)
George Gregory Salamis (Chief Executive)
Paul Anthony Ingram (Executive Director)
Graham Mascall (Non-executive Director)
Cathy Bosworth Horton (Non-executive Director)

COMPANY SECRETARY

Manish Kotecha

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