Caledon Resources PLC *Annual Report and Accounts 2005*

CALEDON
RESOURCES • PLC

Caledon Resources PLC
Annual Report and Accounts

For the year ended 31 December 2005

An Overview of Caledon Resources

Caledon Resources PLC

Operational Highlights

Afcan/Eldorado
The investment made in late 2004 by Caledon in Afcan Mining Corporation ('Afcan'), the owner of a major gold deposit in Western China, was soon realised by the takeover of Afcan by Eldorado Gold Corporation ('Eldorado') in September 2005. This gave the Company the opportunity to initiate an orderly disposal programme of Eldorado shares into a strong stock market environment. By the year end Caledon had sold 3.7 million shares generating approximately £8.5 million.

Dynasty
In early 2005 Caledon completed an investment in Dynasty Gold Corporation ('Dynasty') of $C2.4 million (£1.1 million). Dynasty is an advanced stage gold explorer in China with an inferred resource of nearly one million ounces at Hatu, and has two other highly promising prospects at Red Valley and Wild Horse in North Western China.

Mojiang
Mojiang has been Caledon's primary exploration focus for the last 12 months. Given the advanced nature of exploration at Mojiang, with over 7,000 metres of drilling completed as at June 2006 by Caledon, the project will continue to be at the forefront of our Company's exploration efforts in China for the foreseeable future. In 2005 and into 2006, our focus has been on proving up mineralisation continuity and gold resources within a +4 kilometres long corridor straddling Mojiang Mountain. Results to date prove the existence of a semi-continuous flat-lying near surface zone of disseminated gold mineralisation, averaging 20 to 40 metres in true thickness, occurring over a strike length in excess of 2 kilometres. More narrow (2 to 10 metres wide) zones of high grade gold mineralisation cross-cut the low grade zones, occurring as banded epithermal veins and intense silification.

Guangxi
Given our primary focus on Mojiang in 2005, exploration on the Guangxi area properties was conducted at only a low level in anticipation of bringing joint venture partners on-board to further advance the properties. The Company remains of the view that the Guangxi projects (Badu, Gaolong and Hengxian) remain excellent prospects, however they reside at a mid-stage level of exploration and are thus of secondary priority to the Company. As such, we continue to hold discussions with potential joint venture partners who have presented various vend-in strategies.

Acquisition of Cook Coal Mine
On 16 June 2006 the Company signed a Heads of Agreement with Xstrata Coal Pty Limited, a subsidiary of Xstrata plc, to acquire Cook Coal Mine for a cash consideration of $AUS45.6 million (approx £18.5 million). The Cook Coal Mine is located in Queensland, Australia, and currently produces a range of thermal and coking coal products. SRK Engineering has confirmed that at least 40 million tonnes of premium coal, equivalent to 20 years mine life at a mining rate of 2 Mtpa, is readily accessible from existing and active underground mine workings.

Chairman's Report

Robert J Alford

Chairman

Once again the Company has made significant progress with regard to its exploration projects, which remains the Company's first priority. Of important note however, for the financial year under review, was the successful exit from the Company's investment in Afcan. The share combination of Afcan with mid tier gold producer Eldorado and our subsequent sale of shares and warrants produced a significant cash injection substantially strengthening the Company's balance sheet. I am delighted that our strategic move into investing in other junior mining companies operating in China has proved so successful after such a short investment period.

Continuing to deal with our investments, shareholders will be aware that the Company currently holds approximately 13% of the common stock of Dynasty. At the end of 2005 Avocet Mining plc ('Avocet') agreed to purchase shares and rights to shares totalling an undiluted interest of 35.9% of Dynasty. Caledon was keen to facilitate this transaction as Avocet brings mine building and operational skills in addition to the financial capacity necessary to develop Dynasty's assets, especially the Hatu property.

With a significantly increased treasury the Company has been reviewing a number of potential investments.

To that end on 16 June 2006 the Company signed a Heads of Agreement with Xstrata Coal Pty Limited, a subsidiary of Xstrata plc ('Xstrata'), to acquire the Cook Coal Mine in Queensland, Australia, which currently produces a range of thermal and coking coal products.

The Directors' Report on page 6 contains full details of the proposed transaction under the section 'post balance sheet events' however, I would like to specifically add that assuming the transaction completes as proposed, becoming part of the global seaborne coking coal production and export business presents a wonderful opportunity for Caledon. The strategy to work initially with Xstrata for the transportation and sale of our production greatly reduces the risks faced by a new entrant to the coking coal business. Furthermore our decision to utilise the services of third party contractors at the Mine and the Coal Preparation Plants allows the accurate budgeting and financial planning required for such an enterprise.

As part of this transaction I welcome the arrival of Peter Seear to our executive management group as Chief Operating Officer. Peter's knowledge of the coking coal mining industry will add greatly to the Company's skill set to develop this opportunity to the full.

The previously reported letter of intent signed with Butler Resources failed to complete as contemplated. The properties remain active from a development standpoint.

Mojiang remains an exciting advanced stage property. As recently as April this year we reported some excellent drill update data. This current drill programme will complete in June 2006 when the team on the ground will begin the task of resource modelling using geological, structural and assay data collected from the 2005 and 2006 drill programmes. By the end of 2006 and with the assistance of SRK, the Company's consultants, we will complete the resource estimate for Mojiang.

Turning now to management and the team; George Salamis, the Company's Chief Executive together with Paul Ingram, Executive Director, has assembled a first class team of professional geologists and mining personnel to further develop the existing and future assets of the Company and I am convinced that our team will deliver the results required by our shareholders. I am sure shareholders would like to join with me in acknowledging their considerable efforts and to thank them for their hard work.

Shareholders will remember that I agreed to act as Chairman of the Company on an interim basis until a permanent chairman with a relevant mining experience could be appointed. During the past few months whilst we have been reviewing our investment alternatives the board has decided that it would be sensible for me to remain as Chairman.

Robert J Alford
Chairman
27 June 2006

Review of Operations

George Salamis
Chief Executive

In 2005, Caledon's field programme consisted almost exclusively of exploration conducted on the Mojiang gold project in Yunnan and in the evaluation of several dozen gold and base metal deposits throughout China and elsewhere. In addition, Caledon participated in several collaborative efforts with Dynasty Gold assisting the process of attracting major mining Company participation into Dynasty's ownership structure – an effort which bore fruit with the arrival of Avocet and then AngloGold, into Dynasty's ownership structure.

Caledon drilled over 4,000 metres on the Mojiang project in 2005, establishing gold continuity over a strike length of 2 kilometres, using wide spaced drill centres. In addition, the Company continued to apply geological principles learned in the near surface drilling, to deeper targets at Mojiang, resulting in the successful interception of gold at depths of 200 metres and more.

Caledon's field crews initiated metallurgical test studies on samples collected from various parts of the Mojiang ore-body. The results of the study indicated that Mojiang was subjected to various gold mineralising events during its formation, with gold recoveries spanning the full spectrum from low to high.

With continued drilling throughout 2005 and on into 2006, Caledon has commissioned SRK Consulting to perform a gap analysis study designed to provide Caledon with an understanding of what further studies and drilling will be required to bring Mojiang to a resource estimation stage and beyond into a scoping study level.

In late 2005 and early 2006, Caledon was preparing to initiate a major drilling programme at Mojiang, consisting of at least 4,000 metres of diamond and RC drilling, designed to in-fill areas which previously had not been drilled by Caledon or its Chinese partners. Caledon is to initiate a resource estimate on Mojiang later this year.

Elsewhere in China, further fieldwork has been conducted on Caledon's Guangxi projects, specifically Gaolong, Badu and Hengxian. The field programmes on these projects, mostly focused on surface mapping and sampling, were designed to follow up on drilling conducted in 2004, expanding outward from known intercepts.

Towards the latter part of 2005, Caledon management also devoted a major effort to the process of conducting field evaluations in its pursuit of new advanced stage projects with near-term production capability. This process involved a thorough analysis of large data sets and due diligence was conducted on at least two dozen projects, early stage to near-production, both within and outside of China.
Of the several dozen projects that Caledon has evaluated throughout 2005, three have progressed to the top of the list with active discussions with the project owners regarding potential acquisition by Caledon.

Investments

Afcan Mining – Eldorado Gold Corporation

On 14 September 2005 Afcan (TSX:AFK) and Eldorado (TSX:ELD; AMEX:EGO) merged. The Company received one common share of Eldorado in exchange for every 6.5 common shares of Afcan held. In addition, Eldorado issued one Eldorado warrant for every 6.5 outstanding Afcan warrants. Each new Eldorado warrant had an exercise price of $C2.4375 which was the equivalent of 6.5 times the exercise price of each Afcan warrant held by the Company.

Review of Operations *continued*

The Company's holding of 23.8 million shares and 11.9 million share warrants in Afcan was exchanged for 3.7 million shares and 1.8 million warrants respectively in Eldorado.

During the fourth quarter of 2005 the Company liquidated its investment in Eldorado at an average price per share of $C4.60 and generating gross proceeds of $C16.9 million (approximately £8.46 million).

At 31 December 2005 the Company held 1.8 million share warrants at an exercise price of $C2.4375.

Dynasty Gold Corporation

During the year the Company acquired a total of 7,187,778 shares for a total cost of £1.1 million in Dynasty, an advanced stage China gold explorer.

Dynasty is achieving success in China with inferred resources of nearly one million ounces of gold, three highly prospective projects and strong business relationships. They have successfully raised equity funding throughout the year as well as attracting AngloGold Ashanti and Avocet as operational partners and equity holders. Dynasty has produced positive drilling results from Hatu and initiated programmes at Red Valley and Wild Horse. In addition three new high profile directors have joined the board.

Results of operations

The Group generated a profit of £2.3 million for the year ended 31 December 2005 compared with a loss of £1.8 million in the previous financial year. The earnings per share of the Group stood at 0.69 pence which compared with a loss per share of 0.79 pence for the year ended 31 December 2004.

George Salamis
Chief Executive
27 June 2006

Directors and Advisers

Directors
Robert John Alford
Chairman

George Gregory Salamis
Chief Executive

Paul Anthony Ingram
Executive Director

Graham Mascall
Non-executive Director

Mark Syropoulo
Non-executive Director

Company Secretary
Manish Kotecha

Registered Office
18 Upper Brook Street
London W1K 7PU

Nominated Adviser and Nominated Broker
Canaccord Adams (Europe) Limited
27 Upper Brook Street
London W1K 7QF

Registered Auditors
BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL

Solicitors to the Company
Nabarro Nathanson
Lacon House
Theobald's Road
London WC1X 8RW

Registrars
Computershare Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Directors' Report

The directors present their Annual Report and the audited Group financial statements for the year ended 31 December 2005. The corresponding amounts are for the year ended 31 December 2004.

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

Results, business review and future developments
The Group's performance during the year and expected future developments are described in the Review of Operations on page 3.

Dividends
The directors do not recommend payment of a dividend for the period (2004: nil). The profit will be transferred to reserves.

Post balance sheet events
On 16 June 2006 the Company signed a Heads of Agreement ('HOA') with Xstrata Coal Pty Limited, a subsidiary of Xstrata plc ('Xstrata'), to acquire Cook Coal Mine in Queensland, Australia, which currently produces a range of thermal and coking coal products.

Following the acquisition of the mine, on the completion of the formal Asset Purchase Agreement, Caledon expects to increase the current Cook mine production to 1.5 million tonnes per annum (Mtpa) within a period of two years. As part of the asset sale, Xstrata has quoted an in situ resource base (Measured and Indicated, JORC standard) of 126 million tonnes of coal for the Cook mine. This is derived from two seams which are currently accessible via existing and active underground workings. Preliminary due diligence conducted by Caledon, using SRK Engineering as an external consultant, has confirmed that at least 40 million tonnes of premium coal, equivalent to 20 years of mine life at a mining rate of 2 Mtpa, is readily accessible from existing and active Cook underground mine workings.

Premium quality coking coal, including product from the Cook mine, has achieved prices from $US90 to $US120 per tonne over the past two years. Coking coal prices are forecasted to remain strong for the foreseeable future, driven by world-wide demand for steel and by current constraints on the seaborne coking coal supply chain.

The HOA with Xstrata also outlines the terms of marketing and off-take arrangements for the sale of Cook coking coal by Xstrata; rail and port access provided by Xstrata for a period of two years and Xstrata's assistance with logistics arrangements thereafter.

Caledon-Xstrata Heads of Agreement
Under the HOA, Caledon will purchase the Cook mine in Queensland, Australia, for a total consideration of $AUS45.6 million. This sum is to be paid on completion of the Asset Purchase Agreement, which is subject to the fulfilment of certain conditions precedent including the approval of the Caledon and Xstrata boards, regulatory approval, transfer of the mining sub-leases, etc. The HOA contain exclusivity arrangements between the two companies for a period of four months intended to cover the period leading up to the signing of the Asset Purchase Agreement. The exclusivity arrangements are subject to break-fees applicable to both parties. Caledon has deposited a total of $AUS5 million as a down-payment against the purchase price of the mine.

Cook mine purchase
The Cook mine purchase includes all mining rights to the current Cook mine reserve, mine site infrastructure and mining equipment, haulage roads, access to the Coal Preparation Plant ('CPP'), rail loop and load-out facilities, etc. In addition, Caledon has the right to operate the CPP having entered a long-term rental agreement with Xstrata.

Coking coal marketing, off-take and transport
For the first two years of operation, during which time access to rail and port facilities is challenging, Caledon has contracted with Xstrata for them to provide rail and port access, coking coal marketing expertise and off-take agreements. Under the terms of the agreement, Xstrata will have the exclusive rights to market Caledon's products from the Cook mine on an open-book basis, for which Caledon will pay a pre-determined marketing fee to Xstrata. Under the off-take agreement Caledon and Xstrata have agreed a production schedule of 900,000 tonnes of coal in 2007, escalating to 1.5 million tonnes in 2008. Caledon is limited to this production level until 2009, due to rail and port constraints.

For production years 2009 and beyond rail and port allocation constraints are expected to decrease significantly as a range of port and rail expansion projects are completed by the Queensland Government.

Cook: current and future production
Currently there are two substantial coal seams at the Cook colliery; they are the Castor seam at a depth of 120-200 metres and the Argo seam at a depth of approximately 15-20 metres below the Castor seam. Coal is produced by the use of 'continuous miners', with shuttle car transportation to a conveyor and thence to surface. Access to the coal seams is via an inclined shaft and road-ways. Both seams contain coking and thermal coal. However, Caledon will concentrate on the Argo

seam where the coking/thermal coal split is much higher in favour of coking coal. The mine is currently designed to produce from two development units. Coal is transported over a private overland haulage road to the CPP where beneficiation takes place. Cook produces thermal coal and a low ash high quality coking coal which exhibits high levels of coking properties and is a recognised brand.

Caledon's development plans envisage the employment of experienced contract mining contractors, contract mine management and contract wash plant management to significantly expand production. To this end, the Company is currently in negotiation with a number of service providers. In addition, Caledon has contracted with SRK Engineering in Brisbane to assist them in completing the Qualified Persons Report, relating to this transaction.

Australia's Bowen Basin, the world's most prolific coking coal region

The Cook Coal Mine is situated in Queensland's Bowen Basin, a region of Australia known for a range of coal types including premium quality coking coal production. The Bowen Basin produces approximately 115 Mtpa of coking coal from 30 mining operations. Open pit and underground production from the Bowen Basin, represents more than 50% of the world's seaborne coking coal. The region is host to four heavy haul railway systems, five ship loading terminals together with towns and service centres supporting the coal mining industry.

Xstrata, BHP-Billiton, Anglo American and Rio Tinto all have a significant operating presence in the Basin and their production accounts for the majority of the coking coal produced and shipped overseas.

The Queensland Government has had a long history of proactive support for the coal mining industry in the Bowen Basin.

Appointment of Peter Seear as COO of Caledon Resources

Following the appointment of Mr Seear as Chief Operating Officer, his mandate will be to take overall responsibility for the ownership transition and the future mine production including substantially increasing the output of the Cook mine.

Mr Seear has been actively engaged in the coal mining industry since 1977. He commenced his career immediately upon graduation from Coventry University in the United Kingdom, in 1977. He achieved Chartered Engineer status in the United Kingdom in 1983 and then he proceeded to work for several contract coal mining companies. Additionally he spent time with underground coal mining equipment manufactures as an engineer, including 10 years with Joy Mining of South Africa and Joy Mining North America.

Mr Seear also holds a Masters degree from the Harvard School of Business and brings a wealth of contacts in the contract coal mining, processing and marketing business.

Appointment of Endeavour Financial as advisors to debt financing arrangement

Caledon has also retained Endeavour Financial International Corporation ('Endeavour') on an exclusive basis to provide general corporate financial advisory services with respect to the debt financing element of this transaction. Over the course of the next few months, Endeavour will work closely with Caledon's management to identify and implement various transactions relating to the financing of this project which may include, but are not limited to: project finance, corporate debt finance, convertible debt, mezzanine finance, bridge loans, etc.

Endeavour, with offices in London, Vancouver and the Cayman Islands, is a private independent investment banking business with a successful history of achievement for its clients based on its resource industry focus, innovative transaction skills and the diverse professional backgrounds of its team.

Directors and directors' interests

The directors at the date of the financial statements held the following interests during the year in the Ordinary Shares in the Company:

	Number of shares held as at 31 December 2005	Number of shares held as at 1 January 2005
George Salamis	**4,687,500**	4,687,500
Paul Ingram[1]	**17,187,500**	17,187,500
Robert Alford[2]	**1,050,000**	1,050,000
Graham Mascall	**–**	–
Mark Syropoulo (appointed 18 May 2005)	**–**	–

1. The interests of Paul Ingram are held by Siam Resources Ltd, a company in which Paul Ingram is a director and shareholder.
2. The interests of Robert Alford are held by Portman Welbeck as trustees for the RJ Alford Guernsey Trust.

Cathy Horton resigned as a director on 18 May 2005. Stephen Dattels resigned as a director on 15 February 2005.

Directors' Report *continued*

The directors' interests in share options are as follows:

	Options at 1.01.05	Options granted during the year	**Options at 31.12.05**	Exercise price	Date of grant	First date of exercise	Final date of exercise
George Salamis	1,250,000	–	**1,250,000**	2p	11.04.03	11.04.04	11.04.13
	3,000,000	–	**3,000,000**	3p	29.04.03	29.04.04	29.04.13
	–	1,750,000	**1,750,000**	3.75p	22.11.05	22.11.06	22.11.15
Paul Ingram	1,250,000	–	**1,250,000**	2p	11.04.03	11.04.04	11.04.13
	–	1,500,000	**1,500,000**	3.75p	22.11.05	22.11.06	22.11.15
Robert Alford	1,250,000	–	**1,250,000**	2p	11.04.03	11.04.04	11.04.13
	–	1,500,000	**1,500,000**	3.75p	22.11.05	22.11.06	22.11.15
Graham Mascall	1,250,000	–	**1,250,000**	2p	11.04.03	11.04.04	11.04.13
Mark Syropoulo	–	1,250,000	**1,250,000**	3.75p	22.11.05	22.11.06	22.11.15

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 following the first, second and third anniversary from the date of grant.

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.

Significant shareholders

As at 20 June 2006 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% or more of the nominal value of the Company's share capital are as follows:

	Number of Ordinary Shares held	Ordinary Shares as % of issued share capital
HSBC Global Custody Nominee (UK) Limited	43,334,140	12.81
BBHISL Nominees Limited	27,156,960	8.03
Pershing Keen Nominees Limited	20,377,243	6.03
Euroclear Nominees Limited	16,650,491	4.92
The Bank of New York (Nominees) Limited	14,317,166	4.23
Barclayshare Nominees Limited	13,621,013	4.03
Credit Suisse Client Nominees (UK) Limited	13,500,000	3.99
HSDL Nominees Limited	13,254,032	3.92
TD Waterhouse Nominees (Europe) Limited	12,450,261	3.68
Willbro Nominees Limited	11,557,353	3.42
L R Nominees Limited	10,454,726	3.09

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 2005 represent 30 days as a proportion of the total amount invoiced by suppliers during the year ended on that date.

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note [19] of the financial statements.

Donations

The Company made no charitable or political donations in the current year (2004: £1,600).

Auditors

During the year Pricewaterhouse Coopers LLP resigned as auditors, and BDO Stoy Hayward LLP were appointed by the directors. BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board

Manish Kotecha
Company Secretary
27 June 2006

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 ('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. 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 considered to be 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 more often when the need arises 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 Mascall
- Mark Syropoulo

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 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 Mascall
- Mark Syropoulo

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. 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.

Going concern

The financial statements have been prepared on a going concern basis. The Group's cash and liquid resources stood at £7.8 million at 31 December 2005 and its forecast spend for the following 12 months is £2.6 million. The Group intends to continue to 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 2005, Robert Alford, Graham Mascall and Mark Syropoulo. 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 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 the Directors' Report on page 6.

The remuneration of the directors is as follows:

	Fees 2005 £	Fees 2004 £
George Salamis	**94,074**	82,564
Paul Ingram	**84,239**	65,846
Robert Alford	**20,000**	20,000
Stephen Dattels	**5,353**	66,206
Graham Mascall	**15,000**	20,000
Mark Syropoulo	**7,104**	–
	225,770	254,616

On behalf of the Remuneration Committee

Robert Alford
Committee Chairman
27 June 2006

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 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.

Financial statements are published on the Group'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 Group'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 Shareholders of Caledon Resources PLC

We have audited the Group and parent Company financial statements (the 'financial statements') of Caledon Resources PLC for the year ended 31 December 2005 which comprise the Group Profit and Loss Account, the Group Balance Sheet, the Company Balance Sheet, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Report, the Review of Operations, the Report of the Remuneration Committee and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Group's and 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 Group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2005; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP
Chartered Accountants and Registered Auditors
London
27 June 2006

Group Profit and Loss Account

for the year ended 31 December 2005

	Note	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Exploration expenses		**(1,443)**	(1,012)
Other administrative expenses		**(764)**	(842)
Other operating income	2	**5,486**	–
Operating profit/(loss)	3	**3,279**	(1,854)
Net interest receivable and similar income	4	**37**	28
Profit/(loss) on ordinary activities before taxation		**3,316**	(1,826)
Tax on profit/(loss) on ordinary activities	5	**(972)**	–
Profit/(loss) for the financial year	14	**2,344**	(1,826)
Earnings/(loss) per share – basic	16	**0.69p**	(0.79p)
– fully diluted	16	**0.68p**	(0.79p)

All amounts relate to continuing activities.

Group Statement of Total Recognised Gains and Losses

for the year ended 31 December 2005

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Profit/(loss) for the financial year	**2,344**	(1,826)
Foreign exchange differences	**46**	(31)
Total profit/(losses) recognised since last financial statements	**2,390**	(1,857)

All amounts relate to continuing activities.

Group Balance Sheet
as at 31 December 2005

	Note	31 December 2005 £'000	31 December 2004 £'000
Fixed assets			
Intangible fixed assets	7	**141**	203
Tangible fixed assets	8	**51**	78
Investments	9	**1,086**	–
		1,278	281
Current assets			
Investments	10	**–**	2,715
Debtors	11	**434**	158
Cash at bank and in hand		**7,816**	2,687
		8,250	5,560
Creditors: amounts falling due within one year	12	**(1,472)**	(175)
Net current assets		**6,778**	5,385
Total assets less current liabilities		**8,056**	5,666
Capital and reserves			
Called up share capital	13	**2,804**	2,804
Share premium	14	**10,514**	10,514
Capital reserve	14	**(91)**	(91)
Profit and loss account – deficit	14	**(5,171)**	(7,561)
Total shareholders' funds	15	**8,056**	5,666

The financial statements on pages 14 to 29 were approved by the Board of Directors on 27 June 2006, authorised for issue on 30 June 2006 and were signed on its behalf by:

George G Salamis
Director

Company Balance Sheet
as at 31 December 2005

	Note	31 December 2005 £'000	31 December 2004 £'000
Fixed assets			
Tangible fixed assets	8	**21**	48
Investments	9	**1,399**	313
		1,420	361
Current assets			
Investments	10	**–**	2,715
Debtors: amounts falling due after one year	11	**2,895**	1,703
Debtors: amounts falling due within one year	11	**357**	84
Cash at bank and in hand		**7,656**	2,556
		10,908	7,058
Creditors: amounts falling due within one year	12	**(1,445)**	(140)
Net current assets		**9,463**	6,918
Total assets less current liabilities		**10,883**	7,279
Capital and reserves			
Called up share capital	13	**2,804**	2,804
Share premium	14	**10,514**	10,514
Profit and loss account – deficit	14	**(2,435)**	(6,039)
Total shareholders' funds	15	**10,883**	7,279

The financial statements on pages 14 to 29 were approved by the Board of Directors on 27 June 2006, authorised for issue on 30 June 2006 and were signed on its behalf by:

George G Salamis
Director

Group Cash Flow Statement

	Note	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Net cash (outflow) from continuing operating activities	(a)	**(2,204)**	(1,734)
Returns on investments and servicing of finance			
Interest received		**39**	29
Interest paid		**(2)**	(1)
Net cash inflow from returns on investments and servicing of finance		**37**	28
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(11)**	(32)
Net cash outflow for capital expenditure and financial investment		**(11)**	(32)
Acquisitions			
Purchase of fixed asset investment		**(1,086)**	–
Cash (outflow) before management of liquid resources and financing		**(3,264)**	(1,738)
Management of liquid resources			
Purchase of trade investment		**–**	(2,693)
Cost relating to trade investment		**–**	(22)
Proceeds of disposal of trade investment		**8,201**	–
Movement on deposits		**2,300**	(1,300)
Cash inflow/(outflow) from management of liquid resources		**10,501**	(4,015)
Financing			
Issue of Ordinary Shares		**–**	5,600
Cost of issue of shares		**–**	(237)
Cash inflow from financing		**–**	5,363
Increase/(decrease) in net cash in the period	(c)	**7,237**	(390)

Notes to the Group Cash Flow Statement

(a) Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Operating profit/(loss)	**3,279**	(1,854)
Profit on sale of current asset trade investment	**(5,486)**	–
Depreciation of tangible fixed assets	**34**	33
Amortisation of intangible fixed assets	**62**	63
Foreign exchange differences	**(155)**	–
Decrease in debtors	**54**	40
Increase/(decrease) in creditors	**8**	(16)
Net cash outflow from operating activities	**(2,204)**	(1,734)

(b) Reconciliation of net cash flow to movement in the net funds

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Increase/(decrease) in net cash in the year	**7,237**	(390)
(Decrease)/increase in liquid resources	**(10,501)**	4,015
Movement in net funds arising from cashflows	**(3,264)**	3,625
Foreign exchange movement	**193**	(9)
Profit on sale of current asset investment	**5,486**	–
Net funds at start of year	**5,397**	1,781
Net funds at end of the year	**7,812**	5,397

(c) Analysis of net cash

	At 1 January 2005 £'000	Cash flow £'000	Other non cash items £'000	Foreign exchange £'000	At 31 December 2005 £'000
Cash	330	7,236	–	193	**7,759**
Bank overdraft	(5)	1	–	–	**(4)**
	325	7,237	–	193	**7,755**
Other liquid resources	5,072	(10,501)	5,486	–	**57**
Total	5,397	(3,264)	5,486	193	**7,812**

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, which have been applied consistently, and under the historical cost convention.

Basis of consolidation
The consolidated financial statements incorporate results of Caledon Resources PLC and all of its subsidiary undertakings and joint agreements as at 31 December 2005 using the acquisition or merger method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

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 this merger. 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).

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

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

Any profit or loss arising on disposal of investments is recognised on disposal within other operating income.

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 fixture 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 estimated useful economic lives which for Blackwatch Resources (BVI) Ltd is five years. Impairment tests on the carrying value of goodwill are undertaken at the end of first full financial year following acquisition or in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Exploration and evaluation
Initial exploration and other expenditure incurred in relation to the project areas to which the licences and rights relate are charged to profit and loss in the year in which they are incurred. When a project reaches a stage whereby a positive assessment of its economic viability can be reasonably determined, then to the extent that they are recoverable, all further exploration and development costs are carried forward as an asset in the balance sheet.

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on a unit of production output basis.

Environmental provisions
A provision will be made against environmental damage. As at 31 December 2005 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.

Principal Accounting Policies *continued*

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. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings are taken to reserves.

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.

Financial instruments
In relation to the disclosures made in note 19:
- short term debtors and creditors are not treated as financial assets or financial liabilities for disclosure purposes except for the currency disclosures; and
- the Group does not hold or issue derivative financial instruments for trading purposes.

Liquid resources
For the purposes of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

Changes in accounting policies
The Group has adopted FRS 21: Events after the balance sheet date, FRS 22: Earnings per share, the presentation component of FRS 25: Financial Instruments: Disclosure and presentation and FRS 28: Corresponding amounts in these financial statements. The adoption of each of these standards however, did not necessitate this years or the comparative years figures to be restated.

Share based employee remuneration
When shares and share options are awarded to employees a charge is made to the profit and loss account based on the difference between the market value of the Company's shares at the date of grant and the option exercise price in accordance with UITF Abstract 17 (Revised 2004) 'Employee Share Schemes'. There is no provision for any additional employer's national insurance contribution as the liability has been transferred to the owners of the options.

Post balance sheet events
Events occurring between the balance sheet and the date when the financial statements are authorised for issue that provide evidence of conditions that existed at the balance sheet date are recognised in these financial statements. Events occurring between the balance sheet date and the date when the financial statements are authorised for issue that are indicative of issues arising after the balance sheet date are disclosed in these financial statements.

Notes to the Accounts

1 Segmental analysis
The Group's sole business segment is mining exploration in China.

2 Other operating income
Other operating income related to the profit on sale of 3,669,556 shares in Eldorado Gold Corporation. For further information please see note 10.

3 Operating profit/(loss)

	2005 £'000	2004 £'000
Amortisation of intangible fixed assets	**62**	63
Depreciation of tangible fixed assets	**34**	33
Operating lease rentals – property	**53**	53
Auditors' remuneration – audit (Company £27,500 (2004: £37,000))	**32**	45

Fees paid to auditors in respect of other services were £20,980 (2004: £nil).

4 Net interest receivable and similar income

	2005 £'000	2004 £'000
Interest on bank overdrafts and loans	**(2)**	(1)
Bank interest receivable	**39**	29
	37	28

5 Taxation
Taxation on profits/(losses) on ordinary activities:

Current tax	2005 £'000	2004 £'000
UK Corporation tax on profits/(losses) of the year	**1,290**	–
Deferred tax origination of timing differences	**(318)**	–
Taxation on profit/(loss) on ordinary activities	**972**	–

The deferred tax credit arising in the year relates to an unrecognised gain of a current asset investment. This timing difference is expected to reverse in 2006 when the gain is expected to be recognised in the profit and loss account.

The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The differences are exemplified below:

	2005 £'000	2004 £'000
Profit/(loss) on ordinary activities before taxation	**3,316**	(1,826)
Tax credit using the standard rate of Corporation tax at 30%	**995**	(548)
Expenses not deductible for tax purposes	**194**	71
Unrealised gain on current asset investments	**318**	–
Tax losses	**(222)**	476
Depreciation in excess of capital allowances	**5**	1
Current tax charge	**1,290**	–

Notes to the Accounts *continued*

6 Directors and staff

	2005 £'000	2004 £'000
Directors' fees and emoluments	**226**	255

The highest paid director had emoluments totalling £94,074.

£94,074 (2004: £66,977) was paid to Sierra Consulting in respect of George Salamis' directors fees. £84,239 (2004: £65,846) was paid to Siam Resources Ltd.

No retirement benefits are accruing to directors (2002: £nil) under pension schemes.

	2005 £'000	2004 £'000
Directors' fees and emoluments	**226**	255
Wages and salaries	**534**	490
Social security costs	**26**	20
	786	765

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

	2005 Number	2004 Number
Technical	**18**	21
Administration	**16**	18
	34	39

7 Intangible assets – goodwill

	£'000
Cost	
At 1 January 2005 and at 31 December 2005	**313**
Amortisation	
At 1 January 2005	110
Charge for the year	62
At 31 December 2005	**172**
Net book value	
At 31 December 2005	**141**
At 31 December 2004	203

8 Tangible fixed assets

Group	Office and computer equipment £'000	Furniture and fixtures £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2005	57	37	24	118
Additions	11	–	–	11
Disposals	(4)	(3)	–	(7)
At 31 December 2005	**64**	**34**	**24**	**122**
Depreciation				
At 1 January 2005	19	15	6	40
Disposals	(2)	(1)	–	(3)
Charge for the year	19	11	4	34
At 31 December 2005	**36**	**25**	**10**	**71**
Net Book Value				
At 31 December 2005	**28**	**9**	**14**	**51**
At 31 December 2004	38	22	18	78

8 Tangible fixed assets *continued*

Company	Office and computer equipment £'000	Furniture and fixtures £'000	Total £'000
Cost			
At 1 January 2005	43	37	80
Additions	3	–	3
Disposals	(4)	(3)	(7)
At 31 December 2005	**42**	**34**	**76**
Depreciation			
At 1 January 2005	16	16	32
Charge for the year	14	11	25
Disposal	(1)	(1)	(2)
At 31 December 2005	**29**	**26**	**55**
Net book value			
At 31 December 2005	**13**	**8**	**21**
At 31 December 2004	27	21	48

9 Fixed asset investments

	Group £'000	Company £'000
Cost		
At 1 January 2005	–	313
Additions	**1,086**	**1,086**
31 December 2005	**1,086**	**1,399**

During the year the Company acquired a total of 7,187,778 shares for a total cost of £1,086,000 in Dynasty Gold Corporation, an advanced stage China gold explorer, listed on the Toronto Stock Exchange. The market value of the investment as at 31 December 2005 was $C1.7 million (£0.8 million), this is a long term strategic investment and its market value as at 1 June 2006 was $C2.2 million (£1.1 million). Accordingly the directors do not consider any provision for impairment to be necessary as at 31 December 2005.

The additions in the year relate to listed investments and the brought forward cost of investments relate to Group undertakings.

The Group has the following subsidiary undertakings:

	% interest	Country of incorporation	Activity
Blackwatch Resources (BVI) Limited	100	British Virgin Islands	Mining exploration
Blackwatch Mining Limited	100	British Virgin Islands	Mining exploration
Blackwatch Overseas 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

In addition the Group has entered into the following agreements relating to unincorporated entities operating gold mining exploration in China.

	% 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% of all costs.

Notes to the Accounts *continued*

10 Current asset investments

Cost	Trade investments £'000
At 1 January 2005	2,715
Disposals	(2,715)
At 31 December 2005	**–**

The Company purchased 23,852,117 units at 25 US cents per unit in November 2004 in Afcan Mining Corporation ('Afcan') a Canadian based company listed on the Toronto Stock Exchange.

On 14 September 2005 Afcan and Eldorado Gold Corporation ('Eldorado') (TSX:ELD; AMEX:EGO) merged. The Company received one common share of Eldorado in exchange for every 6.5 common shares of Afcan held. In addition, Eldorado issued one Eldorado warrant for every 6.5 outstanding Afcan warrants. Each new Eldorado warrant had an exercise price of $C2.4375 which was the equivalent of 6.5 times the exercise price of each Afcan warrant held by the Company. The Company's holding of 23.8 million shares and 11.9 million share warrants in Afcan was exchanged for 3.7 million shares and 1.8 million warrants respectively in Eldorado.

During the fourth quarter of 2005 the Company liquidated its investment in Eldorado at an average price per share of $C4.60 and generating gross proceeds of $C16.9 million (approx £8.46 million).

At 31 December 2005 the Company held 1.8 million share warrants at an exercise price of $C2.4375 (the share price at 31 December 2005 was $C5.69).

11 Debtors

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Amounts falling due within one year:				
Other debtors	**83**	96	**8**	26
Deferred tax asset	**318**	–	**318**	–
Prepayments	**33**	59	**31**	58
	434	155	**357**	84
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	**–**	–	**2,895**	1,700
Other debtors	**–**	3	**–**	3
	–	3	**2,895**	1,703
Total debtors	**434**	158	**3,252**	1,787

Amounts owed to subsidiaries are unsecured and interest free.

12 Creditors: amounts falling due within one year

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Unsecured bank overdrafts	**4**	5	**4**	5
Trade creditors	**59**	54	**59**	54
Other creditors	**16**	6	**–**	–
Corporation tax	**1,290**	–	**1,290**	–
Other taxation and social security	**5**	9	**4**	5
Accruals and deferred income	**98**	101	**88**	76
	1,472	175	**1,445**	140

13 Share capital

	2005 Number	2005 £'000	2004 Number	2004 £'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**	338,194,556	338
Deferred Shares of 0.1p each	**2,466,273,843**	**2,466**	2,466,273,843	2,466
	2,804,468,399	**2,804**	2,804,468,399	2,804

Capital re-organisation

On 11 April 2003 the Company re-organised its share capital as follows:

(a) Each issued Ordinary Share of 10p was sub-divided 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 up on 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 that they replaced, save to the extent that they have a par value of 0.1p.

Share options

The following options are outstanding for Ordinary Shares:

	Options at 1.1.05	Options granted/(exercised)	**Options at 31.12.05**	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors	7,500,000	–	**7,500,000**	2p	11.04.03	11.04.04	11.04.13
Directors	3,000,000	–	**3,000,000**	3p	29.04.03	29.04.04	29.04.13
Directors	–	6,000,000	**6,000,000**	3.75p	22.11.05	22.11.06	22.11.15
Staff	833,334	–	**833,334**	2p	11.04.03	11.04.04	11.04.13
Staff	833,334	–	**833,334**	3p	29.04.03	29.04.04	29.04.13
Staff	1,750,000	–	**1,750,000**	4p	13.06.03	13.06.04	13.04.13
Staff	1,400,000	–	**1,400,000**	12.75p	22.09.03	22.09.04	22.09.13
Staff	–	2,750,000	**2,750,000**	3.25p	19.08.05	19.08.06	19.08.15
Staff	–	2,250,000	**2,250,000**	3.75p	22.11.05	22.11.06	22.11.15
Consultant	–	1,000,000	**1,000,000**	3.25p	19.08.05	19.08.06	19.08.15

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.

Notes to the Accounts *continued*

14 Reserves

Group	Share premium £'000	Capital reserve £'000	Profit and loss account £'000
At 1 January 2005	10,514	(91)	(7,561)
Profit for the year	–	–	2,344
Foreign exchange movements	–	–	46
At 31 December 2005	**10,514**	**(91)**	**(5,171)**

Company	Share premium £'000	Profit and loss account £'000
At 1 January 2005	10,514	(6,039)
Profit for the year	–	3,604
At 31 December 2005	**10,514**	**(2,435)**

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit for the year was £3,604,000 (2004: loss £816,000).

15 Reconciliation of movement in equity shareholders' funds

	2005 £'000	2004 £'000
Profit/(loss) for the year	**2,344**	(1,826)
Foreign exchange movements	**46**	(30)
Issue of Ordinary Shares (net of expenses)	**–**	5,363
Opening equity shareholders' funds	**5,666**	2,159
Closing equity shareholders' funds	**8,056**	5,666

Although the deferred shares are non-equity under FRS 25, due to the restrictions on them, they are effectively valueless and therefore all shareholders' funds have been attributed to equity.

16 Earnings/(loss) per Ordinary Share

The basic earnings per share of 0.69 pence (2004: loss 0.79 pence) has been calculated in accordance with FRS 22 (earnings per share), on a profit on ordinary activities after tax of £2,344,000 (2004: loss £1,826,000) and on 338,194,556 (2004: 230,500,597) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year ended 31 December 2005.

The diluted earnings per share of 0.68 pence (2004: n/a) is calculated in accordance with FRS 22 (earnings per share), on a profit on ordinary activities after tax of £2,344,000 and on 343,873,032 Ordinary Shares, being the weighted average number of dilutive potential Ordinary Shares in issue during the year.

17 Financial commitments

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

	2005 £'000	2004 £'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 18.

18 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% owned Group companies. Details of other related party transactions are:

(a) In May 2003 the subsidiary Blackwatch Resources (BVI) 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 $US1,500,000 within two years from 23 May 2003. As at 31 December 2005, £1,564,175 had been invested into BRCL.

(b) In August 2004 the subsidiary Blackwatch Resources (BVI) 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 $US1,500,000 within two years from 5 August 2004. As at 31 December 2005, £345,266 (2004: £124,576) had been invested into CRCL.

19 Financial instruments

The Group holds short-term deposits as a liquid resource to fund the projects of the Group. The Group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Group's expenditure.

The Company has no formal policy in respect of foreign exchange risk; however it does review its currency exposures on an ad hoc basis. Currency exposures relating to monetary assets held by foreign operations are included within the Group profit and loss account.

The Group has taken advantage of the exemption in FRS 13 'Derivatives and other Financial Instruments' in respect of disclosure for short-term debtors and creditors and consequently those items are not included in the relevant analysis within the following notes, 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 2005 all of which fall due within one year. At 31 December 2005 there were no liabilities at fixed interest rates or liabilities without interest rates.

Floating rate financial liabilities

	December 2005 £'000	December 2004 £'000
Currency		
Sterling	**4**	5
	4	5

In respect of floating rate liabilities, the interest rate is based on the bank base rates of LIBOR. These amounts fall down within one year.

Floating rate financial assets

	December 2005 £'000	December 2004 £'000
Currency		
Sterling	**1,144**	171
US dollars	**42**	125
Canadian dollars	**6,529**	3
Chinese RMB	**44**	31
	7,759	330

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

Notes to the Accounts *continued*

19 Financial Instruments *continued*

Fixed rate financial assets

	December 2005 £'000	December 2004 £'000
Currency		
Sterling	**57**	2,357
	57	2,357

The weighted average interest rate for the year was 4.0% (2004: 3.64%), with a weighted average maturity of three months (2004: 1 week).

Borrowing facilities

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

Currency exposures

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

	2005 £'000 Assets/(liabilities) held				2004 £'000 Assets/(liabilities) held			
	GBP	**$US**	**CAD**	**AUD**	GBP	$US	CAD	AUD
Functional currency								
UK sterling	**–**	**5**	**7,613**	**(4)**	–	62	2,715	–
China yuan renminbi	**56**	**37**	**–**	**–**	22	73	–	–
	56	**42**	**7,613**	**(4)**	22	135	2,715	–

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.

20 Post balance sheet events

On 16 June 2006 the Company signed a Heads of Agreement ('HOA') with Xstrata Coal Pty Limited, a subsidiary of Xstrata plc ('Xstrata'), to acquire Cook Coal Mine in Queensland, Australia, which currently produces a range of thermal and coking coal products.

Following the acquisition of the mine, on the completion of the formal Asset Purchase Agreement, Caledon expects to increase the current Cook mine production to 1.5 million tonnes per annum (Mtpa) within a period of two years. As part of the asset sale, Xstrata has quoted an in situ resource base (Measured and Indicated, JORC standard) of 126 million tonnes of coal for the Cook mine. This is derived from two seams which are currently accessible via existing and active underground workings. Preliminary due diligence conducted by Caledon, using SRK Engineering as an external consultant, has confirmed that at least 40 million tonnes of premium coal, equivalent to 20 years of mine life at a mining rate of 2 Mtpa, is readily accessible from existing and active Cook underground mine workings.

Premium quality coking coal, including product from the Cook mine, has achieved prices from $US90 to $US120 per tonne over the past two years. Coking coal prices are forecasted to remain strong for the foreseeable future, driven by world-wide demand for steel and by current constraints on the seaborne coking coal supply chain.

The HOA with Xstrata also outlines the terms of marketing and off-take arrangements for the sale of Cook coking coal by Xstrata; rail and port access provided by Xstrata for a period of two years and Xstrata's assistance with logistics arrangements thereafter.

Caledon-Xstrata Heads of Agreement

Under the HOA, Caledon will purchase the Cook mine in Queensland, Australia, for a total consideration of $AUS45.6 million. This sum is to be paid on completion of the Asset Purchase Agreement, which is subject to the fulfilment of certain conditions precedent including the approval of the Caledon and Xstrata boards, regulatory approval, transfer of the mining sub-leases, etc. The HOA contain exclusivity arrangements between the two companies for a period of four months intended to cover the period leading up to the signing of the Asset Purchase Agreement. The exclusivity arrangements are subject to break-fees applicable to both parties. Caledon has deposited a total of $AUS 5 million as a down-payment against the purchase price of the mine.

Cook mine purchase

The Cook mine purchase includes all mining rights to the current Cook mine reserve, mine site infrastructure and mining equipment, haulage roads, access to the Coal Preparation Plant ('CPP'), rail loop and load-out facilities, etc. In addition, Caledon has the right to operate the CPP having entered a long-term rental agreement with Xstrata.

20 Post balance sheet events *continued*

Coking coal marketing, off-take and transport

For the first two years of operation, during which time access to rail and port facilities is challenging, Caledon has contracted with Xstrata for them to provide rail and port access, coking coal marketing expertise and off-take agreements. Under the terms of the agreement, Xstrata will have the exclusive rights to market Caledon's products from the Cook mine on an open-book basis, for which Caledon will pay a pre-determined marketing fee to Xstrata. Under the off-take agreement Caledon and Xstrata have agreed a production schedule of 900,000 tonnes of coal in 2007, escalating to 1.5 million tonnes in 2008. Caledon is limited to this production level until 2009, due to rail and port constraints.

For production years 2009 and beyond rail and port allocation constraints are expected to decrease significantly as a range of port and rail expansion projects are completed by the Queensland Government.

Cook: Current and future production

Currently there are two substantial coal seams at the Cook colliery; they are the Castor seam at a depth of 120-200 metres and the Argo seam at a depth of approximately 15-20 metres below the Castor seam. Coal is produced by the use of 'continuous miners', with shuttle car transportation to a conveyor and thence to surface. Access to the coal seams is via an inclined shaft and road-ways. Both seams contain coking and thermal coal. However, Caledon will concentrate on the Argo seam where the coking/thermal coal split is much higher in favour of coking coal. The mine is currently designed to produce from two development units. Coal is transported over a private overland haulage road to the CPP where beneficiation takes place. Cook produces thermal coal and a low ash high quality coking coal which exhibits high levels of coking properties and is a recognised brand.

Caledon's development plans envisage the employment of experienced contract mining contractors, contract mine management and contract wash plant management to significantly expand production. To this end, the Company is currently in negotiation with a number of service providers. In addition, Caledon has contracted with SRK Engineering in Brisbane to assist them in completing the Qualified Persons Report, relating to this transaction.

Australia's Bowen Basin, the world's most prolific coking coal region

The Cook Coal Mine is situated in Queensland's Bowen Basin, a region of Australia known for a range of coal types including premium quality coking coal production. The Bowen Basin produces approximately 115 Mtpa of coking coal from 30 mining operations. Open pit and underground production from the Bowen Basin, represents more than 50% of the world's seaborne coking coal. The region is host to four heavy haul railway systems, five ship loading terminals together with towns and service centres supporting the coal mining industry.

Xstrata, BHP-Billiton, Anglo American and Rio Tinto all have a significant operating presence in the Basin and their production accounts for the majority of the coking coal produced and shipped overseas.

The Queensland Government has had a long history of proactive support for the coal mining industry in the Bowen Basin.

Appointment of Peter Seear as COO of Caledon Resources

Following the appointment of Mr Seear as Chief Operating Officer, his mandate will be to take overall responsibility for the ownership transition and the future mine production including substantially increasing the output of the Cook mine.

Mr Seear has been actively engaged in the coal mining industry since 1977. He commenced his career immediately upon graduation from Coventry University in the United Kingdom, in 1977. He achieved Chartered Engineer status in the United Kingdom in 1983 and then he proceeded to work for several contract coal mining companies. Additionally he spent time with underground coal mining equipment manufactures as an engineer, including 10 years with Joy Mining of South Africa and Joy Mining North America.

Mr Seear also holds a Masters degree from the Harvard School of Business and brings a wealth of contacts in the contract coal mining, processing and marketing business.

Appointment of Endeavour Financial as advisors to debt financing arrangement

Caledon has also retained Endeavour Financial International Corporation ('Endeavour') on an exclusive basis to provide general corporate financial advisory services with respect to the debt financing element of this transaction. Over the course of the next few months, Endeavour will work closely with Caledon's management to identify and implement various transactions relating to the financing of this project which may include, but are not limited to: project finance, corporate debt finance, convertible debt, mezzanine finance, bridge loans, etc.

Endeavour, with offices in London, Vancouver and the Cayman Islands, is a private independent investment banking business with a successful history of achievement for its clients based on its resource industry focus, innovative transaction skills and the diverse professional backgrounds of its team.

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