

Report of the Independent Auditors to the Members of
FERRET COAL HOLDINGS (PROPRIETARY) LIMITED

Report on the financial statements

We have audited the group annual financial statements of Ferret Coal Holdings (Proprietary) Limited which comprise the directors' report, the consolidated and separate statement of financial position at 31 December 2010, the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 1 to 13.

Management responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidences about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements fairly present, in all material respects, the consolidated and separate financial position of Ferret Coal Holdings (Pty) Ltd at 31 December 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act of South Africa.

Emphasis of matter

Without qualifying our opinion, we draw attention to the group statement of changes in equity in the consolidated financial statements which indicates that the group has incurred a net loss of R50,745,008 for the year ended 31 December 2010 and as of that date the group total liabilities exceeded its total assets by R109,007,506. These conditions indicate the existence of material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.

Report on other legal and regulatory requirements

With the written consent of the members, we have performed certain accounting and secretarial duties.

NEXIA LEVITT KIRSON
Per AS Lewis
Chartered Accountant (SA)
Registered Auditor
Johannesburg
11 March 2011

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FERRET COAL HOLDINGS (PTY) LTD

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	Group 2010 R	Group 2009 R	Company 2010 R	Company 2009 R
ASSETS					
Non-current assets		265 902 331	221 460 724	139	139
Property, plant & equipment	2	128 624 847	126 585 651	-	-
Mineral properties	3	90 211 668	71 669 177	-	-
Investments	4	-	-	139	139
Deferred tax assets	5	40 997 936	23 205 896	-	-
Loans receivable	6	6 067 880	-	-	-
Current assets		61 906 094	102 443 648	-	-
Trade and other receivables	7	31 623 390	35 473 046	-	-
Inventory	8	22 444 554	57 467 435	-	-
Bank and cash balances	9	7 838 150	9 503 167	-	-
Total assets		<u>327 808 425</u>	<u>323 904 372</u>	<u>139</u>	<u>139</u>
EQUITY AND LIABILITIES					
Equity		(109 007 506)	(58 262 498)	139	139
Issued capital	10	100	100	100	100
Retained earnings		(109 007 606)	(58 262 598)	39	39
Non-current liabilities		352 330 882	230 300 343	-	-
Group loans payable	11	349 508 596	118 757 420	-	-
Interest bearing borrowings	12	-	108 720 637	-	-
Environmental Obligation provision	13	2 822 286	2 822 286	-	-
Current liabilities		84 485 049	151 866 527	-	-
Trade & other payables	14	84 485 049	115 771 909	-	-
Current portion of long-term borrowings	12	-	36 094 618	-	-
Total equity		<u>327 808 425</u>	<u>323 904 372</u>	<u>139</u>	<u>139</u>

FERRET COAL HOLDINGS (PTY) LTD

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	Group 2010 R	Group 2009 R	Company 2010 R	Company 2009 R
Revenue		226 882 444	172 755 821	-	-
Cost of sales		226 302 770	173 450 686	-	-
Gross loss		<u>579 674</u>	<u>(694 865)</u>	-	-
Other income		432 081	907 067	-	-
Operating expenses		(69 548 803)	(57 070 481)	-	-
Loss before taxation	15	<u>(68 537 048)</u>	<u>(56 858 279)</u>	-	-
Taxation	16	17 792 040	17 339 718	-	-
Net loss for the period		<u><u>(50 745 008)</u></u>	<u><u>(39 518 561)</u></u>	-	-
Attributable to:					
Equity holders of the parent		(50 745 008)	(39 518 561)		
Minority interest		<u><u>(50 745 008)</u></u>	<u><u>(39 518 561)</u></u>		

FERRET COAL HOLDINGS (PTY) LTD

**STATEMENT OF CHANGES IN EQUITY
31 DECEMBER 2010**

Group	Attributable to equity shareholders of the parent			Minority Interest	Total
	Issued capital	Retained earnings	Total		
Balance 1 January 2009	100	(18 744 037)	(18 743 937)	-	(18 743 937)
Net loss for the period		(39 518 561)	(39 518 561)	-	(39 518 561)
Balance at 31 December 2009	<u>100</u>	<u>(58 262 598)</u>	<u>(58 262 498)</u>	<u>-</u>	<u>(58 262 498)</u>
Net loss for the period		(50 745 008)	(50 745 008)	-	(50 745 008)
Balance at 31 December 2010	<u><u>100</u></u>	<u><u>(109 007 606)</u></u>	<u><u>(109 007 506)</u></u>	<u><u>-</u></u>	<u><u>(109 007 506)</u></u>
Company	Issued capital	Retained earnings			Total
	R	R			R
Balance 1 January 2009	100	39			139
Net profit for the period		-			-
Balance at 31 December 2009	<u>100</u>	<u>39</u>			<u>139</u>
Net profit for the period		-			-
Balance at 31 December 2010	<u><u>100</u></u>	<u><u>39</u></u>			<u><u>139</u></u>

FERRET COAL HOLDINGS(PTY) LTD

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Group 2010 R	Group 2009 R	Company 2010 R	Company 2009 R
CASH FLOWS FROM OPERATING ACTIVITIES				
	(50 061 633)	(12 949 896)	-	-
Cash (utilised in) generated from operations	(31 836 321)	1 234 685	-	-
Interest received	432 081	907 067	-	-
Interest paid	(18 657 393)	(15 091 648)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
	(31 471 425)	(105 263 137)	-	-
Purchase of property, plant & equipment	(9 308 637)	(14 582 244)	-	-
Purchase of Mineral properties	(22 162 788)	(90 680 893)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES				
	79 868 041	108 210 074	-	-
Advance of loan receivable	(6 067 880)	-	-	-
Payment of / Proceeds from long term borrowing	(144 815 255)	67 507 704	-	-
Proceeds from group loans	230 751 176	40 702 370	-	-
NET MOVEMENT IN CASH AND CASH EQUIVALENTS				
	(1 665 017)	(10 002 959)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
	9 503 167	19 506 126	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	7 838 150	9 503 167	-	-

FERRET COAL HOLDINGS (PTY) LTD

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2010**

1. Accounting policies

The consolidated financial statement of the company have been prepared in accordance with International Financial Reporting Standards (IFRSs). The principal accounting policies adopted in the preparation of these financial statements are set out below.

1.1 Basis of presentation

The consolidated financial statements are presented in South African rands, rounded to the nearest rand and are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, the disclosures of any contingent assets and liabilities as at the date of the financial statements, as well as the the reported amounts of expenses during the reporting period.

Significant areas where management judgment is applied are asset valuations, the recoverability of exploration and development expenditures on mineral properties, the amount of proven and probable mineral reserves, the estimated fair value of assets acquired in recent business combinations, the amount of future site restoration costs and contingent liabilities.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1.2 Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries Ferret Coal (Kendal) (Pty) Ltd and Manoka Mining (Pty) Ltd

The consolidated financial statements incorporate the assets, liabilities and results of the operations of the company and its subsidiaries. The results of subsidiaries acquired and disposed of during the financial year are included from the effective dates of acquisition and to the effective dates of disposal.

Inter-group balances, transactions, and any unrealised gains arising from inter-group transactions, are eliminated in preparing the consolidated financial statements.

1.3 Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate fair value at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the group for control of the acquiree, plus any costs directly attributable to the acquisitions.

1.4 Property, plant & equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Land is not depreciated. Depreciation is provided for on a straight line basis, after taking into account the residual value of the asset, over its estimated useful lives, which are as follows:

Buildings	12 Years
Plant and Machinery	3 Years
Office Equipment	5 Years
Computer Equipment	3 Years
Furniture and Fittings	6 Years
Vehicles	5 Years

The estimated useful lives and residual values of all property, plant and equipment are reviewed, and adjusted if necessary, at each reporting date.

Depreciation is charged to profit or loss. Gains or losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. The net amount is included in profit or loss for the period.

FERRET COAL HOLDINGS (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2010

1.5 *Mineral properties*

Direct property acquisition costs, holding costs, field exploration and supervisory costs, and development costs relating to specific properties are capitalised and deferred until the property to which the costs directly relate is placed into production, at which time they will be depreciated on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made. Costs include the cash consideration paid and the fair market value of the shares issued, if any, on the acquisition of exploration properties. Costs incurred for administration and general exploration that are not project specific, are charged to profit or loss.

A review of the capitalised costs is made on an annual basis and an impairment on the value is recognised based upon the stage of exploration and / or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. The assessment of a property's estimated current fair market value may also be based upon review of other property transactions that have occurred in the same geographic area as that of the property under review. The recovery of costs of mining claims and deferred exploration is dependant upon the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete exploration and development and the future profitable production, or proceeds from disposition, of such properties.

1.6 *Inventories*

Inventories are initially measured at cost and subsequently valued at the lower of average cost and estimated net realisable value. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The net realisable value is the estimate of the selling price in the ordinary course of business.

1.7 *Impairments*

The carrying value of the assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is based on the higher of fair value less costs to sell and the assets value in use. An impairment loss is recognised in profit or loss in the period when the recoverable value is less than the carrying value of the asset.

1.8 *Taxation*

Current taxation is comprises of normal tax payable calculated on the basis of the estimated taxable income for the year, using the tax rates enacted at the statement of financial position date.

Deferred taxation is based on temporary differences. Temporary differences arise when the carrying amounts of assets and liabilities for financial reporting purposes differs to the tax base of those assets and liabilities. Deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The effect on deferred taxation of a change in tax rate is recognised in income statement in the period the change in tax rate was enacted.

1.9 *Revenue*

Sale of merchandise

Sale of merchandise is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest received

Interest received is recognised on a time proportion basis that takes into account the effective yield on the asset.

Revenue includes other income of management fee charged to group companies

FERRET COAL HOLDINGS (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2010

1.10 *Cost of merchandise sold*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs.

1.11 *Financial instruments*

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company has become a party to the contractual provisions of the instruments. Initial and subsequent recognition of these instruments are measured as set out below.

Loans and receivables

Loans and receivables are initially measured at fair value, plus transaction costs. Subsequently, items included in this category are measured at the amortised cost, calculated based on the effective interest method, and interest income is included in profit or loss for the period. Net gains or losses represent reversals of impairment losses, impairment losses and gains and losses on derecognition. Net gains or losses are included in "other income" or "other expenses".

Short-term receivables with no stated interest rate are measured at the original invoice amount, if the effect of discounting is immaterial.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Borrowings and payables

Borrowings and payables are initially measured at the fair value excluding any transaction costs. Subsequently, these liabilities are measured at fair value with gains and losses recognised in profit or loss. Interest expense is separated from the net gains and losses on these items. Interest expense, calculated using the effective interest method, is included in "finance cost". Net gains or losses consist of gains or losses on the derecognition of items and they are included in "other income" or "other expenses".

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.12 *Comparative figures*

Where necessary, comparative figures have been adjusted to conform with any changes in presentation in the current year.

FERRET COAL HOLDINGS (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS - CONTINUED
31 DECEMBER 2010

2. Property, plant & equipment
Group

	Land & Buildings	Plant & machinery R	Computer equipment R	Office equipment R	Furniture & Fittings	Vehicles	Safety, Plant & Equipment	Total R
Balance at 1 January 2009	7 186 954	44 840 887	242 138	24 625	51 070	-	-	52 345 674
Cost	7 186 954	45 036 772	353 225	24 625	56 110	-	-	52 657 686
Accumulated Depreciation	-	(195 885)	(111 087)	-	(5 040)	-	-	(312 012)
Re-classification	-	65 211 592	-	-	-	-	979 123	66 190 715
Additions	525 100	13 983 026	-	-	30 718	43 400	-	14 582 244
Depreciation	(687 747)	(5 641 623)	(117 741)	(8 209)	(25 403)	(5 063)	(47 196)	(6 532 982)
Balance at 31 December 2009	7 024 307	118 393 882	124 397	16 416	56 385	38 337	931 927	126 585 651
Cost	7 712 054	124 231 390	353 225	24 625	86 828	43 400	979 123	133 430 645
Accumulated Depreciation	(687 747)	(5 837 508)	(228 828)	(8 209)	(30 443)	(5 063)	(47 196)	(6 844 994)
Additions	352 420	8 712 950	89 934	65 517	6 840	-	80 975	9 308 636
Depreciation	(658 076)	(6 406 103)	(130 125)	(7 380)	(11 513)	(8 680)	(47 563)	(7 269 440)
Balance at 31 December 2010	6 718 651	120 700 729	84 206	74 553	51 712	29 657	965 339	128 624 847
Cost	8 064 474	132 944 340	443 159	90 142	93 668	43 400	1 060 098	142 739 281
Accumulated Depreciation	(1 345 823)	(12 243 611)	(358 953)	(15 589)	(41 956)	(13 743)	(94 759)	(14 114 434)

FERRET COAL HOLDINGS (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS - CONTINUED
31 DECEMBER 2010

3. Mineral properties
Group

	Consulting & Management R	Drilling & Analysis R	Infrastructure & Earthworks R	Surveying & Other R	Total R
Balance at 1 January 2009	3 017 129	6 540 733	35 702 466	5 091 111	50 351 439
Cost	3 017 129	6 540 733	35 702 466	5 091 111	50 351 439
Accumulated Depreciation	-	-	-	-	-
Re-classification	-	-	(66 190 715)	-	(66 190 715)
Additions	1 564 718	1 686 177	87 429 998	-	90 680 893
Depreciation	(190 347)	(348 968)	(2 411 054)	(222 071)	(3 172 440)
Balance at 31 December 2009	4 391 500	7 877 942	54 530 695	4 869 040	71 669 177
Cost	4 581 847	8 226 910	56 941 749	5 091 111	74 841 617
Accumulated Depreciation	(190 347)	(348 968)	(2 411 054)	(222 071)	(3 172 440)
Additions	-	1 256 763	20 906 025	-	22 162 788
Depreciation	(170 999)	(353 940)	(2 905 353)	(190 005)	(3 620 297)
Balance at 31 December 2010	4 220 501	8 780 765	72 531 367	4 679 035	90 211 668
Cost	4 581 847	9 483 673	77 847 774	5 091 111	97 004 405
Accumulated Depreciation	(361 346)	(702 908)	(5 316 407)	(412 076)	(6 792 737)

FERRET COAL HOLDINGS (PTY) LTD

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2010**

	Group 2010 R	Group 2009 R	Company 2010 R	Company 2009 R
4. Investments				
Unlisted shares				
Ferret Coal (Kendal) (Pty) Ltd 74 Ordinary shares	-	-	74	74
Manoka Mining (Pty) Ltd 65 Ordinary shares	-	-	65	65
Shares at cost	<u>-</u>	<u>-</u>	<u>139</u>	<u>139</u>
Directors valuation	<u>-</u>	<u>-</u>	<u>139</u>	<u>139</u>
5. Deferred tax assets				
Deferred tax asset at beginning of year	23 205 896	5 866 178	-	-
Credited to the statement of comprehensive income	<u>17 792 040</u>	<u>17 339 718</u>	-	-
Deferred tax asset at end of year	<u>40 997 936</u>	<u>23 205 896</u>	-	-
Deferred tax comprises of the following categories				
Mineral properties	(59 243 252)	(53 258 722)	-	-
Non-mining asset	510 821	274 597	-	-
Provision for leave pay	70 594	80 819	-	-
Provision for bad debts	999 799	-	-	-
Provision for rehabilitation	790 240	790 240	-	-
Estimated tax loss and unused capital expenditure	<u>97 869 734</u>	<u>75 318 962</u>	-	-
Deferred tax asset	<u>40 997 936</u>	<u>23 205 896</u>	-	-
6. Loans receivable				
Homeland Coal Mining (Pty) Ltd	<u>6 067 880</u>	<u>-</u>	<u>-</u>	<u>-</u>
The loan is unsecured, interest free and has no fixed terms of repayment. The loan will not be recalled before 2012, unless suitable alternative finance can be arranged by the lender.				
7. Trade and other receivables				
Trade debtors	30 297 629	31 438 008	-	-
Provision for bad debts	(4 760 949)	-	-	-
Pre payments	754 755	562 770	-	-
Sundry debtors	2 444 067	1 064 963	-	-
Deposits received	118 312	-	-	-
VAT	<u>2 769 576</u>	<u>2 407 305</u>	-	-
	<u>31 623 390</u>	<u>35 473 046</u>	-	-
8. Inventory				
Inventories are valued as stated in note 1.7 and comprises coal stock piles	<u>22 444 554</u>	<u>57 467 435</u>	-	-

FERRET COAL HOLDINGS (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2010

	Group 2010 R	Group 2009 R	Company 2010 R	Company 2009 R
9. Bank and cash equivalents				
Balances with banks	<u>7 838 150</u>	<u>9 503 167</u>	<u>-</u>	<u>-</u>
10. Issued capital				
<i>Share capital</i>				
Authorised				
1000 Ordinary shares of R1 each	<u>1 000</u>	<u>1 000</u>	<u>1 000</u>	<u>1 000</u>
<i>Issued</i>				
100 Ordinary shares of R1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
The unissued shares of the company are under the control of the directors until the forthcoming annual general meeting.				
11. Group loans payable				
Homeland Mining and Energy	<u>349 508 596</u>	<u>118 757 420</u>	<u>-</u>	<u>-</u>
The above loan is unsecured, interest free and repayable on demand of the lender. The lender however agrees not to request repayment before January 1, 2012, unless a suitable alternative source of finance has been arranged.				
12. Interest bearing borrowings				
Nedbank	-	144 815 255	-	-
Less: Short term portion	-	36 094 618	-	-
	<u>-</u>	<u>108 720 637</u>	<u>-</u>	<u>-</u>
The above loan was repayed during the current year by means of a loan provided by the ultimate holding company. Any cessions or guarantees which were held by Nedbank over the assets of the entity expired on repayment of the loan.				
13. Environmental Obligation Provision				
Balance at beginning of year	<u>2 822 286</u>	<u>2 822 286</u>	<u>-</u>	<u>-</u>
A guarantee is held with Homeland Mining & Energy SA (Pty) Ltd's First National Bank in favour of the Department of Minerals and Energy Affairs to the value of R2,822,286.				

FERRET COAL HOLDINGS (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2010

	Group 2010 R	Group 2009 R	Company 2010 R	Company 2009 R
14. Trade & other payables				
Trade creditors	64 675 820	101 108 216		
Accruals	17 877 106	14 375 054		
Income received in advance	1 680 000	-		
Provision for leave pay	252 123	288 639		
	<u>84 485 049</u>	<u>115 771 909</u>	<u>-</u>	<u>-</u>
15. Loss before taxation				
Loss before taxation is stated after accounting for the following:				
Interest received	432 081	907 067	-	-
Expenditure				
Accounting fees	117 010	174 175	-	-
Depreciation	10 889 738	9 705 422	-	-
Interest paid	18 657 393	15 091 648	-	-
Management fee	6 904 900	10 799 625	-	-
	<u></u>	<u></u>	<u></u>	<u></u>
16. Taxation				
SA Normal Taxation				
Deferred taxation	<u>17 792 040</u>	<u>17 339 718</u>		
Taxation has not been provided as capital allowances resulted in an estimated assessable loss for the year and the entity as an unredeemed capital expenditure which will both be available for set off against future taxable profits.				
17. Reconciliation of net loss before taxation to cash (utilised in) generated from operations				
Net loss before taxation	(68 537 048)	(56 858 279)	-	-
Adjustments for:				
Depreciation	10 889 738	9 705 422	-	-
Interest received	(432 081)	(907 067)	-	-
Interest paid	18 657 393	15 091 648	-	-
	<u></u>	<u></u>	<u></u>	<u></u>
Operating loss before working capital changes	(39 421 998)	(32 968 276)	-	-
Working capital changes	7 585 677	34 202 961	-	-
Increase in inventories	35 022 881	(42 546 588)	-	-
Increase in trade and other receivables	3 849 656	(15 241 016)	-	-
Increase in trade and other payables	(31 286 860)	91 990 565	-	-
	<u>(31 836 321)</u>	<u>1 234 685</u>	<u>-</u>	<u>-</u>
18. Events after balance sheet date				

There have been no material fact or circumstance which has occurred between the accounting date and the date of this report.

FERRET COAL HOLDINGS (PTY) LTD

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2010**

19. Directors Report

No director's report has been provided as the company is a wholly owned subsidiary of Homeland Mining & Energy SA (Pty) Ltd who is incorporated in South Africa and who prepare a set of consolidated financial statements.

20. Related party disclosure

The intermediate parent company - Homeland Mining & Energy SA (Pty) Ltd

Management fee paid - R6 904 900 (2009: R10 799 625)

The ultimate parent company - GMR Energy Limited, incorporated in India

No transactions took place between the company and the ultimate parent company.

Fellow Subsidiaries

Name	Country of incorporation
Corpclo 331 (Pty) Ltd	South Africa
Tshedza Mining Resources (Pty) Ltd	South Africa
Nhlalala Mining (Pty) Ltd	South Africa
Homeland Energy (Swaziland) (Pty) Ltd	Swaziland
Homeland Energy (Botswana) (Pty) Ltd	Botswana

No transactions took place between company and the fellow subsidiaries

21. Financial Risk Management

Credit Risk

The company's credit risk is primarily attributable to its trade and other receivables. The receivables are regularly assessed and an adequate level of allowances is maintained.

Interest Rate and Liquidity Risk

In the ordinary course of business, the company receives cash from its operations and is required for fund working capital and capital expenditure requirements.

22. Contingencies

Ferret Coal (Kendal) (Pty) Ltd (Subsidiary company) is currently involved in legal action with respect to the following circumstances:

22.1 Ferret Coal (Kendal) is the defendant against a claim by a supplier for non-payment of services rendered for an amount of R5,222,618.42.

Ferret Coal (Kendal) has lodged a counter claim of R10 030 235 as management is of the opinion that the services were substandard and resulted in losses incurred.

22.2 Ferret Coal (Kendal) is the defendant against a claim by a supplier for non-payment of services rendered in mining operation for an amount of R48,429,843.63.

Ferret Coal (Kendal) has recognised R37,709,257.49 as a liability, and thus only the excess of this amount is under dispute and remains contingent.

As legal proceedings are on-going, the outcome of the above claims are uncertain at year end.

FERRET COAL HOLDINGS (PTY) LTD

**DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Group 2010 R	Group 2009 R	Company 2010 R	Company 2009 R
Revenue	226 882 444	172 755 821	-	-
Cost of Sales	226 302 770	173 450 686	-	-
Gross Loss	<u>579 674</u>	<u>(694 865)</u>	-	-
Other Income	432 081	907 067	-	-
Interest Received	<u>432 081</u>	<u>907 067</u>	<u>-</u>	<u>-</u>
Total Income	<u>1 011 755</u>	<u>212 202</u>	-	-
Expenses	69 548 803	57 070 481	-	-
Accounting Fees	117 010	174 175	-	-
Bad Debts	4 760 949	-	-	-
Bank Charges	41 755	2 703 910	-	-
Cleaning	232 587	288 600	-	-
Computer Expenses	40 195	3 186	-	-
Consulting Fees	6 179 971	524 007	-	-
Depreciation	10 889 738	9 705 422	-	-
Electricity & Water	1 317 904	703 713	-	-
Engineering Costs	3 143 427	3 934 583	-	-
Entertainment	-	3 428	-	-
Environmental Rehabilitation	2 585 876	1 465 831	-	-
General Expenses	63 601	45 566	-	-
Insurance	714 217	904 602	-	-
Interest Paid	18 657 393	15 091 648	-	-
Legal Fees	245 545	257 340	-	-
Levies	5 247	-	-	-
Management Fee	6 904 900	10 799 625	-	-
Marketing Fees	1 331 983	5 468 940	-	-
Motor Vehicle Expenses	433 049	-	-	-
Office consumables	6 340	-	-	-
Printing and Stationery	85 273	22 633	-	-
Rent Paid	-	52 961	-	-
Repairs & Maintenance	288 003	150 017	-	-
Royalty Expense	963 096	-	-	-
Salaries and Wages	5 644 785	303 598	-	-
Security	3 237 707	1 952 256	-	-
Social Upliftment	223 415	-	-	-
Staff Training	6 737	-	-	-
Subscriptions	1 490	-	-	-
Survey	204 470	-	-	-
Telephone & Fax	-	2 430 875	-	-
Travel & Accommodation	<u>1 222 140</u>	<u>83 565</u>	<u>-</u>	<u>-</u>
Loss before taxation	<u>(68 537 048)</u>	<u>(56 858 279)</u>	<u>-</u>	<u>-</u>