

FERRET COAL (KENDAL) (PTY) LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The directors have pleasure in submitting their report together with the audited annual financial statements for the year ended 31 December 2010.

General review

The company continued to evaluate and explore mineral resources and will operate in the coal mining industry

Financial results

The results of the company for the year under review are fully set out in the attached financial statements and require no further comment.

Post balance sheet events

No material fact or circumstance, which requires comment, has occurred between the accounting date and the date of this report.

Dividends

No dividends were declared or proposed during the year under review.

Share capital

There has been no changes in share capital during the year under review

Directors

The directors of the company during the accounting period and up to the date of this report were as follows:

S Coates (Canadian)	(Resigned 03/06/2009)
A T Griffis (Canadian)	(Resigned 01/06/2009)
D W Leew	
H C Hoffmann	(Appointed 01/02/2010)
A Basu	(Appointed 03/10/2009)
R Kumar	(Appointed 03/10/2009)
L W Curtis	(Resigned 29/06/2010)

Holding company

The holding company is Ferret Coal Holdings (Pty) Ltd and the ultimate holding company is GMR Energy Limited, Incorporated in India.

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

Report on the financial statements

We have audited the annual financial statements of Ferret Coal (Kendal) (Proprietary) Limited which comprise the directors' report, the statement of financial position at 31 December 2010, the statement of comprehensive income, the statement of changes in equity and statement 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 15.

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

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 aspects, the financial position of the company at 31 December 2010, and of its financial performance and 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 statement of changes in equity in the financial statements which indicates that the company has incurred a net loss of R50,745,008 for the year ended 31 December 2010 and as of that date the company's 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 company'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

Partners: A S LEWIS B Com (UCT) CA (SA), S M LOEWENTHAL CA (SA) H Dip BDP (Wits), C MARTIN B Com (Acc) Hons (RAU) CA (SA)
CEO: L C FURMAN CA (SA) H Dip BDP (Wits)
National Associate Offices: NEXIA CAPE TOWN, NEXIA LEVITT KIRSON DURBAN,
LEVITT KIRSON IS A MEMBER OF NEXIA INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING FIRMS

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FERRET COAL (KENDAL) (PTY) LTD

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

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

FERRET COAL (KENDAL) (PTY) LTD**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 R	2009 R
Revenue	1.7	226 882 444	172 755 821
Cost of sales	1.8	226 302 770	173 450 686
Gross loss		<u>579 674</u>	<u>(694 865)</u>
Other income		<u>432 081</u>	<u>907 067</u>
Total income		<u>1 011 755</u>	<u>212 202</u>
Expenses		69 548 803	57 070 481
Loss before taxation		<u>(68 537 048)</u>	<u>(56 858 279)</u>
Taxation	14	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>

FERRET COAL (KENDAL) (PTY) LTD

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

	Issued capital R	Retained earnings R	Total R
Balance at 1 January 2009	100	(18 744 037)	(18 743 937)
Net loss for the period		(39 518 561)	(39 518 561)
Balance at 31 December 2009	<u>100</u>	<u>(58 262 598)</u>	<u>(58 262 498)</u>
Net loss for the period		(50 745 008)	(50 745 008)
Balance at 31 December 2010	<u>100</u>	<u>(109 007 606)</u>	<u>(109 007 506)</u>

FERRET COAL (KENDAL) (PTY) LTD

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 R	2009 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (utilised in) generated from operations	15.1	(50 061 633)	(12 949 896)
Interest received		(31 836 321)	1 234 685
Interest paid		432 081	907 067
		(18 657 393)	(15 091 648)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(31 471 424)	(105 263 137)
Purchase of mineral properties		(9 308 636)	(14 582 244)
		(22 162 788)	(90 680 893)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advance of loan receivable		79 868 041	108 210 074
Payment of / Proceeds from long term borrowing		(6 067 880)	-
Proceeds from group loans		(144 815 255)	67 507 704
		230 751 176	40 702 370
NET MOVEMENT IN CASH AND CASH EQUIVALENTS			
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		(1 665 016)	(10 002 959)
CASH AND CASH EQUIVALENTS AT END OF YEAR	15.2	9 503 167	19 506 126
		<u>7 838 150</u>	<u>9 503 167</u>

FERRET COAL (KENDAL) (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2010

1. Accounting policies

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

1.1 Basis of presentation

The 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 IFRS 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 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 on-going 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 Property, plant and 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.

1.3 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.

FERRET COAL (KENDAL) (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2010

1.3 *Mineral Properties (continued)*

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 dependent 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.

1.4 *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 the profit or loss in the period when the recoverable value is less than the carrying value of the asset.

1.5 *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.

1.6 *Taxation*

Current taxation comprises of normal tax payable calculated on the basis of the estimated taxable income for the year, using the tax rates enacted at the balance sheet 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 not longer probable that the related tax benefit will be realised.

The effect on deferred taxation of a change in tax rate is recognised in profit or loss in the period the change in tax rate was enacted.

1.7 *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.

FERRET COAL (KENDAL) (PTY) LTD

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

1.7 Revenue (continued)

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.

Revenue includes other income of management fee charges to group companies.

Interest received

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

1.8 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.

1.9 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.

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.

1.10 Comparative figures

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

FERRET COAL (KENDAL) (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS - CONTINUED
31 DECEMBER 2010

2. Property, plant & equipment

	Land & Buildings R	Plant & Machinery R	Office Equipment R	Computer equipment R	Furniture & fittings R	Vehicles	Safety, Plant & Equip R	Total R
Carrying amount at 1 January 2009	7 186 954	44 840 887	24 625	242 138	51 070	-	-	52 345 674
At cost	7 186 954	45 036 772	24 625	353 225	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 - at cost	525 100.00	13 983 026	-	-	30 718	43 400	-	14 582 244
Depreciation	(687 747)	(5 641 623)	(8 209)	(117 741)	(25 403)	(5 063)	(47 196)	(6 532 982)
Carrying amount at 31 December 2009	7 024 307	118 393 882	16 416	124 397	56 385	38 337	931 927	126 585 651
At cost	7 712 054	124 231 390	24 625	353 225	86 828	43 400	979 123	133 430 645
Accumulated Depreciation	(687 747)	(5 837 508)	(8 209)	(228 828)	(30 443)	(5 063)	(47 196)	(6 844 994)
Additions - at cost	352 420	8 712 950	65 517	89 934	6 840	-	80 975	9 308 636
Depreciation	(658 076)	(6 406 103)	(7 380)	(130 125)	(11 513)	(8 680)	(47 563)	(7 269 440)
Carrying amount at 31 December 2010	6 718 651	120 700 729	74 553	84 206	51 712	29 657	965 339	128 624 847
At cost	8 064 474	132 944 340	90 142	443 159	93 668	43 400	1 060 098	142 739 281
Accumulated Depreciation	(1 345 823)	(12 243 611)	(15 589)	(358 953)	(41 956)	(13 743)	(94 759)	(14 114 434)

FERRET COAL (KENDAL) (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS - CONTINUED
31 DECEMBER 2010

3. Mineral properties

	Consulting & Management R	Drilling & Analysis R	Infrastructure & Earthworks R	Surveying & Other R	Total R
Carrying amount at 1 January 2009	3 017 129	6 540 733	35 702 466	5 091 111	9 610 005
At cost	3 017 129	6 540 733	35 702 466	5 091 111	9 610 005
Accumulated Depreciation	-	-	-	-	-
Additions - At cost	1 564 718	1 686 177	87 429 998	-	90 680 893
Re- Classification			(66 190 715)		
Depreciation	(190 347)	(348 968)	(2 411 054)	(222 071)	(3 172 440)
Carrying amount at 31 December 2009	4 391 500	7 877 942	54 530 695	4 869 040	71 669 177
At 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 - At cost	-	1 256 763	20 906 025	-	22 162 788
Depreciation	(170 999)	(353 940)	(2 905 353)	(190 005)	(3 620 297)
Carrying amount at 31 December 2010	4 220 501	8 780 765	72 531 367	4 679 035	90 211 668
At 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 (KENDAL) (PTY) LTD

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

	2010 R	2009 R
4. Deferred taxation		
Deferred tax asset at beginning of year	23 205 896	5 866 178
Credited to the statement of comprehensive income	17 792 040	17 339 718
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 assets	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	97 869 734	75 318 962
Deferred tax asset	<u>40 997 936</u>	<u>23 205 896</u>
5. Loans Receivable		
Homeland Coal Mining (Pty) Ltd	<u>6 067 880</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 lendece.		
6. Inventories		
Inventories are valued as stated in note 1.5 and comprises merchandise	<u>22 444 554</u>	<u>57 467 435</u>
7. Trade and other receivables		
Trade Debtors	30 297 629	31 438 008
Sundry Debtors	2 444 067	1 064 963
Deposits received	118 312	-
Prepayments	754 755	562 770
Provision for bad debts	(4 760 949)	-
Value Added Taxation	2 769 576	2 407 305
	<u>31 623 390</u>	<u>35 473 046</u>
8. Bank and cash equivelants		
Bank and cash balances at year end comprise:		
Nedbank Current Account	<u>7 838 150</u>	<u>9 503 167</u>

FERRET COAL (KENDAL) (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS - CONTINUED
31 DECEMBER 2010

	2010 R	2009 R
9. Issued Capital		
<i>Share capital</i>		
Authorised		
1000 Ordinary shares of R1 each	<u>1 000</u>	<u>1 000</u>
Issued		
100 Ordinary shares of R1 each	<u>100</u>	<u>100</u>
<p>The unissued shares of the company are under the control of the the directors until the forthcoming annual general meeting.</p>		
10. Long-term borrowings		
Nedbank	-	144 815 255
Less: Short term portion	-	36 094 618
	<u>-</u>	<u>108 720 637</u>
<p>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.</p>		
11. Group loans payable		
Homeland Mining & Energy SA (Pty) Ltd	<u>349 508 597</u>	<u>118 757 420</u>
<p>The above loan is unsecured, interest free and repayable on demand of the lender. The lender however agrees not to request repayment before January 2012, unless a suitable alternative source of finance has been arranged.</p>		
12. Environmental Obligation Provision		
Balance at beginning of year	<u>2 822 286</u>	<u>2 822 286</u>
<p>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.</p>		
13. Trade and 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>

FERRET COAL (KENDAL) (PTY) LTD

NOTES TO THE ANNUAL FINANCIAL STATEMENTS - CONTINUED
31 DECEMBER 2010

	2010 R	2009 R
14. Taxation		
SA Normal Taxation		
Deferred taxation	<u>17 792 040</u>	<u>17 339 718</u>

Taxation has not been provided as the entity is in a net loss position resulting in an estimated assessable loss for the year of R119 961 129 (2009:R70 415 891) and the entity has an unredeemed capital expenditure which will be available for off set against future taxable profits.

15. Notes to the cash flow statement

15.1 Reconciliation of net loss before taxation to cash utilised in 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
Operating loss before working capital changes	<u>(39 421 998)</u>	<u>(32 968 276)</u>
Working capital changes	7 585 677	34 202 961
Decrease (Increase) in inventories	35 022 881	(42 546 588)
Decrease (Increase) in trade and other receivables	3 849 656	(15 241 016)
(Decrease) Increase in trade and other payables	(31 286 860)	91 990 565
Cash (utilised in) generated from operations	<u>(31 836 321)</u>	<u>1 234 685</u>

15.2 Cash and cash equivalents

Cash and cash equivalents consist of balances with banks.

Bank and cash	<u>7 838 150</u>	<u>9 503 167</u>
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16. 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 (KENDAL) (PTY) LTD

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

17. Related party disclosure

The parent company - Ferret Coal Holdings (Pty) Ltd

No transactions took place between the company and the holding company.

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

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

The intermediate parent companies

- Homeland Mining & Energy SA (Pty) Ltd
- Homeland Energy Group Ltd
- Homeland Energy Corp.

Balances with related parties have been disclosed in note 5 and 11
Management fee paid of R6 904 900 (2009:R10 799 625)

Fellow subsidiary of intermediate parent company (Homeland Mining & Energy SA (Pty) Ltd)

Administration fee charged to Homeland Coal Mining (Pty) Ltd of R6 067 880

Fellow Subsidiaries

Name	Country of Incorporation
Manoka Mining (Pty) Ltd	South Africa
Corpelo 331 (Pty) Ltd	South Africa
Tshedza Mining Resources	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 the company and the fellow subsidiaries

18. 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 funding working capital and capital expenditure requirements.

FERRET COAL (KENDAL) (PTY) LTD

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

19. Contingencies

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

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

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

The value of the counter claim is R10,030,235

19.2 Ferret Coal (Kendal) is the defendant against a claim by a supplier relating to services rendered in mining operations. The claim value is R48,429,843.63.

Ferret Coal (Kendal) has recognized 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 (KENDAL) (PTY) LTD

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

	2010 R	2009 R
Sales	226 882 444	172 755 821
Cost of Sales	226 302 770	173 450 686
Opening Stock	57 467 435	14 920 846
Purchases	191 279 889	215 997 275
Closing Stock	(22 444 554)	(57 467 435)
Gross Loss	579 674	(694 865)
Other Income	432 081	907 067
Interest Received	432 081	907 067
Total Income	1 011 755	212 202
<i>Operating Expenses</i>	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 and water	1 317 904	703 713
Engineering General	3 143 427	3 934 583
Entertainment Expenses	-	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	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/ Alarm	3 237 707	1 952 256
Social Upliftment	223 415	2 430 875
Staff training	6 737	-
Subscriptions	1 490	-
Survey	204 470	-
Travel & Accommodation	1 222 140	83 565
Loss before taxation	(68 537 048)	(56 858 279)