



Caledon

Resources plc

(incorporated in England and Wales as a public limited company with registered number 3993115)

**£12,500,000 8.5 per cent
Unsecured Convertible Loan Notes due 2010
Issue Price: 100%**

Caledon Resources plc (the "Issuer") has authorised the issue of £12,500,000 8.5 per cent unsecured Convertible Loan Notes due 2010 (the "Loan Notes") in accordance with the terms and conditions of the Loan Notes (the "Terms and Conditions") (see "*Terms and Conditions of the Loan Notes*"). The Loan Notes will be convertible at any time into ordinary shares of 0.5 pence each of the Issuer (the "Ordinary Shares") between 5 July 2007 and 5 July 2010.

Application has been made for the Loan Notes to be admitted to the Official List of the Luxembourg Stock Exchange and traded on the Luxembourg Stock Exchange's Euro MTF Market ("Euro MTF"), which is not a regulated market for the purposes of European Parliament and Council Directive 2004/39/EC. The existing Ordinary Shares are admitted to trading on AIM, a market operated by the London Stock Exchange plc ("AIM"). The Issuer has agreed to use its reasonable endeavours to ensure that any Ordinary Shares to be issued upon conversion of the Loan Notes will be admitted to trading on AIM. Public trading in the Loan Notes on the Euro MTF is expected to commence on, or about, 6 July 2007 under the trading code GB00B1YHLM25 .

Interest on the Loan Notes is payable semi-annually in arrear on 30 June and 31 December in each year. Payments on the Loan Notes will be made without deduction for or on account of taxes of the United Kingdom to the extent described under "*Terms and Conditions of the Loan Notes - Taxation*".

Unless previously redeemed, converted or repurchased and cancelled, the Loan Notes will be redeemed by the Issuer on 5 July 2010 (the "Maturity Date") at their principal amount plus accrued interest. The Loan Notes may be redeemed before then at the option of the Issuer at any time with accrued interest with the approval of an extraordinary resolution of the holders of the Loan Notes (the "Noteholders"), or at the option of the Noteholders following the occurrence of a Relevant Event (as defined in the terms and conditions of the Loan Notes). See "*Terms and Conditions of the Loan Notes - Redemption and Purchase*".

NEITHER THE NOTES NOR THE SHARES ISSUABLE UPON CONVERSION OF THE NOTES HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW, AND THEY MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATIONS OF THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Loan Notes will be issued in registered form in denominations of £100,000. The Loan Notes will be represented by a global registered note certificate (the "Global Certificate") which will be registered in the name of T. Hoare Nominees Limited as nominee for a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), with whom the Global Certificate will be deposited on or around 5 July 2007 (the "Closing Date"). Individual note certificates (the "Individual Note Certificates") evidencing holdings of Loan Notes will be available only in certain limited circumstances to Loan Note holders. See "*Summary of Provisions Relating to the Loan Notes in Global Form*".

This circular constitutes a prospectus for the purpose of the Luxembourg Law dated 10 July 2005 on Prospectuses for Securities.

Investing in the Loan Notes involves a high degree of risk. See "Risk Factors" beginning on page 6.

Lead Manager

CANACCORD ADAMS

This Circular is dated 5 July 2007

This Circular does not constitute a prospectus for the purpose of Article 5 of Directive 2003/71/EC (the "Prospectus Directive") but has been prepared for the purpose of giving information with regard to the Issuer and its subsidiaries and affiliates (together, the "Group"), and the Loan Notes which, according to the particular nature of the Issuer and the Loan Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Group and of the rights attaching to the Loan Notes. The Issuer accepts responsibility for the information contained in this Circular. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Circular is to be read in conjunction with all the documents which are deemed to be incorporated herein by reference (see "*Incorporation by Reference*" below).

Neither Canaccord nor any of its directors, affiliates, advisers or agents has made an independent verification of the information contained in this Circular in connection with the issue or offering of the Loan Notes and no representation or warranty, express or implied, is made by Canaccord or any of its directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Circular is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by Canaccord or any of its respective directors, affiliates, advisers or agents in any respect. The contents of this Circular are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Circular in connection with the issue and offering of the Loan Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer or Canaccord or any of their directors, affiliates, advisers or agents. The delivery of this Circular does not imply that there has been no change in the business and affairs of the Issuer since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Circular does not constitute an offer to sell or a solicitation of an offer to buy the Loan Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Circular and the offer or sale of the Loan Notes in certain jurisdictions is restricted by law. This Circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Circular may come are required by the Issuer and Canaccord to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Loan Notes and the distribution of this Circular and other offering material relating to the Loan Notes is set out under "*Subscription and Sale*" and "*Summary of Provisions Relating to the Loan Notes in Global Form*".

This Circular is only addressed to and directed at persons in member states of the European Economic Area who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors"). In addition, in the United Kingdom, this Circular is directed only at Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "Relevant Persons"). This Circular must not be acted on or relied on (i) in the United Kingdom, by persons who are not Relevant Persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this Circular relates is available only to (i) in the United Kingdom, Relevant Persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

Unless otherwise specified or the context so requires, references to "£", "pounds", "pence" or "sterling" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the "United Kingdom").

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

The Issuer is required to maintain its books of account in pounds sterling in accordance with United Kingdom accounting and tax regulations. The financial information of the Issuer set forth herein, has, unless otherwise indicated, been derived from its audited consolidated balance sheet and consolidated statements of income, cash flows and changes in shareholders' equity as at and for the years ended 31 December 2004, 2005 and 2006 (the "Audited Financial Statements"). The Financial Statements for the year ended 31 December 2006 were prepared in accordance with International Financial Reporting Standards ("IFRS") and for the year ended 31 December 2005 were prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

The Audited Financial Statements were audited by BDO Stoy Hayward LLP, independent auditors ("BDO Stoy Hayward") in accordance with International Standards on Auditing.

Certain amounts which appear in this Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

INCORPORATION BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Circular:

- (a) the annual financial statements which appear at pages 21 to 51 in the annual report and accounts of the Company for the year ended 31 December 2006; and
- (b) the AIM Admission Document published by the Issuer on 20 November 2006.

save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Circular.

Documents or pieces of information that are not mentioned in the cross reference list above are incorporated into this Circular for information purposes only.

Copies of documents deemed to be incorporated by reference in this Circular may be obtained, free of charge, from the registered office of the Issuer and viewed on the website of the Luxembourg Stock Exchange at www.bourse.lu and the office of the Luxembourg Paying and Conversion Agent at The Bank of New York (Luxembourg) S.A, Corporate Trust Services, Aerogolf Center, 1A Hoehenhof, L-1736 Senningerberg, Luxembourg.

TABLE OF CONTENTS

	Page
DEFINITIONS	1
GENERAL DESCRIPTION OF THE ISSUER AND THE OFFERING	3
GENERAL DESCRIPTIONS OF THE LOAN NOTES	6
RISK FACTORS.....	8
TERMS AND CONDITIONS OF THE NOTES.....	16
USE OF PROCEEDS.....	51
THE ISSUER.....	52
SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM.....	68
TAXATION	71
SUBSCRIPTION AND SALE	78
GENERAL INFORMATION.....	79

DEFINITIONS

The following definitions apply throughout this document:

“Admission Document”	the AIM admission document issued by the Issuer on 20 November 2006
"AIM"	AIM, a market operated by the London Stock Exchange
"Board" or "Directors"	the board of Directors of the Company at the date of this document whose names are set out on page 6 of this document
“CC”	CC Pty Limited, a company incorporated in Australia with ACN 121 024 271 and a wholly owned subsidiary of the Company
“CPP”	the coal beneficiation and processing plant located near the Cook Mine to which CC is entitled exclusive use during the first two years under the Cook Mining Sub-Lease
“CPR”	Competent Persons Report as defined in the Guidance note produced by AIM for issuing, oil and gas companies dated March 2006
"Caledon Coal"	Caledon Coal Pty Limited, a company incorporated in Australia with registered number ACN 120967839 and a wholly owned subsidiary of the Company
"Canaccord"	Canaccord Adams Limited, the Company's nominated adviser and broker
"Companies Act" or "Act"	the Companies Act 1985, as amended
"Company" or "Caledon" or "Issuer"	Caledon Resources plc (company number 3993115)
"Cook Mine"	the portion of the colliery included in the Cook Mining Sub-lease and the surface and underground mining infrastructure as detailed in the CPR relating to the Cook Mine set out in Part III of the Admission document.
"Cook Mining Sub-lease"	the sub-lease of Cook Resource Mining Pty Ltd's (CRM) mining leases (ML 1779, 1799, 1768, 1769 and the southern portion of ML7357) entered into between CC and CRM
"Existing Ordinary Shares"	the existing Ordinary Shares in issue at the date of this Document
"Group"	together, the Company and its subsidiary undertakings
"Initial Conversion Price"	50p per Ordinary Share
"Issue Price"	100 per cent. of the principal amount of the Loan Notes
“Loan Note Holder” or “Noteholders”	the holders of Loan Notes
"Loan Note Instrument"	the loan note instrument dated 5 July 2007 constituting the Loan Notes
"Loan Notes"	the £12.5 million nominal 8.5 per cent. unsecured convertible loan notes 2010 to be issued by the Company
"London Stock Exchange"	London Stock Exchange plc
“Luxembourg Paying and	The Bank of New York (Luxembourg) S.A of Corporate Trust

Conversion Agent"	Services, Aerogolf Center, 1A Hoehenhof, L-1736 Senningerberg, Luxembourg
"Minyango Acquisition"	the acquisition by the Company of the Minyango Deposit on 14 December 2006
"Minyango Deposit"	the property covered by the exploration permits for coal, being EPC 699, EPC 912 and application EPCA 997 as more particularly detailed in the CPR relating to the Cook Mine set out in Part III of the Admission Document
"MTP"	Mining Technology Partnerships Pty Ltd, a company incorporated in Australia with ABN 80 117 542 006
"MTP Acquisition"	The acquisition by the Company of MTP on 14 December 2006
"MTP Consideration Shares"	The Ordinary Shares issued to the sellers of MTP as a result of the MTP Acquisition
"Ordinary Shares"	ordinary shares of 0.5 pence each in the capital of the Company
"Paying and Conversion Agent"	Computershare Investor Services plc of PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH
"Placing"	the placing by Canaccord, as agent for the Company, at the Issue Price of the Loan Notes pursuant to the Placing Agreement
"Placing Agreement"	the placing agreement dated 12 June 2007 between Canaccord (1) and the Company (2)
"Shareholders"	the holders of Ordinary Shares from time to time

GENERAL DESCRIPTION OF THE ISSUER

1. Information on Caledon

Caledon is an AIM quoted company. The acquisition of the Cook Mine and the Minyango Deposit, both situated in the Bowen Basin, Queensland Australia, transformed the business of the Group from gold exploration to coal production. Caledon's Cook Mine is host to a mineable reserve of approximately 17 Mt of coking and thermal coal. A 10-year mine plan has been established by the Company for the Cook Mine. The neighbouring Minyango Deposit is host to 240 Mt in the indicated and inferred categories of in-situ extractable coal. Caledon is conducting exploration at the Cook Mine and the Minyango Deposit with the goal of converting resources to reserves on the projects, with a view to potentially increasing Caledon's production in the near term.

2. Current Trading and Prospects

On 21 March 2007, the Company announced its first coking and thermal coal production from the Cook Mine, marking Caledon's transition from explorer to producer.

Production at the Cook Mine has commenced in the Argo seam, in the 303 panel, at a depth of approximately 165 meters. Mining was initiated using an updated Voest-Alpine ABM 20 Bolter Miner, a continuous miner capable of handling seam heights of up to 4.5 metres.

A new, state of the art Voest-Alpine ABM25 Bolter Miner will be shipped from Austria in early July and is expected into service in mid September. In the interim production is ramping up with the two rented ABM20 Bolter Miners. Additionally, a Joy12CM12 Bolter Miner is being modified to accommodate a full complement of roof bolters to accelerate roadway development.

The first shipment of Flexiveyor continuous haulage components has arrived on site and assembly is planned for completion through August 2007. Engineers from Canada and South Africa will be on site in this period to assemble and surface test the unit prior to operator training.

The Company's intention is to increase coking and thermal coal production from 10,000 tonnes per month to 100,000 tonnes per month over the course of the year from the Cook Mine, through the implementation of continuous bolter miner equipment paired with continuous haulage systems. An annualised coal production rate of 1.5 million tonnes per annum is expected to be achieved in 2008.

A full operations crew of 90 people has now been employed, inducted and trained on site. This is a major milestone and verifies the management's confidence in being able to attract a skilled and competitive workforce in the face of stiff competition from a booming mining industry.

Repairs and re-commissioning of the underground conveyor belt system have been successfully completed and the secondary egress shaft cage has been renewed in preparation for the largest workforce in Cook's history.

A new site office block has also been completed with internet access to permit rapid communication. A whole of site water conservation program has resulted in a number of water saving measures being implemented. Such measures include working with the surface land owners to install water saving troughs and capturing water run off from the wash plant. Additional water saving measures will be introduced in July with the implementation of water re-circulation equipment to the bolter miners.

A rental shuttle car, on short term hire is in operation until the introduction of the continuous haulage unit takes place. A Caledon owned shuttle car is due to return to service in July once it has completed a mandatory inspection and rebuild.

On 2 May 2007, Caledon announced the departure of its first rail shipment of coking coal from the Cook Mine, being approximately 7,000 tonnes of Cook coal railed from the Cook wash-plant to the Port of Gladstone on the Queensland coast. This, and subsequent train loads of coking and thermal coals, have been stockpiled at the port for shipment and sale overseas.

By way of background, contract prices for coking coal are generally negotiated in the first quarter of each year and are fixed for the 12 month period from 1 April to 31 March. Japan is the largest importing country and the contract period coincides with the Japanese financial year. Settlements in

Japan are also the reference point for negotiations between coal producers and customers in other countries.

As 2007 has progressed, the coking coal market has tightened due to rail and port constraints in Australia, combined with increasing demand from India and China; this demand is putting upward pressure on prices as customers compete for the limited volume of coal that is not already committed to customers under annual contracts. Whilst it is more than six months away from the annual industry negotiating season, a number of analysts are now forecasting a significant increase in 2008 contract prices.

3. Background to and reasons for the Placing

Since the successful fund raising and re-admission of the Company's shares to trading on AIM in December 2006, the Company has, as part of its ongoing internal review processes, undertaken a review of its budget and operational plan. As a result of a detailed cost benefit analysis the proposed arrangements with the Company's mining contractor were revised, with the aim of bringing the operational mining activities relating to the Cook Mine in-house and providing the Company with a significant reduction in its overall mining costs when in full production. However in order to obtain the cost benefits associated with doing this, the capital expenditure for the mining machinery has become Caledon's responsibility.

Additional reasons for the fund raising related to working capital. Since the beginning of 2007, the Company has faced production delays, related to incidents that were beyond management's control. Shortly after gaining control of the assets at the Cook Mine the Group experienced a spontaneous, unforeseen heating event in a disused section of the mine. The Company believes that this event occurred because of the prolonged period when the mine was on a "care and maintenance" regime. The incident has been safely and successfully resolved and, following steps taken by the Group, there is no reason to expect a recurrence. This caused both a longer and a more costly build up to production than originally envisaged, and management estimates that this unbudgeted episode set production back approximately six to eight weeks. Although production was set back in terms of time, the Group's overall mine plan has not changed and the event has had no material impact on the mineable reserve and resources.

Delays have also been experienced in the delivery of and breakdown in essential equipment. The ramp-up plan for the Cook Mine falls into two phases; the first phase of which calls for the use of two, modern hired bolter miners. The first of these continuous miners hired in by the Group came directly following complete overhaul. The Company has been disappointed with the reliability of the reconditioned rented continuous miner, and has been partially compensated for the poor reliability of this essential piece of mining equipment.

Having received advice from its financial advisers, and having held a dialogue with certain major shareholders and other potential investors in the Company, the Board believed, and continues to believe, that the proposed fundraising represented the best way then available to the Company to fill the additional funding requirements needed by the Group as a result of the above mentioned events. The Initial Conversion Price represents a premium of approximately 20 per cent. over the closing share price of 41.5p on 1 June 2007, the last business day prior to the Company's announcement of the Placing. The Group continues to explore and drill both the Cook Mine and Minyango Deposit with a view to better delineating the coal resource and to provide an overall increase of coal resource.

4. Details of the Placing

The Company issued the Loan Notes at the Issue Price by way of a Placing to raise approximately £12.5 million, before expenses.

The Placing was effected on behalf of the Company by Canaccord on the terms of the Placing Agreement.

In consideration of their services in connection with the Placing, the Company paid to Canaccord a fee of 3.5 per cent. of the aggregate value, at the Issue Price, of the Loan Notes. The amounts are exclusive of VAT. The Company also agreed to pay all the costs and expenses relating to the Placing. The Placing Agreement contains warranties given by the Company with respect to its business and the Group and certain matters connected with the Placing. In addition, the Company has given

indemnities to Canaccord in connection with the Placing and Canaccord's performance of services in relation to the Placing.

All the placees with whom Loan Notes were placed are institutional investors.

GENERAL DESCRIPTION OF THE LOAN NOTES

Issuer	Caledon Resources plc.
The Issue	£12,500,000 8.5 per cent unsecured convertible loan notes due 2010.
Issue Price	100 per cent of the principal amount of the Loan Notes.
Maturity Date	5 July 2010.
Interest Rate	The Loan Notes bear interest at the rate of 8.5% per annum from and including 5 July 2007 to but excluding the Maturity Date (as defined in " <i>Terms and Conditions of the Loan Notes</i> ").
Interest Payment Dates	Interest is payable semi-annually in arrear on 30 June and 31 December in each year, commencing on 31 December 2007.
Registrar:	Computershare Investor Services plc
Ranking	The Loan Notes constitute direct and unsecured and unsubordinated obligations of the Issuer. The Loan Notes rank and will rank <i>pari passu</i> without any preference among themselves.
Conversion	<p>Each Loan Note entitles the holder to convert such Loan Note into Ordinary Shares at the then applicable Conversion Price at any time on or after 5 July 2007 and up to the close of business on 5 July 2010, unless such Loan Note is redeemed earlier.</p> <p>The initial Conversion Price is 50 pence per Ordinary Share.</p> <p>The Conversion Price is subject to adjustment in certain circumstances described in "<i>Terms and Conditions of the Loan Notes—Adjustments to the Conversion Price</i>", as provided in the Conditions.</p> <p>Ordinary Shares issued on conversion will be fully paid and will rank <i>pari passu</i> in all respects with the fully paid Ordinary Shares in issue on the date of Conversion, save as provided in "<i>Terms and Conditions of the Loan Notes—Ordinary Shares</i>".</p>
Optional Redemption	The Issuer may at its option redeem the Loan Notes at any time with the approval of an extraordinary resolution of the Noteholders and the Noteholders may at their option require the Issuer to redeem the Loan Notes at any time following the occurrence of a Relevant Event (as defined in the terms and conditions of the Loan Notes).
Negative Pledge	The Issuer has agreed not to issue secured debt securities which would ordinarily be quoted, listed or dealt on any securities market without agreeing at the same time to secure the Loan Notes equally and rateably with such new debt securities or as otherwise agreed by an extraordinary resolution of holders of the Loan Notes.
Other Covenants	The Issuer has agreed certain other covenants as described in " <i>Terms and Conditions of the Loan Notes – Part B</i> ".
Use of Proceeds	The net proceeds of the issue of the Loan Notes, amounting to approximately £12 million after the deduction of expenses in connection with the issuance of the Loan Notes, will be used for the Group's general working capital purposes.

Form of the Loan Notes	The Loan Notes will be issued in registered form in denominations of £100,000. The Loan Notes will be represented by the Global Certificate which will be registered in the name of T. Hoare Nominees Limited as nominee for and deposited with a common depositary for Euroclear and Clearstream, Luxembourg on or around the Closing Date. Individual Note Certificates evidencing holdings of the Loan Notes will be available only in certain limited circumstances. See " <i>Summary of Provisions Relating to the Loan Notes in Global Form</i> ".
Listing	Application has been made to list the Loan Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF. The Ordinary Shares trade on AIM under the symbol "CDN".
Clearing	The Loan Notes have been accepted for clearing and settlement through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Codes: ISIN: GB00B1YHLM25 Common Code: 030739892
Governing Law	The Loan Notes will be governed by, and shall be construed in accordance with, English law.

RISK FACTORS

Investing in companies that invest in fuel/natural resources is a speculative activity that involves a high degree of financial risk. The risk factors which should be taken into account in assessing the Group's activities and investment in the Company include, but are not necessarily limited to, those set out below. They are not intended to be presented in any assumed order of priority. Any one or more of these risks could have a material adverse effect on the business and prospects of the Group and the value of the Loan Notes and/or Ordinary Shares and investments in Caledon and should be taken into account when assessing the Group's activities.

Expansion targets and operational delays

- The Group's operational targets will be subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Group. The locations of all of the Group's mining and exploration activities dictate that climatic conditions have an impact on operations and, in particular, severe weather could disrupt the delivery of supplies, equipment and fuel. It is, therefore, possible that exploration and mining activity levels might fluctuate. Unscheduled interruptions in the Group's operations due to mechanical or other failures or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations. In particular, demand for rail and port services for coal export in Queensland is currently very high and constrained by limited capacity. Although the Group has secured rail and port facilities with QR (formerly Queensland Rail) and the Port of Gladstone for the first two years of planned production, there is no guarantee that suitable capacity will subsequently become available on commercially acceptable terms or that planned increases in the capacity of both rail and port services will be completed on time or at all. The Group will not generate any material income until mining has successfully commenced. In the meantime the Group will continue to expend its cash reserves.
- Railway and ship transportation are expected to be the Group's principal means of transporting raw materials products to customers. As a result, increases in transportation costs may adversely affect the Group's ability to compete successfully. If there are increased transport costs, the Company's results of operations could be materially adversely affected.
- Although the Directors believe that construction activities required to continue underground mining operations at the Cook Mine and coal beneficiation at the CPP are limited, should more extensive work be required, with consequential additional and unanticipated costs this would lead to delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Group.
- There is no guarantee that any Continuous Bolter/Miner ordered by contractors engaged by the Group will be delivered on time or that any such contractor will be able to deploy the same as currently envisaged in the mine plan detailed in the CPR at Part II of the Admission Document and, accordingly, efficiencies currently envisaged by the use of the same may not be realised to the same extent or at all.
- There can be no guarantee that, should the Minyango Deposit have sufficient resource and reserve to support an operating mine, the mine operating costs or the CPP costs would be sufficiently low to make such a mine commercially viable.

Project development

- There can be no assurance that the Group will be able to manage effectively the expansion of its operations or that the Group's current personnel, systems, procedures and controls will be adequate to support the Group's operations. This includes inter alia the Group managing the acquisition of required land tenure, infrastructure development, and other related issues affecting local, First Nations and aboriginal populations, their cultures and religions. The Group's mines will also, after an initial period, be operated and managed by contractors, and the terms of their appointment are set out in Part VIII of the Admission Document. The Group has also not yet

agreed terms with QR (formerly Queensland Rail) or the Port of Gladstone regarding future transportation of coal past 2008. Any failure of management to effectively manage the Group's growth and development or its appointed contractors or to secure appropriate coal export arrangements with QR or the Port of Gladstone could have a material adverse effect on the Group's business, financial condition and results of operations. There is no certainty that all or, indeed, any of the elements of the Group's current strategy will develop as anticipated and that the Group will be profitable.

- Any commodities exploration programme entails risks relating to the location of economic deposits, the development of appropriate mining processes, the receipt of necessary governmental permits and the construction of mining and processing facilities at any site chosen for mining. No assurance can be given that any exploration programme will result in any new commercial mining operation or in the discovery of new resources.

Volatility of coal prices

- The market price of coal is volatile and is affected by numerous factors which are and will be beyond the Group's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events as well as a range of other market forces. For example, coal prices have recently been driven to a significant extent by demand in China and India. A decline in Asian demand or a material increase in the supply of coal could have a significant adverse effect on coal prices. In addition, consolidation in the steel industry may lead to increased purchasing power for steel producers which could reduce the price paid for metallurgical coal. Coal prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond the Group's control. Sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration activities to be undertaken by the Group.

Exploration, development and operating risks

- The exploration for and development of mineral deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties, which are explored, are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and grades of coal disclosed will be available to extract. In particular, there can also be no guarantee that the estimates of quantities and grades of coal disclosed in relation to the Minyango Deposit will be sufficient to support a commercially viable operating mine. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any mineralisation discovered will result in an increase in the Group's resource base. The Group's operations will be subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, seismic activity, flooding, gas and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimise risk will be taken, operations are subject to hazards which may result in environmental pollution and consequent liability which could have a material adverse impact on the business, operations and financial performance of the Group.
- Although CC proposes to acquire a right to access between 800ML and 1,000ML of water from CRM, this water is currently supplied to CRM and is intended to be supplied to CC through a contract with SunWater Pty Ltd. As at the date of this document, CC is still in negotiations with SunWater Pty Ltd in relation to the proposed supply contract. In addition, regulatory approval of such contract is required. Although the Directors anticipate such contract will be entered into on terms acceptable to the Company and that such approval will be obtained, there is no guarantee that this will be the case. Failure to secure the supply contract or the regulatory approval would result in a material adverse effect on the business and prospects of the Group.

Currency risk

- The Group's revenue from operations will be received in Australian dollars while certain of its operating expenses will be incurred in Pounds Sterling and Canadian dollars. Accordingly, foreign currency fluctuations may adversely affect the Group's financial position and operating results. Upon re-establishing commercial production at the Cook Mine, the Group will establish a foreign currency hedging policy. Such policy is to be reviewed throughout each financial year by the Audit Committee of the Company, in particular at such times as additional production is introduced.

Additional funding requirements

- Substantial additional financing for certain portions of the deferred consideration in relation to the Minyango Acquisition and the establishment of the mining operations at the Minyango Deposit will be required by the Group. In addition, there is no guarantee that the planned increase in capacity at the Cook Mine and the refurbishment of the CPP will not require unplanned capital or operating expenditure which would require additional financing. No assurances can be given that the Group will be able to raise the additional finance that may be required to fund the deferred consideration due in relation to the Minyango Acquisition or for such future activities. Coal prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures and operating expenses and geological results are all factors which will have an impact on the amount of additional capital that may be required. Whilst it is the Directors' current intention to undertake additional equity financing, the Company cannot guarantee that any additional equity financing will not be dilutive to Shareholders. Debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Group or at all. If the Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, forfeit its interest in some or all of its properties and licences (including all or part of the Minyango Deposit), incur financial penalties or reduce or terminate its operations.

Reserve and resource estimates

- The Group's reported mineral reserves and resources and those of the Cook Mine and the Minyango Deposit are only estimates. No assurance can be given that the estimated mineral reserves and resources will be recovered or that they will be recovered at the rates estimated. Mineral reserve and resource estimates are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Mineral reserve and resource estimates may require revision (either up or down) based on actual production experience. Market fluctuations in the price of coal, as well as increased production costs or reduced recovery rates, may render certain mineral reserves and resources uneconomic and may ultimately result in a restatement of reserves and/or resources. Moreover, short-term operating factors relating to the mineral reserves and resources, such as the need for subsequent development of coal deposits and the processing of new or different coal grades, may adversely affect the Group's profitability in any particular accounting period.

Governmental regulations and processing licences

- The activities of the Group are and will be subject to government approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local, Aboriginal populations, their cultures and religions. There is no guarantee that the Minyango Deposit will obtain the necessary mining and environmental licences and permits or that the Cook Mine will retain those it already has.
- Some or all of the mining licences issued in respect of the projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licences. In the event of revocation, the value of the Group's investments in such projects may decline, which may lead to a fall in the value of any investment in the Ordinary Shares.
- Activities of the Group are and will also be subject to various laws and regulations relating to the protection of the environment. Although the Directors believe that the Group's proposed and

current mining and exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Group.

Limited operating and mine production history

- The Group has no properties producing positive cash flow and its ultimate success will depend on its ability to generate cash flow producing properties in the future. Other than in 2005 when profits arose due to a disposal of the Group's interest in Afcan Mining Corporation, the Group has not earned profits to date and there is no assurance that it will do so in the future. Significant capital investment will be required to achieve commercial production from the Group's existing and proposed projects and from successful exploration efforts. There is no assurance that the Group will be able to raise the required funds to continue these activities.
- The Group's historic business has been precious metal exploration in China. Until recently it has had no direct experience of coal production. The Group will therefore be highly dependent, at least initially, on its contractors for mining and management services and on the experience of the new members of the executive management team and those personnel engaged by such contractors to provide services to the Group under their respective contracts with the Group. There can be no guarantee that any of these parties will not breach the terms of their engagement with the Group or otherwise cease to be able to perform their obligations under such agreements. In such a situation the Group may have to seek alternative services, potentially on more adverse terms. There can be no guarantee that the alternative services required by the Group will be sourced on terms acceptable to the Group or at all.

Dependence on key personnel and contractors

- The Group will be dependent upon its current executive management team. Whilst it has entered into contractual arrangements with the aim of securing the services of these personnel on a longer-term basis, the retention of their services cannot be guaranteed. Accordingly, the loss of any key executive or managers of the Group may have an adverse effect on the future of the Group's business. The Group competes and will continue to compete with numerous other companies and individuals in the search for and acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and contractors. Whilst the Group's contracts seek to secure the services of suitably qualified personnel for the term of the contract, the retention of these services can not be guaranteed and, during the term of such contracts, there can be no guarantee that such contractors and/or personnel will not breach the terms of such agreements or become insolvent or bankrupt and, accordingly, no longer able to perform their obligations under such agreements.

Competition

- There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Group competes will continue to compete with other mining companies, many of which have greater financial resources than the Group, for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.
- The Group may not be able to identify suitable acquisition targets, and future acquisitions may not be available to the Group on terms as favourable as in the past. The Group faces significant competition for potential acquisitions, particularly for mining assets. When making acquisitions it may not be possible for the Group to conduct a detailed investigation of the nature of the assets being acquired, for example due to time constraints in making the decision and other factors. Any failure to conclude acquisitions in the future or successfully to integrate past or future acquisitions could adversely affect the Group's business, financial condition and results of operations.

Environmental regulation and liability

- The Group's activities are and will continue to be subject to environmental regulation (including regular environmental impact assessments and permitting) in the jurisdiction in which it operates. Such regulations typically cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. The Group may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. Environmental legislation and permitting are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees.
- The Group's activities are and will continue to be subject to health and safety standards and regulations. Failure to comply with such requirements may result in fines and/or penalties being assessed against the Group.

Uninsured risks

- The Group, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Group may incur a liability to third parties (in excess of any insurance cover) arising from negative environmental impacts or any other damage or injury.

Resource industry specific

- To the extent that members of the Group make an investment in the natural resources sector, it will be subject to fluctuations in the value of fuel commodities.
- The level of funding immediately available to the Company could limit its choice of investments to projects at early stage of development, which will therefore have no proven economic value.
- The levels of production and recovery achieved by members of the Group from mining operations may vary significantly and reserve estimates may not be met. Adverse movements in any of many variables involved may result in a reduction of the valuation of reserves and/or resources and in the volume of reserves and/or resources which can be economically mined. Drilling, development and mining may be adversely affected by factors including delays in installing, commissioning plant and equipment or other technical difficulties; availability of capital goods or skilled staff; strikes or interruptions to services (such as water, transport, fuel and power) or technical support. These factors may result in a failure to achieve projected target dates for, or volumes of, production or a requirement for greater capital or operating expenditure.
- Development projects have no operating history upon which to base estimates of future cash operating costs. For development projects, estimates of proven and probable reserves and cash operating costs are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of cash operating costs upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the orebody, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result it is possible that actual cash operating costs and economic returns may differ from those currently estimated. Additional investments to progress projects from the early stages of development could require further funding for the Group and further dilution of existing shareholders' interest in the Company.
- Mining projects may be subject to the environmental laws of states in which members of the Group operate. These laws may result in limitations of mining activities which may become increasingly strict in future. Environmental awareness on the part of the public has been increasing, as has public pressure on environmental authorities. No assurance can be given that the need to comply with current or future environmental laws, regulations or commitments will not have a material adverse effect on the activities of the Group or that the liabilities resulting from

any environmental damage caused by the activities of the investee companies will not be material.

- Members of the Group may or may not maintain appropriate insurance cover with respect to their operations. Where present, insurance may not provide adequate cover. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on the operations and finances of an investee company. Moreover, investee companies may not maintain appropriate insurance in the future.
- The earnings of the members of the Group may be derived from the mining and sale of coal and other commodities and may therefore be related to the market price of those materials. Historically, the prices of coal and other commodities have fluctuated significantly and are affected by numerous factors which investee companies may be unable to control or predict. The performance of the share price of a coal or other commodities mining company generally exhibits a correlation with the price of coal or other commodities mined.
- There is no guarantee that members of the Group will receive all necessary reconnaissance, prospecting, exploration or mining licences or that the issue of such licence will ensure the subsequent issue of an exploitation licence or mining.
- Members of the Group intend to invest in mining projects which come under foreign jurisdictions where title to mineral rights could be subject to political changes or events. Changes may occur in the political, fiscal and legal systems in the countries in which the members of the Group intend to invest which might affect the ownership or operation of the Group's investment interest, including inter alia, changes in exchange control regulations, expropriation of mining rights, changes in government and in legislative and regulatory regimes.
- The nature of resource quantification studies means that there can be no guarantee that estimates of quantities and grades of coal disclosed to and by members of the Group will be available for extraction.
- There are risks inherent in the development and exploitation of mineral deposits. The business of mining by its nature involves significant risk and hazards often outside the Group's control, including but not limited to geological, geotechnical and seismic factors, industrial and mechanical incidents, labour disputes, environmental hazards, including the discharge of toxic chemicals, fire, drought, and flooding. The occurrence of any of these hazards can delay or interrupt production, increase production costs and result in liability to the owner or operator of the mine.

Litigation

- Legal proceedings may arise from time to time in the course of the Group's business. There have been a number of cases where the rights and privileges of mining and exploration companies have been the subject of litigation. The Directors cannot preclude that such litigation may be brought against the Group in future from time to time or that it may be subject to any other form of litigation.

General

- The Ordinary Shares are traded on AIM rather than the Official List. An investment in shares traded on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM's future success and liquidity in the market for the Company's securities cannot be guaranteed.
- Investors should be aware that the value of the Loan Notes and the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment, especially as the market in the Loan Notes on the Luxembourg MTF Market and in the Ordinary Shares on AIM may have limited liquidity. It is emphasised that no application is being made for admission of the Ordinary Shares to listing on the Official List. Further, neither the London Stock Exchange nor the UK Listing Authority has examined or approved the contents of this document.

- The market price of the Loan Notes or the Ordinary Shares may not reflect the underlying value of the Company's net assets.
- The price at which investors may dispose of their Loan Notes or shares in the Company may be influenced by a number of factors, some of which may pertain to the Company and others of which are extraneous. Investors may realise less than the original amount invested. The change of sphere of activity in the business of the Company means that it has little operating history upon which its performance and prospects can be evaluated. Accordingly, the Company faces the risks frequently encountered by developing companies, particularly in relation to the ability to implement its business strategy successfully. If the business strategy is not successfully implemented or if the Company is not fully able to take advantage of the market for its investment purposes, the business could be harmed or fail entirely.
- The Company may seek to raise additional funds in the future to ensure future growth and expansion, to fund the deferred consideration elements of the Minyango Acquisition or to fund currently unplanned expansion of the operations at the Cook Mine or the Minyango Deposit. Any equity offerings to new investors could result in earnings dilution for shareholders. Further, there can be no guarantee or assurance that additional funds can be raised when required, or that any such issues will not be at less than the Initial Conversion Price.
- Fluctuations in exchange rates between currencies in which the Company invests may cause fluctuations in its financial results that are not necessarily related to the Group's underlying operations.
- Changes in the general economic climate in which the investee companies operate may adversely affect the financial performance of the Group. Factors which may contribute to that general economic climate include, growth of countries where investments are undertaken or where the Group's commodities are sold, the level of government intervention in their receptive economies (e.g. interest rates) and the perceived political and economic stability of the state in which the investment operates or where the Group's commodities are sold.
- Loan Note holders may sell their Loan Notes and Shareholders may sell their Ordinary Shares in the future to realise their investment. Sales of substantial amounts of the Loan Notes or the Ordinary Shares or the perception that these sales could occur, could materially adversely effect the market price of the Loan Notes and/or the Ordinary Shares available for sale compared to the demand to buy Loan Notes and/or Ordinary Shares (as the case may be). Such sales may also make it more difficult for the Company to sell equity securities in the future at a time and price that is deemed appropriate.

Risk Factors relating to the Loan Notes

- The Loan Notes are not a suitable investment for all investors: Each potential investor in the Loan Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:
 - have sufficient knowledge and experience to make a meaningful evaluation of the Loan Notes, the merits and risks of investing in the Loan Notes and the information contained in this Prospectus;
 - have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Loan Notes and the impact of the Loan Notes will have on its overall investment portfolio;
 - have sufficient financial resources and liquidity to bear all of the risks of an investment in the Loan Notes;
 - understand thoroughly the terms of the Loan Notes; and
 - be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

- The Loan Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Loan Notes unless it has the expertise (either alone or with the financial adviser) to evaluate how the Loan Notes will perform under changing conditions, the resulting effects on the value of the Loan Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Absence of Trading Market for the Loan Notes

- Prior to the offering of the Loan Notes, there has been no existing market for the Loan Notes. Accordingly, there can be no assurance as to the liquidity of any market that may develop for the Loan Notes, the ability of the holders of the Loan Notes to sell their Loan Notes or the price at which such holders would be able to sell their Loan Notes. Application has been made to the Luxembourg Stock Exchange for the Loan Notes to be listed and admitted to trading on the Luxembourg Stock Exchange. There can be no assurance that such listing will be obtained or, if such listing is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Loan Notes will depend on the number of holders of the Loan Notes, the interest of securities dealers in making a market in the Loan Notes and other factors.

All defined terms in this section on risk factors shall have the meaning of those used in the Admission Document, which has been incorporated by reference.

TERMS AND CONDITIONS OF THE LOAN NOTES

Part A

The following is the text of the terms and conditions of the Loan Notes which will be endorsed on each Loan Note Certificate issued to holders of the Loan Notes.

1. FORM AND STATUS

- 1.1 The Loan Notes constitute obligations of the Company ranking pari passu amongst themselves.
- 1.2 References in these Conditions to the principal amount of any Loan Note shall be to the face value (being £100,000) of that Loan Note.

2. INTEREST

2.1 Interest Payment Dates and Interest Periods

The Loan Notes will bear interest calculated as provided by **Condition 2.2** below on the outstanding principal amount from and including the date of issue of the Loan Notes, payable twice annually in arrears on each Interest Payment Date (or in the event of any such date not being a Business Day, on the next Business day thereafter), provided that the first Interest Payment Date shall be 31 December 2007 and interest shall be payable on that date in respect of the period from (and including) the date of issue of the Loan Notes up to but excluding 31 December 2007.

2.2 Determination of the Interest Rate and Calculation of Interest Payable

The Interest Rate shall be equal to eight point five per cent. (8.5%) per annum. The amount of interest payable on the Loan Notes in respect of any Interest Period shall accrue from day to day and shall be calculated for the number of days in such Interest Period based on a year of 365 days (or, in the case of any Loan Notes issued after the most recent Interest Payment Date, the number of days since the date of issue.) Interest will be paid to the Loan Note Holders after deducting any tax which the Company is required by law to deduct from such payment.

3. CONVERSION

3.1 Conversion of Loan Notes into Ordinary Shares

- 3.1.1 Each Loan Note shall entitle the holder (such right a "**Conversion Right**") to convert such Loan Note into Ordinary Shares, credited as fully paid, subject to and as provided in these Conditions.
- 3.1.2 The number of Ordinary Shares to be issued on exercise of a Conversion Right shall be determined by dividing the principal amount of the relevant Loan Note by the conversion price (the "**Conversion Price**") in effect on the relevant Conversion Date.
- 3.1.3 The initial Conversion Price is 50p per Ordinary Share. The Conversion Price is subject to adjustment in the circumstances described in **Condition 3.2**.

- 3.1.4 A Loan Note Holder may exercise the Conversion Right in respect of a Loan Note by delivering such Loan Note to the registered office of the Company or of the Luxembourg Paying and Conversion Agent in accordance with **Condition** 3.9, subsequently the Company shall issue, or procure the delivery, to the Loan Note Holder of Ordinary Shares credited as paid up in full as provided in this **Condition** 3.
- 3.1.5 Subject to, and upon compliance with, the provisions of these Conditions, the Conversion Right in respect of a Loan Note may be exercised, at the option of the relevant Loan Note Holder, at any time (subject to any applicable fiscal or other laws or regulations and as provided in the following provisions) from the Closing Date to the close of business (at the place where the relevant Loan Note is delivered for conversion) on the date falling prior to the Final Maturity Date (both days inclusive). Conversion Rights may not be exercised following the date on which notice has been served of an occurrence of an Event of Default. The period during which Conversion Rights may be exercised by a Loan Note Holder is referred to as the "**Conversion Period**".
- 3.1.6 Fractions of Ordinary Shares will not be issued on conversion or pursuant to **Condition** 3.3 and no cash payment or adjustment will be made instead of any fraction. However, if the Conversion Right in respect of more than one Loan Note is exercised at anyone time such that Ordinary Shares to be issued on conversion or pursuant to **Condition** 3.3 are to be registered in the same name, the number of such Ordinary Shares to be issued in respect of such conversion shall be calculated on the basis of the aggregate principal amount of such Loan Notes being so converted and rounded down to the nearest whole number of Ordinary Shares.
- 3.1.7 The Company will procure that Ordinary Shares to be issued on conversion will be issued to the holder of the Loan Notes completing the relevant Conversion Notice or his nominee. Such Ordinary Shares will be deemed to be issued as of the relevant Conversion Date. Any Additional Shares to be issued pursuant to **Condition** 3.3 will be deemed to be issued as of the date the relevant Retroactive Adjustment takes effect or as at the date of issue of Ordinary Shares if the adjustment results from the issue of Ordinary Shares (each such date, the "**Reference Date**").

3.2 **Adjustment of Conversion Price**

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

3.2.1 Consolidation or Subdivision

If and whenever there shall be an alteration to the nominal value of the Ordinary Shares as a result of consolidation or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Ordinary Share immediately after such alteration; and

B is the nominal amount of one Ordinary Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

3.2.2 Capitalisation of Profits or Reserves

If and whenever the Company shall issue any Ordinary Shares credited as fully paid to the holders of Ordinary Shares (the "Shareholders") by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are issued instead of the whole or part of a cash Dividend which the Shareholders would or could otherwise have received or (2) where the Shareholders may elect to receive a cash Dividend in lieu of such Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Ordinary Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Ordinary Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

3.2.3 Capital Distribution

If and whenever the Company shall pay or make any Capital Distribution to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the relevant Spin-Off or Dividend of which such Capital Distribution forms part by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the relevant Dividend or, in the case of a purchase of Ordinary Shares or any receipts or certificates representing shares by or on behalf of the Company or any Subsidiary Undertaking of the Company, the day on which such Ordinary Shares are purchased or, in the case of a Spin Off, is the mean of the Volume Weighted Average Prices of an Ordinary Share for the twenty consecutive dealing days ending on the dealing day immediately preceding the first date on which the Ordinary Shares are traded ex the relevant Spin Off; and

B is the portion of the Fair Market Value, of the Capital Distribution attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Ordinary Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase of Ordinary Shares or any receipts or certificates representing shares by or on behalf of the Company or any Subsidiary Undertaking of the Company, by the number of Ordinary Shares in issue immediately prior to such purchase).

Such adjustment shall become effective on the date on which such Capital Distribution is made or, in the case of a purchase of Ordinary Shares or any receipts or certificates representing Ordinary Shares, on the date such purchase is made or, in any such case if

later, the first date upon which the Fair Market Value of the Capital Distribution is capable of being determined as provided herein.

3.2.4 Shares, Rights and Share-Related Securities Issues to Shareholders at less than 90 per cent. of Current Market Price

If and whenever the Company shall issue Ordinary Shares to Shareholders as a class by way of rights, or issue or grant to Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase any Ordinary Shares, in each case at a price per Ordinary Share which is less than 90 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the terms of the issue or grant of such Ordinary Shares, options, warrants or other rights, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

$$A+C$$

where:

A is the number of Ordinary Shares in issue immediately before such announcement;

B is the number of Ordinary Shares which the aggregate amount (if any) payable for the Ordinary Shares issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise of such options or warrants or other rights, would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex rights, ex options or ex warrants on AIM.

3.2.5 Rights Issues of Other Securities to Shareholders

If and whenever the Company shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

A is the Current Market Price of one Ordinary Share on the dealing day immediately preceding the first date on which the terms of such issue or grant are publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex rights, ex options or ex warrants on AIM.

3.2.6 Issues of Shares at less than 90 per cent. of Current Market Price

If and whenever the Company shall issue (otherwise than as mentioned in **Condition** 3.2.4 above) any Ordinary Shares (other than Ordinary Shares issued on the exercise of Conversion Rights or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) wholly for cash or for no consideration or issue or grant (otherwise than as mentioned in **Condition** 3.2.4 above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Loan Notes, which term shall include any further Loan Note issued pursuant to **clause** 7 and consolidated and forming a single series with the Loan Notes), in each case at a price per Ordinary Share which is less than 90 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$\frac{A + B}{A + C}$

where:

A + C

A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such additional Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the date of issue of such additional Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

3.2.7 Other Issues at less than 90 per cent. of Current Market Price

If and whenever the Company or any Subsidiary Undertaking of the Company or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary Undertaking of the Company) any other company, person or entity (otherwise than as mentioned in **Conditions** 3.2.4, 3.2.5 or 3.2.6 above) shall issue wholly for cash or no consideration any Securities (other than the Loan Notes, which term shall for this purpose exclude any further Loan Notes issued pursuant to **clause** 7 and consolidated and forming a single series with the Loan Notes) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or

Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 90 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue (or grant) by the following fraction:

$\frac{A + B}{A + C}$

where:

A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued by the Company for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued or otherwise made available);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share; and

C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached to such Securities at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation

Provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this **Condition 3.2.7** the "**Specified Date**") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided) then for the purposes of this **Condition 3.2.7**, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue of such Securities or, as the case may be, the grant of such rights.

3.2.8 Amendment of Terms of Rights or Share-Related Securities

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such Securities (other than the Loan Notes and any further Loan Notes issued pursuant to **Clause 7** and consolidated and forming a single series therewith) as are mentioned in **Condition 3.2.7** above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that

following such modification the consideration per Ordinary Share receivable has been reduced and is less than 90 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$\frac{A + B}{A + C}$

where:

where:

A is the number of Ordinary Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued by the Company or any Subsidiary Undertaking of the Company (or at the direction or request or pursuant to any arrangements with the Company or any Subsidiary Undertaking of the Company) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued or otherwise made available on conversion);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange or subscription price of such Securities; and

C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Financial Adviser shall consider appropriate for any previous adjustment under this **Condition** or **Condition 3.2.7** above.

Provided that if at the time of such modification (as used in this **Condition 3.2.8**) the "**Specified Date**") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or at such other time as may be provided) then for the purposes of this **Condition 3.2.8**, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange or subscription had taken place on the Specified Date.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such Securities.

3.2.9 Other Offers to Shareholders

If and whenever the Company or any Subsidiary Undertaking of the Company or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary Undertaking of the Company) any other company, person or entity shall offer any Securities in connection with which offer Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under **Conditions 3.2.2, 3.2.3, 3.2.4,**

3.2.5, 3.2.6 or 3.2.7 above or 3.2.10 below (or would fall to be so adjusted if the relevant issue or grant was at less than 90 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day) or under **Condition** 3.2.5 above) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the dealing day immediately preceding the date on which the terms of such offer are first publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex rights on AIM.

3.2.10 Change of Control

If an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates (as defined in Section 430E(4) of the Companies Act 1985) of the offeror), to acquire all or a majority of the issued ordinary share capital of the Company or if any person proposes a scheme with regard to such acquisition (other than an Exempt Newco Scheme) and (such offer or scheme having become or been declared unconditional in all respects) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company has become unconditionally vested in the offeror and/or such associates as aforesaid (a "**Relevant Event**") the Conversion Price shall be adjusted as set out below (but in each case adjusted, if appropriate, proportionately on each adjustment to the Conversion Price under the previous provisions of this **Condition** 3.2 and under **Condition** 3.2.11 below), provided that any adjustment to the Conversion Price pursuant to this **Condition** 3.2.10 shall only apply to Loan Notes in respect of which Conversion Rights are duly exercised and the Conversion Date falls within the Relevant Event Period:

The Conversion Price shall be adjusted by using the following formula:

$$\frac{A}{1 + (0.25xa / b)}$$

Where:

A is the Conversion Price as previously adjusted under any of the previous provisions of **Conditions** 3.2 and under **Condition** 3.2.11 below;

a is the number of days from and including the date of the Relevant Event to but excluding the Final Maturity Date; and

b is the number of days from and including the Closing Date to but excluding the Final Maturity Date.

3.2.11 Other Events

If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this **Condition 3.2** (even if the relevant circumstance is specifically excluded from the operation of **Conditions 3.2.1 to 3.2.10** above), the Company shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account of such event and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this **Condition 3.2.11** if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises.

Notwithstanding the above provisions, where the events or circumstances giving rise to any adjustment pursuant to this **Condition 3.2** have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Company, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result and provided further that, for the avoidance of doubt, the issue of Ordinary Shares pursuant to the exercise of Conversion Rights shall not result in an adjustment to the Conversion Price.

For the purpose of any calculation of the consideration receivable or price pursuant to **Conditions 3.2.4, 3.2.6, 3.2.7 and 3.2.8**, the following provisions shall apply:

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the aggregate consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Company to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the date of the first public announcement of the terms of issue of such Securities or, as the case may be, such options, warrants or rights, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached to such

Securities or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component of such provisions) shall be expressed in a currency other than sterling it shall be converted into sterling at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on the date of the first public announcement of the terms of issue of such Securities (or if no such rate is available on that date, the equivalent rate on the immediately preceding date on which such rate is available); and
- (d) in determining consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or otherwise in connection with it.

3.3 **Retroactive Adjustments**

If the Conversion Date in relation to any Loan Note shall be after the record date for any such issue, distribution, grant or offer (as the case may be) as is mentioned in **Conditions 3.2.2, 3.3.3, 3.3.4, 3.4.5 and 3.4.9**, or any such issue as is mentioned in **Conditions 3.2.6 and 3.2.7** which is made to the Shareholders or any of them, but before the relevant adjustment becomes effective under **Condition 3.2** (such adjustment being a "**Retroactive Adjustment**"), the Company shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued to the converting Loan Note Holder, in accordance with the instructions contained in the Conversion Notice, such additional number of Ordinary Shares (if any) (the "**Additional Shares**") as, together with the Ordinary Shares issued or to be issued on conversion of the relevant Loan Note (together with any fraction of an Ordinary Share not so issued), is equal to the number of Ordinary Shares which would have been required to be issued on conversion of such Loan Note if the relevant adjustment (more particularly referred to in such provisions of **Condition 3.2**) to the Conversion Price had in fact been made and become effective immediately after the relevant record date.

3.4 **Decision of an Independent Financial Adviser**

If any doubt shall arise as to the appropriate adjustment to the Conversion Price, then following consultation between the Company and an Independent Financial Adviser a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price shall be conclusive and binding on all concerned, save in the case of manifest error.

3.5 **Ordinary Shares may not be Issued at a Discount**

The Conversion Price may not be reduced so that, on conversion of the Loan Notes, Ordinary Shares would fall to be issued at a discount to their nominal or par value.

3.6 **Employees' Share Schemes**

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees or former employees (including Directors holding or formerly holding executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Company or any of its Subsidiaries or any associated company or to trustees to be held for the benefit of any such person, in any such case pursuant to any employees' share scheme (as defined in Section 743 of the Companies Act 1985).

3.7 **Rounding Down and Notice of Adjustment to the Conversion Price**

On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.01, shall be rounded down to the nearest whole multiple of £0.001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time.

Notice of any adjustments to the Conversion Price shall be given to Loan Note Holders in accordance with **Condition 14** promptly after the determination of such adjustment.

3.8 **Change of Control**

Following the occurrence of a Relevant Event the Company shall give notice of such event to the Loan Note Holders in accordance with **Condition 14** (a "**Relevant Event Notice**") within 14 calendar days of the first day on which it becomes so aware. Such notice shall contain a statement informing Loan Note Holders of their entitlement to exercise their Conversion Rights as provided in these Conditions and the Conversion Price applicable in consequence of the Relevant Event, as the case may be, as set out in **Condition 3.2.10**, as adjusted where appropriate. The Relevant Event Notice shall also specify:

- 3.8.1 all information material to Loan Note Holders concerning the Relevant Event;
- 3.8.2 the Conversion Price immediately prior to the occurrence of the Relevant Event and the Conversion Price applicable pursuant to **Condition 3.2.10** during the Relevant Event Period;
- 3.8.3 the closing price of the Ordinary Shares as derived from AIM as at the latest practicable date prior to the publication of such notice; and
- 3.8.4 the last day of the Relevant Event Period.

3.9 **Procedure for Conversion**

- 3.9.1 A Conversion Right may be exercised by a Loan Note Holder during the Conversion Period by delivering the relevant Loan Note to the registered office of the Company or of the Luxembourg Paying and Conversion Agent, during usual business hours, accompanied by a duly completed and signed Conversion Notice. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or

regulations applicable in the jurisdiction in which the registered office of the Company to whom the relevant Conversion Notice is delivered is located.

- 3.9.2 A Conversion Right may be exercised only in respect of the whole of the principal amount of a Loan Note.
- 3.9.3 A Conversion Notice, once delivered, shall be irrevocable.
- 3.9.4 The conversion date in respect of a Loan Note (the "**Conversion Date**") shall be the fifteenth London business day immediately following the date of such delivery and, if applicable, the making of any payment to be made as provided below. A Conversion Notice received after 15:00 hours (London time) shall be deemed to be received on the following business day.
- 3.9.5 Each Loan Note should be delivered upon exercise of Conversion Rights.
- 3.9.6 A Loan Note Holder exercising a Conversion Right must pay any taxes and capital, stamp, issue and registration duties arising on conversion of its Loan Notes and such Loan Note Holder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Loan Note or interest therein in connection with such conversion.
- 3.9.7 The Ordinary Shares will not be available for issue (i) to, or to a nominee or agent for, Euroclear or Clearstream, Luxembourg or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986, in each case at any time prior to the "abolition day" as defined in Section 111(1) of the Finance Act 1990.
- 3.9.8 Ordinary Shares to be issued on conversion of the Loan Notes (including any Additional Shares) will be issued in uncertificated form through the dematerialised securities trading system operated by CRESTCo Limited ("CREST") provided the Loan Note Holder has specified an account for this purpose, unless the relevant Loan Note Holder elects to receive the Ordinary Shares in certificated registered form or, at the time of issue, the Ordinary Shares are not a participating security in CREST. Where Ordinary Shares are to be issued through CREST, they will be delivered to the account specified by the relevant Loan Note Holder in the relevant Conversion Notice by not later than seven London business days following the relevant Conversion Date (or, in the case of any Additional Shares, not later than seven London business days following the Reference Date). Where Ordinary Shares are to be issued in certificated form, a certificate in respect thereof will be dispatched by mail free of charge (but uninsured and at the risk of the recipient) to the relevant Loan Note Holder or as it may direct in the relevant Conversion Notice within 28 days following the relevant Conversion Date or, as the case may be, the Reference Date.
- 3.10 **Ordinary Shares**
 - 3.10.1 Ordinary Shares issued upon conversion of the Loan Notes will be fully paid and non assessable and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Conversion Date or, in the case of Additional Shares, on the relevant Reference Date (except in any such case for any right excluded by mandatory provisions of applicable law), except that the Ordinary Shares or, as the case may be, the Additional Shares so issued will not rank for any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior the relevant Conversion Date or, as the case may be, the relevant Reference Date.

3.10.2 Save as provided in **Condition 3.11**, no payment or adjustment shall be made on conversion for any interest which otherwise would have accrued on the relevant Loan Notes since the last Interest Payment Date preceding the Conversion Date relating to such Loan Notes (or, if such Conversion Date falls before the first Interest Payment Date, since the Closing Date).

3.11 **Interest on Conversion**

If any notice requiring the redemption of any Loan Notes is given on or after the fifteenth London business day prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Closing Date) (whether such notice is given before, on or after such record date) in respect of any Dividend or distribution payable in respect of the Ordinary Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 calendar days after the Interest Payment Date next following such record date, interest shall accrue on Loan Notes in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date in respect of such Dividend or distribution, in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from the Closing Date) to but excluding such Conversion Date. The Company shall pay any such interest or procure that any such interest is paid by not later than 14 calendar days after the relevant Conversion Date by sterling cheque drawn on, or by transfer to, a sterling account maintained with a bank outside the United States of America in accordance with instructions given by the relevant Loan Note Holder.

3.12 **Purchase or Redemption by the Company of its own Shares**

The Company may exercise such rights as it may from time to time have to purchase or redeem its own shares (including Ordinary Shares) without the consent of the Loan Note Holders.

3.13 **Existing Commitments of the Company**

No adjustment will be made to the Conversion Price in relation to or as a result of Ordinary Shares being allotted and/or issued in connection with any obligation of the Company that exists prior to the Closing Date

3.14 **Conversion at the Option of the Company**

3.14.1 On giving not less than 15 nor more than 90 days' notice (an "**Optional Conversion Notice**") to the Loan Note Holders in accordance with **Condition 14**, the Company may require the conversion of all but not some only of the Loan Notes on the date (the "**Optional Conversion Date**") specified in the Optional Conversion Notice at their principal amount together with accrued interest up to but excluding the Optional Conversion Date:

- (a) at any time following the date falling eighteen months from the Closing Date, if in any period of 20 consecutive dealing days (whether or not such period commences before or after the date falling 18 months from the Closing Date) the Volume Weighted Average Price of an Ordinary Share exceeds 80p; or
- (b) if, at any time prior to the date the relevant Optional Conversion Notice is given, Conversion Rights shall have been exercised and/or purchases (and

corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Loan Notes originally issued.

3.14.2 Any Optional Conversion Notice shall be irrevocable. Any such notice shall specify (i) the Optional Conversion Date, (ii) the Conversion Price, the aggregate principal amount of the Loan Notes outstanding and the closing price of the Ordinary Shares as derived from AIM, in each case as at the latest practicable date prior to the publication of the Optional Conversion Notice and (iii) the last day on which Conversion Rights may be exercised by Loan Note Holders.

3.14.3 For the purposes of this **Condition** 3.14 the principal amount of the Loan Notes originally issued shall be the aggregate of the principal amount of the Loan Notes and the principal amount of any further Loan Notes issued pursuant to **clause** 7 and consolidated and forming a single series with the Loan Notes, but shall not take account of any Conversion Rights exercised or purchases and corresponding cancellations.

3.15 **General**

3.15.1 In making any calculation or determination of Current Market Price, Volume Weighted Average Price, Fair Market Value or any other matter, such adjustments (if any) shall be made as an Independent Financial Adviser or the Auditors consider appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

3.15.2 For the purposes of **Conditions** 3.2, 3.3 and 3.6 and **clauses** 4 and 5 only, (a) references to the "issue" of Ordinary Shares shall include the transfer and/or delivery of Ordinary Shares by the Company, whether newly issued and allotted or previously existing or held by or on behalf of the Company, and (b) Ordinary Shares held by or on behalf of the Company (and which, in the case of **Condition** 3.2.4 and 3.2.6, do not rank for the relevant right or other entitlement) shall not be considered as or treated as "in issue".

4. **REDEMPTION AND PURCHASE**

4.1 **Early Redemption**

With the approval by Extraordinary Resolution of the Loan Note Holders, the Company may by service of notice on all Loan Note Holders at any time prior to the Final Maturity Date repay all principal (and accrued but unpaid interest).

4.2 **Final Redemption**

Unless previously purchased and cancelled, redeemed or converted as provided, the Loan Notes will be redeemed by the Company at their principal amount on the Final Maturity Date.

4.3 **Redemption at the option of the Loan Note Holders**

4.3.1 Following the occurrence of a Relevant Event, each Loan Note Holder will have the right to require the Company to redeem all (but not some only) of the Loan Notes held by it on the Relevant Event Put Date, at their aggregate principal amount together with accrued but unpaid interest. To exercise such right, the holder of the relevant Loan Note must present such Loan Note, at the registered office of the Company together with a duly

completed and signed Redemption Notice at any time in the Relevant Event Period. The "**Relevant Event Put Date**" shall be the fourteenth calendar day after the expiry of the Relevant Event Period.

4.3.2 Payment in respect of any such Loan Note shall be made by Pounds Sterling drawn on, or by transfer to a Pounds Sterling account specified by the relevant Loan Note Holder in the applicable Redemption Notice and maintained by such Loan Note Holder with, a bank outside the United States.

4.3.3 A Redemption Notice, once delivered, shall be irrevocable and the Company shall redeem all Loan Note the subject of Redemption Notices delivered as mentioned on the Relevant Event Put Date.

4.4 **Purchase**

Subject to the requirements (if any) of the rules of any other stock exchange or market on which the Loan Notes may be listed or admitted to trading at the relevant time, the Company or any Subsidiary Undertaking of the Company may at any time purchase Loan Notes in the open market or otherwise at any price. Any purchase by tender shall be made available to all Loan Note Holders alike. Such Loan Notes shall be surrendered to the Company for cancellation.

4.5 **Cancellation**

All Loan Notes which are redeemed or purchased by the Company or any Subsidiary Undertaking of the Company or in respect of which Conversion Rights are exercised will be cancelled and may not be reissued or resold.

5. **DELIVERY UP OF CERTIFICATES**

If any Loan Note Holder any of whose Loan Notes are liable to be repaid under these Conditions or the Instrument shall fail or refuse to deliver up the Certificate(s) at the time and place fixed for the their repayment or shall refuse to accept payment of the repayment monies payable in respect of them the monies payable to such Loan Note Holder may be set aside by the Company and paid into a separate bank account and when so paid shall be held by the Company in trust for such Loan Note Holder but without interest (except as hereinafter mentioned), and such setting aside and payment shall be deemed for all the purposes of these Conditions to be a payment to such Loan Note Holder and the Company shall thereby be discharged from all obligations in connection with such Loan Notes. If the Company shall place the monies so set aside on deposit at a bank the Company shall not be responsible for the safe custody of such monies or for interest on them except such interest (if any) as the said monies may earn whilst on deposit less any expenses incurred by the Company in connection with them.

6. **PRESCRIPTION**

The Loan Notes represented by any Certificate shall become void unless it is presented for payment within a period of one year from the Maturity Date.

7. COPY OF THE INSTRUMENT

Each Loan Note Holder shall be entitled to receive a copy of the Instrument from the Company on request, the first such copy being provided at the cost of the Company and any further copies being provided at the cost of the Loan Note Holder requesting the same.

8. THE REGISTER

8.1 Loan Note Holders and their entitlements shall be registered on the Register. Pending despatch of Loan Note Certificates, transfers of the Loan Notes will be certified against the Register.

8.2 No fee shall be charged by the Company for the registration of any transfer or for the registration of any confirmation, probate, letters of administration certificate of marriage or death, power of attorney or other document relating to or affecting the title to any of the Loan Notes or for making an entry in the Register relating to or affecting the title to any of the Loan Notes.

9. RESTRICTIONS ON OWNERSHIP

9.1 Subject to certain exceptions, the Loan Notes will not be distributed in or into the United States of America, Canada, Australia, South Africa or Japan or any other jurisdiction in which such distribution would be unlawful.

9.2 Each person tendering payment of the subscription price of the Loan Notes shall, in so doing, unless otherwise determined by the Company in its absolute discretion, be deemed to represent and warrant to the Company that such person (a) is not in the United States of America or a resident of Canada, Australia, South Africa or Japan or (b) is not acting on a non-discretionary basis for the account or benefit of a person within the United States of America, Canada, Australia, South Africa or Japan.

10. REGISTRATION AND TRANSFER

10.1 The Company shall recognise only a single person or a sole company as a Loan Note Holder, and the Company shall not permit the registration of Loan Notes in more than one name.

10.2 The Company will recognise the registered holder of any Loan Notes as the absolute owner of them and shall not be bound to take notice or see to the execution of any trust whether express, implied or constructive to which any Loan Notes may be subject and the receipt of the registered holder for the time being of any Loan Notes for the interest from time to time accruing due (if any) in respect of them or for any other monies payable in respect thereof shall be a good discharge to the Company notwithstanding any notice it may have whether express, constructive or otherwise of the right, title, interest or claim of any other person to or in such Loan Notes or monies. If a warrant in payment of any amounts due to the registered holders of any Loan Notes, made payable and despatched in accordance with the Conditions, is encashed, such encashment shall be deemed to be a good discharge to the Company notwithstanding any notice it may have whether express or otherwise of the right, title, interest or claim of any other person to or in such monies. No notice of any trust

express, implied or constructive shall be entered on the Register in respect of any Loan Notes.

- 10.3 Every Loan Note Holder will be recognised by the Company as entitled to his Loan Notes free from any equity, set-off or cross-claim on the part of the Company against the original or any intermediate holder of the Loan Notes.
- 10.4 The Loan Notes are transferable in amounts of £100,000 nominal of Loan Notes and integral multiples of such amount, by instrument in writing in the usual common form or such other form as the Company may approve.
- 10.5 Every instrument of transfer must be signed by the transferor or, where the transferor is a corporation, validly executed by it as a deed and the transferor shall be deemed to remain the owner of the Loan Notes to be transferred until the name of the transferee is entered in the Register in respect thereof.
- 10.6 Every instrument of transfer must be left for registration at the place where the Register shall for the time being be kept accompanied by the Loan Note Certificate for the Loan Notes to be transferred and/or such other evidence as the Directors or other officers of the Company authorised to deal with transfers may reasonably require to prove the title of the transferor or his right to transfer the Loan Notes and if the instrument of transfer is executed by some other person on his behalf the authority of that person to do so. No transfer shall be registered in respect of which a Redemption Notice, a Conversion Notice or an Optional Conversion Notice has been given.
- 10.7 A proposed transferee of any Loan Notes shall not be registered as the holder of them unless and until he has provided to the Company or to its agent all relevant documents and evidence as the Company or its agent may reasonably require to enable compliance with any applicable money laundering or other regulatory requirements.
- 10.8 All instruments of transfer which shall be registered may be retained by the Company.
- 10.9 The executors or administrators of a deceased registered holder of Loan Notes shall be the only person or persons recognised by the Company as having any title to such Loan Notes.
- 10.10 Any person becoming entitled to Loan Notes in consequence of the death or bankruptcy of the holder of such Loan Notes may upon producing such evidence that he holds the position in respect of which he proposes to act under this Condition or of his title as the Company shall reasonably think sufficient be registered himself as the holder of such Loan Notes or, subject to the preceding Conditions as to transfer, may transfer such Loan Notes. The Company shall be at liberty to retain the principal, premium and interest (if any) in respect of any Loan Notes to which any person has become entitled under this **Condition** 10.10 until such person shall be registered as previously mentioned or shall duly transfer such Loan Notes. The Company shall also have power by notice in writing to require any such person as previously mentioned to elect either to transfer the Loan Notes in question or to be registered as the holder of them and in the event of his failing so to elect within sixty days of being required so to do he shall be deemed to have elected to be registered as the holder of the Loan Notes and may be registered accordingly.
- 10.11 Any change of name or address on the part of any Loan Note Holder shall promptly be notified by the Loan Note Holder to the Company. The Company shall then alter the Register accordingly.

- 10.12 If any Loan Note Certificate issued be worn out or defaced then, upon production of it to the Directors, they may cancel the same and may issue a new Loan Note Certificate in place of it and if any such Loan Note Certificate be lost or destroyed, then, upon proof of it to the reasonable satisfaction of the Directors, and, in the case of a lost Loan Note Certificate or in default of proof of destruction of a Loan Note Certificate, on such indemnity as the Directors may reasonably deem adequate having been given, a new Loan Note Certificate in lieu thereof shall be issued free of charge to the person entitled to such lost or destroyed Loan Note Certificate. An entry as to the issue of the new Loan Note Certificate and indemnity (if any) shall be made by the Company in the Register.
- 10.13 By subscribing or purchasing or being the transferee of or by apply or causing application to be made for registration as the holder of any Loan Notes a person agrees to be bound by the provisions of the Instrument.

11. MODIFICATION OF RIGHTS

- 11.1 The Loan Note Holders will have power by Extraordinary Resolution, among other things, and with the prior written consent of the Company to sanction or consent to any modification, abrogation or compromise of or arrangement in respect of their rights against the Company and to assent to any amendment of the provisions of the Instrument.
- 11.2 The Company may, at any time from time to time, modify the provisions of the Instrument without the consent of the Loan Note Holders if, in the opinion of the Company, such amendment would not be materially prejudicial to the interests of the Loan Note Holders or is of a formal, minor or technical nature or is to correct a manifest error or is to facilitate title to Loan Notes being evidenced otherwise than by a Loan Note Certificate or the transfer of Loan Notes so evidenced otherwise than by a written deed or for any ancillary or connected purposes. For the avoidance of doubt, any opinion of the Company shall not require consultation with the Loan Note Holders. Any such modifications may be made on such terms and subject to such conditions (if any) as the Company may determine and shall be binding upon the Loan Note Holders.
- 11.3 **Schedule 2** of the Instrument contains provisions for convening meetings of Loan Note Holders to consider any matter affecting the Loan Note Holders, including any modification of the terms and conditions of the Loan Notes or the provisions of the Instrument.

12. NOTIFICATION OF BENEFICIAL INTEREST

The Company will be entitled by notice in writing (a "**Disclosure Notice**") to require any Loan Note Holder from time to time to provide within 48 hours of receipt of the relevant Disclosure Notice (or such longer time as may be determined by the Company) particulars of the Loan Note Holder's past and present interest in any Loan Notes over the last three years. If a Loan Note Holder fails to comply with any such requirement and for so long as such failure shall be continuing the Company shall have the right (in its absolute discretion) to refuse to register any transfer of the Loan Notes or to refuse to repay any of the Loan Notes held by him in accordance with the Conditions.

13. GENERAL

- 13.1 The Company will notify Loan Note Holders of any change in the location of the place where the Register is kept. Each Loan Note Holder shall be entitled at any time during normal office hours to inspect the Register and a copy of the Instrument and to take copies (free of charge) or of extracts from the same.
- 13.2 The accidental omission to give notice of a meeting, or to send a form of proxy with a notice where required by the Instrument, to any person entitled to receive the same, or the non-receipt of a notice of meeting or form of proxy by any such person, shall not invalidate the proceedings at that meeting.

14. NOTICES

- 14.1 Subject to condition 14.2:
- 14.1.1 Any notice to be served under this Instrument shall be in writing and shall be served by delivering the same or sending the same by pre-paid registered or recorded delivery post to the party on which it is to be served at (in the case of notice to the Company and any other party being a corporation) its registered office for the time being and (in the case of notice to such Loan Note Holder) his address shown in the Register or such other address as he may from time to time notify in writing to the other parties for this purpose.
- 14.1.2 Any notice shall be deemed to have been served:
- (a) if delivered, at the time of delivery; and
 - (b) if sent by post, on the second business day next following the date on which it was properly posted.
- 14.1.3 In proving service of any notice by delivery or by post it shall be sufficient to prove that the envelope containing the same was properly addressed and was delivered or sent by registered or recorded delivery post as aforesaid.
- 14.1.4 Notice may be given to the person entitled to any Loan Notes in consequence of the death or bankruptcy of any Loan Note Holder by sending the same by pre-paid registered or recorded delivery post addressed to him by name or by the title of the representatives or trustees of such holder at the address supplied for the purpose by such person or (until such name and address is supplied) by giving notice in the manner in which it would have been given if the death or bankruptcy had not occurred.
- 14.1.5 A Loan Note Holder who has not supplied the Company an address for the service of notices shall not be entitled to receive notices or other documents from the Company.
- 14.2 All notices (including notices convening general meetings of Loan Note Holders) regarding the Loan Notes will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) and (so long as the Loan Notes are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that Stock Exchange so require) in a leading newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*). The Company shall ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Loan Notes are for the time being listed and the rules and regulations of any clearing system through which the Loan Notes are for the time being cleared. Any such

notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one manner, on the date of the first such publication in each required manner, if publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Loan Note Holders may approve by Extraordinary Resolution.

15. DEFINITIONS AND CONSTRUCTION

15.1 In these Conditions unless there is something in the subject or context inconsistent with them the expressions following shall have the meanings respectively set opposite them below:

"Additional Shares"

has the meaning provided in **Condition 3.3**;

"AIM"

means the AIM market of London Stock Exchange Plc or, if the Ordinary Shares are not at that time so traded, the principal stock exchange or securities market on which the Ordinary Shares are then listed or quoted or dealt in;

"Auditors"

means the auditors of the Company from time to time;

"Business Day"

means a day (excluding Saturdays, Sundays and public holidays in England and Wales) on which banks generally are open in London for the transaction of normal banking business;

"Capital Distribution"

means:

- (a) a Spin-Off (in which case, the Capital Distribution shall be the Fair Market Value of the relevant Spin-Off Securities or, as the case may be, the relevant property or assets); or
- (b) any Dividend (in which case the Capital Distribution shall be the Fair Market Value of such Dividend).

For the purposes of the above, the Fair Market Value of a Dividend shall (subject as provided in paragraph (a) of the definition of "**Dividend**" below and in the definition of "**Fair Market Value**" below) be determined as at the date of the first public announcement of the relevant Dividend.

"Closing Date"

means the date of the first issue of Loan Notes;

"Conditions"

means the conditions of the issue of the Loan Notes as set out in **Schedule 1** or as the same may from time to time be modified in accordance with this Instrument

and the word "**Condition**" followed by a number refers to that one of the Conditions so numbered;

"Conversion Date"

has the meaning provided in **Condition 3.9.4**;

"Conversion Notice"

means a conversion notice in the form of the notice attached to a Loan Note Certificate duly completed in accordance with the instructions on such certificate;

"Conversion Period"

has the meaning provided in **Condition 3.1.5**;

"Conversion Price"

has the meaning provided in **Condition 3.1.2**;

"Conversion Right"

has the meaning provided in **Condition 3.1.1**;

"Current Market Price"

means, in respect of an Ordinary Share at a particular date, the average of the Volume Weighted Average Price of an Ordinary Share for the twenty consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during such twenty-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-dividend (or cum- any other entitlement), then:

- (a) if the Ordinary Shares to be issued do not rank for the dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Ordinary Share as at the date of first public announcement of such dividend (or entitlement) (excluding, in any case, any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom); or
- (b) if the Ordinary Shares to be issued do rank for the dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount,

and provided further that if on each of such twenty dealing days the Volume Weighted Average Price shall have been based on a price cum-dividend (or cum- any other entitlement) in respect of a dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued do not rank for

that dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Ordinary Share as at the date of the first public announcement of such dividend or entitlement (excluding, in any case, any associated tax credit and less the tax (if any) falling to be deducted on payment of such dividend or entitlement to a resident of the United Kingdom), and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of such twenty dealing days, then the average of such Volume Weighted Average Prices which are available in that twenty-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined in good faith by an Independent Financial Adviser;

"dealing day"

means a day on which AIM or the relevant stock exchange or securities market is open for business, other than a day on which AIM or the relevant stock exchange or securities market is scheduled to, or does, close prior to its regular weekday closing time.

"Directors"

means the board of directors for the time being of the Company;

"Dividend"

means any dividend or distribution (excluding a Spin-Off) whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves) provided that:

- (a) where a cash dividend is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of a cash dividend, then for the purposes of this definition the Dividend in question shall be treated as a dividend of the greater of (i) such cash dividend and (ii) the Fair Market Value (on the date of the first public announcement of such dividend or capitalisation (as the case may be) or if later, the date on which the number of Ordinary Shares (or amount of property or assets, as the case may be) which may be issued or delivered is determined) of such Ordinary Shares or other property or assets;
- (b) any issue of Ordinary Shares falling within **Condition** 3.2.2 shall be disregarded;
- (c) a purchase or redemption of share capital of the Company by the Company or any Subsidiary Undertaking of the Company shall not constitute a Dividend unless, in the case of purchases of Ordinary Shares by or on behalf of the Company or any of its Subsidiary Undertakings, the Volume Weighted Average Price per Ordinary Share (before expenses) on any one day in

respect of such purchases exceeds by more than 10 per cent. the Volume Weighted Average Price of an Ordinary Share on the twenty immediately preceding dealing days either (1) on that day, or (2) where an announcement (excluding for the avoidance of doubt for these purposes, any general authority for such purchases or redemptions approved by a general meeting of Shareholders of the Company or any notice convening such a meeting of Shareholders) has been made of the intention to purchase Ordinary Shares at some future date at a specified price, on the dealing day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a dealing day, the immediately preceding dealing day, in which case such purchase shall be deemed to constitute a Dividend to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased by the Company or, as the case may be, any of its Subsidiary Undertakings exceeds the product of (i) 110 per cent. of the Volume Weighted Average Price of the Ordinary Shares determined as previously mentioned and (ii) the number of Ordinary Shares so purchased; and

- (d) if the Company or any of its Subsidiary Undertakings shall purchase any receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) shall be applied in respect such receipts or certificates in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser;

"Exempt Newco Scheme"

means a Newco Scheme where immediately after completion of the relevant scheme of arrangement the ordinary shares of Newco are (1) admitted either to AIM or to the Official List and admitted to trading on the London Stock Exchange Plc's market for listed securities or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange of securities as the Company or Newco may determine;

"Extraordinary Resolution"

means an extraordinary resolution as defined in **paragraph 18 of Schedule 2**;

"Event of Default"

means one of the events referred to in **clause 6**;

"Fair Market Value"

means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided, that (i) the Fair Market Value of a cash Dividend paid or to be paid shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by an Independent Financial Adviser), the fair market value (a) of such Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Price of such Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such

options, warrants or other rights, in the case of both (a) and (b) during the period of twenty dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Spin-Off Securities, options, warrants or other rights are publicly traded); and (iv) in the case of (i) converted into Pounds Sterling (if declared or paid in a currency other than Pounds Sterling) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the cash Dividend in Pounds Sterling; and in any other case, converted into Pounds Sterling (if expressed in a currency other than Pounds Sterling) at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available);

"Final Maturity Date"

means the Business Day prior to the third anniversary of the date of the Loan Note Instrument;

"Independent Financial Adviser"

means an independent investment bank of international repute appointed by the Company with the approval by an Extraordinary Resolution of the Loan Note Holders;

"Instrument" or "Loan Note Instrument"

means this Instrument (including the Schedules) and any document supplemental to this Instrument or executed in pursuance of it;

"Interest Payment Date"

means 30 June and 31 December in each year (the first Interest Payment Date being 31 December 2007) or, in each case, if such day is not a Business Day the next subsequent Business Day;

"Interest Period"

means each successive period from and including an Interest Payment Date up to but excluding the next following Interest Payment Date, save that the first such Interest Period shall be the period commencing on the date of this Instrument up to but excluding 31 December 2007;

"Interest Rate"

means the rate of interest payable on the Loan Notes in respect of any Interest Period determined in accordance with **Condition 2.2**;

"Loan Notes"

means the loan notes constituted by this Instrument, or as the case may require, a specific portion of them, or the principal monies represented by them, as the context requires;

"Loan Note Certificate" or "Certificate"

means the certificate issued by the Company to each Loan Note Holder specifying the nominal amount of the Loan Notes held by that Loan Note Holder and represented by such certificate;

"Loan Note Holders"

means the several persons whose names are for the time being entered in the Register as the holder or holders of the Loan Notes;

"Newco Scheme"

means a scheme of arrangement which effects the interposition of a limited liability company ("**Newco**") between the Shareholders of the Company immediately prior to the scheme of arrangement (the "**Existing Shareholders**") and the Company, provided that immediately after completion of the scheme of arrangement the only shareholders of Newco are the Existing Shareholders and that all Subsidiary Undertakings of the Company immediately prior to the scheme of arrangement (other than Newco, if Newco is then a Subsidiary Undertaking of the Company) are Subsidiary Undertakings of the Company (or of Newco) immediately after the scheme of arrangement;

"Official List"

means the Official List of the UK Listing Authority;

"Optional Conversion Date"

has the meaning provided in **Condition 3.14.1**;

"Optional Conversion Notice"

has the meaning provided in **Condition 3.14.1**;

"Ordinary Shares"

means ordinary shares of 0.5 pence each in the capital of the Company;

"Pounds Sterling", "sterling" or "£"

means the lawful currency, for the time being, of the United Kingdom;

"Redemption Notice"

means a redemption notice in the form of the notice attached to a Loan Note Certificate duly completed in accordance with the instructions on such certificate;

"Reference Date"

has the meaning provided in **Condition 3.1.7**;

"Register"

means the register of Loan Note Holders kept by the Company in accordance with **clause 8**;

"Relevant Event"

has the meaning provided in **Condition** 3.2.10 and, for the avoidance of doubt, shall not constitute an Event of Default unless the events constituting the Relevant Event would otherwise fall within the provisions of **clause** 6;

"Relevant Event Period"

means the period commencing on the date a Relevant Event occurs and ending on the date 30 days following the occurrence of the Relevant Event or, if later, 30 days following the date on which notice of such Relevant Event is given to Loan Note Holders by or on behalf of the Company;

"Relevant Event Put Date"

has the meaning provided in **Condition** 4.2.2;

"Retroactive Adjustment"

has the meaning provided in **Condition** 3.3;

"Schedules"

means the schedules to this Instrument (or the relevant numbered schedule);

"Securities"

means any securities issued by the Company including, without limitation, Ordinary Shares or options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares;

"Shareholders"

has the meaning provided in **Condition** 3.2.2;

"Specified Date"

has the meaning provided in **Condition** 3.2.7 and 7.2.8;

"Spin-Off"

means:

- (a) a distribution of Spin-Off Securities by the Company to Shareholders as a class; or
- (b) any transfer of any property or assets (including cash or shares or securities of or in or issued or allotted by any entity) by a Subsidiary Undertaking of the Company to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders, as a class (but excluding the issue and allotment of shares by Newco to Existing Shareholders), pursuant in each case to any arrangements with the Company or any of its Subsidiary Undertakings;

"Spin-Off Securities"

means equity share capital of a Subsidiary Undertaking of the Company;

"Subsidiary Undertaking"

shall have the meaning given to it by Section 258 of the Companies Act 1985 (but, in relation to the Company, shall exclude any undertaking (as defined in Section 259 of the Companies Act 1985) whose accounts are not included in the then latest published audited consolidated accounts of the Company, or (in the case of an undertaking which has first become a subsidiary undertaking of the Company since the date as at which any such audited accounts were prepared would not have been so included or consolidated if it had become so on or before that date);

"UK listing Authority"

means the Financial Services Authority in its capacity as competent authority for listing for the purposes of the Financial Services and Markets Act 2000;

"United Kingdom"

means the United Kingdom of Great Britain and Northern Ireland;

"Volume Weighted Average Price"

means, in respect of an Ordinary Share or, as the case may be, a Spin-Off Security, on any dealing day, the volume-weighted average price of an Ordinary Share or, as the case may be, a Spin-Off Security appearing on or derived from the AIM Appendix of the Daily Official List (in the case of an Ordinary Share) or (in the case of a Spin-Off Security) from the principal stock exchange or securities market on which such Spin-Off Securities are then listed or quoted or dealt in, if any, or, in any such case, such other source as shall be determined to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined.

- 15.2 Words denoting the singular number only shall include the plural number and vice versa; words denoting the masculine gender only shall include the feminine gender; and words denoting persons shall be deemed to include references to natural persons, to firms, to partnerships, to companies, to corporations, to associations, to organisations and to trusts (in each case whether or not having separate legal personality);
- 15.3 References to recitals and clauses are references to recitals and clauses of the Instrument;
- 15.4 References to paragraphs are, unless otherwise expressly provided, references to paragraphs of the Schedule to the Instrument in which the references appear;
- 15.5 A reference to a month shall mean a calendar month unless the context requires otherwise;
- 15.6 A reference to a company shall be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established;

- 15.7 References to statutory provisions shall where the context so permits or requires be construed as references to those provisions or respectively amended consolidated extended or re-enacted from time to time;
- 15.8 A reference to an English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, Court, official or any legal concept or thing shall, in respect of any jurisdiction other than England, be deemed to include a reference to what most nearly approximates in that jurisdiction to the English legal term; and
- 15.9 The clause headings in these Conditions are for convenience only and shall be ignored in construing the language or meaning of these Conditions.

Part B

The following are additional material provisions of the Loan Note Instrument.

1. So long as any loan note remains outstanding the company will ensure that:
- 1.1 no Relevant Indebtedness of the Company or any Principal Subsidiary of the Company and no guarantee by the Company or any Principal Subsidiary of the Company of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a "**Security Interest**") upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Company or any Principal Subsidiary of the Company unless the Company and/or the relevant Principal Subsidiary of the Company, as the case may be, shall, before or at the same time as the creation of the Security Interest, take any and all action necessary to ensure that:
- (a) all amounts payable by it under the Loan Notes and Loan Note Instrument are secured at least equally and rateably with the Relevant Indebtedness or guarantee; or
 - (b) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Company under the Loan Notes and Loan Note Instrument as shall be approved by an Extraordinary Resolution of the Loan Note Holders

save that any Principal Subsidiary of the Company may have outstanding a Security Interest in respect of any Relevant Indebtedness and/or any guarantees given by such Principal Subsidiary of the Company in respect of any Relevant Indebtedness of any person (without the obligation to provide a Security Interest or guarantee or other arrangement in respect of the Loan Notes and the Loan Note Instruments (as previously stated) where such Security Interest is provided in respect of a company becoming a Subsidiary Undertaking of the Company as the case may be, after the Closing Date and where such Security Interest exists at the time that company becomes a Subsidiary Undertaking of the Company as the case may be, (provided that such Security Interest was not created in contemplation of that company becoming a Subsidiary Undertaking of the Company as the case may be, and the principal amount secured at the time of that company becoming a Subsidiary Undertaking of the Company as the case may be, is not subsequently increased); and

- 1.2 no Principal Subsidiary of the Company shall give any guarantee, indemnity or surety or enter into any other agreement having a similar effect (each a "**Group Guarantee**") in respect of any Relevant Indebtedness of any person, unless such Principal Subsidiary of the Company shall, before or at the same time as the giving of such Group Guarantee, take any and all action necessary to ensure that all amounts payable under the Loan Notes and the Loan Note Instrument benefit from a Group Guarantee given by the same Principal Subsidiary of the Company on terms as shall be approved by an Extraordinary Resolution of the Loan Note Holders.

Where:

"Excluded Indebtedness"

means any present or future indebtedness in the form of a repackaging (whether being principal, interest or other amounts)

- (a) issued by any person other than the Company or any Subsidiary Undertaking of the Company;
- (b) with recourse solely or partially to any asset comprising wholly or partially indebtedness of the Company, or any Subsidiary Undertaking of the Company or any guarantee given by the Company or any Subsidiary Undertaking of the Company; and
- (c) issued without the consent of and otherwise than at the instigation, or for the benefit, of the Company, or any Subsidiary Undertaking of the Company;

"Principal Subsidiary"

at any time shall mean any Subsidiary Undertaking of the Company:

- (a) whose:
 - (i) profits on ordinary activities before tax; or
 - (ii) net assets

represent 10 per cent. or more of the consolidated profits on ordinary activities before tax of the Company and its Subsidiary Undertakings or, as the case may be, consolidated net assets of the Company and its Subsidiary Undertakings, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary Undertaking and the then latest audited consolidated financial statements of the Company provided that in the case of a Subsidiary Undertaking acquired after the end of the financial period to which the then latest relevant audited consolidated financial statements of the Company relate, the reference to the then latest audited consolidated financial statements of the Company for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as previously mentioned, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary Undertaking had been shown in such financial statements by reference to its then latest relevant audited financial statements, adjusted as deemed appropriate by the Auditors after consultation with the Company; or

- (b) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary Undertaking of the Company which immediately prior to such transfer is a Principal Subsidiary of the Company, in which case the transferor Subsidiary Undertaking shall immediately cease to be a Principal Subsidiary of the Company and the transferee Subsidiary Undertaking shall cease to be a Principal Subsidiary of the Company under the provisions of this **paragraph** (b) upon publication of its next audited financial statements but so that such transferor Subsidiary Undertaking or such transferee Subsidiary Undertaking may be a Principal Subsidiary of the Company on or at any time after the date on which such audited financial statements have been published by virtue of the provisions of **paragraph** (a) above or before, on or at any time after such date by virtue of the provisions of this **paragraph** (b);

a certificate of two Directors of the Company, accompanied if relevant, by a report of the then Auditors that, in their opinion, a Subsidiary Undertaking of the Company, is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary of the Company shall, in the absence of manifest error, be conclusive and binding on the Company and the Loan Note Holders;

"Relevant Indebtedness"

means any present or future indebtedness (whether being principal, premium, interest or other amounts) (other than Excluded Indebtedness) in the form of or represented by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which will ordinarily be quoted, listed or ordinarily dealt in on any listing authority, stock exchange, quotation system or recognised over-the-counter or other securities market;

2. The Company is to use its reasonable endeavours to cause the Loan Notes to be listed on the Channel Islands Stock Exchange, the Official List of the Luxembourg Stock Exchange or such other recognised exchange approved by an Extraordinary Resolution of the Loan Note Holders.
3. The Company covenants to perform and observe the following provisions of this clause and promptly to notify the Loan Note Holders in writing of any matter or thing which may arise or become known to it which is a breach of or inconsistent with any of such provisions and of any Event of Default.
4. Whilst any conversion right remains exercisable, the company will, save with the approval of an extraordinary resolution:
 - 4.1 issue, allot and deliver Ordinary Shares upon exercise of Conversion Rights in accordance with this Instrument and the Conditions and at all times keep available for issue free from pre-emptive or other similar rights out of its authorised but unissued ordinary share capital such number of Ordinary Shares as would enable it to issue in full such number of Ordinary Shares as are required to be issued by it upon exercise of Conversion Rights and all other rights of subscription and exchange for and conversion into Ordinary Shares;
 - 4.2 if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any

associates (as defined in Section 430E(4) of the Companies Act 1985) of the offeror to acquire all or a majority of the issued ordinary share capital of the Company, or if a scheme is proposed with regard to such acquisition, give notice of such offer or scheme to the Loan Note Holders at the same time as any notice of such scheme is sent to its Shareholders (or as soon as practicable afterwards) that details concerning such offer or scheme may be obtained from the registered office of the Company and, where such an offer or scheme has been recommended by the Board of Directors of the Company, or where such an offer has become or been declared unconditional in all respects, use its reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights and/or to the holders of the Loan Notes.

- 4.3 in the event of a Newco Scheme, the Company shall take (or shall procure that there is taken) all necessary action to ensure that immediately upon completion of the scheme of arrangement, at its option, either (a) Newco is substituted under the Loan Notes and the Loan Note Instrument as principal debtor in place of the Company or Newco becomes a guarantor under the Loan Notes and the Loan Note Instrument and, in either case, that such other adjustments are made to these Conditions and the Loan Note Instrument to ensure that the Loan Notes may be converted into or exchanged for ordinary shares of Newco on equivalent terms in accordance with and subject to these Conditions and the Loan Note Instrument; or (b) such amendments are made to these Conditions and the Loan Note Instrument as are necessary to ensure that the Loan Notes may be converted into or exchanged for ordinary shares in Newco on equivalent terms in accordance with and subject to these Conditions and the Loan Note Instrument.
- 4.4 use its reasonable endeavours to ensure that the Ordinary Shares issued upon conversion of the Loan Notes will be admitted to AIM in accordance with its respective rules and/or will be listed, quoted or dealt in on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in.
5. The Company shall not, in the period of 90 days from the Closing Date, allot and issue any Ordinary Shares or grant options, warrants or other rights to subscribe for Ordinary Shares provided that this restriction shall not apply to the allotment and issue of any Ordinary Shares pursuant to any obligation of the Company which existed prior to the Closing Date or the grant of options, warrants or other rights to subscribe for Ordinary Shares to, or for the benefit of, employees or former employees (including Directors holding or formerly holding executive office or the personal service Company of any such person) or their spouses or relatives, in each case, of the Company or any of its Subsidiaries or any associated company or to trustees to be held for the benefit of any such person, in any such case pursuant to any employees' share scheme (as defined in section 743 of the Companies Act 1985).
6. The Loan Notes (together with accrued interest if any) shall become immediately repayable on the happening of any one or more of the following events:
 - 6.1 if the Company makes default for a period of 10 Business Days in the payment of any interest on the Loan Notes when and as the same ought to be paid provided that any period of delay caused by a failure of a bank or the banking system generally to effect a payment which is caused by any terrorist act, explosion, fire, sabotage or similar event shall be disregarded for this purpose;

- 6.2 if the Company makes default for a period of 5 Business Days in the payment of any principal monies owing in respect of the Loan Notes provided that any period of delay caused by a failure of a bank or the banking system generally to effect a payment which is caused by any terrorist act, explosion, fire, sabotage or similar event shall be disregarded for this purpose;
- 6.3 if the Company makes default of any provision of this Loan Note Instrument (not being one referred to in **clauses** 6.1 or 6.2) and such default is not remedied to the reasonable satisfaction of Loan Note Holders holding not less than 25 per cent. in nominal amount of the Loan Notes then outstanding within 30 days of the Company being given notice of such default;
- 6.4 if any material outstanding borrowings of the Company or any Principal Subsidiary becomes repayable before its stated maturity date by reason of a default of the Company or any Principal Subsidiary;
- 6.5 if a petition is granted or a resolution is passed for winding-up the Company or any Principal Subsidiary of the Company, save for the purposes of any amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of any insolvency of the Company or such Principal Subsidiary of the Company and under which all the surplus assets of such Principal Subsidiary of the Company are transferred to the Company or any of its other Subsidiaries or (B) the terms of which have previously been approved in writing by an Extraordinary Resolution of the Loan Note Holders;
- 6.6 if the Company or any Principal Subsidiary of the Company stops or threatens to stop payment of its debts or ceases or threatens to cease to carry on its business or substantially the whole of its business, save in each case for the purposes of or pursuant to a Spin-Off or a Newco Scheme (in circumstances where, in accordance with the Conditions and the Loan Note Instrument, Newco is substituted under the Loan Notes and the Loan Note Instrument as Obligor and such adjustments are made to the Conditions and the Loan Note Instrument to ensure that the Loan Notes may be converted into Ordinary Shares in Newco on equivalent terms in accordance with and subject to these Conditions and the Loan Note Instrument) for the purposes of any amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of the Company or such Principal Subsidiary of the Company and under which all or substantially all of its assets are transferred to the Company or other Subsidiary Undertaking of the Company or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Principal Subsidiary or Principal Subsidiaries of the Company or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Company or a Principal Subsidiary of the Company on an arm's length basis or (iii) the terms of which have previously been approved in writing by an Extraordinary Resolution of the Bondholders; or;
- 6.7 if an encumbrancer takes possession or a receiver is appointed over the whole or any part of the assets or undertaking of the Company or any Principal Subsidiary of the Company or if a distress execution or other process is levied or enforced upon or sued out against any property of the Company or any Principal Subsidiary of the Company and is not withdrawn discharged or paid out within 10 days;

- 6.8 if the Company or any Principal Subsidiary of the Company is unable to pay its debts within the meaning of section 123 of the UK Insolvency Act 1986 or any statutory modification or re-enactment thereof;
- 6.9 if an application is made to the Court under section 9 of the UK Insolvency Act 1986 for an administration order in relation to the Company or any Principal Subsidiary of the Company or if the Company or any Principal Subsidiary of the Company passes a resolution for the making of any such application to the Court;
- 6.10 if a proposal is made under section 1 of the UK Insolvency Act 1986 for a voluntary arrangement in relation to the debts or affairs of the Company or any Principal Subsidiary of the Company;
- 6.11 if any event analogous to those set out in **clauses** 6.8 to 6.10 occurs in relation to the Company or any Principal Subsidiary of the Company in any territory in which it respectively operates;
- 6.12 if the Company or any Principal Subsidiary of the Company shall convene a meeting of or propose to enter into any arrangement with its creditors generally;
- 6.13 if any judgment or order given or made by any court or governmental agency against the Company or any Principal Subsidiary of the Company be not fully satisfied and complied with within seven days or if an execution sequestration distress or other process (which expression shall include a garnishee and charging order nisi) be levied or enforced or made upon or against any of the property or assets of the Company or any Principal Subsidiary of the Company;
- 6.14 if the security for any debenture mortgage or charge of the Company or any Principal Subsidiary of the Company becomes enforceable and the holder or holders thereof take any steps to enforce the same;
- 6.15 if any debenture of the Company or any Principal Subsidiary of the Company becomes repayable prior to the due date for repayment thereof (other than by reason of the Company or any Principal Subsidiary of the Company having offered or undertaken voluntarily to repay or redeem the same) or is not paid when due, and any steps are taken to obtain repayment; or
- 6.16 if default is made by the Company or any Principal Subsidiary of the Company in the performance or observance of any material obligation or provision binding on it under this Instrument (other than any obligation for the payment of interest on the Loan Notes or for repayment of any principal monies owing in respect of the Loan Notes) and the same is not remedied within 14 days after notice in writing of such default has been given to the Company by the holders of not less than 25 per cent. in nominal amount of the Loan Notes then outstanding.
7. The Company may from time to time without the consent of the Loan Note Holders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Loan Notes) (or in all respects except for the first payment of interest on them and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Loan Notes)) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Company may determine at the time of

their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Loan Notes) constituted by the Loan Note Instrument or any deed supplemental to it shall, and any other notes, bonds or debentures may, with the approval of by Extraordinary Resolution, be constituted by a deed supplemental to the Loan Note Instrument. The Loan Note Instrument contains provisions for convening a single meeting of the Loan Note Holders and the holders of notes, bonds or debentures of other series in certain circumstances.

8. A register of the Loan Note Holders will be kept by the Company and there shall be entered in such register:
 - 8.1 the names and addresses of the Loan Note Holders;
 - 8.2 the amount of the Loan Notes held by every Loan Note Holder;
 - 8.3 the date at which each person was entered in the Register as a Loan Note Holder;
 - 8.4 the date at which any person ceased to be a Loan Note Holder; and
 - 8.5 the serial number of each Loan Note Certificate issued and the date of its issue.
- 8.6 Any change of name or address on the part of any Loan Note Holder shall promptly be notified to the Company following which the Register shall be altered accordingly.
9. The Company may with the sanction of an Extraordinary Resolution make any modification to this instrument and any such modification shall be binding upon the Loan Note Holders.
10. Without prejudice to **clause** 9 the Company may without the consent or sanction of the Loan Note Holders at any time and from time to time make any modification to this instrument which in the opinion of the Company will not be materially prejudicial to the interests of the Loan Note Holders, or if in the opinion of the Company such modification is of a formal, minor or technical nature or is to correct a manifest error or is to facilitate title to Loan Notes being evidenced otherwise than by a Loan Note certificate or to facilitate the transfer of Loan Notes so evidenced otherwise than by a written deed or for any ancillary or connected purposes. Any such modification may be made on such terms and subject to such conditions (if any) as the Company may determine and shall be binding upon the Loan Note Holders.
11. Any modification to this Instrument shall be notified to Loan Note Holders in accordance with **Condition 14**.
12. This Instrument (and any dispute, controversy, proceedings or claim of whatever nature arising out of or in any way relating to this instrument or the constitution of the loan notes) shall be governed by and construed in accordance with English law.
13. The Company hereby irrevocably submits to the exclusive jurisdiction of the High Court of Justice in London for the purpose of hearing and determining any dispute arising out of, or in connection with, this Instrument and for the purpose of enforcement of any judgment against its assets.
14. The initial Paying and Conversion Agents and their initial specified offices are listed below. The Company reserves the right at any time with the approval by Extraordinary Resolution of the Loan Note Holders to vary or terminate the appointment of any Paying and Conversation Agent and appoint additional or other Paying and Conversion Agents, providing that it will maintain:

- 14.1 a Principal Paying and Conversion Agent;
- 14.2 Paying and Conversion Agents having specified offices in at least two major European cities approved by Extraordinary Resolution of the Loan Note Holders (including Luxembourg, so long as the Loan Notes are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require); and
- 14.3 a Paying and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any change in the Paying and Conversion Agents or their specified offices will promptly be given to the Loan Note Holders in accordance with clause 21.

The initial Paying and Conversion Agent and the principal Paying and Conversion Agent shall be Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH and the Luxembourg Paying and Conversion Agent shall be The Bank of New York of Corporate Trust Services, Aerogolf Center, 1A, Hoehenhof, L1736 Senningerberg, Luxembourg.

USE OF PROCEEDS

The net proceeds of the issue of the Loan Notes, after deduction of the total expenses related to the admission to trading, expected to amount to approximately £12 million, will be used for the Group's working capital purposes.

THE ISSUER

1. THE COMPANY

- 1.1 The Company is registered in England and Wales with Company No. 03993115.
- 1.2 The Company was incorporated and registered in England and Wales under the UK Companies Act 1985 on 15 May 2000 as a public company limited by shares with the name of Brandsign Plc. On 8 August 2000, the Company name was changed to Finelot Plc. On 11 April 2003, the Company name was changed to Caledon Resources Plc.
- 1.3 The Company operates under the UK Companies Act 1985 and the liability of its members is limited.
- 1.4 The Company's registered office is at 18 Upper Brook Street, London W1K 7PU. The Group also has an office in Brisbane, Australia for the purposes of managing the Enlarged Group's coal operations. The telephone number of the Company is +44 207 318 5780.

2. SHARE CAPITAL

- 2.1 On 1 January 2003 the authorised share capital of the Company was £4,000,000 divided into 40,000,000 ordinary shares of 10p, of which 24,911,857 such ordinary shares were in issue.
- 2.2 There have been the following changes in the Company authorised and issued share capital since 1 January 2003:
 - 2.2.1 pursuant to an ordinary resolution of the shareholders of the Company dated 11 April 2003 each ordinary share of 10p in the capital of the Company in issue at the date of the resolution was sub-divided and converted into one new ordinary share of 0.1p and 99 deferred shares of 0.1p each ("Deferred Shares") and each authorised but unissued ordinary share of 10p each in the capital of the Company was sub-divided into one hundred new ordinary shares of 0.1p;
 - 2.2.2 on 11 April 2003, 31,250,000 ordinary shares of 0.1p each were issued at a subscription price of 1p per share;
 - 2.2.3 on 11 April 2003, 124,559,285 ordinary shares of 0.1p each were issued at a subscription price of 1p per share;
 - 2.2.4 on 15 July 2003, 11,428,571 ordinary shares of 0.1p each were issued at a subscription price of 3.5p per share;
 - 2.2.5 on 11 August 2003, 5,714,286 ordinary shares of 0.1p each were issued at a subscription price of 3.5p per share;
 - 2.2.6 on 8 September 2003, 4,000,000 ordinary shares of 0.1p each were issued at a subscription price of 5p per share;
 - 2.2.7 on 8 October 2003, 11,500,000 ordinary shares of 0.1p each were issued at a subscription price of 12.0p per share;
 - 2.2.8 on 25 June 2004, 416,666 ordinary shares of 0.1p each were issued at a subscription price of 2p per share;
 - 2.2.9 on 25 June 2004, 416,666 ordinary shares of 0.1p each were issued at subscription price of 3p per share;
 - 2.2.10 on 2 November 2004, 100,997,225 ordinary shares of 0.1p each were issued at a subscription price of 4.5p per share;
 - 2.2.11 on 29 November 2004, 23,000,000 ordinary shares of 0.1p each were issued at a subscription price of 4.5p per share;

- 2.2.12 on 24 August 2006, 333,333 ordinary shares of 0.1p each were issued at a subscription price of 3.25p per share;
- 2.2.13 on 13 December 2006, every five ordinary shares of 0.1 pence each were consolidated into 1 ordinary share of 0.5 pence each resulting in the authorised capital of the Company being £4,000,000 divided into 306,745,231 Ordinary Shares and 2,466,273,843 deferred shares of 0.1 pence each;
- 2.2.14 on 15 December 2006, 66,238,500 Ordinary Shares were issued at a subscription price of 40 pence per share and 5,042,500 Ordinary Shares were issued as consideration shares for the acquisition of Mining Technology Partnerships Pty Ltd.;
- 2.2.15 on 19 December 2006, 250,000 Ordinary Shares were issued at a subscription price of 10 pence per share;
- 2.2.16 on 3 March 2007, the share capital of the Company was reduced from £4,000,000 to £1,533,726.155 by the cancellation of the Deferred Shares;
- 2.2.17 on 5 March 2007, 166,667 Ordinary Shares were issued at a subscription price of 15 pence per share; 350,000 Ordinary Shares were issued at a subscription price of 20 pence per share; and 66,667 Ordinary Shares were issued at a subscription price of 18.75 pence per share;
- 2.2.18 on 30 March 2007, 12,546,175 Ordinary Shares were issued at a subscription price of 31.31 pence per share as part consideration for the Minyango Acquisition and associated assets;
- 2.2.19 on 18 April 2007, 1,763,046 Ordinary Shares were issued at a subscription price of 35.45 pence per share as additional consideration due to the vendors of Mining Technology Partnerships Pty Limited; and
- 2.2.20 on 18 April 2007, 166,667 Ordinary Shares were issued at a subscription price of 10 pence per share and 66,667 Ordinary Shares were issued at a subscription price of 18.75 pence per share.
- 2.3 As at the date of this document, the Company's authorised and issued share capital is as follows:

	Nominal Value (£)	Number of Shares
Authorised:		
Ordinary Shares	1,533,726.155	306,745,231
Issued and fully paid:		
Ordinary Shares	771,812.33	154,362,466

3. SUBSIDIARY UNDERTAKINGS

The Company acts as the holding company of the Group, the principal activities of which are mining exploration. The Company has the following subsidiary undertakings all of which are private companies.

Name	Issued share capital	Percentage of issued share capital or interest held	Field of activity	Place of Incorporation
Blackwatch Resources (BVI) Limited	US\$100	100	Mining Exploration	BVI
Blackwatch Mining	US\$100	100	Non Trading	BVI

(BVI) Limited				
Blackwatch Overseas Limited	US\$100	100	Non Trading	BVI
Blackwatch Resources China Limited	N/A	85	Mining Exploration	PR of China
Blackwater Coal Pty Limited	A\$100	100	Mining Development	Australia
Caledon Coal Pty Limited	A\$1	100	Holding Company	Australia
Caledon MC Jersey Limited	£2	100	Holding Company	Jersey
Caledon Overseas Holding Limited	£1	100	Holding Company	England and Wales
Caledon Resources China Limited	N/A	80	Mining Exploration	PR of China
CC Pty Limited	A\$1	100	Mining development and operation	Australia
Finelot Trading Company Limited	£1,179	100	Non-Trading	England and Wales
Hazelhurst Holdings Limited	US\$1,500,000	100	Holding Company	British Virgin Islands
Mining Technology Partnerships Pty Ltd	A\$100	100	Mining Technology	Australia

4. MEMORANDUM AND ARTICLES OF ASSOCIATION

In this paragraph 4 of part IV "**Statutes**" means the UK Companies Act 1985 and every other statute or statutory instrument, rule, order or regulation from time to time in force concerning companies so far as they apply to the Company.

4.1 Memorandum of association

The objects of the Company are set out in clause 4 of the Company's memorandum of association and its principal objects are, among others, to carry on business as a general commercial company and to do all such things as are incidental or conducive to the carrying on of any trade or business by it.

4.2 Articles of association

The articles of association of the Company which were adopted by a special resolution passed on 11 April 2003 (the "**Articles**") contain provisions, among others, to the following effect:

4.2.1 Voting rights

Subject to any special terms as to voting upon which any share may be issued, or may be held, and subject to the provisions of the Articles, on a show of hands every member of the Company ("**Member**") present in person and entitled to vote shall have one vote and on a poll every Member present in person or by proxy and entitled to vote shall have one vote for every share of which he is the holder.

No Member shall, unless the Directors otherwise determine, be entitled to be present or to vote at any general meeting either in person or by proxy or upon any poll or to exercise

other rights conferred by membership in relation to the meeting or poll, unless all calls or other moneys due and payable in respect of the Member's share or shares have been paid.

4.2.2 **Dividends**

The Company may by ordinary resolution declare dividends and fix the time for payment thereof out of profits of the Company available for distribution.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is declared and paid. Dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Any dividend which has remained unclaimed for a period of 12 years from the date it became due for payment is forfeited and ceases to remain owing by the Company.

Where a section 212 notice is served on a Member, or another person appearing to be interested in shares held by that Member, and the Member or other person has failed in relation to any default shares to give the Company the information required within 14 days of the service of the section 212 notice and the default shares represent at least 0.25 per cent in nominal value of the issued shares of their class then, unless the Board otherwise decides, any dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it and the Member is not entitled to elect to receive shares instead of a dividend.

4.2.3 **Distribution of assets on a winding up**

If the Company shall be wound up (whether the liquidation is voluntary, under supervision or by the Court) the liquidator may, with the authority of an extraordinary resolution, divide among the Members in specie the whole or any part of the assets of the Company (whether or not the assets consist of property of one kind or of different kinds) and may for this purpose set such value as he deems fair on any class or classes of property and may determine on the basis of that valuation and in accordance with the then existing rights of Members how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like authority, vest any part of the assets in the trustees upon such trust for the benefit of Members as the liquidator may think fit but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

4.2.4 **Purchase of own shares**

Subject to the Statutes, the Company may purchase its own shares (including any redeemable shares) or enter into such agreement (contingent or otherwise) in relation to the purchase of its own shares on such terms and in such manner as may be permitted by the Statutes.

4.2.5 **Variation of class rights**

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Statutes, be varied or abrogated either with the consent in writing of the holders of three-fourths in nominal amount of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up. To every such separate general meeting all the provisions of the Articles as for the time being in force relating to general meetings of the Company and to the proceedings thereat shall mutatis mutandis apply, except that:

- (a) the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy at least one third in nominal amount of the issued

shares of the class, and at an adjourned meeting shall be one person holding shares of the class in question or his proxy;

- (b) any holder of shares of the class present in person or by proxy may demand a poll; and
- (c) any holder of shares of the class shall, on a poll, have one vote in respect of every share of the class held by him.

4.2.6 **Transfer of shares**

All transfers of Ordinary Shares which are in certificated form may be effected by transfer in writing in any usual or common form or in any other form acceptable to the Board and may be under hand only. The instrument of transfer shall be executed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register in respect thereof.

The Directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason therefor refuse to register any transfer of shares (not being fully paid shares), provided that any such refusal does not prevent dealings in partly paid shares from taking place on an open and proper basis. In addition, the Directors may in their absolute discretion and without assigning any reason therefor decline to register any transfer of shares in favour of more than 4 persons jointly.

The Board may decline to recognise any instrument of transfer relating to shares in certificated form unless the instrument of transfer is duly stamped (if so required), is in respect of only one class of share and is lodged at the Transfer Office (as defined in the Articles) accompanied by the relevant share certificates or such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

4.2.7 **Share Warrants**

The Directors may issue warrants in respect of fully paid up shares (hereinafter called "**share warrants**") stating that the bearer is entitled to the shares therein specified and may provide by coupons or otherwise for the payment of future dividends on the shares included in such warrants. The Directors may determine and from time to time vary the conditions upon which share warrants shall be issued and upon which a new share warrant or coupon shall be issued in the place of one worn out defaced or destroyed but no new share warrant or coupon shall be issued to replace one that has been lost unless it is proved to the satisfaction of the Company beyond reasonable doubt to have been destroyed. The Directors may also determine and from time to time vary the conditions upon which the bearer of a share warrant shall be entitled to receive notices of and attend and vote at general meetings or to join in requisitioning general meetings and upon which a share warrant may be surrendered and the name of the bearer entered in the Register in respect of the shares therein specified. The bearer of a share warrant shall hold such warrant subject to the conditions for the time being in force with regard to share warrants whether made before or after the issue of such warrant. Subject to such conditions and to these Articles and the Statutes, the bearer of a share warrant shall be a member to the full extent.

4.2.8 **Alterations to capital**

The Company may by ordinary resolution:

- (a) increase its authorised share capital by a sum to be divided into shares of an amount prescribed by the resolution:
- (b) consolidate and divide all or any of its authorised share capital into shares of a larger amount than its existing shares:

- (c) cancel any authorised shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled; and
- (d) subject to the Statutes, sub-divide all or any of its shares into shares of a smaller amount and may by the resolution determine that the shares resulting from such sub-division may have any preferred, deferred or other special rights or be subject to any such restrictions, as compared with the others.

Subject to the Statutes and to the rights attached to existing shares, the Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner.

4.2.9 **Borrowing powers**

The Board may exercise all the powers of the Company to borrow money. The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) that the aggregate principal amount (including any premium payable on final repayment) remaining undischarged of all moneys borrowed by the Group does not at any time without the previous sanction of an ordinary resolution exceed a sum equal to 3 time(s) the aggregate of:

- (a) the amount paid up on the allotted or issued share capital of the Company; and
- (b) the amount standing to the credit of the consolidated capital and revenue reserves of the Group (including any share premium account and capital redemption reserve) plus or minus the credit or debit balance, as the case may be, of the consolidated profit and loss account all as shown in the then latest audited consolidated balance sheet of the Group, adjusted as specified in the Articles.

4.2.10 **Directors**

Unless and until otherwise determined by the Company by ordinary resolution the number of directors shall not be less than two nor more than twelve.

The Company may by ordinary resolution from time to time vary the minimum or maximum number of Directors. A Director and an alternate Director shall not require a share qualification but nevertheless shall be entitled to attend and speak at any general meeting of the Company and at any separate meeting of the holders of any class of shares in the Company.

The Directors may repay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of the Directors or of any committee of the Directors or general meetings or class meetings or otherwise in or about the business of the Company.

Any Director who is appointed to any executive office (including for this purpose the office of the chairman or deputy chairman whether or not such office is held in an executive capacity) or who serves on any committee or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director may be paid such extra remuneration by way of salary, commission, bonus or otherwise (whether exclusive of inclusive of his remuneration (if any) under these Articles) as the Directors may determine.

A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director, and may act in a professional capacity to the Company, on such terms as to tenure of office, remuneration and otherwise as the Directors may determine.

Subject to the provisions of the Statutes, a Director or intending Director (including an alternate Director) may contract or be interested in any contract or arrangement with the Company or any other company in which the Company is or may have been or may become

interested and hold any office or place of profit (other than the office of auditor of the Company or any subsidiary undertaking thereof) under the Company or any such other company and he (or any firm of which he is a member) may act in a professional capacity for the Company or any such other company and (save as otherwise agreed) may retain for his own absolute use and benefit all emoluments, dividends, profits, benefits and other advantages accruing to him therefrom.

Subject to the provisions of the Statutes, the Directors may from time to time appoint one or more of their body to be holder of any executive office (including, where considered appropriate, the office of chairman or deputy chairman or chief executive) on such terms and for such period as they may determine and, without prejudice to any claim for damages under any contract entered into in any particular case, may at any time revoke any such appointment.

The appointment of any Director to the office of chairman or deputy chairman or managing or joint managing or deputy or assistant managing director or chief executive shall automatically terminate if he ceases to be a Director, but without prejudice to any claim by either the Company or the Director for damages for breach of any contract between him and the Company.

The appointment of any Director to any other executive office shall not automatically terminate if he ceases from any cause to be a Director, unless the contract or resolution under which he holds office shall expressly state otherwise, in which event such termination shall be without prejudice to any claim by either the Company or the Director for damages for breach of any contract between him and the Company.

4.2.11 **Appointment and retirement of Directors**

Unless and until otherwise determined by the Company by ordinary resolution, either generally or in any particular case, any provisions of the Statutes which, subject to the provisions of these Articles, would have the effect of rendering any person ineligible for appointment as a Director or liable to vacate office as a Director on account of his having reached any specified age or of requiring special notice or any other special formality in connection with the appointment of any Director over a specified age, shall not apply to the Company. Where the Directors convene any general meeting of the Company at which, to the knowledge of the Directors, a person will be proposed for appointment or reappointment as a Director who at the date for which the meeting is convened will have attained the age of seventy years or more, the Directors shall give notice of his age in years in the notice convening the meeting or in any document accompanying the notice and shall give an explanation in such notice or document of why it is felt appropriate that such person be appointed or retained as a Director.

At each annual general meeting:

- (a) any Director who has elected or last re-elected a Director at or before the annual general meeting held in the third calendar year before the current year shall retire by rotation; and
- (b) such further Directors (if any) shall retire by rotation as would bring the number retiring by rotation up to one-third of the number of Directors in office at the date of the notice of annual general meeting (or if their number is not a multiple of three, the number nearest to but not greater than one-third).

The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election.

The Company at the meeting at which a Director retires under any provisions of these Articles may by ordinary resolution fill up the office being vacated by electing thereto the retiring Director or some other person eligible for appointment.

The Company may in accordance with and subject to the provisions of the Statutes by ordinary resolution of which special notice has been given remove any Director from office notwithstanding any provision of the Articles or of any agreement between the Company and such Director, but without prejudice to any claim he may have for damages for breach of any such agreement, and appoint another person in place of a Director so removed from office. Any person so appointed shall be treated for the purpose of determining the time at which he or any other Director is to retire by rotation as if he had become a Director on the day on which the Director in whose place he is appointed was last elected a Director. In default of such appointment the vacancy arising upon the removal of a Director from office may be filled as a casual vacancy.

The Company may by ordinary resolution and the Directors shall have power at any time and from time to time to appoint any person to be a Director either to fill a casual vacancy or as an additional Director, but so that the total number of Directors shall not at any time exceed the maximum number (if any) fixed by or in accordance with these Articles. Any Director so appointed by the Directors shall hold office only until the next annual general meeting and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.

4.2.12 **Alternate Directors**

Any Director may at any time by writing under his hand deposited at the Office, or delivered at a meeting of the Directors, appoint any person to be his alternate Director and may in like manner at any time terminate such appointment. Such appointment, unless previously approved by the Directors or appointing another Director as an alternate, shall have effect only upon and subject to being so approved. The appointment of an alternate Director shall terminate on the happening of any event which if he were a Director would cause him to vacate such office or if his appointor ceases to be a Director.

An alternate Director shall be entitled to attend and vote as a Director at any meeting of the Directors at which the Director appointing him is not personally present and generally at such meeting to perform all functions of his appointor as a Director and for the purposes of the proceedings at such meeting the provisions of the Articles shall apply as if he were a Director.

An alternate Director shall be an officer of the Company and shall alone be responsible to the Company for his own acts and defaults and he shall not be deemed an agent of or for the Director appointing him. An alternate Director may be interested in contracts, arrangements and other proposals with the Company, may he repaid expenses by the Company and shall be entitled to be indemnified by the Company to the same extent as if he were a Director, but he shall not be entitled to receive from the Company in respect of his appointment as alternate Director any remuneration except only such proportion (if any) of the remuneration otherwise payable to his appointor as such appointor may by notice in writing to the Company from time to time direct.

4.2.13 **Proceedings of Directors**

The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote. A Director may, and the secretary on the requisition of a Director shall, at any time summon a meeting of the Directors. Any Director may waive notice of any meeting and any such waiver may be retrospective.

Notice of a meeting of the Directors shall be deemed to be properly given to a Director if given to him personally in writing or by word of mouth or sent in writing to him at his last known address or any other address given by him to the Company for this purpose.

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed at any other number shall be two. For the purpose of this Article an alternate Director shall be counted in a quorum, but so that not less than two individuals shall constitute the quorum.

A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

- (a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (b) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase or in exchange in which offer he is or is to be interested as an existing holder of securities of the Company or the subsidiary undertaking concerned or as a participant in the underwriting of sub-underwriting thereof;
- (d) any proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he (together with any person connected with him within the meaning of Section 346 of the Act) is not the holder of or beneficially interested in one per cent or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purposes of this Article to be a material interest in all circumstances);
- (e) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme which relates to both Directors and employees of the Company or any of its subsidiary undertakings and does not accord to any Director as such any privilege or advantage not generally accorded to the employees to which such fund or scheme relates;
- (f) any arrangement for the benefit of employees of the Company or of any of its subsidiary undertakings under which the Director benefits in a similar manner as the employees provided that such arrangement does not accord to any Director as such any privilege or advantage not generally accorded to the employees to whom such arrangement relates; or
- (g) insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.

4.2.14 **General Meetings**

At least 21 clear days' notice in writing of every annual general meeting and of every extraordinary general meeting at which it is proposed to pass a special resolution and at least 14 clear days' notice in writing of every other extraordinary general meeting shall be given, to such Members as are, under the Articles, or the terms of issue of shares, entitled to receive such notices from the Company and to the Directors and the Auditors.

5. DIRECTORS' AND OTHER INTERESTS

- 5.1 The interests of the Directors fall of which are unless otherwise stated beneficial) in the issued share capital of the Company as at the date of this document such interests being those which are required to be notified by each Director to the Company under the provisions of section 324 or 328 of the UK Companies Act 1985 or which are required to be

entered in the register of interests required to be maintained pursuant to section 325 of the UK Companies Act 1985 or which are interests of persons connected with the Director within the meaning of section 346 of the UK Companies Act 1985, the existence of which is known or which could, with reasonable diligence, be ascertained by a Director) are as follows:

Director	Number of Ordinary Shares	Percentage of issued ordinary share capital
Robert Alford ¹	522,500	0.34%
George Salamis	1,037,500	0.67%
Paul Ingram ²	3,437,500	2.23%
Mark Trevan	60,000	0.04%
Peter Seear ³	4,243,189	2.75%
Graham Mascal	NIL	NIL
Nicholas Clarke	NIL	NIL

Note: 1. 210,000 Ordinary shares out of the interests of Robert Alford are held by Portman Welbeck as trustees for the RJ Alford Guernsey Trust.

2. The interests of Paul Ingram are held by Siam Resources Ltd, a company in which Mr Ingram is the beneficial owner.

3. The interest of Peter Seear comprises his proportion of the MTP Consideration Shares whether held directly or via the Seear Family Trust.

5.2 The Directors are interested in the following options over Ordinary Shares which remain outstanding:

Director	Number of Ordinary Shares subject to options	Exercise Price	Date of Grant	First date of exercise	Final date of exercise
Robert Alford	250,000	10p	11.04.03	11.04.04	11.04.13
	300,000	18.75p	22.11.05	22.11.06	22.11.15
	2,132,527	40p	14.12.06	14.12.06	14.12.16
George Salamis	250,000	10p	11.04.03	11.04.04	11.04.13
	600,000	15p	29.04.03	29.04.04	29.04.13
	350,000	18.75p	22.11.05	22.11.06	22.11.15
	1,777,106	40p	14.12.06	14.12.06	14.12.16
Mark Trevan	1,421,685	40p	14.12.06	14.12.06	14.12.16
Paul Ingram	250,000	10p	11.04.03	11.04.04	11.04.13
	300,000	18.75p	22.11.05	22.11.06	22.11.15
	200,000	40p	14.12.06	14.12.06	14.12.16

Graham Mascal	250,000	10p	11.04.03	11.04.04	11.04.13
	125,000	40p	14.12.06	14.12.06	14.12.16
Nick Clarke	250,000	40p	14.12.06	14.12.06	14.12.16

- 5.3 Save as set out in paragraphs 5.1 and 5.2 above, no Director will, and no person connected with a Director is expected to, have any interest in the share capital of the Company or any of its subsidiaries.
- 5.4 No loan or guarantee has been granted or provided by the Group to any Director or any person connected with them and no loans or guarantees are outstanding from the Group to any of the Directors.
- 5.5 As at 4 July 2007 (being the latest practicable date prior to publication of this document) in so far as is known to the Company, no person or persons have an interest, directly or indirectly, in 10 per cent, or more of the share capital of the Company.
- 5.6 No holder of Ordinary Shares referred to in this paragraph 5 has voting rights different from other holders of Ordinary Shares.
- 5.7 As at 4 July 2007 (being the latest practicable date prior to publication of this document) the Company is not aware of any person or persons who, directly or indirectly, owns or controls the Company.
- 5.8 No Director or member of a Director's family has any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of the Ordinary Shares.

6. BOARD STRUCTURE

- 6.1 The Board comprises seven directors. The following table sets out the directors of the Company and their respective functions, all of which are resident at the Company's registered office:

Director	Function
Robert John Alford	Executive Chairman
George Gregory Salamis	Chief Executive
Paul Anthony Ingram	Executive Director
Graham Edward Mascal	Non-Executive Director
Nicholas Royston Clarke	Non-Executive Director
Mark Frederick Trevan	Managing Director, CC
Peter Kenneth Seear	Non-Executive Director

- 6.2 Biographies for the each of the Company's directors are as follows:

Robert J Alford, (Executive Chairman), joined the board of directors of the Company at the time of its original admission to trading on AIM in 2000. Mr Alford became non-executive Chairman of Caledon in February 2005 and, since 8 September 2006 has had the role of Executive Chairman in order to manage the Company's transition from China focused gold explorer to coking coal producer in Australia. In the 1970's and 1980's Mr Alford held a variety of senior positions in the Nelson Hurst Group including responsibility for Mergers and Acquisitions. In 1989 he negotiated the sale of the Nelson Hurst Group to Citibank NA. In May 1991 the now much enlarged financial services group was reacquired by management. The Company was floated on the London Stock Exchange in December 1993 with Mr Alford as Joint Group Managing Director. He resigned in May 1995 and now

resides in Guernsey. Mr Alford is a member of Lloyds, registered as a Non-executive Director with the FSA and is recognised by The Guernsey Financial Services Commission and The Bermuda Monetary Authority (as a director of regulated businesses). Mr Alford is Executive Chairman of Caledon and together with Mr Salamis is responsible for the overall growth and development of the Group.

George Salamis, (Chief Executive Officer), Mr Salamis is one of the founding shareholders of Caledon and has held the position of Managing Director and Chief Executive Officer since 2003. Prior to this, he has held senior management positions with well-established mining companies most notably Placer Dome Inc. and Cameco Corporation. His career in the mining industry spans over 20 years involving assignments in many different regions of the world, on various resource commodities. In recent years, he has also played integral roles, both executive and non-executive, in several large M&A transactions and major financing initiatives in the mining industry. Mr Salamis holds a graduate degree in Geology from the Université de Montréal/École Polytechnique. Mr Salamis is the Chief Executive Officer of Caledon and together with Mr Alford is responsible for the overall growth and development of the Group. Mr Salamis also sits on the Health Safety and Environment committee ('HSE committee').

Mark Trevan, (Managing Director), Mr Trevan joined Caledon after 25 years with Rio into where he started as an accountant and progressed to hold senior executive roles in the areas of marketing, general commercial, corporate strategy and project feasibility. Mr Trevan's experience covers a number of bulk commodities, however, of most relevance to Caledon, is the period from 1997 to 2006 when he worked for Rio Tinto Coal Australia (RTCA), initially as General Manager Marketing and subsequently leading a project team investigating the establishment of a major new thermal coal mine. During Mr Trevan's time as General Manager Marketing, RTCA opened two coking coal mines and is now a significant participant in the internationally traded metallurgical coal market in addition to its substantial presence in the thermal coal market. Mr Trevan brings extensive coal industry contacts both within Queensland and the international arena. Mr Trevan is the Managing Director and is responsible for the Group's Australian operations. Mr Trevan is also a member of the HSE committee.

Peter Seear, (Chief Operating Officer), Mr Seear has been actively engaged in the coal mining industry since 1977. He commenced his career immediately upon graduation from Coventry University in 1977. He became a Chartered Engineer in 1983 and he then proceeded to work for several contract coal mining companies. Additionally, he spent time with underground coal mining equipment manufacturers as an engineer, including 10 years with Joy Mining Machinery Ltd in South Africa and in North America. Mr Seear also holds a PMD degree from the Harvard School of Business and brings a wealth of contacts in the contract coal mining, processing and marketing business. Mr Seear is the Group's Chief Operating Officer with overall responsibility for technical direction.

Paul Ingram, (Executive Director), Mr Ingram was previously based in Asia for the last 15 years where he has managed several major mineral exploration programmes for Menzies Gold Ltd, a company he joined in 1985 and where he was managing director since 1989. Mr Ingram manages all operations from project assessment to advanced stage exploration. His work typically involves the design and implementation of innovative techniques for exploration. In the early 1980's Mr Ingram was a geological consultant for EMS Pty Ltd where he advised clients throughout Australia on coal, gold and base metal projects. He is a member of the Australian Institute of Mining and Metallurgical Society and a member of the Mining Industry Consultants Association. Mr Ingram is responsible for operating the group's exploration projects in both Australia and China.

Graham Mascall, (Non-Executive Director), Mr Mascall has over 35 years of commercial, financial and transaction experience in mergers and acquisitions, business development and project management in mining and mining finance. Over the course of his career he has worked as an executive for a number of companies in the mining and mine finance sector, including Billiton plc where in 2000, as chief executive for mergers and acquisitions, Base Metals and New Business, he led the US\$2.1 billion acquisition of Rio Algom Limited.

He has also worked for BHP Billiton plc, Deutsche Morgan Grenfell, Outokumpu Metals and Resources and Barclays Bank. Mr Mascall is a graduate in mining engineering from the Camborne School of Mines and holds a Master of Engineering in Mineral Economics from McGill University. He is currently also a director of Katanga Mining Limited, UraMin Inc., Anglo Asian Mining plc and Gemfields Resources plc. Mr Mascall is a Non-executive Director, Chairman of Caledon's audit committee and a member of both the remuneration and HSE committees.

Nicholas Clarke, (Non-Executive Director), A graduate of the Camborne School of Mines and is a Chartered Engineer. He has been involved in the mining industry since 1974 in a number of production and service capacities. He worked in South Africa, Ghana and Saudi Arabia on mines for a period of some 17 years. In 1992 he commenced working in the consultancy industry and in 1996 was made Managing Director of CSMA Consultants Ltd which was subsequently acquired by Wardell Armstrong International. During this period he managed numerous technical studies on mineral projects in Africa, Europe and Former Soviet Union. He was author and project manager on a number of AIM and TSX CPR's during this period and was most specifically involved in the economic valuation of mineral assets. Mr Clarke has extensive experience in managing feasibility studies and how they interrelate to finance requirements. In 2004 he joined Oriel Resources plc an AIM and TSX quoted natural resources company with nickel and chrome assets in Kazakhstan as Director of Mining, and was appointed Managing Director in 2005. In July 2006, Oriel sold its gold assets in Kyrgyzstan and Russia to Lero Gold Corporation, a TSX-V listed company. Mr Clarke holds the position of President and CEO of this new company. Mr Clarke is a Non-executive Director, Chairman of Caledon's remuneration committee and a member of both the audit and HSE committees.

6.3 The aggregate remuneration paid and benefits in kind (including pension contributions) granted to the Directors including amounts paid from all members of the Group during the year ended 31 December 2006 amounted to approximately £381,523.

6.4 The aggregate amount payable and benefits in kind (including pension contributions) to be granted by the Group to the Directors under the arrangements in force at the date of this document during the financial year ending 31 December 2007 is estimated to be approximately £605,000.

7. SHARE OPTION SCHEMES

7.1 The Discretionary Share Option Scheme

The Finelot 2000 Discretionary Share Option Scheme (the "**Discretionary Share Option Scheme**") was adopted in 2000 and was not approved by HM Revenue & Customs. There are currently options outstanding under the Discretionary Share Option Scheme over a total of 3,946,667 Ordinary Shares at the following Prices:

Price	No. of Ordinary Shares
10p	1,000,000
15p	600,000
16.25p	550,000
18.75p	1,516,667
63.75p	280,000

These options were granted in 2003 and 2005 and accordingly will lapse either in 2013 or 2015.

In addition, options over a further 6,332,823 Ordinary Shares were granted under the Discretionary Share Option Scheme; these options have an exercise price equal to 40 pence per Ordinary Share. No options granted under the Discretionary Share Option

Scheme are subject to performance conditions, but all are subject to vesting conditions as to continued employment. Such options become fully exercisable no later than three years after the date of grant. One third of those options vested on the Company's re-admission to AIM on 14 December 2006 (the "**Admission**"). Of the remaining options, one third will vest on the first anniversary of Admission, one third will vest on the second anniversary of Admission and the final third will vest on the third anniversary of Admission. These options will lapse seven years after Admission. The Discretionary Share Option Scheme terminated at Admission, with the result that no further grants of options will be made under it (but without prejudice to existing rights granted under it).

7.2 The New Share Option Scheme

The Board adopted, at the time of Admission, the Caledon Resources PLC 2006 Share Option Scheme (the "**New Share Option Scheme**"). The New Share Option Scheme was not approved by HM Revenue & Customs, and provides incentives by way of options granted with an exercise price equal to market value of the relevant shares (as at the date of grant). A summary of the principal terms of the New Share Option Scheme is set out below.

7.2.1 Administration

The Company's remuneration committee (the "**Committee**") is responsible for administering the New Share Option Scheme.

7.2.2 Grant of options and eligibility

Options to acquire shares in the Company may be granted under the New Share Option Scheme to any employee or executive director of the Company or its subsidiaries.

7.2.3 Period for the grant of options

The first grant of options under the New Share Option Scheme could be made within 42 days following Admission. Thereafter, options can be granted within 42 days following the announcement of the Company's interim and/or final results for any period. In exceptional circumstances, options may be granted at other times.

7.2.4 Exercise price

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

7.2.5 Performance test

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

7.2.6 Individual limits

An individual's overall participation under the New Share Option Scheme is limited so that the aggregate market value at the date of grant of the Ordinary Shares over which options have been granted to him in any financial year under the New Share Option Scheme cannot exceed 200 per cent, of such individual's annual basic salary and/or fees.

7.2.7 Plan limits

The number of Ordinary Shares issued or issuable (or transferred or transferable from treasury) pursuant to options granted under the New Share Option Scheme, when aggregated with the number of Ordinary Shares issued or issuable (or transferred or transferable from treasury) pursuant to rights granted after Admission under all other employee share plans operated by the Company or any company in the Group, may not exceed five per cent, of the Company's issued ordinary share capital at the date of grant (so that, for the avoidance of doubt, the options granted conditional on Admission under the

Discretionary Share Option Scheme referred to in paragraph 7.1 above shall not count towards this limit).

7.2.8 *Exercise and lapse of options*

General position

An option is normally exercisable in accordance with a vesting schedule determined by the Committee at the date of grant of the option, provided that the performance condition set has been satisfied. Options will not be exercisable more than 10 years after grant. Options will normally vest in three equal tranches on each of the first, second and third anniversaries of the date of grant or over such longer period as the Committee shall determine at the date of grant.

Special circumstances

Options will normally lapse on cessation of employment. Exercise of options will be permitted where employment has ceased in certain circumstances such as disability or death. In the event of a change of control of the Company, the Committee may, at its absolute discretion, determine that all subsisting options vest in full.

7.2.9 *Variations of share capital*

On certain variations of the ordinary share capital of the Company, the Committee may adjust the exercise price, class and the number of Ordinary Shares subject to subsisting options (subject to the auditors of the Company confirming that such adjustment is fair and reasonable).

7.2.10 *Pensionability of benefits*

Benefits derived under the New Share Option Scheme are not pensionable.

7.2.11 *Amendment*

The Committee may amend the New Share Option Scheme from time to time at its absolute discretion provided that amendment to certain important rules (including those relating to the overall limit on the New Share Option Scheme, the individual limit and the eligibility to participate in the New Share Option Scheme) to the advantage of participants may only be made with the sanction of the Company in general meeting (except that shareholder approval is not required for minor amendments to benefit the administration of the New Share Option Scheme or amendments to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, future participants or for participating companies).

7.2.12 *Termination*

The New Share Option Scheme will terminate ten years after Admission, or earlier if the Committee so determines.

8. **EMPLOYEES**

Group Employees by location

China	24
United Kingdom	6
Australia	6
Canada	1
Total	<hr/> 37 <hr/>

Group Employees by function

Executive Board members	5
Management and revenue generators	4
Administration and support staff	28
Total	<hr/> 37 <hr/>

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

1. Global Certificates

The Loan Notes will be evidenced on issue by the Global Certificate (deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg).

Interests in the Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Book-Entry Procedures*". By acquisition of an interest in a Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S.

Interests in the Global Certificate will be subject to certain restrictions on transfer set forth therein, and the Loan Notes will bear the legends set forth thereon regarding such restrictions substantially to the following effect:

"The Loan Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Except in the limited circumstances described below, owners of interests in the Global Certificate will not be entitled to receive physical delivery of Individual Note Certificates. The Loan Notes are not issuable in bearer form.

2. Amendments to the Conditions

The Global Certificate contains provisions that apply to the Loan Notes that it represents, some of which modify the effect of the above Conditions of the Loan Notes. The following is a summary of those provisions:

Payments. Payments of principal and interest in respect of Loan Notes evidenced by the Global Certificate will be made against presentation for endorsement by the Registrar and, if no further payment falls to be made in respect of the relevant Loan Notes, surrender of the Global Certificate to or to the order of the Registrar as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Loan Notes.

Notices. So long as any Loan Notes are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Noteholders required to be published in *d'Wort* may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for delivery thereof as required by the Conditions of such Loan Notes provided that for so long as the Loan Notes are listed on the official list and admitted to trading on the Euro MTF and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*).

Meetings. The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each £100,000 in principal amount of Loan Notes for which the Global Certificate may be exchangeable.

Prescription. Claims against the Issuer in respect of principal and interest on the Loan Notes while the Loan Notes are represented by the Global Certificate will become void unless it is presented for payment within a one year period from the Maturity Date.

Purchase and Cancellation. Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Certificate.

3. Exchange for Definitive Note Certificates

Exchange

A Global Certificate will become exchangeable, free of charge to the holder, in whole but not in part, for Individual Note Certificates if: (a) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so; or (b) an Event of Default (as defined and set out in Clause 13 of the instrument constituting the unsecured loan notes (the "Loan Note Instrument")) occurs; or (c) the Company would suffer a material disadvantage in respect of the Loan Notes as a result of a change in the laws or regulations (Tax or otherwise) which would not be suffered were the Loan Notes evidenced by Individual Notes Certificates.

In such circumstances, such Individual Note Certificates will be registered in Euroclear and Clearstream, Luxembourg or as Euroclear and/or Clearstream shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a), (b) or (c).

The Registrar will not register the transfer of any Loan Notes or exchange of interests in a Global Certificate for Individual Note Certificates for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Loan Notes.

Delivery

In such circumstances, a Global Certificate shall be exchanged in full for Individual Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Individual Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Loan Notes.

The holder of an Individual Note Certificate may transfer the Loan Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar, together with the completed form of transfer thereon.

4. Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of a Global Certificate and in relation to all other rights arising under a Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Loan Notes evidenced by a Global Certificate, the common depository by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by direct participants in any clearing system to owners of interests in a Global Certificate held through such direct participants in any clearing system will be governed by standing instructions and customary

practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Loan Notes for so long as the Loan Notes are evidenced by a Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of a Global Certificate in respect of each amount so paid. The Issuer will not have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in a Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

5. Settlement and Transfer of Loan Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Loan Notes held within a clearing system must be made by or through direct participants, which will receive a credit for such Loan Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "Beneficial Owner") will in turn be recorded on the direct and indirect participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Loan Notes held within the clearing system will be affected by entries made on the books of participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Loan Notes, unless and until interests in a Global Certificate held within a clearing system are exchanged for Individual Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Loan Notes held within such clearing system and their records will reflect only the identity of the direct participants to whose accounts such Loan Notes are credited, which may or may not be the Beneficial Owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited.

TAXATION

The following information does not purport to be a complete analysis of all tax considerations relating to the Loan Notes, is general in nature and relates only to United Kingdom taxation applicable to Loan Note Holders who hold their Loan Notes as an investment and who are resident or ordinarily resident and domiciled in the United Kingdom for tax purposes (except where indicated).

For the purposes of this description, it is assumed that no Loan Note Holder holds or has held an office or employment with the Company such that the provisions of Part 7 of the Income Tax (Earnings and Pensions) Act 2003 could apply to the Loan Notes.

The information is based on existing law and practice at the date of this document and may be subject to subsequent change.

Any change in the Company's tax status or in taxation legislation in the United Kingdom could affect the value of the investments held by or in the Company.

Applicants should obtain advice from their professional advisers regarding the consequences to them of acquiring, holding, transferring, selling and converting Loan Notes under the relevant laws of the jurisdiction to which they are subject, including the tax consequences and any exchange control requirements. These consequences will vary, inter alia, with the law and practice of an investor's country of citizenship, residence, domicile or incorporation and with his personal circumstances.

1. TAX TREATMENT OF LOAN NOTE HOLDERS

1.1 Withholding Tax

Under current legislation, for so long as the Loan Notes carry a right to interest and are listed on a recognised stock exchange within the meaning of Section 1005 of the Income Tax Act 2007 ("ITA") (the Luxembourg Stock Exchange is currently a recognised stock exchange for these purpose), the Loan Notes will constitute quoted Eurobonds within the meaning of Section 987 ITA. Accordingly, payments of interest on the Loan Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In any event, interest on the Loan Notes may be paid without withholding or deduction for or on account of United Kingdom income tax (as an excepted payment within the meaning of Chapter 11 of ITA) where interest on the Loan Notes is paid to a person whose usual place of abode is in the United Kingdom and, at the time the payment is made, the Company reasonably believes (and any person by or through whom interest on the Loan Notes is paid reasonably believes) that the person beneficially entitled to the interest in respect of which the payment is made is:

- 1.1.1 a company resident in the United Kingdom (Section 933 ITA); or
- 1.1.2 a company not resident in the United Kingdom but which carries on a trade in the United Kingdom through a permanent establishment and the payment is brought into account for the purposes of United Kingdom corporation tax (Section 934 ITA); or
- 1.1.3 that the payment is made to one of the other classes of exempt bodies or persons set out in Section 936 ITA, provided that HM Revenue & Customs ("HMRC") has not given a

direction (in circumstances where it has reasonable grounds to believe that the payment will not be an excepted payment at the time the payment is made) that the interest should be paid under deduction of tax.

In most other cases, interest on the Loan Notes will generally be paid under deduction of United Kingdom income tax at the savings rate (currently 20 per cent.), subject to any direction to the contrary from HMRC in respect of such relief as may be available under any applicable double taxation convention.

HMRC has powers to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to, or receives interest on behalf of, an individual. Such information, may in certain circumstances, be exchanged by HMRC with the tax authorities of other jurisdictions.

1.2 Loan Note Holders within the charge to corporation tax

Loan Note Holders who are companies which are within the charge to United Kingdom corporation tax will normally be subject to tax on all profits and gains, including interest, arising on or in connection with the Loan Notes under the loan relationship rules contained in the Finance Act 1996 ("FA 1996"). Any such profits and gains will generally fall to be calculated in accordance with the statutory accounting treatment of the Loan Notes in the hands of the relevant Loan Note Holder, and will generally be charged to tax as income in respect of each accounting period to which they are allocated, in accordance with that accounting treatment.

Since 2005, the United Kingdom tax treatment of convertible instruments (such as the Loan Notes) held by companies within the scope of United Kingdom corporation tax has, in general, become more closely aligned with the accounting treatment of such instruments. Therefore, in accordance with generally accepted accounting practice, a loan relationship may be split in a corporate Loan Note Holder's accounts into a host contract and an embedded derivative (within the meaning of Section 94A FA 1996).

Where a corporate Loan Note Holder does not split the Loan Note into a host contract and an embedded derivative, any profit and loss arising on the Loan Note which is recognised in the corporate Loan Note Holder's accounts in accordance with generally accepted accounting practice will be dealt with under the loan relationships legislation.

Where the Loan Note is split into a host contract and an embedded derivative, the host contract will be dealt with under the loan relationships legislation. In this case, the corporate Loan Note Holder will be taxed on the difference between the initial discounted value of the host contract and the amount payable on redemption, on the basis on which such discount is recognised in its accounts.

Profits or losses arising in respect of the embedded derivative may be treated as giving rise to chargeable gains or allowable losses for the purposes of corporation tax on chargeable gains or in some circumstances, treated as income profits or losses within the derivative contracts legislation in the normal way.

1.3 Loan Note Holders who are not tax resident in the United Kingdom

Interest on the Loan Notes has a United Kingdom source. Accordingly, such interest will in principle be within the charge to United Kingdom tax even if paid without withholding or deduction. By way of

an exception to this, such interest will not be chargeable to United Kingdom tax in the hands of a Loan Note Holder who is not resident for tax purposes in the United Kingdom unless such Loan Note Holder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency or permanent establishment in connection with which the interest is received or to which the Loan Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent such as some brokers and investment managers) tax may be levied on the United Kingdom branch or agency or permanent establishment. A permanent establishment will include a place of management, a branch or an office.

Where interest has been paid under deduction of United Kingdom income tax, Loan Note Holders who are not resident in the United Kingdom may be able to obtain an exemption or reduction from United Kingdom tax payable on such interest under the provisions of an applicable double taxation convention.

Loan Note Holders who are outside the scope of United Kingdom tax on chargeable gains will not be subject to tax on any capital gains arising on the disposal of a Loan Note.

1.4 Other Loan Note Holders

Loan Note Holders who are not within the charge to United Kingdom corporation tax and who are resident or ordinarily resident in the United Kingdom for tax purposes or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency or permanent establishment in connection with which interest on the Loan Notes is received or to which the Loan Notes are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Loan Notes.

A disposal of a Loan Note by such a Loan Note Holder may give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains, because the Loan Notes will be treated as non-qualifying corporate bonds for the purposes of Section 117 TCGA.

A disposal of Loan Notes by Loan Note Holders who are resident or ordinarily resident in the United Kingdom for tax purposes or who carry on a trade in the United Kingdom through a branch or agency or permanent establishment to which the Loan Notes are attributable may also give rise to a charge to income tax under the rules which concern accrued income profits and losses (as set out in Chapter 2 of Part 12 of ITA) in respect of an amount representing interest accrued on the Loan Notes since the preceding payment date.

1.5 Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

As described above, the Loan Notes will be represented by the Global Certificate which will be registered in the name of and will be deposited with T. Hoare Nominees Limited as nominee for a common depository for Euroclear and Clearstream Luxembourg.

No stamp duty will arise on the issue of the Loan Notes. However, subject to certain exceptions, a charge to SDRT at a rate of 1.5 per cent will arise under Section 96 Finance Act 1986 (“FA 1986”) where chargeable securities (such as the Loan Notes) are issued to a person whose business is or includes the provision of clearance services for the purchase and sale of chargeable securities and that person has entered into an arrangement to provide such clearance services for another party and in pursuance of the arrangement, chargeable securities are transferred or issued to that person or to a person whose business is or includes holding chargeable securities as its nominee.

Unless the operator of the clearance service has elected for an alternative system of charge (described below), SDRT will be charged at the rate of 1.5 per cent on the issue price of the Loan Notes.

Where the operator of the clearance service has, with the approval of HMRC, elected under Section 97A FA 1986 for an alternative system of charge, the standard 0.5 per cent SDRT charge applies to transactions in the clearance service.

2. CONVERSION OF LOAN NOTES INTO ORDINARY SHARES

2.1 United Kingdom tax on chargeable gains

Liability to United Kingdom taxation of chargeable gains will depend on the individual circumstances and identity of the Loan Note Holder. The following paragraphs assume that the Loan Notes are held as an investment only by Loan Note Holders within the charge to United Kingdom taxation.

2.1.1 Loan Note Holders who are individuals

For the purposes of United Kingdom tax on chargeable gains, the issue of Ordinary Shares to Loan Note Holders in exchange for their Loan Notes on a Loan Note conversion should be regarded as a reorganisation (involving a conversion of securities within Section 132 of the Taxation of Chargeable Gains Act 1992) of the share capital of the Company.

On the acquisition of Ordinary Shares as a consequence of a Loan Note conversion, the Ordinary Shares so acquired and the Loan Note Holder's existing holding of Loan Notes will, for the purposes of United Kingdom tax on chargeable gains, be treated as the same asset and as having been acquired at the same time as the existing holding of Loan Notes was acquired.

2.1.2 Loan Note Holders who are corporates

Where a Loan Note Holder converts a Loan Note into Ordinary Shares the treatment of any gains or losses differs according to the treatment of gains or losses in respect of the embedded derivative.

Where profits and losses arising on the embedded derivative have not been treated as chargeable gains or allowable losses, the reorganisation provisions in Section 116 TCGA will not apply by reason of Section 116(8B) TCGA. Instead, the corporate Loan Note Holder will be deemed to have acquired the Ordinary Shares at their market value at the time of the conversion.

When gains or losses on the embedded derivative have been treated as chargeable gains or allowable losses, specific legislation within TCGA exists which is designed to counter double counting for chargeable gain tax purposes.

2.2 Stamp duty and SDRT on Loan Note conversions

No stamp duty or SDRT will generally be payable on the issue or on the registration of the Ordinary Shares to be issued pursuant to the conversion of the Loan Notes.

3. TAXATION OF DIVIDENDS

In following description, references to Shareholders should be treated as references to such Loan Note Holders whose Loan Notes have been converted into Ordinary Shares.

3.1 The Company

The Company will not be required to withhold tax at source on any dividends it pays to its Shareholders in respect of Ordinary Shares acquired by such Shareholder on a Loan Note conversion.

3.1.1 **United Kingdom resident Shareholders**

An individual Shareholder who is resident in the United Kingdom for tax purposes and receives a dividend from the Company will generally be entitled to a tax credit in respect of that dividend, currently equal to one-ninth of the cash dividend received or 10 per cent, of the aggregate of the cash dividend received and the related tax credit (the "gross dividend"). The related tax credit can be set against the individual Shareholder's total liability to income tax on the dividend.

An individual Shareholder who is liable to income tax at a rate less than the higher rate (currently 40 per cent.) will be subject to income tax at the rate of 10 per cent, on the gross dividend and so the tax credit should satisfy in full that individual Shareholder's liability to income tax on the dividend received.

An individual Shareholder who is liable to income tax at the higher rate will be subject to tax at the rate of 32.5 per cent, on the gross dividend to the extent that the gross dividend, when treated as the top slice of that Shareholder's income, falls above the threshold for higher rate income tax. The related tax credit will, therefore, not fully satisfy that individual Shareholder's liability to income tax on the gross dividend and the Shareholder will have to account for additional tax equal to 22.5 per cent, of the gross dividend (which is equivalent to 25 per cent, of the cash dividend received).

No repayment of the tax credit in respect of dividends paid by the Company can be claimed by United Kingdom resident Shareholders (including pension funds and charities).

Subject to certain exceptions for traders in securities and insurance companies, a corporate Shareholder resident in the United Kingdom for tax purposes will generally not be subject to corporation tax or income tax on dividends received from the Company.

3.1.2 **Non- United Kingdom resident Shareholders**

The right of a Shareholder who is not resident in the United Kingdom for tax purposes to claim repayment from the Inland Revenue of any part of the tax credit attaching to dividends paid by the Company will depend upon the existence and the terms of any applicable double tax treaty between the United Kingdom and the country in which the Shareholder is resident.

A Shareholder who is not resident in the United Kingdom may be subject to foreign taxation on dividend income under local law and should consult his own tax adviser concerning his liabilities to tax on dividends received from the Company.

4. **TAXATION OF SHARE DISPOSALS**

4.1 **United Kingdom taxation of chargeable gains**

A disposal of Ordinary Shares acquired on a Loan Note conversion by:

- (a) a Shareholder resident or ordinarily resident for tax purposes in the United Kingdom; or

- (b) a Shareholder who is not United Kingdom resident but who carries on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a non-resident company, through a permanent establishment) and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such branch or agency or permanent establishment

may, depending on the Shareholder's circumstances, and subject to any available exemptions or reliefs, give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom tax on chargeable gains. Special rules apply to individuals at a time when they are temporarily not resident or ordinarily resident in the United Kingdom.

For the purposes of United Kingdom taxation of chargeable gains, indexation allowance and/or taper relief may be available.

For periods after April 1998, indexation allowance is available only for the purposes of corporation tax and is not available to individuals, personal representatives or trustees. The following paragraphs, accordingly, deal separately with the positions of corporate and non-corporate Shareholders.

4.1.2 **Shareholders within the charge to corporation tax**

Shareholders within the charge to corporation tax will continue to obtain the benefit of indexation allowance on the asset represented by the Ordinary Shares (to the extent that it was formerly treated as a chargeable asset) acquired on a Loan Note conversion, although in calculating the amount of any indexation allowance on any subsequent disposal of, or for any part of, the Ordinary Shares, any expenditure incurred in obtaining the Ordinary Shares on a Loan Note conversion will be treated as incurred only when the Shareholder made or became liable to make such payment.

On the disposal by a corporate Loan Note Holder of the Ordinary Shares acquired as a result of exercising (on a Loan Note conversion) the embedded derivative option contract, the capital gain or loss realised will be adjusted to reflect the appropriate proportion of chargeable gains or allowable losses which have already been brought into account.

As noted above, there is legislation designed to counter double counting for chargeable gains tax purposes. These measures also apply where gains and losses arising on the embedded derivative have been treated as chargeable gains or allowable losses and following a Loan Note conversion, there is a disposal of the Ordinary Shares acquired. In this case, the cost of the Ordinary Shares acquired on the Loan Note conversion is increased by the initial carrying value of the embedded option and is increased or reduced by the net chargeable gain or allowable loss that has been brought into account over the life of the embedded derivative.

4.1.3 **Non-corporate Shareholders**

For individuals, personal representatives and trustees, indexation allowance has been replaced by a system of taper relief. Taper relief operates by reducing the amount of any gain realised on the disposal of an asset by a percentage dependent on the period of ownership of that asset and on whether the asset qualifies as a business or non-business asset for the purposes of capital gains tax for that period. An individual Shareholder's entitlement to taper relief will be calculated according to that Shareholder's period of ownership of the Ordinary Shares, taking into account the period of ownership of the Loan Note.

Any person who is in any doubt as to his taxation position, requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom should consult his professional advisers.

SUBSCRIPTION AND SALE

United States

The Loan Notes and the Ordinary Shares for which the Loan Notes are to be converted have not been and will not be registered under the Securities Act and the Loan Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions in reliance on Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Loan Notes may not be offered, sold or delivered (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Loan Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Loan Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

“The Loan Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.”

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Loan Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

General

No action has been or will be taken in any jurisdiction by the Issuer or Canaccord that would, or is intended to, permit a public offering of the Loan Notes, or possession or distribution of this Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Circular comes are required by the Issuer and Canaccord to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Loan Notes or have in their possession, distribute or publish this Circular or any other offering material relating to the Loan Notes, in all cases at their own expense.

GENERAL INFORMATION

1. Clearing Systems

The Loan Notes have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg with a Common Code of 030739892. The International Securities Identification Number for the Loan Notes is GB00B1YHLM25. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J F Kennedy, L-1855 Luxembourg.

2. Admission to Trading

Application has been made to list the Loan Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF.

3. The Ordinary Shares

The Ordinary Shares are listed on AIM trading under code GB0009713339.

4. Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Loan Notes. The issue of the Loan Notes was authorised by resolution of the Board of Directors of the Issuer passed on 11 June 2007.

5. Material Adverse Change

Except as disclosed or incorporated by reference in this Circular there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2006 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2006.

6. Litigation

Neither the Issuer nor any of its subsidiaries is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Circular, a significant effect on the financial position or profitability of the Issuer or of the Group.

7. Documents on Display

For so long as any of the Loan Notes is outstanding, copies of the following documents may be obtained at the specified offices of the Registrar and of the Luxembourg Paying and Conversion Agent at The Bank of New York (Luxembourg) S.A, Corporate Trust Services, Aerogolf Center, 1A Hoehenhof L1736 Senningerberg, Luxembourg during normal business hours:

- (a) the constitutional documents of the Issuer;
- (b) the consolidated accounts of the Issuer for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 including, in each case, the audit report relating to such accounts;
- (c) the AIM Admission Document;
- (d) the Loan Note Instrument; and
- (e) this Circular.

8. Auditors

The consolidated accounts of the Issuer for the financial years ended contained in 31 December 2005 and 31 December 2006 contained in this Circular have been audited by BDO Stoy Hayward LLP Chartered Accountants authorised and regulated by the Financial Services

Authority in accordance with International Financial Reporting Standards without qualification) and BDO Stoy Hayward LLP rendered an unqualified audit report on such accounts of the Issuer for each of these years. The auditors of the Issuer have material interest in the Issuer.

9. Annual and Interim Accounts

Annual and interim accounts of the Company shall be available at the offices of the Luxembourg Paying and Conversion Agent at The Bank of New York (Luxembourg) S.A, Corporate Trust Services, Aerogolf Center, 1A Hoehenhof L1736 Senningerberg, Luxembourg upon their publication.

Interim accounts are produced by the Company in respect of the 6-month period to 30 June each.

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Paying and Conversion Agent

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