Caledon Resources plc

CDN : AIM : £0.37

BUY

Target: £0.60

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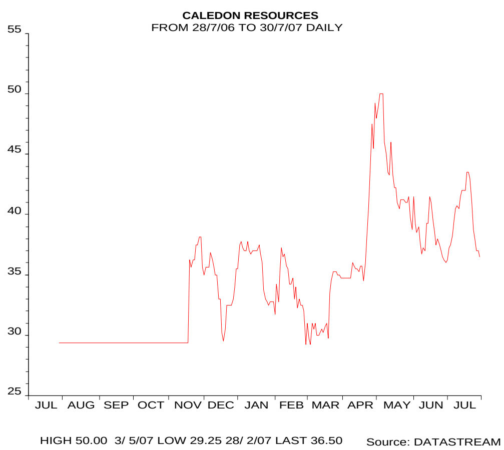
COMPANY STATISTICS:

Share price:	£0.37
52-week range:	£0.50-0.20
Shares (basic) o/s:	154M
Weekly trading volume:	3.7M
Market capitalisation:	£56M

EARNINGS SUMMARY:

Year ending Dec		2007E	2008E	2009E
Total coal production	kt	447	1,472	1,748
Average coal price	US$/t	83	93	90
Average cash cost	US$/t	74	68	61
CFPS	£/shr	(0.01)	0.09	0.09
EPS	£/shr	(0.02)	0.06	0.09

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:
Caledon Resources is an AIM listed mining company that owns 100% of the Cook Coking Coal Mine and some associated infrastructure in Queensland's Bowen Basin. It also has an option to purchase the adjacent Minyango Coal Exploration License. Production has re-commenced at Cook, and it plans to increase production to a rate of 1.8Mtpa coal from mid-2008.

All amounts in £ unless otherwise noted.
Share price data COB 30 July 2007.

Metals and Mining -- Base Metals and Minerals

COOK MINE CONTINUES RAMP-UP

Event

On 31 July 2007, Caledon provided an operational update on the continuing ramp-up of production activities at its Cook coal mine in Queensland. The company also announced that its chief executive, George Salamis, is leaving to pursue other business interests.

Impact

Neutral. Production rates at Cook continue to increase steadily, although we note that operations are likely to become commercial only with the successful introduction of the new continuous miner-haulage equipment, which is expected to be underground by the end of September. Mr Salamis' departure should not unduly impact the day-to-day running of the company's coal business in Australia, given that operational responsibility already lies with COO Peter Seear and Caledon Coal Pty Ltd. Managing Director Mark Trevan. We also note that Executive Chairman Robert Alford remains as part of the four-man executive team.

Action

We maintain our £0.60 per share target price and BUY recommendation.

Valuation

Our valuation is based on a risked sum-of-the-parts NAV of the company, assuming an 8% discount rate and a long-term realised coking coal price of approximately US$79 per tonne.

Next Catalyst

Successful implementation of new continuous miner-haulage system at Cook (expected by the end of September) and release of coal quality information for the Minyango deposit.

Cook operational update

As highlighted in our *Daily Letter* of 19 July 2007, Caledon is progressing a two-phase production ramp-up at Cook, the first utilising rented continuous bolter/miners with shuttle haulage cars, and the second involving the introduction of a state-of-the-art purchased continuous bolter/miner connected to a continuous haulage-conveyor system.

The company reports that phase one production is now steadily increasing, averaging 8,000 tonnes of raw coal per week through July, and reaching 9,000tpw by the end of the month. We note that the first shipment of coking coal (45,000 tonnes) is scheduled to set sail mid-August, and that the company expects to receive payment for this during the first half of September. Caledon is now focused on reaching its interim targeted production level of 50,000tpm from the phase one in the near term.

We note that Cook is not expected to become commercial until phase two of the planned operation is on stream. In this regard we note that the new continuous haulage system is now on site and being assembled, and that the company expects to have it installed underground and ready for attachment to the new continuous bolter-miner by the end of September (the new bolter-miner is in transit and expected to arrive on site by mid-September). Caledon is still targeting phase two production ramp-up to 100,000tpm by the end of 2007.

Management changes

At its AGM yesterday, Caledon announced that George Salamis is resigning as chief executive with immediate effect in order to pursue other business interests in Canada. He will remain as a board member in a non-executive capacity in the short term until a new independent non-executive director is recruited, but the company said it has no immediate plans to appoint a replacement chief executive. We note that many of the traditional chief executive responsibilities were already being shared with Executive Chairman Robert Alford. We also note that this management change should not unduly impact the day-to-day running of the company's coal business in Australia, principal management responsibilities for which already lie with COO Peter Seear and Mark Trevan, Managing Director of the company's Australian operating subsidiary.

Chinese disposal

Caledon also announced an agreement to sell its wholly owned subsidiaries Blackwatch Resources BVI Ltd. and Blackwatch Mining BVI Ltd., which hold majority interests in a number of gold exploration projects in China's Guangxi Province, to Indochina Minerals Ltd. for A$250,000 plus one million Indochina shares. The transaction is subject to a due diligence process by Indochina which runs until 31 August 2007. We note that the proposed sale does not include Caledon's principal remaining gold asset, its earn-in option on the Mojiang gold project in China's Yunnan Province.

Valuation

Our valuation is based on a sum-of-the-parts NAV of the company, assuming an 8% discount rate and a long-term realised coking coal price of approximately US$79 per tonne. We continue to apply a risk discount of 20% to our NPV estimate of the first 10 years of the operation to account for the risks associated with achieving the targeted production levels and cost structure. Similarly, we continue to apply a risk discount of 30% to our NPV estimate of the second 10 years in recognition of the additional risks we believe are associated with completion and resource conversion.

Figure 1: Valuation breakdown

8% discount rate	Full value		Risk	Risked
	A$M	US$M		Valuation
Cook (yrs1-10)*	178	153	20%	122
Cook (yrs 11-20)*	80	69	30%	48
Minyango	20	17	0%	17
Chinese gold assets	6	5		5
Dynasty stake	1	1		1
Enterprise Value	**286**	**245**		**194**
Cash†		41		41
Debt		(39)		(38)
Net Asset Value		**247**		**196**
US$ per share†		1.57		1.24
£ per share†		**0.77**		**0.61**

* NPV from mid 2007. † Fully diluted in-the-money (excluding convertible notes).
Source: Canaccord Adams estimates

Conclusion and recommendation

The steady ramp-up of phase one production at Cook is encouraging following the operational setbacks that the company experienced during the first half of the year, and we are pleased to see that the company remains on track to bring on phase two production by the end of September given previous push-backs to the production schedule.

We do not believe the departure of Mr Salamis should unduly impact the day-to-day running of the company's coal business in Australia, given that operational responsibility already lies with COO Peter Seear and Caledon Coal Pty Ltd. Managing Director Mark Trevan. We also note that Executive Chairman Robert Alford was sharing many of the traditional chief executive responsibilities and remains in the four-man executive team.

We note that the proposed Chinese disposal continues the company's stated strategy of divesting its non-core gold assets.

We continue to recommend Caledon as a BUY with a target price of £0.60 per share.

Investment risks

There are risks associated with the share price achieving our target price and our financial forecasts. Metal prices may not match our forecasts; as with any mining company, there are operating risks involved in both underground and open pit mining operations; foreign currency exchange rate fluctuations will impact both the company's operating costs and its revenues. There are also numerous technical and environmental risks associated with the operation of a mining company that could have an impact both upon the company's valuation and our financial estimates.

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Site Visit: An analyst has visited the issuer's Cook Coal Mine in Queensland, Australia. Partial payment was received from the issuer for the related travel costs.

Price Chart:*

	Date	Analyst	Rating	Target Price
1)	01/27/05	JT	Speculative Buy	N/A
2)	12/12/06	JT	Buy	12.00
3)	03/22/07	JT	Buy	60.00

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:
Global Stock Ratings
(as of 29 June 2007)

	Coverage Universe		IB Clients
Rating	#	%	%
Buy	302	55.6%	42.4%
Speculative Buy	68	12.5%	69.1%
Hold	147	27.1%	36.7%
Sell	26	4.8%	11.5%
	543	100.0%	

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Company	Disclosure
Caledon Resources plc	1A, 2, 4, 5, 7

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