

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL INFORMATION

To the Shareholders of Caledonia Mining Corporation:

Management has prepared the information and representations in this annual report. The consolidated financial statements of Caledonia Mining Corporation have been prepared in conformity with generally accepted accounting principles applied in Canada and, where appropriate, these statements include some amounts that are based on best estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

Financial information used elsewhere in the Annual Report is consistent with that in the financial statements. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The Corporation maintains adequate systems of internal accounting and administrative controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that relevant and reliable financial information is produced. Our independent auditors have the responsibility of auditing the annual consolidated financial statements and expressing an opinion on them.

Management have concluded that as a result of the relatively small size of the Corporation’s head office finance department personnel, the Internal Controls over Financial Reporting (“ICFR”) assessment concluded that there were limited resources to adequately segregate duties and to permit or necessitate the comprehensive documentation of all policies and procedures that form the basis of an effective design of ICFR.

In order to mitigate the risk of material misstatement in the Corporation’s consolidated financial statements, the Corporation implemented additional cash flow review and monitoring controls at head office on a monthly basis and as part of their monitoring and oversight role the Audit Committee performs additional analysis and other post closing procedures. No material exceptions were noted based on the additional year end procedures and no evidence of fraudulent activity was found.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee is composed of three unrelated directors. This Committee meets periodically with management and the external auditors to review accounting, auditing, internal control and financial reporting matters.

The consolidated financial statements have been audited on behalf of the shareholders by the Corporation’s independent auditors, BDO Canada LLP, in accordance with generally accepted auditing standards in Canada and the standards of the Public Company Accounting Oversight Board (United States). The auditors’ report outlines the scope of their examination and their opinion on the consolidated financial statements.

“Signed”

S. E. Hayden
President and Chief Executive Officer

“Signed”

S. R. Curtis
Vice-President, Finance and Chief Financial Officer

**To the Shareholders of
Caledonia Mining Corporation**

We have audited the consolidated balance sheets of Caledonia Mining Corporation as at December 31, 2009 and 2008 and the consolidated statements of changes in shareholders' equity, operations and comprehensive loss and cash flows for each of the years in the three year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

(Signed) BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 29, 2010

Comments by Auditors for U.S. Readers on Canada - U.S. Reporting Conflict

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the consolidated financial statements are affected by conditions and events that cast substantial doubt on the Corporation's ability to continue as a going concern, such as those described in the summary of significant accounting policies. The United States reporting standards also require the addition of an explanatory paragraph when prior period financial statements are restated, such as those described in Note 16 and 21(a), which has a material effect on the consolidated financial statements. Our report to the shareholders dated March 29, 2010 is expressed in accordance with Canadian generally accepted auditing standards which do not require a reference to such events and conditions in the auditors' report when these are adequately disclosed in the consolidated financial statements.

(Signed) BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

March 29, 2010

Caledonia Mining Corporation
Consolidated Balance Sheets
(in thousands of Canadian dollars)

December 31	2009	2008
Assets	\$	\$
Current		(Restated Note 16)
Cash and cash equivalents	1,622	3,652
Accounts receivable	1,547	181
Inventories (Note 11)	2,589	1,059
Prepaid expenses	57	27
Assets - held for sale	102	106
	<u>5,917</u>	<u>5,025</u>
Capital assets and mineral properties - held for sale	670	681
Accounts receivable (Note 10)	810	2,890
Investments (Note 1)	59	12
Capital assets (Note 2)	876	173
Mineral properties (Note 3)	13,758	14,876
	<u>16,173</u>	<u>18,632</u>
	<u>22,090</u>	<u>23,657</u>
Liabilities and Shareholders' Equity		
Current		
Bank overdraft (Note 12)	588	-
Accounts payable	2,156	1,292
Liabilities - held for sale	15	16
	<u>2,759</u>	1,308
Future tax liability (Note 6)	859	-
Asset retirement obligation (Note 4)	1,406	839
Asset retirement obligation - held for sale (Note 4)	324	314
	<u>5,348</u>	<u>2,461</u>
Shareholders' Equity (Note 5)		
Share capital	196,125	196,125
Contributed surplus	1,951	1,902
Accumulated other comprehensive income/(loss)	(550)	3
Deficit	(180,784)	(176,834)
	<u>16,742</u>	<u>21,196</u>
	<u>22,090</u>	<u>23,657</u>

On behalf of the Board:

“S E Hayden” Director

“G R Pardoe” Director

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Caledonia Mining Corporation
Consolidated Statements of Changes in Shareholders' Equity
(in thousands of Canadian dollars)

For the years ended December 31, 2009, 2008 and 2007

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income/(loss)	Deficit	Total
		\$	\$	\$	\$	\$
Balance at December 31, 2006		190,626	989	31	(167,279)	24,367
Warrants exercised		4,380				4,380
Adjustment to opening equity-based compensation expense	5 (b)		51			51
Investments revaluation to fair value				(88)		(88)
Net loss for the year					(4,615)	(4,615)
Balance at December 31, 2007		195,006	1,040	(57)	(171,894)	24,095
Shares issued	5(a)(ii)	1,119				1,119
Equity-based compensation expense	5(b)		862			862
Investments revaluation to fair value				(10)		(10)
Reclassification adjustment for other than temporary decline in value				70		70
Net loss for the year					(4,940)	(4,940)
Balance at December 31, 2008		196,125	1,902	3	(176,834)	21,196
Equity-based compensation expense	<u>5(d)</u>		49			49
Investments revaluation to fair value				47		47
Translation loss at Blanket Mine	<u>5(e)</u>			(600)		(600)
Net loss for the year					(3,950)	(3,950)
Balance at December 31, 2009		196,125	1,951	(550)	(180,784)	16,742

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Caledonia Mining Corporation
Consolidated Statements of Operations and Comprehensive Loss
(in thousands of Canadian dollars except per share amounts)

For the years ended December 31	2009	2008	2007
Revenue and operating costs	\$	\$	\$
Revenue from sales	11,559	7,696	10,039
Operating costs (Note 11)	8,223	4,438	9,745
Gross profit	3,336	3,258	294
Costs and expenses			
General and administrative	2,147	3,896	2,123
Interest (received)/paid	(264)	(385)	309
Amortization	436	397	18
Write-down of mineral properties	1,434	1,168	750
Exchange loss/(gain)	(248)	1,876	1,012
Other expense (income) (Note 8)	2,742	591	(17)
	6,247	7,543	4,195
Loss before income tax and discontinued operations	(2,911)	(4,285)	(3,901)
Income tax (Note 6)	(859)	-	(5)
Loss from continuing operations	(3,770)	(4,285)	(3,906)
Loss from discontinued operations	(180)	(655)	(709)
Net loss	(3,950)	(4,940)	(4,615)
Revaluation of investments to fair value (Note 1)	47	(10)	(88)
Reclassification adjustment for other than temporary decline in value	-	70	-
Translation loss at Blanket Mine	(600)	-	-
Comprehensive loss	(4,503)	(4,880)	(4,703)
Net Loss per share			
Basic and diluted from continuing operations	(0.008)	(0.009)	(0.008)
Basic and diluted from discontinued operations	(0.000)	(0.001)	(0.001)
Basic and diluted for the year	(0.008)	(0.010)	(0.009)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Caledonia Mining Corporation
Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

For the years ended December 31	2009	2008	2007
Cash provided by (used in)		(Restated Note 16)	
Operating activities	\$	\$	\$
Loss from continuing operations	(3,770)	(4,285)	(3,906)
Adjustments to reconcile net cash from operations (Note 9)	4,829	2,228	908
Changes in non-cash operating account balances (Note 9)	(1,917)	(1,049)	1,318
	(858)	(3,106)	(1,680)
Investing activities			
Expenditures on capital assets and mineral properties	(1,547)	(3,023)	(3,250)
Proceeds on the sale of Barbrook Mine	-	9,359	-
	(1,547)	6,336	(3,250)
Financing activities			
Bank overdraft	588	(13)	13
Issue of share capital net of issue costs	-	1,119	4,380
	588	1,106	4,393
Cash flow from discontinued operations			
Operating activities	(179)	(646)	(680)
Investing activities	-	-	-
Financing activities	-	-	6
Effect of foreign currency translation on cash	-	-	(4)
	(179)	(646)	(678)
Effect of foreign currency translation on cash	(35)	(112)	(7)
Increase (decrease) in cash for the year	(2,031)	3,578	(1,222)
Cash and cash equivalents, beginning of year	3,654	76	1,298
Cash and cash equivalents, end of year	1,623	3,654	76
Cash and cash equivalents at end of year relate to:			
Continuing operations	1,622	3,652	76
Discontinued operations	1	2	-
	1,623	3,654	76

See Note 9 for supplementary cash flow information

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Caledonia Mining Corporation

Summary of Significant Accounting Policies

(in thousands of Canadian Dollars) **December 31, 2009, 2008 and 2007**

Nature of Business

The Corporation is engaged in the acquisition, exploration and development of mineral properties for the exploitation of base and precious metals.

Basis of Presentation and Going Concern

The ability of the Corporation to recover the amounts shown for its capital assets and mineral properties is dependent upon the existence of economically recoverable reserves; the ability of the Corporation to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from the disposition of such capital assets and mineral properties.

The Corporation operates in a number of operating segments but its assets located in Zimbabwe, including its interests in gold properties, may be subject to sovereign risks, including political and economic instability, government regulations relating to mining, currency fluctuations and inflation, all or any of which may impede the Corporation's activities in this country or may result in the impairment or loss of part or all of the Corporation's interest in the properties.

These consolidated financial statements have been prepared on the basis of a going concern, which contemplates that the Corporation will be able to realize assets and discharge liabilities in the normal course of business. The Corporation's ability to continue as a going concern is dependent upon operating profitably in Zimbabwe, attaining profitable operations, realising proceeds from the disposal of mineral properties and obtaining sufficient financing to meet its liabilities, its obligations with respect to operating expenditures and expenditures required on its mineral properties.

Measurement Uncertainties

Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring estimates relate to the fair value of mineral resources, future cash flows associated with capital assets, mineral properties, the net realizable value of the bonds receivable, the obligation under asset retirement obligations and the measurement of future tax assets and liabilities. Management's calculation of reserves and resources and cash flows are based upon engineering and geological estimates and financial estimates including gold prices and operating costs. The Corporation's realization of its accounts receivable and its Blanket Mine assets are highly reliant on the monetary policies being implemented by the Zimbabwe government. The amount ultimately recovered could be materially different than the estimated values.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation together with all its subsidiaries. All significant inter-Corporation balances and transactions have been eliminated on consolidation.

The Corporation's consolidated subsidiaries (all 100% owned) are:

Blanket Mine (1983) (Private) Limited ("Blanket")	Caledonia Nama Limited ("Nama")
Blanket (Barbados) Holdings Limited ("Barbados")	Caledonia Western Limited ("Western")
Caledonia Holdings (Africa) Limited ("CHA")	Eersteling Gold Mining Corporation Limited ("Eersteling")
Caledonia Holdings Zimbabwe (Private) Limited ("CHZ")	Fintona Investments (Proprietary) Limited ("Fintona")
Caledonia Mining Services Limited ("CMS")	Greenstone Management Services (Proprietary) Limited ("Greenstone")
Caledonia Kadola Limited ("Kadola")	Maid O' The Mist (Pty) Ltd ("Maid")
Caledonia Mining (Zambia) Limited ("CMZ")	Mapochs Exploration (Pty) Ltd

Caledonia Mining Corporation
Summary of Significant Accounting Policies
(in thousands of Canadian Dollars) **December 31, 2009, 2008 and 2007**

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand in operating bank accounts, and money market funds with initial maturities less than three months.

Inventory

These include gold in circuit (WIP) and bulk consumable stores. WIP is valued at the lower of the cost of production, on an average basis, at the various stages of production or net realisable value if the cost of production exceeds the current gold price. Bulk consumable stores are valued at the lower of cost or net realisable value on an average basis.

Investments

The marketable securities are recorded at fair value. Changes in fair value are recognized in the statements of operations and comprehensive loss except for losses that are considered other than temporary which are recognised in operations.

Revenue Recognition

Revenue from the sale of precious metals is recognized when the metal leaves the mine for delivery to the respective refineries, risk and benefits of ownership are transferred and the receipt of proceeds are substantially assured.

Capital Assets

Producing Assets

Producing assets are recorded at cost less grants, accumulated amortization and write-downs. Producing plant and equipment assets are amortized using the unit-of-production method on the ratio of tonnes of ore mined or processed to the estimated proven and probable mineral reserves as defined by the Canadian Institute of Mining, Metallurgy and Petroleum.

Other producing assets are amortized using the straight line method basis on the estimated useful lives of the assets. The estimated life of the producing assets ranges up to 10 years. Repairs and maintenance expenditures are charged to operations, major improvements and replacements which extend the useful life of an asset are capitalized and amortized over the remaining useful life of that asset. Eersteling Gold Mine remains for sale and is thus presented as assets for sale in these consolidated financial statements. Barbrook Mine was sold during 2008 but was presented as assets for sale in 2007.

Non-Producing Assets

Non-producing assets are recorded at cost less write downs. At the time of commercial production, the assets are reclassified as producing. During non-producing periods, no amortization is recorded on plant and equipment but vehicles and computer equipment continue to be amortized.

Caledonia Mining Corporation

Summary of Significant Accounting Policies

(in thousands of Canadian Dollars) December 31, 2009, 2008 and 2007

Assets held for sale and discontinued operations

Eersteling Gold Mining Corporation has been on care and maintenance since 1997 and in 2007 the decision to sell Eersteling was taken by the Board. Despite the fact that the sale of Eersteling to Orectech Resources fell through in 2008, the property continues to be disclosed under assets held for sale as the mine is still for sale and various parties have shown interest in the property.

The components held for sale are as follows:

	Eersteling Gold Mine	
	2009	2008
	\$	\$
Capital assets and mineral properties	670	681
Current assets	102	106
Current liabilities	(15)	(16)
Asset retirement obligation	(324)	(314)

As a consequence of this decision, Eersteling Mine's results for 2008 and prior years have been disclosed under discontinued operations. Revenue from discontinued operations is \$0 (\$0 in 2008 and \$60 in 2007). The loss from discontinued operations for 2008 included a loss of \$364 arising from the sale of Barbrook. There is no tax applicable to discontinued operations.

Mineral Properties

Producing Properties

When and if properties are placed in production, the applicable capitalized costs are amortized using the unit-of-production method as described under Capital assets. Blanket Mine was acquired during 2006 and has been consolidated into these results from July 1, 2006 and, as such, has been presented as a producing asset in these consolidated financial statements.

Non-Producing Properties

Costs relating to the acquisition, exploration and development of non-producing resource properties which are held by the Corporation or through its participation in joint ventures are capitalized until such time as either economically recoverable reserves are established or the properties are sold or abandoned.

A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases, and the general likelihood that the Corporation will continue exploration on the project. However, based on the results at the conclusion of each phase of an exploration program, properties that are not suitable as prospects are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the properties or the mineral rights. The amounts shown for non-producing resource properties do not necessarily reflect present or future values.

Caledonia Mining Corporation

Summary of Significant Accounting Policies

(in thousands of Canadian Dollars) December 31, 2009, 2008 and 2007

Asset Impairment

Long-lived assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognised based on the fair value of the assets.

Asset retirement obligation

The fair value of the liability of an asset retirement obligation is recorded when it is legally incurred and the corresponding increase to the mineral property is depreciated over the life of the mineral property. The liability is adjusted over time to reflect an accretion element considered in the initial measurement at fair value and revisions to the timing or amount of original estimates and for draw downs as asset retirement expenditures are incurred.

Strategic Alliances

In the past the Corporation has entered into various agreements under which the participants earn a right to participate in the mineral property by incurring exploration expenditures in accordance with the conditions of the agreements. Upon satisfaction of the conditions of the agreement a joint venture may be formed with customary joint venture terms and provisions and then accounted for on a proportionate consolidation basis. Until a joint venture is formed, only the expenditures on the properties incurred by the Corporation are reflected in these consolidated financial statements. Currently there are no active strategic alliances that would result in a joint venture.

Foreign Currency Translation

Balances of the Corporation denominated in foreign currencies and the accounts of its foreign subsidiaries, except for Blanket Mine are translated into Canadian dollars as follows:

- (i) monetary assets and liabilities at period end rates;
- (ii) all other assets and liabilities at historical rates, and
- (iii) revenue and expense transactions at the average rate of exchange prevailing during the period.

Exchange gains or losses arising on these translations are reflected in income in the year incurred.

Blanket is a self-sustaining operation and operates in Zimbabwe in what was a hyper inflationary economy. Due to the dollarization of the economy in February, 2009 the hyper inflationary environment no longer exists. Accordingly the results of these operations have been translated into Canadian Dollars using the current rate method. On January 1, 2009 Blanket's functional currency also changed to US Dollars following the Monetary Policy announcement introducing the use of foreign currency in Zimbabwe for all forms of trade and business. The assets and liabilities of a self-sustaining foreign operation are translated at the rate in effect at the balance sheet date for purposes of incorporation in the financial statements of Caledonia and, therefore, an exchange gain or loss will arise when the exchange rate changes. It is inappropriate to incorporate this exchange gain or loss in net income of Caledonia in the period in which it arises; rather, it is reported in the financial statements as a separate component of shareholders' equity and is disclosed as a separate component of accumulated other comprehensive income during the period. In summary the current rate method is as follows:

- (i) all assets and liabilities at rates at balance sheet date; and
- (ii) revenue and expense transactions at the average rate of exchange prevailing during the period.

Caledonia Mining Corporation **Summary of Significant Accounting Policies**

(in thousands of Canadian Dollars) **December 31, 2009, 2008 and 2007**

Included in the statement of operations and comprehensive income/loss is an exchange gain of \$248 (loss \$1,876 – 2008 and loss \$1,012 - 2007). Due to the translation of Blanket Mine a loss of \$600 (Nil 2008) has been disclosed under accumulated other comprehensive income/(loss).

Income Taxes

The Corporation accounts for income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

Equity-based Compensation

The Corporation operates a share option plan as described in note 5(b). The Corporation accounts for equity-based compensation granted under such plans using the fair value method of accounting. Under such method, the cost of equity-based compensation is estimated at fair value and is recognized in the statement of operations and comprehensive loss as an expense. This cost is amortized over the relevant vesting period for grants to directors, officers and employees, and measured in full at the earlier of performance completion or vesting for grants to non-employees. Any consideration received by the Corporation on exercise of share options together with amounts previously credited to contributed surplus for these options is credited to share capital.

Financial Instruments

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

The various assets and liabilities were classified as follows on adoption:

1. Cash and cash equivalents are classified as “assets held for trading”. They are stated at fair value and any gains/losses arising on revaluation at the end of each period are included in the statement of operations. The Corporation has no derivative financial instruments that would have been classified on a similar basis.
2. Investments are classified as “assets available for sale”. Investments are presented at fair value and the gains/losses arising from their revaluation at the end of each period will be included in other comprehensive income. When a decline in fair value is other than temporary, the accumulated loss that had been recognized directly in other comprehensive income is removed from accumulated other comprehensive income and recognized in net income even though the financial asset has not been derecognized.
3. Accounts receivables are classified as “loans and receivables”. They are recorded at their original cost which is deemed their fair value at that time. Subsequent measurement will be at amortized cost using the effective interest rate method. The Reserve Bank of Zimbabwe Gold Bond is recorded at an estimated recoverable amount.
4. Bank overdraft is classified as “other financial liability” as there is a contractual obligation to deliver cash. It is measured at fair value which is the carrying value plus accrued interest. It is stated at fair value and any gains/losses arising on revaluation at the end of each period are included in the statement of operations.

Caledonia Mining Corporation
Summary of Significant Accounting Policies
(in thousands of Canadian Dollars) **December 31, 2009, 2008 and 2007**

5. Accounts payable is classified as “other financial liability”. They are recorded at their fair value upon initial recognition. Subsequent measurement will be at amortized cost using the effective interest rate method.

Changes in accounting policies:

1. Goodwill and Intangible assets

Effective January 1, 2009, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook section 3064, *Goodwill and Intangible assets*. This standard establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not have an impact on the Corporation’s consolidated financial statements.

2. Credit Risk

Effective January 1, 2009, the Corporation adopted the new recommendations of CICA issued EIC 173, *Credit risk and the fair value of financial assets and liabilities*. This abstract requires companies to take counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The adoption of this standard did not have an impact on the Corporation’s consolidated financial statements.

3. Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee of the CICA approved abstract EIC- 174 *Mining Exploration Costs*, which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. Application of this new standard was taken into account in determining the fair value of the exploration properties.

4. Financial Instruments

The Corporation adopted amendments to CICA Handbook Section 3855 effective January 1, 2009. Amendments to this section have added guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category; changed the categories into which a debt instrument is required or permitted to be classified; changed the impairment model for held-to-maturity financial assets to the incurred credit loss model of CICA Handbook Section 3025, “Impaired Loans”; and require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. Adoption of these amendments did not result in an impact on the Corporation’s consolidated financial statements.

The Corporation also adopted the amendments to CICA Handbook Section 3862, “Financial Instruments – Disclosures”, which was amended to improve financial instrument disclosures to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. The impact of adopting these amendments for the year ended December 31, 2009 resulted in additional disclosures included within these consolidated financial statements.

In June 2009, the CICA amended Section 3862 *Financial Instruments – Disclosure* which requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair

Caledonia Mining Corporation

Summary of Significant Accounting Policies

(in thousands of Canadian Dollars) December 31, 2009, 2008 and 2007

value measurement. CICA Handbook Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

- a) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- b) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- c) Level 3 – Applies to assets or liabilities for which there are not observable market data.

The Corporation's financial instruments consist principally of cash, cash equivalents, accounts receivable, investments, bank overdraft, accounts payable and accrued liabilities. Pursuant to CICA Handbook Section 3862, fair value of assets and liabilities measured on a recurring basis include cash and cash equivalents and investments that are determined based on Level 1 inputs. The Corporation believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

5. Financial Statement Concepts

Effective January 1, 2009, the Corporation adopted the amendments to CICA Handbook Section 1000, *Financial Statement Concepts*, which focused on the capitalization of costs which truly meet the definition of an asset and de-emphasises the matching principle. The adoption of these changes did not have an impact on the Corporation's consolidated financial statements.

Recently issued accounting pronouncements issued and not yet effective

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling interests*. Section 1582 replaces section 1581 and establishes standards for the accounting of a business combination. It provides the Canadian equivalent to IFRS 3 - *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace section 1600, *Consolidated Financial Statements*. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting of a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - *Consolidated and Separate Financial Statements* and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and all three sections must be applied concurrently. The Corporation does not anticipate that the adoption of these standards will impact its financial results.

Financial instruments — recognition and measurement, Section 3855

This Section has been amended to clarify the application of the effective interest method after a debt instrument has been impaired. This amendment is effective for fiscal years beginning on or after July 1, 2009.

This Section has also been amended to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted.

Caledonia Mining Corporation
Summary of Significant Accounting Policies

(in thousands of Canadian Dollars) **December 31, 2009, 2008 and 2007**

The third amendment provides guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held for trading category. This amendment was made in August 2009 with prospective application. The Corporation does not anticipate the adoption of these amendments will impact its financial results.

International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with International Financial Reporting Standards (“IFRS”) over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes amounts reported by Caledonia for the year ended December 31, 2010.

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1. Investments

On May 9, 2002, the Corporation participated in a private placement of the purchase of shares of Motapa Diamonds Inc. (“Motapa”) at a cost of \$79. The shares of Motapa were listed on the TSX Venture Exchange in Canada prior to Motapa being acquired by Lucara (LUC.V) In terms of the transaction one Motapa share was exchanged for 0.9055 Lucara shares

The adoption of CICA Handbook Sections 3855 and 1530, retrospectively from January 1, 2007, determines that the Corporation records its investments in Lucara Diamond Corp. and in Old Mutual Plc as financial instruments “available for sale” and they are thus recorded at fair value. In terms of Section 3862 the fair values are determined based on Level 1 inputs as both shares are quoted on stock exchanges.

The fair value of the investment in Lucara is \$54 (\$9 -2008) and the fair value of the shares held in Old Mutual Plc is \$5 (\$3 – 2008). The Corporation has decided to sell the Lucara shares in 2010.

2. Capital Assets

	As at December 31, 2008 ⁽¹⁾	Exchange rate difference	COST		As at December 31, 2009
			Additions	Disposals	
	\$	\$	\$	\$	\$
Land – plant sites	12	(3)	-	-	9
Plant and equipment					
- producing ⁽²⁾	24	(4)	796	-	816
- non-producing ⁽³⁾	229	-	-	-	229
Office equipment	908	(3)	34	-	939
Vehicles	387	(22)	-	-	365
	1,560	(32)	830	-	2,358
	As at December 31, 2008	Exchange rate difference	Additions	Disposals	As at December 31, 2009
	\$	\$	\$	\$	\$
Land – plant sites	-	-	-	-	-
Plant and equipment					
- producing ⁽²⁾	4	(1)	35	-	38
- non-producing ⁽³⁾	229	-	-	-	229
Office equipment	858	(2)	30	-	886
Vehicles	296	1	32	-	329
	1,387	(2)	97	-	1,482
Net Book Value	173				876

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- ⁽¹⁾ Opening cost is comprised of the original cost of the asset, less write-downs, removal of cost for disposals and government grants.
- ⁽²⁾ The producing plant and equipment relates to the Blanket operation which recommenced gold production in April 2009.
- ⁽³⁾ Non-producing plant and equipment represents Zambian operations.

3. Mineral Properties

	COST				As at December 31, 2009 \$
	As at December 31, 2008 ⁽¹⁾ \$	Exchange rate difference \$	Additions \$	Impairment \$	
Producing:					
Blanket, Zimbabwe - gold	5,006	(716)	650	-	4,940
Non-producing - exploration:					
Rooipoort, South Africa	4,399	-	44	-	4,443
Goedgevonden, South Africa ⁽³⁾	-	-	-	-	-
Nama, Zambia ⁽⁴⁾	5,774	-	616	(1,434)	4,956
Mulonga, Zambia ⁽²⁾	-	-	-	-	-
	15,179	(716)	1,310	(1,434)	14,339
	ACCUMULATED AMORTIZATION				As at December 31, 2009 \$
	As at December 31, 2008 \$	Exchange rate difference \$	Additions \$	Disposals \$	
Producing:					
Blanket, Zimbabwe - gold	303	(62)	340	-	581
Non-producing - exploration:					
Rooipoort, South Africa	-	-	-	-	-
Goedgevonden, South Africa ⁽³⁾	-	-	-	-	-
Nama, Zambia	-	-	-	-	-
Mulonga, Zambia ⁽²⁾	-	-	-	-	-
	303	(62)	340	-	581
Net Book Value	14,876				13,758

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- (1) Opening cost is comprised of the original cost of the asset, less write-downs, removal of cost for disposals and government grants, and includes the capitalized value of the estimated asset retirement obligations.
- (2) The Corporation had entered into strategic alliances with a third party on a Zambian property (Mulonga) valued at \$0 (\$0 – 2008). The Zambian strategic alliance partner, Motapa Diamonds Inc., has terminated the strategic alliance agreement. The Corporation has applied for a retention licence over the properties. All interest in the strategic alliance will be transferred to the Corporation by Motapa Diamonds Inc. The Mulonga property was fully written down to \$Nil in 2008. It is still the Corporation's intention to form a joint venture with a new strategic partner.
- (3) The Goedgevonden property was also written down to \$Nil in 2008.
- (4) The 2008 opening cost has been increased by \$310 as a result of an under accrual of capitalised exploration expenditure that was only invoiced by the contractor in 2009 (Note 16).

The Nama property has been impaired by \$1,434 during 2009 to recognise the fact that "D" type anomalies are not considered being economically viable in the near term. All costs associated with exploring these anomalies have been identified and written off.

The recoverability of the carrying amount of the South African and Zambian mineral properties is dependent upon the availability of sufficient funding to bring the properties into commercial production, the price of the products to be recovered, the exchange rate of the local currency relative to the US dollar and the undertaking of profitable mining operations. As a result of these uncertainties, the actual amount recovered may vary significantly from the carrying amount.

4. Asset Retirement Obligation

	<u>2009</u>	<u>2008</u>
	\$	\$
Continuing operation	839	732
Accretion expense	25	19
Increase in asset retirement obligation	592	-
Foreign exchange loss (gain)	(50)	88
Closing balance – continuing operations	<u>1,406</u>	<u>839</u>
Discontinued operations		
Opening balance	314	311
Accretion expense	11	20
Sale of Barbrook Mine	-	(107)
Foreign exchange loss (gain)	(1)	90
Closing balance – held for sale	<u>324</u>	<u>314</u>

The asset retirement obligations relate to Blanket Mine \$1,406 (\$839 – 2008), and Eersteling Gold Mine \$324 (\$314 - 2008) and are estimates of costs of rehabilitation at the end of the mine life. The obligation at Eersteling is accreted at a rate of 5% per annum whilst at Blanket the accretion is within a range of 1.7% - 5%. The undiscounted obligation for the Blanket Mine is \$1,869 (\$1,280 - 2008). During the year the expected life of the Blanket Mine has been extended by one year.

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5. Shareholders Equity

(a) Share Capital

Authorized

An unlimited number of common shares

An unlimited number of preference shares.

Issued

	<u>Number of Shares</u>	<u>Amount</u>
		\$
Common shares		
Balance - December 31 , 2006	457,981,021	190,626
Warrants exercised (i)	29,888,259	4,380
Balance - December 31 , 2007	487,869,280	195,006
Issued pursuant to a private placement (ii)	12,300,000	1,119
Balance - December 31 , 2008 and 2009	500,169,280	196,125

- (i) In April and May 2007, shareholders holding 29,888,259 warrants at \$0.15 each exercised the warrants raising \$4,380 after expenses.
- (ii) In February 2008 the Corporation, in a private placement, raised \$1,119 after expenses from the sale of 12,300,000 units. Each unit consists of one common share and one common share purchase warrant at \$0.15 exercisable before February 21, 2009. These warrants expired unexercised on February 21, 2009.

(b) Stock Option Plans and Equity Based Compensation

The Corporation has established incentive stock option plans (the "Plans") for employees, officers, directors, consultants and other service providers. Under the current plan the maximum term of the options is 5 years. Under the Plans the aggregate number of shares that may be issued will not exceed 10% of the number of the shares issued of the Corporation and, as at December 31, 2009, the Corporation has the following options outstanding:

<u>Number of Options</u>	<u>Exercise Price-\$</u>	<u>Expiry Date</u>
9,450,000	0.235	April 24, 2012
210,000	0.260	April 29, 2014
4,000,000	0.110	February 15, 2015
300,000	0.125	May 11, 2016
1,300,000	0.1125	May 31, 2012
1,000,000	0.155	July 1, 2013
15,820,000	0.155	Mar 18, 2013
500,000	0.10	Mar 23, 2014
32,580,000	0.1706	

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The continuity of the options granted, exercised, cancelled and expired under the Plans during 2009, 2008 and 2007 are as follows:

	<u>Number of Options</u>	<u>Weighted Avg. Exercise Price</u> \$
Options outstanding at December 31, 2006	17,238,000	0.21
Forfeited or expired	(150,000)	(0.115)
Granted	200,000	0.11
Granted	1,300,000	0.1125
Options outstanding at December 31, 2007	18,588,000	0.198
Forfeited or expired	(1,778,000)	(0.28)
Granted	17,320,000	0.155
Options outstanding at December 31, 2008	34,130,000	0.173
Granted	500,000	0.155
Forfeited or expired	(2,050,000)	0.187
Options outstanding and exercisable at December 31, 2009	32,580,000	0.1706

The weighted average remaining contractual life of the outstanding options is 3.2 years (2008 – 4.1 years)

The options to purchase common shares noted above, have been granted to directors, officers, employees and service providers at exercise prices determined by reference to the market value of the common shares on the date of grant. The vesting of options is made at the discretion of the board of directors at the time the options are granted. As of December 31, 2009 there are 17,436,928 stock options available to grant.

It was announced in a press release on September 4, 2009 that the Board has approved a proposal to reduce the exercise price of 32,580,000 share purchase options currently outstanding from exercise prices averaging approximately \$0.1706 per share to \$0.07 per share. These share purchase options are in favour of directors, officers, and service providers. This reduction recognises the fact that the existing options are all substantially “out of the money” due to the reduced trading price of Caledonia’s shares which, in common with most other publicly traded shares, has been adversely affected by the recent economic and market downturn. The existing option arrangement no longer provides an incentive to directors, officers, and service providers and is the reason for this proposal. The Toronto Stock Exchange rules require that options with reduced exercise prices cannot be exercised at the reduced prices until the reduction has been approved by the shareholders. The reduction will be submitted to the shareholders for approval at the next general meeting of Caledonia’s shareholders.

During 2009, total equity based compensation expense of \$49 was charged to expense and credited to contributed surplus (2008 - \$862 and 2007 - \$51). The weighted average grant date fair value of equity based compensation was \$22 for the 500,000 fully vested options granted in 2009.

The fair value of compensation expenses noted above was estimated using the Black-Scholes Option Pricing Model with the following assumptions for the periods ended December 31, 2009, 2008 and 2007.

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	2009	2008	2007
Risk-free interest rate	2%	3%	3 – 4%
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	58-60%	55-62%	60 – 65%
Expected option life in years	5	5	3 – 5

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Corporation's stock options.

(c) Warrants

There are no common share purchase warrants pursuant to private placements which are outstanding as of December 31, 2009:

The continuity of warrants issued and outstanding is as follows:

	<u>Number of Warrants</u>
Outstanding December 31, 2006	85,115,885
Exercised	(29,888,259)
Expired	(39,790,000)
Outstanding December 31, 2007	15,437,626
Expired	(15,437,626)
Issued pursuant to private placement	12,300,000
Outstanding December 31, 2008	12,300,000
Expired	(12,300,000)
Outstanding December 31, 2009	-

Warrants expired unexercised on February 21, 2009.

(d) Contributed Surplus

	2009	2008
	\$	\$
Balance at beginning of year	1,902	1,040
Equity based compensation	49	862
Balance at end of year	1,951	1,902

(e) Accumulated Other Comprehensive Income

	2009	2008
	\$	\$
Investments revalued to fair value	50	3
Cumulative translation account	(600)	-
	(550)	3
Deficit	(180,784)	(176,834)
Balance at end of year	(181,334)	(176,831)

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6. Income Taxes

The following table reconciles the expected income tax expense at the Canadian statutory income tax rate to the amounts recognized in the consolidated statements of operations for continuing operations:

	2009	2008	2007
Income tax rate	33.0%	33.5%	36.12%
	\$	\$	\$
Income taxes (recovery) at statutory rate	(961)	(1,436)	(1,409)
Tax rate difference	405	259	541
Foreign currency difference	271	83	0
Permanent differences	220	87	36
Interest at special rates subject to withholding tax	-	-	5
Losses expired	1,192	(576)	216
Change in tax rate	1,322	186	1,153
Change in valuation allowance	(1,590)	1,397	(537)
Income tax	859	-	5

The following table reflects future income tax assets and liabilities and are classified as current and non-current according to the classification of the related asset or liability for financial reporting.

	2009	2008	2007
	\$	\$	\$
Future Tax Asset			
Current			
Zimbabwe			
Loss carried forward	23	-	-
Total current future tax asset	23	-	-
Less: Future tax liability	(23)	-	-
	-	-	-
Non-current			
Zimbabwe			
Loss carried forward	-	-	38
Rehabilitation costs	152	91	137
Other	33	507	71
South Africa			
Loss carried forward	947	798	678
Canada			
Loss carried forward	8,761	10,613	9,465
Other	70	304	178
Non-current future tax assets	9,963	12,313	10,567
Less: valuation allowance	(9,777)	(11,367)	(10,564)
Total Non-current future tax asset	186	946	3
Less: Future tax liability	(186)	(946)	(3)
	-	-	-
Future tax liability			
Zimbabwe			
Capital assets and mineral	(1,068)	(597)	(3)
Other	-	(349)	-
Total future tax liability	(1,068)	(946)	(3)
Less: Future tax assets	209	946	3
Net future tax liability	859	-	-

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The Corporation has available tax losses for income tax purposes of approximately \$35,630 (2008 - \$36,985 and 2007 - \$32,830) in Canada and South Africa which may be carried forward to reduce taxable income derived in future years.

The expiry of these losses is as follows:

<u>Year</u>	<u>Amount</u>
	\$
2029	1,630
2028	2,260
2027	3,054
2026	2,780
2015	1,863
2014	1,583
2010	18,984
No expiry	3,476
	<u>35,630</u>

A valuation allowance has been provided as the potential income tax benefits of these carry-forward non-capital losses and deductible temporary differences and the realization thereof is not considered “more likely than not”.

The Corporation also has approximately \$70,713 in capital losses which can be applied to reduce future capital gains. The right to claim these capital losses is carried forward indefinitely but can only be claimed against capital gains. The Corporation also has the following expenses which are available to be applied against future income for income tax purposes:

Canadian exploration and development expenses	7,560
Foreign exploration and development expenses	1,811

For discontinued operations, the Corporation’s effective tax rate, which differs from the Canadian statutory income tax rate, may be reconciled as follows:

	<u>2009</u>	2008	2007
	\$	\$	\$
Basic rate applied to pre-tax loss	(59)	(219)	(256)
Losses and other benefits not recognised	59	219	256
	<u>-</u>	<u>-</u>	<u>-</u>

7. Net Income/(Loss) Per Share

The net income/(loss) per share figures have been calculated using the weighted average number of common shares outstanding during the respective fiscal years which amounted to 500,169,280 (2008 - 498,450,650; 2007 - 477,930,290;). Fully diluted income/(loss) per share have not been calculated as it would be anti-dilutive. The fully diluted number of shares amounts to 500,129,280 (2008 - 499,217,712 and 2007 - 478,553,886). This is the same as the outstanding shares as all the options are out of the money.

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8. Other Expense (Income)

Other expense (income) is comprised of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
Adjustment to RBZ Gold Bond (Note 10)	2,502	526	-
Reclassification adjustment for other than temporary decline in value of short term investments held for sale.	-	70	-
Royalty paid to the Government of Zimbabwe	240	-	-
Other	-	(5)	(17)
	<u>2,742</u>	<u>591</u>	<u>(17)</u>

9. Statement of Cash Flows

Items not involving cash are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
Amortization	436	397	18
Asset retirement obligation accretion	36	39	35
Equity based compensation expense	49	862	51
Blanket long term liability	-	(11)	-
Write down of mineral properties	1,434	1,168	750
Reclassification adjustment for other than temporary decline in value	-	70	-
Write down of Gold Bond	2,502	⁽¹⁾ -	-
Current year future tax charge	859	-	-
Interest accrued RBZ bond	(280)	-	-
Unrealised foreign exchange differences	(207)	(297)	54
	<u>4,829</u>	<u>2,228</u>	<u>908</u>

⁽¹⁾ 2008 fair value adjustment of \$526 included in net changes in Accounts Receivable below.

The net changes in non-cash operating account balances for operations are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
Accounts payable	1,311	(1,614)	(1,832)
Accounts receivable	(1,550)	⁽¹⁾ (423)	(651)
Inventories	(1,814)	1,026	3,653
Prepaid expenses	132	(10)	44
Assets held for sale	4	(28)	104
	<u>(1,917)</u>	<u>(1,049)</u>	<u>1,318</u>

Supplemental cash flow Information:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
Interest paid	95	103	485
Interest received	(79)	(488)	(31)
Withholding tax paid Zimbabwe	-	-	5

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10. Accounts Receivable

In the monetary policy statement announced by the Governor of the Reserve Bank of Zimbabwe (“RBZ”) in February 2009, the debt owing by RBZ to Blanket Mine was converted into a Special Tradable Gold-Backed Foreign Exchange Bond, with a term of 12 months and an 8% interest rate.

The Bond plus interest is guaranteed by RBZ on maturity. The Corporation was unable to sell the Bond at an acceptable discount rate during 2009 and the RBZ has not redeemed the Bond on the maturity date of February 1, 2010 but has extended the maturity date until July 31, 2010. As a result of the uncertain redemption date of the Bond it has been classified as a long term asset in 2009.

Following further unsuccessful attempts to sell the Bond the Corporation has made a provision against the Bond value to record it at an estimated recoverable amount. In arriving at the recoverable amount the Corporation has considered the likelihood of cash being available to the RBZ to redeem the Bond over a range of periods. The Corporation believes the Bond will be repaid in due course but the timing is uncertain at this time. In arriving at this recoverable amount the Corporation has estimated the weighted average probability of the Bond being redeemed over periods of up to 5 years and applied a discount factor of 43%.

	2009	(1)2008
	\$	\$
Estimated recoverable amount	810	2,890
(1) 2008 at fair value		

11. Inventory

Inventory is comprised of gold in circuit at Blanket and consumable stores utilised by Blanket Mine.

	2009	2008
	\$	\$
Inventory items as at December 31		
Consumable stores	2,092	1,059
Gold in circuit	497	-
Total	2,589	1,059

The Corporation has a provision for slow moving inventory of \$724 (2008 - \$700) related to its consumable stores at Blanket Mine.

The components of operating costs were as follows

	2009	2008	2007
	\$	\$	\$
Wages	3,194	1,510	3,125
Consumable materials (including amounts written down)	3,222	2,527	5,311
Asset retirement obligation	28	19	36
Exploration	68	-	-
Administration and safety	1,711	382	1,273
Total	8,223	4,438	9,745

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12. Bank Overdraft

	<u>2009</u>	<u>2008</u>
	\$	\$
Bank Overdraft	588	-

The bank overdraft facility of US\$1.25 million bears interest at 6% above the 30 day LIBOR rate. The facility is unsecured and valid for a 180 day period which is renewable. The facility is repayable on demand.

13. Related Party Transactions

The Corporation had the following related party transactions measured at the exchange amount:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
Fees and allowances paid to a Corporation which provides the services of the Corporation's president	558	635	560
Rent for office premises paid to a company owned by members of the President's family	50	43	46
Interest paid to directors on outstanding fees and expenses	-	4	-
Other fees paid to Directors	62	65	19
Legal fees paid to a law firm where a Director is a partner	53	117	85
Fees, allowances and interest paid to the Chairman of the Board	150	334	46

The Corporation has entered into a management agreement with Epicure Overseas S.A. ("Epicure"), a Panamanian corporation, for management services provided by the president. The Corporation is required to pay a base annual remuneration adjusted for inflation and bonuses set out in the agreement. In the event of a change of control of the Corporation, Epicure can terminate the agreement and receive a lump sum payment equal to 200% of the remuneration for the year in which the change occurs.

On January 31, 2005, the Corporation entered into an agreement (the "Chairman's Agreement") with the Corporation's Chairman for services as the non-executive Chairman of the board of directors of the Corporation. The Chairman's Agreement provides for the payment of an annual fee and a fee for services provided by the Chairman. The Chairman's Agreement provides that the fees will be reviewed annually by the Chairman and the Corporation's compensation committee with the object that the parties will bona fide negotiate any changes in the fees. The Chairman's Agreement was reviewed by the Chairman and the compensation committee for the 2009 year.

These related party transactions were in the normal course of operations and are recorded at the exchange amount. The Corporation has the following related party balances:

	<u>2009</u>	<u>2008</u>
	\$	\$
Included in accounts payable		
- owing to a Corporation that provides the services of the Corporation's President	-	85
- owing to directors for unpaid salaries and directors' fees	172	220

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14. Segmented Financial Information

The Corporation has been engaged directly or through subsidiaries in the production of and the exploration for precious metals in various geographical locations.

The Corporation's operating segments have been identified based on geographic areas as follows:

For the year ended December 31, 2009

	<u>Corporate</u>	<u>Zimbabwe</u>	<u>South Africa</u>	<u>Zambia</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Revenue from sales	3	11,556	-	-	11,559
Operating costs	-	(7,374)	(849)	-	(8,223)
General and administrative	(1,750)	(221)	(176)	-	(2,147)
Interest income	77	184	3	-	264
Amortization	-	(412)	(24)	-	(436)
Foreign exchange gains/(loss)	(14)	(103)	390	(25)	248
Write down of mineral property	-	-	-	(1,434)	(1,434)
Other income (expense)	-	(2,742)	-	-	(2,742)
Income (loss) for continuing operations	(1,684)	888	(656)	(1,459)	(2,911)
Discontinued operations (loss)	-	-	(180)	-	(180)
Income tax expense	-	(859)	-	-	(859)
Net income (loss) for the year	(1,684)	29	(836)	(1,459)	(3,950)
Identifiable assets – continuing operations	1,217	10,231	4,925	4,945	21,318
Identifiable assets – discontinued operations	-	-	772	-	772
operations Capital and Current assets	-	860	71	616	1,547
Expenditures on capital assets & mineral properties continuing operations	-	860	71	616	1,547

For the year ended December 31, 2008

	<u>Corporate</u>	<u>Zimbabwe</u>	<u>South Africa</u>	<u>Zambia</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Revenue from sales	12	7,684	-	-	7,696
Operating costs	-	(3,855)	(583)	-	(4,438)
General and administrative	(3,670)	(73)	(153)	-	(3,896)
Interest income	299	78	8	-	385
Amortization	-	(381)	(16)	-	(397)
Foreign exchange gains/(loss)	237	(1,899)	(102)	(112)	(1,876)
Write down of mineral property	-	-	(124)	(1,044)	(1,168)
Other income (expense)	(70)	(526)	5	-	(591)
Income (loss) for continuing operations	(3,192)	1,028	(965)	(1,156)	(4,285)
Discontinued operations (loss)	-	-	(655)	-	(655)
Income tax expense	-	-	-	-	-
Net income (loss) for the year	(3,192)	1,028	(1,620)	(1,156)	(4,940)
Identifiable assets – continuing operations	3,658	8,798	4,597	5,817	22,870
Identifiable assets – discontinued operations	-	-	787	-	787
operations Capital and Current assets	-	-	787	-	787
Expenditures on capital assets & mineral properties continuing operations	-	90	253	2,680	3,023

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For the year ended December 31, 2007

	<u>Corporate</u>	<u>Zimbabwe</u>	<u>South Africa</u>	<u>Zambia</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Revenue from sales	5	10,034	-	-	10,039
Operating costs	-	(9,288)	(457)	-	(9,745)
General and administrative	(1,697)	(151)	(275)	-	(2,123)
Interest income (expense)	5	(316)	2	-	(309)
Amortization	-	(4)	(14)	-	(18)
Write off of mineral property	(750)	-	-	-	(750)
Other income (expense) incl. foreign exchange gains/(loss)	(6)	(1,811)	786	36	(995)
Income (loss) for continuing operations	(2,443)	(1,536)	42	36	(3,901)
Discontinued operations (loss)			(709)		(709)
Income tax expense		(5)			(5)
Net income (loss) for the year	(2,443)	(1,541)	(667)	36	(4,615)
Identifiable assets – continuing operations	106	9,257	4,415	4,124	17,902
Identifiable assets – discontinued operations Capital and Current assets	-	-	11,590	-	11,590
Expenditures on capital assets & mineral properties continuing operations	-	616	164	2,470	3,250

15. Contingent Liabilities

In the Share Sale Agreement dated May 12, 2006 pursuant to which the Corporation purchased 100% of the shares of Blanket, the Corporation agreed that it would, as soon as reasonably practicable after the Closing of the Agreement, cause Blanket to implement a share incentive scheme considered by the Directors to be in the best interests of Blanket, pursuant to which a percentage of the shares of Blanket will be deposited in a Trust for the benefit of the management and employees of Blanket. As at December 31, 2009 no scheme had been established, nor were any shares of Blanket deposited in a Trust for the purposes of such a scheme. The Corporation and the Board of Directors of Blanket have delayed the establishment of the required scheme pending clarity of the anticipated Zimbabwe laws relating to the indigenization of the mining industry, as it is recognized that the Zimbabwean laws when enacted, will likely have a material impact on the structure of the proposed scheme and the percentage of the issued shares of Blanket required to be put into trust for the purposes of the scheme.

The Corporation and its subsidiaries are subject to various claims that arise in the normal course of business. Management believes that the aggregate contingent liability of the Corporation arising from these claims is immaterial and therefore no provision has been made.

16. Comparative Figures

Comparative figures for 2008 have been restated due to an under accrual in 2008 of capitalised mineral property exploration costs and the respective liability. The under accrual occurred due to late invoicing by the contractor for work performed in November and December 2008. The effect was that mineral property was increased by \$310, accounts receivable for VAT was increased by \$49 and accounts payable was increased by \$359.

In addition the prior period figures have been reclassified to conform to the current presentation.

Caledonia Mining Corporation

Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)

December 31, 2009, 2008 and 2007

17. Financial Risk Exposure and Risk Management

The Corporation is exposed in varying degrees to a variety of financial instrument related risks by virtue of its activities. The overall financial risk management program focuses on preservation of capital, and protecting current and future Corporation assets and cash flows by reducing exposure to risks posed by the uncertainties and volatilities of financial markets.

The Board of Directors has responsibility to ensure that an adequate financial risk management policy is established and to approve the policy. The Corporation's Audit Committee oversees management's compliance with the Corporation's financial risk management policy.

The fair value of the Corporation's financial instruments approximates their carrying value unless otherwise noted. The types of risk exposure and the way in which such exposures are managed are as follows:

(a) Currency Risk

As the Corporation operates in an international environment, some of the Corporation's financial instruments and transactions are denominated in currencies other than the Canadian Dollar. The results of the Corporation's operations are subject to currency transaction risk and currency translation risk. The operating results and financial position of the Corporation are reported in Canadian dollars in the Corporation's consolidated financial statements.

The fluctuation of the Canadian dollar in relation to other currencies will consequently have an impact upon the profitability of the Corporation and may also affect the value of the Corporation's assets and the amount of shareholders' equity.

As noted below, the Corporation has certain financial assets and liabilities denominated in foreign currencies. The Corporation does not use any derivative instruments to reduce its foreign currency risks. Below is a summary of the cash or near cash items denominated in a currency other than the Canadian dollar that would be affected by changes in exchange rates relative to the Canadian dollar. The values are the Canadian dollar equivalent of the respective asset or liability that is denominated in a currency other than the Canadian dollar.

	2009		2008	
	US Dollars	SA Rand	US Dollars	SA Rand
Cash	1,230	40	1	1,386
Bank overdraft	588	-	-	-
Accounts receivable	2,122	233	3,187	197
Accounts payable	1,658	689	-	64

The table below illustrates by how much a 5% change in the rate of exchange between the Canadian dollar and the currencies above will affect net income.

	2009		2008	
	US Dollars	SA Rand	US Dollars	SA Rand
Cash	59	2	-	69
Bank overdraft	29	-	-	-
Accounts receivable	106	11	159	10
Accounts payable	83	33	-	3

Caledonia Mining Corporation

Notes to the Consolidated Financial Statements

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(b) Interest Rate Risk

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates.

Unless otherwise noted, it is the opinion of management that the Corporation is not exposed to significant interest rate risk as it is debt free apart from short term borrowings utilized in Zimbabwe. The Corporation's cash and cash equivalents include highly liquid investments that earn interest at market rates. The Corporation manages its interest rate risk by endeavoring to maximize the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Corporation's policy focuses on preservation of capital and limits the investing of excess funds to liquid term deposits in high credit quality financial institutions.

Cash held in foreign banks is subject to the interest rates ruling in those particular countries and this can have an effect on the results of the Corporation due to higher interest rates being paid in African countries compared to Canada. Cash held in interest bearing accounts amounted to \$1,622 (\$3,451-2008) and short term borrowings in Zimbabwe were \$588 (Nil – 2008). At December 31, 2009, with all other variables unchanged, a 1% change in interest rates would result in an increase of interest expense of \$6 (\$35 income – 2008).

The interest payable by RBZ on the Bonds is subject to the same recovery risk as the principle amount. The estimated recoverable amount includes a discounted amount for interest receivable on the Bond.

Fluctuations in market interest rates have not had a significant impact on the Corporation's results of operations.

(c) Concentration of Credit Risk

Credit risk is the risk of a financial loss to the Corporation if a gold sales customer fails to meet its contractual obligation. Credit risk arises principally from the Corporation's Gold Bonds payable by the RBZ as the amount owing by the RBZ is no longer increasing as gold is no longer sold to the RBZ. Future credit exposure to RBZ is limited to the recovery of the value of the Gold Bonds.

Current gold sales are made to Rand Refineries in South Africa and the payment terms are stipulated in the service delivery contract and are adhered to in all instances.

(d) Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due.

The Corporation manages its liquidity by ensuring that there is sufficient capital to meet its likely cash requirements, after taking into account cash flows from operations and the Corporation's holdings of cash and cash equivalents. The Corporation believes that these sources will be sufficient to cover the anticipated cash requirements. Senior management is also actively involved in the review and approval of planned expenditures by regularly monitoring cash flows from operations and anticipated investing and financing activities.

Since the inception of dollarization in Zimbabwe certain insurance cover has been reinstated. The Zimbabwean operations are now covered for Public Liability risk and Comprehensive cover on all

Caledonia Mining Corporation

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motor vehicles. Further insurance cover is currently under review.

(e) Commodity Price Risk

The value of the Corporation's mineral resource properties is related to the price of gold, platinum and cobalt, and the outlook for these minerals. In addition, adverse changes in the price of certain raw materials can significantly impair the Corporation's cash flows.

Gold prices historically have fluctuated widely and are affected by numerous factors outside of the Corporation's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and macro-economic variables, and certain other factors related specifically to gold.

As Blanket has a license to export its gold to a refiner of its choice it is paid full value in USD for the gold sold.

18. Capital Management

The Corporation's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the mining operations and exploration potential of the mineral properties.

The Corporation's capital includes shareholder's equity, comprising issued common shares, contributed surplus, accumulated deficit and accumulated other comprehensive income.

The Corporation's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to maintain its ongoing operations, to provide returns for shareholders, accommodate any asset retirement obligation and to pursue growth opportunities.

In order to maximize ongoing exploration efforts, the Corporation does not pay dividends.

As at December 31, 2009, the Corporation is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy.

Shareholders' Equity

	<u>As at December 31, 2009</u>	As at December 31, 2008
Issued common shares	196,125	196,125
Contributed surplus	1,951	1,902
Accumulated Other comprehensive income/(loss)	(550)	3
Deficit	(180,784)	(176,834)
Total	<u>16,742</u>	<u>21,196</u>

The increase in accumulated other comprehensive loss is attributable to the adoption of the current rate method of translation of the Zimbabwean operations from US dollars into Canadian dollars as explained in Foreign Currency Translations policy. During 2009 \$600 (Nil 2008) was charged to other comprehensive income as a result of the translation of Blanket.

Caledonia Mining Corporation

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19. Defined Contribution Plan

Under the terms of the Mining Industry Pension Fund ("Fund") in Zimbabwe eligible employees contribute a fixed percentage of their eligible earnings to the Fund. Blanket makes a matching contribution plus an inflation levy as a fixed percentage of eligible earnings of these employees. The total contribution by Blanket for the year ended December 31, 2009 was \$121.

20. Subsequent Events

Zimbabwe Monetary Policy announcement.

In January 2010, the Governor of RBZ announced that the Special Tradable Gold-backed Foreign Exchange Bonds ("Bond") that were created in February 2009 would not be repaid on maturity date of February 1, 2010 but would be rolled over until July 31, 2010.

As a consequence of this action and the lack of a market for the sale of the Bond an estimated recoverable amount has been calculated for the Bond due to the uncertainty of the eventual timing of redemption (see Note 10).

Zimbabwean Indigenization.

In 2008 the Zimbabwean parliament passed the Indigenization and Economic Empowerment Act 2007 ("Act") that stipulated that 51% ownership of all companies had to reside in the hands of Indigenous Zimbabwean citizens. In February 2010, Statutory Instrument 21 of 2010 was released which dealt with the regulations around the implementation of the Act. In terms of the regulations Blanket will have to submit an implementation plan which outlines how Blanket proposes to comply with the requirements of the Act within a 5 year period. The release of the Statutory Instrument has drawn substantial criticism and sector organisations are making representations to Government on the indigenisation issue.

Blanket will continue to monitor the situation and is consulting widely on this issue.

21. Generally Accepted Accounting Principles in Canada and the United States

The Corporation's accounting policies do not differ materially from accounting principles generally accepted in the United States ("US GAAP") except for the following:

(a) Mineral Properties

US GAAP requires that expenditures on mineral properties with no proven reserves be reflected as expenses in the period incurred.

Comparative figures for 2008 have been restated due to an under accrual in 2008 of capitalized mineral property expenditure costs and the respective liability. The effect under US GAAP was that mineral property expenditure reflected as an expense was increased by \$310, accounts receivable for VAT was increased by \$49, accounts payable was increased by \$359 and the net loss for 2008 was increased by \$310. There was no effect on the loss per share amounts.

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(b) Employee and Directors Stock Options

Effective January 1, 2003, the Corporation has, for US reporting purposes, prospectively applied the fair-value recognition provisions of Accounting Standards Codification Topic 718. Under Canadian GAAP, effective January 1, 2002 on a prospective basis, the Corporation adopted the CICA policy of accounting for stock based compensation. Prior to adoption no compensation expense on stock options granted to directors, officers and employees, was recorded. However, disclosure of the effects of accounting for the compensation expense, utilizing the fair value method estimated using the Black-Scholes Option Pricing Model, was disclosed as pro-forma information. For 2002, a compensation expense was shown reflecting the intrinsic value attributable to stock options granted to directors, officers and employees.

Under Canadian GAAP, effective January 1, 2003 on a prospective basis, the Corporation commenced the expensing of all stock based compensation for new stock option grants applying the fair value method estimated by using the Black-Scholes Option Pricing Model.

(c) Warrants

In 2007 the expiry period of certain warrants was extended. Under US GAAP the fair value of the warrants extended are considered to be a benefit awarded to certain shareholders. This would be considered to be a deemed dividend to these shareholders. The fair value of the warrants was calculated using the Black-Scholes Option Pricing Model. The assumptions used in the calculation are: Risk free interest rate – 3%; Expected dividend yield – nil; Expected stock volatility – 62%; Expected warrant life in years – 0.178.

Recently Issued United States Accounting Standards

Effective July 1, 2009, the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) became the single official source of authoritative, non-governmental U.S. GAAP. The historical U.S. GAAP hierarchy was eliminated and the ASC became the only level of authoritative U.S. GAAP, other than guidance issued by the SEC. The Corporation’s accounting policies were not affected by the conversion to ASC.

Business Combinations

In April 2009, the FASB issued a pronouncement on what is now codified as ASC Topic 805, *Business Combinations*. This pronouncement issued authoritative guidance on accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies, which amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under previously issued guidance. The authoritative guidance requires that such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. The new guidance is effective as of the beginning of an entity’s fiscal year that begins after December 15, 2008, and was adopted by the Corporation on January 1, 2009. The adoption of this new guidance had no material impact on the Corporation’s financial position, results of operations or cash flows.

Financial instruments

In April 2009, the FASB issued a pronouncement on what is now codified as ASC Topic 825, *Financial Instruments*. This pronouncement issued new accounting guidance addressing the interim disclosures

Caledonia Mining Corporation

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about the fair value of financial instruments, which amended the previous disclosures regarding the fair value of financial instruments, and interim financial reporting. This new guidance requires disclosures

about the fair value of financial instruments in interim financial statements, in addition to the annual financial statements as already required. This new accounting guidance became effective for interim periods ending after June 15, 2009. The adoption of this new guidance had no material impact on the Corporation's financial position, results of operations or cash flows.

Subsequent Events

In May 2009, the FASB issued a pronouncement on what is now codified as ASC Topic 855, *Subsequent Events*. This pronouncement issued authoritative guidance in accounting for subsequent events which establishes general standards of accounting for and disclosures of events that occur after balance sheet date but before financial statements are issued or are available to be issued.

Specifically, ASC Topic 855 provides:

- The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements;
- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and
- The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

This accounting guidance was effective for interim or fiscal periods ending after June 15, 2009 and was adopted by the Corporation during the quarter ended June 30, 2009. This guidance did not have a material impact on the Corporation's financial position, results of operations, or cash flows.

The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

In June 2009, the FASB issued ASC Topic 105-10, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*" which established the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative GAAP to be applied by nongovernmental entities. The Codification is a new structure which took existing accounting pronouncements and organized them by accounting topic. Relevant authoritative literature issued by the Securities and Exchange Commission ("SEC") and select SEC staff interpretations and administrative literature was also included in the Codification. All other accounting guidance not included in the Codification is non-authoritative. The Codification was effective for interim and annual periods ending after September 15, 2009. The adoption of the Codification did not have an impact on the Corporation's consolidated financial position, results of operations or cash flows.

Measuring Liabilities at Fair Value

On August 28, 2009, the FASB issued Accounting Standards Update ("ASU") 2009-05, *Measuring Liabilities at Fair Value*. The ASU provides guidance on how to measure the fair value of liabilities when observable market information is not available. If a quoted price in an active market for an identical liability is available it should be used to value the liability. In circumstances when a quoted

Caledonia Mining Corporation

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price in an active market for an identical liability is not available, the ASU requires that the fair value of the liability be measured using one or more of the following techniques:

- A valuation technique that uses:
 - The quoted price of the identical liability when traded as an asset
 - Quoted prices for similar liabilities or similar liabilities when traded as assets
- Another valuation technique that is consistent with the principles of ASC Topic 820, *Fair Value Measurements and Disclosures*, such as an income approach or a market approach.

When using the quoted price of an identical liability when traded as an asset, an entity:

- Should adjust for factors that are not applicable to the fair value of the asset price of the liability (e.g., the quoted price of the asset includes the effect of third-party credit guarantees)
- Should not adjust the asset price for the effect of a restriction preventing the sale of the asset.

If a quoted price for an identical liability when traded as an asset in an active market is available, the asset price is considered to be a Level 1 fair value measurement for the liability, provided that no adjustment(s) to the quoted price of the asset is required.

The ASU is effective for the first reporting period (including interim periods) beginning after issuance. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Corporation's financial position, results of operations, or cash flows

Fair Value Measurements and Disclosures

On November 1, 2009, the Corporation adopted authoritative guidance for fair value measurements which is now codified as ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This authoritative guidance addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. The adoption of this guidance did not have a material impact on the Corporation's financial position, results of operations, or cash flows.

Other recent accounting pronouncements

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the United States Securities and Exchange Commission did not or are not believed to have a material impact on the Corporation's present or future consolidated financial position.

Caledonia Mining Corporation

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The impact of the foregoing on the consolidated financial statements is as follows:

(a) Statement of operations and comprehensive income	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
		(Restated Note 16)	
Loss for continuing operations per Canadian GAAP	(3,770)	(4,285)	(3,906)
Mineral property expenditure with no proven reserves (expensed) or previously expensed under US GAAP	774	(2,188)	(2,633)
Net income (loss) from continuing operations	(2,996)	(6,473)	(6,539)
Loss from discontinued operations	(180)	(655)	(709)
Net income (loss)	(3,176)	(7,128)	(7,248)
Deemed Dividend	-	-	(134)
Net income (loss) available for common shareholders	(3,176)	(7,128)	(7,382)
Net income (loss)	(3,176)	(7,128)	(7,248)
Other comprehensive (loss)/gain	47	60	(88)
Translation loss at Blanket Mine	(600)	-	-
Total comprehensive loss	(3,729)	(7,068)	(7,336)
Basic and diluted income/(loss) per share continuing operations	(0.006)	(0.013)	(0.01)
Basic and diluted income/(loss) per share discontinued operations	(0.000)	(0.001)	(0.00)
Basic and diluted income/(loss) per share for the year	(0.006)	(0.014)	(0.01)
 (b) Balance Sheets			
	<u>2009</u>	<u>2008</u>	
	\$	\$	
		(Restated Note 16)	
Total assets per Canadian GAAP	22,090	23,657	
Mineral properties with no proven reserves expensed	(9,399)	(10,173)	
Total assets per US GAAP	12,691	13,484	
 Total liabilities per Canadian and US GAAP	 5,348	 2,461	
 Shareholders' equity			
Shareholders' equity per Canadian GAAP	16,742	21,196	
Mineral properties with no proven reserves expensed	(9,399)	(10,173)	
Shareholders' equity per US GAAP	7,343	11,023	
 Total liabilities & shareholder's equity per US GAAP	 12,691	 13,484	

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(c) Statement of Cash Flows

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
Cash provided by (used in)		(Restated Note 16)	
Operating activities for continuing operations per Canadian GAAP	(858)	(3,106)	(1,680)
Mineral properties expenditure by continuing operations	(660)	(2,188)	(2,633)
Operating activities per US GAAP	(1,518)	(5,294)	(4,313)
Investment activities for continuing operations per Canadian GAAP	(1,547)	6,336	(3,250)
Mineral properties expenditure	660	2,188	2,633
Investment activities per US GAAP	(887)	8,524	(617)
Financing Activities per Canadian and US GAAP	588	1,106	4,393
Effects of foreign currency translations on cash per Canadian and US GAAP	(35)	(112)	(7)
Increase (decrease) in cash for continuing operations	(1,852)	4,224	(544)
Cash flow from discontinued operations per Canadian and US GAAP			
Operating activities	(179)	(646)	(680)
Investment activities	-	-	-
Financing activities	-	-	6
Effects of foreign currency translations on cash	-	-	(4)
Decrease in cash from discontinued operations	(179)	(646)	(678)
Increase (decrease) in cash for the year	(2,031)	3,578	(1,222)
Cash and cash equivalents, beginning of year	3,654	76	1,298
Cash and cash equivalents, end of year	1,623	3,654	76
Cash and cash equivalents at end of year relate to:			
Continuing operations	1,622	3,652	76
Discontinued operations	1	2	-
	1,623	3,654	76

Directors and Management at March 31, 2010

BOARD OF DIRECTORS

G.R. Pardoe (1) (2) (3) (4)(5)
*Chairman of the Board,
Johannesburg, South Africa*

S. E. Hayden(3) (5)
*President and Chief Executive Officer
Johannesburg, South Africa*

J. Johnstone
*Retired Mining Engineer
Gibsons, British Columbia, Canada*

F C. Harvey (1)
*Retired Executive
Oakville, Ontario, Canada*

C. R. Jonsson (2) (3) (5)
*Principal of Tupper Jonsson & Yeadon
Barristers & Solicitors
Vancouver, British Columbia,
Canada*

R. W. Babensee (1) (2)
*Chartered Accountant - Retired
Toronto, Ontario, Canada*

S. R. Curtis (5)
*Vice-President Finance and Chief Financial officer
Johannesburg, South Africa*

OFFICERS

G.R. Pardoe (1) (2) (3) (4)(5)
*Chairman of the Board,
Johannesburg, South Africa*

S. E. Hayden(3) (5)
*President and Chief Executive Officer
Johannesburg, South Africa*

S. R. Curtis (5)
*Vice-President Finance and Chief Financial officer
Johannesburg, South Africa*

Dr. T. Pearton
*Vice President Exploration
Johannesburg, South Africa*

J.M. Learmonth
*Vice-President Business Development
Johannesburg, South Africa*

BOARD COMMITTEES

- (1) Audit Committee
- (2) Compensation Committee
- (3) Corporate Governance Committee
- (4) Nominating Committee
- (5) Disclosure Committee

CORPORATE DIRECTORY**CORPORATE OFFICES****Canada - Head Office****Caledonia Mining Corporation**

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Saxonwold 2132

South Africa

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Zambia

Caledonia Mining (Zambia) Limited

P.O. Box 36604

Lusaka, Zambia

Tel:(260)(1) 29-1574 Fax(260)(1) 29-2154

Zimbabwe**Caledonia Holdings Zimbabwe (Limited)**

P.O. Box CY1277

Causeway, Harare

Zimbabwe

Tel: (263) (4) 701 152/4 Fax: (263)(4) 702 248

CAPITALIZATION at March 31, 2010

Authorised: Unlimited

Shares, Warrants and Options Issued:

Common Shares: 500,169,280

Warrants: Nil

Options: 32,580,000

SOLICITORS**Tupper, Jonsson & Yeadon**

1710-1177 West Hastings St, Vancouver,

British Columbia V6E 2L3 Canada

Borden Ladner Gervais LLP

Suite 4100, Scotia Plaza

40 King Street West

Toronto, Ontario M5H 3Y4 Canada

AUDITORS

BDO Canada LLP

Chartered Accountants

Suite 3300, 200 Bay Street

Royal Bank Plaza, South Tower

Toronto, Ontario M5J 2J8 Canada

REGISTRAR & TRANSFER AGENT

Equity Transfer Services Inc.

Suite 400 200 University Ave.

Toronto, Ontario M5H 4H1 Canada

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SHARES LISTED

Toronto Stock Exchange Symbol "CAL"

NASDAQ OTC BB Symbol "CALVF"

London "AIM" Market Symbol "CMCL"

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