

Financial – C\$ 000's	2009	2008 ⁽³⁾ (restated)	2007	2006	2005 ⁽⁴⁾
Revenue from Sales	11,559	7,696	10,039	13,586	6
Gross Operating Profit (Loss)	3,336	3,258	294	5,014	(751)
Expense - (General and administration, interest, amortization and foreign exchange including provisions and impairments)	(6,247)	(7,543)	(4,195)	(2,047)	(2,997)
Net Profit (Loss) – before write-downs, tax and discontinued operations	1,025	(3,117)	(3,901)	2,967	(3,748)
Loss from discontinued operations	(180)	(655)	(709)	(7,990)	(5,932)
Net (Loss)	(3,950)	(4,940)	(4,615)	(5,675)	(9,680)
Cash	1,622	3,652	76	1,252	1,076
Current Assets	5,917	5025	4,408	8,773	2,264
Assets	22,090	23,657 ⁽³⁾	29,492	31,456	22,338
Current Liabilities	2,759	1,308 ⁽³⁾	4,343	5,899	2,589
Long Term Liabilities	2,589	1,153	1,054	1,221	377
Working Capital Surplus/(Deficiency)	3,158	3,717	65	2,874	(325)
Shareholders' Equity	16,742	21,196	24,095	24,336	19,372
Total Capital Expenditures including Mineral Properties	1,547	3,023	3,250	3,579	5,284
Expenditures on Mineral Properties excluding asset retirement obligation	660	2,898 ⁽³⁾	2,633	659	2,583
Financing Raised	588	1,119	4,380	7,559	6,588
Market Capitalization (\$ Thousands)	32,508	32,511	53,666	45,798	42,632
Shares Outstanding (Thousands)	500,169	500,169	487,869	457,981	370,715
Warrants & Options (Thousands)	32,580	46,430	34,026	102,354	34,748
Basic and diluted eps from continuing operations	(0.008)	(0.009)	(0.008)	0.005	(0.012)
Basic and diluted eps from discontinued operations	(0.000)	(0.001)	(0.001)	(0.018)	(0.019)
Basic and diluted eps for the year	(0.008)	(0.010)	(0.009)	(0.013)	(0.031)
TSE Share Price High	0.095	0.20	0.23	0.23	0.18
TSE Share Price Low	0.05	0.03	0.09	0.095	0.10
TSE Share Volume (Thousands)	99,885	119,534	101,156	132,323	61,214
NASDAQ Share Price High (US\$)	0.084	0.205	0.20	0.204	0.15
NASDAQ Share Price Low (US\$)	0.045	0.03	0.074	0.082	0.08
NASDAQ Share Volume (Thousands)	79,107	170,944	194,192	212,028	105,151
AIM Share Price High (pence)	0.062	10.0	8.0	13.0	6.25
AIM Share Price Low (pence)	0.025	2.5	4.1	4.9	4.50
AIM Share Volume (Thousands)	1,031	2,099	8,710	12,162	856
Gold Production (Ounces) ⁽²⁾	11,027	7,687	13,985	12,437	4,951
Silver Production (Ounces)	1,225	635	1,332	1,038	264
Year End estimated Gold Reserve (Thousand Ounces) – Blanket	465	465	441	500	-

(1) Restated to reflect the discontinued operations nature of Barbrook and Eersteling Mines

(2) 2006 to 2008 reflects Blanket only, 2005 and before are historical numbers reflecting Barbrook and Eersteling Mines

(3) The 2008 figures have been restated to reflect an under accrual of \$310 of uncapitalized exploration expenses plus \$49 for vat.

CALEDONIA MINING CORPORATION as at March 15, 2010

Management's Discussion and Analysis

This discussion and analysis of the consolidated operating results and financial condition of Caledonia Mining Corporation ("Caledonia" or "the Corporation") for the fiscal year ended December 31, 2009, and the period ending March 15, 2010 should be read in conjunction with the Consolidated Financial Statements and Press Releases issued by the Corporation, all of which are available from the System for Electronic Data Analysis and Retrieval at www.sedar.com or from the Corporation's website at www.caledoniamining.com. The Consolidated Financial Statements and related notes have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Note that all currency references in this document are to Canadian dollars unless otherwise specified.

Overall Performance

The Corporation was formed in February 1992 and is listed on the Toronto Stock Exchange as "CAL", on London's AIM as "CMCL" and its shares are traded on NASDAQ-OTCBB as "CALVF"

1. EXECUTIVE SUMMARY

1.1 Core Business and Strategy

Caledonia is an exploration, development and mining corporation focused on Southern Africa. The Corporation's primary assets are the Blanket gold mine ("Blanket"), in Zimbabwe a base metals exploration project in Zambia (Nama), two platinum group and base metals (PGE) projects in South Africa ("Roopoort" and "Mapochs"), and a non-producing gold mine in South Africa ("Eersteling") which has been identified for disposal.

The Corporation's business model is to identify and/or acquire properties or projects early in the development cycle which have the potential to become low cost operations, and then add value by developing the asset, either as an operator or through joint venture agreements. The possibility of divestiture in whole or part will be considered at different points in time and will be governed by the benefit to shareholders. Where appropriate, Caledonia will seek strategic alliances through joint ventures.

Blanket was returned to production in April 2009 having been on care and maintenance since October 2008 after it was forced to shut down due to non payment by the Reserve Bank of Zimbabwe ("RBZ") for gold delivered to RBZ and the focus is now on completing the #4 Shaft Expansion Project to achieve the planned 40,000 ounces of gold production per annum. In addition to the #4 Shaft Expansion Project, the judicious expenditure on the essential sustaining capital expenditure will continue to progressively remedy the lack of investment over the last few years due to foreign currency shortages.

Activities at Nama and the Roopoort/Mapochs properties were constrained in 2009 by shortage of available cash resources.

1.2 Key Performance Drivers

Positive drivers for Blanket continue to be a high gold price, receipt of a renewed Gold Dealership Licence and the dollarization of the Zimbabwean economy which has resulted in the elimination of hyperinflation and signs of increasing capacity in the Zimbabwean debt market. However there are still numerous challenges at Blanket, namely, lack of past investment, rising labour and power costs, increasingly frequent disruptions to power supplies, and the vagaries of changing legislation, particularly the requirements for indigenization which all ultimately result in increased operating

costs, possible lower profits, production interruptions and investor nervousness.

Operating and capital cost containment and budgetary controls are in place at Blanket and are continually monitored to ensure that the production profile and costs meet the strategic goals set by management.

The Corporation is actively looking for joint venture partners on both the Nama and Rooipoort projects.

1.3 Capability to Deliver

Management successfully applied to the Zimbabwean Ministry of Finance (“ZMF”) for the renewal of the Gold Dealership License for Blanket which expired on December 31, 2009 and has now been extended to December 31, 2010. The ZMF is currently only granting the Gold Dealership License for a one year period despite requests for a longer period by Blanket and the Chamber of Mines Zimbabwe.

Early in November 2009 Blanket was awarded the “Exporter of the Year – Mining – Matabeleland Region” Award by the Zimbabwe National Chamber of Commerce based on figures supplied by the Reserve Bank of Zimbabwe. This achievement underlines management’s ability to deliver despite the challenging environment prevailing in Zimbabwe at present and is testament to the hard work of the entire team at Blanket and Caledonia, and vindicates the planning and implementation of the strategy whereby Blanket was rapidly able to restart and ramp-up production once the new gold sales regulations were put into effect.

Short term debt facilities have been negotiated with a local Zimbabwean Bank and negotiations are under way regarding an increase in the existing facilities, which, in conjunction with forecast internally generated cash flows, will give Blanket sufficient financial resources to complete the #4 Shaft Expansion Project which will then enable Blanket to increase its gold production to about 40,000 ounces per annum. The #4 Shaft Expansion Project is currently underway and its completion is estimated to be achieved by the 4th quarter 2010.

Suitable personnel have been and are being recruited by Blanket to ensure that a skilled and trained work force is available to achieve the targeted 40,000 ounce production level once the #4 Shaft Expansion Project has been completed.

1.4 Results and Outlook

At Blanket, tonnages milled and gold produced in 2009 are shown in the table below:

	Tonnes Milled	Gold Produced in ounces
Fourth quarter	36,271	4,164
Third quarter	34,266	4,117
Second quarter	24,177	2,746
First quarter	-	-
Total	94,714	11,027

Tonnages milled and gold produced continue to increase despite frequent power interruptions in the 3rd and 4th quarters.

Unfortunately the frequency and duration of power interruptions have increased in January and February 2010, with a further negative effect on gold production which amounted to 863 ounces in January and 1,218 ounces in February.

After the completion of the #4 Shaft Expansion Project, expected by the 4th quarter of 2010, it is

anticipated that mine production of 1,000 tpd and gold production at an annualized rate of about 40,000 ounces per annum could be achieved during the fourth quarter 2010 barring any unforeseen disruptions be they mechanical, electrical, political, legislative, or economic.

1.5 Operational Risks

The previously identified operational risks in Zimbabwe were accurately identified in that power interruptions in 2010 have increased to a level of approximately 25% per month on average. This has resulted in lower gold production and consequently increased operating costs per ounce due to the high proportion of fixed costs which includes increasing labour costs. The strength of the gold price has been positive but the strong Rand currency has negatively affected the cost of consumables and capital items that are imported from South Africa. Increases in royalty and taxation rates for the mining industry have both been introduced for 2010 which will reduce profitability and cash flow, and indigenization legislation is once more high on the Government's agenda making Zimbabwe a very difficult investment environment.

2. AFTER THE ECONOMIC CRISIS - THE IMPLICATIONS FOR CALEDONIA.

Having weathered the world economic storm of 2008 and 2009, Caledonia has made some progress during these difficult times but a number of hurdles, as summarized below, still remain:

2.1 Debt and Equity raising and the cost thereof

Blanket has been able to raise sufficient working capital loans from Zimbabwean Banks to supplement its positive operating cash flow and to allow the #4 Shaft Expansion Project to restart in the 4th quarter of 2009. There are indications that the Zimbabwean banking market is rebuilding its lending capacity and negotiations are in progress regarding an increase to Blanket's existing facilities. However, the cost of finance in Zimbabwe remains high and tenors remain short. The ability of the Corporation to access credit lines and generate sufficient cash may have a direct impact on the expansion plans at Blanket and the continued development of the Nama Copper/Cobalt Project and its Rooipoort and Mapochs platinum group/gold/base metals projects.

The failure of the RBZ to redeem Gold Bonds which matured on February 1, 2010 with a redemption value of US\$3.16m was very disappointing, but the Corporation has made alternative plans to ensure that it should still be able to still complete the #4 Shaft Expansion without this payment. Every effort will however continue to be made to secure repayment of the Gold Bonds. The redemption date of the Bonds was extended for 6 months and all other terms and conditions remained the same. Due to the uncertainty around the eventual redemption date of the RBZ Bonds a provision has been created against the Bonds and they are now carried as a long term asset at an estimated recoverable amount of US\$771,000

The completion of the Nama Chinese feasibility study ("CFS") will only be authorized once Caledonia is satisfied that the determined Nama resource meets the CFS requirements and that the appropriate debt and equity funding for the development of Nama is available on acceptable terms. Caledonia will continue exploration at Nama based on available cash resources.

2.2 Currencies

As the majority of the costs incurred by the Corporation are affected by the strength of the Rand and the Canadian dollar, the current trend is not in the Corporation's favour but the higher gold price is a mitigating factor.

2.3 Counterparties

The only long term counterparty contracts in place are the cobalt supply agreements from the Nama

property. These are priced in US dollars and the counterparties are not considered at risk in the current environment due to the financial crisis. As required by the agreements, the counterparties were notified in writing during October 2008 of the delay in commencing production at Nama and were agreeable to such delay. None of these parties has requested that the agreements be cancelled.

2.4 Liquidity

Caledonia continues to operate under a policy of cash preservation. Current cash resources and the ability to obtain additional funds are estimated to be sufficient to fund planned Corporation expenses for the foreseeable future, bar any unknown impediments. Blanket continues to be self-sufficient and should generate sufficient cash for the identified mine expansion and exploration projects and for some of the Corporation's working capital requirements. The potential sale of the Eersteling Gold Mine could generate funds for working capital and some exploration expenditures.

2.5 Provisions and Impairments

As a result of the economic conditions and changed circumstances, Caledonia has made a provision against the RBZ Gold Bond of \$2,502,000 and an impairment write-down against the "D" type Nama resource of \$1,434,000. These actions are considered prudent under the circumstances.

2.6 Going concern

The 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 maintaining profitable operations, realising proceeds from the disposal of mineral properties, and obtaining sufficient financing to meet its obligations with respect to operating expenditures and expenditures required on its mineral properties.

The strong gold price and the implementation in early 2009 of a new monetary policy in Zimbabwe relating to the gold sector have created a more beneficial environment and provided opportunities to improve these benefits. After the resumption of gold production at Blanket in April 2009, there is sufficient evidence that despite the difficult operating conditions in Zimbabwe, it is unlikely that economic variations will change the "going concern" status of Caledonia or any of its subsidiaries in the near term future.

3. OPERATIONS

3.1 Gold Production

Blanket Mine (1983) Private Limited ("Blanket") - Gold

The improved gold selling conditions introduced by the RBZ in early 2009 operated satisfactorily throughout 2009. Blanket continues to export its gold production to Rand Refineries in South Africa and receives 100% of the sale proceeds in US dollars within 5 days of sale. Cash flow at Blanket continues to be tight due to lower than expected production and ongoing capital investment. The failure to redeem the Gold Bond by the RBZ on February 1, 2010 is unfortunate, but alternative financing and revision to the capital expenditure programme should allow for the completion of the #4 Shaft expansion project by Quarter 4 of 2010.

Background

Blanket is wholly owned by the Corporation's 100% owned Zimbabwean registered subsidiary Caledonia Holdings Zimbabwe, and the mine is located 560 km south of Harare, the capital city of Zimbabwe and 150 km south of Bulawayo, the country's second largest city. The town of Gwanda, the provincial capital of Matabeleland South, is located 16 km east of the mine and is approximately

197 km north north-west of the South African border post of Beit Bridge. The mine is situated in the Gwanda Greenstone Belt from which gold was first produced in the 1800's. Blanket holds extensive exploration properties throughout this belt. The Blanket property was first pegged in 1904 with mining and metallurgical plant operations starting in 1906 and has since produced over a million ounces of gold.

Geological Setting

Like most of the gold mines in Zimbabwe, Blanket is situated in a typical greenstone terrain, the 70 km long by 15 km wide Gwanda Greenstone belt. This terrain comprises supra crustal metavolcanic rocks similar to those found in the Barberton area of South Africa and the Abitibi area of Canada. The Blanket property is the largest of the three remaining large gold producers, from a gold resource area that has given rise to no less than 268 gold mines.

Property Geology

Blanket is part of the group that makes up the North Western Mining camp also called the Sabiwa group of mines extending from Sabiwa and Jethro in the south, through Blanket itself to the Feudal, AR South, AR Main, Sheet, Eroica and Lima ore bodies.

The geological sequence strikes north-south, dips vertically and consists, from east to west, of a basal felsic unit which is not known to carry mineralization. It is generally on this lithology type that the various mine tailings disposal sites are located. Above this unit is the ultramafic unit that includes the banded iron formations hosting the eastern dormant cluster of mines and the ore bodies of the adjacent Vubachikwe mine complex. The active Blanket ore bodies are found on the next unit, *the mafics* and an andesitic unit which lies to the west, caps this whole stratigraphy. A regional dolerite sill cuts the entire sequence from Vubachikwe through Blanket to the Smiler prospect. Ore bodies at Blanket are epigenetic and are associated with a later, regionally developed deformation zone characterized by areas of high strain, wrapping around relatively underformed remnants of the original basaltic lava flows. It is within the higher strain regime (highly sheared rocks) that the wider of the ore bodies are located.

The Company had previously published mineral reserve and mineral resource figures for the Blanket Mine. In the period since then the reserve and resource figures will have been depleted to the extent of the production which has occurred - while additional exploration work has replenished the reserve and resource figures at least to some extent. The Company has not had any new formal reserve or resource figures calculated and reported by a person who is an independent qualified person pursuant to Canadian National Securities Instrument 43-101. Therefore current figures are not quoted.

Dr Trevor Pearton, FGSSA, SAIMM, Caledonia's Vice President for Exploration, is the company's Qualified Person for Blanket Mine's reserves and resources.

Mr. David Grant, C. Geol, FGS, Pr. Sci. Nat., an independent consultant is the "Independent Qualified Person" for Blanket's reserves and resources as required by National Instrument 43-101 of the Canadian Securities Administrators.

Production Operations

Mining

Subsequent to the receipt of the gold dealer's license from the Ministry of Finance and a gold exporter's license from the RBZ in early 2009, gold production was recommenced in April 2009 and has continued uninterrupted except for forced shutdowns caused by repeated and frequent interruptions of electricity supply.

The resumption of gold production and the successful application for short term loan funding from a Zimbabwean bank, has enabled the #4 Shaft Expansion Project to recommence. It is anticipated that the shaft project will be completed by the 4th 2010.

The current underground workings can currently produce approximately 450 tonnes of ore daily (before the effect of power interruptions) using a long-hole open stoping method. Ore is transported to one of three shafts, from which it is hoisted to surface. Since the resumption of production in April 2009, it has not been possible to achieve a constant rate of production due to frequent power interruptions. The #4 Shaft Expansion Project, when completed, will increase and streamline the overall hoisting capacity of the mine and the crushing and milling capacity so that the plant can be fed at a rate of 1,000 tonnes per day, 7 days a week from the underground ore stockpile and feed bin.

Metallurgical Process

The present crushing and milling circuit is being expanded from 600 tonnes per day to 1,000 tonnes per day ore throughput capacity to handle the planned increase in mine production from the #4 Shaft Expansion Project. The prioritization of the mill's upgrading requirements is driven by Blanket's ability to generate sufficient funds as Blanket completes the #4 shaft underground expansion tasks.

Run of mine ("ROM") ore is crushed on surface to minus 12mm in the 3-stage crushing circuit. This material is then fed into two 1.8m by 3.6m rod mills where it is milled down to approximately 70% passing 75 microns, after which the milled slurry is pumped through two 30 inch Knelson Gravity Concentrators where approximately 49% of total mill gold production is recovered as 'gravity' gold. The Knelson Concentrator tails are pumped through cyclones whose underflow reports to a large 3.66m by 4.9m 750 kW regrind ball mill. The products from the Knelson tails cyclone overflow and the regrind mill discharge are pumped into a carbon-in-leach ("CIL") plant consisting of eight, 600 cubic metre leach tanks each equipped with 45 kW mixers where alkaline-cyanide leaching at 50% solids and simultaneous absorption of dissolved gold onto activated carbon takes place. Elution of the gold from the loaded carbon and subsequent electro-winning is done on site. During electro winning the gold is deposited on wire wool cathodes, the loaded cathodes are acid-digested and the resultant gold solids from acid digestion and the gold concentrate from Knelson Concentrate tailings are smelted after which the gold bullion is delivered, as required by Zimbabwean gold-mining law, to the Government-operated Fidelity for sampling and onward delivery to the Rand Refineries in South Africa. Rand Refineries undertake final refining and sell the resultant gold with 100% of the proceeds being credited to Blanket's Zimbabwean bank account in US dollars within 5 days of sale.

The CIL plant has an overall design capacity of 3,800 tonnes of milled ore per day, from its previous use for reclaimed tailings processing. The plant tailings from CIL are reduced in cyanide content and deposited on two licensed tailing impoundment areas sited close to the plant. The tailing deposition is contracted out to the Zimbabwean subsidiary of specialized South African company "Fraser Alexander Tailings"

3 DISCONTINUED OPERATIONS

Eersteling Gold Mining Company Limited

The mine continues to be disclosed as "held for sale" as the Board's decision to sell remains intact. No impairment has been made against the carrying value as the previously offered price by Oretch was significantly higher than the carrying value and the Corporation has recently rejected a purchase offer also in excess of the carrying value. Interested parties continue to investigate the merits of purchasing the mine and the Corporation continues to seek a suitable purchaser.

5. MARKETING

During 2009 Blanket was entitled to export and sell its entire gold production in its own name. Blanket delivered and sold its gold production to Rand Refineries Limited in South Africa and has

been paid the proceeds directly into its foreign currency account (“FCA”) held with a Zimbabwe commercial bank.

6. KEY PERFORMANCE FACTORS

During 2009, the US\$ gold price per ounce continued to strengthen and with the resumption of gold production Blanket has been cash-flow positive on an ongoing basis. This along with a 6 month loan facility from Blanket’s local Zimbabwean bankers has allowed Blanket to fund the expenditure to date on the #4 Shaft Expansion Project. It was however very disappointing that the Gold Bonds which were issued by the RBZ to Blanket in January 2009 as payment for historic gold deliveries were not redeemed on February 1, 2010 and have been rolled over for a further 6 months. The failure of the RBZ to redeem the Bonds has hampered the financing and delayed the start of the #4 Shaft Expansion Project. In addition, the required work on the Level 22 development project, a key project following the completion of the #4 Shaft Expansion Project, will be slowed down until sufficient funding is available. The increasing duration and frequency of electrical supply interruptions also negatively affects Blanket’s cash position due to the high proportion of fixed costs, including wages for the consequently under-productive employees, which have to be paid despite reduced production. Since restarting operations in April 2009, Blanket has successfully managed to replenish most of its depleted essential consumables and spares to levels that are able to support and sustain production.

The negotiations with Mitsubishi on the PGE Joint Ventures (“JV’s”) at Rooipoort and Mapochs properties failed to be completed as Mitsubishi concluded that the conditions precedent relating to security of tenure of the prospecting rights held by Caledonia and its subsidiaries due to the Broad Based Black Economic Empowerment (“empowerment”) requirements imposed by the South Africa Department of Minerals (“DM”) did not meet their requirements. The DM’s requirement that empowerment must be introduced at the exploration stage is not currently required under South Africa law and, accordingly, was not envisaged at this stage in the Agreement.

7. SELECTED ANNUAL INFORMATION -

The following information is given for the last three fiscal year-ends of the Corporation:

C\$000’s except for earnings per share amounts.	December 31, 2009	December 31, 2008	December 31, 2007
Net sales or total revenues	11,559	7,696	10,039
Net (loss) income from continuing operations:	(3,770)	(4,285)	(3,906)
- per share basic and diluted continuing operations	(\$0.008)	(\$0.009)	(\$0.008)
Discontinued Operations	(180)	(655)	(709)
Net loss	(3,950)	(4,940)	(4,615)
- per share basic and diluted	(\$0.008)	(\$0.010)	(\$0.009)
Comprehensive loss	(4,503)	(4,880)	(4,703)
Total assets ⁽¹⁾	22,090	23,657	29,492
Total long-term liabilities	2,589	1,153	1,054
Cash dividends declared per share	Nil	Nil	Nil

⁽¹⁾ The 2008 figures have been restated to reflect an under accrual of \$310 of uncapped exploration expenses plus \$49 for vat.

The above data was prepared in accordance with Canadian Generally Accepted Accounting Principles.

The results for 2008 and prior years have been presented on the basis that Barbrook (2007) and Eersteling Mines are discontinued operations and were classified as assets held for sale.

Despite there being no gold production in Q1 2009, the Corporation achieved a gross operating profit of \$3,336,000 for the year (\$3,258,000 – 2008 and \$294,000 – 2007) on gold sales of 11,093 ounces (8,364 – 2008 and 13,985 – 2007). The higher gold production in 2007 compared to 2008 was due to

the processing of tailings in addition to underground ore in 2007.

Total gold production for the year was 11,027 ounces (7,687 – 2008 and 13,299 ounces 2007) which was negatively affected by frequent and increasing power interruptions.

The loss of \$3,770,000 is affected by the unusually large non-operating, non-cash flow items totaling \$4,547,000 being the impairment of mineral property at Nama of \$1,434,000 (\$1,168,000 – 2008 \$750,000 - 2007) , the creation of a provision of \$2,502,000 (\$526,000 – 2008 \$nil - 2007) against the RBZ Gold Bonds to recognize the uncertain timing of future redemption, an unrealized foreign exchange gain of \$248,000 (\$1,876,000 loss – 2008 \$1,012,000 loss – 2007) and a tax charge of \$859,000 (\$Nil – 2008 and \$5 – 2007) arising from the future tax liability increase. Due to the dollarization of the Zimbabwean economy in February 2009, Blanket's functional currency changed to the US dollar and thus the unrealized foreign exchange loss, on translation, of \$600,000 was debited to other accumulated comprehensive loss and not to the unrealized exchange loss in the Statement of Operations and Comprehensive Income/ (Loss) The interest received includes \$280,000 as an accrual for interest payable by RBZ in respect of the outstanding Gold Bond owed to Blanket. This accrual has been taken into account when the estimated recoverable amount was determined and the provision created.

Finance charges paid amounted to \$95,000 (\$103,000 – 2008 and \$485,000 – 2007) and were as a result of Blanket requiring occasional working capital finance.

During 2009, the Corporation invested \$1,547,000 in capital assets and mineral properties (\$3,023,000 in 2008 and \$3,250,000 in 2007). Of the amount invested in 2009, Blanket accounted for \$860,000 (\$91,000) Nama accounted for \$616,000 (\$2,680,000) and Rooipoort accounted for \$44,000 (\$163,000). No funds were raised in 2009 from the market (\$1,119,000 in 2008 and \$4,380,000 in 2007).

The basic net loss per share, for continuing operations, of \$0.008 (\$0.009 in 2008 and \$0.008 in 2007) has been calculated using a weighted average number of shares of 500,169,280 (498,450,650 in 2008 and 477,930,290 for 2007).

8. OPERATIONAL REVIEW AND RESULTS OF OPERATIONS

The plans for the non-revenue generating exploration projects continue to be determined by the availability of funds and are more fully described below.

8.1 Gold Production

Blanket Mine – Zimbabwe

The operational statistics reported below refer to the period from April 3 to December 31 2009.

Safety, Health and Environment

The table below summarizes Blanket's safety record for 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Lost time injury	3	-
Occupational illness	-	-
Medical Aid	6	5
Restricted work activity case	15	5
First Aid	7	17
Total	<hr/> 32 <hr/>	<hr/> 27 <hr/>
Incidents	36	62
Near misses	20	39

The mine had a reasonable year from a safety perspective in that 3 lost time injuries (Nil -2008) were recorded during the period but 15 (5 – 2008) restricted work activity cases occurred. Incidents decreased to 36 (62 - 2008), and near misses also decreased to 20 (39 – 2008). Intensive safety training continues under the National Occupational Safety Association (“NOSA”) to ensure that new employees are compliant with the NOSA requirements.

The occupational health centre continues to operate on the Mine and all employees are screened for occupational ailments. There were again no occupational health illnesses detected during the year. HIV/AIDS continues to be an area of concern for management despite awareness programs to educate employees being in place, the voluntary testing by employees is still at disappointingly low levels.

The Mine continues to monitor the ground water in the ground-water pumping wells downstream of the tailings impoundment areas. Results continue to be well within the Governmental Environmental Management Agent (“EMA”) minimum levels. Re-grassing of the slopes on Dam B is ongoing.

As the mining operations ramp up, the associated waste management requirements continue to increase. The items covered here include used oil, scrap metal, used batteries, domestic refuse, industrial waste and clinic waste.

The Chamber of Mines (“COM”) continues to negotiate wage levels for member companies. The Mine Workers’ Union continues to believe that quarterly increases in a US dollar based environment are appropriate as well as a 300% increase in wages, and this has caused tension at the bargaining table. There have been threats by the union to call for a national strike.

On the positive side, labour turnover rates have decreased significantly every quarter to finish in Q4 2009 at 0.23%

In general the labour force is now stable with the number of un-authorized absences and desertions stabilizing at acceptably low levels.

Capital Projects

#4 Shaft Expansion Project

Work on this Project was resumed during Q4 2009 with the final design and procurement for the silo bottom steel work and feed chutes, the conveyor, grizzly feeder and crusher. Design and procurement also started for 765m level- the loading flasks and loading chutes on the 785m level, the spillage deflectors on the 802m level, and the spillage loading chutes on the 813m level. This was followed by the steel work fabrication and installation contract which commenced in January 2010. The final designs have necessitated additional excavation on the 765m Level Crushing Station and this was started in December and should be completed by the end of Q1 2010. The three 750m level ore car tipping stations and their associated grizzlies, and the conveyor, grizzly feeder and primary crusher for the 765m level crushing station have been delivered to the mine and are all scheduled for installation during Q2 2010. The entire work program should take approximately 6 months to complete.

On surface at the metallurgical plant, a contractor has been selected to start with the installation of a refurbished rod mill in the primary milling circuit and its associated infrastructure. After completion of the rod mill work, the contractor will start work at the tertiary crushing plant where installation of two large cone crushers and a vibratory fine ore screen is planned. The existing crushing plant conveyor layout will be modified to suit the new installed equipment. The final stage of the plant expansion project will be the increase in the size of the fine ore bin to a capacity of about 2,000 tonnes. All the steel required for the mill and crushing plant installations has been ordered.

750m AR – Lima Haulage

The significant delay in the overall #4 Shaft Project has resulted in the original mining plan for the expanded 1,000 tonne per day operation now becoming inapplicable due to the feeder stopes above the 510m level in AR Main and South having been exhausted. The result is that more than 90% of the ore will now have to be mined from below 510 Level. This will require the “triple handling” of the ore up through the No.6 winze and the Eroica shaft to the mid-shaft loading on the 510m Level for hauling to surface. This situation will persist until such time as 765m level crushing, its loading circuits and the three ore bins are commissioned in Q3, 2010.

The primary 22 level (750m) development is behind the original schedule in the mine plan and will need to be accelerated to link the Blanket and Lima shafts. Crosscuts from this haulage will then provide the required drilling platforms from which the deeper ore bodies above and below the 22 level can be evaluated and developed.

This capital work was not in the original scope of the #4 Shaft Expansion Project. The budgeted cost of the 22 level Development Project utilizing internal resources is about US\$ 900 per metre advanced for the planned 2,400m which should take 2.5 years to complete assuming one blast per day. The further development of the 22 level haulage has been started but is progressing slowly due to waste handling constraints on the 750m level but is expected to increase once the 765m level crushing and loading circuits have been commissioned in Q3. The 22 level development will continue alongside normal production until complete.

Operations

Since production recommenced in April, 2009 power supply problems have been the most limiting factor from both a mining and a milling production perspective. From June to December 2009 Blanket has lost 10.6% of available time solely due to power interruptions. The power supply interruptions have increased in Q1 as they have become a routine daily occurrence and resulted in 15% lost time in January and 22.5% lost time in February 2010.

Monthly gold production has generally averaged above 1,000 ounces since mining and milling operations were resumed but Blanket has not been able to return to pre #4 Shaft Expansion Project levels due to various factors beyond the mine’s control, some of which are discussed above.

Production results for year to December 2008		2009**	2008*	2007
Ore mined	Tonnes	94,714	81,688	100,082
Development advance (ROM)	Meters	1,267	472	669
Development advance (Capital)	meters	165	-	504
Ore milled	Tonnes	103,444	81,688	100,082
Ore Gold Grade milled	grams/tonne	3.66	3.33	3.58
Ore – Gold Recovered	Ounces	11,027	7,687	9,885
Sands Processed	Tonnes	-	-	125,137
Sands Grade	grams/tonne	-	-	1.29
Sands Gold Recovered	Ounces	-	-	3,414
Gold produced	Ounces	11,027	7,687	13,299
Gold Sold	Ounces	11,093	8,364	13,985

* Production was temporarily suspended in October 2008.

** For 9 months April to December 2009

Production tonnages increased on a quarterly basis during 2009 but despite the improvement in tonnage processed, the gold ounces produced remained static in the last 2 quarters mainly as a result of ore reserve depletion above the 510m, mid-shaft loading station which is solely due to the delay of

over 2 ½ years in completing the #4 Shaft Expansion Project. This delay was caused by the adverse economic situation prevailing in Zimbabwe during this period. The lower grades in Q3 and Q4 were predominantly from the production areas in Blanket/Feudal and the AR Main ore zones and mining from these stopes has since been suspended pending a re-evaluation. In these areas, mining was forced to take place at the extremity of the ore bodies where the mineralization is fractured resulting in lower grades

Underground

The underground operations were affected by the following:

- Low compressed air volume and pressure due to breakdowns in the compressor fleet. This situation has since been corrected by the delivery of 7 reconditioned screw type compressors with a combined air delivery capacity of some 11,400 CFM. Three of these compressors have been installed and commissioned whilst another two are being installed. The remaining two compressors are earmarked for installation at Blanket's satellite projects.
- Electrical power outages are continuing and increasing in frequency and duration which makes it difficult to plan mining and milling operations.
- The quality of machine crews who have been trained for over six months is still not at the required standard resulting in low drilling efficiencies. This lack of experience has resulted in targeted drilled meters not being achieved and breaking efficiencies are still unsatisfactory. Further intensive training of these machine crews and the associated underground management has been carried out and the mine is now beginning to see some improvement.

Completion of the #4 Shaft Project is a critical necessity, not only for the expansion of production but to sustain current lower levels of production. All current production is taking place below the 510m level necessitating that the mined ore and waste has to be transported up two shafts viz; No. 6 winze and Eroica to reach the surface. The maximum combined capacity of these two shafts is approximately 500 tonnes per day assuming 100% availability. Furthermore, attempts to mine remnant ore pockets above the 510m level have resulted in significant grade dilution and increased operating costs, in the latter part of the 3rd quarter and for the whole of the 4th quarter. Management has decided to concentrate mining production on higher grade ores below the 510 m level. However there will be an increase in operating costs due to multiple handling until completion of the #4 Shaft Expansion Project but this should be counteracted by the higher grade mined.

Outlook

The main aims and objectives of Blanket for 2010 are; to design, fabricate, install and commission the #4 shaft expansion equipment and to implement the ramp-up to the planned average production rate of 40,000 oz of gold per annum by the end of the 2010 financial year: The main work consists of:

Above 750m Level

- To complete the mechanical and electric audit of the #4 Winder and Headgear
- To design, fabricate and install improved shaft inspection cages on the #4 Shaft Winder
- To remove the temporary bulkheads on 14 and 18 levels and install shaft doors below the 14 Level loading station so that mid shaft loading can continue as and when required.

On 750m Level

- Install the three ore car tipping stations and their associated grizzlies (loading screens).
- Excavate the three, 750 tonne capacity ore storage bins once the 765m level crushing and loading station has been completed.

On 765m Level:

- Complete the excavation of the crusher, conveyor station and the crusher pit.
- Install shaft doors below 765m level.
- Install the travel gantry, conveyor and the three bulkheads, loading boxes, and control platforms.
- Install the ore pass wear plates, the grizzly feeder and the jaw crusher.

Below 765m Level

- Install the deflector plates on 802m level and the spillage handling equipment on 813m level.
- Install the loading chutes, loading flasks and automatic skip loading equipment on 789m level.

On Surface:

- Install the refurbished Rod mill, the rod handling system, mill pumps, feed conveyor, and piping.
- Install the new double deck vibrating screen and the two new gyratory crushers.
- Reconfigure the conveyors on the tertiary crushing circuit.
- Install a six replacement CIL mixers.
- Install a new AARL-type elution circuit and associated electro-winning cells.
- Refurbish the activated carbon regeneration kiln and carbon handling circuit.

Exploration Projects:

- Erect headgears and winders and re-commence shaft sinking on the prioritized exploration Projects.

9 EXPLORATION AND PROJECT DEVELOPMENT**9.1 Cobalt and Base metals****Nama Cobalt Project – Zambia****Property**

Caledonia Nama Limited (“Nama”), a wholly owned subsidiary of the Corporation, has been granted four contiguous 25 year Large Scale Mining Licenses in northern Zambia on which near-surface Cobalt/Copper mineralization has been discovered. This area lies immediately northwest of the operating Konkola Copper mine and adjoins the extensive land holdings of the Teal Mining/CVRD joint venture. These Mining Licenses consist of four separate licenses covering a combined area of 786.1 square kilometers.

The Zambian Development Agency has also granted Nama a 10 year investment license which provides for 10 years of income tax concessions which range from 100% exemption for the first 5 years, 50% exemption for years 6, 7 and 8 and 25% exemptions for years 9 and 10, together with Duty and VAT exemptions and deferrals on imported equipment and materials.

Types of Mineralization at Nama

Two main styles of cobalt (“Co”) mineralization occur in the Nama area, the ‘D-type’ iron oxide bodies which are mostly enriched in Co, and the copper (“Cu”) dominated Ore Shale hosted Cu-Co mineralization, more common elsewhere in the Copperbelt, which is being exploited by neighboring mines to the east and south of Nama.

‘D’-Type iron oxide Co bodies

‘D-type’ ores at Nama consist essentially of massive hematite and magnetite concentrations encapsulated by less well mineralized talcose schist alteration zones. These concentrations occur associated with dyke-like gabbroic intrusions which appear to disrupt the iron-rich bodies. On account of the complex metallurgy and hence larger capital and operating cost requirements involved

in treating the typical 'D-type' iron oxide bodies, further work on those target areas identified as being of this type during the initial exploration, has been suspended until the market and economic conditions are more favorable.

Ore Shale hosted Cu-Co deposits

Mineralization of this type is currently being exploited immediately to the east of the Nama license and is known to extend into the Nama license for a distance of about 2,000 meters. The neighboring Konkola Mine and the Teal/CVRD joint venture have both defined substantial copper resources on their properties. Although the "A" resource body has often been regarded as belonging to the Ore Shale style of mineralization, it must be noted that its unusual stratigraphic position coupled with the iron and manganese enrichments make this a 'hybrid style' of mineralization. Exploration activities at Nama have, however, resulted in the definition of resource targets characterized as belonging to the Ore Shale-hosted Cu-Co style of mineralization.

Work Completed

Details of the previous year's exploration work completed at Nama can be found in the MD&A reports included in prior year's Annual Reports.

In the light of the depressed base metal markets and low level of interest in base metal exploration, the 2009 exploration program was planned with a specific mandate to evaluate all of the Co/Cu anomalies found in the 1995/7 geochemical exploration program. Of the 20 known Co anomalies, only 5 had been investigated in any detail prior to the start of the 2009 year. This represented a risk that the current exploration was potentially being conducted on targets that may not have offered the best return. In order to minimize such risk, a work program was set out to gather sufficient exploration information from all the previously-determined anomalous areas so as to grade these areas into primary and secondary targets. The bulk of the work of the 2009 program entailed geochemical sampling using an auger capable of penetrating 2 to 3 meters deep. Sampling in this way at these depths has provided more detailed information on the targets and has enabled the potential of the various targets to be assessed.

One of the major benefits of the above program was the gathering of detailed geological information in the areas of extremely sparse surface rock exposure. This has enabled the compilation of a substantially improved geological map of the Nama project area, which in turn has made it possible to define exploration targets on the basis of structure in areas where no Co or Cu enrichments are present at surface.

Of the 20 Cu/Co geochemical anomalies known to exist at Nama, 4 have been shown to have Cu/Co resources at least at the 'inferred' category, while work on another 4 has been terminated on account of their limited mineralization potential. Three new target areas show encouraging signs of mineralization and have been scheduled for drilling when funds are available. The remaining 9 anomalies still require additional work and evaluation. This evaluation will be carried out during 2010 and should enable the prioritization of the anomalies for follow-up work.

Drill Targets

The following drill targets have been defined within the Nama License area. However, execution of the drill programs is dependent on the availability of adequate funding.

'E' Anomaly – Yembela Clearing

Research into previous geochemical surveys carried out in the 1960's indicated that further anomalies had been located by localized sampling programs both east and west of the Yembela Clearing. These anomalous sites were located and follow-up sampling has verified the existence of the anomalies –

Yembela East and Yembela West. Co values of up to 0.16% were encountered in soils which form a thick cover over the two new anomalous areas. Coincident geophysical anomalies suggest that the mineralization occurs in the form of steeply dipping fold or shear structures. The association of a prominent fault and tillite floor rocks to the south is a very similar structure to that at the 'A' resource body and supports the interpretation that this occurrence is likely to be analogous to the 'A-type' mineralization which is known to be amenable to lower cost extraction techniques. Drill targets have been established and will receive priority in future drilling programs.

Konkola West

During the 2008 field season, exploration established the existence and extent of the Ore Shale horizon along the western margin of the Konkola Dome (south of the 'A' Resource Body). A shale unit, approximately 100 meters wide containing anomalous values of Co and Cu has been located in an area of very deep soil cover. Surface material ("float") from this area was found to contain 0.1% Co and 0.2% Cu. The area is referred to as the "Konkola West" area. Two drill targets have been outlined in this area based on the season's work, in particular, the use of termite hill sampling. Based on the current interpretation, it appears that the target horizon has a north-south strike extent of about 3 km before crossing into the Democratic Republic of Congo ("DRC").

A second anomaly with a much stronger geochemical response occurs to the west of the "Ore Shale" target. The area is referred to as the "Fault Target" and appears to be the result of a fault or shear zone mineralization and may therefore be similar in character to the 'A' anomaly.

Konkola East

The Konkola East prospect covers the westward continuation of the Ore Shale from where it crosses the boundary with the Teal/CVRD joint venture property. The prospect has a strike of 3 km while the Ore Shale is known to extend for about 5 km along strike to the license boundary. Eight boreholes were drilled into this area in 1970 by Zamanglo and an historical non NI 43-101 resource of 5.4 million tonnes, gradings of 0.74% Cu was estimated (Co was not assayed). Exploration drilling by Teal on the adjoining property to the east of the Konkola property has proved particularly successful and has established that the Ore Shale dips down to a depth of about 800 m below surface and then extends to their southern boundary in an undulating manner – a distance of approximately 5 km. The resource potential of this 25 square kilometer target area is significant and has the potential to be a large Cu and Co resource.

New Target Area

A significant contribution to the exploration during the year has been the complete revision of the Corporation's geological map of the Nama Licence area. This map has contributed to the prioritizing of the various anomalies and will continue to form the basis for the assessment of the full potential of the Nama area. An indirect result of this work has been the understanding of the major structural trends in the Nama area, in particular the identification of those areas where the "Copperbelt" type lithologies are closest to surface but not actually exposed. These areas represent ideal targets for deeper drilling programs (500-1000 meters) and have the advantage that the Ore Shale, if intersected, would have a shallow dip. A target area of approximately 20 square kilometres has been defined.

Exploration program for 2010

The coming exploration season will first deal with the remaining work required to assess the economic potential of the nine remaining un-assessed Cu/Co anomalies. Further work will be carried out on the structural analysis of the area and in particular the use of geophysics to gain a detailed understanding of both the current and future targets. Depending on the availability of financial

resources, diamond core drilling on three of the target areas is planned for drier season when large drill rigs can access the target areas. The Corporation is in the early stages of discussions with potential JV partners.

9.2 PGE's

Rooipoort & Mapochs Platinum, Gold, Palladium /Ni/Cu ("PGM's") Project - South Africa

The Rooipoort rights, previously held by Eersteling Gold Mine, have been re-registered under the name of Maid O' the Mist, which is a wholly owned subsidiary of the Corporation. Maid O' the Mist is the vehicle that will be used to manage the Rooipoort platinum exploration program.

The prospecting rights granted to the Corporation to prospect for PGEs on the major portions of the Mapochsgronde tribal trust land are currently in the process of registration. A further application has been made for an adjoining property to the north of the current rights. The Corporation is still waiting the issuing of the prospecting right.

The Corporation is seeking Joint-Venture partnerships for the Rooipoort and Mapochsgronde properties.

9.3 Gold

Zimbabwe Exploration – Gold

The Corporation's exploration activities in Zimbabwe are conducted by Blanket's exploration department. Blanket's current exploration title holdings in the form of registered mining claims in the Gwanda Greenstone Belt total 78 claims, including a small number under option, covering a total area of 2,500 hectares. Forty seven(47) of these claims are registered as precious metal (gold) blocks covering 415 hectares and 31 claims were pegged and are registered as base metal (Cu, Ni, As) blocks covering a total area of 2,085 hectares.

Blanket's main exploration efforts have been focused in certain key areas in the Gwanda Greenstone Belt (that are within economic trucking distance of the Blanket plant) such as GG and Mbudzane properties which are believed to have the greatest chance of success. A drilling program initiated in late 2005 to probe for down-dip and strike extension mineralization associated with the GG prospect was continued into 2007 with 281 meters of drilling completed. Two zones of potentially economic gold mineralization have been established. The main exploration activities involved diamond core drilling and the development of a prospect shaft down to the first level aimed at exposing the ore body and providing a bulk sample for metallurgical testing.

Blanket's Bubi Greenstone Belt ground holding portfolio comprises a total of 27 base metal claims covering a combined total area of 2,820 hectares. Reconnaissance exploration work by soil sampling and geological mapping has been completed in all the claim areas. As soon as the Zimbabwean economic climate stabilizes, follow-up work will be carried out to define drill targets within the geochemical anomalies defined by previous work. The work in the "Sandy" Claims has been prioritized to form part of the detailed follow-up exploration work.

Depending on the availability of funds, Blanket's exploration focus will initially be centered on the Gwanda area with the main emphasis being delineation of potentially economic ore resources at the GG prospect and at Mbudzane. At GG, this will be achieved through core drilling from the surface to establish the strike extent of previously-established mineralization as well as by deepening the prospect shaft and extending underground development. At Mbudzane, a second phase core-drilling program has been planned to follow up on several highly prospective deep seated IP-anomalies that were identified.

Blanket is also conducting basic reconnaissance exploration work on the "Bunny's Luck" claims, to determine the potential strike length of a 1 m to 1.5 m wide shear zone hosted quartz vein that has previously been mapped over a strike length of 300 m. Blanket is formulating an exploration

development strategy to prioritize work on its properties in the Gwanda area in particular and elsewhere in general, in order to prevent potential forfeiture under the current Mining legislation.

9.4 Diamonds

Mulonga Plain and Kashiji Plain – Zambia

The Corporation has applied for a retention license over the properties previously managed under the joint venture and waits the granting of this license from the Zambian Ministry of Mines and Minerals Development. The Kashiji license expired in June 2008, and the Corporation has also applied for retention licenses covering the Kashiji and Lukulu areas.

Outlook

The outlook for the aforementioned exploration properties is difficult to quantify. Exploration by its nature is speculative with a high degree of risk accompanied by the potential for high returns. The Corporation manages this risk by using well-qualified exploration professionals. Lower prices for the platinum group and base metals in late 2008 and early 2009 coupled with a severe shortage of equity for exploration projects resulted in a severe contraction of exploration expenditures by mining companies and could affect the likelihood of the Corporation negotiating joint venture agreements for its wholly-owned exploration properties.

The Corporation intends, where possible, to continue to focus its exploration activities of prospective properties by developing the properties through strategic alliances with other mining companies and metal producers.

The Zimbabwe economy continues to be depressed and Zimbabwe's economic capacity may possibly continue to shrink. Although rampant hyper-inflation has been replaced by deflation, considerable pressure remains for unrealistic wage and price increases from labour and Zimbabwean suppliers. There is also considerable pressure for higher taxes, both from national and local government and for increased supply tariffs from the state-owned electricity utility (ZESA), notwithstanding its inability to provide any semblance of normal supply. The resuscitation of the mining industry is a high priority of the Government as its ability to generate foreign currency is of paramount importance. However, this aim has been undermined by recent regulations which seek to enforce stringent indigenization requirements which will deter new investment into the Zimbabwean mining industry. Caledonia's proposed response to the indigenization requirements is discussed below. Management's focus is to complete the #4 Shaft Expansion Project and thereby bring production up to the 1,000 tpd /40,000 ounces gold per annum level. Cash flow management will be important to ensure that the internally-generated cash flows augment the limited amount of local debt that is available so that this project can be completed as planned. Management will, subject to generation of and continued availability of sufficient foreign exchange, re-commence exploration in the areas near the Blanket to enable Blanket to expand its operation if this remains commercially attractive.

The President of the Republic of Zimbabwe brought the Indigenization and Economic Empowerment Act (the "Act") into law through decree in March 2008. The law seeks to ensure that at least 51% of all businesses in Zimbabwe are held by Indigenous Zimbabweans. In February 2010, the Minister for Youth Development, Indigenization and Empowerment (the "Minister") issued Regulations which gave effect to the Act. The regulations require that, inter alia, the Corporation submit a proposal to the Minister by the middle of April 2010 which will set out how the Corporation proposes to achieve the required level of indigenization. The Chamber of Mines Zimbabwe ("COMZ"), of which Caledonia is a member, continues to make proposals and representations to the Government of Zimbabwe regarding potential revisions to the Act for mining companies. The Corporation is actively participating with COMZ in this exercise.

The Minister of Finance, of the Republic of Zimbabwe, in the Finance Act, which was passed

in December 2009, provided that, as announced in his budget speech in early December, the rate of royalties on precious metals will increase from 3% to 3.5% with effect from 1 January 2010. In addition, the Act provides that the rate of Income Tax applied to mining companies would be increased from 15% to 25%.

10. ENVIRONMENTAL POLICY

The Corporation is committed to maintain the highest environmental standards such that its operations and/or its products do not present an unacceptable risk to its employees, its customers, the public or the environment. The Corporation and its subsidiaries operate under the Corporation's Environmental Policy that encompasses the following:

- The Corporation directs its employees and its subsidiary companies to conduct their exploration and operational activities in a professional, environmentally responsible manner, in compliance with all applicable legislation and policies in the jurisdictions in which they undertake business.
- The Corporation liaises closely with the applicable government regulatory bodies and the public to optimize communication and an understanding of the Corporation's activities in relation to environmental protection.
- The Corporation is committed to the diligent application of technically proven, economically feasible, environmental protection measures throughout its exploration, development, mining, processing and decommissioning activities.
- The Corporation, on a regular ongoing basis, monitors its environmental protection management programs to ensure their compliance with the applicable National and International regulatory requirements.

It is the responsibility of all the employees of the Corporation and its subsidiaries to carry out their employment activities in accordance with this code of practice. Operational line management has the direct responsibility for regular environmental protection management.

11. SUMMARY OF QUARTERLY RESULTS

The following information is provided for each of the 8 most recently completed quarters of Caledonia - ending on the dates specified - in thousands of Canadian Dollars. The figures are extracted from underlying unaudited financial statements that have been prepared according to Canadian GAAP.

(\$000's-except per share amounts.)	Dec 31/09	Sept 30/09	June 30/09	Mar 31/09	Dec 31/08	Sept 30/08	June 30/08	Mar 30/08
Sales from continuing operations	4,263	4,932	2,364	-	29	2,280	2,883	2,504
Income/(loss) for continuing operations -per share basic	(2,812) (0.006)	862 0.0017	(162) (0.0003)	(799) (0.0016)	(2,066) (0.0041)	(2,749) (0.0055)	(261) (0.0005)	791 0.0016
Discontinued operations (loss)	(67)	(36)	(37)	(40)	(531)	(30)	(24)	(70)
Net Income/ (loss) after discontinued operations - per share basic	(3,738) (0.007)	826 0.0017	(199) (0.0004)	(839) (0.0017)	(2,597) (0.0052)	(2,779) (0.0056)	(285) (0.0006)	721 0.0015
No of shares basic '000	500,169	500,169	500,169	500,169	500,169	500,169	500,169	493,199

Note: The effect of the dilution on the earnings per share has not been calculated as the result for 2009, 2008 and 2007 was a loss and the diluted earnings per share would be anti-dilutive.

During the 4th quarter Caledonia made gross operating profit of \$1,741,000 (\$185,000 – 2008) which resulted in a net loss before tax of \$2,810,000 (loss \$2,066,000 – 2008) from continuing operations which included an unrealized foreign exchange loss of \$80,000 (loss \$124,000 – 2008). Also included in the loss for the quarter was the impairment of mineral property of \$1,434,000 (\$1,168,000 – 2008), the provision for RBZ Gold Bond of \$2,502,000 (\$526,000 – 2008). The operating profit was achieved from the sale of 3,670 ounces (Nil – 2008) ounces of gold. The monthly operating costs (bulk consumable stores, labour costs, electricity, repairs and maintenance, training, health and safety) per ounce during the quarter were October US\$567, November US\$545, December US\$686. These monthly operating costs are negatively affected by the high fixed cost component attributable to employment costs of approximately \$307 per ounce. The current labour numbers, structure and cost base is virtually sufficient to achieve the increase production rate of 1,000 tpd with very little additional cost. The resulting cost per ounce is expected to decrease significantly as production levels increase.

Blanket's operational costs for the 4th quarter included total employment costs of \$1,126,000 (\$1,182,000 – Q3, \$840,000 – Q2, and \$403,000 – Q1 2009), consumables (excluding electricity) of \$1,634,000 (\$1,702,000 – Q3, \$371,000 – Q2, and \$321,000 – Q1 2009), and mine administration costs of \$215,000 (\$341,000 – Q3, \$230,000 – Q2 and \$175,000 Q1 - 2009). The dollarization of the economy has resulted in the increase in legislated employee remuneration rates as illustrated above, and management is monitoring this closely to ensure we are paying affordable and market related rates to ensure the scarce skills are attracted and retained.

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 are now 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. This exchange gain or loss has no direct effect on the activities of Caledonia. It is inappropriate to incorporate this exchange gain or loss in net income 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;
- (ii) revenue and expense transactions at the average rate of exchange prevailing during the period.

The discontinued operations relate to Barbrook and Eersteling Mines up to Q1 2008, thereafter Eersteling is the only discontinued operation. The loss on sale of Barbrook Mine was reclassified to discontinued operations in the fourth quarter of 2008.

12. INVESTING

During the 4th quarter 2009 Caledonia invested \$699,000 (\$521,000 – Q3, \$251,000 – Q2 2009 and \$76,000 – Q1 2009) in capital assets and mineral properties. Of the amount invested \$184,000 (\$165,000 – Q3, \$193,000 – Q2 2009 and \$74,000 – Q1 2009) was spent at Nama and \$501,000 (\$332,000 – Q3, \$17,000 – Q2 2009 and \$10,000 – Q1 - 2009) at Blanket.

13. FINANCING

Caledonia financed its operations, except Blanket, using funds on hand. No equity fund raising is currently intended during 2010. Caledonia's operations will be financed from existing cash resources

and loan repayments and surplus cash flow from Blanket. Blanket was granted a working capital loan facility of US\$1.25 million by its bankers in Zimbabwe and utilized \$588,000 of the facility by year end.

14. LIQUIDITY AND CAPITAL RESOURCES

With the increase of production at Blanket, inventory levels of consumables, spares and gold in process have risen to \$2,589, (\$1,059, - 2008). Accounts payable levels of \$2,156, (\$1,292, - 2008) have increased accordingly and this along with Corporate capital expenditure of \$1,547, has resulted in the cash balance at the yearend decreasing to \$1,622, (\$3,652, - 2008). The Rand Refinery payment from gold refining continues to be cleared within a contracted 10 day period thereby assisting the cash flow.

The failure by the RBZ to redeem the Bond will place strain on Blanket's working capital but it should not affect the completion of the #4 shaft expansion unless unanticipated problems are experienced with its forecast gold production or its drawdown of the Zimbabwean bank loan overdraft facility.

Blanket has been advised that additional overdraft facilities may be made available and the necessity of utilising these are being considered.

Caledonia has potential liabilities to do rehabilitation work on the Blanket and Eersteling Mines - if and when those Mines are permanently closed - at an estimated cost of \$1,730,000.

15. OFF-BALANCE SHEET ARRANGEMENTS

There are no off balance sheet arrangements.

16. RELATED PARTY TRANSACTIONS

The Corporation had the following related party transactions:

	<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.

17. CRITICAL ACCOUNTING POLICIES

The major areas where accounting estimates are made are asset impairment, asset retirement obligations, future tax liabilities and the recoverable amount of the Gold Bonds. As significant impairment provisions have already been made against the assets and there is a reasonable level of certainty around the estimate it is considered unlikely that any change in estimate would result in a material impact on the results of Caledonia. The asset retirement obligations are also considered to be estimated with a reasonable degree of certainty, although the original estimations were calculated some years ago. The estimation for Blanket was recalculated before December 31, 2009. The estimations are accreted annually at rates between 1.7% and 5% and thus any change in circumstances is considered unlikely to have a material impact on the results of Caledonia or its operations.

The estimated recoverable amount of the RBZ Bond has been calculated based on the weighted average probability of receiving payment. Based on the circumstances prevailing in Zimbabwe we have considered the probabilities of receiving payment over a number of different time periods ranging from 6 months from original redemption to 60 months. A discount factor of 43% was used in arriving at the estimated recoverable amount. The Corporation still believes the Bond redemption will be honoured by RBZ but the time period is considered uncertain due to the financial constraints evident in Zimbabwe.

The following accounting policy changes have been adopted as of January 1, 2009 and are more fully described in the Consolidated Financial Statements.

17.1 Changes in accounting policies:

(a) 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.

(b) 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.

(c) 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.

(d) 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 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.

(e) 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.

17.2 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.

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.

17.3 International Financial Reporting Standards

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Caledonia is assessing the adoption of IFRS for 2011 by using the services of an independent consultant to produce an Impact Assessment Report (“the Report”). The Report sets out the preliminary assessment of the potential impact of Caledonia’s conversion from Canadian GAAP to IFRS and was based on Caledonia’s publicly reported financial information for the year ended 31 December 2008.

The approach followed was:

- A review of Caledonia’s accounting policies and accompanying financial statements for the year ended 31 December 2008 and compared them with the requirements of IFRS; and
- Discussions with management to discuss the key differences between IFRS and Canadian GAAP and the applicability to Caledonia.

This approach provided Caledonia with a clear and concise format for understanding and communicating the effects of implementing IFRS to senior management, the Audit Committee and the

Board. Reference to the relevant standards and other authoritative material will be made and specific advice taken before acting if considered necessary.

It should also be noted that the Report primarily focuses on differences between IFRSs and Canadian GAAP from a recognition and measurement perspective and does not deal with disclosure requirements (except for the IFRS 1 disclosures), which will be addressed in the near future.

We have considered all standards and interpretations in issue at the date of the Report that will also be effective for Caledonia's first IFRS financial statements, being the year ending 31 December 2011. A review of the impact that the IFRS requirements would have on Caledonia's systems was not performed at this stage as all subsidiaries are operating in IFRS compliant jurisdictions.

IFRS 1 states that, if an entity becomes a first-time adopter later than its subsidiaries, the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements of the subsidiaries after adjusting for consolidation. Therefore, for the purposes of the transition to IFRSs, Caledonia would have to use the financial statements of these subsidiaries and cannot make any adjustments. However, Caledonia would have to assess the consolidation entries made to evaluate whether any IFRS 1 exemptions can be applied to these entries.

The areas that require additional work and quantitative evaluation are:

- Business combinations
- Deemed cost on property, plant and equipment
- Mineral property valuation.
- Decommissioning liabilities
- Exploration and evaluation assets

As Zimbabwe has emerged from a hyperinflationary environment into a US dollarized economy in 2009, a revaluation exercise has taken place on property, plant, and equipment ("PP&E") for the 2009 IFRS compliant annual financial statements in Zimbabwe. The residual values and useful remaining lives have also been reviewed. The outcome of this exercise will be evidenced in Caledonia's financial statements on transition to IFRS in 2011. Initial indications are that PP&E net book value would be approximately \$13 million higher and the resulting amortization expense is expected to be approximately \$1.9 million higher on an annual basis.

18. 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.

C\$'000s	2009		2008	
	US Dollars	SA Rand	US Dollars	SA Rand
Cash	1,230	40	1	1,386
Bank overdraft	588	-	-	-
Accounts	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.

C\$'000s	2009		2008	
	US Dollars	SA Rand	US Dollars	SA Rand
Cash	59	2	-	69
Bank overdraft	29	-	-	-
Accounts	106	11	159	10
Accounts payable	83	33	-	3

(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 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.

19. 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 short-term debt, long-term debt and 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

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

The increase in other comprehensive income 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 \$600,000 (Nil 2008) was charged to other comprehensive income/ (loss).

20. SECURITIES OUTSTANDING

As at December 31, 2009 the following securities were outstanding:

- (1) 500,169,280 common shares;
- (2) Options and warrants as follows:

Number	Description	Exercise Price	Expiry Date
32,580,000	Common share purchase options	Average \$0.1706	Various until May 11, 2016
Nil	Common share purchase warrants	-	

As Caledonia's Option Plan allows the granting of options on a number of shares equal to 10% of the issued shares, Caledonia could grant options on 50,016,928 shares. This figure includes any options previously exercised and the current unexercised options.

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 the Corporation’s shares which, in common with some 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 “disinterested” shareholders. This proposal will be submitted to the shareholders for approval at the 2010 annual general meeting of Caledonia’s shareholders to be held in May 2010.

21. CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Corporation’s President and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management of the Corporation, with the participation of the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Corporation’s disclosure controls and procedures as at December 31, 2009 as required by Canadian securities laws pursuant to the certification requirements of Multilateral Instrument 52-109.

The Corporation’s internal controls over financial reporting (“ICFR”) are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable Canadian GAAP.

Because of its inherent limitations, the Corporation’s ICFR may not prevent or detect any or all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Corporation has engaged independent consultants to carry out an assessment of the effectiveness of its internal controls over financial reporting using an internationally acceptable framework. Prior to this engagement, management concluded that the following disclosable material weaknesses existed as at December 31, 2009.

Unaccrued Liabilities

It was ascertained in 2009 that two invoices for exploration drilling in Zambia, which was conducted in November and December 2008, were not accrued in the 2008 annual financial statements. This error occurred as the contractor only raised the invoices on February 18, 2009 and they were passed to the Caledonia Africa office by its Zambian subsidiary company in March 2009 for payment. This has been confirmed as an isolated incident but, due to the amount involved of \$310, the comparative balance sheet for 2008 has been restated. In future the post reporting period payments will be reviewed to identify any accruals that are necessary and the management in Zambia has been instructed to forward any unpaid liabilities at the year and quarter ends to Caledonia’s Africa office. There is no known recurrence of any under-accrual at the end of 2009.

Segregation of duties

Due to limited personnel resources at the Corporation’s Africa office in Johannesburg, adequate segregation of duties within the accounting group was not achieved. This creates a risk that inaccurate entries could be made and not identified or corrected on a timely basis. The result is that the Corporation is highly reliant on the performance of mitigating procedures during its financial close processes in order to ensure the financial statements present fairly in all material respects. The Corporation continues to enhance and monitor this process to ensure that its financial accounting reporting system is able to prevent and detect potentially significant errors.

As a consequence of the above, an additional accounting member of staff was recruited in November 2009 to the Corporation's Africa office in Johannesburg to improve the segregation of duties and lighten the work load of existing staff.

Management has concluded, and the Audit Committee has agreed that taking into account the present stage of the Corporation's development, the Corporation does not have sufficient size and scale to warrant the hiring of any more additional staff to correct the segregation of duties weakness at this time. There were no changes in the Corporation's internal controls over financial reporting since the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

The Corporation has a Disclosure Committee consisting of four Directors, and has disclosure controls and procedures which it follows in an attempt to ensure that it complies with all required disclosures on an adequate and timely basis. The Corporation's Directors and Management, and the Disclosure Committee, are making all reasonable efforts to ensure that the Corporation's disclosures are made in full compliance with the applicable rules and requirements. All reasonable efforts are also being made to ensure that the Corporation's disclosure controls and procedures provide reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to the Corporation's Certifying Officers by others within those entities.

22. FORWARD LOOKING STATEMENTS

This Management Discussion and Analysis contains certain forward-looking statements relating but not limited to Caledonia's expectations, intentions, plans, and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "could", "should", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Caledonia undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

23. QUALIFIED PERSONS

Dr. Trevor Pearton, BSc Eng (Mining Geology), PhD (Geology) FGSSA, VP Exploration is the Corporation's qualified person as defined by NI 43-101. Dr. Pearton is responsible for the technical information provided on this MD&A except where otherwise stated. He was assisted where appropriate by outside consultants and/or qualified persons for joint-ventured projects. Mr. David Grant, is the Independent Qualified Person for the NI 43-101 report on the D resource area of the

Nama Property, prepared by Applied Geology and Mining (Proprietary)Limited whose Managing Director is Mr. Grant .