

2000 Annual Report



Caledonia
Mining Corporation

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Note: All figures in the 2000 Annual Report are in Canadian dollars unless otherwise noted.

Corporate Objective

Caledonia Mining Corporation (the "Corporation") was formed on February 5, 1992. The business objective of the Caledonia group of companies is to identify and acquire properties and projects early in the development cycle and then add value by operating or disposing of the asset at the most opportune time. The definition of operations for the Corporation can be described as the acquisition, funding, development, operating and thereafter the possible divestiture of property. The divestiture of property will occur at different points in time on the valuation curve possibly when the asset is in production or perhaps when it is at the exploration stage. The economics of the decision and the cash requirements of the Corporate group will govern the timing of any transaction.

Environmental Policy

Caledonia Mining Corporation (Caledonia) and its Board of Directors are 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 an environmental code of practice that encompasses the following:

- I. Caledonia directs its employees and its subsidiary companies to conduct their exploration and operations activities in a professional, environmentally responsible manner, in compliance with all applicable legislation and policies in the jurisdictions in which they undertake business.
- II. Caledonia 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.
- III. Caledonia is committed to the diligent application of technically proven, economically feasible, environmental protection measures throughout its exploration, development, mining, processing and decommissioning activities.
- IV. Caledonia on a regular ongoing basis monitors its environmental protection management programs to ensure their compliance with the applicable regulatory requirements.

It is the responsibility of all the employees of Caledonia 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.

(Signed) S. E. Hayden,
Chairman of the Board, President and
Chief Executive Officer

(Signed) J. Johnstone,
Vice-President Operations and
Chief Operating Officer

Performance Highlights

	2000	1999	1998	1997	1996
Financial - \$ Thousands					
Revenue from Sales	6,623	14,701	15,523	11,106	12,074
Gross Profit	304	2,090	2,771	1,249	1,812
Expenses (General and Administration, Interest and Amortization)	2,143	3,853	7,566	6,419	7,858
Net Income (Loss) - before Write-Downs	7,412	3,082	(4,439)	(9,650)	5,751
Net Income (Loss) - after Write-Downs	7,412	(7,460)	(50,437)	(58,095)	(3,758)
Cash	75	51	91	2,007	14,466
Current Assets	200	2,179	4,175	4,148	18,554
Assets	25,063	33,189	50,831	97,014	155,365
Current Liabilities	2,556	5,143	7,678	17,864	13,700
Long Term Liabilities	1,813	21,747	34,032	26,555	27,104
Working Capital (Deficiency)	(2,356)	(2,964)	(3,503)	(13,716)	4,854
Shareholders' Equity	20,694	6,299	9,121	56,740	114,561
Total Capital Expenditures	-	345	464	6,916	11,678
Expenditures on Mineral Properties	120	353	2,458	8,195	22,011
Financing Raised	979	497	2,452	3,419	33,564
Share Information					
Market Capitalization (\$ Thousands)	10,374	3,441	4,578	13,706	97,810
Shares Outstanding (Thousands)	148,202	68,830	41,615	33,429	32,603
Warrants & Options (Thousands)	7,566	7,566	3,986	3,961	4,588
Earnings (Loss) per Share	0.08	(0.12)	(1.35)	(1.78)	(0.12)
TSE Share Price High	0.35	0.15	0.72	4.20	9.75
TSE Share Price Low	0.05	0.05	0.09	0.35	2.60
TSE Share Volume (Thousands)	22,939	16,397	6,254	5,978	6,498
Operating Results ⁽¹⁾					
Gold Production (Ounces)	14,558	32,300	32,567	28,903	29,238
Silver Production (Ounces)	122,665	240,675	227,945	125,590	151,056
Average Cost per Ounce Gold (US \$) Sold	240	204	216	246	301
Average Revenue per Ounce Gold (US \$) Sold	285	288	296	327	364
Year End Gold Resource (Thousand Ounces)	2,930	3,487	3,519	3,526	3,619

⁽¹⁾ Filon Sur to June 30 for year 2000 only.

Letter to Shareholders

The resource industry again experienced another difficult year during 2000 as the gold and silver prices, remained at cyclical lows and the market capitalization of most resource companies, particularly the 'junior' resource companies, continued their dramatic declines. Market conditions which existed in 1998 and 1999 continued in 2000, including the continued recession in Asia, sustained weak metal prices and reduced investor interest in the mining business adversely affected the ability of Caledonia to raise debt or equity capital. Due to the cyclical nature of mining, the resource industry has experienced these times before and while it is difficult today, optimism for the near future continues. During 2000, Caledonia continued its cost reduction programme, by further reducing its corporate overheads, by allocating funds only to those programmes which are of the most strategic importance to the Corporation and by continuing to search for joint venture partners to finance its exploration projects. Whilst one of its joint venture agreements was cancelled by the Corporation in mid 2000, another two new joint venture agreements with major mining companies (BHP and Ashton Mining) were negotiated during 2000.

As in 1999, the focus of the Corporation was the protection of its assets and the continued restructuring of the corporate balance sheet. The conclusion of the sale of the Corporation's shareholding in Filon Sur has resulted in a significant reduction in the Corporation's debt. Although this transaction resulted in the sale of both Filon Sur and Fynegold assets by the Corporation, it also resulted in access to short term financing by the Corporation, the removal of all long term debt and liabilities from its balance sheet, and a management services contract with Filon Sur that will remunerate the Corporation with 30% of Filon Sur's distributable cash flow. This resulted in management fee revenue of \$109,000 from July to December 2000 from Filon Sur. As a consequence of the sale of Filon Sur, the Corporation issued 79,371,973 common shares of the Corporation in settlement of the US\$4,200,000 Note. Further details of the transaction are contained in note 4 of the notes to the financial statements.

During 2000, exploration work continued on all of the company's exploration licences in Zambia and at the Kikerk Lake property in Northern Canada. Development of the Company's properties is the key component of the Corporation's strategy and will be the catalyst that adds value to the Corporation and enhances the potential for shareholders to realize a return on their investment. To conserve its financial resources and ensure that it could maintain its existing assets, the Corporation did not acquire any new properties in 2000. The development of its existing properties positions the Corporation to take advantage of anticipated improving economic conditions, particularly the improving mining environment in Zambia.

My thanks to our management, directors, staff, joint venture partners and especially our shareholders for supporting the Corporation's activities during the challenges and opportunities of another difficult year. The management and directors look forward to your continued confidence as we work together to achieve the objective of building Caledonia into a significant international mining company.

On behalf of the Board of Directors,

(Signed) S. E. Hayden,
Chairman of the Board, President and
Chief Executive Officer
May 7, 2001

Activity Report on Properties

The Corporation owns a portfolio of diversified properties in Canada, Zambia, South Africa, and D.R. of Congo of excellent potential containing gold, diamond and base minerals. These properties, most of which are under joint venture agreements with major mining companies, are the key assets of the Corporation that should, in future, provide shareholders with significant returns. However, the realization of value from a resource property requires time, money and expertise. It is the strategic objective of Caledonia to enter into joint venture agreements with major mining companies in order to conserve cash resources and draw on the expertise and skills of joint venture partners to develop these properties.

This annual report presents only those properties where there has been significant activity during the current year. Where properties have been largely inactive, no descriptive report is presented. Information on these properties can be obtained by referring to the 1997, 1998 and 1999 annual reports. Copies of these reports can be obtained from the Caledonia Head Office in Mississauga, Ontario, Canada or from our website at "www.caledoniamining.com".

Gold

Agreement with Spring Hills Trading Limited - South Africa

In November, 2000 the Corporation signed a Heads of Agreement with Springs Hills Trading Limited ("Spring Hills") regarding a Purchase and Option Agreement for the Corporation's shareholding in the Barbrook and the Eersteling Gold Mines in South Africa. Both of these mines have been on care and maintenance since 1997. Under the Agreement, Spring Hills can purchase 49 % of Caledonia's shareholding in Eersteling and 49% of Barbrook and its holding companies for a total consideration of US\$7,000,000. Once Spring Hills has purchased the 49% interest in Eersteling and Barbrook, it can then exercise an Option to acquire the Corporation's remaining 51% interests in the Companies, for a further US\$7,000,000. The total sales price is US\$14,000,000.

Spring Hills has discharged only some of its obligations to Barbrook's creditors and has not made any of the scheduled payments to Caledonia. The Corporation considers Spring Hills to be in default of its agreements with the Corporation and has issued the necessary legal notice to Spring Hills cancelling the Agreements. Any expenditures made by Spring Hills are forfeited to the Corporation and the Corporation is proceeding to claim damages from Spring Hills' for non performance. The Corporation is considering a number of alternatives for Barbrook, including operating the mine on its own. Discussions are also being held to examine the possibility of a third party assuming Spring Hills role under a similar agreement. In the meantime, until these discussions are completed Barbrook is producing gold and certain of its current liabilities have now been satisfied.

Barbrook - South Africa

The Barbrook Mines Limited operation is located near the town of Barberton in the Mpumalanga province of South Africa. The mine was placed on care and maintenance in July 1997. This situation continued through 2000 until re-commissioning of the mine was started by Spring Hills processing surface oxide ores. In 1997 the monthly underground mining and milling rate was 17,000 tonnes of ore. Design capacity of the plant is 30,000 to 40,000 tonnes per month for free-milling oxide ores or 25,000 tonnes per month for the refractory sulfide ores. Approximately 105,000 tonnes of underground ore is immediately available for mining when operations resume.

RESOURCES (Undiluted) - as at December 31, 2000			
Resource category	Tonnes	Gold Grade - g/tonne	Gold Ounces
Measured	830,071	6.68	178,292
Indicated	954,457	6.12	187,798
Inferred	9,202,524	6.51	1,926,068
Oxide Reserves and Resources	1,508,617	2.21	107,331
Total Mineral Resource	12,495,669	5.97	2,399,489

Eersteling - South Africa

The Eersteling Gold Mining Company Limited is listed on the Johannesburg Stock Exchange and is 96% owned by Caledonia. The mine is located near the town of Pietersburg in the Northern Transvaal in South Africa. Production was halted in early 1997 due to the prevailing low gold prices. The property is less than 10% explored. Spring Hills commenced the re-commissioning of the plant in December 2000. The mine will remain on care and maintenance until production at Barbrook has been stabilised.

RESOURCES (Undiluted) - as at December 31, 2000			
Resource category	Tonnes	Gold Grade - g/tonne	Gold Ounces
Measured	60,527	7.43	14,457
Indicated	537,232	7.78	134,382
Inferred	2,048,961	5.79	381,600
Total Mineral Resource	2,646,720	6.23	530,439

Filon Sur - Spain

In September, 2000 the Corporation completed the Agreements with the Canadian Imperial Bank of Commerce ("CIBC") and the OAK Consortium ("OAK") of Zurich, Switzerland for the sale and debt restructuring of the Corporation's subsidiary Filon Sur S.A. The Corporation sold its shareholdings in Filon Sur and Filon Sur's wholly owned subsidiary company Fynegold Exploration Limited ("Fynegold") to OAK and transferred to OAK all intercorporate debt from Filon Sur and Fynegold. CIBC cancelled and returned to the Corporation the limited guarantee of the Filon Sur's outstanding debt, amounting to almost US\$7 million.

The Corporation continues to provide management services to Filon Sur. The Management Services are provided in return for compensation, being 30% of the operating monthly cash-flow produced by Filon Sur. In 2000, this amounted to \$109,000 from July to December 2000. Production in 2000 was 26,600 ounces of gold and 237,000 ounces of silver at an average cash cost per ounce of US\$240 per ounce of gold sold after credit for the silver sales. Whilst silver production volumes are comparable with those achieved in 1998 and 1999, gold production was slightly lower due to the lower feed grade processed and lower plant gold recovery in 2000. The following table shows the five year production history at Filon Sur.

PRODUCTION HISTORY					
	2000	1999	1998	1997	1996
Ore Crushed (tonnes)	947,704	951,065	989,167	728,994	494,046
Gold Grade (grams/tonne)	1.49	1.61	1.78	1.53	2.00
Gold Recovered (ounces)	26,604	32,300	32,567	21,776	20,411
Silver Recovered (ounces)	237,010	240,675	227,945	125,590	151,056
Revenues (millions \$) ⁽¹⁾	6.62	14.70	15.52	11.11	11.49
Operating Cash Flow (millions \$) ⁽¹⁾	0.2	1.05	1.73	0.60	2.19
Net Profit (Loss) (millions\$) ⁽¹⁾	(2.5)	(1.51)	(0.44)	(0.50)	0.64

⁽¹⁾ Revenue, Operating Cash Flow and Net Loss for 2000 to June 30 only.

Base Metals

Kananga: Nickel / Chromium / Cobalt / Copper / Diamond - D.R. of Congo

The concession is held 80% by Caledonia Kananga S.P.R.L. which is owned 100% by Caledonia. The remaining 20% of the concession is held by the Democratic Republic of Congo. The 13,740 km² concession area has a number of documented alluvial gold areas west and south west of the town of Dibaya in the Kasai Province of the D. R. of Congo. Reconnaissance exploration of target areas indicated by a desk study will commence once resolution of the political instability in the D. R. of Congo permits safe access.

Nama: Copper / Cobalt - Zambia

Caledonia Mining Nama Limited, 100% owned by Caledonia, holds four exploration licences which cover 1,148 km² in northern Zambia and host near-surface low grade cobalt mineralization. A soil sampling program has been completed over the majority of the licence area and has identified a number of high priority anomalous targets within the required geological setting. These require to be followed up in the search for possible sulphide ore bodies. In January, 2001 the Corporation was awarded a fifth licence, the Konkola West licence, which covers an additional 128km² and is located immediately to the east of the Nama licence area and west of the Konkola mining area which was recently privatized by the Zambian government. Consequently Anglo American Corporation are now the major shareholder of the Konkola and Nchanga Divisions. The Konkola West licence area was acquired due to its location - east of the Corporation's Nama licence area as the oxide mineralization identified from the 1995/97 Nama drilling program continues into the Konkola West licence. Exploration information gained at Nama will be invaluable in developing exploration models and strategy at our nearby Katanga Joint Ventures in the D. R. of Congo and the Konkola West licence area.

In August, 2000 the Corporation signed a heads of agreement with BHP World Exploration Inc. ("BHP") over the Nama Licence group. The joint venture agreement, identified as the "Kalimba Project" covers the 4 original licence areas for the exploration for copper, cobalt, nickel, manganese, gold and silver but excludes the 970 million tonne cobalt oxide resource which was identified and drilled by the Corporation in 1995 to 1997 and which will be further developed by the Corporation. BHP can earn a 30% interest in Kalimba by funding 100% of all exploration expenditures to a total of US\$2,500,000 in a four year period to August, 2004. A minimum of \$200,000 will be spent in year 1, \$500,000 in year 2, \$800,000 in year 3 and \$1,000,000 in the 4th year. BHP will be the Manager of the Kalimba Project and will utilize Caledonia's Zambian resources in the exploration program. At BHP's discretion, it can fund 100% of the expenditures necessary for conducting operations in the licence area to a total of \$6,500,000, prior to August 2004, at which time it will have earned a 50% interest in the joint venture which will be formed at that time.

Providing that BHP has earned a 50% participating interest in the joint venture it may at its discretion, earn a 75% interest by completing a feasibility study prior to February 2007.

As part of the Kalimba Project a total of 2,260 geochemical soil samples were taken during 2000 - these were sent to Canada for analyses. Based on the results from these soil samples either additional soil sampling will be undertaken in 2001 to further define any anomalies or drilling targets will be identified.

Kadola Group: Gold / Copper / Cobalt / Nickel / Pyrite - Zambia

The Corporation's wholly-owned subsidiary, Caledonia Mining Kadola Limited, holds three exploration licences covering 6,099 km² of the southernmost extension of the "Zambian Copperbelt". Within the licence areas, several distinct targets have been identified. A joint venture with Cyprus Amax was in existence between 1997 and 2000, during which period Cyprus managed and operated the programs and spent about \$1,700,000 on exploration. Upon the withdrawal of Phelps Dodge (the purchasers of Cyprus Amax) from exploration activities in Zambia, the property reverted 100% to the Corporation. A new joint venture partner is being sought for the three licence areas.

The Kadola Licence has significant target areas of interest. These include:

Eureka Prospect: Copper / Gold

The whole of the Eureka Prospect, which is located on the south west portion of Kadola has been geochemically soil sampled, and the area covered by IP and magnetic Geophysics. A previous shallow drilling program indicated some significant copper and gold intersections. Mineralogy of the deepest drill hole shows

a combination of 'oxide', mixed oxides, sulphides and sulphide minerals present. Preliminary metallurgical testing on this copper/gold sample indicated a good response to the flotation of the oxide and sulphide minerals and to sulphuric acid leaching of the oxides.

Jack's Prospect: Copper

Cyprus reported that the drilling carried out at Jack's Prospect, whilst not intersecting ore-grade copper, showed that the mineralization intersected confirms the prospectivity of the syncline area. Cyprus stated that further drilling was justified as the present drill holes were 2,000 metres apart along strike and the bulk of the geochemical soil anomaly remains untested.

Bopalo Prospect: Copper

A series of 3 drill holes in 1997 indicated mildly encouraging copper values. An IP geophysics program followed in 1999 which covered the 'saddle anomaly' based on the MMI copper response. Two drill holes, located about 1000 metres apart, drilled in late 1999 intersected significant copper mineralization. One hole intersected copper mineralization over 150 metres at a depth of 55 metres with copper grades greater than 1% restricted to the deeper bornite bearing quartzite mineral. The second borehole encountered similar stratigraphy without significant bornite mineral. Cyprus commented that the significant copper mineralization within a favorable tectonic environment, denoted that the remainder of the anomaly warrants follow-up drilling both along the saddle and along the attenuated eastern limb.

Kadola West Prospect: Copper

This is a copper/cobalt prospect located on the northern edge of the Kadola Licence. In 1996/97 a 31 hole drilling program identified a resource. Further work is required to outline the size and grade of this resource.

Katanga: Copper / Cobalt / Gold - D. R. of Congo

Caledonia has a joint venture agreement with SODIMICO (Société de Développement et Minier du Congo) in the D. R. of Congo over the Lubembe North deposit. A soil sampling program was conducted with SODIMICO in late 1999 and 2000. Additional work is planned to commence as soon as the political situation stabilizes in the D. R. of Congo.

Diamonds

Kikerk Lake - Canada

In August 2000, the Corporation signed an Option Agreement with Ashton Mining (Northwest Territories) Ltd ("Ashton") on the Corporation's 70% owned Kikerk Lake Property. The remaining 30% interest in the property is owned by Northern Empire Minerals Ltd. ("Empire"). Ashton can, by spending \$250,000 by 31st May 2002, earn a 35% interest in the property. Ashton can then earn a total interest of 52.5% in Kikerk Lake, by spending a further \$500,000 before May 31st 2003. In addition, Ashton can increase its interest to 59.5% by carrying the Corporation up to and including the completion of a feasibility study. In 2000, Ashton completed an in-fill till sampling program and have expended their initial \$100,000 commitment and can thereby proceed to spend the \$150,000 commitment on the property by May 2002.

Empire who have a 30% interest in the property, claims that it had the right of first refusal on the Corporation's interest which can be acquired by Ashton. The Corporation denies that Empire has any first refusal rights and believes that the Empire claim is without merit.

Zambia

The Corporation has a joint venture agreement with BHP World Exploration Inc. and its affiliate Motapa Diamonds Inc., collectively "the BHP Entity", on the Mulonga Plain, Kashiji Plain and Kakenge River licences in Western Zambia. Motapa is the project operator on behalf of the Joint Venture. By October 2000 the BHP Entity had fulfilled its obligation to spend an initial US\$3 million on the property and is now vested with a 60% participating interest. The following results were taken from a report prepared for the Joint Venture by Mineral Services International Ltd. of Cape Town, South Africa on behalf of Motapa Diamonds Inc.

Mulonga Plain:

During 2000 at Mulonga Plain high interest kimberlite indicator mineral (“KIM”) areas were identified from the results of previous 2km x 2km grid sampling and reconnaissance sampling. A series of closer spaced grids (500m x 500m) were placed within these high interest areas. A total of 2,129 grid samples were collected for KIM analysis.

An additional 57 geophysical targets were selected for sampling. Nine sample grids were placed over selected high interest geophysical targets to further evaluate the kimberlite indicator results from these targets. Thirty six deflation samples were also collected over interesting magnetic features identified in the aeromagnetic survey data. A total of 548 samples were collected over geophysical targets.

Other sampling consisted of 192 orientation loam samples collected from N-S traverses across the Mulonga Plain and one bulk stream sediment sample collected from a small stream in the Matabele Plain.

Geophysical surveys, consisting of ground magnetics and ground gravity, were conducted concurrently with the sampling. Forty-three magnetic grids totalling 1462 line km. were surveyed covering a total of 67 targets. A total of 44 ground gravity targets were followed up with gravity crosses. In addition, several larger gravity grid surveys were carried out.

The Mulonga Plain reverse circulation drilling program was conducted from early September to late November. Two drill contractors were employed. However, poor ground conditions and equipment problems presented significant technical difficulties for both contractors, as a result drilling progress was slower than anticipated. In all, the base of the Kalahari sequence was intersected at three of the six targets drilled. The experience gained from this program is being used to design the 2001 drilling program and to assist with drilling contractor and equipment selection.

Kashiji Plain:

This licence area is located in Northwest Zambia, adjacent to the Angolan border.

Follow-up sampling was limited to the north-central portion of the licence and focussed around positive KIM recovery sites located in Phase 1. Stream sediment samples were obtained from prospective trap sites at varying intervals within both the Muho and Kashiji rivers. Deflation samples were collected on a sample spacing of 1.5 km across the dry flood plains. A total of 193 samples were collected for KIM analysis.

Bulk stream sediments were also collected from three sites along the Zambesi River.

Kakenge River Licence:

The Kakenge licence lies immediately east of the southern portion of the Mulonga licence and is along strike of the defined anomalous area within the Mulonga licence. During the review of the 1999 results two sample sites yielded kimberlitic indicator minerals on the western side of the licence area, however the eastern portion of the licence was found to have little potential for kimberlitic occurrences and was relinquished. Follow-up sampling was conducted on the retained licence area in 2000, particularly around the two positive sites. Twenty follow-up samples for KIM analyses were collected consisting of anthill deflation, deflation and stream samples.

Results from all exploration work is being evaluated and will be used in determining the future program for the three licence areas.

Management Discussion and Analysis of Financial Results

Forward-looking Statements

Statements regarding the Corporation's expectations as to the effectiveness of its plan of business, exploration and development programs, production of gold and certain other information presented in this report constitute forward looking statements (as defined in the US Securities Exchange Act of 1934). Such statements are based on assumptions and estimates related to future economic and market conditions. While the reasonableness of such assumptions and estimates is reviewed by management, unusual or unanticipated events may occur which render them inaccurate. Under such circumstances, future performance may differ materially from present expectations.

General

As was the case in 1998 and 1999, the Corporation continued to experience difficult economic times during 2000 as did other companies in the junior resource industry. The primary focus of management was the procurement of financing to continue operations, the continuing development of the assets of the Corporation and the implementation of a practical debt restructuring program.

During the period from mid 1994 to early 1995 Caledonia expanded rapidly with the acquisition of the Barbrook and Eersteling gold mines in South Africa, the Cononish gold property in Scotland and the acquisition of essentially 100% of the remaining interest of the Filon Sur gold mine in Spain, which was not already owned by the Corporation. Exploration activities were pursued for alluvial diamonds in the Northwest Territories of Canada and other property interests were added to the property portfolio in southern Africa. During this period, gold revenue per ounce was in the US\$400 range and the Corporation was optimistic that the two South African gold mines could be brought successfully into production. Plans were also underway to develop the gold property in Scotland. The expansion programme was financed in part by the issue of common stock during a period when the share price achieved an all time high of \$13.13 per share. Debt financing was also used for the expansion resulting in the issue of approximately \$20.4 million of convertible debentures. Bank financing of US\$10.5 million US was used to expand the production capacity of the Filon Sur gold mine in Spain.

Subsequent to this expansion activity, revenue derived from gold production started to decline due to the falling price of gold and market support eroded as investors searched for better returns from other industry sectors. In response, the Corporation cut back dramatically on exploration programs, placed higher cost gold mining operations on care and maintenance status and slashed administrative expenditures. Discussions during 1999 with CIBC for a further restructuring of the Filon Sur debt continued, culminating in an agreement to sell Filon Sur and gain access to future financing for the Corporation. Similarly, discussions with the Debenture holders resulted in the conversion of the debentures to stock in 1999.

Sale of Filon Sur and Future Financing

In September 2000, the Corporation completed the previously announced sale and debt restructuring of the Corporation's subsidiary Filon Sur. As part of the transaction, CIBC cancelled and returned to the Corporation its limited recourse guarantee of Filon Sur's outstanding debt amounting to about US\$7.0 million. The Agreement also provided for access by the Corporation to funding from Oak to continue operations and called for the Corporation to enter into a management services agreement to manage Filon Sur upon behalf of the new owners. Consideration for providing this service is 30% of the distributable cash flow of Filon Sur. CIBC will receive the remaining 70% of distributable cash flow as repayment of the Filon Sur debt owing to CIBC.

The specifics of the transaction are contained in the 1999 Annual Report.

As a result of this transaction, the Corporation no longer consolidates the operations of Filon Sur and Filon Sur's subsidiary Fynegold. The Corporation is essentially debt free, except to the extent of financing provided by Oak and creditors and continues to have access to a potential cash flow from Filon Sur for the performance of management services. The Corporation is also free from its obligations to CIBC resulting from the Filon Sur loan and is well positioned to move forward with its three promising joint venture exploration projects.

Results of Operations

For the year ended December 31, 2000, the Corporation recorded net income of \$7.4 million (\$0.08 per share) compared to a net loss of \$7.5 million (\$0.12 per share) in 1999 after gains from the conversion of the debenture, net of the loss on the sale of Filon Sur, of \$9.0 million in 2000 and \$5.3 million in 1999. There were no write-downs of capital assets and mineral properties recorded in 2000 compared with \$10.5 million in 1999. Despite the difficulties experienced by the mining industry in 2000 with continuing low gold prices, the Corporation moved forward on several fronts. Exploration activities by the Corporation's joint venture partners continued in Zambia and the expanded plant at the Filon Sur gold mine in Spain continued to operate at design capacity. Two additional joint ventures were negotiated - one in Zambia with BHP, the other in Nunavut, Canada with Ashton Mining of Canada.

In 2000, the sole contributor to revenue from sales was the Filon Sur gold mine in Spain in an amount of \$6.6 million as compared to \$14.7 million in 1999. The decrease in revenue in 2000 is due to a lower gold production as the mine was sold in June 2000. Ounces of gold sold in the calendar year at 26,600 were down significantly from the 1999 level of 32,300 ounces, due to lower feed gold grades and plant gold recovery.

The lower gold sales in 2000 resulted in a gross profit decreasing to \$0.3 million from \$2.1 million in 1999. Gross profit is defined as sales revenue less cost of sales, but includes management services fee revenue. Cost of sales includes all direct operating costs of production excluding amortization and financing costs but including administrative expenses at the mine location.

The production and sale of gold for 2001 is difficult to estimate, and will depend on the production levels achieved at Barbrook.

Liquidity and Capital Resources

As of December 31, 2000 the Corporation had a working capital deficiency of \$2.4 million compared to a deficiency of \$3.0 million at December 31, 1999. Cash and short term deposits increased from \$0.05 million at the end of 1999 to \$ 0.07 million at December 31, 2000.

During 2000, the Corporation did not carry out any equity financing from private placements. The cash requirements of the Corporation were met from access to short term financing from Oak and the management services fee revenue from Filon Sur upon completion of the sale of Filon Sur to Oak. During 2001 it is expected that the cash requirements of the Corporation will be met from management services fee revenue from Filon Sur, and from equity financing from private placements.

Efforts will continue during 2001 for the sale of certain assets for cash or a share in cash producing mining operations.

Corporate Governance Practices

The Toronto Stock Exchange Committee on Corporate Governance in Canada issued a report in December, 1994 containing guidelines for effective corporate governance of corporations. The by-laws of The Toronto Stock Exchange were subsequently amended to require each listed corporation incorporated in Canada to make annual disclosure of its corporate governance practices with reference to those guidelines. The Board believes that sound corporate governance practices are essential to the effective operation of the Corporation and that these practices should be reviewed regularly to ensure that they are appropriate.

The Corporation's directors and management have responded to the need to establish forward-looking governance policies and to constantly evaluate and modify them to ensure their effectiveness. Caledonia's disclosure is set out in the Management Proxy Circular relating to the Corporation's June 29, 2001 Annual and Special Meeting of Shareholders. This disclosure statement has been prepared by the Corporate Governance Committee of the Board and has been approved by the Board of Directors.

Management's Responsibility for Financial Reporting

To the Shareholders of Caledonia Mining Corporation:

The accompanying consolidated financial statements of the Corporation were prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and within the framework of the summary of significant accounting policies in these consolidated financial statements. Management is responsible for all information in the annual report. All financial and operating data in the annual report is consistent, where appropriate, with that contained in the consolidated financial statements.

A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee composed of three directors, two of whom are not members of management. This Committee meets with management to assure that it is performing its responsibility to maintain financial controls and systems and to approve the annual consolidated financial statements of the Corporation. The Audit Committee also meets with the independent auditors to discuss the results of their audit, their review of internal accounting controls and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited on behalf of the shareholders by the Corporation's independent auditors, BDO Dunwoody LLP, in accordance with generally accepted auditing standards. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

(Signed) S. E. Hayden
Chairman of the Board, President and
Chief Executive Officer

(Signed) S. W. Poad
Vice-President Finance
and Administration

Auditors' Report

**To the Shareholders of
Caledonia Mining Corporation**

We have audited the consolidated balance sheets of Caledonia Mining Corporation as at December 31, 2000 and 1999 and the consolidated statements of deficit, operations and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financials statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) BDO Dunwoody LLP
Chartered Accountants

Toronto, Ontario
May 7, 2001

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

December 31	2000	1999
Assets		
Current		
Cash and short term deposits	\$75	\$51
Accounts receivable	118	841
Inventories (Note 1)	-	1,284
Prepaid expenses	7	3
	<u>200</u>	<u>2,179</u>
Capital assets (Note 2)	7,505	13,620
Mineral properties (Note 3)	17,358	17,390
	<u>\$25,063</u>	<u>\$33,189</u>
Liabilities and Shareholders' Equity		
Current		
Account payable	\$1,577	\$3,903
Loan payable (Note 4)	979	-
Current portion of long term debt (Note 5)	-	1,240
	<u>2,556</u>	<u>5,143</u>
Long term debt (Note 5)	-	8,939
Deferred foreign exchange gain	-	626
Provision for site restoration	1,026	1,026
Deferred gain on conversion of the convertible debentures (Note 5)	-	10,216
Non-controlling interest	787	940
	<u>4,369</u>	<u>26,890</u>
Shareholders' Equity		
Share capital (Note 6)	143,026	136,838
Deficit	(122,332)	(129,744)
Foreign currency translation adjustment	-	(795)
	<u>20,694</u>	<u>6,299</u>
	<u>\$25,063</u>	<u>\$33,189</u>

On behalf of the Board:

 (Signed) S. E. Hayden Director

 (Signed) F. C. Harvey Director

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

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

For the years ended December 31	2000	1999
Deficit , beginning of year	(\$129,744)	(\$122,284)
Net income (loss) for the year	<u>7,412</u>	<u>(7,460)</u>
Deficit , end of year	(\$122,332)	(\$129,744)

Consolidated Statements of Operations
(in thousands of Canadian dollars except per share amounts)

For the years ended December 31	2000	1999
Revenue and operating costs		
Revenue from sales	\$6,623	\$14,701
Revenue from management services	109	-
Operating costs	<u>6,428</u>	<u>12,611</u>
Gross profit	<u>304</u>	<u>2,090</u>
Costs and expenses		
General and administrative	1,225	912
Interest	41	1,078
Amortization	877	1,863
Other expense (income) (Note 9)	(245)	480
Mineral properties written off (Note 3)	-	10,038
Capital assets written down (Note 2)	<u>-</u>	<u>504</u>
	<u>1,898</u>	<u>14,875</u>
(Loss) before the undernoted	<u>(1,594)</u>	<u>(12,785)</u>
Net gain on conversion of the convertible debentures and sale of subsidiary companies - net (Note 5)	<u>9,003</u>	<u>5,310</u>
Income (loss) before income taxes	<u>7,409</u>	<u>(7,475)</u>
Income taxes (Note 7)	<u>-</u>	<u>16</u>
Income (loss) before non-controlling interest	<u>7,409</u>	<u>(7,491)</u>
Non-controlling interest	<u>3</u>	<u>31</u>
Net income (loss) for the year	<u>\$7,412</u>	<u>(\$7,460)</u>
Income (loss) per share (Note 8)		
Basic	<u>\$0.080</u>	<u>(\$0.120)</u>
Fully diluted	<u>\$0.075</u>	<u>\$-</u>

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

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

For the years ended December 31	2000	1999
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	\$7,412	(\$7,460)
Adjustments to reconcile net cash from operations (Note 10)	(8,257)	7,240
Changes in non-cash working capital balances (Note 10)	731	(13)
	<u>(114)</u>	<u>(233)</u>
Investing activities		
Cash given up on sale of Filon Sur	(721)	-
Proceeds on sale of capital assets	-	394
Purchase of capital assets	-	(345)
Expenditures on mineral properties	(120)	(353)
	<u>(841)</u>	<u>(304)</u>
Financing activities		
Loan payable	979	-
Long term debt repayment	-	(343)
Deferred foreign exchange gain on long term debt	-	58
Issuance of share capital, net of issue costs	-	898
	<u>979</u>	<u>497</u>
Increase (decrease) in cash for the year	24	(40)
Cash and cash equivalents, beginning of year	51	91
Cash and cash equivalents, end of year	\$75	\$51

Caledonia Mining Corporation
Summary of Significant Accounting Policies
December 31, 2000 and 1999

Nature of Business

The Company is engaged in the acquisition, exploration and development of other mineral properties for the exploitation of base and precious metals. The ability of the Company to recover the amounts shown for non-producing properties is dependent upon the existence of economically recoverable reserves; the ability of the Company to obtain the necessary financing to complete exploration and development; and future profitable production or proceeds from the disposition of such properties.

In addition, the Company manages Filon Sur, SA ("Filon Sur"), a former subsidiary as of June 30, 2000, on behalf of private investors.

Caledonia Mining Corporation

Summary of Significant Accounting Policies (continued)

December 31, 2000 and 1999

Basis of Presentation

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

Measurement Uncertainties

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring estimates relate to mineral resources, future cash flows associated with capital assets and mineral properties. Management's calculation of mineral resources and cash flows are based upon engineering and geological estimates and financial estimates including gold prices and operating costs. Actual results could differ from those estimated.

In 1999, the Company reduced the carrying amounts of capital assets and mineral properties by \$504 and \$10,038 respectively (expressed in thousands of Canadian dollars).

The carrying amounts are based upon management's internal estimates. The amount ultimately recovered could be materially different.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company together with all its subsidiaries.

The Company's principal consolidated subsidiaries are Barbrook Mines Limited (100% owned) ("Barbrook"), Eersteling Gold Mining Company Limited (96% owned) ("Eersteling") and Caledonia Mining (Zambia) Limited, Caledonia Kadola Limited, Caledonia Nama Limited and Caledonia Western Limited (all 100% owned) (collectively known as "Caledonia Zambia").

Effective with the close of business on June 30, 2000, the Company recorded the sale of Filon Sur (previously 99.5% owned) and Filon Sur's wholly owned subsidiary, Fynegold Exploration Limited ("Fynegold") to the Oak Consortium ("Oak"), a group of private investors, as part of the debt restructuring of Filon Sur. Accordingly, these consolidated financial statements reflect the operating activities of Filon Sur and Fynegold up to the close of business as of June 30, 2000. Consolidated results for 1999 reflect a full year of Filon Sur and Fynegold operating activities. The Company's revenue from sales and operating costs were principally derived from the Filon Sur operation for the first six months of 2000.

Inventories

Inventories are stated at the lower of cost, which is determined on the first-in, first-out basis, and net realizable value.

Capital Assets

Producing Assets

Producing assets are recorded at cost less government grants, accumulated amortization and write-downs.

Producing assets are amortized using the straight line method based on the estimated useful lives of the assets. The estimated useful life of the producing assets range from 3 to 5 years. Repairs and maintenance expenditures are charged

Caledonia Mining Corporation

Summary of Significant Accounting Policies (continued)

December 31, 2000 and 1999

to operations; major improvements and replacements which extend the useful life of an asset are capitalized and amortized over the remaining useful life of that asset. As of December 31, 2000, the Company does not have any producing capital assets.

Non-Producing Assets

Non-producing assets are recorded at cost less write-downs. During non-producing periods, no amortization is recorded. At the time of commercial production, the assets are reclassified as producing and amortized in the manner described above.

Mineral Properties

Producing Properties

When and if properties are placed in production, the applicable capitalized costs are amortized using the unit-of-production method on the ratio of tonnes of ore mined or processed to the estimated total measured, indicated and inferred mineral resources as defined by the "Australasian Code" and which are profitable under prevailing economic conditions. As of December 31, 2000, the Company does not have any producing mineral properties.

Non-Producing Properties

Costs relating to the acquisition, exploration and development of non-producing resource properties which are held by the Company or through its participation in joint ventures are capitalized until such time as either economically recoverable reserves are established, or the properties are sold or abandoned. The carrying amount of non-producing properties are written down to their estimated net recoverable amount. The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the properties or the mineral rights. The amounts shown for non-producing resource properties do not necessarily reflect present or future values.

Joint Ventures

Certain of the Company's exploration activities are conducted jointly with others. These financial statements reflect only the Company's expenditures on these properties.

Foreign Currency Translation

Balances of the Company denominated in foreign currencies and the accounts of its foreign subsidiaries, excluding Filon Sur, are translated into Canadian dollars as follows:

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

Exchange gains or losses arising on these translations are reflected in income in the period incurred. Gains and losses arising on translation of long term foreign currency denominated liabilities at each period end are deferred and amortized to earnings over the remaining life of such liabilities.

Filon Sur which was a self-sustaining foreign subsidiary up to June 30, 2000, is translated at current rates of exchange.

Revenue Recognition

Revenue from the sale of precious metals is recognized when delivery occurs.

Caledonia Mining Corporation

Summary of Significant Accounting Policies (continued)

December 31, 2000 and 1999

Provision for Site Restoration

Site restoration costs are accrued when the need for such expenditure is established, and then written off as part of the cost of production. It is always possible that the Company's estimate of its ultimate site restoration liability could change in the near term due to possible changes in laws and regulations in applicable jurisdictions and changes in cost estimates.

Income Taxes

Effective January 1, 2000, the Company adopted on a retroactive basis without restatement, the Canadian Institute of Chartered Accountants new accounting standard on income taxes. The standard requires a change from the deferred method of accounting for income taxes to the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

Stock Based Incentive Plan

The Company has a stock based compensation plan as described in Note 6 (c). Under the plan, no compensation expense is recognized when stock or stock options are issued to employees, officers, directors or consultants. The amount paid on exercise of stock options is credited to share capital.

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

1. Inventories

	2000	1999
Raw materials	\$-	\$156
Work-in-progress	-	1,128
	\$-	\$1,284

2. Capital Assets

	2000			
	<u>Cost</u> ⁽¹⁾	<u>Accumulated</u> <u>Amortization</u>	<u>Write downs</u> <u>for the Year</u>	<u>Net</u> <u>Book Value</u>
Land - plant sites	\$1,711	\$-	\$-	\$1,711
Plant and equipment				
- non-producing ⁽²⁾	6,453	664	-	5,789
Office furniture and equipment	735	730	-	5
Vehicles	343	343	-	-
	\$9,242	\$1,737	\$-	\$7,505

	1999			
	<u>Cost</u> ⁽¹⁾	<u>Accumulated</u> <u>Amortization</u>	<u>Write downs</u> <u>for the Year</u>	<u>Net</u> <u>Book Value</u>
Land - plant sites	\$1,882	\$-	\$-	\$1,882
Plant and equipment				
- producing	9,435	3,650	-	5,785
- non-producing ⁽²⁾	6,956	638	504	5,814
Office furniture and equipment	728	611	-	117
Vehicles	343	321	-	22
	\$19,344	\$5,220	\$504	\$13,620

(1) Cost is comprised of the original cost of the asset, less previous write downs and government grants.

(2) The non-producing plant and equipment relates to the Barbrook and Eersteling properties. In 1997 the mines were placed on care and maintenance resulting in write downs to estimated net realizable amount.

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

3. Mineral Properties

	2000			
	<u>Cost</u> ⁽¹⁾	<u>Accumulated</u> <u>Amortization</u>	<u>Write downs</u>	<u>Net</u> <u>Book Value</u>
Non-producing - care and maintenance:				
Barbrook, South Africa - gold property	\$3,461	\$17	\$-	\$3,444
Eersteling, South Africa - gold property	357	67	-	290
Non-producing - exploration:				
Nunavut, Canada	750	-	-	750
Zambia	12,874	-	-	12,874
Other	472	472	-	-
	<u>\$17,914</u>	<u>\$556</u>	<u>\$-</u>	<u>\$17,358</u>
	1999			
	<u>Cost</u> ⁽¹⁾	<u>Accumulated</u> <u>Amortization</u>	<u>Write downs</u>	<u>Net</u> <u>Book Value</u>
Producing properties				
Filon Sur, Spain - gold producing	\$2,478	\$2,478	\$-	\$-
Non-producing - care and maintenance:				
Barbrook, South Africa - gold property	5,186	17	1,725	3,444
Eersteling, South Africa - gold property	1,917	67	1,560	290
Non-producing - exploration:				
Nunavut, Canada	816	-	66	750
Scotland	6,267	-	6,115	152
Zambia	12,754	-	-	12,754
Other	572	-	572	-
	<u>\$29,990</u>	<u>\$2,562</u>	<u>\$10,038</u>	<u>\$17,390</u>

(1) Cost is comprised of the original cost of the asset, less previous write downs and government grants.

The Company has entered into joint venture agreements on one Canadian property and two Zambian properties with third parties. The third parties may earn varying percentage interests in these properties by carrying out exploration work on the properties.

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

4. Loan Payable

As part of the restructuring of debt (Note 5), Oak agreed to provide short term financing , due on demand, interest accruing at 8%, and secured by a General Security Agreement over certain assets of the Company.

5. Long Term Debt

	2000	1999
U.S. \$7,010 secured loan with CIBC Wood Gundy Ireland Limited ("CIBC") ⁽¹⁾	\$-	\$10,179
Less: Current portion	-	(1,240)
	\$-	\$8,939

⁽¹⁾ The loan was interest bearing at LIBOR plus 1.5% and matures December 31, 2008, secured by a fixed and floating charge over the assets of Filon Sur, a pledge on the shares of Filon Sur and a Convertible Note (the "Note") in the amount of US\$4,200 which replaced the Company's guarantee for the full loan amount.

In 2000, the Company completed the restructuring of its long term debt which process commenced in 1999. The result of the restructuring is summarized as follows:

- (a) In 1999, the Company converted the 4% Convertible Debentures into 14,593,750 common shares at a conversion price of a \$1.40 per share. As a result, \$4,185 was allocated to share capital and \$15,526 to a pre-tax gain on restructuring. An amount of \$10,216 of the gain was deferred since the debenture holders retained the right to become a creditor of the Company under certain circumstances.
- (b) On June 30, 2000, as part of a series of transactions, the Company disposed of its investment in Filon Sur and Fynegold, including its inter-company debt, for nominal consideration to Oak. As part of this transaction CIBC waived its right to receive payment in cash for the Note. The Note was settled by the issue of 79,371,973 common shares pursuant to its original terms of conversion.

The result of these transactions was the settlement of long term debt, disposal of the Company's investment in Filon Sur and Fynegold and the realization of the deferred gain from the conversion of the Convertible Debentures.

The accounting for these transactions is as follows:

Realization of deferred gain	\$10,216	
Loss on disposal of Filon Sur and Fynegold	1,213	
Net gain	\$9,003	

In addition, as part of the sale and debt restructuring, the Company was contracted to provide management services over the activities of Filon Sur and Fynegold on behalf of Oak for 30% of the distributable cash flow of Filon Sur. The agreement provides that if the Company is in default under the terms of the agreement, the Company shall pay to the CIBC \$1,000 in liquidation damages, which amount is payable in cash or shares of the Company.

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

6. Share Capital

(a) Authorized

Unlimited number of common shares.
 Unlimited number of preference shares.

(b) Issued

	Number of Shares	Amount
Common shares		
Balance, December 31, 1998	41,615,157	\$130,681
Issued for settlement of interest on convertible debentures	717,006	206
Issued upon conversion of debenture (see Note 5)	14,593,750	4,185
Other paid in capital transferred on conversion of debentures	-	560
Issued for settlement of restructuring fee	1,283,333	308
Issued for private placement	8,063,780	606
Issued upon exercise of stock options	2,557,116	292
	27,214,985	6,157
Balance, December 31, 1999	68,830,142	136,838
Issued for Convertible Note (see Note 5)	79,371,973	6,188
Balance, December 31, 2000	148,202,115	\$143,026

(c) Stock Option Plan

The Company has established an incentive stock option plan (the "Plan") for employees, officers, directors, consultants and other service providers. Under the Plan, as at December 31, 2000, the Company has the following options outstanding:

Number of Shares	Exercise Price	Expiry Date
413,200	\$0.75	April 28, 2005
1,239,600	0.50	April 28, 2005
863,000	0.33	February 9, 2008
50,000	0.28	September 22, 2008

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

6. Share Capital (continued)

The continuity of the options granted, exercised and cancelled under the Plan during 2000 is as follows:

	Number of Options	Weighted Average Price
Options granted as at December 31, 1998	3,985,800	\$0.35
Options granted	1,257,116	\$0.12
Options exercised	(2,557,116)	(\$0.11)
Options cancelled	(120,000)	(\$0.41)
Options granted as at December 31, 1999 and 2000	2,565,800	\$0.48

(d) The Company has issued the following common share purchase warrants which have been outstanding for 2000 and 1999:

Number of Warrants	Warrants to Share Ratio	Exercise Price	Expire Date
1,000,000	1 to 1	\$0.35	February 28, 2001
4,000,000	1 to 1	\$0.10	September 30, 2001

7. Income Taxes

Effective January 1, 2000, the Company calculates income taxes using the liability method as explained in the Summary of Significant Accounting Policies. The effect of this change was not material to the Company.

The Company's effective tax rate, which differs from the combined federal and provincial statutory income tax rates, may be reconciled as follows:

	2000		1999	
	\$	%	\$	%
Basic rate applied to pre-tax income (loss)	3,232	43.6	(3,334)	(44.6)
Losses and other benefits not tax affected	230	3.0	5,901	78.9
Non taxable portion of capital loss	(1,998)	(26.9)	-	-
Income taxed at different rates in foreign jurisdictions	-	-	16	-
Utilization of prior year losses	(1,464)	(19.7)	(2,570)	(34.3)
Permanent differences	-	-	3	-
	-	-	16	-

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

7. Income Taxes (continued)

The Company and its subsidiaries have non-capital losses of approximately \$11,000 which may be carried forward to reduce future taxable income. The right to claim \$10,191 and \$809 expires in 2005 and 2004 respectively. The Company also has approximately \$74,700 in capital losses which can be applied to reduce future capital gains. The right to claim these losses are carried forward indefinitely.

The Company also has the following expenses which are available to be applied against future income for income tax purposes:

Canadian exploration and development expenses	\$7,409
Foreign exploration and development expenses	\$1,812

The benefit of the above tax assets have not been recognized in the accounts for financial statement purposes and have been reduced by a valuation adjustment.

8. Income (Loss) Per Share

The income (loss) per share figures have been calculated using the weighted average number of common shares outstanding during the respective fiscal years which amounted to 92,750,463 (1999 - 60,706,302). Exercise of the outstanding stock options and warrants would be anti-dilutive in 1999. Fully diluted number of shares in 2000 is 100,316,263.

9. Other Expense (Income)

Other expense (income) is comprised of the following:

	2000	1999
Investment income	\$-	(\$310)
Oil and gas net income	(24)	(6)
Foreign exchange (gain) loss	(221)	796
	(\$245)	\$480

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

10. Statement of Cash Flow

Items not involving cash are as follows:

	2000	1999
Amortization	\$877	\$1,863
Gain on retirement of long-term debt	(10,216)	(6,030)
Loss on disposal of subsidiary companies	1,213	-
Non-controlling interest in loss	(3)	(31)
Mineral properties written down	-	10,038
Capital assets written down	-	504
Deferred financing costs	-	301
Foreign currency translation adjustment	(128)	175
Shares issued for settlement of restructuring fee	-	308
Amortization of debt discount	-	112
	<u>(\$8,257)</u>	<u>\$7,240</u>

The net changes in non-cash working capital balances for continuing operations are as follows:

	2000	1999
Accounts payable	\$554	(\$1,969)
Accounts receivable	77	2,044
Inventories	105	(92)
Prepaid expenses	(5)	4
	<u>\$731</u>	<u>(\$13)</u>

Additional cash flow information:

In 2000, the Company issued 79,371,973 shares to settle the Convertible Note (see Note 4) for \$6,188.

In 1999, the Company settled Convertible Debentures in the amount of \$20,431 in exchange for 14,593,750 shares.

In 1999, the Company issued 1,283,333 shares to settle a restructuring fee of \$308.

In 1999, the Company settled interest on Convertible Debentures in the amount of \$206 in exchange for 717,006 shares.

	2000	1999
Cash paid for interest	\$5	\$872
Cash paid for taxes	-	16

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

11. Financial Instruments

Unless otherwise noted, it is the opinion of management that the Company is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

12. Related Party Transactions

The Company had the following related party transactions:

	2000	1999
Management and administrative services paid or accrued to a company controlled by the Company's chairman	\$182	\$180

The related party transactions are recorded at the exchange amount.

The Company has the following related party balances:

	2000	1999
Included in accounts payable - owing to a company controlled by the Company's chairman	\$166	\$100

13. Subsequent Events

On March 27, 2001 the Company gave notice to Spring Hills Trading Limited ("Spring Hills") that it was in default under the terms of the sale and option agreements dated November 14, 2000 (the "Agreements") and on April 11, 2001 cancelled the Agreements when Spring Hills failed to remedy the defaults. Presently, the Company is pursuing legal action to recover damages from Spring Hills.

The Agreements between the Company and Spring Hills called for a two stage sale of the Barbrook and Eersteling gold mines, the first of which provided for a payment of US\$7.0 million for a 49% interest payable over 30 months. The second stage for the remaining 51% of the companies was in the form of a purchase option which expires by June 30, 2003, if unexercised.

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

14. Segmented Financial Information

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

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

	For the year ended December 31, 2000				
	Corporate	Europe	South Africa	Zambia	Total
Revenue from sales	\$-	\$6,623	\$-	\$-	\$6,623
Revenue from management services	109	-	-	-	109
Operating costs	-	(6,367)	(61)	-	(6,428)
General and administrative	(1,081)	-	(144)	-	(1,225)
Interest	(36)	(5)	-	-	(41)
Amortization	(2)	(847)	(28)	-	(877)
Other expense (income)	(7)	-	(238)	-	(245)
Income (loss) before the undernoted	(1,003)	(596)	5	-	(1,594)
Net gain on conversion of convertible debenture and sale of subsidiary companies	9,003	-	-	-	9,003
Non-controlling interest	-	3	-	-	3
Net income (loss) for the year	\$8,000	(\$593)	\$5	\$-	\$7,412
Identifiable assets	\$912	\$19	\$11,258	\$12,874	\$25,063
Expenditures on capital assets	\$-	\$-	\$-	\$-	\$-

Caledonia Mining Corporation
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars (unless otherwise indicated) except
per share amounts)

December 31, 2000 and 1999

14. Segmented Financial Information (continued)

	For the year ended December 31, 1999				
	Corporate	Europe	South Africa	Zambia	Total
Revenue from sales	\$-	\$14,701	\$-	\$-	\$14,701
Operating costs	-	(12,380)	(231)	-	(12,611)
General and administrative	(1,317)	524	(119)	-	(912)
Interest	(3)	(1,057)	(1,361)	-	(2,421)
Amortization	(126)	(1,731)	(6)	-	(1,863)
Other expense (income)	(2,069)	(146)	3,078	-	863
Mineral properties written off	(182)	(6,000)	(3,856)	-	(10,038)
Capital assets written down	-	-	(504)	-	(504)
Intersegment interest and other charges	(1,451)	108	1,343	-	-
(Loss) before the undernoted	(5,148)	(5,981)	(1,656)	-	(12,785)
Gain on conversion of the convertible debentures	5,310	-	-	-	5,310
Income taxes	(16)	-	-	-	(16)
Non-controlling interest	-	41	(10)	-	31
Net income (loss) for the year	\$146	(\$5,940)	(\$1,666)	-	(\$7,460)
Identifiable assets	(\$797)	(\$8,413)	(\$11,072)	(\$12,907)	(\$33,189)
Expenditures on capital assets	\$-	\$345	\$-	\$-	\$345

Directors and Management

BOARD OF DIRECTORS

S. E. Hayden (1) (2) (3) (4)
*Chairman of the Board, President and
Chief Executive Officer
Johannesburg, South Africa*

J. Johnstone
*Vice President Operations and
Chief Operating Officer
Mississauga, Ontario, Canada*

F C. Harvey
*Technical Director
Mississauga, Ontario, Canada*

W. I. L. Forrest (1) (2) (4)
*Business Executive
Gingins, Switzerland*

C. R. Jonsson (1) (2) (3)
*Partner at Tupper Jonsson
& Yeadon
Barristers & Solicitors
Vancouver, British Columbia,
Canada*

BOARD COMMITTEE

MEMBERS

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

OFFICERS

S. E. Hayden
*Chairman of the Board, President and
Chief Executive Officer*

F. C. Harvey
Technical Director

J. Johnstone
*Vice-President Operations and
Chief Operating Officer*

S. W. Poad
*Vice-President Finance and
Administration*

J. Smith
Vice-President Exploration

Corporate Directory

CORPORATE & MINE OFFICES

Canada - Head Office

Caledonia Mining Corporation
Unit 5
2155 Dunwin Drive
Mississauga, Ontario
L5L 4M1 Canada
Tel: (905) 607-7543
Fax: (905) 607-9806

South Africa

Greenstone Management Services
(PTY) Limited
P. O. Box 587
Johannesburg 2000
South Africa
Tel: (27)(11) 447-2499
Fax: (27)(11) 447-2554

Zambia

Caledonia Mining (Zambia) Limited
P. O. Box 36604
Lusaka, Zambia
Tel: (260)(1) 291-574
Fax: (260)(1) 292-154

Spain

Filon Sur S.A.
Filon Sur Mine Site
Paraje "La Tiesa"
21530 - Tharsis (Huelva)
Huelva Province
Spain
Tel: (34)(959) 50 80 00
Fax: (34)(959) 50 80 01

SHARES LISTED

The Toronto Stock Exchange
Symbol "CAL"
NASDAQ OTC BB
Symbol "CALVF"

CAPITALIZATION

(December 31, 2000)
Authorized: Unlimited
number of common shares
Issued Common Shares: 148,202,115
Warrants: 5,000,000
Options: 2,565,800

SOLICITORS

Borden Ladner Gervais LLP
Suite 4100, Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4 Canada

Tupper, Jonsson & Yeadon

1710-1177 West Hastings Street
Vancouver, British Columbia
V6E 2L3 Canada

AUDITORS

BDO Dunwoody LLP
Chartered Accountants
Suite 3200, 200 Bay Street
Royal Bank Plaza, South Tower
Toronto, Ontario
M5J 2J8 Canada

REGISTRAR & TRANSFER AGENT

Equity Transfer Services Inc.
Suite 420
120 Adelaide Street West
Toronto, Ontario
M5H 4C3 Canada
Tel: (416) 361-0152
Fax: (416) 361-0470

BANK

Canadian Imperial Bank Of Commerce
6266 Dixie Road
Mississauga, Ontario
L5T 1A7 Canada

INTERNET

Web Site:
<http://www.caledoniamining.com>

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