

2006
Second Quarter
Report



CALEDONIA
Mining Corporation

2006 SECOND QUARTER HIGHLIGHTS

Barbrook Gold Mine – South Africa

- Following the completion of the plant expansion to 15,000 tonnes per month capacity from 6,000 tonnes per month in late January plant throughput has increased steadily reaching 12,397 tonnes in June.
- Production improvements continued during the second quarter. 32,133 tonnes were treated in the plant during the quarter, an increase of 66% over the first quarter when production was disrupted by plant expansion activities.
- Gold production totalled 1,749 ounces of gold during the quarter, an increase of 94% over the previous quarter. However the two quarters are not truly comparable because of disruptions in January while the plant expansion was completed.

Blanket Gold Mine - Zimbabwe

- Acquired a 100% interest in the Blanket Gold Mine in Zimbabwe from Kinross Gold Corporation of Toronto.
- Gold production during the three months ending June 30, 2006 totalled 6,045 ounces.
- As the transaction was finally closed on 5 July 2006, despite the effective date of transaction being from 1 April 2006 the results for Q2 will not be consolidated for regulatory reasons and Blanket's results will in future be included from 1 July 2006.

Corporate/Financial

- The consideration paid on 5 July 2006 for the Blanket Mine purchase was US\$1 million in cash and the issue of 20,000,000 Caledonia shares.
- Completed a private placement in May 2006 and raised \$3,923,807 after expenses through the issue of 34,828,259 common shares and 34,828,259 share purchase warrants.

2006 OBJECTIVES

- Improve safety awareness at Barbrook Mine and further develop necessary programs to ensure a safe operation.
- Optimise gold production at Barbrook Mine in South Africa by treating at least 15,000 tonnes per month.
- Continue developing additional reserves/resources at Barbrook Mine.
- Complete metallurgical studies to confirm viability of economic gold recovery from Daylight & Victory zones at Barbrook Mine.
- Continue with negotiations to conclude agreements with cobalt refiners to purchase cobalt concentrate produced at Nama and/or form strategic alliances to achieve this objective.
- Seek a joint-venture partner to commence an exploration program at the Kadola copper/cobalt and the Eureka copper/gold properties in Zambia.
- Further explore the polymetallic resource on the Rooipoort and Grasvally properties which form the Rooipoort PGE/Ni/Cu Exploration Project in South Africa.
- Increase the land holdings around the Rooipoort Exploration property.
- Drill identified extensions to the known ore zones on the Eersteling and Zandrivier Mining Licence areas.

- Pursue possible acquisitions and/or strategic partnerships to expand Caledonia’s portfolio of properties.
- Expand the Board of Directors to address ongoing Corporate Governance requirements.
- Implement succession plans for senior executive and operational staff.
- Strengthen the Investor Relations and Public Relations functions within Caledonia.
- Conclude necessary agreements to satisfy the South African Black Economic Empowerment (“BEE”) requirements.
- Arrange necessary financing to support the activities required to meet these objectives.
- Expedite the Number 4 shaft expansion project at the newly acquired Blanket Gold Mine to increase gold production to 50,000 ounces per annum.

President's Message

The acquisition of the Blanket Gold Mine in Zimbabwe is a significant step towards Caledonia's goal of developing the asset base into a significant diversified international mining company. Gold has been mined in the Blanket area for close on 100 years. In 2005 Blanket's reported historic gold production exceeded one million ounces, and with the reported proven and probable ore reserves exceeding 3 million tonnes Blanket should continue to produce gold for many years to come. I am delighted to welcome the Blanket management team and staff to Caledonia where I am sure they will make a significant impact on Caledonia's future revenue. The Number 4 shaft expansion project at Blanket is currently well underway and should be completed by the end of the first quarter 2007. This project will allow Blanket to increase production to 50,000 ounces per year. The new monetary policy in Zimbabwe, which allows mines to retain 75% of their foreign exchange proceeds, will have a significant impact on Blanket and will further facilitate the cost cutting program which is rapidly being implemented. The metallurgical tests proposed by Caledonia have been completed and the circuit changes are being finalized as these will result in increased gold recoveries and lower reagent usages.

Our efforts on optimizing the metallurgical circuit at Barbrook and ramping up tonnage from the underground mine to reach and exceed the planned tonnage of 15,000 tonnes per month are showing pleasing results. The tonnage milled increased by 66% and gold production increased by 94% over the first quarter's results. However, it should be noted that production during the first quarter was disrupted by plant expansion activities and the two quarters are not truly comparable. It is disappointing that Barbrook is still not yet cash positive.

I participated in the Cobalt Development Institute's conference in May and am pleased to report that the interest in rapidly bringing Nama into production is high. Negotiations regarding long term cobalt off-take agreements with a number of large cobalt refiners are advancing and the technical and economic studies related to the production of suitable cobalt carbonates and hydroxides at Nama are presently underway in South Africa and China.

_____"Signed"_____
S. E. Hayden
President and Chief Executive
Officer

Management’s Discussion and Analysis

Expressed in Canadian Dollars

This discussion provides updated information to the Management Discussion and Analysis contained in the Caledonia’s Annual Report for 2005 and the first quarter report for 2006 which have been filed on SEDAR and are available at www.sedar.com or on the Corporation’s website at www.caledoniamining.com. Where no comments are made there are no updates to report.

OPERATIONAL REVIEW

Barbrook Mines Limited – South Africa

Plant throughput at Barbrook gradually improved during the quarter, reaching 12,397 tonnes in June. This was due to improved and more consistent production from underground. Plant throughput increased by 66% over that in the first quarter when the plant commissioning interrupted operations. Most significantly gold produced increased by 94% in the second quarter compared to the first quarter. However, it should be noted that production during the first quarter was disrupted by plant expansion activities and the two quarters are not truly comparable.

Metallurgical testing continues with a view to resolving the unexplained gold losses. These tests indicate that changes in the operating parameters may have a considerable impact on reducing unexplained gold dissolution in the pre-oxidation circuit. The final results of the confirmatory testwork are awaited before the operating parameters are modified to accommodate the changes.

Barbrook Mines - 2006 Production Results					
		<u>First Quarter</u>	<u>Second Quarter</u>	<u>Six Month Total</u>	<u>July</u>
Ore mined	Tonnes	27,565	29,886	57,431	14,052
Development advance	Meters	795	737	1,532	220
Ore milled	Tonnes	19,357	32,133	51,490	12,292
Grade milled	g/t	3.78	3.37	3.53	4.53
Gold recovered	Ounces	902	1,749	2,651	708

Blanket Mine (1983) Private Limited - Zimbabwe

The acquisition of the Blanket Mine was effective on April 1, 2006 although the final closing did not take place until July 5th. Thus, operating control of the mine was not transferred to Caledonia until July, however the results are the responsibility of and for the benefit of Caledonia from April 1, 2006. Blanket’s operating results for the three months ending June 30, 2006 are detailed in the table below. For regulatory reasons Blanket’s Q2 results are NOT consolidated into the Caledonia numbers and will only be consolidated from 1 July 2006.

Blanket Mine - 2006 Production Results			
		<u>Second Quarter</u>	<u>July</u>
Ore mined	Tonnes	50,700	17,600
Development advance	Meters	772	258
Ore milled	Tonnes	51,500	18,100
Grade milled	g/t	4.10	3.90
Gold recovered	Ounces	6,045	2,076

CONSOLIDATED FINANCIAL RESULTS – Excluding Blanket Mine

For the quarter ended June 30, 2006 Caledonia recorded a net loss of \$2.9million (\$0.007 per share) compared to a net loss of \$3.3 million (\$0.011 per share) during the same period in 2005 and a net loss of \$1.4 million (\$0.005 per share) in the second quarter of 2004. The loss in 2006 results from operations at Barbrook, the normal administration expenses and ongoing exploration costs during the quarter.

Financing

During Q2 2006 the company completed a private placement. This placement raised \$3.92 million after expenses from the sale of 34,828,259 units. Each unit consists of one common share and one share purchase warrant. These funds will be used for general working capital and opportunities as they may arise. A further placement of 17 million units, each consisting of one common share and one share purchase warrant, was completed in July 2006 and raised \$2.16 million after expenses.

Summary of Quarterly Results

The following information is provided for each of the eight most recently completed quarters of the company: (in thousands of Canadian dollars except per share amounts)

The Q2 2006 Net Loss includes a depreciation charge of \$965,000 greater than Q1 due to increased production levels and the use of the unit-of-production amortization method.

	Q2 – 2006	Q1- 2006	Q4- 2005	Q3- 2005	Q2- 2005	Q1- 2005	Q4- 2004	Q3- 2004
Net Sales or Total Revenues	\$1,304	\$418	\$453	\$743	\$965	\$481	\$469	\$202
(Net loss) - total	(\$2,893)	(\$2,266)	(\$2,054)	(\$2,564)	(\$3,276)	(\$1,786)	(\$4,569)	(\$2,250)
- per share undiluted	(\$0.007)	(\$0.006)	(\$0.006)	(\$0.008)	(\$0.011)	(\$0.007)	(\$0.015)	(\$0.008)
- per share diluted	(\$0.007)	(\$0.006)	(\$0.006)	(\$0.008)	(\$0.011)	(\$0.007)	(\$0.015)	(\$0.008)

Note: As there are no extraordinary items the disclosed net loss per share is identical to the total loss before extraordinary items.

EXPLORATION AND PROJECT DEVELOPMENT

Eersteling Gold Mining Company Limited – South Africa

Gold Exploration Project

Significant progress has been made with digital compilation of historic underground and exploration data in preparation for review of mineral resources on the property.

Rooipoort and Grasvally Nickel, Copper, PGE Exploration Project

Application for conversion of the Old Order Rooipoort Prospecting Permit to New Order Prospecting Rights was submitted to South African Department of Minerals and Energy. The issuance of these new order rights is expected later this year. The combination of the Rooipoort rights with those of the adjoining rights acquired during the first quarter from Falconbridge Ventures of Africa (“Falconbridge”) has doubled the area available for prospecting by the Company. Plans are in place to commence drilling on the Central Target area once the New Order rights have been granted. Research is in progress into the morphology of the significant PGE, Ni, Cu intersections on the “321 Reef” on the Moordrift property acquired from Falconbridge, prior to planning of further follow up work on this Western Target area. See maps in our Press Release of March 13, 2006 which is available in the Investor Centre at www.caledoniamining.com under Press Releases for location of these Target areas.

Caledonia Nama Limited - Zambia

Nama Cobalt Project

Ongoing evaluation of metallurgical process for this large cobalt oxide resource continued. Additional samples were extracted from the Nama “A” Discovery trench and dispatched to test facilities in China and South Africa for additional Wet High Intensity Magnetic Separation, flotation and pyrometallurgical testing. The results of all these tests are encouraging and testing is ongoing.

Kadola Copper, Cobalt, Gold Project- Zambia

Representatives of a potential joint-venture partner made a technical visit to the Eureka Cu/Au prospect and their assessment of the extensive database of work done by Caledonia on the Kadola property is in progress.

SUPPLEMENT TO THE FINANCIAL STATEMENTS

As at June 30, 2006 the following securities were outstanding:

- 440,981,021 common shares.
- 17,238,000 common share purchase options at an average price of \$0.21 maturing at various dates until May 11, 2016.
- 33,287,626 common share purchase warrants exercisable at a price of \$0.20 per share until February 3, 2008, 32,638,259 share purchase warrants exercisable at a price of \$0.15 per share until May 12, 2007 and 2,190,000 share purchase warrants exercisable at a price of \$0.18 per share until May 12, 2007.

20,000,000 shares were being held in escrow on June 30, 2006 pending closure of the Blanket Mine acquisition.

Management's Responsibility for Financial Reporting

To the Shareholders of Caledonia Mining Corporation:

The accompanying unaudited consolidated financial statements of Caledonia 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 quarterly report. All financial and operating data in the quarterly report is consistent, where appropriate, with that contained in the consolidated financial statements.

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 quarterly consolidated financial statements of Caledonia.

The consolidated financial statements have not been reviewed by Caledonia's auditors.

_____"Signed"_____
S. E. Hayden
President and
Chief Executive Officer

_____"Signed"_____
S.R. Curtis
Vice-President Finance
and Chief Financial Officer

Caledonia Mining Corporation
Consolidated Balance Sheet
(in thousands of Canadian Dollars)

(Unaudited)	<u>June 30.</u> <u>2006</u>	<u>December 31.</u> <u>2005</u>	<u>June 30.</u> <u>2005</u>
Assets			
Current Assets			
Cash and short term deposits	1,314	1,076	2,482
Accounts Receivable	307	768	599
Inventories	332	90	839
Prepaid expenses	3,320	330	3
	<hr/> 5,273	<hr/> 2,264	<hr/> 3,923
Investment at cost	79	79	79
Capital assets	9,184	9,156	7,141
Mineral properties	10,994	10,839	10,859
	<hr/> 20,256	<hr/> 20,074	<hr/> 18,079
Total assets	<hr/> 25,530	<hr/> 22,338	<hr/> 22,002
Liabilities and Shareholder Equity			
Current Liabilities			
Bank overdraft	-	197	-
Accounts payable	2,527	2,392	1,252
Provision for site restoration	325	377	397
	<hr/> 2,851	<hr/> 2,966	<hr/> 1,649
Shareholders equity			
Share capital	188,466	180,053	176,470
Contributed surplus	976	923	548
Compensation warrants	-	-	321
Accumulated Deficit	(166,763)	(161,604)	(156,986)
	<hr/> 22,678	<hr/> 19,372	<hr/> 20,353
Total Capital and liabilities	<hr/> 25,530	<hr/> 22,338	<hr/> 22,002

On behalf of the Board:

_____"Signed"_____
J. Johnstone Director

_____"Signed"_____
F. C. Harvey Director

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

(Unaudited)	Three month period ended June 30,			Six month period ended June 30,		
	2006	2005	2004	2006	2005	2004
Deficit, beginning	(163,870)	(153,710)	(143,670)	(161,604)	(151,924)	(141,945)
Net(loss) for the period	(2,893)	(3,276)	(1,435)	(5,159)	(5,062)	(3,160)
Deficit, end of period	(166,763)	(156,986)	(145,105)	(166,763)	(156,986)	(145,105)

Caledonia Mining Corporation
Consolidated Statement of Operations
(in thousands of Canadian dollars except per share amounts)

(Unaudited)	Three month period ended June 30,			Six month period ended June 30,		
	2006	2005	2004	2006	2005	2004
Revenue and operating costs						
Revenue from sales	1,304	965	30	1,722	1,446	170
Operating costs	2,878	2,393	1,396	5,228	4,141	2,711
Operating profit (loss)	(1,573)	(1,428)	(1,366)	(3,505)	(2,695)	(2,541)
Costs and expenses						
General and administration	477	728	660	732	1,224	959
Interest	4	5	88	4	5	135
Unrealised forex loss(gain)	(124)	829	100	(226)	695	334
Other expenses (income) (note 3)	963	286	(779)	1,143	443	(796)
	1,320	1,848	69	1,653	2,367	632
(Loss) before non controlling interest	(2,893)	(3,276)	(1,435)	(5,159)	(5,062)	(3,173)
non controlling interest						(13)
Net (loss) for the period	(2,893)	(3,276)	(1,435)	(5,159)	(5,062)	(3,160)
Operating (loss) per share (Note 2)						
Basic and fully diluted	(\$0.004)	(\$0.005)	(\$0.005)	(\$0.009)	(\$0.009)	(\$0.009)
Net (loss) per share (Note 2)						
Basic and fully diluted	(\$0.007)	(\$0.011)	(\$0.005)	(\$0.013)	(\$0.017)	(\$0.011)

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

(Unaudited)	Three month period ended June 30,			Six month period ended June 30,		
	2006	2005	2004	2006	2005	2004
Cash provided by (used in)						
Operating activities						
Operating (loss) for the period	(1,573)	(1,428)	(1,366)	(3,505)	(2,695)	(2,541)
Other expenses and non-controlling interests	(1,320)	(1,848)	(69)	(1,653)	(2,367)	(632)
Adjustments to reconcile net cash from operations (note 4)	973	326	(682)	1,185	518	(579)
Changes in non-cash working capital balances (note 4)	(3,434)	(99)	(169)	(2,688)	(242)	(157)
	(5,354)	(3,049)	(2,286)	(6,661)	(4,786)	(3,909)
Investing activities						
Expenditures on capex	(57)	(69)	(927)	(787)	(256)	(1,114)
Expenditures on mineral properties	(225)	(956)	(496)	(530)	(2,112)	(679)
	(282)	(1,025)	(1,423)	(1,317)	(2,368)	(1,793)
Financing activities						
Shares held in eskrow - Blanket Mine	3,014			3,014		
Issue of share capital net of costs (note 1)	3,924	3,166	4,885	5,399	3,166	14,167
	6,938	3,166	4,885	8,413	3,166	14,167
Increase(decrease) in cash for the period	1,302	(908)	1,176	435	(3,988)	8,465
Cash beginning period	12	3,390	11,468	879	6,470	4,179
Net Cash end period	1,314	2,482	12,644	1,314	2,482	12,644

Caledonia Mining Corporation
Summary of Significant Accounting Policies

Nature of Business

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

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 reserves and resources and cash flows are based upon engineering and geological estimates and financial estimates including gold prices and operating costs. The amount ultimately recovered could be materially different than the estimated values.

Subsequent Events

During the second quarter Caledonia finalised the acquisition of Blanket Mine in Zimbabwe with an effective date of April 1, 2006. The purchase consideration was US\$ 1,000,000 and 20,000,000 shares in Caledonia Mining Corporation. The actual closure date of the agreement and the payment of the purchase consideration was July 5, 2006.

As the closure date was after June 30, 2006 Blanket Mine will be consolidated into Caledonia Mining Corporation as of July 1, 2006.

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
June 30, 2006, 2005 and 2004

Principles of Consolidation

The consolidated financial statements include the accounts of the Company together with all its subsidiaries (except Blanket Mine (1983) Private Limited which will be consolidated from July 1, 2006). All significant inter-company balances and transactions have been eliminated on consolidation.

For information purposes only, we include the following table comparing the results with and without Blanket Mine for Q2 2006:

\$ 000s	Consolidated Q2 Results <u>Excluding Blanket</u>	Consolidated Q2 Results <u>Including Blanket</u>
Gold Sales	1,304	4,696
Operating profit/(loss)	(1,573)	88
Net profit/(loss)	(2,893)	(3,434)
Unrealised translation gain/(loss)	124	(1,412)
loss per share	(\$0.007)	(\$0.009)

The net loss for Q2 increases by \$541,000 with the inclusion of Blanket Mine although the mine operated at a profit for the period.

The inclusion of Blanket Mine resulted in an increase in the unrealised foreign exchange translation loss of \$1,536,000 during the reporting period.

The Company's consolidated (all 100% owned) subsidiaries are Barbrook Mines Limited ("Barbrook"), Eersteling Gold Mining Company Limited (100% owned since June 2004) ("Eersteling"), Greenstone Management Services (Proprietary) Limited, Fintona Investments (Proprietary) Limited, Maid O' Mist (Proprietary) Limited, Caledonia Holdings (Africa) Limited, Caledonia Mining (Zambia) Limited, Caledonia Kadola Limited, Caledonia Nama Limited and Caledonia Western Limited.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand in operating bank accounts and money market funds

Inventories

Inventories are stated at the lower of cost, which is determined on the first-in, first-out basis, and net realizable value. Inventories comprise gold in circuit, stockpiled ore and consumable stores.

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
June 30, 2006, 2005 and 2004

Revenue Recognition

Revenue from the sale of precious metals is recognized when the benefits of ownership are transferred and the receipt of proceeds is substantially assured.

Capital Assets

Producing Assets

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

Other producing assets are amortized using the straight line method basis on the estimated useful lives of the assets. The estimated useful life of the producing assets ranges up to 10 years. Repairs and maintenance expenditures are charged to operations; major improvements and replacements which extend the useful life of an asset are capitalized and amortized over the remaining useful life of that asset.

Barbrook re-commenced commercial operations during 2003 and, as such has been presented as a producing asset in these financial statements.

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 proven and probable mineral reserves as defined by the Canadian Institute of Mining, Metallurgy and Petroleum.

Barbrook re-commenced commercial operations during 2003 and, as such has been presented as a producing asset in these financial statements.

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
June 30, 2006, 2005 and 2004

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.

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

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

Asset Impairment

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

Strategic Alliances

The Company has entered into various agreements under which the participants earn a right to participate in the mineral property by incurring exploration expenditures in accordance with the conditions of the agreements. Upon satisfaction of the conditions of any agreement a joint venture may be formed with customary joint venture terms and provisions and then accounted for on a proportionate consolidation basis. Until a joint venture is formed only expenditures on the properties incurred by the Company are reflected in these financial statements.

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
June 30, 2006, 2005 and 2004

Foreign Currency Translation

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

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

Exchange gains or losses arising on these translations are reflected in income in the period incurred. Gains and losses arising on translation of long term foreign currency denominated liabilities at each year end are reflected in income.

Asset Retirement Obligation

Effective January 1, 2004 the Company adopted the Canadian Institute of Chartered Accountants Standard 3110, "Asset Retirement Obligations". This standard requires that a liability for retirement obligations to be settled as a result of an existing law, regulation or contract be recognized.

Income Taxes

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

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements
(Unaudited) **For the six months ended June 30, 2006**

1. Share Capital

Authorised:

An unlimited number of common shares
An unlimited number of preference shares

Issued – Common Shares

	<u>Number of Shares</u>	<u>Amount (000's)</u>
Balance, December 31, 2005	370,715,136	\$180,053
Issued pursuant to private placement	15,437,626	1,475
Balance, March 31, 2006	386,152,762	\$181,528
Issued pursuant to a private placement	34,828,259	\$3,924
Issued pursuant to acquisition *	20,000,000	\$3,014
Balance, June 30, 2006	440,981,021	\$188,466

* 20,000,000 shares were issued but were being held in escrow on June 30, 2006 pending the closure of the Blanket Mine acquisition.

Issued – Preference Shares

Nil

Stock Option Plans

The Company has established incentive stock option plans for employees, officers, directors, consultants and other service providers. As at June 30, 2006, the Company has 17,238,000 common share options exercisable at an average price of \$0.205 maturing at various dates until May 11, 2016.

Share Purchase Warrants

The Company has 68,115,885 share purchase warrants outstanding exercisable at an average price of \$0.175 maturing at various dates until February 3, 2008

2. Net (Loss) Per Share

The net (loss) per share figures have been calculated using the weighted average number of common shares outstanding during the second quarter which amounted to 398,142,213 and YTD which amounted to 390,345,589. Under the treasury method of calculating fully diluted income per share, exercise of the outstanding stock options and warrants would be anti-dilutive in 2006.

If the Q2 results of Blanket Mine had been consolidated since 1 April 2006 the net (loss) per share figures would have been (\$0.009) cps – 2005 (\$0.011) – 2004 (\$0.005)

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements
For the six months ended June 30, 2006

(Unaudited)

3. Other Expense (Income)

Included in other expense (income) are YTD unrealized exchange translation gain of \$226,000 (2005 – loss of \$695,000, 2004 – loss of \$334,000) and an amortisation charge of \$1,146,000 (2005 - \$488,000, 2004 - \$ nil). The amortization charge relates mainly to Barbrook, where increasing production levels lead to increasing amortization charges in terms of the accounting policies detailed under “Mineral Properties” on page 14 above.

If the Q2 results of Blanket Mine had been consolidated, then the YTD unrealised exchange translation loss would have been \$1,412,000 (2005 – loss \$695,000, 2004 – loss \$334,000) , and the amortization charge would have been \$1,214,000 (2005 - \$488,000 , 2004 - \$ nil).

4. Supplemental cash flow info

Items not involving cash are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Acretion asset retirement obligation		-	4
non controlling interest	0	-	(13)
amortization	1,146	488	-
other	39	30	(570)
	<u>1,185</u>	<u>518</u>	<u>(579)</u>

Net changes in non cash working capital

Acc Payable	82	189	(193)
Acc Receivable	461	(283)	(147)
Inventories	(242)	(330)	57
Prepayments - Shares held in eskrow	(3,014)	-	-
Prepaid expenses	24	182	126
	<u>(2,688)</u>	<u>(242)</u>	<u>(157)</u>

Corporate Directory

BOARD of DIRECTORS

G.R. Pardoe
S.E. Hayden
R.G. Fasel
W.I.L. Forrest
F.C. Harvey
J. Johnstone
C.R. Jonsson

OFFICERS

S.E. Hayden
President and Chief Executive Officer

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

S.R. Curtis
*Vice President Finance and
Chief Financial Officer*

J. Smith
Vice President Exploration

CORPORATE OFFICES

Canada - Head Office
Caledonia Mining Corporation
Unit 9, 2145 Dunwin Drive
Mississauga, Ontario
L5L 4L9 Canada
Tel: (905) 607-7543
Fax: (905) 607-9806

South Africa
Greenstone Management Services (Pty) Ltd.
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) 29-1574
Fax: (260) (1) 29-2154

SHARES LISTED

The Toronto Stock Exchange Symbol "CAL"
NASDAQ OTC BB Symbol "CALVF"
London Stock Exchange AIM symbol "CMCL"

CAPITALIZATION at June 30, 2006
Authorised: Unlimited
Shares, Warrants and Options Issued:
Common Shares: 440,981,021
Warrants: 68,115,885
Options: 17,238,000

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

SOLICITORS

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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

BANKERS

**Canadian Imperial bank of
Commerce**
6266 Dixie Road
Mississauga, Ontario
L5T 1A7 Canada

NOMINATED ADVISOR & BROKER

Seymour Pierce Limited
Bucklersbury House
Queen Victoria Street
London, EC4N 8EL, England