

OMB APPROVAL

CALEDONIA MINING CORPORATION

FORM 20F ANNUAL REPORT

U.S. SECURITIES & EXCHANGE COMMISSION

2008

April 30, 2008

(Mark One)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.20549

FORM 20-F

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REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.....

For the transition period from _____ to _____

Commission file number 0-13345

Caledonia Mining Corporation
(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name in English)

Canada

(Jurisdiction of incorporation or organization)

24 Ninth Street, Lower Houghton, Johannesburg 2198, South Africa
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
| <u>Nil</u> | <u>Nil</u> |

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Common Shares without par value.
(Title of Class)

SEC 1852 (12-05) Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Nil
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

487,869,280 Common Shares

As of December 31, 2007

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

NOTE: A. That all reference to monies herein are to Canadian dollars unless otherwise specifically indicated.

B. Various other documents which have been published and/or filed and which are referred to herein are incorporated herein for reference.

PART 1**1. IDENTITY of DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not required as this is an “annual report under the Securities Exchange Act of 1934 (“Exchange Act”).

However, the information required above can readily be determined from Caledonia’s 2007 Annual Information Circular.

2. OFFER STATISTICS AND TIMETABLE

Not required as this is an “annual report under the Exchange Act”.

3. KEY INFORMATION

Selected Financial Data

Table 3 A shows the applicable selected financial data for the 5-year period 2003 to 2007 in Canadian Generally Accepted Accounting Principles.

Table 3 A (i) shows the applicable selected financial data for the 5-year period 2003 to 2007 in United States Generally Accepted Accounting Principles.

Table 3 A (ii) shows the US\$ exchange rates against the Canadian \$ for each of the 5-year periods indicated, for the period end and average exchange rate and the range of high and low rates for each year and the high and low exchange rates for the individual last six months ending March 31, 2008.

Table 3A - Selected Financial Information - Canadian Generally Accepted Accounting Principles

| | 2007 | 2006 ⁽²⁾ | 2005 ⁽²⁾ | 2004 ⁽²⁾ | 2003 ⁽¹⁾⁽²⁾ |
|---|---------|---------------------|---------------------|---------------------|------------------------|
| Financial - \$ Thousands Cdn except per share | | | | | |
| Revenue from Operations | 10,039 | 13,586 | 6 | 3 | 58 |
| Gross Profit (Loss) | 294 | 5,014 | (751) | (466) | (94) |
| Expenses (General, Administration, Interest, | 4,195 | 2,047 | 2,997 | 2,304 | 14,476 |
| Net Income (Loss) for continuing operations | (3,901) | 2,967 | (3,748) | (2,770) | (4,811) |
| Income(loss) from discontinued operations | (709) | (7,990) | (5,932) | (7,222) | (36) |
| Net Income (Loss) for the Year after discontinued | (4,615) | (5,675) | (9,680) | (9,979) | (14,496) |
| Cash | 76 | 1,252 | 1,076 | 6,470 | 4,179 |
| Current Assets | 4,408 | 8,773 | 2,264 | 7,481 | 4,573 |
| Total Assets | 29,492 | 31,456 | 22,338 | 23,666 | 19,530 |
| Current Liabilities | 4,343 | 5,899 | 2,589 | 1,062 | 790 |
| Long Term Liabilities | 1,054 | 1,221 | 377 | 423 | 1,089 |
| Working Capital (Deficiency) | 65 | 2,874 | (325) | 6,419 | 3,783 |
| Shareholders' Equity | 24,095 | 24,336 | 19,372 | 22,181 | 17,651 |
| Total Capital Expenditures (including Mineral | 3,250 | 3,579 | 5,284 | 3,813 | 2,279 |
| Expenditures on Mineral Properties | 2,633 | 659 | 2,583 | 2,298 | 2,042 |
| Financing Raised | 4,380 | 7,559 | 6,785 | 14,314 | 9,511 |
| Dividends Declared | - | - | - | - | - |

Share Information

| | | | | | |
|--------------------------------------|---------|---------|---------|---------|---------|
| Market Capitalization (\$ Thousands) | 53,666 | 45,798 | 42,632 | 39,145 | 105,955 |
| Shares Outstanding (Thousands) | 487,869 | 457,981 | 370,715 | 301,112 | 252,274 |
| Warrants & Options (Thousands) | 35,148 | 102,354 | 34,748 | 52,342 | 27,348 |
| Earnings (Loss) per Share | (0.009) | (0.013) | (0.031) | (0.034) | (0.062) |

⁽¹⁾ Restated for the adoption of the Asset Retirement Obligations change in accounting policy.

⁽²⁾ Presented to show the results of continuing and discounted operations due to the decision to sell the Barbrook and Eersteling Mines.

Table 3A (i) - Selected Financial Information - United States Generally Accepted Accounting Principles

| | 2007 | 2006 ⁽¹⁾ | 2005 ⁽¹⁾ | 2004 ⁽¹⁾ | 2003 ⁽¹⁾ |
|--|---------|---------------------|---------------------|---------------------|---------------------|
| Revenue from Operations | 10,039 | 13,586 | 6 | 3 | 58 |
| Gross Profit (Loss) | (2,339) | 4,355 | (2,791) | (872) | (8,987) |
| Expenses (General and Administration, Interest | 4,195 | 2,047 | 2,997 | 2,304 | 14,605 |
| and Amortization) | | | | | |
| Net Income (Loss) from continuing operations | (6,539) | 1,656 | (5,788) | (3,163) | (4,949) |
| Net Income (Loss) from discontinued operations | (709) | (7,990) | (5,932) | (7,222) | (36) |
| Net Income (Loss) | (7,248) | (6,334) | (11,720) | (10,385) | (4,985) |
| Total Comprehensive Loss | (7,336) | (6,249) | (11,738) | (10,421) | (4,985) |
| Cash | 76 | 1,252 | 1,076 | 6,470 | 4,179 |

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Current Assets | 4,408 | 8,773 | 2,264 | 7,481 | 4,573 |
| Total Assets | 21,507 | 26,135 | 17,591 | 20,977 | 17,283 |
| Current Liabilities | 4,343 | 5,899 | 2,589 | 1,062 | 790 |
| Long Term Liabilities | 1,054 | 1,221 | 377 | 423 | 1,089 |
| Working Capital (Deficiency) | 65 | 2,874 | (325) | 6,419 | 3,783 |
| Shareholders' Equity (Deficiency) | 16,110 | 19,015 | 14,625 | 19,492 | 15,404 |
| Total Capital Expenditures (including Mineral Properties) | 617 | 2,920 | 3,244 | 3,407 | 1,601 |
| Expenditures on Mineral Properties | - | - | 543 | 830 | 1,365 |
| Financing Raised | 4,380 | 7,559 | 6,785 | 14,314 | 9,442 |
| Deemed Dividends | 134 | - | 171 | - | - |

Share Information

| | | | | | |
|---|---------|---------|---------|---------|---------|
| Market Capitalization (\$ Thousands) | 53,666 | 45,798 | 42,632 | 39,145 | 105,955 |
| Shares Outstanding (Thousands) | 487,869 | 457,981 | 370,715 | 301,112 | 252,274 |
| Warrants & Options (Thousands) | 35,148 | 102,354 | 34,748 | 52,342 | 27,348 |
| Basic and Diluted Net Income (Loss) per Share | (0.01) | (0.02) | (0.038) | (0.036) | (0.022) |

(1) Presented to show the results of continuing and discontinued operations due to the decision to sell the Barbrook and Eersteling Mines.

Table 3A (ii) - Summary of Exchange Rates for the 5-year Period - 2003 to 2007

The following table sets forth, for each of the years indicated, the exchange rate of the United States dollar into Canadian currency at the end of such year, the average exchange rate during each such year and the range of high and low rates for each such year as supplied by the Bank of Canada.

| Exchange Rate | 2007 | 2006 | 2005 | 2004 | 2003 |
|-----------------------------------|--------|--------|--------|--------|--------|
| Rate at the End of the Period (1) | 0.982 | 1.1654 | 1.1630 | 1.2020 | 1.2965 |
| Average Rate (2) | 1.0744 | 1.342 | 1.2114 | 1.3000 | 1.4015 |
| High Rate (1) | 1.185 | 1.1794 | 1.2585 | 1.3957 | 1.5777 |
| Low Rate (1) | 0.9145 | 1.0948 | 1.1630 | 1.1759 | 1.2839 |

Notes:

- (1) The rate of exchange is the Bank of Canada closing rate for the period.
(2) The average rate means the average of the exchange rates during the year.

The high and low rates of exchange for each of the 6 months from October 2007 to March 2008 are as follows:

| | Oct. 2007 | Nov. 2007 | Dec. 2007 | Jan. 2008 | Feb. 2008 | March 2008 |
|---------|-----------|-----------|-----------|-----------|-----------|------------|
| Closing | 0.9547 | 0.99 | 0.982 | 0.997 | 0.9788 | 1.0232 |
| Average | 0.97673 | 0.9625 | 1.00151 | 1.01099 | 1.00203 | 1.00077 |
| Hi | 0.9988 | 0.99 | 1.0193 | 1.0323 | 1.0161 | 1.0241 |
| Low | 0.9547 | 0.9145 | 0.9807 | 0.982 | 0.9788 | 0.9785 |

C. Risk Factors

An investment in the securities involves a high degree of risk. Investors need to carefully consider the following risk factors, in addition to the other information contained in this section "D" and the Exhibits hereto.

Industry Competition

The mining industry is a highly diverse and competitive international business. The selection of geographic areas of interest are only limited by the degree of risk a company is willing to accept by the acquisition of properties in emerging or developed markets and/or prospecting in explored or virgin territory. Mining by its nature, is a competitive business with the search for fresh ground with good exploration potential and the raising of the requisite capital to move projects forward to production. Globally the mining industry is prone to cyclical variations in the price of the commodities produced by it, as dictated by supply and demand factors, speculative factors and industry-controlled marketing cartels. Nature provides the ultimate uncertainty with geological and occasionally climatic surprises. Commensurate with the acceptance of this risk profile is the potential for high rewards.

Exploration and Development

The exploration, and development of, and the production from mineral deposits is potentially subject to a number of political, economic and other risks. Exploration, development and production activities are potentially subject to political, economic and other risks, including:

- cancellation or renegotiation of contracts;
- changes in local and foreign laws and regulations;
- changes in tax laws;
- delays or refusal in granting prospecting permissions, mining authorizations and work permits for foreign management staff;
- environmental controls and permitting
- expropriation or nationalization of property or assets;
- foreign exchange controls;
- government mandated social expenditures, such as comprehensive health care for HIV/AIDS infected employees and families;
- import and export regulation, including restrictions on the sale of their production in foreign currencies;
- industrial relations and the associated stability thereof;
- inflation of cost that is not compensated for by a currency devaluation;
- requirement that a foreign subsidiary or operating unit have a domestic joint venture partner, possibly which the foreign company must subsidize;
- restrictions on the ability of local operating companies to sell their production for foreign currencies, and on the ability of such companies to hold these foreign currencies in offshore and/or local bank accounts;
- restrictions on the ability of a foreign company to have management control of exploration and/or development and/or mining operations;
- restrictions on the remittance of dividend and interest payments offshore;
- retroactive tax or royalty claims;
- risks of loss due to civil strife, acts of war, guerrilla activities, insurrection and terrorism;
- royalties and tax increases or claims by governmental entities;
- unreliable local infrastructure and services such as power, communications and transport links;
- other risks arising out of foreign sovereignty over the areas in which Caledonia's operations are conducted.

Such risks could potentially arise in any country in which Caledonia operates. However the risks are regarded as greater in South Africa and Zambia and particularly in Zimbabwe. In Southern Africa, Black Economic Empowerment Legislation and a number of economic and social issues may result in increased political and economic risks of operating in that area.

The President of the Republic of Zimbabwe brought the Indigenisation and Economic Empowerment Act into law through decree in March 2008. The law seeks to ensure that a majority stake (at least 51%) in all companies is held by Indigenous Zimbabweans. Additionally the Mines and Minerals Amendment Bill was presented before the closure of the last session of Parliament but not passed into law, and has thus lapsed. The Mines and Minerals Amendment Bill if enacted into law also seeks to ensure among other things that a majority stake is held in all mining companies by either indigenous Zimbabweans or the Government of Zimbabwe. Whilst neither the two pieces of legislation allow for compulsory acquisition, the Mines and Minerals Amendment Bill did provide for severe penalties in the form of extremely prohibitive taxes and potential withdrawal of mineral rights in the event of non voluntary compliance within certain time frames.

The Zambian government has announced the following proposed changes to their tax laws that will have a bearing on the Nama cobalt project if passed into law. The key changes are:

- Increase in mineral royalty from 0.6% to 3%
- Increase in profit tax rate from 25% to 30%
- Introduction of variable profits tax of 15% for net profits above 8%
- Introduction of a windfall profit tax for copper mines
- Capital allowances reduced from 100% to 25%

These measures have been highly controversial with mining companies, many of which invested in the country under specific tax incentives and formalised their business models accordingly. Some mining companies are threatening legal recourse as they argue their businesses will become unviable. Proposed capital expenditure projects are being reconsidered. Various representations have been made by the mining companies through the Chamber of Mines to the government since the budget announcement at the end of January, however the government has taken a firm position, and we understand that the changes have been approved by parliament.

Consequently, Caledonia's exploration, development and production activities may be substantially affected by factors beyond Caledonia's control, any of which could materially adversely affect Caledonia's financial position or results from operations. Furthermore, in the event of a dispute arising from such activities, Caledonia may be subject to exclusive jurisdiction of courts outside North America or may not be successful in subjecting persons to the jurisdiction of the courts in North America, which could adversely affect the outcome of a dispute.

History of Losses; Accumulated Deficit; No Assurance of Revenue or Operating Profit

Since inception from February 1992, Caledonia has recorded a loss in every year except 1994 and 2000. As at December 31, 2007, the consolidated accumulated deficit was \$171.89 million.

Write-downs on capital assets and mineral properties are typical for the mining industry. Caledonia's policy is to review the carrying value of assets relative to current market conditions on an annual basis.

Fluctuating Minerals Prices and Foreign Currency Exchange Rates

As Caledonia's activities primarily relate to the exploration, development and production of minerals the fluctuating World prices for such minerals have a significant potential effect on the Company's future activities and the potential profitability of any of its minerals production activities. There is never any assurance, when activities are undertaken, or production operations are commenced, that the World price of the minerals involved will continue at a sufficiently high price to justify the ongoing activities or the continuation of the production.

Most costs incurred by the Company in its exploration, development and production activities in southern Africa have to be paid in local currencies. However, mineral prices are generally quoted in United States dollars. The profitability of any production operations of the Company and the potential profitability of its exploration and development activities will therefore be seriously affected by adverse changes in the currency exchange rates.

Black Empowerment and Indigenization

The governments of the southern African countries in which the Company operates have, or are proposing, legislation (typically referred to as "black empowerment") requiring companies to allow participation in their shareholdings and business enterprises by the indigenous (i.e. black) population. In not all instances is it assured that such interests will have to be paid for at full fair value. In Zimbabwe, when Caledonia purchased the Blanket Mine, it agreed to establish a trust for the benefit of the employees of the Blanket Mine, and the area in which it is located, into which up to 30% of the issued shares of the wholly owned subsidiary which acquired and is operating the Blanket Mine would be placed - for no consideration. The ultimate terms and conditions of black empowerment arrangements forced on the Company - and the Zimbabwean trust when it is established - could seriously affect the profitability and economic prospects of the Company.

Need for Additional Funds

The Company's plans for ongoing and increased activity - and the development, ultimately, of cobalt production operations in Zambia - will require funding in excess of the Company's funds on hand. There is no assurance that all of the required additional funding can be raised and the Company may therefore have to reduce its ongoing activities.

The primary method by which the Company is seeking to finance the construction of, initially, a bulk sample pilot test plant - and ultimately production facilities - on its Zambian cobalt properties is to seek long-term agreements for future sales of cobalt concentrate to be produced from the property. These agreements have been secured during February and March 2008 whereby 51,560 tonnes of cobalt metal equivalent will be sold to four large Chinese refiners over the 5 year period ending in 2013.

Where possible the Company seeks, and will continue to seek, for new mineral property acquisitions or exploration activities joint venture agreements with other companies which will be required to supply all, or a significant portion, of the required funding.

Dependence upon Key Personnel

Caledonia's success depends (i) on the continued contributions of its directors, executive officers, management and consultants, and (ii) on Caledonia's ability to attract new personnel whenever Caledonia seeks to implement its business strategy. There is no assurance that the Company will always be able to locate and hire all of the personnel that it may consider that it requires. The Company, where it considers it appropriate, engages consulting and service companies to undertake some of the work function.

Mr. Harvey retired from his position as Technical Director in December 2005, but continues as a director, and James Johnstone retired from his position as Chief Operating Officer, but also continues as a Director.

Steven Curtis was appointed Vice President Finance and Chief Financial Officer in April 2006. In order to split the roles of the Chairman and the CEO Mr. Rupert Pardoe of Johannesburg, South Africa was appointed as Chairman of the Board of Directors of the Corporation in February 2005. Mr. Hayden stepped down as the Chairman at that time but continues as the Corporation's President and CEO. Robert Liverant was appointed a Director and a member of the Audit Committee in January 2007, and Mr. Leigh Wilson was appointed a Director and a member of the Audit Committee in March 2008.

Absence of Dividends

The Company has never paid or declared any dividends.

Possible Volatility of Share Price

Market prices for mining company securities, by their nature, are volatile. Factors, such as rapidly changing commodity prices, political unrest globally and in countries where Caledonia operates, speculative interest in mining stocks etc. are but a few factors affecting the volatility of the share price. Caledonia listed its shares on the London Stock Exchange's Alternative Investment Market ("AIM") in June 2005 and is trying to attract more institutional and stock analyst coverage of its shares.

4 INFORMATION ON THE COMPANY

The purpose of this standard is to provide information about the company's business operations, the products it makes or the services it provides, and the factors that affect the business. The standard also is intended to provide information regarding the adequacy and suitability of the company's properties, plants and equipment, as well as its plans for future increases or decreases in such capacity.

A. History and Development of Caledonia

Caledonia was incorporated, effective February 05, 1992, by the amalgamation pursuant to the laws of the Province of British Columbia, Canada of two "public" companies and one "private" company. It subsequently "Continued" under – and now exists pursuant to – the Canada Business Corporations Act.

Following its formation, the shares of Caledonia were listed for trading on the Toronto Stock Exchange and quoted on the NASDAQ small caps market. In 1997, NASDAQ put Caledonia on notice that new listing requirements were in the process of being implemented. A minimum bid price of US\$1.00 per share for a period of ten consecutive trade days is required for Caledonia to regain compliance with the new listing requirements. Caledonia was unable to regain compliance and on October 16th 1998, Caledonia announced that NASDAQ would no longer quote Caledonia's securities for trading. Caledonia's common stock commenced trading on NASDAQ's OTC Bulletin Board system under the same symbol, CALVF, immediately after removal from the NASDAQ National Market. In June 2005 Caledonia was admitted to the London Stock Exchange's AIM market under the ticker symbol "CMCL".

The addresses and telephone numbers of Caledonia's two principal offices are:

Head Office - South Africa

Greenstone Management Services
24, 9th Street, Lower Houghton
Johannesburg, Gauteng, 2198
South Africa
(27) 11 447 2499

Representational Office - Canada

67 Yonge Street, Suite 1201
Toronto, Ontario, Canada
M5E 1J8
(416) 369-9507

In August 2000, Caledonia was notified by its joint venture partner on its Mulonga Plain properties in Zambia that it had expended more than US\$ 3 million on exploration on the properties and as such had earned a 60% interest in that property. The joint venture partner has continued work on the Mulonga Plain properties in 2004 - 2006 in its search for diamondiferous kimberlite pipes but has not yet announced further exploration work for the 2007 exploration season.

In August 2005 the joint venture partners, Motapa Exploration Limited and Caledonia Western Limited, a fully owned subsidiary of Caledonia, formed Motapa Mining Limited, a Zambian company, to hold and maintain the licences of the Mulonga Plain JV on behalf of the JV partners. At present Caledonia holds 40% of Mulonga Mining Limited, Motapa Exploration Limited holds the other 60%. Motapa Exploration Limited has given the Corporation notice that it intends withdrawing from the joint venture and intends to transfer all rights in and title to the properties to the Corporation for a nominal amount.

The Corporation has applied for a retention license over the properties managed under the joint venture.

In August 2000, Caledonia concluded a deal with a major mining company whereby the company would spend a total of \$750,000 over a 3-year period on Caledonia's Kikerk Lake diamond property in northern Canada to earn a 52.5% interest in the property from Caledonia who at that time held a 70% interest. By the end of 2002 the mining group had spent in excess of \$750,000 on the Kikerk property and had earned a 52.5% interest. The joint venture parties signed a 3-way joint venture exploration agreement in early 2002. The operator of the joint venture did approximately \$2,440,000 of work on the property in the 2002 – 2004 period. Cost of exploration at Kikerk Lake in 2005 totalled \$530,000. At the date of this report, the operator has not reported the cost of its 2006 work. During 2007 Caledonia has written down its investment in Kikerk Lake by \$750,000 to a nil balance.

In August 2000, Caledonia signed a heads of agreement with a major mining group over Caledonia's Nama group licences in Zambia – the "Kalimba project". The mining group undertook to spend US\$ 2,500,000 over a 4-year period to earn a 30% interest in the property by funding all of the exploration work on the Kalimba project. The mining group carried out exploration work on the Kalimba project between 2000 and March 2002 when it withdrew from the joint venture as part of its overall cutback in worldwide exploration. The property is again fully owned by Caledonia. Caledonia collected a 10-tonne bulk sample from Nama during the 3rd quarter of 2004 and conducted metallurgical tests to produce a concentrate and confirm whether or not the specifications required by the smelter can be met. The tests continued into 2006. Letters of intent have been signed with potential purchasers for the long term supply of Cobalt concentrate. Long terms supply discussions are ongoing

with a number of large users of Cobalt

In 1995 the Company acquired ownership of the shares of the now-subsiary companies which owned the Barbrook and Eersteling Mines in South Africa. Actually the original acquisition was of only 96.4% of the issued shares of Eersteling Gold Mining Company Ltd. - with the remaining 3.6% being acquired in mid 2004.

Effective April 1, 2006 the Company purchased 100% of the issued shares of the Zimbabwean company "Blanket Mine (1983) (Private) Limited, the owner of the operating Blanket Gold Mine. The purchase consideration was \$1,000,000 (U.S.) and the issuance to the vendor of 20,000,000 shares in the capital of Caledonia. Because the Company bought the shares of the company owning the Blanket Mine it thereby acquired all of the assets of that company and assumed all of its liabilities.

Caledonia has not been involved in any significant reorganization, mergers, receiverships or bankruptcies.

From time to time Caledonia receives mineral property and business proposals from third parties for review as potential investment opportunities. The Board of Directors or the officers of Caledonia reviews and evaluates those opportunities of merit and interest to Caledonia.

With the potential of improved political conditions in other Southern African countries, Caledonia is reviewing mining opportunities in certain of these countries. These activities are and will be undertaken through joint ventures or direct exploration expenditures.

Pages 12, 13 and 14 are maps respectively of northern South Africa, Zimbabwe and Zambia – which show the locations of the Company's properties in those countries.

B. Business Overview

Mining and Exploration Activities:

Gold Production

Blanket Mine – Zimbabwe

Safety, Health and Environment

- The mine recorded four lost time injuries, including one fatality, and four restricted work activity cases during the period. This is compared to the same period in 2006 which recorded three lost time and 7 restricted work activity cases. With the exception of the single fatality, the reduction in incidents in restricted work activity cases was attributable to the intensive safety training undertaken under the National Occupational Safety Association ("NOSA").
- An occupational health centre has been established and all employees were screened for occupational ailments. There were no occupational health illnesses detected during the year. HIV/AIDS continues to be an area of concern and management has put in place awareness programs to educate workers. The prevalence of medical retirees is increasing due to the HIV/AIDS pandemic.

The Mine continues to monitor the ground water in the ground-water pumping wells downstream of the tailings impoundment. Results continue to be well within the Governmental Environmental Management Agent ("EMA") minimum levels. Re-grassing of the slopes on Dam B was undertaken and is ongoing. As a result of management's continuing efforts to improve pollution control measures at Blanket Mine, the EMA has now upgraded the slimes dam from the red to the yellow category and management intends to strive for achievement of the highest ("green") safety category.

Capital Projects

Number 4 Shaft Expansion Project

Projects at Blanket focused mainly on the expansion program which involved the upgrading of the No. 4 shaft and the crushing/milling section of the plant. Shaft equipping of the No. 4 shaft continued throughout the year and was completed at the end of October. Work remaining to complete the shaft upgrade includes the equipping of loading and ore bin arrangements at the shaft bottom as well as the installation of a crusher and conveyor

system to reduce the size of the ore prior to hoisting.

This expansion project is designed to facilitate the increase in underground production from the current 600 tonnes per day (“tpd”) to 1,000 tpd. This should enable the total gold recovered to increase from 25,000 oz to 40,000 oz per annum.

Operations

Contrary to the project plan, Blanket suffered a prolonged unplanned No4 shaft closure from February to the end of July which was beyond Management’s control and was due mainly to a lack of power supply and severely restricted foreign currency receipts from the RBZ. During July, production was halted and the mine put on care and maintenance to save costs as the high grade sands being processed during this period were depleted and the contractor cost of transporting the sands to the plant escalated to an uneconomic level. In order to gain rapid access to the new mid-shaft loading bins underground, the decision was taken to speed up equipping of the No. 4 shaft by operating around the clock when power availability allowed. This decision paid some dividends, as Blanket was able to partially commission the No. 4 shaft to haul from 14 level at the end of July, thereby allowing the resumption of some underground operations building up to the planned production level of up to 600 tonnes per day. However recurring power outages continued to cause major disruptions to the final quarter operations, but these were eventually resolved by the mine undertaking to pay the Zimbabwe Electricity Supply Authority (“ZESA”) in foreign currency for its power supply. Absenteeism, power supply problems, and the consistent withholding of foreign currency by the RBZ so severely limited Blanket’s ability to restore production to the 600 tpd level that it was unachievable. The RBZ controls all foreign currency needed by Blanket which includes US Dollars from gold sales proceeds and payments to ZESA and certain suppliers, and also South African Rand required for certain supplier payments. Gold production has averaged 1,000 ounces per month since underground mining operations were resumed in July 2007 compared to the pre-shaft expansion target of 2,100 ounces per month.

Frequent power disruptions during the last two quarters of the year allowed the shafts and metallurgical plant to operate for only 86% of the available time, processing 100,082 tonnes instead of a forecast 178,000 tonnes. Both the nearly completed No. 4 shaft expansion and the plant are currently running well although foreign currency shortages are beginning to affect the plant availability, in particular the crushing and screening plant and the carbon in leach (C.I.L) sections due to the inability to purchase critical wear parts due to the foreign currency delays. Discussions are ongoing with RBZ to try to improve the receipt of US Dollars for gold delivered.

| Production results for year to December 2007 | | 2007 | 2008 Jan.- Feb. |
|--|-------------|---------|--------------------|
| Ore mined | tonnes | 100,082 | 17,165 |
| Development advance (ROM) | meters | 669 | 85 |
| Development advance (Capital) | meters | 504 | 26 |
| Ore milled | Tonnes | 100,082 | 17,285 |
| Ore Gold Grade milled | grams/tonne | 3.58 | 3.51 |
| Ore – Gold Recovered | ounces | 9,885 | 1,719 |
| Sands Processed | tonnes | 125,137 | - |
| Sands Grade | grams/tonne | 1.29 | - |
| Sands Gold Recovered | ounces | 3,414 | - |
| Gold produced | ounces | 13,299 | 1,719 |
| Gold Sold | ounces | 13,985 | 1,876 |

Outlook

The aims and objectives of Blanket Mine for 2008, subject to the return of reliable payment procedures for gold sales proceeds by the RBZ, are:

- To complete the No. 4 shaft project in order to realize the planned increase in ore production to 1,000 tonnes per day and gold production to 3,330 ounces of gold per month.
- To intensify underground development initiatives in order to open up sufficient reserves to sustain the planned increase in ore production.

- To explore ways of controlling input costs in a hyperinflationary environment (such as off-shore purchasing).
- To explore ways of retaining key staff in a hyperinflationary economy.
- To formulate a development strategy for the exploration properties in the Gwanda Greenstone Belt.
- To focus employee and management attention and effort on issues of safety, health and environment.
- To focus on off-mine exploration to supply additional ore to the plant

7.2 Exploration and Project Development

COBALT AND BASE METALS

Nama Cobalt Project – Zambia

Property

Caledonia Nama Limited (“Nama”), a wholly owned subsidiary of the Corporation, holds a Retention License in northern Zambia on which near-surface cobalt/copper mineralization has been discovered. This area lies immediately northwest of the operating Konkola Copper mine and adjoins the extensive land holdings of Teal Mining and Exploration Limited. This Retention License covers an area of 80,625 hectares and is valid for two years.

Work Completed

The 2001/2002 soil sampling program carried out jointly by Nama and BHP Billiton was completed over the remainder of the original license areas not covered by Nama in its 1995 and 1996 soil sampling and drilling program. The 1995/1996 programs identified a number of high priority anomalous targets (anomalies A, B, C, D and E) within the required geological setting. Reverse Circulation (“RC”) drilling was carried out on anomalies A, B, C, and D to a depth of at least 150 meters. The 2001/2002 soil sampling program results identified an additional 11 anomalous areas for further investigation including anomalies F to P. These targets have not yet been followed up in the search for copper/cobalt oxide and sulphide bodies.

In the second quarter of 2004, a mini bulk sample of 30 tonnes was excavated at Nama A (Discovery) site and underwent successful screening tests and heavy media/gravity separation tests in South Africa. Following encouraging results, a further one tonne sample were sent for additional test work to fine tune the extraction process for the cobalt oxide.

During 2006 metallurgical test work provided a metallurgical flow-sheet. Two further bulk samples were taken from Anomaly A to enhance and refine the metallurgical processes and cost parameters for producing a marketable and economically viable cobalt product.

In 2006/2007 a Technical Report, compliant with NI 43-101 was prepared for Anomaly A at Nama by Mr. David Grant, C.Geol., FGS, Pr.Sci.Nat., an independent consultant who is the “Independent Qualified Person” for Nama’s resources as required by NI 43-101 of the Canadian Securities Administrators.

In his report, which has been filed on SEDAR and is available on the Corporation’s website, Mr. Grant estimates the Indicated Resources at Anomaly A as 43,656,000 tonnes grading 0.055% Co, 0.099% Cu and 0.011% Ni. Mr. Grant subsequently re-evaluated the data for Anomaly C and prepared an update to the previous Technical Report which included the following additional Indicated Resources for Anomaly C; 78,218,000 tonnes grading 0.043% Co, 0.012% Cu and 0.019% Ni. The combined resource is therefore 121,874,000 tonnes grading 0.047% Co, 0.043% Cu and 0.016% Ni. This second NI 43-101 report has been filed on Sedar and is available on the Corporation website.

Mr. Grant also states that Anomalies F through Q inclusive are worthy of further investigation.

Nama continued exploration on the Nama Retention License area during the 2007 field season. During the year \$2,470 was spent on exploration consisting mainly of drilling diamond and reverse circulation holes. The results of the exploration activities will be released as soon as available.

Diamond drill core holes were drilled for both geological and bulk density measurement purposes. Bulk density measurements are required in order to determine ore volumes and tonnages for mining purposes with an acceptable level of accuracy. The bulk density drill holes were sited so as to provide information of a geological nature in critical areas and thereby provide the added benefit of improving the definition and understanding of the ore bodies.

A total of 4,099 meters of Diamond drilling was completed during the 2007 exploration field season, and the breakdown per anomaly area is as follows:

| Anomaly | Diamond Drill Holes | Meters Drilled | Comment |
|----------------|----------------------------|-----------------------|--------------------------------|
| A | 7 | 1,769 | Geological and assay data |
| A | 4 | 320 | Bulk Density & Geological data |
| C | 3 | 770 | Geological and assay data |
| C | 8 | 640 | Bulk Density & Geological data |
| D | 6 | 600 | Bulk Density & Geological data |
| Total | 28 | 4,099 | |

A total of 5,560 meters of Reverse Circulation drilling was completed during the 2007 exploration season and the breakdown per ore body area is as follows:

| Anomaly | RC Drill Holes | Meters Drilled |
|----------------|-----------------------|-----------------------|
| A | 2 | 160 |
| C | 23 | 1,309 |
| D | 51 | 4,091 |
| Total | 76 | 5,560 |

The earlier than usual onset of the rains in early November made it impossible to drill some outstanding areas of Anomaly D and Anomaly Q which is a prominent but untested geochemical target. In order to obtain at least some geological information on Anomaly Q in early 2008, a shallow pit and trench sampling program has been implemented.

The diamond drill core was logged and split on site prior to dispatch to an accredited analytical laboratory in Kalulushi, Zambia for analysis of cobalt, copper, nickel and zinc, amongst others. Quality Control and Quality Assurance control procedures were put in place to verify the accuracy of the drill core splitting and handling and the laboratory results.

All assay data has been received and is currently being verified and consolidated into the project database. The resource modelling and re-evaluation of the various anomalies is in progress and a revised independent Technical Report compliant with NI 43-101 standards will be issued once this work is completed.

The metallurgical testing to establish the likely product specification of the cobalt hydroxide product has been completed. Based on this metallurgical test work the cobalt hydroxide specification has been discussed with, and is acceptable, to the refiners who have signed purchase agreements for the cobalt hydroxide product.

Five year supply agreements have been finalized with four large Chinese refiners to supply a total of 51,560 tonnes of cobalt metal equivalent over a five year period commencing in 2009. Nerin China (Nanchang Engineering and Research Institute of Nonferrous Metals) has been commissioned to produce a Feasibility Study in accordance with the Regulations and Preparation Basis of a Project Feasibility Study Report for the Nonferrous Metals Industry, and related Chinese specifications and standards.

During the year the Nama Environmental Impact Assessment (EIA) covering the new access road and power line routes to the proposed Nama Plant Site was completed, and has been submitted to the Environmental Council of Zambia for their final approval. This EIA study is currently being expanded to cover the anticipated future mining operations at Nama.

Rooipoort PGE/Ni/Cu Project (including Grasvally) - South Africa

Property

In 2002, Eersteling Gold Mining Company Limited (“EGM”) acquired the Rooipoort property, containing platinum group elements (PGE), nickel (Ni) and copper (Cu), from Rustenburg Platinum, owned by Anglo Platinum Limited. The property is located approximately 30 km southwest of the Eersteling Gold Mine property in an area that is presently undergoing a surge in platinum group metal exploration along a well-mineralized feature known as the “Platreef”. An additional 342 hectares on the farm Grasvally, immediately adjacent to, and south of, the Rooipoort property was optioned in 2004, and over which the Company was granted a New Order Prospecting Right in May 2005 (3 year period). A further 43 hectare portion was granted in April 2006 (5 year period).

Application for conversion of the Rooipoort property into a New Order Right in terms of the Mineral and Petroleum Development Act (“MPRDA”) was granted in November 2006.

In March 2006, the Company concluded an agreement, with Falconbridge Ventures of Africa (Pty) Ltd (“Falconbridge”) to acquire a 100% interest in Falconbridge’s prospecting rights covering a total area of 4,315.81 hectares contiguous with the Rooipoort property which effectively doubles the area of the Rooipoort Project property underlain by Bushveld Complex rocks with PGE potential. The Falconbridge properties were granted New Order Prospecting Rights in April 2006 (3,099 hectares, for a period of 5 years) and September 2006 (1,217 hectares, for a period of 5 years). The total area of EGM’s New Order Prospecting Rights in the Rooipoort PGE/Ni/Cu properties is now 8473.39 hectares.

EGM’s rights to the Rooipoort Project, together with the Falconbridge agreement are in the process of being transferred to Maid O’ The Mist (Pty) Ltd, a 100% South African registered subsidiary of the Corporation.

Exploration

To date, the Company has diamond-drilled a total of 18,450 meters in 54 holes on the Rooipoort PGE/Ni/Cu Exploration Project. This drilling covers the full 6 km strike length that makes up the project area.

Falconbridge drilled a total of 7,393 meters in 22 holes on the portions of Grasvally and the farms Jaagbaan and Moorddrift that comprise most of the property purchased from Falconbridge.

At the end of 2004, very preliminary, flotation amenability test work was performed at the SGS Lakefield laboratories in Johannesburg, South Africa on mineralized composite samples from 5 lithological units prepared from the early diamond drill-hole cores to verify the flotation amenability of the ore. The tests included milling and basic flotation to produce a flotation concentrate. The tests indicated that from each of the five mineralized zones, a re-cleaner flotation concentrate of low mass recovery can be produced that contains medium to high recovery of platinum, palladium, gold, copper and nickel. This initial test work indicates that a relatively simple metallurgical process route could possibly produce a flotation concentrate from high-tonnage, low-grade feed material.

In September 2005, an independent resource estimate was calculated and incorporated into a NI 43-101 - compliant report by RSG Global of Australia. The results of this estimate are:

Inferred Resource: At 0.5g/t 2PGE+Au and 200m below surface (900m base)

| Zone | Average True Width (m) | Tonnes | 2PGE+Au (g/t) | Pt (g/t) | Pd (g/t) | Au (g/t) | Ni % | Cu % |
|------|------------------------|------------|---------------|----------|----------|----------|------|------|
| M2 | 1.8 | 12,791,200 | 1.34 | 0.42 | 0.83 | 0.10 | 0.20 | 0.12 |
| L3 | 1.3 | 5,337,154 | 1.15 | 0.59 | 0.51 | 0.05 | 0.15 | 0.10 |

The resource estimate is the work of Dr. Julian Verbeek supported by Mr. Ken Lomborg, both of RSG Global.

During 2007, field work consisting of geochemical sampling was conducted over the land acquired from Falconbridge. A total of 37.37 line kilometers was sampled during this phase of the work and 1500 samples submitted for assay for Ni, Cu and PGMs. Based on the results of this sampling, the drilling program for the coming 2008 drilling season will be laid out.

Maps and drill logs for the Rooipoort PGE/Ni/Cu Exploration Project shown on the Corporation’s website

provide an overview of the exploration activity that has been carried out on the Rooipoort property. The Project Status Report and the full RSG NI 43-101 Technical Report are available on the Corporation's website. As a result of the work done to date, additional target areas have been identified on the west and north-west of the property, and these are identified in the Project Status Report on the website.

Discussions with a suitable Joint Venture partner regarding a "farming-in" arrangement are currently underway.

GOLD

Zimbabwe Exploration - Gold

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

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

The Bubi Greenstone Belt ground holding portfolio comprises a total of 27 base metal claims covering a combined total area of 2,820 hectares. Reconnaissance exploration work by soil, sampling and geological mapping has been completed in all the claims areas. In 2008 the focus will mainly be directed to conduct additional follow-up work to define drill targets on potentially prospective metal-in-soil anomalies so far identified in the area. The work in the Sandy Claims constitutes part of this detailed follow-up exploration work.

During the first quarter of 2008, and assuming the availability of funds, Blanket's exploration focus is centered on the Gwanda area with the main emphasis being delineation of a potentially economic ore resource at the GG prospect and Mbudzane. At GG, this will be achieved through continued core drilling from the surface to establish the strike extent of established economic mineralization as well as by deepening the prospect shaft and extending underground development. At Mbudzane, a second phase core-drilling program has been planned to follow up on several highly prospective deep seated IP-anomalies generated in 2006.

In addition, Blanket is conducting basic reconnaissance exploration work on the Bunny's Luck claims, the target being to determine the potential strike length of a 1m to 1.5m wide shear zone hosted quartz vein so far mapped over a strike length of 300m. Blanket needs to formulate a development strategy for its outside properties in the Gwanda area, in particular, and elsewhere in general, in order to prevent forfeiture under the current indigenization proposals.

DIAMONDS

Kikerk Lake – Canada

The Kikerk Lake property consists of 5 mineral leases covering 12,912.5 acres (5,225.5 hectares). In 2001 and 2002, the Corporation announced the discovery of two diamondiferous kimberlites, "Potentilla" and "Stellaria", on the Kikerk Lake property in Nunavut Canada, by its joint venture partner and operator of the property, Ashton Mining of Canada Inc. ("Ashton"), a wholly owned subsidiary of Stornoway Diamond Corporation ("Stornoway"). The two kimberlite pipes are approximately 700 meters apart. In 2005, Ashton collected 108 heavy mineral samples to follow up on previous anomalous results. These samples were sent to Ashton's laboratory and results were received in the first quarter of 2007.

Ashton reported that approximately 24 line-kilometers of ground magnetic survey were conducted over a structural trend line, but there were no new magnetic features noted that would be indicative of kimberlite emplacement.

Four diamond drill holes, totaling 382 meters were drilled to test the Stellaria kimberlite and a possible source of kimberlite indicator minerals east of Stellaria. Results confirm that the Stellaria body has a steep dip to the

north-west and limited width.

The Corporation's 17.5% share of this program is funded by Ashton. Ashton holds a 52.5% interest, having incurred in excess of \$750,000 in exploration expenditures on the property. This interest can be increased to 59.5% if Ashton funds the Corporation's share of the costs through to a completed feasibility study. The remaining 30% interest is held by Stornoway. Recently Stornoway has amalgamated with Ashton.

Due to a lack of recent activity on this joint venture the carrying value of \$750,000 has been written off.

Mulonga Plain – Zambia

Work Completed

Motapa Diamonds has given the Corporation notice that it intends withdrawing from the joint venture and intends to transfer all rights in and title to the properties to the Corporation for a nominal amount.

The Corporation has applied for a retention license over the properties managed under the joint venture.

The Mulonga Plain License area is located in Western Zambia, between the Zambezi River and the Angolan border. The Company has identified discrete areas within the license area. An airborne gravity survey was completed on the easternmost of these in late 2004.

Ten, out of an original eleven, airborne gravity and magnetic targets were drill tested during 2005 and one hole was abandoned due to poor drilling conditions. Basalt basement was intersected in each of the holes at depths ranging from 87 meters to 173 meters with no kimberlite intercepts reported from any of the holes. Motapa has defined four prospective regions within the extensive Mulonga Plain anomaly through prior heavy mineral sampling, airborne magnetics and reconnaissance drilling. The 2005 drill program was designed to test the easternmost of these prospective regions and followed on from completion and interpretation of an airborne gravity survey in late 2004. A Falcon airborne survey was flown and the results interpreted in 2006.

Commenting on the 2005 results, Motapa's CEO noted: "The extensive Mulonga Plain diamond and kimberlite indicator mineral anomaly remains highly prospective for discovery. This program has provided an initial drill test of one of four well defined indicator mineral dispersions. The remaining three areas, in the central and western portions of the Mulonga Plain remain essentially untested and results of this program should add considerably to our understanding of kimberlite indicator mineral dispersion within the Mulonga Plain and better constrain likely source kimberlite areas." No further work was carried out in 2006 and 2007 as Motapa prioritized other areas of their property portfolio over Mulonga.

Kashiji Plain - Zambia

This license area is located in northwest Zambia, adjacent to the Angolan border. Prior work by Motapa has recovered 22 micro diamonds in association with numerous kimberlitic ilmenites. Work in 2005 focused on interpretation of results from the field work of 2004 in two discrete areas of anomalous kimberlite indicator mineral and diamond recoveries. No further field work was carried out on the Kashiji or Lukulu licenses in 2006 and 2007. This license is due to expire in June 2008, however as stated above the Corporation has also applied for retention licenses covering the Kashiji and Lukulu areas.

Goedgevonden - South Africa

The Corporation holds prospecting rights over the Goedgevonden diamond bearing kimberlite pipe and surrounding area. This property is located approximately 20km north of the Stilfontein gold mine in the Klerksdorp district of the North West Province in South Africa and 200km south west of Johannesburg.

In April 2005 an application for conversion of these rights was submitted in terms of the Mineral and Petroleum Resources Development Act ("MPRDA") and the rights were granted in December 2006. An additional application for New Order Prospecting rights was submitted over an adjoining farm, Eleazar in June 2005. It is expected that this application will be granted shortly as soon as documentary proof of BEE participation has been presented.

Previous prospecting activities carried out in the mid 1970's on Goedgevonden indicate that the pipe is oval in shape and covers a surface area of approximately 0.27 hectares. This work also confirms that the pipe was drill

intersected at a depth of 425 meters, and that further down-dip extensions remain undefined. Previous drilling reported an average diamond content of 35 to 45 carats per hundred tonnes of material (“cpht”), with one hole yielding 65 cpht. The Corporation has not completed the work necessary to estimate a resource in terms of NI 43-101 for the Goedgevonden property.

A preliminary drilling program conducted in 2002 consisted of 7”, 8” and 12” diameter reverse circulation drill holes, followed by the collection of the drill samples and diamond recovery. Four holes were drilled in the centre of the pipe, three to a depth of 150 meters, and the other to 120 meters. The three remaining holes were drilled to delineate the pipe in more detail. All of the seven holes drilled entered the kimberlite at a depth of about 6 meters, and the four centrally-located holes were stopped whilst still in the kimberlite. A total of about 56 tonnes of drilling sample was collected and processed through a Van Eck and Lurie dense-media separation (“DMS”) plant and wet Sortex machine. From the diamond recoveries it was confirmed that the Goedgevonden pipe was diamondiferous, and sufficient gem-quality diamonds were recovered to warrant a larger bulk sample. Geological interpretive work as well as detailed ground gravity and magnetometer surveys were completed during 2003 but there was no further exploration activity on this property as corporate resources were concentrated on the Corporation’s other projects which were considered to be of higher priority in adding shareholder value.

Granting of the New Order Prospecting Rights (not yet signed) gives the Company security of tenure. Discussions are in progress with other parties with a view to realizing value by joint venture or disposal of the properties in the Goedgevonden Diamond Project.

Outlook

The outlook for the aforementioned exploration properties, except for Nama, is difficult to quantify. Exploration by its nature is speculative with a high degree of risk accompanied by the potential for high returns. The Corporation manages this risk by using well-qualified exploration professionals, senior mining company joint venture partners and by exploring in areas which are considered as having a better than average potential for discovery. The recent increases in the prices of precious and base metals should improve exploration expenditures of the major mining companies and could improve the likelihood of the Corporation negotiating joint venture agreements for its remaining wholly-owned exploration properties.

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

In terms of the South Africa Minerals and Petroleum Resources Development Act (No 28 of 2002) (“MPRDA”) and implemented May 1, 2004, all “old order” mineral rights in South Africa are required to be converted to “new order” rights, by a process of re-applying for these rights. Holders of all inactive prospecting and mining rights (immediately preceding May 1, 2004) were required to apply for conversion by April 30, 2005. Active prospecting right conversion applications closed on April 30, 2006 and active mining right conversions close on April 30, 2009.

Apart from various technical requirements for conversion, the new legislation requires that companies give attention to the requirements of the *MPRDA* as defined in Section 2(d) as well the Mining Charter as “*substantially and meaningfully expand opportunities for historically disadvantaged persons, including women, to enter the mineral and petroleum industries and to benefit from the exploitation of the nation’s mineral and petroleum resources.*” The Mining Charter was formulated in negotiations between the government, the mining industry as largely represented by the Chamber of Mines of South Africa, and organized labour.

The Mining Charter seeks to address the implementation of section 2(d) in practical and measurable terms. Lack of clarity as to the status of prospecting under the Mining Charter has led to considerable debate and confusion in terms of the ability of companies involved in early stage prospecting work to meet or even indicate their commitment to meeting the terms of the Mining Charter, even before any sort of mineral resource has been established. This in part has been the cause of considerable delays in processing of the thousands of applications submitted as part of this process. However, there has recently been an apparent relaxing of the attitude of the South African authorities in respect of New Order Prospecting Rights and many companies, including the Corporation have received these new rights in recent months.

The Zimbabwe economy continues to be depressed and inflation is rampant. The survival of the mining industry

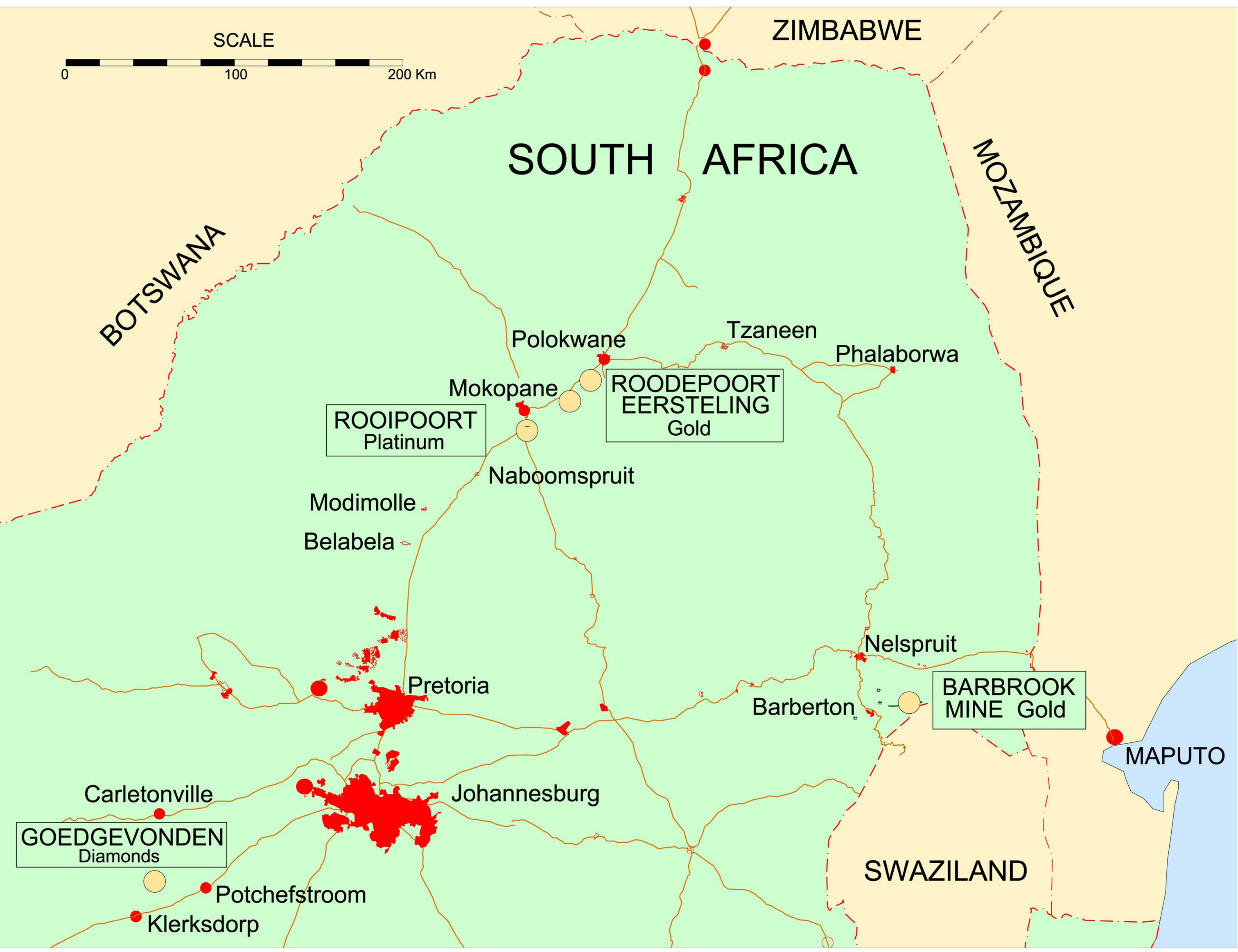
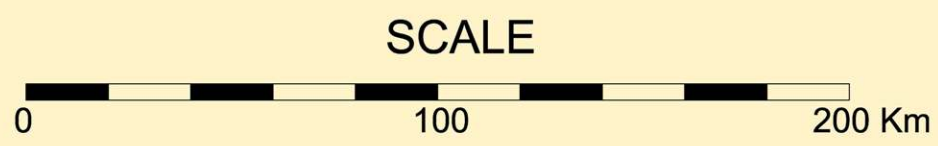
is a high priority of the Government as its ability to generate foreign currency is of paramount importance. Management's focus is to complete the No 4 shaft expansion and to bring production up to the 1000 tpd level. Cash flow management is critical to ensure the mining operations are protected, as much as possible, from the effects of local inflation by the utilization of foreign currency proceeds to fund operations. Management is also continuing with exploration in the areas near the Blanket mine to enable Blanket to expand its operation should economic improvements in Zimbabwe occur.

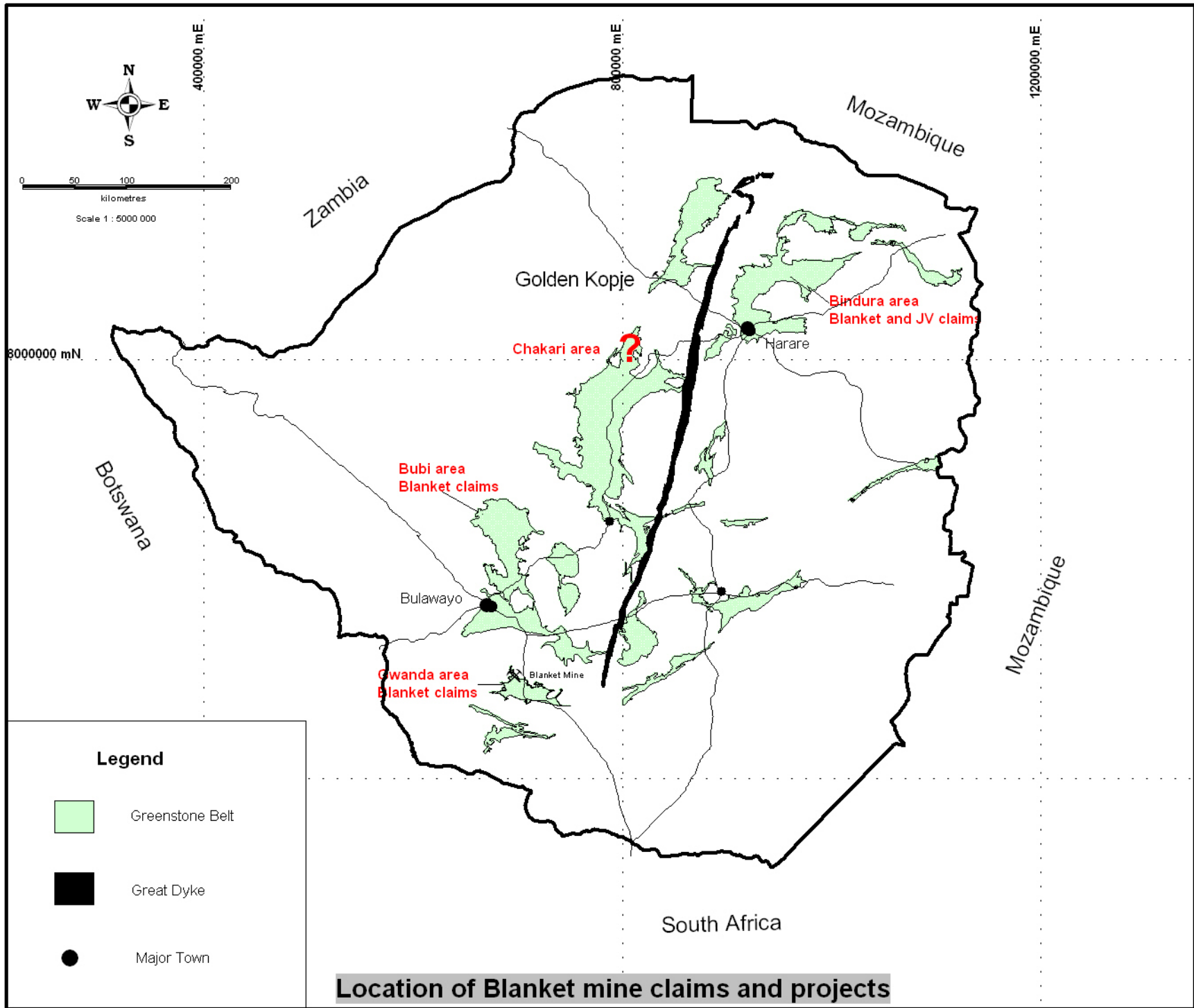
The President of the Republic of Zimbabwe brought the Indigenisation and Economic Empowerment Act into law through decree in March 2008. The law seeks to ensure that a majority stake (at least 51%) in all companies is held by Indigenous Zimbabweans. Additionally the Mines and Minerals Amendment Bill was presented before the closure of the last session of Parliament but not passed into law, and has thus lapsed. The Mines and Minerals Amendment Bill if enacted into law also seeks to ensure among other things that a majority stake is held in all mining companies by either indigenous Zimbabweans or the Government of Zimbabwe. Whilst neither the two pieces of legislation allow for compulsory acquisition, the Mines and Minerals Amendment Bill did provide for severe penalties in the form of extremely prohibitive taxes and potential withdrawal of mineral rights in the event of non voluntary compliance within certain time frames.

The Zambian government has announced the following proposed changes to their tax laws that will have a bearing on the Nama cobalt project if passed into law. The key changes are:

- Increase in mineral royalty from 0.6% to 3%
- Increase in profit tax rate from 25% to 30%
- Introduction of variable profits tax of 15% for net profits above 8%
- Introduction of a windfall profit tax for copper mines
- Capital allowances reduced from 100% to 25%

These measures have been highly controversial with mining companies, many of which invested in the country under specific tax incentives and formalised their business models accordingly. Some mining companies are threatening legal recourse as they argue their businesses will become unviable. Proposed capital expenditure projects are being reconsidered. Various representations have been made by the mining companies through the Chamber of Mines to the government since the budget announcement at the end of January, however the government has taken a firm position, and we understand that the changes have been approved by parliament.



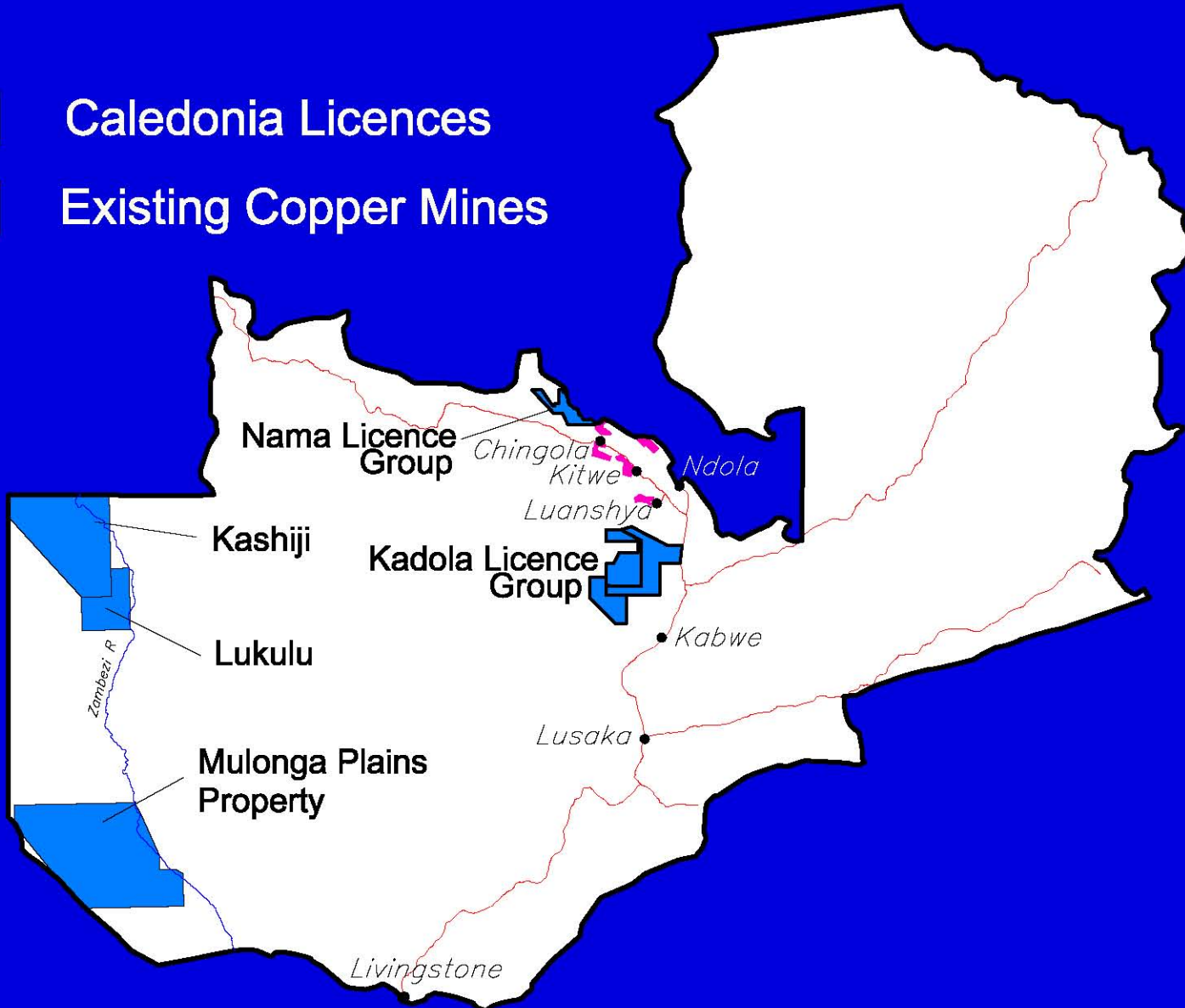




Caledonia Licences



Existing Copper Mines



3. General Comments

Caledonia's activities are centered in Southern and Central Africa and in Northern Canada. Generally, in the gold mining industry the work is not seasonable except where heavy seasonal rainfall can affect surface mining or exploration. Caledonia is not dependent, to any material extent, on patents, licenses, contracts, specialized equipment or new manufacturing processes at this time. However, there may be occasions that Caledonia may wish to adopt such patents, licenses, specialized equipment, etc. if these are economically beneficial to its operations.

All mining and exploration activities are conducted under the various Economic, Mining and Environmental Regulations of the country where the operations are being carried out. It is always Caledonia's standard that these regulations are complied with by Caledonia otherwise its activities risk being suspended.

(C) Organizational Structure - Subsidiaries

Caledonia Mining Corporation owns 100% of the shares of the following incorporated companies:

Zambia:

- Caledonia Mining (Zambia) Limited
- Caledonia Western Limited
- Caledonia Nama Limited
- Caledonia Kadola Limited

South Africa:

- Eersteling Gold Mining Company Limited
- Barbrook Mines Limited -
- Greenstone Management Services Limited
- Fintona Investments (Proprietary) Ltd
- Maid O' Mist (Proprietary) Limited

Barbados:

- Blanket (Barbados) Holdings Limited
- Caledonia Holdings (Africa) Limited

Zimbabwe:

- Blanket Mine (1983) (Private) Limited
- Caledonia Holdings Zimbabwe Limited
- Caledonia Mining Services Limited

Panama:

- Dunhill Enterprises Inc.

(D) Property, Plant and Equipment

(a) South Africa:

The Barbrook and Eersteling gold mines, which are indirectly owned by the Company through its ownership of 100% of the shares of Barbrook Mines Limited and Eersteling Gold Mining Company Limited, are essentially fully equipped mines with all of the underground and surface equipment needed to conduct mining operations and the treatment and concentration of ore mined from the properties.

Due to the lengthy period of care and maintenance at Eersteling there has been some deterioration in the surface facilities which will require rehabilitation work before operations can be recommenced. The underground workings at Eersteling were allowed to flood and will require dewatering before mining access can be resumed. Because the Company is currently attempting to sell these mines it has no plans to expend further amounts on plant or equipment for them or to in any way expand or improve the facilities.

On February 21, 2008 the Corporation accepted an offer from Eastern Goldfields to purchase the entire issued share capital in Barbrook Mines Limited, its debts to the Corporation, and its payables of approximately \$1,440,000 for approximately \$9,100,000.

On March 3, 2008 the Corporation signed an Interim Agreement with a private Canadian company to purchase the entire issued share capital in Eersteling Gold Mining Company Limited (“EGM”) for \$3,810,000 excluding the Rooipoort platinum exploration assets currently held by EGM which are in the process of being transferred to Maid O’ The Mist, a 100% held South African subsidiary of the Corporation.

(b) Zimbabwe:

The Blanket Mine, in Zimbabwe, which the Company indirectly owns through its ownership of 100% of the shares of Blanket Mine (1983) (Private) Limited, the owner and operator of the Mine, is a fully equipped mine with all of the necessary plant and equipment to conduct mining operations and the concentration of ore mined from the Mine. As is noted above the Company is currently involved in expanding production from the Mine and expanding the capacity of the ore concentrator plant. To February 28, 2008 the Company had expended approximately the equivalent of \$4,500,000 (Cdn.) on the Mine and plant expansion. It is estimated that, to complete the Mine plant expansion according to the present plans, will require the expenditure of approximately the equivalent of an additional \$2,200,000 (Cdn.). Because of the political instability of Zimbabwe the Company is not attempting to seek either equity or debt financing for the expansion work and is, instead, funding it from the cashflow from the Blanket Mine. It is presently anticipated that the expanded production from the No. 4 shaft, and the treatment of that expanded production in the expanded concentrator plant facilities, will only be achieved when foreign currency owed to Blanket Mine for gold sales is paid by the Reserve Bank of Zimbabwe.

5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A Operating Results

A discussion on the ‘Operations’ for 2007 is shown in Item 4.B above. Discussions of the “Financial Results and Liquidity” are in Caledonia’s 2007 “Management Discussion and Analysis”.

Reference is made to Note 17 to the December 31, 2007 audited financial statements for a description of the impact of the difference between Canadian and U.S. accounting principles on the operations of Caledonia.

The most critical accounting policies for Caledonia under Canadian and US GAAP are:

1. Measurement Uncertainties

Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring estimates relate to 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.

2. Capital Assets

Producing Assets

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

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

Non-Producing Assets

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

Assets held for sale and discontinued operations

During 2006 Barbrook Mine was subjected to extended industrial action which resulted in damage to infrastructure. As a consequence of this Barbrook was placed on care and maintenance and subsequently the decision was taken to sell Barbrook Mine along with Eersteling Gold Mining Company that had been on care and maintenance since 1997.

The components held for sale are as follows:

| | Barbrook Mine | | Eersteling Gold Mine | |
|---------------------------------------|----------------|---------|----------------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Capital Assets and mineral properties | 10,779 | 10,779 | 645 | 670 |
| Current Assets | 88 | 230 | 78 | 85 |
| Current Liabilities | (1,549) | (1,581) | (38) | (70) |
| Asset Retirement obligation | (107) | (124) | (204) | (240) |

As a consequence of this decision Barbrook and Eersteling Mine's results for 2006 and preceding years have been disclosed under discontinued operations. Revenue from discontinued operations is \$60 (\$2,973 in 2006 and \$2,636 in 2005). There is no tax applicable to discontinued operations.

3. Mineral Properties

Producing Properties

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

Non-Producing Properties

Costs relating to the acquisition, exploration and development of non-producing resource properties which are held by the 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.

B Liquidity and Capital Resources

A discussion of Caledonia's 'Liquidity and Capital Resources' for 2007 is contained in the 2007 "Management Discussion and Analysis in Section 12 "Liquidity and Capital Resources" – which can be viewed on SEDAR at: www.sedar.com or on the Company's website at: www.caledoniamining.com.

Reference is also made to the Section 3 D above, titled "Risk Factors" for further information concerning liquidity and capital resources.

Reference is made to the "Comments by Auditors for U.S. Readers on Canada-US Reporting Conflict" and Note 18 to the 2006 Annual Financial Statements.

C Research and Development

Caledonia has carried out no work on research and development over the past 3 years. Caledonia does not have specific research and development policies. Caledonia anticipates that its ongoing exploration and development work on its Nama property in Zambia will involve metallurgical testing to identify the best metallurgical processes to efficiently extract cobalt concentrate. This will be one of the objectives of establishing a pilot test plant on the property, during the development period.

D Trend Information

The extent and nature of the Company's operations - being focused on minerals exploration, development and production - are very dependent on the world-prices of the minerals on which the Company is focused. Also, because the Company's efforts are in various foreign countries, the exchange rates for the currencies of those countries is material to the Company's work in those countries.

E. Hyper-inflation

Zimbabwe, in which the Company's producing Blanket Gold Mine is located, suffers from hyper-inflation. In addition, Zimbabwe imposes on some transactions in which the Company is involved official exchange rates which are not consistent with the non-official exchange rate. This unique and difficult situation requires the Company's accountants to, in consolidating the results of the Zimbabwe operations into the Company's consolidated financial statements, make special adjustments which are in accordance with internationally recognized accounting practices relating to hyper-inflation situations.

F. Off-balance sheet arrangements

The company has no off-balance sheet arrangements.

G. Disclosure of Contractual Obligations

The company does not have any significant long-term contractual obligations or commercial commitments other than its responsibilities pursuant to two joint venture agreements. The company has minor obligations in respect of licence fees for its exploration and mining properties some of which are paid by Caledonia's joint venture partners.

6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A **Directors and Senior Management**

A brief profile of each of the Directors and the senior management is given below:

Rupert Pardoe – *Non-executive Chairman*

Rupert Pardoe graduated from the University of Cape Town with a BA in Comparative African Government and Law and completed his honors degree cum laude in Development Administration and Politics at the University of South Africa. After a year in Paris, studying at the Sorbonne, he joined Anglo American as a management trainee in 1981, where he held various roles over a twenty year period, including Personal Assistant to Gavin Reilly, then Chairman, Finance Director of Anglo American Industrial Corporation (AMIC) and Finance Director of the Corporation from 1997 to 2001. Mr. Pardoe was also a member of the Corporation's Executive Committee, Audit Committee, Administration Committee and Credit Committee, which he chaired. He was also a member of the Investment Committee of Anglo American plc. At ABSA, he was a member of the Group Executive Committee and its Group Investment Committee. He was also Chairman of both ABSA's Retail Bank Board and its Commercial Bank Board.

Mr. Pardoe has served on a number of boards, both in South Africa and abroad, including AECL, Amgold, Anglo Coal, Anglo Platinum, Boart Longyear, FirstRand, Highveld Steel and Vanadium, Rand Merchant Bank and Mondi. He currently operates as a business consultant in South Africa and specializes in assisting South African companies with black economic empowerment matters.

Mr. Pardoe was appointed to the Caledonia board and elected Chairman in February 2005.

Stefan E. Hayden, *President and Chief Executive Officer*

Mr. Hayden has extensive experience as a company manager in South Africa. Initially he founded, developed and managed an engineering company that manufactured flameproof mining machinery. He followed this by managing a company holding the Massey Ferguson franchise in the Transvaal and the Orange Free State and returned it to profitability for the then owners Standard Corporate Merchant Bank. He then founded and managed the South African agency for heavy electrical equipment sales and installations for Toshiba Corporation of Japan. He has been Managing Director of Industrial Brokers, a family company specializing in the procurement of steel and mining machinery, since 1971 and continues in this position.

With his wide managerial, electrical and mechanical, and mining experience Mr. Hayden has acted as technical advisor to numerous mines and companies in Southern Africa. Prior to the Caledonia acquisition, Mr. Hayden as the Chief Executive Officer of Eersteling Gold Mining Company Limited and Barbrook Mines Limited was responsible for both operations. He joined Caledonia in 1995 and was appointed Managing Director, African Operations responsible for the development of Caledonia's business in Africa. In June 1996, Mr. Hayden was elected as a Director of Caledonia and subsequently appointed Deputy Chairman of Caledonia. In January 1997 he was appointed Chairman of Caledonia and in June 1997 the position of President and Chief Executive Officer was added to his responsibilities. In February 2005, Mr. Hayden relinquished the position of Chairman when Mr. Rupert Pardoe was elected as a director and appointed as Chairman by the Board.

James Johnstone, B.Sc., *ARCST, P.Eng. Non-executive Director and Vice President Operations*

A graduate-mining engineer Mr. Johnstone has 40 years experience in mine operations in North America, Africa and Europe. He has experience in both underground and open pit operations. For the past 20 years he has been employed as General Manager or Vice-President Operations for mining companies producing gold, base metals and industrial minerals. Mr. Johnstone has been responsible for the construction, start up and commissioning of two major mines in addition to the commissioning of Caledonia's Filon Sur operation. He has also been involved in the orderly closure of three operations. He has operated successfully in environmentally sensitive areas and has a good understanding of the permitting process in Canada and the United States. Mr. Johnstone joined Caledonia in April 1997 as

Vice President Operations and was responsible for Caledonia's operations in Zambia and South Africa and for all activities in Canada. He was elected a Director of Caledonia in June 1997. Mr. Johnstone is a director of several of Caledonia's subsidiaries and of Fynewold Exploration Limited (UK). He retired from active employment with Caledonia in September, 2006.

Christopher Harvey, LRIC, HNC (Chem.), Non-executive Director

A Chemistry graduate from Wigan Mining College, Mr. Harvey has spent his career in the international mineral processing industry. Prior to immigrating to Canada in 1987 he worked for the Anglo American Group in a number of senior metallurgical positions. These included projects associated with gold and copper/cobalt production, gold, uranium and sulfuric acid production from old gold tailings and the investigation and development of a copper/cobalt flow sheet. Mr. Harvey joined Doelcam, a predecessor company of Caledonia in 1989 as Vice-President Operations and was responsible for a number of property evaluations in several countries. He was appointed Senior Vice President of Caledonia at its inception in 1992 and has been a Director since 1993. He has since held a number of senior positions within the company and was the company's Technical Director until December 2005 when he retired. He continues as a Director of Caledonia. From late 1996 to the end of September 1998, Mr. Harvey was seconded to Filon Sur in Spain for the construction, commissioning and ongoing operation of the expansion to the heap-leach expansion project. He has also coordinated metallurgical studies for most of the company's projects, such as the Nama copper/cobalt project, the Eureka copper/gold project and the Kadola copper project in Zambia, Barbrook gold mine refractory gold recovery project and the provisional Rooipoort platinum project in South Africa and the Cononish gold project in Scotland. He is currently doing consulting work for a private Canadian company exploring for uranium.

Carl Jonsson, LL B- Non- executive Director, Secretary and legal adviser to Caledonia

Mr. Jonsson is a lawyer and has been associated with the resource industry for over 30 years. In his legal practice he has specialized in securities and corporate work. He has been a director of Caledonia since February 1992 and prior to that date he was a director of one of the predecessor companies, Golden North Resources Inc. Mr. Jonsson resides in Vancouver, British Columbia, Canada and is a principal of the law firm Tupper, Jonsson and Yeadon. Mr. Jonsson acts as the Company's principal Canadian lawyer. Mr. Jonsson sits on the board of directors of several companies in Canada, including, Acrex Ventures Ltd., Bonterra Energy Income Trust, Comet Industries Ltd., Dolly Varden Resources Inc., Earthworks Industries Inc. – (Secretary only) and Comaplex Minerals Corporation.

Robert Liverant - Non-executive Director

Mr. Liverant, a Canadian Chartered Accountant, was in public practice for many years as a partner in Vancouver, Canada based accounting firms and, in that capacity, he supervised the auditing of a number of public companies. He sits on the Boards of other public companies and is a member of the Audit Committee of one of them. Mr. Liverant, through his experience with U.S. companies, is familiar with U.S. accounting and auditing practice.

Mr. Liverant was appointed to the Caledonia Board of Directors - and to the Company's Audit Committee - in January 2007.

Leigh Wilson - Non-executive Director

Mr. Wilson, 63 years old, is based in Westport, Connecticut, USA and is currently the Independent Chair of the Victory Funds, Old Mutual Advisor Funds II & the Old Mutual Insurance Series Funds. He serves as a business advisor to public and private companies in the United States and Europe and has held a number of senior positions in the United States and Europe in the financial services and banking sectors, including Chief Executive Officer ("CEO") of Paribas North America. He is a Director of the Mutual Fund Directors Forum, and founded New Century Living Inc. in 1992, of which he is CEO.

He has been a Director of the Victory Institutional Funds since 2003, the Victory Variable Insurance Funds (investment companies – 23 total portfolios) since 1998 and the Old Mutual Insurance Series Funds (investment companies – 8 portfolios) since 2005. He was previously a director of Chimney Rock Winery LLC (2000–2004) and Chimney Rock Winery Corp. (1985-2004), and has been a Trustee of The Trustee's Portfolios since 1992.

Mr. Wilson will further strengthen the Board's financial experience and brings considerable negotiating expertise to Caledonia.

Steven Curtis - *Vice-President Finance and Chief Financial Officer*

Mr. Curtis is a Chartered Accountant with over 24 years experience and has held a number of senior financial positions in the manufacturing industry. Before joining Caledonia in April 2006, he was Director Finance and Supply Chain for Avery Dennison SA and prior to this, Financial Director and then Managing Director of Jackstadt GmbH South African operation. Mr. Curtis is a member of the South African Institute of Chartered Accountants and graduated from the University of Cape Town.

Mr. Curtis was appointed Vice-President Finance and Chief Financial Officer of the Company in April, 2006.

Dr. Trevor Pearton – *Vice President Exploration*

Dr. Pearton has worked for Caledonia since 2001. During the time, he was responsible for the establishment and management of the resource bases at the Blanket Mine (operating) and the Barbrook and Eersteling Mines (now on care and maintenance) and the assessment of the Nama project, resulting in a reinterpretation of the ore body and an improved definition of the resources and mineralogical characteristics. This work provided the basis for the 2007 (completed) and the 2008 exploration programs. Prior to joining Caledonia, Dr. Pearton worked for a number of financial institutions in South Africa as a highly rated gold analyst, as well as consulting to a number of mining companies. He graduated from the University of the Witwatersrand with a BSc Eng (Mining Geology) and was awarded a PhD in Geology for research into Archaean gold and antimony deposits (Witwatersrand University). He is a member of the Geological Society of South Africa; elected a Fellow of the Society in 2004, a member of the South African Institute for Mining and Metallurgy and a member of the Witwatersrand University Mining Engineers Association

Family Relationships:

There are no known family relationships between the officers, key employees and directors.

Arrangements, Understandings, etc.

To the best knowledge of Caledonia, there are no arrangements or understanding with any major shareholders, customers, suppliers or others, pursuant to which any person referred to above, was selected as a director or member of senior management.

B Compensation

The amount of compensation paid, and benefits in kind granted to Caledonia's directors and senior management is given under the "Summary Compensation Table" on page of the 2006 Information Circular incorporated herein by reference.

There was a \$10,000 fee paid to - or accrued in favour of - each of the directors annually.

The Company has a Stock Option Plan pursuant to which it grants options to directors, offices and key employees from time to time. The numbers of shares covered by the various options granted are determined by the Company's Compensation Committee subject to approval by the Board of Directors. One hundred percent (100%) of the share purchase options which are presently outstanding are in favour of directors, offices and key employees of the Company and, in some cases, its subsidiaries.

Caledonia does not have a bonus or profit-sharing plan. Caledonia does not have a pension, retirement or similar benefits scheme.

C Board Practices

The directors all hold their positions for an indefinite term, subject to re-election at each annual general meeting of the shareholders. The officers hold their positions subject to being removed by resolution of the Board of Directors. The term of office of each Director expires as of the date that an Annual General Meeting of the shareholders is held - subject to the re-election of the Directors at such Annual General Meeting. In addition, the shareholdings of those directors named on the table hold about 0.002% collectively of the total shares of Caledonia outstanding at December 31, 2006.

There are no service contracts between Caledonia and any of the Directors of Caledonia or its subsidiaries except for (i) a "Key Executive Severance Protection Plan" between Caledonia and its President dating from 1996, and (ii) the indirect employment of Caledonia's president and CEO through a management and administrative agreement. The Corporation has Appointment Letters with each of the other directors; there is no allowance for any termination benefit in these agreements.

Details concerning Caledonia's Board Composition, Audit, Compensation, Nominating, Disclosure and Corporate Governance committees are given in the 2006 Information Circular.

The following directors are members of the following committees:

| <i>AUDIT</i> | <i>COMPENSATION</i> | <i>NOMINATING</i> | <i>GOVERNANCE</i> |
|---------------------|----------------------------|--------------------------|--------------------------|
| R. Liverant | C. Jonsson | R. Pardoe | R. Pardoe |
| R. Pardoe | R. Pardoe | | C. Jonsson |
| L. Wilson | S. Hayden | | S. Hayden |

DISCLOSURE

R. Pardoe
S. Hayden
C. Jonsson
J. Johnstone
S. Curtis

Terms of reference of the Audit Committee and the Compensation Committee are given in the Charter of the Audit Committee and the Charter of the Compensation Committee respectively. The Charter of the Compensation Committee is attached to the 2006 Information Circular. The Charter of the Audit Committee is available on the company's website at www.caledoniamining.com or, on request, from the Corporation's offices listed in Section 4A of this report.

D Employees

The average, approximate number of employees, their categories and geographic location for each of the last 3 years are summarized in the table below:

Geographic Location and Number of Employees:

| Employee Location etc. | 2004 | 2005 | 2006 | 2007 |
|-------------------------------|-------------|-------------|-------------|-------------|
| Total Employees | | | | |
| South Africa (Head Office) | 9 | 9 | 7 | 7 |

| | | | | |
|---|------------|------------|------------|------------|
| Zimbabwe | - | - | 770 | 700 |
| South Africa (Mine Security and Operations and Exploration) | 315 | 496 | 1 | 1 |
| Zambia (Head Office and Security) | 8 | 8 | 8 | 8 |
| Total Employees at All Locations | 335 | 516 | 786 | 715 |

Management and Administration:

Employee Locations:

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Canada | 3 | 3 | - | - |
| Zimbabwe | - | - | 4 | 4 |
| South Africa (Head Office) | 6 | 6 | 6 | 6 |
| South Africa (Exploration and Operations) | 7 | 9 | 1 | 1 |
| Zambia (Head Office and Security) | 2 | 2 | 2 | 4 |
| Total Management and Administration | 18 | 20 | 13 | 15 |

E Share Ownership

(a) The shareholdings of the Company's Directors and Officers are as follows:

| | | |
|-----------------------|---|---------------|
| F. Christopher Harvey | - | 4,300 |
| Carl R. Jonsson | - | <u>59,469</u> |
| TOTAL | - | <u>63,769</u> |

All of the shares held by the Directors are voting common shares and do not have any different voting or other rights than the other outstanding common shares of the Company. Their aggregate shareholdings amount to less than 1.0% of the Company's issued shares.

B. Share purchase options outstanding as of March 31, 2008

| <u>Name</u> | <u>Exercise Price</u> <u>Cdn. \$</u> | <u>Option Expiry</u> <u>Date</u> | <u>Options</u> <u>O/S</u> |
|--------------------------------|---|-------------------------------------|------------------------------|
| Forrest, W.I.L. | 0.235 | Apr. 24, 2012 | 500,000 |
| <u>Forrest, TOTAL</u> | | | <u>500,000</u> |
| Harvey, F.C. | 0.235 | Apr. 24, 2012 | 2,000,000 |
| | 0.155 | Mar. 18, 2013 | 400,000 |
| <u>Harvey TOTAL</u> | | | <u>2,400,000</u> |
| Hayden, S. | 0.235 | Apr. 24, 2012 | 4,000,000 |
| | 0.155 | Mar. 18, 2013 | 6,000,000 |
| <u>Hayden, TOTAL</u> | | | <u>10,000,000</u> |
| Johnstone, J. | 0.235 | Apr. 24, 2012 | 2,000,000 |
| | 0.155 | Mar. 18, 2013 | 400,000 |
| <u>Johnstone, TOTAL</u> | | | <u>2,400,000</u> |
| Jonsson, C.R. | 0.235 | Apr. 24, 2012 | 1,450,000 |
| | 0.155 | Mar. 18, 2013 | 1,000,000 |

| | | | |
|--------------------------------|--------|----------------|-------------------------|
| <u>Jonsson, TOTAL</u> | | | <u>2,450,000</u> |
| Poad, S.W. | 0.345 | June 02, 2012 | 150,000 |
| | 0.26 | Apr.29, 2014 | 200,000 |
| <u>Poad, TOTAL</u> | | | <u>350,000</u> |
| Fasel, R | 0.26 | Aug. 15, 2014 | 200,000 |
| <u>Fasel, TOTAL</u> | | | <u>200,000</u> |
| Curtis, S. | 0.13 | May 11, 2016 | 300,000 |
| | 0.1125 | May. 31, 2012 | 400,000 |
| | 0.155 | Mar. 18, 2013 | 500,000 |
| <u>Curtis, TOTAL</u> | | | <u>1,200,000</u> |
| Pardoe, R | 0.11 | Feb. 15, 2015 | 4,000,000 |
| | 0.155 | Mar. 18, 2013 | 2,500,000 |
| <u>Pardoe, TOTAL</u> | | | <u>6,500,000</u> |
| Blaine, J. | 0.26 | Apr.29, 2014 | 200,000 |
| <u>Blaine, TOTAL</u> | | | <u>200,000</u> |
| Lawson, A | 0.26 | Apr. 29, 2014 | 60,000 |
| | 0.155 | Mar. 18, 2013 | 75,000 |
| <u>Lawson, TOTAL</u> | | | <u>135,000</u> |
| Pearton, T | 0.26 | Apr. 29, 2014 | 150,000 |
| | 0.155 | Mar. 18, 2013 | 400,000 |
| <u>Pearton, TOTAL</u> | | | <u>550,000</u> |
| Liverant, R. | 0.11 | Jan. 13, 2017 | 200,000 |
| <u>Liverant, TOTAL</u> | | | <u>200,000</u> |
| Wilson, L. | 0.155 | Mar. 18, 2013 | 500,000 |
| <u>Wilson, TOTAL</u> | | | <u>500,000</u> |
| Kater, M. | 0.155 | Mar. 18, 2013 | 75,000 |
| <u>Kater, TOTAL</u> | | | <u>75,000</u> |
| Pearton, A | 0.155 | Mar. 18, 2013 | 100,000 |
| <u>Pearton, TOTAL</u> | | | <u>100,000</u> |
| Liswaniso, J. | 0.155 | Mar. 18, 2013 | 100,000 |
| <u>Liswaniso, TOTAL</u> | | | <u>100,000</u> |
| Merringer, E. | 0.155 | Mar. 18, 2013 | 70,000 |
| <u>Merringer, TOTAL</u> | | | <u>70,000</u> |
| Coronet Investments | 0.14 | July. 11, 2010 | 1,000,000 |
| <u>Coronet, TOTAL</u> | | | <u>1,000,000</u> |
| Maduna, P. | 0.155 | Mar. 18, 2013 | 300,000 |
| <u>Maduna, TOTAL</u> | | | <u>300,000</u> |
| Caledonia Holdings Africa Ltd | 0.1125 | May. 31, 2012 | 900,000 |
| (for assignment to employees | 0.155 | Mar. 18, 2013 | 600,000 |

or service providers)

CHA, TOTAL **1,500,000**

| | | | |
|----------------------------------|-------|---------------|------------------|
| Yao, E. | 0.155 | Mar. 18, 2013 | 750,000 |
| Yu, J. | 0.155 | Mar. 18, 2013 | 500,000 |
| Tang, A. | 0.155 | Mar. 18, 2013 | 250,000 |
| <u>Consultants, TOTAL</u> | | | 1,500,000 |

7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Significant shareholders

To the best of Caledonia's knowledge, as of March 31, 2008 there is one known shareholder and two depository trusts that beneficially own, directly or indirectly, or exercise control or direction over more than 5% of the voting shares of Caledonia. The shares registered in their names are as follows:

| Name of Shareholder | Number of Shares Held | % of Shares Issued |
|----------------------------------|-----------------------|--------------------|
| CDS & Co., Toronto, Canada | 265,914,194 | 58.06 |
| CEDE and Co., New York, USA | 70,990,711 | 15.5 |
| Max Glauser, Zurich, Switzerland | 31,000,000 | 6.77 |

The only shares issued by Caledonia are common shares. Although Caledonia has an unlimited number of preferential shares available for issue, none of these have yet been issued. Caledonia's major shareholders have the same voting rights as the other shareholders of Caledonia.

To the best of the knowledge of Caledonia, the portion of the common shares of Caledonia is held in the following geographic locations:

| Geographic Area | Number of Shares Held | Percentage of Shares Issued |
|-----------------|-----------------------|-----------------------------|
| USA | 90,039,378 | 19.66 |
| Canada | 288,765,040 | 63.05 |
| Europe | 64,435,330 | 14.07 |
| Other | 14,741,296 | 3.22 |

There are 1,291 recorded holders of the Company's issued shares.

Caledonia is not, to the best of its knowledge, directly or indirectly owned or controlled by another corporation or corporations, by any other natural or legal person or persons severally or jointly or by any foreign government.

Caledonia is not aware of any arrangement, the operation of which may at some subsequent date result in a change of control of Caledonia.

The foregoing information in this paragraph 7 is based exclusively on information with respect to recorded shareholders in the Company's shareholders register. The Company does not have actual information available as to who may be the beneficial owners of the Company's issued shares and, specifically, does not know who are the beneficial owners of the shares registered in the two large intermediaries referred to above.

B Related party transactions

During 2007 the Company made payments pursuant to what are designated as related party transactions. Some details are provided in Note 10 to the 2007 Annual Financial Statements.

The fulltime services of the Company's President and Chief Executive Officer, Stefan Hayden, are supplied by a company which is paid a fee. The amount paid for 2007 was \$560,000 - which includes a travel and entertainment allowance and an adjustment for a previous year.

There were no loans outstanding as at December 31, 2007 to any Company directors, officers or employees.

8 FINANCIAL INFORMATION**A Consolidated Statements and Other Financial Information**

Attached as Exhibit 14a is the 2007 audited Annual Financial Statements of Caledonia, which reports include the audited financial statements of Caledonia and which are incorporated herein by reference. Note 17 of these financial statements titled "Generally Accepted Accounting Principles in Canada and the United States" compares the differences in GAAP between the two countries.

The 2007 consolidated financial statements have been audited by BDO Dunwoody LLP and comprise the following:

Auditor's Report
 Comments by Auditors for U.S. Readers
 Balance sheet
 Statement of Changes in Shareholders' Equity
 Statement of Operations and Comprehensive Income.Loss
 Statement of cash flows
 Summary of significant accounting policies
 Notes to the financial statements

Caledonia has no significant ongoing legal or arbitration proceedings at the 31st December 2007 apart from a claim lodged by Barbrook Mine against Centinel Corporate Solutions for damages caused to the mine buildings during illegal industrial action at the mine. The claim is for approximately \$1 million. .

To the best knowledge of Caledonia, neither any of its directors or senior management or its affiliates is a party adverse to Caledonia or its subsidiaries, or has a material interest adverse to Caledonia or its subsidiaries.

The Company has never paid or declared any dividends.

9 LISTINGS

Caledonia's stock trades on the Toronto Stock Exchange under the symbol "CAL" on the NASDAQ Stock Exchange's "Over-the-counter Bulletin Board" under the symbol "CALVF" and since June 2005 on the AIM market in London, England under the symbol "CMCL"

The trading history is as follows:

(a) **5 Year Market Trading Record** - for the following calendar years:

| <u>Stock Exchange</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| TORONTO | | | | | |
| High | \$0.61 | \$0.465 | \$0.18 | \$0.23 | \$0.23 |
| Low | \$0.22 | \$0.12 | \$0.10 | \$0.095 | \$0.09 |
| Volume (1000s) | 99,233 | 56,934 | 61,214 | 132,323 | 105,226 |
| NASDAQ (US\$) | | | | | |
| High | \$0.39 | \$0.37 | \$0.15 | \$0.204 | \$0.20 |
| Low | \$0.16 | \$0.10 | \$0.08 | \$0.082 | \$0.07 |
| Volume (1000s) | 440,811 | 210,251 | 105,151 | 212,028 | 187,988 |
| LONDON (UK pence) | | | | | |
| High | - | - | 6.25p | 11.0p | 9.0p |
| Low | - | - | 4.50p | 4.9p | 4.09p |
| Volume (1000s) | - | - | 856,154 | 12,240 | 8,530 |

(b) **2 Year Market Trading Record by Quarter for the last 8 quarters**

| <u>Stock Exchange</u> | <u>London AIM</u> | | <u>TSE</u> | | <u>NASDAQ</u> | |
|-----------------------|-------------------|------------|-------------|------------|---------------|------------|
| <u>Share Price</u> | <u>High</u> | <u>Low</u> | <u>High</u> | <u>Low</u> | <u>High</u> | <u>Low</u> |
| 2006 | | | | | | |
| - 2 nd Qtr | 11.0p | 6.50p | \$0.230 | \$0.125 | \$0.20 | \$0.108 |
| 2006 | | | | | | |
| - 3 rd Qtr | 9.1p | 6.50p | \$0.180 | \$0.120 | \$0.16 | \$0.112 |
| 2006 | | | | | | |
| - 4 th Qtr | 6.75p | 5.0p | \$0.150 | \$0.095 | \$0.14 | \$0.082 |
| 2007 | | | | | | |
| - 1 st Qtr | 6.0p | 4.09p | \$0.15 | \$0.09 | \$0.13 | \$0.07 |
| 2007 | | | | | | |
| - 2 nd Qtr | 9.0p | 5.25p | \$0.23 | \$0.13 | \$0.20 | \$0.11 |
| 2007 | | | | | | |
| - 3 rd Qtr | 8.5p | 5.75p | \$0.15 | \$0.11 | \$0.15 | \$0.11 |
| 2007 | | | | | | |
| - 4 th Qtr | 7.45p | 5.09p | \$0.15 | \$0.10 | \$0.15 | \$0.10 |
| 2008 | | | | | | |
| - 1 st Qtr | 10.4p | 5.55p | \$0.20 | \$0.10 | \$0.21 | \$0.10 |

(c) **6 Month Market Trading Record by Month – October 2007 to March 2008**

| Stock Exchange | <u>London AIM</u> | | <u>TSE</u> | | <u>NASDAQ</u> | |
|----------------|-------------------|------------|-------------|------------|---------------|------------|
| | <u>High</u> | <u>Low</u> | <u>High</u> | <u>Low</u> | <u>High</u> | <u>Low</u> |
| October 2007 | 7.45p | 6.25p | \$0.15 | \$0.13 | \$0.15 | \$0.12 |
| November 2007 | 7.12p | 5.09p | \$0.14 | \$0.10 | \$0.14 | \$0.10 |
| December 2007 | 6.15p | 5.50p | \$0.12 | \$0.10 | \$0.12 | \$0.10 |
| January 2008 | 9.25p | 5.55p | \$0.17 | \$0.10 | \$0.17 | \$0.10 |
| February 2008 | 9.75p | 7.30p | \$0.20 | \$0.15 | \$0.20 | \$0.16 |
| March 2008 | 10.40p | 9.0p | \$0.20 | \$0.17 | \$0.21 | \$0.17 |

10 ADDITIONAL INFORMATION

A Memorandum and articles of association

The memorandum and articles of association of Caledonia have previously been provided.

B Material contracts

There are no material contracts other than contracts entered into in the ordinary course of business.

C Exchange controls

There are no governmental laws, decrees or regulations existing in Canada (where Caledonia is incorporated), which restrict the export or import of capital, or the remittance of dividends, interest or other payments to non-resident holders of Caledonia's securities. Nor does Canada have foreign exchange currency controls.

D Taxation

To the best of Caledonia's knowledge, there are no taxes or similar levies which holders of Caledonia's shares resident in the United States are subject to. However, Caledonia understands that pursuant to a Canada - U.S. tax treaty, any dividends which Caledonia might declare will be subject to such Canadian withholding taxes as the then current provisions of the treaty may require.

E Documents on display

The documents referred to in this report are either attached as "Exhibits" to this report or can be viewed at Caledonia's offices whose addresses are given in section 4 of this report – or can be viewed on the Company's website: www.caledoniamining.com.

F Subsidiary information

To the best knowledge of Caledonia there is no other information related to Caledonia's subsidiaries that requires to be provided.

11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As Caledonia is considered to be a "small business issuer" as defined, information is not required to be provided for this section.

12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Caledonia has no outstanding – nor is it registering any – securities other than its common shares.

PART 2**13 DEFAULTS, DIVIDEND ARREARAGES and DELINQUENCIES**

There have been no material defaults in the payment of interest or principal or any dividend arrearages or material delinquencies.

14 MATERIAL MODIFICATIONS to the RIGHTS of SECURITY HOLDERS and USE OF PROCEEDS

There has been no material modification to the rights of Caledonia's or subsidiaries security holders.

15 CONTROLS AND PROCEDURES

- (a) Evaluation of disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures, and assessed the design of the Company's internal control over financial reporting as of December 31, 2007, pursuant to the certification requirements of Canadian Multilateral Instrument 52-109 and the requirements of the SEC. The Company's Auditors did not participate in the evaluation and have not done any assessment of the Company's internal controls.

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

- (b) Management's annual report on internal control over financial reporting

Not required.

- (c) Attestation Report of registered public accounting firm

Not required.

- (d) Changes in internal controls over financial reporting. There were no significant changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of 17 CFR 240.13a-15 or 240.15d-15 that occurred during the period covered by this annual report that has affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

16 (RESERVED)**16A Audit Committee Financial Expert**

- (a) Caledonia's Board of Directors has determined that the three members of its Committee are all financial experts.

- (b) The audit committee financial experts serving on the audit committee are Mr. G.R. Pardoe, Mr. R. Liverant and Mr. L. Wilson who are also all independent directors under the NASDAQ rules.

16B Code of Ethics

- (a) On April 8, 2004 the registrant's Board of Directors adopted a code of ethics that applies to the registrant's Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller, or persons performing similar functions.
- (b) The registrant has filed a copy of this code of ethics that applies to the registrant's Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller, or persons performing similar functions. The code of ethics was filed as Exhibit 1 to the 2003 Form 20F Annual Report and is incorporated herein by reference. It has not been amended.
- (c) The text of this code of ethics has been posted on the company website at <http://www.caledoniamining.com>

16C Fees charged by principal accountant

- (a) The fees charged or estimated for the past two fiscal years for auditing and the other services designated below have been:

| | 2006 | 2007 ⁽¹⁾ |
|------------------------|----------------|---------------------|
| | \$ | \$ |
| - Audit fees | 198,500 | 165,000 |
| - Audit – related fees | - | 23,000 |
| - Tax fees | - | - |
| - All other fees | - | - |
| | <u>198,500</u> | <u>188,000</u> |

⁽¹⁾ The figures shown for 2007 are estimates from Caledonia's auditors as the final billings have not yet been completed.

- (b) Prior to the start of the audit process, Caledonia's audit committee receives an estimate of the costs, from its auditors and reviews such costs for their reasonableness. After their review and pre-approval of the fees, the audit committee recommend to the board of directors to accept the estimated audit fees given by the auditors.

16D Exemptions from the Listing Standards for Audit Committees

Nil.

16E Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no purchases made by or on behalf of the issuer or any "affiliated purchaser" of shares or other units of any class of the issuer's equity securities that is registered by the issuer pursuant to section 12 of the Exchange Act.

PART 3

17. FINANCIAL STATEMENTS

The audited consolidated financial statements and related notes of Caledonia at December 31, 2007, 2006 and 2005 are attached as Exhibit 14a by reference.

18. FINANCIAL STATEMENTS

The registrant has elected to provide financial statements pursuant to Item 17 that include, as Note 17 the differences between Canadian and US GAAP's.

19. EXHIBITS

The following Financial Statements and Exhibits are attached to and form part of this Statement and are incorporated herein by reference:

12. Certifications Pursuant to Rule 13a-14(a)(17CFR240.13a-14(a) or Rule 15d-14(a)(17CFR240.15d-14(a).

13. A Certification Pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

14.a Caledonia Mining Corporation, 2007 Annual Audited Financial Statements.

14.b Caledonia Mining Corporation 2007 Management Discussion and Analysis.

14.c Mineral Properties.

14.d Summary of Report on Nama Property

14.e Summary of Report on Blanket Mine Property

SIGNATURE

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

DATED at Johannesburg, South Africa, on the 30th day of April, 2008.

CALEDONIA MINING CORPORATION

Per: (Signed) **Stefan Hayden**
President, Chief Executive Officer and Director

EXHIBIT #12

CALEDONIA MINING CORPORATION

CERTIFICATIONS

CERTIFICATIONS

I, Stefan E. Hayden, certify that:

1. I have reviewed this annual report on Form 20-F of Caledonia Mining Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any, fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2008

(signed) S.E. Hayden

President and Chief
Executive Officer

CERTIFICATIONS

I **Steven Curtis**, certify that:

1. I have reviewed this annual report on Form 20-F of Caledonia Mining Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function);
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any, fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2008

(signed) Steven Curtis

Vice- President Finance and Chief
Financial Officer

EXHIBIT #13

CALEDONIA MINING CORPORATION

**Certifications Pursuant to 18 U.S.C. section 1350, as adopted
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 20-F of Caledonia Mining Corporation (the “Company”) for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), that I, Stefan E. Hayden, President and Chief Executive Officer of Caledonia , certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code 18 U.S.C.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Rule 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: (signed) S. E. Hayden
Stefan E. Hayden, President and Chief Executive Officer
Caledonia Mining Corporation

A signed original of this written statement required by Section 906 has been provided by Stefan E. Hayden and will be retained by Caledonia Mining Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 20-F of Caledonia Mining Corporation (the “Company”) for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), that I, **Steven Curtis**, Vice President Finance and Chief Financial Officer of Caledonia , certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code 18 U.S.C.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- 1 The Report fully complies with the requirements of Rule 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Caledonia.

By: (signed) Steven Curtis
Steven Curtis, Vice President Finance and Chief Financial Officer
Caledonia Mining Corporation

A signed original of this written statement required by Section 906 has been provided by Steven Curtis and will be retained by Caledonia Mining Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT #14a

CALEDONIA MINING CORPORATION

2007 ANNUAL AUDITED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

To the Shareholders of Caledonia Mining Corporation:

Management has prepared the information and representations in this annual report. The consolidated financial statements of Caledonia Mining Corporation have been prepared in conformity with generally accepted accounting principles applied in Canada and, where appropriate, reflect management's best estimates and judgement. The financial information presented throughout this report is consistent with the data presented in the consolidated financial statements.

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

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

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

S. E. Hayden
President and Chief Executive Officer

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

**To the Shareholders of
Caledonia Mining Corporation**

We have audited the consolidated balance sheets of Caledonia Mining Corporation as at December 31, 2007 and 2006 and the consolidated statements of changes in shareholders' equity, operations and comprehensive income/(loss) and cash flows for each of the years in the three year period ended December 31, 2007. These consolidated 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 and the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

(Signed) BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 28 2008

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

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the consolidated financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in the summary of significant accounting policies. The United States reporting standards also require the addition of an explanatory paragraph when changes in accounting policies, such as those described in the summary of significant accounting policies, has a material effect on the consolidated financial statements. Our report to the shareholders dated March 28, 2008 is expressed in accordance with Canadian reporting standards which do not require a reference to such events and conditions in the auditors' report when these are adequately disclosed in the consolidated financial statements.

(Signed) BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 28, 2008

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

| December 31 | 2007 | 2006 |
|---|---------------|---------------|
| Assets | \$ | \$ |
| Current | | |
| Cash and cash equivalents | 76 | 1,252 |
| Accounts receivable | 2,064 | 1,407 |
| Inventories | 2,085 | 5,738 |
| Prepaid expenses | 17 | 61 |
| Assets held for sale | 166 | 315 |
| | <u>4,408</u> | <u>8,773</u> |
| Capital Assets and Mineral properties held for sale | 11,424 | 11,449 |
| Investments (Note 1) | 22 | 79 |
| Capital assets (Note 2) | 213 | 212 |
| Mineral properties (Note 3) | 13,425 | 10,943 |
| | <u>25,084</u> | <u>22,683</u> |
| | <u>29,492</u> | <u>31,456</u> |
| Liabilities and Shareholders' Equity | | |
| Current | | |
| Bank overdraft | 13 | - |
| Accounts payable (Note 10) | 2,743 | 4,248 |
| Liabilities held for sale | 1,587 | 1,651 |
| | <u>4,343</u> | <u>5,899</u> |
| Long term liability (Note 13) | 11 | 46 |
| Asset retirement obligation (Note 4) | 732 | 811 |
| Asset retirement obligation - held for sale (Note 4) | 311 | 364 |
| | <u>5,397</u> | <u>7,120</u> |
| Shareholders' Equity | | |
| Share capital | 195,006 | 190,626 |
| Contributed surplus | 1,040 | 989 |
| Accumulated other comprehensive income/(loss) | (57) | - |
| Deficit | (171,894) | (167,279) |
| | <u>24,095</u> | <u>24,336</u> |
| | <u>29,492</u> | <u>31,456</u> |

On behalf of the Board:

“ S E Hayden” Director

“G R Pardoe” Director

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

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

For the years ended December 31, 2007 and 2006

| | Note | Share Capital | Contributed Surplus | Broker Warrants | Accumulated other comprehensive income | Deficit | Total |
|--|-------|------------------|------------------------|--------------------|---|-----------|---------|
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at December 31, 2004 | | 173,304 | 480 | 321 | | (151,924) | 22,181 |
| Shares issued | | 6,588 | | | | | 6,588 |
| Stock options expense | | | 283 | | | | 283 |
| Warrants exercised | | 321 | | (321) | | | - |
| Compensation warrants issued | | (160) | 160 | | | | - |
| Net Loss for the year | | | | | | (9,680) | (9,680) |
| Balance at December 31, 2005 | | 180,053 | 923 | - | | (161,604) | 19,372 |
| Shares issued | | 10,573 | | | | | 10,573 |
| Stock options expense | | | 81 | | | | 81 |
| Options forfeited | | | (15) | | | | (15) |
| Net Loss for the year | | | | | | (5,675) | (5,675) |
| Balance at December 31, 2006 | | 190,626 | 989 | - | | (167,279) | 24,336 |
| Warrants exercised | 5(d) | 4,380 | | | | | 4,380 |
| Adjustment to opening Balance, change in accounting Policy | 1 | | | | 31 | | 31 |
| Stock options expense | 5 (c) | | 61 | | | | 61 |
| Options forfeited | | | (10) | | | | (10) |
| Investments revaluation To fair value | 1 | | | | (88) | | (88) |
| Net Loss for the year | | | | | | (4,615) | (4,615) |
| Balance at December 31, 2007 | | 195,006 | 1,040 | - | (57) | (171,894) | 24,095 |

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

Consolidated Statements of Operations and Comprehensive Income/ (Loss)
(in thousands of Canadian dollars except share and per share amounts)

| For the years ended December 31 | 2007 | 2006 | 2005 |
|--|----------------|-------------|-------------|
| Revenue and operating costs | \$ | \$ | \$ |
| Revenue from sales | 10,039 | 13,586 | 6 |
| Operating costs | 9,745 | 8,572 | 757 |
| Gross profit (loss) | 294 | 5,014 | (751) |
| Costs and expenses | | | |
| General and administrative | 2,123 | 2,096 | 3,001 |
| Interest | 309 | 54 | 1 |
| Amortization | 18 | 40 | 27 |
| Write-down of mineral properties | 750 | - | - |
| Exchange loss/(gain) | 1,012 | (143) | 50 |
| Other expense (income) (Note 8) | (17) | - | (82) |
| | 4,195 | 2,047 | 2,997 |
| Income (loss) before discontinued operations | (3,901) | 2,967 | (3,748) |
| Current Income Tax (Note 6) | (5) | (652) | - |
| Net income(loss) before discontinued operations | (3,906) | 2,315 | (3,748) |
| Discontinued operations (loss) | (709) | (7,990) | (5,932) |
| Net (loss) after discontinued operations | (4,615) | (5,675) | (9,680) |
| Revaluation of Investments to fair value (Note 1) | (88) | - | - |
| Comprehensive (loss) | (4,703) | (5,675) | (9,680) |
| Income/(loss) per share | | | |
| Basic and diluted from continuing operations | (0.008) | 0.005 | (0.012) |
| Basic and diluted from discontinued operations | (0.001) | (0.018) | (0.019) |
| Basic and diluted for the year | (0.009) | (0.013) | (0.031) |

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

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

| For the years ended December 31 | 2007 | 2006 | 2005 |
|--|----------------|-------------|-------------|
| Cash provided by (used in) | | | |
| Operating activities | \$ | \$ | \$ |
| Income(loss) before discontinued operations | (3,906) | 2,315 | (3,748) |
| Adjustments to reconcile net cash from operations (Note 9) | 685 | 187 | 264 |
| Changes in non-cash working capital balances (Note 9) | 1,534 | (644) | 653 |
| | (1,687) | 1,858 | (2,831) |
| Investing activities | | | |
| Expenditures on capital assets and mineral properties | (3,250) | (2,657) | (2,040) |
| Investment in Blanket Mine net of cash received on acquisition (Note 14) | - | (859) | - |
| | (3,250) | (3,516) | (2,040) |
| Financing activities | | | |
| Bank overdraft | 13 | (3) | 3 |
| Issue of share capital net of issue costs | 4,380 | 7,559 | 6,588 |
| | 4,393 | 7,556 | 6,591 |
| Cash flow from discontinued operations | | | |
| Operating activities | (684) | (4,560) | (4,064) |
| Investing activities | - | (922) | (3,244) |
| Financing activities | 6 | (194) | 194 |
| | (678) | (5,676) | (7,114) |
| Increase (decrease) in cash for the year | (1,222) | 222 | (5,394) |
| Cash and cash equivalents, beginning of year | 1,298 | 1,076 | 6,470 |
| Cash and cash equivalents, end of year | 76 | 1,298 | 1,076 |
| Cash and cash equivalents at end of year relate to: | | | |
| Continuing operations | 76 | 1,252 | 1,076 |
| Discontinued operations | - | 46 | - |
| | 76 | 1,298 | 1,076 |

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

Caledonia Mining Corporation
Summary of Significant Accounting Policies
(in thousands of Canadian Dollars) **December 31, 2007, 2006 and 2005**

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.

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

Basis of Presentation and Going Concern

These consolidated 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, realising proceeds from the disposal of mineral properties and obtaining sufficient financing to meet its liabilities, its obligations with respect to operating expenditures and expenditures required on its mineral properties.

Measurement Uncertainties

Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring estimates relate to 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.

Principles of Consolidation

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

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

| | |
|---|---|
| Barbrook Mines Limited ("Barbrook") | Blanket (Barbados) Holdings Limited ("Barbados") |
| Blanket Mine (1983) (Private) Limited ("Blanket") | Caledonia Holdings (Africa) Limited ("CHA") |
| Caledonia Holdings Zimbabwe Limited ("CHZ") | Caledonia Kadola Limited ("Kadola") |
| Caledonia Mining Services Limited ("CMS") | Caledonia Mining (Zambia) Limited ("CMZ") |
| Caledonia Nama Limited ("Nama") | Caledonia Western Limited ("Western") |
| Eersteling Gold Mining Company Limited ("Eersteling") | Fintona Investments (Proprietary) Limited ("Fintona") |
| Greenstone Management Services (Proprietary) Limited ("Greenstone") | Maid O' Mist (Proprietary) Limited ("MOM") |

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
(in thousands of Canadian Dollars) **December 31, 2007, 2006 and 2005**

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand in operating bank accounts, cash in transit at year end between Blanket Mine in Zimbabwe and Greenstone Management Services in South Africa and money market funds with initial maturities less than three months.

Inventories

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

Investments

The market securities are recorded at fair value. Changes in fair value are recognized in the statements of operations and comprehensive income.

Revenue Recognition

Revenue from the sale of precious metals is recognized when the metal is delivered to the respective refineries, 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 plant and equipment assets are amortized using the unit-of-production method on the ratio of tonnes of ore mined or processed to the estimated proven and probable mineral reserves as defined by the Canadian Institute of Mining, Metallurgy and Petroleum.

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

Non-Producing Assets

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

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
(in thousands of Canadian Dollars) **December 31, 2007, 2006 and 2005**

Assets held for sale and discontinued operations

During 2006 Barbrook Mine was subjected to extended industrial action which resulted in damage to infrastructure. As a consequence of this Barbrook was placed on care and maintenance and subsequently the decision was taken to sell Barbrook Mine along with Eersteling Gold Mining Company that had been on care and maintenance since 1997.

The components held for sale are as follows:

| | Barbrook Mine | | Eersteling Gold Mine | | |
|---------------------------------------|----------------|---------|----------------------|-------|----------|
| | 2007 | 2006 | 2007 | 2006 | |
| | \$ | \$ | \$ | \$ | As a |
| Capital Assets and mineral properties | 10,779 | 10,779 | 645 | 670 | consequ |
| Current Assets | 88 | 230 | 78 | 85 | ence of |
| Current Liabilities | (1,549) | (1,581) | (38) | (70) | this |
| Asset Retirement obligation | (107) | (124) | (204) | (240) | decision |

k and Eersteling Mine's results for 2006 and preceding years have been disclosed under discontinued operations. Revenue from discontinued operations is \$60 (\$2,973 in 2006 and \$2,636 in 2005). There is no tax applicable to discontinued operations.

Mineral Properties

Producing Properties

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

Non-Producing Properties

Costs relating to the acquisition, exploration and development of non-producing resource properties which are held by the 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.

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
(in thousands of Canadian Dollars) **December 31, 2007, 2006 and 2005**

Asset Impairment

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

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 the agreement a joint venture may be formed with customary joint venture terms and provisions and then accounted for on a proportionate consolidation basis. Until a joint venture is formed only the expenditures on the properties incurred by the Company are reflected in these consolidated financial statements.

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 year incurred.

Blanket is a self-sustaining operation and operates in Zimbabwe in a hyper inflationary economy. Accordingly the results of these operations have been translated into Canadian Dollars using the temporal method. Included in the statement of operations is an exchange loss of \$1,203 (gain \$291 - 2006) relating to the translation of Blanket Mine.

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
Summary of Significant Accounting Policies (continued)
(in thousands of Canadian Dollars) **December 31, 2007, 2006 and 2005**

Equity-based compensation

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

Changes in accounting policy:

i) Financial Instruments

Recognition and Measurement Section 3855, Disclosure and Presentation Section 3861. These standards set out criteria for the recognition, measurement, disclosure and presentation of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to October 1, 2006 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

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

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

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

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
(in thousands of Canadian Dollars) **December 31, 2007, 2006 and 2005**

and any gains/losses arising on revaluation at the end of each period are included in the statement of operations.

5. Accounts payable and accrued liabilities and long term debt are classified under “other financial liabilities”. They are recorded at their fair value at that time. Subsequent measurement will be at amortized cost using the effective interest rate method.

Unless otherwise noted, it is the opinion of management that the Company is not exposed to significant interest rate or credit risks arising from its financial instruments. A significant portion of the Company’s assets and liabilities are denominated in South African rand and Zimbabwe dollars. Management do not consider that the fluctuation of the value of the South African Rand to the Canadian Dollar could have a significant impact on the results of operations. Blanket Mine operation is subject to a hyperinflationary environment in Zimbabwe, foreign creditors are denominated in Rands and local costs increase with inflation. As the official exchange rate is fixed and the effective buying power of the Zimbabwe Dollar decreases accordingly there could be a significant impact on the results of the operations. The shareholder loan account in Zimbabwe is denominated in US Dollars and will generate foreign exchange losses for Blanket Mine in Zimbabwe Dollar terms but the effect on the consolidated financial statements in Canadian Dollars is unlikely to be significant. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. The Company does not use any derivative instruments to reduce its foreign currency risks.

Below is a summary of the cash or near cash items denominated in a currency other than the Canadian dollar that would be affected by changes in exchanges rates relative to the Canadian dollar. All values are in thousands.

| | US Dollars | Zimbabwe Dollars | SA Rand |
|---------------------|------------|------------------|---------|
| Cash | 470 | (179,738,803) | 331 |
| Accounts Receivable | 1,780 | 79,027,980 | 986 |
| Accounts Payable | | 195,488,055 | 10,830 |

ii) Comprehensive Income (CICA Handbook Section 1530)

Comprehensive income is the change in shareholders’ equity during a period from transaction and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of the net income/(loss) to be presented in other “comprehensive income” until it is considered appropriate to recognize into net income/(loss). This standard requires the presentation of comprehensive income and its components in a separate financial statement that is displayed with the same prominence as the other consolidated financial statements. Accordingly, the Company now reports a Statement of Operations and Comprehensive Income and a Statement of Shareholders’ Equity which includes the account “accumulated other comprehensive income” in the shareholder’s equity section of the consolidated balance sheet.

The adoption of Sections 3855 and 1530 determines how the Company records its investment in Motapa Diamonds Inc. and Old Mutual Plc which are now classified as financial instruments “available for sale” and thus recorded at fair value. The adjustment to opening balance to recognize this was \$31 and any further unrealized gains or losses during the year are reported in the current period.

iii) Equity (Section 3251)

Along with the adoption of the above standards, the Company adopted CICA Handbook Section 3251, Equity, effective from the beginning of the current fiscal year. This Standard establishes the presentation of equity and changes in equity during the reported period. The Company now presents a Statement of Changes in Shareholders’ Equity as part of the annual consolidated financial statements.

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
(in thousands of Canadian Dollars) **December 31, 2007, 2006 and 2005**

iv) Foreign Currency Translation (Section 1651)

The Company maintains its accounts in Canadian dollars. The accounts of its foreign subsidiaries are maintained in the local currency where the subsidiary is incorporated. The Corporation's foreign subsidiaries are considered to be integrated operations. Accordingly, the foreign operations are translated to Canadian dollars using the temporal method. As such, monetary assets and liabilities are translated using the exchange rates in effect at the consolidated balance sheet date and non-monetary assets and liabilities at historical exchange rates. Revenue and expense items have been translated using the average exchange rate prevailing during the year. The gains and losses resulting from changes in exchange rates are recognized in earnings.

v) Accounting Changes (Section 1506)

This new section establishes criteria for changes in accounting policies along with the accounting treatment and disclosures required upon adoption of the new accounting policies, estimates and corrections of errors. The standard is applied prospectively for the Company's 2007 financial year. The adoption of this standard did not have a material impact on our consolidated financial statements.

Recently issued accounting pronouncements issued and not yet effective

(i) Financial instruments and capital disclosure:

In October 2006, the Accounting Standards Board ("AcSB") approved disclosure and presentation requirements for financial instruments that revise and enhance the disclosure requirements of Section 3861. These requirements are included in Section 3862, Financial Instruments - Disclosure ("Section 3862"), which replaces Section 3861, and Section 1535, Capital Disclosures ("Section 1535"), which establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual consolidated financial statements beginning on January 1, 2008. Section 3862 requires disclosures, by class of financial instrument that enables users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for the Company for interim and annual consolidated financial statements beginning on January 1, 2008. The Company is currently assessing the impact that CICA Section 3862 and Section 1535 will have on the consolidated financial statements.

(ii) Financial instruments presentation:

In October 2006, the AcSB approved Section 3863, Financial Instruments - Presentation ("Section 3863"), which replaces Section 3861. The existing requirements on presentation of financial instruments have been carried forward unchanged to Section 3863. This standard is effective for the Company for interim and annual consolidated financial statements beginning on January 1, 2008 and is expected to have no impact on the Company's consolidated financial statements.

Caledonia Mining Corporation
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(iii) Inventories:

In May 2007, the AcSB issued Section 3031, Inventories, which supersedes existing guidance on inventories in Section 3030, Inventories. This standard introduces significant changes to the measurement and disclosure of inventories, including the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. This standard is effective for the Company for interim and annual consolidated financial statements beginning on January 1, 2008. The Company is currently assessing the impact that this section will have on its financial position and results of operations.

(iv) General standards of financial statement presentation:

In May 2007, the AcSB amended Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These amendments are effective for the Company for interim and annual periods beginning on January 1, 2008.

(v) Goodwill and intangible assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064 Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning 1 January 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

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1. Investments

On May 9, 2002, the Company participated in a private placement of the purchase of shares of Motapa Diamonds Inc. ("Motapa") at a cost of \$79. The shares of Motapa are listed on the TSX Venture Exchange in Canada.

The adoption of CICA Handbook Sections 3855 and 1530, retrospectively from January 1, 2007, determines that the Company records its investments of in \$20 in Motapa Diamonds Inc. and \$2 in Old Mutual Plc as financial instruments "available for sale" and they are thus have been recorded at fair value. The adjustment to opening balance to recognize this was \$31 and further unrealized losses of \$88 in the twelve months ended December 31, 2007 are reported in the current period.

The fair value of the investment in Motapa Diamonds Inc is \$20 (\$26 – 2006) and the fair value of the shares held in Old Mutual Plc is \$2 (\$84- 2006).

2. Capital Assets

| | 2007 | | |
|--------------------------------|----------------------------|-------------------------------------|---------------------------|
| | <u>Cost</u> ⁽¹⁾ | <u>Accumulated Amortization</u> | <u>Net Book Value</u> |
| | \$ | \$ | \$ |
| Land – plant sites | 12 | - | 12 |
| Plant and equipment | | | |
| - producing ⁽²⁾ | 24 | 1 | 23 |
| - non-producing ⁽³⁾ | 229 | 229 | - |
| Office equipment | 887 | 838 | 49 |
| Vehicles | 387 | 258 | 129 |
| | 1,539 | 1,326 | 213 |
| | 2006 | | |
| | <u>Cost</u> ⁽¹⁾ | <u>Accumulated Amortization</u> | <u>Net Book Value</u> |
| | \$ | \$ | \$ |
| Land - plant sites | 12 | - | 12 |
| Plant and equipment | | | |
| - producing ⁽²⁾ | 25 | 1 | 24 |
| - non-producing ⁽³⁾ | 229 | 229 | - |
| Office equipment | 868 | 823 | 45 |
| Vehicles | 386 | 255 | 131 |
| | 1,520 | 1,308 | 212 |

⁽¹⁾ Cost is comprised of the original cost of the asset, less write-downs, removal of cost for disposals and government grants.

⁽²⁾ The producing plant and equipment relates to the Blanket operation.

⁽³⁾ The net book value of non-producing plant and equipment represents Zambian operations.

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Notes to the Consolidated Financial Statements
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3. Mineral Properties

| | 2007 | | |
|-----------------------------------|----------------------------|---|---------------------------------|
| | <u>Cost</u> ⁽¹⁾ | <u>Accumulated</u> <u>Amortization</u> | <u>Net Book</u> <u>Value</u> |
| | \$ | \$ | \$ |
| Producing: | | | |
| Blanket, Zimbabwe - gold property | 4,951 | 2 | 4,949 |
| Non-producing - exploration: | | | |
| Rooipoort , South Africa | 4,236 | - | 4,236 |
| Nunavut, Canada ⁽²⁾ | - | - | - |
| Goedgevonden, South Africa | 102 | - | 102 |
| Nama, Zambia | 3,094 | - | 3,094 |
| Mulonga, Zambia ⁽²⁾ | 1,044 | - | 1,044 |
| | 13,427 | 2 | 13,425 |
| | 2006 | | |
| | <u>Cost</u> ⁽¹⁾ | <u>Accumulated</u> <u>Amortization</u> | <u>Net Book</u> <u>Value</u> |
| | \$ | \$ | \$ |
| Producing: | | | |
| Blanket, Zimbabwe - gold property | 4,317 | 2 | 4,315 |
| Non-producing - exploration: | | | |
| Rooipoort , South Africa | 4,131 | - | 4,131 |
| Nunavut, Canada | 750 | - | 750 |
| Goedgevonden, South Africa | 79 | - | 79 |
| Nama, Zambia | 624 | - | 624 |
| Mulonga, Zambia | 1,044 | - | 1,044 |
| | 10,945 | 2 | 10,943 |

- (1) Cost is comprised of the original cost of the asset, less write-downs, removal of cost for disposals and government grants, and includes the capitalized value of the estimated asset retirement obligations.
- (2) The Company has entered into strategic alliances with third parties on a Canadian property (Nunavut) and a Zambian property (Mulonga) valued at \$0 (\$750 – 2006) and \$1,044 (\$1,044 – 2006) respectively. The third parties may earn varying percentage interests in these properties by carrying out exploration work on the properties. Due to a lack of recent exploration activity in the Canadian property strategic alliance the carrying value of \$750 has been written off. The Zambian strategic alliance partner, Motapa Diamonds Inc., has decided to terminate the strategic alliance agreement. The Company has applied for a retention licence over the properties. All interest in the strategic alliance will be transferred to the Company by Motapa Diamonds Inc.

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

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4. Asset Retirement Obligation

| | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------|
| | \$ | \$ |
| Continuing operation | 811 | 750 |
| Accretion expense | 35 | 61 |
| Foreign exchange loss (gain) | (114) | - |
| Closing balance – continuing operations | <u>732</u> | <u>811</u> |
| Opening balance | 364 | 377 |
| Accretion expense | - | 20 |
| Foreign exchange loss (gain) | (53) | (33) |
| Closing balance – held for sale | <u>311</u> | <u>364</u> |

The asset retirement obligations relate to Blanket Mine \$732 (\$811 – 2006), Barbrook Gold Mine \$107 (\$125 - 2006) and Eersteling Gold Mine \$204 (\$239 - 2006) and are estimates of costs of rehabilitation at the end of the mine life, increased annually for accretion expense at a rate of 5%. As both Barbrook and Eersteling Mines were on care and maintenance no accretion was made in 2007. The undiscounted obligation for the Blanket Mine is \$1,499 (\$1,160 - 2006).

5. Share Capital

- (a) Authorized
An unlimited number of common shares
An unlimited number of preference shares.
- (b) Issued

| | <u>Number of Shares</u> | <u>Amount</u> |
|---|---------------------------|-----------------------|
| | | \$ |
| Common shares | | |
| Balance, December 31, 2004 | 301,112,286 | 173,304 |
| Issued pursuant to private placements (i) & (iii) | 52,738,888 | 4,733 |
| Warrants exercised (ii) | 16,863,962 | 2,016 |
| Balance, December 31, 2005 | <u>370,715,136</u> | <u>180,053</u> |
| Issued pursuant to private placement (iii) | 15,437,626 | 1,475 |
| Issued pursuant to a private placement (iv) | 34,828,259 | 3,924 |
| Issued pursuant to acquisition (Note 14) | 20,000,000 | 3,014 |
| Issued pursuant to a private placement (v) | 17,000,000 | 2,160 |
| Balance - December 31, 2006 | <u>457,981,021</u> | <u>190,626</u> |
| Warrants exercised (vi) | <u>29,888,259</u> | <u>4,380</u> |
| Balance - December 31, 2007 | <u>487,869,280</u> | <u>195,006</u> |

- (i) In June 2005, Caledonia successfully listed on the London Stock Exchange's Alternative Investment Market ("AIM") and placed a small float of shares into the AIM market in conjunction with a financing. The financing on AIM raised a gross amount \$3,534 from the issuance of 34,888,888 units consisting of one common share priced at \$0.10. Commissions and expenses paid amounted to \$508 and have been charged to share capital in 2005.

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- (ii) In September 2005, the warrants previously issued in 2004 were re-priced to \$0.11 with the date of expiry extended to October 31, 2005. As at that date, 16,863,962 warrants were exercised for gross proceeds of \$1,855 while the remaining expired (see 5 (d) below).
- (iii) During December 2005, the Company commenced a private placement to raise \$3,496. As at December 31, 2005, the first closing raised gross proceeds of \$1,875 comprising 17,850,000 units. The balance of the offering was received by February 2006 upon completion of the second to fourth closings (see Note 14 below). A total of 33,287,626 units priced at \$0.105 were subscribed for all closings. Each unit consisted of one common share and one common share purchase warrant. The common share purchase warrants are exercisable for one common share at \$0.20 per whole warrant for a period of 24 months from the date of issuance.
- The private placement agents were paid a commission of 9% of the gross proceeds raised. Cash commissions paid on the first closing amounted to \$168 and has been charged to share capital in 2005.
- (iv) In April 2006 the company commenced a private placement to raise additional funds. This placement raised \$3,924 after expenses from the sale of 34,828,259 units. Each unit consists of one common share and one share purchase warrant.
- (v) In July 2006 the company completed a private placement to raise additional funds. This placement of 17,000,000 units, each consisting of one common share and one share purchase warrant, was completed in July 2006 and raised \$2,160 after expenses.
- (vi) In April and May 2007 shareholders holding 29,888,259 warrants at \$0.15 each exercised the warrants raising \$4,380 after expenses.
- (c) **Stock Option Plans and Stock-Based Compensation**

The Company has established incentive stock option plans (the "Plans") for employees, officers, directors, consultants and other service providers. Under the current plan the maximum term of the options is 5 years. Under the Plans, as at December 31, 2007, the Company has the following options outstanding:

| <u>Number of Options</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|--------------------------|-----------------------|--------------------|
| | \$ | |
| 803,000 | 0.330 | February 9, 2008 |
| 9,950,000 | 0.235 | April 24, 2012 |
| 225,000 | 0.345 | June 2, 2012 |
| 610,000 | 0.260 | April 29, 2014 |
| 200,000 | 0.260 | August 15, 2014 |
| 4,000,000 | 0.110 | February 15, 2015 |
| 1,000,000 | 0.140 | July 10, 2010 |
| 300,000 | 0.125 | May 11, 2016 |
| 200,000 | 0.110 | January 23, 2017 |
| 1,100,000 | 0.1125 | May 31, 2012 |
| 200,000 | 0.1125 | May 31, 2012 |
| <u>18,588,000</u> | <u>0.198</u> | |

Caledonia Mining Corporation
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The continuity of the options granted, exercised, cancelled and expired under the Plans during 2007, 2006 and 2005 are as follows:

| | <u>Number of Options</u> | <u>Weighted Avg. Exercise Price</u> |
|--|--------------------------|-------------------------------------|
| | | \$ |
| Options outstanding at December 31, 2004 | 13,108,700 | 0.26 |
| Granted | 5,000,000 | 0.12 |
| Forfeited or expired | (1,210,700) | (0.43) |
| Options outstanding at December 31, 2005 | 16,898,000 | 0.21 |
| Granted | 450,000 | 0.13 |
| Forfeited or expired | (110,000) | (0.27) |
| Options outstanding at December 31, 2006 | 17,238,000 | 0.21 |
| Forfeited or expired | (150,000) | (0.115) |
| Granted | 200,000 | 0.11 |
| Granted | 1,300,000 | 0.1125 |
| Options outstanding at December 31, 2007 | 18,588,000 | 0.198 |
| Options exercisable at December 31, 2007 | 17,721,333 | 0.20 |

The weighted average remaining contractual life of the outstanding options is 5.8 years (2006 - 6.8 years)

The options to purchase common shares noted above, have been granted to directors, officers, employees and service providers at exercise prices determined by reference to the market value of the common shares on the date of grant. The vesting of options is made at the discretion of the board of directors at the time the options are granted. As of December 31, 2007 there are 30,198,928 stock options available to grant.

During 2007, stock option expense of \$61 for the grant of 1,500,000 options was charged to expense and credited to contributed surplus (2006 - \$81 for 450,000; 2005 - \$283 for 5,000,000). The weighted average grant date fair value of options was \$84 (2006 - \$81, 2005 - \$283).

The fair value of compensation expenses noted above was estimated using the Black-Scholes Option Pricing Model with the following assumptions for the periods ended December 31, 2007, 2006 and 2005.

| | 2007 | 2006 | 2005 |
|---------------------------------|-----------------|----------|---------|
| Risk-free interest rate | 3 – 4% | 3 - 4% | 2.25% |
| Expected dividend yield | Nil | Nil | nil |
| Expected stock price volatility | 60 – 65% | 70 – 78% | 73-100% |
| Expected option life in years | 3 – 5 | 3 – 5 | 2-3 |

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

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(d) Warrants

The Company has issued the following common share purchase warrants pursuant to private placements which are outstanding as of December 31, 2007:

| <u>Number of Warrants</u> | <u>Shares for Warrants</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|---------------------------|----------------------------|-----------------------|-----------------------------|
| 15,437,626 | 1 for 1 | \$0.20 | Various to February 3, 2008 |

The detail of the warrants issued is detailed below.

| <u>Number</u> | <u>Description</u> | <u>Exercise Price</u> | <u>Expiry</u> |
|---------------|--------------------------------|-----------------------|------------------------|
| | | \$ | |
| 10,000,000 | Common share purchase warrants | 0.20 | Until January 31, 2008 |
| 2,715,476 | Common share purchase warrants | 0.20 | Until February 2, 2008 |
| 2,722,150 | Common share purchase warrants | 0.20 | Until February 3, 2008 |

The continuity of warrants issued and outstanding is as follows:

| | <u>Number of Warrants</u> |
|---------------------------------------|---------------------------|
| Outstanding December 31, 2004 | 39,232,909 |
| Exercised | (16,863,962) |
| Expired | (22,368,947) |
| Issued pursuant to private placements | <u>17,850,000</u> |
| Outstanding December 31, 2005 | 17,850,000 |
| Issued pursuant to private placements | <u>67,265,885</u> |
| Outstanding December 31, 2006 | 85,115,885 |
| Exercised | (29,888,259) |
| Expired | (39,790,000) |
| Outstanding December 31, 2007 | <u>15,437,626</u> |

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6. Income Taxes

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

| | <u>2007</u> | 2006 | 2005 |
|--|----------------|---------|---------|
| Income tax rate | 36.12% | 36.12% | 36.12% |
| | \$ | \$ | \$ |
| Income taxes (recovery) at statutory rate | (1,409) | 1,072 | (1,354) |
| Tax rate difference | 541 | (167) | 67 |
| Foreign currency difference | 926 | (28) | 246 |
| Permanent differences | 36 | 170 | 50 |
| Interest at special rates subject to withholding tax | 5 | - | - |
| Losses expired | 216 | - | 3,681 |
| Change in tax rate | 1,153 | 847 | - |
| Change in Valuation allowance | (1,463) | (1,242) | (2,690) |
| Current income tax | 5 | 652 | - |

The following table reflects future income tax assets and liabilities

| | <u>2007</u> | 2006 | 2005 |
|-----------------------------|----------------|---------|----------|
| | \$ | \$ | \$ |
| Loss carry forwards | 10,181 | 10,009 | 10,066 |
| Unrealized foreign exchange | (2,956) | (857) | - |
| Site reclamation costs | 137 | - | - |
| Other | 2 | - | - |
| Capital assets | (3) | (328) | - |
| Valuation allowance | (7,361) | (8,824) | (10,066) |
| | - | - | - |

The company has available tax losses for income tax purposes of approximately \$32,830 (2006 - \$30,598 and 2005 - \$28,085) which may be carried forward to reduce taxable income derived in future years.

The expiry of these losses is as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| | \$ |
| 2027 | 2,391 |
| 2026 | 1,580 |
| 2015 | 1,863 |
| 2014 | 1,583 |
| 2010 | 18,984 |
| 2009 | 3,611 |
| 2008 | 142 |
| No expiry | 2,676 |
| | <u>32,830</u> |

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

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

| | |
|---|-------|
| Canadian exploration and development expenses | 7,560 |
| Foreign exploration and development expenses | 4,445 |

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|--------------|-------------|-------------|
| | \$ | \$ | \$ |
| Basic rate applied to pre-tax loss | (256) | (2,886) | (2,143) |
| Losses and other benefits not recognised | 256 | 2,886 | 2,143 |
| | <u>-</u> | <u>-</u> | <u>-</u> |

7. Net Income/(Loss) Per Share

The net income/(loss) per share figures have been calculated using the weighted average number of common shares outstanding during the respective fiscal years which amounted to 477,930,290 (2006 - 423,838,628; 2005 - 313,565,142;). Fully diluted income/(loss) per share has also been calculated only for 2006 as the group achieved a profit before discontinued operations. Fully diluted income/(loss) per share have not been calculated for 2007 or 2005 as it would be anti-dilutive. The fully diluted number of shares amounts to 478,553,886 (2006 - 425,984,395 and 2005 - 314,022,657).

8. Other Expense (Income) before discontinued operations

Other expense (income) is comprised of the following:

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|-------------------|--------------------|-------------|-------------|
| | \$ | \$ | \$ |
| Investment income | - | - | (55) |
| Other | (17) | - | (27) |
| | <u>(17)</u> | <u>-</u> | <u>(82)</u> |

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9. Statement of Cash Flows

Items not involving cash are as follows:

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|-------------|
| | \$ | \$ | \$ |
| Amortization | 18 | 40 | 27 |
| Rehabilitation accretion | 35 | 81 | 22 |
| Stock compensation expense | 51 | 66 | 283 |
| Blanket long term liability | - | (35) | - |
| Write down of mineral properties (Note 3) | 750 | - | - |
| Other | (169) | 35 | (68) |
| | <u>685</u> | <u>187</u> | <u>264</u> |

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|----------------------|--------------|--------------|-------------|
| | \$ | \$ | \$ |
| Accounts payable | (1,610) | 1,400 | 662 |
| Accounts receivable | (657) | 1,200 | 150 |
| Inventories | 3,653 | (3,263) | - |
| Prepaid expenses | 44 | 334 | (159) |
| Assets held for sale | 104 | (315) | - |
| | <u>1,534</u> | <u>(644)</u> | <u>653</u> |

Supplemental cash flow information:

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|-------------|-------------|-------------|
| | \$ | \$ | \$ |
| Interest paid | 454 | 54 | 1 |
| Tax paid | - | 237 | - |
| Withholding tax paid on interest in Zimbabwe | 5 | - | - |
| Blanket Acquisition (Note 14) | - | 3,009 | - |

10. Related Party Transactions

The Company had the following related party transactions:

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|-------------|
| | \$ | \$ | \$ |
| Management, and allowances paid or accrued to a company which provides the services of the Company's President ⁽¹⁾ | 560 | 534 | 441 |
| Consulting fees and reimbursement of travel expenses to the Chairman of the Board | 46 | 44 | 275 |
| Rent paid to a company owned by members of the President's family | 46 | 47 | 37 |
| Legal fees paid to a Director of the Company | 85 | 42 | 17 |
| Consulting fees paid to Directors of the Company | 19 | 27 | - |

(1) This includes back pay for 2006 amounting to \$43 paid to a company that provides the services of the Company's President

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|-------------|-------------|-------------|
| Included in accounts payable | \$ | \$ | \$ |
| - owing to a company that provides the services of the Corporation's President | 70 | - | - |
| - owing to the Chairman of the Board for consulting fees and expenses | 137 | 129 | 85 |
| - owing to directors/officers for unpaid salaries, consulting and/or directors' fees | 374 | 193 | 137 |
| - unsecured loan due to a shareholder ⁽¹⁾ | 580 | 450 | - |

⁽¹⁾ This refers to a short term loan received prior to the finalization of a private placement, subsequent to the year end in 2006 and 2007, of which this loan formed a part. The loan is unsecured and bears interest at prime plus 3%.

11. 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, 2007 | | | | |
|---|--------------------------------------|-----------------|-------------------------|---------------|----------------|
| | <u>Corporate</u> | <u>Zimbabwe</u> | <u>South Africa</u> | <u>Zambia</u> | <u>Total</u> |
| | \$ | \$ | \$ | \$ | \$ |
| Revenue from sales | 5 | 10,034 | - | - | 10,039 |
| Operating costs | - | (9,288) | (457) | - | (9,745) |
| General and administrative | (1,697) | (151) | (275) | - | (2,123) |
| Interest | 5 | (316) | 2 | - | (309) |
| Amortization | - | (4) | (14) | - | (18) |
| Write off of mineral property | (750) | - | - | - | (750) |
| Other income (expense) incl. foreign exchange gains/(loss) | (6) | (1,811) | 786 | 36 | (995) |
| Income (loss) for continuing operations | (2,443) | (1,536) | 42 | 36 | (3,901) |
| Discontinued operations (loss) | | | (709) | | (709) |
| Income tax expense | | (5) | | | (5) |
| Net income (loss) for the year | (2,443) | (1,541) | (667) | 36 | (4,615) |
| Identifiable assets – continuing operations | 106 | 9,257 | 4,415 | 4,124 | 17,902 |
| Identifiable assets – discontinued operations Capital and Current assets | - | - | 11,590 | - | 11,590 |
| Expenditures on capital assets & mineral properties continuing operations | - | 616 | 164 | 2,470 | 3,250 |

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| | For the year ended December 31, 2006 | | | | |
|---|--------------------------------------|-----------------|-------------------------|---------------|--------------|
| | <u>Corporate</u> | <u>Zimbabwe</u> | <u>South Africa</u> | <u>Zambia</u> | <u>Total</u> |
| | \$ | \$ | \$ | \$ | \$ |
| Revenue from sales | 8 | 13,575 | 3 | - | 13,586 |
| Operating costs | - | (8,121) | (451) | - | (8,572) |
| General and administrative | (1,787) | (100) | (209) | - | (2,096) |
| Interest | - | (54) | - | - | (54) |
| Amortization | - | (20) | (20) | - | (40) |
| Other income (expense) incl. foreign exchange gains/(loss) | (276) | 292 | 128 | (1) | 143 |
| Income (loss) for continuing operations | (2,055) | 5,572 | (549) | (1) | 2,967 |
| Discontinued operations (loss) | - | - | (7,990) | - | (7,990) |
| Income tax expense | - | (652) | - | - | (652) |
| Net income (loss) for the year | (2,055) | 4,920 | (8,539) | (1) | (5,675) |
| Identifiable assets – continuing operations | 965 | 12,544 | 4,521 | 1,662 | 19,692 |
| Identifiable assets – discontinued operations | - | - | 11,764 | - | 11,764 |
| Capital and Current assets | | | | | |
| Expenditures on capital assets & mineral properties continuing operations | - | 1,998 | 382 | 277 | 2,657 |
| Expenditures on capital assets & mineral properties – discontinued operations | - | - | 922 | - | 922 |

| | For the year ended December 31, 2005 | | | |
|---|--------------------------------------|-------------------------|---------------|--------------|
| | <u>Corporate</u> | <u>South Africa</u> | <u>Zambia</u> | <u>Total</u> |
| | \$ | \$ | \$ | \$ |
| Revenue from sales | - | 6 | - | 6 |
| Operating costs | - | (757) | - | (757) |
| General and administrative | (3,001) | - | - | (3,001) |
| Interest | - | (1) | - | (1) |
| Amortization | - | (27) | - | (27) |
| Other income (expense) incl. foreign exchange gains/(loss) | 39 | (7) | - | 32 |
| Income (loss) for continuing operations | (2,962) | (786) | - | (3,748) |
| Discontinued operations (loss) | - | (5,932) | - | (5,932) |
| Net income (loss) for the year | (2,962) | (6,718) | - | (9,680) |
| Identifiable assets – continuing operations | 2,095 | 676 | 1,384 | 4,155 |
| Identifiable assets – discontinued operations Capital and Current assets | - | 18,183 | - | 18,183 |
| Expenditures on capital assets & mineral properties continuing operations | - | 1,690 | 350 | 2,040 |
| Expenditures on capital assets & mineral properties – discontinued operations | - | 3,244 | - | 3,244 |

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12. Contingent Liability

In the Share Sale Agreement dated May 12, 2006 pursuant to which the Company purchased 100% of the shares of Blanket, the Company agreed that it would, as soon as reasonably practicable after the Closing of the Agreement, cause Blanket to implement a share incentive scheme considered by the Directors to be in the best interests of Blanket, pursuant to which a percentage of the shares of Blanket will be deposited in a Trust for the benefit of the management and employees of Blanket. As at December 31, 2007 no scheme had been established, nor were any shares of Blanket deposited in a Trust for the purposes of such a scheme. The Company and the Board of Directors of Blanket have delayed the establishment of the required scheme pending clarity of the anticipated Zimbabwe laws relating to the indigenization of the mining industry, as it is recognized that the Zimbabwean laws when passed, will likely have a material impact on the structure of the proposed scheme and the percentage of the issued shares of Blanket required to be put into trust for the purposes of the scheme.

13. Long Term Liability

The long term liability refers to a provision for the Service Bonus Fund relating to employees at Blanket Mine in Zimbabwe. The fund was established in 1975 to provide a gratuity to permanent employees of Blanket Mine on cessation of employment at Blanket Mine for any reason apart from dismissal or resignation. The provision is built up by providing 15% of an employee's basic salary per year up to a maximum of Z\$5,000,000. The maximum payout to any employee is Z\$5,000,000 (five million Zimbabwe Dollars) in terms of the current rules.

This fund represents a defined contribution future employee benefit fund for which the funds have not been segregated by the Company. The expense for the year, representing the required contributions in the year, was \$2 (\$13 – 2006).

14. Acquisition of Blanket Mine

During 2006 Caledonia Mining Company through its wholly owned subsidiary Caledonia Holdings (Africa) Limited purchased 100% of the shares in Blanket (Barbados) Holdings Limited ("Barbados") from Kinross Gold Corporation. "Barbados" owns 100% of the shares in Caledonia Holdings Zimbabwe Limited who owns 100% of the shares in Caledonia Mining Services (Private) Limited (dormant) and Blanket Mine (1983) (Private) Limited.

The effective date of the share sale agreement was April 1, 2006 but Caledonia Mining Corporation effectively only took control after payment of the purchase price and thus the Zimbabwe operations are consolidated into the results of Caledonia Mining Corporation from July 1, 2006.

The purchase price consideration was made up of \$1,120 (US\$1,000) in cash and by the issue of 20,000,000 shares in Caledonia Mining Corporation at an assigned value of \$3,009. This resulted in an effective purchase consideration of \$4,129.

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The allocation of the purchase price is presented in the abridged balance sheet below:

| | |
|---------------------------------------|----------------|
| | \$ |
| Current Assets | 4,548 |
| Capital Assets and Mineral Properties | 2,519 |
| Total Assets | <u>7,067</u> |
| | |
| Current Liabilities | (2,107) |
| Other Long Term Liabilities | (831) |
| Total Liabilities | <u>(2,938)</u> |
| | |
| Total Purchase Consideration | <u>4,129</u> |

There are no outstanding purchase price considerations.

15. Comparative Figures

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

16. Subsequent Events

On February 21, 2008 the Company accepted an offer from Eastern Goldfields Inc. to acquire the entire issued share capital and shareholder loan accounts of Barbrook Mines Limited for approximately \$9,100. The final sale of share agreement was signed by the parties on March 27, 2008.

On March 3, 2008 the Company accepted an offer from a private Canadian company to acquire the entire issued share capital of Eersteling Gold Mining Company Limited for \$3,810. The final sale of share agreement was signed by the parties on March 28, 2008.

During January 2008 10,000,000 warrants expired and during February 5,437,626 warrants also expired.

In February 2008 the company commenced a private placement to raise additional funds. This placement raised \$1,119 after expenses from the sale of 12,300,000 units. Each unit consists of one common share and one share purchase warrant which are valid for 12 months at a price of \$0.15 per warrant.

The President of the Republic of Zimbabwe brought the Indigenisation and Economic Empowerment Act into law through decree during March 2008. The law seeks to ensure that a majority stake (at least 51%) in all companies is held by Indigenous Zimbabweans. The acquisition of the 51% would be on a "willing buyer willing seller" basis. Additionally the Mines and Minerals Amendment Bill was presented before the closure of the last session of Parliament but not passed into law and has thus lapsed. The bill if enacted into law also seeks to ensure among other things that a majority stake is held in all mining companies by either indigenous Zimbabweans or the Government of Zimbabwe. This Bill however catered for the appropriation of approximately 25% of the Company.

The company has signed four cobalt off-take agreements with large Chinese refiners which brings contractual commitments for the Nama Cobalt Project to a total of 51,560 tonnes (+/-10% at Nama's option) of cobalt metal equivalent for the period 2009 to 2013, and meets the full anticipated plant capacity currently being designed.

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The Zambian government has announced the following proposed changes to their tax laws that will have a bearing on the Nama cobalt project if passed into law. The key changes are:

- Increase in mineral royalty from 0.6% to 3%
- Increase in profit tax rate from 25% to 30%
- Introduction of variable profits tax of 15% for net profits above 8%
- Introduction of a windfall profit tax for copper mines
- Capital allowances reduced from 100% to 25%

These measures have been highly controversial with mining companies, many of which invested in the country under specific tax incentives and formalised their business models accordingly. Some mining companies are threatening legal recourse as they argue their businesses will become unviable. Proposed capital expenditure projects are being reconsidered. Various representations have been made by the mining companies through the Chamber of Mines to the government since the budget announcement at the end of January, however the government has taken a firm position, and we understand that the changes have been approved by parliament.

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

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

(a) Mineral Properties

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

(b) Employee and Directors Stock Options

Prior to 2003, the Company accounted for employee and director stock options under APB Opinion No. 25 under which no compensation cost is recognized when the exercise price equals or exceeds the fair value at the date of grant. Effective January 1, 2003, the company has, for US reporting purposes, prospectively applied the fair-value recognition provisions of SFAS 123. Under Canadian GAAP, effective January 1, 2002 on a prospective basis, the Company adopted the new CICA policy of accounting for stock based compensation. Compensation expense on stock options granted to directors, officers and employees, was not recorded. However, disclosure of the effects of accounting for the compensation expense, utilizing the fair value method estimated using the Black-Scholes Option Pricing Model, was disclosed as pro-forma information. For 2002, a compensation expense was shown reflecting the intrinsic value attributable to stock options granted to directors, officers and employees.

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

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(c) Warrants

Under US GAAP the fair value of the warrants re-priced in 2005 are considered to be a benefit awarded to certain shareholders. This would be considered to be a deemed dividend to these shareholders. The fair value of the warrants was calculated using the Black-Scholes Option Pricing Model. The assumptions used in the calculation are: Risk free interest rate – 2.77%; Expected dividend yield – nil; Expected stock volatility – 38%; Expected warrant life in years – 0.134.

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

(d) Recently Issued United States Accounting Standards

(i) On February 15, 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The FASB's stated objective in issuing this standard is as follows: "to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions."

A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of FASB Statement No. 157. The Company does not expect the adoption of this standard to have a material effect on the consolidated financial statements.

(ii) FASB Statement No. 157, Fair Value Measurements, has been issued by the FASB. This new standard provides guidance for using fair value to measure assets and liabilities. The FASB believes the standard also responds to investors' requests for expanded information about the extent to which companies' measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. Under Statement 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts.

The provisions of Statement 157 are effective for consolidated financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued consolidated financial statements for that fiscal year, including any consolidated financial statements for an interim period within that fiscal year. The Company does not expect the adoption of this standard to have a material effect on the consolidated financial statements.

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(iii) In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)," which requires employers to: (a) recognize in its statement of financial position an asset for a plan's over-funded status or a liability for a plan's under-funded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. These changes will be reported in comprehensive income of a business entity. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending December 15, 2006 for entities with publicly traded equity securities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company has no defined benefit pension plans

(iv) On December 4, 2007, the FASB issued FASB Statement No. 141 (Revised 2007), *Business Combinations*. Statement 141R will significantly change the accounting for business combinations. Under Statement 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Statement 141R will change the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Non-controlling interests (formerly known as "minority interests" -- see Statement 160 discussion below) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

Statement 141R also includes a substantial number of new disclosure requirements. Statement 141 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is *prohibited*. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing GAAP until January 1, 2009.

(v) On December 4, 2007, the FASB issued FASB Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*. Statement 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. Statement 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a

Caledonia Mining Corporation
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(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)
December 31, 2007, 2006 and 2005

gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Like Statement 141R discussed above, earlier adoption is prohibited.

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

(a) Income Statement

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|----------------|-------------|-------------|
| | \$ | \$ | \$ |
| Income/(Loss) for continuing operations per Canadian GAAP | (3,906) | 2,315 | (3,748) |
| Mineral property expenditure with no proven reserves (expensed) or previously expensed under US GAAP | (2,633) | (659) | (2,040) |
| Net income (loss) from continuing operations | (6,539) | 1,656 | (5,788) |
| Loss from discontinued operations | (709) | (7,990) | (5,932) |
| Net income (loss) | (7,248) | (6,334) | (11,720) |
| Deemed Dividend | (134) | - | (171) |
| Net income (loss) available for common shareholders | (7,382) | (6,334) | (11,891) |
| Net income (loss) | (7,248) | (6,334) | (11,720) |
| Other comprehensive (loss)/gain | (88) | 85 | (18) |
| Total comprehensive loss | (7,336) | (6,249) | (11,738) |
| Basic and diluted income/(loss) per share continuing operations | (0.01) | (0.00) | (0.02) |
| Basic and diluted income/(loss) per share discontinued operations | (0.00) | (0.02) | (0.02) |
| Basic and diluted income/(loss) per share for the year | (0.01) | (0.02) | (0.04) |

(b) Balance Sheet

| | <u>2007</u> | <u>2006</u> |
|--|----------------|-------------|
| | \$ | \$ |
| Total assets per Canadian GAAP | 29,492 | 31,456 |
| Unrealised loss on marketable securities | - | 31 |
| Mineral properties with no proven reserves expensed | (7,985) | (5,352) |
| Total assets per US GAAP | 21,507 | 26,135 |
| Total liabilities per Canadian and US GAAP | 5,397 | 7,120 |
| Shareholders' equity | | |
| Shareholders' equity per Canadian GAAP | 24,095 | 24,336 |
| Mineral properties with no proven reserves expensed | (7,985) | (5,352) |
| Accumulated other comprehensive income/(loss) | - | 31 |
| Shareholders' equity per US GAAP | 16,110 | 19,015 |
| Total liabilities & shareholder's equity per US GAAP | 21,507 | 26,135 |

Caledonia Mining Corporation
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(c) Cash Flow

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|----------------|-------------|-------------|
| Cash provided by (used in) | \$ | \$ | \$ |
| Operating activities for continuing operations per Canadian GAAP | (1,687) | 1,858 | (2,831) |
| Mineral properties expenditure by continuing operations | (2,633) | (659) | (2,040) |
| Operating activities per US GAAP | (4,320) | 1,199 | (4,871) |
| Investment activities for continuing operations per Canadian GAAP | (3,250) | (3,516) | (2,040) |
| Mineral properties expenditure | 2,633 | 659 | 2040 |
| Investment activities per US GAAP | (617) | (2,857) | - |
| Financing Activities per Canadian and US GAAP | 4,393 | 7,556 | 6,591 |
| Increase (decrease) in cash for continuing operations | (544) | 5,898 | 1,720 |
| Operating activities for discontinued operations per Canadian GAAP | (684) | (4,560) | (4,064) |
| Investment activities for discontinued operations per Canadian and US GAAP | - | (922) | (3,244) |
| Financing activities for discontinued operations per Canadian and US GAAP | 6 | (194) | 194 |
| Increase (decrease) in cash for the year | (1,222) | 222 | (5,394) |
| Cash and cash equivalents, beginning of year | 1,298 | 1,076 | 6,470 |
| Cash and cash equivalents, end of year | 76 | 1,298 | 1,076 |

| |
|--------------|
| EXHIBIT #14c |
|--------------|

CALEDONIA MINING CORPORATION

MINERAL PROPERTIES (Thousands of \$Cdn)

The following is a summary of Caledonia's mineral properties and the capitalized costs as at the 31st December 2007:

Africa:

| | |
|---------------------|------------------|
| South Africa | 4,338 |
| Zambia | 4,138 |
| Zimbabwe | <u>4,949</u> |
| | \$ <u>13,425</u> |

NOTE: The cost of acquisition of mineral properties and all related exploration and development expenditures, less recoveries, are capitalized and carried as an asset to be amortized against income if the property is brought into commercial production or charged to income if the property is, or is to be, abandoned or disposed of. The South African mineral properties exclude the mineral properties of the Barbrook Gold Mines Ltd. And the Eersteling Gold Mines Limited as these assets are listed for sale. The values listed for South Africa relate to the Rooipoort Project and the Goedgevonden Diamond property.

EXHIBIT #14d

**SUMMARY OF REPORT
ON THE NAMA PROPERTY IN ZAMBIA**

**Prepared by Applied Geology Services cc
on behalf of
Caledonia Mining Corporation
March 8, 2007**

Qualified Persons who prepared the Report - Michael J. Haslett
- David E.C.S. Grant

3. Summary

Caledonia Nama Limited (Caledonia), a subsidiary of Caledonia Mining Corporation holds a Retention Licence over 80650ha of ground in the Solwezi District of the Northwestern Province of Zambia in sub-Saharan Africa. It lies on the northwestern flank of the Zambian Copperbelt and has potential for high tonnage, low-grade cobalt-copper-nickel mineralisation. The area is underlain by strata of the Katanga Supergroup but paucity of outcrop and structural complexity has prevented accurate correlation of the stratigraphy intersected in the boreholes except that distinct mixtite units can be correlated with the lower Kundelungu Group.

Caledonia started operations in the area in 1994 and in the ensuing years acquired five Prospecting Licences and undertook an exploration programme commencing with soil sampling supported by airborne geophysical surveys and concluded with a drilling campaign. The drilling amounted to 323 reverse circulation holes totalling 38,119 metres followed by five diamond drill holes totalling 1445m. This drilling is in addition to 25 diamond drill holes drilled by Roan Selection Trust, Zamanglo and JCI in the Nama area and on the flank of the Konkola dome and 23 auger holes drilled by Roan Selection Trust.

Exploration by Caledonia and its predecessors has identified 18 targets of which seven have been drilled to a greater or lesser extent. Most of the drilling activity has focussed on the A or Discovery Anomaly in the central-eastern parts of the Retention Licence area. This work has enabled declaration of an Indicated Resource of 43.6Mt of oxide mineralisation with a grade of 0.055%Co and 0.099%Cu to a depth of more than 210m below surface. The oxide mineralisation potentially extends below this depth. Other anomalies did not receive as much exploration attention but the data from one target should be re-examined for a resource declaration. Three anomalies require further investigation and the remaining 11 untested targets should be explored.

Initial bench and small bulk sample metallurgical testing has indicated that the oxide material can be upgraded into a concentrate by dense medium and magnetic separation and flotation techniques but this work should be repeated on material representative of the *in situ* grade of the resources. Further work is also required on the mineralogy of the material both in the near surface and deeper mineralisation to determine the mineral phases in which the cobalt, copper and nickel oxides reside. It is important to establish that the mineralogical and hence processing characteristics of the material are maintained into the deeper parts of the mineralisation.

The complete Report may be viewed on the Company's website.

| |
|---------------------|
| EXHIBIT #14e |
|---------------------|

**SUMMARY OF REPORT
ON THE BLANKET MINE PROPERTY IN**

**Prepared by Applied Geology Services cc
on behalf of
Caledonia Mining Corporation
July, 2006**

Qualified Persons who prepared the Report - David E.C.S. Grant

3 SUMMARY

Applied Geology Services cc (AG) has been commissioned by Caledonia Mining Corporation (Caledonia) to prepare an Independent Qualified Persons Report on the Blanket Mine, Zimbabwe. On the 20th June 2006 Caledonia Mining Corporation (Caledonia) announced that it had acquired the Blanket Gold Mine, near Gwanda in Zimbabwe, from Kinross Gold Corporation of Canada. This transaction, because it represents a significant addition to the assets of Caledonia, requires the preparation and posting of an Independent Technical Report.

The Blanket Mine, which was discovered at the turn of the century, consists of underground mining and processing of several closely-spaced deposits defining a mineralised trend. Major infrastructure consists of underground workings, a process plant and a tailings dam. To date the mine has a recorded production of 1,004,000 oz of Au at an average grade of 4.79 g/t Au. Current reserves and resources are summarised in the table below:

Summary of Reserves and Resources at Blanket Mine at December 31, 2007

| MINERAL RESERVES (at a Gold price of US\$500/oz) | | | |
|--|------------------|---------------------|--------------------------|
| Classification | Tonnes | Grade Au g/t | Gold Content (oz) |
| Proven Ore | | | |
| Total Proven Ore including Pillars | 1,301,000 | 3.84 | 160,800 |
| Probable Ore | | | |
| Operating and Development Areas | 2,332,000 | 3.74 | 280,400 |
| Total Proven + Probable Ore | 3,633,000 | 3.78 | 441,200 |
| MINERAL RESOURCES (at a Gold price of US\$500/oz) | | | |
| Classification | Tonnes | Grade Au g/t | Gold Content (oz) |
| Indicated | | | |
| | 520,300 | 3.79 | 63,400 |

| | | | |
|--|-----------|------|----|
| Inferred | 2,519,800 | 5.27 | ** |
| Tonnages and ounces are rounded to the nearest 100 | | | |
| Note ** In keeping with the requirements of NI 43-101, Inferred Resources are reported without estimates of metal quantities. | | | |

~~(iii)~~(i) 1 tonne = 1,000 kilograms = 2,204.6 pounds

~~(iv)~~(ii) Some numbers may not add due to rounding

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

Cautionary note to U.S. Investors concerning estimates of Inferred Resources.

The above table uses the term “inferred resources”. We advise U.S. investors that, while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. “Inferred resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or prefeasibility studies, except in rare cases. U.S. investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally minable.

The Blanket Mine exploits a fairly typical Archaean greenstone-hosted deposit situated on the northwest limb of the Gwanda Greenstone belt. Active mining at Blanket covers a 3 km span and includes the Jethro deposits in the south, through Blanket itself to the Feudal, AR South, AR Main, Sheet, Eroica and Lima deposits in the north.

Two main types of mineralisation are recognised:

- a disseminated sulphide replacement type, which comprises the bulk of the ore shoots
- quartz veins that tend to have long strikes but are not uniformly mineralised.

Three types of mining methods are used at the Blanket Mine:

- Underhand stoping in the narrow ore bodies
- Shrinkage stoping where blocky sidewalls are evident
- Longhole stoping in the wider ore bodies, using 15 m sub-levels.

The different rock types at the Blanket Mine are generally very competent and support such as rock bolts are only installed on rare occasions where weak rock conditions are encountered.

The ROM process consists of three-stage crushing, a rod mill, Knelson Concentrators, and a CIL (carbon-in-leach) circuit. Loaded carbon is eluted and electro-won in a compact PG Elution cell. Cathodes from the cell are acid digested and calcined before smelting on site. Tailings from the CIL stream is pumped to a tailings dam, with the effluent recycled to the plant.

The Zimbabwean Government recently enacted new regulations covering water and effluent disposal. Under these regulations the mine is required to obtain permits for all effluent disposal and two permits have been issued to the Blanket Mine covering the sewage effluent and mill tailings disposals. The Mine has also implemented a pollution monitoring system around the current tailings dam with the installation of a number of piezometers, which are routinely monitored on an independent basis by SRK personnel from the Harare office.

In terms of the Mining General Regulations, certain closure obligations are to be fulfilled and these are currently covered in a Closure Plan prepared by Knight Piesold.

The Blanket Mine smelt their gold twice a month and deliver it to the Refinery, which is operated by the Reserve Bank of Zimbabwe. Imported spares and consumables are purchased with the approval of the Chamber of Mines and Reserve Bank. Production scheduling from the Blanket Mine LoM Plan was used as the basis for input to the financial model prepared by AG and presented in Table II. The following assumptions were used for the financial model:

- All prices are as at 30th June 2006;
- A gold price of US\$500/oz has been used for all gold revenue;
- Unit costs are based on the June 2006 Income Statement that includes the revenue and operating costs for June and for the year-to-date from January 2006;
- The financial model was calculated in US\$;
- Capital expenditure of US\$1.9 million is included as per the LoM plan. After that the capital expenditure allows for ongoing capital at 10% of the operating cost per year. The capital expenditure was considered as a deduction for tax purposes
- A closure cost of US\$1.2 million is provided for by the salvage value of the mine once it closes
- The rate used for income tax is 30% based on the corporate rate of 15% plus import duties
- The financial model has not taken any extra income, depreciation, levies or interest payable into account.

Blanket Mine Financial Model Generated By AG

| | Total Production 2006 to 2011 |
|--------------------------------------|--------------------------------------|
| Total Underground Production | 3,776,000 t @ 4.05 g/t Au |
| ROM tonnes per day | 920 |
| Mill Recovery | 90.0% |
| Total Recovered - kg Au | 13,756 |
| Total Recovered - oz Au | 442,300 |
| Revenue at US\$500/oz | 221,135,000 |
| Working Costs US\$ | 124,115,000 |
| Working Costs US\$/tonne (June,2006) | 32.61 |
| Services and Admin US\$ | 16,300,000 |
| Total Operating Costs US\$ | 140,415,000 |
| Operating Profit/Loss US\$ | 80,720,000 |
| Capital Expenditures US\$ | 12,904,000 |
| Earnings Subject to Tax US\$ | 67,816,000 |
| Taxes @ 30% US\$ | 17,849,000 |
| Earnings After Tax US\$ | 49,987,000 |
| NPV @ 15% US\$ | 21,711,000 |

Based on the Mineral Reserves and Indicated Resources as at 30th June 2006, Blanket Mine has a life of 11 years. Given the fact that Blanket's declared Inferred Mineral

Resources have the potential to add significantly to the current mine life, it is essential that the LoM Plan be re-evaluated, and that priority areas be identified for infill drilling and mine planning in an effort to upgrade the classification of the resources and hence the mine life. It is also important to note that the above estimates of inferred resources are conservative and that there are numerous opportunities to define additions to the existing ore shoots.

The complete Report may be viewed on the Company's website.