Caledonia Mining Corporation

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 ("Company") have been prepared in conformity with International Financial Reporting Standards ("IFRS") and, where appropriate, these statements include some amounts that are based on best estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

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

The 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 auditor has the responsibility of auditing the annual consolidated financial statements and expressing an opinion on them.

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

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

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills 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 auditor to review accounting, auditing, internal control and financial reporting matters.

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

The consolidated financial statements for the year ended December 31, 2011 were approved by the Board of Directors and signed on its behalf on March 29, 2012.

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

INDEPENDENT AUDITOR'S REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of Caledonia Mining Corporation

We have audited the accompanying consolidated financial statements of Caledonia Mining Corporation, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Caledonia Mining Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 29, 2012

Caledonia Mining Corporation

Consolidated statements of comprehensive income and (loss)

(In thousands of Canadian dollars except for earnings per share amounts)

For the years ended December 31,	***Note***	**2011**	**2010**
		$	**$**
Revenue	*4k*	**55,705**	22,388
Less: Royalty		**(2,514)**	(825)
Production costs	*7*	**(21,093)**	(12,617)
Depreciation		**(2,983)**	(2,586)
Gross profit		**29,115**	6,360
Administrative expenses	*8*	**(3,677)**	(2,807)
Share-based payment expense		**(1,101)**	(354)
Foreign exchange (loss)/gain		**303**	359
Impairment	*12*	**(3,884)**	-
Other (expenses)/income	*9*	**-**	(1,064)
Results from operating activities		**20,756**	2,494
Finance income	*10*	**55**	270
Finance cost	*10*	**(217)**	(267)
Net finance (costs)/income		**(162)**	3
Profit before income tax		**20,594**	2,497
Income tax expense	*11*	**(8,464)**	(1,042)
Profit for the year		**12,130**	1,455
Other comprehensive (loss)/income			
Revaluation of investments to fair value		**-**	(45)
Foreign currency translation differences for foreign operations		**265**	(1,404)
Other comprehensive income for the year, net of income tax		**265**	(1,449)
Total comprehensive income for the year		**12,395**	6
Earnings per share			
Basic earnings per share	*18*	**0.024**	0.003
Diluted earnings per share		**0.024**	0.003

Caledonia Mining Corporation

Consolidated statements of financial position

(In thousands of Canadian dollars)

As at	*Note*	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
		$	**$**	**$**
Assets				
Property, plant and equipment	*12*	**33,918**	31,978	28,219
Other investments	*13*	**5**	5	59
Trade and other receivables	*15*	**-**	-	810
Deferred tax asset	*11*	**325**	-	-
Total non-current assets		**34,248**	31,983	29,088
Inventories	*14*	**4,482**	2,624	2,587
Prepayments		**334**	93	130
Trade and other receivables	*15*	**3,652**	2,314	1,552
Cash and cash equivalents	*16*	**9,686**	1,145	1,622
Total current assets		**18,154**	6,176	5,891
Total assets		**52,402**	38,159	34,979
Equity and liabilities				
Share capital	*17*	**196,163**	196,125	196,125
Contributed surplus		**3,407**	2,306	1,952
Accumulated other comprehensive income/(loss)		**(1,134)**	(1,399)	50
Accumulated deficit		**(158,422)**	(170,552)	(172,007)
Total equity		**40,014**	26,480	26,120
Liabilities				
Provisions	*21*	**1,785**	1,899	1,789
Deferred tax liability	*11*	**6,037**	5,151	4,313
Total non-current liabilities		**7,822**	7,050	6,102
Trade and other payables	*22*	**3,841**	3,882	2,169
Income taxes payable		**295**	-	-
Bank overdraft	*16*	**430**	747	588
Total current liabilities		**4,566**	4,629	2,757
Total Liabilities		**12,388**	11,679	8,859
Total equity and liabilities		**52,402**	38,159	34,979

On behalf of the Board:

"S.E. Hayden" Director
"Robert W. Babensee" Director

Caledonia Mining Corporation
Consolidated statements of changes in equity
(In thousands of Canadian dollars)

	Note	Share capital	Investment Revaluation Reserve	Translation reserve	Contributed surplus	Accumulated deficit	Total
		$	$	$	$	$	$
Balance at January 1, 2010	*30*	196,125	50	-	1,952	(172,007)	26,120
Comprehensive income/(loss) for the year			(45)	(1,404)		1,455	6
Share-based compensation expense	*20*				354		354
Balance at December 31, 2010		196,125	5	(1,404)	2,306	(170,552)	26,480
Comprehensive income for the year				265		12,130	12,395
Shares issued		38					38
Share-based compensation expense	*20*				1,101		1,101
Balance at December 31, 2011		**196,163**	**5**	**(1,139)**	**3,407**	**(158,422)**	**40,014**

Consolidated statements of cash flows

(In thousands of Canadian dollars)

For the years ended December 31,	***Note***	**2011**	**2010**
		$	**$**
Cash flows from operating activities			
Profit for the year		**12,130**	1,455
Tax paid		**(8,005)**	(1)
Adjustments to reconcile net cash from operations	*23*	**16,648**	4,210
Interest paid		**(162)**	(3)
Changes in non-cash working capital	*23*	**(3,183)**	950
Cash flows provided from continuing operations		**17,428**	6,611
Cash flows from investing activities			
Property, plant and equipment additions		**(8,528)**	(7,304)
Proceeds on sale of investment		**-**	51
Net cash used in investing activities		**(8,528)**	(7,253)
Cash flows from financing activities			
Bank overdraft increase (decrease)		**(317)**	159
Proceeds from the issue of share capital	*17*	**38**	-
Net cash from (used in) financing activities		**(279)**	159
Net increase/(decrease) in cash and cash equivalents		**8,621**	(483)
Cash and cash equivalents at beginning of year		**1,145**	1,622
Effect of exchange rate fluctuations on cash held		**(80)**	6
Cash and cash equivalents at year end	*16*	**9,686**	1,145

1 Reporting entity

Caledonia Mining Corporation is a company domiciled in Canada. The address of the Company's registered office is Suite 1201, 67 Yonge Street, Toronto, Ontario M5E 1J8 Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2011 comprise the Company and its subsidiaries (together referred to as the "Group" or "Company" and individually as "Group entities"). The Group primarily is involved in the operation of a gold mine and the acquisition, exploration and development of mineral properties for the exploration of base and precious metals.

2 Basis for preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. These are the Group's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 30.

The consolidated financial statements were authorised for issue by the Board of Directors on March 29, 2012.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following item in the statement of financial position:

- available for sale financial assets are measured at fair value

(c) Presentation currency

These consolidated financial statements are presented in Canadian dollar, which is the Company's functional currency. All financial information presented in Canadian dollar has been rounded to the nearest thousand.

3 Use of estimates and judgements

Management makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

3 Use of estimates and judgements

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements are discussed below:

i) Rehabilitation Provisions

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time of the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

ii) Exploration and Evaluation ("E&E")Expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure when determining when E&E properties are impaired requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

iii) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

3 Use of estimates and judgements – (continued)

iv) **Income Taxes**

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized or sufficient estimated taxable income against which the losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

v) **Share-based Payment Transactions**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 20.

vi) **Impairment**

At each accounting period end the Company determines if impairment indicators exist, and if present, performs an impairment review of the non-monetary assets held in the Group. The exercise is subject to various judgement decisions and estimates. Financial assets are also reviewed regularly for impairment. Further details of the judgements and estimates made for these reviews are set out in Note 4(g).

vii) **Functional currency**

The functional currency of each entity in the Group is determined after considering various primary and secondary indicators which require management to make numerous judgement decisions. The determination of the functional currency will have a bearing on the translation process and ultimately other comprehensive income.

4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated. The accounting policies have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of Group entities have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) *Functional currencies*

The functional currencies of Caledonia Mining Corporation and its subsidiaries are the Canadian dollar, US dollar and South African Rand ("ZAR"). These consolidated financial statements have been translated into the Canadian dollar in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. This standard requires that assets and liabilities be translated using the exchange rate at period end, and income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period).When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from the item are considered to form part of the net investment in a foreign operation and are recognized in OCI.
When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in OCI related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in OCI related to the subsidiary are reallocated between controlling and non-controlling interests.

4 Significant accounting policies - (continued)

All resulting translation differences are reported in other comprehensive income.

(ii) Foreign currency translation

In preparing the financial statements of the Group entities, transactions in currencies other than the Group entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the year end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in profit for the year.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: trade and other receivables, cash and cash equivalents, and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

4 Significant accounting policies – (continued)

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any other categories of financial assets. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for sale equity instruments, are recognised in other comprehensive income and presented within equity in accumulated other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Non-derivative financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: bank overdrafts and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity, net of any tax effects.

4 Significant accounting policies – (continued)

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures (“E&E”) are capitalized in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development. Exploration and evaluation assets are also tested for impairment before the assets are transferred to mine under development.

All direct costs related to the acquisition, exploration and development of mineral properties are capitalized until the properties to which they relate are ready for their intended use, sold, abandoned or management has determined there to be impairment. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mineral properties being depleted and depreciated.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised within other income in profit or loss.

4 Significant accounting policies – (continued)

(e) Property, plant and equipment – (continued)

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, except for mineral properties, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. On commencement of commercial production, depreciation of each mineral property and development is provided for on the unit-of-production basis using estimated proven and probable reserves. Where the total reserves are not determinable because ore bearing structures are open at depth or are open laterally, the straight-line method of depreciation is applied over the estimated life of the mine. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 10 to 15 years
- plant and equipment 10 years
- fixtures and fittings 5 to 10 years
- computer equipment 4 to 5 years
- motor vehicles 4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(f) Inventories

Consumable stores are measured at the lower of cost and net realisable value. The cost of consumable stores is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of gold in process, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the common course of business, less the estimated costs of completion and selling expenses.

4 Significant accounting policies – (continued)

(g) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost provides objective evidence of impairment.

The Group considers evidence of impairment for receivables at both the specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income and presented in accumulated other comprehensive income in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

4 Significant accounting policies – (continued)

(g) Impairment – (continued)

If, in a subsequent period, the fair value of an impaired available-for-sale debt security or receivable increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, prepayments and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Fair value is considered to be the price that would be paid by a knowledgeable market participant. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of Gus are allocated to reduce the carrying amount of other assets in the unit (group of units) on a *pro rata* basis. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been an indication of reversal and a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The test for recoverability of E&E assets can combine several Gus as long as the combination is not larger than a segment. The definition of a CGU does, however, change once development activities have begun. There are special impairment triggers for E&E assets. Despite certain relief in respect of impairment triggers and the level of aggregation, the impairment standard is applied in measuring the impairment of E&E assets. Reversals of impairment losses are permitted in the event that the circumstances that resulted in impairment have changed.

4 Significant accounting policies – (continued)

(g) Impairment – (continued)

E&E assets are only assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount and upon transfer to development assets (therefore there is no requirement to assess for indication at each reporting date until the entity has sufficient information to reach a conclusion about the commercial viability and technical feasibility of extraction). Indicators of impairment include the following:

- The entity's right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed
- Substantive expenditure on further E&E activities in the specific area is neither budgeted nor planned
- The entity has not discovered commercially viable quantities of mineral resources as a result of E&E activities in the area to date and has decided to discontinue such activities in the specific area
- Even if development is likely to proceed, the entity has sufficient data indicating that the carrying amount of the asset is unlikely to be recovered in full from successful development or by sale

(h) Employee benefits

(I) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees and directors is recognised as an employee expense, with a corresponding increase in equity, over the vesting period of the award. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market vesting conditions at the vesting date.

4 Significant accounting policies – (continued)

(h) Employee benefits – (continued)

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period or immediately for awards already vested.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive income.

(iii) Short term employee benefits

The cost of all short term employee benefits is recognised during the period in which the employee renders the related service.

(I) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(j) Site restoration

The Company recognises liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mineral properties along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. The Company's estimates of rehabilitation costs, which are reviewed annually, could change as a result of changes in regulatory requirements, discount rates, effects of inflation and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mineral properties with a corresponding entry to the rehabilitation provision. Changes resulting from production, excluding changes in the Company's estimates of rehabilitation costs, are charged to profit and loss for the period. The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred. The cost of on-going current programs to prevent and control pollution is charged against profit and loss as incurred.

4 Significant accounting policies – (continued)

(k) Revenue

Revenue from the sale of precious metals is recognized when the metal is accepted at the refinery, risk and benefits of ownership are transferred and the receipt of proceeds are substantially assured.

(l) Finance income and finance costs

Finance income comprises interest income on funds invested and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on the rehabilitation provisions and impairment losses recognised on financial assets and also includes interest on bank overdraft balances.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

4 Significant accounting policies – (continued)

(n) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees and directors.

(o) Standards, amendments and interpretations not yet adopted

Standard/Interpretation		Effective date
IFRS 7 amendment	*Disclosures – Transfers of Financial Assets*	Annual periods beginning on or after July 1, 2011
IFRS 9	*Financial Instruments*	Annual periods beginning on or after January 1, 2015
IFRS 10	*Consolidated Financial Statements*	Annual periods beginning on or after January 1, 2013
IFRS 11	*Joint Arrangements*	Annual periods beginning on or after January 1, 2013.
IFRS 12	*Disclosure of Interests in Other Entities*	Annual periods beginning on or after January 1, 2013
IFRS 13	*Fair Value Measurement*	Annual periods beginning on or after January 1, 2013
IAS 1 amendment	*Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*	Annual periods beginning on or after July 1, 2012

4 Significant accounting policies – (continued)

There are new or revised Accounting Standards and Interpretations in issue that are not yet effective. Management have considered all of these Standards and Interpretations and have concluded that those that may have an impact on future consolidated financial statements are the following:

The assessment of the impact of the above Standards and Interpretations is as follows:

Amendment to IFRS 7 *Financial Instruments: Disclosures*

The amendments to IFRS 7 will be adopted by Caledonia Mining Corporation for the first time for its financial reporting period ending December 31, 2012.

In terms of the amendments, additional disclosure will be provided regarding transfers of financial assets that are:

- Not derecognised in their entirety and
- Derecognised in their entirety but for which Caledonia Mining retains continuing involvement.

To the extent that Caledonia Mining concludes transactions which involve transfer of its financial assets, it will comply with the required disclosures.

IFRS 9 Financial *Instruments*

IFRS 9 will be adopted by Caledonia Mining for the first time for its financial reporting period ending December 31, 2015. The standard will be applied retrospectively, subject to transitional provisions.

IFRS 9 addresses the measurement and classification of financial liabilities and will replace the relevant sections of IAS 39.

Under IFRS 9, the classification and measurement requirements of financial liabilities are the same as per IAS 39, except for the following two aspects:

- fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss that are attributable to the changes in the credit risk of the liability will be presented in other comprehensive income (OCI). The remaining amount of the fair value change is recognised in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. The determination as to whether such presentation would create or enlarge an accounting mismatch is made on initial recognition and is not subsequently reassessed.
- Under IFRS 9 (2010) derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are measured at fair value.

IFRS 9 incorporates, the guidance in IAS 39 dealing with fair value measurement and accounting for derivatives embedded in a host contract that is not a financial asset, as well as the requirements of IFRIC 9 *Reassessment of Embedded Derivatives.*

IFRS 9 may impact the current classification of financial assets from amortised cost to fair value. The current classification of financial liabilities is not expected to be impacted.

4 Significant accounting policies – (continued)

IFRS 10 *Consolidated Financial Statements*

IFRS 10 will be adopted by Caledonia Mining for the first time for its financial reporting period ending December 31, 2013. The standard will be applied retrospectively if there is a change in the control conclusion between IAS 27/SIC 12 and IFRS 10.

IFRS 10 introduces a single control model to assess whether an investee should be consolidated. This control model requires entities to perform the following in determining whether control exists:

- Identify how decisions about the relevant activities are made,
- Assess whether the entity has power over the relevant activities by considering only the entity's substantive rights,
- Assess whether the entity is exposed to variability in returns, and
- Assess whether the entity is able to use its power over the investee to affect returns for its own benefit

Control should be assessed on a continuous basis and should be reassessed as facts and circumstances change.

IFRS 10 may result in certain subsidiaries no longer being consolidated or others to be consolidated under the new requirements.

IFRS 11 *Joint Arrangements*

IFRS 11, *Joint Arrangements,* establishes principles for financial reporting by parties to a joint arrangement. The IFRS is to be applied by all entities that are a party to a joint arrangement. It provides a new definition of joint arrangement focusing on the rights and obligations of the arrangement, rather than its legal form. The IFRS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. IFRS 11 classifies joint arrangements into two types—joint operations and joint ventures, defines the two types, and requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. IFRS 11 addresses the inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 21 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Nonmonetary Contributions by Venturers*.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 will be adopted by Caledonia Mining for the first time for its financial reporting period ending December 31, 2013.

IFRS 12 combines, in a single standard, the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

The required disclosures aim to provide information to enable user to evaluate:

- The nature of, and risks associated with, an entity's interests in other entities, and
- The effects of those interests on the entity's financial position, financial performance and cash flows.

4 Significant accounting policies – (continued)

The adoption of the new standard will increase the level of disclosure provided for the entity's interests in subsidiaries, joint arrangements, associates and structured entities.

IFRS 13 *Fair Value Measurement*

IFRS 13 will be adopted by Caledonia for the first time for its financial reporting period ending December 31, 2013. The standard will be applied prospectively and comparatives will not be restated.

IFRS 13 introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosures requirements for fair value measurements. The key principles in IFRS 13 are as follows:

- Fair value is an exit price
- Measurement considers characteristics of the asset or liability and not entity-specific characteristics
- Measurement assumes a transaction in the entity's principle (or most advantageous) market between market participants
- Price is not adjusted for transaction costs
- Measurement maximises the use of relevant observable inputs and minimises the use of unobservable inputs
- The three-level fair value hierarchy is extended to all fair value measurements

Currently the impact on the financial statements for Caledonia is expected to be minimal as Caledonia Mining only has limited items measured at fair value.

Amendment to IAS 1 *Presentation of Financial Statements*

The amendment to IAS 1 will be adopted by Caledonia Mining for the first time for its financial reporting period ending December 31, 2013.

The company will present those items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. The related tax effects for the two sub-categories will be shown separately.

This is a change in presentation and will have no impact on the recognition or measurement of items in the financial statements.

This amendment will be applied retrospectively and the comparative information will be restated.

Additional amendments are of a presentation nature and will not have a significant impact on the Company's financial statements.

5 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Currency risk
- Interest rate risk
- Credit risk
- Liquidity risk
- Commodity price risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

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

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

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

(a) Currency Risk

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

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

As noted below, the Group has certain financial assets and liabilities denominated in foreign currencies. The Group does not use any derivative instruments to reduce its foreign currency risks. To reduce

exposure to currency transaction risk, the Group maintains cash and cash equivalents in the currencies used by the Group to meet short-term liquidity requirements.

5 Financial risk management – (continued)

Below is a summary of the cash and cash equivalents denominated in a currency other than the Canadian dollar that would be affected by changes in exchange rates relative to the Canadian dollar. The values are the Canadian dollar equivalent of the respective asset or liability that is denominated in a currency other than the Canadian dollar.

	2011	**2010**
	$	**$**
Cash	**9,210**	1,054
Bank overdraft	**(430)**	(747)
Trade receivables	**3,474**	2,302
Trade payables	**(3,413)**	(3,474)

(b) Interest Rate Risk

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

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

Cash held in foreign banks is subject to the interest rates ruling in those particular countries and this can have an effect on the results of the Group due to higher interest rates being paid in African countries compared to Canada. Cash held in interest bearing accounts amounted to $9,686 (2010: $1,145) and short term borrowings in Zimbabwe were $430 (2010: $747). At December 31, 2011, with all other variables unchanged, a 1% change in interest rates would result in an increase of interest (income)/ expense of $(93) (2010: $(4)) which is insignificant.

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

(c) Concentration of Credit Risk

Credit risk is the risk of a financial loss to the Group if a gold sales customer fails to meet its contractual obligation. Current gold sales are made to Rand Refineries in South Africa and the payment terms are stipulated in the service delivery contract and are adhered to in all instances.

5 Financial risk management – (continued)

(d) Liquidity Risk

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

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

Since the inception of dollarization in Zimbabwe, certain insurance cover has been reinstated. The Zimbabwean operations are now covered for Public Liability risk, Assets all risk and comprehensive cover on all motor vehicles. Further insurance cover is currently under review.

6 Capital Management

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

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

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

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

As at December 31, 2011, the Group is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy.

7 Production costs

	2011	**2010**
	$	**$**
Wages	**6,197**	4,909
Consumable materials	**12,117**	5,969
Site restoration	**50**	44
Exploration	**21**	34
Safety	**290**	145
Administration	**2,418**	1,516
	21,093	12,617

8 Administrative expenses

	2011	2010
	$	**$**
Investor relations	**196**	145
Indigenisation of Blanket	**326**	-
Management contract fee	**779**	689
Audit fee	**298**	244
Legal fee	**103**	106
Accounting services fee	**41**	27
Listing fees	**270**	69
Directors fees	**145**	168
Salaries and wages	**1,368**	1,237
Other	**151**	122
	3,677	2,807

9 Other expenses

	2011	2010
	$	**$**
Impairment loss on trade receivables	-	1,064
	-	1,064

10 Finance income and finance costs

Recognised in profit or loss

	2011	2010
	$	**$**
Finance income	**55**	270
Interest expense on financial liabilities measured at amortised cost	**(217)**	(267)
Net finance costs recognised in profit or loss	**(162)**	3

11 Income tax expense

	2011	2010
	$	$
Current tax expense		
Current period	**8,005**	1
Deferred tax expense		
Origination and reversal of temporary differences	**785**	1,041
Change in previously unrecognised deductible temporary differences	**(120)**	-
Recognition of previously unrecognised tax losses	**(206)**	-
	459	1,041
Total income tax expense	**8,464**	1,042

Reconciliation of tax provision

	2011	2011	2010	2010
	%	$	%	$
Profit for the period		**12,130**		1,455
Total income tax expense		**8,464**		1,042
Profit excluding income tax		**20,594**		2,497
Income tax using Company's domestic tax rate	**28.25%**	**5,818**	31%	774
Tax rate difference		**(1,476)**		(214)
Foreign currency difference		**1,075**		(185)
Withholding taxes		**2,589**		-
Permanent differences		**613**		219
Losses expired		**-**		5,467
Change in unrecognized temporary differences		**(155)**		(5,019)
Income tax expense		**8,464**		1,042

Changes in the applicable domestic tax rate are the result of enacted tax rate changes in Canada.

11 Income tax expense – (continued)

Deferred tax assets and liabilities

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2011	2010
	$	$
Deductible temporary differences	**3,427**	3,399
Tax loss carry - forward	**9,826**	10,115
	13,253	13,514

The Company has not recognised deferred tax liabilities in respect of unremitted earnings in foreign subsidiaries as it is not considered probable that this temporary difference will reverse in the foreseeable future. At December 31, 2011, these earnings amount to $8,151(2010 - $2,151).

The tax losses expire as set out below. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from. In 2011 $737 of previously unrecognised tax losses and $430 of deductible temporary differences were recognised as management considered it probable that future taxable profits will be available against which they can be utilised.

Year	Amount
2031	2,134
2030	1,617
2029	1,661
2028	2,260
2027	3,054
2026	2,780
2015	1,863
2014	1,583
No expiry	20,694
	37,646

11 Income tax expense – (continued)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**	**$**	**$**
Property, plant and equipment	**-**	-	**(6,466)**	(5,595)	**(6,466)**	(5,595)
Unrealised foreign exchange	**119**	-	**-**	9	**119**	9
Inventories	**-**	-	**59**	40	**59**	40
Provisions	**-**	-	**373**	384	**373**	384
Other items			**(3)**	-	**(3)**	-
Tax loss carry-forwards	**206**	-	**-**	11	**206**	11
Tax (assets) liabilities	**325**	-	**(6,037)**	(5,151)	**(5,712)**	(5,151)

Movement in deferred taxes on temporary difference during the year

	Balance January 1	**Recognised in profit and loss**	**Recognised in other comprehensive income**	**Balance December 31**
	$	**$**	**$**	**$**
2011				
Property, plant and equipment	**(5,595)**	**(759)**	**(112)**	**(6,466)**
Unrealised foreign exchange	**9**	**110**	**-**	**119**
Inventories	**40**	**18**	**1**	**59**
Provisions	**384**	**(19)**	**8**	**373**
Other items	**-**	**(3)**	**-**	**(3)**
Tax loss carry-forwards	**11**	**194**	**1**	**206**
	(5,151)	**(459)**	**(102)**	**(5,712)**
2010				
Property, plant and equipment	(4,735)	(1,083)	223	(5,595)
Unrealised foreign exchange	-	9		9
Inventories	33	9	(2)	40
Provisions	366	35	(17)	384
Tax loss carry-forwards	23	(11)	(1)	11
	(4,313)	(1,041)	203	(5,151)

12 Property, plant and equipment

	Land and buildings	Mineral properties being depleted	Mineral properties not being depleted	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
	$	$	$	$	$	$	$
Cost							
Balance at January 1, 2010	4,161	6,950	8,085	11,851	1,054	724	32,825
Additions	112	2,376	631	4,073	38	74	7,304
Disposals	-	-	-	-	-	-	-
Foreign exchange movement	(127)	(326)	(180)	(381)	(9)	(28)	(1,051)
Balance at December 31, 2010	4,146	9,000	8,536	15,543	1,083	770	39,078
Balance at January 1, 2011	4,146	9,000	8,536	15,543	1,083	770	39,078
Additions	93	757	2,726	4,485	91	376	8,528
Disposals	-	-	-	-	-	(4)	(4)
Impairment [(1)]	-	-	(3,884)	-	-	-	(3,884)
Foreign exchange movement	(39)	177	65	(30)	(22)	13	164
Balance at December 31, 2011	**4,200**	**9,934**	**7,443**	**19,998**	**1,152**	**1,155**	**43,882**

[(1)] The full carrying value of the Rooipoort platinum property in South Africa has been impaired as, despite the timely application for the renewal of the prospecting right, no formal right has yet been granted. As a consequence of the delay in the receipt of the valid right, no funding has been allocated to this project for the foreseeable future.

12 Property, plant and equipment - (continued)

	Land and buildings	Mineral properties being depleted	Mineral properties not being depleted	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
Depreciation and Impairment losses							
Balance at January 1, 2010	237	412	-	2,787	824	346	4,606
Depreciation for the year	250	453	-	1,734	40	109	2,586
Foreign exchange movement	(18)	(33)		(22)	(3)	(16)	(92)
Balance at December 31, 2010	469	832	-	4,499	861	439	7,100
Balance at January 1, 2011	469	832	-	4,499	861	439	7,100
Depreciation for the year	250	659	-	1,833	87	154	2,983
Disposals	-	-	-	-	-	(4)	(4)
Foreign exchange movement	18	37	-	(154)	(25)	9	(115)
Balance at December 31, 2011	**737**	**1,528**	**-**	**6,178**	**923**	**598**	**9,964**
Carrying amounts							
At January 1, 2010	3,924	6,538	8,085	9,064	230	378	28,219
At December 31, 2010	3,677	8,168	8,536	11,044	222	331	31,978
At December 31, 2011	**3,463**	**8,406**	**7,443**	**13,820**	**229**	**557**	**33,918**

12 Property, plant and equipment (continued)

Recoverability

The recoverability of the carrying amount of the South African and Zambian mineral properties (if not impaired) 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.

13 Other investments

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Current investments			
Available for sale financial assets	**5**	5	59

On May 9, 2002, the Group participated in a private placement of the purchase of shares of Motapa Diamonds Inc. ("Motapa") at a cost of $79. The shares of Motapa were listed on the TSX Venture Exchange in Canada prior to Motapa being acquired by Lucara (LUC.V). In terms of the transaction one Motapa share was exchanged for 0.9055 Lucara shares. The Group sold the Lucara shares in 2010.

The fair value of the shares held in Old Mutual Plc is $5(2010: $5 and January 1, 2010: $5).

The Group's exposure to credit and currency risks related to other investments is disclosed in note 5 and note 24.

14 Inventories

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Consumable stores	**3,899**	2,041	2,089
Gold in progress	**583**	583	498
	4,482	2,624	2,587

Inventory is comprised of gold in circuit at Blanket and consumable stores utilised by Blanket Mine. Consumables stores are disclosed net of any write downs or provisions of obsolete items. The inventories expensed in the year amounted to $23,262 (2010 - $14,571)

15 Trade and other receivables

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Bullion sales receivable	**2,278**	893	691
VAT receivable	**694**	902	749
Deposits for stores and equipment	**680**	519	112
Current portion	**3,652**	2,314	1,552
Non-current portion	**-**	-	810
Total trade and other receivables	**3,652**	2,314	2,362

The bullion receivable is received shortly after the delivery of the gold and no provision for non-recovery is required.

At January 1, 2010 a Bond was shown at the estimated recoverable amount of $810. In arriving at this recoverable amount the Company estimated the weighted average probability of the Bond being redeemed over periods of up to 5 years and applied a discount factor of 43%.

The Bond plus interest is guaranteed by RBZ on maturity. The Group was unable to sell the Bond at an acceptable amount and the RBZ did not redeem the Bond on the initial maturity date, or any date thereafter, and with the lack of information coming from the RBZ the Bond has been written down to $ nil in 2010, whilst Blanket Mine continues to retain legal ownership of the RBZ debt.

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 5 and note 24.

16 Cash and cash equivalents

	December 31, 2011	December 31, 2010	January 1, 2010
	$	**$**	**$**
Bank balances	**9,686**	1,145	1,622
Cash and cash equivalents	**9,686**	1,145	1,622
Bank overdrafts used for cash management purposes	**(430)**	(747)	(588)
Cash and cash equivalents in the statement of cash flows	**9,256**	398	1,034

16 Cash and cash equivalents – (continued)

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 5 and note 24.

The bank overdraft facility of US$2.5 million bears interest at 8% above the 30 day LIBOR rate. The facility is unsecured and valid for 12 months and is renewable. The facility is repayable on demand.

17 Equity

Share capital

Authorised
Unlimited number of common shares of CAD of no par value
Unlimited number of preference shares of CAD of no par value.

Issued	**Number of common shares**	**Amount**
January 1, 2010	500,169,280	196,125
Issued during the year	-	-
December 31, 2010	500,169,280	196,125
Issued during the year	380,000	38
December 31, 2011	**500,549,280**	**196,163**

Common shares and preference shares

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. Holders of preference shares receive a non-cumulative dividend per share at the Company's discretion, or whenever dividends to common shareholders are declared. They do not have the right to participate in any additional dividends declared for common shareholders.

Preference shares do not carry the right to vote. All shares rank equally with regard to the Company's residual assets, except that preference shareholders participate only to the extent of the face value of the shares.

Investment Revaluation Reserve

The investment revaluation reserve arises from the valuation of investments at fair value through other comprehensive income.

17 Equity – (continued)

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations with functional currencies that differ from the presentation currency.

Contributed surplus

The contributed surplus comprises the cumulative net change resulting from share based payments.

18 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at December 31, 2011 was based on the profit/ loss attributable to common shareholders of $12,130 (2010: $1,455), and a weighted average number of common shares outstanding of 500,396,239 (2010: 500,169,280), calculated as follows:

Weighted average number of common shares

(In number of shares)	*Note*	**2011**	**2010**
Issued common shares at January 1	*17*	**500,169,280**	500,169,280
Issues during the year on May 27		**226,959**	-
Weighted average number of common shares at December 31		**500,396,239**	500,169,280

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2011 was based on the profit attributable to common shareholders of $12,130 (2010: $1,455), and a weighted average number of common shares and potentially dilutive shares outstanding of 509,879,875 (2010: 500,169,280), calculated as follows:

Weighted average number of common shares

(In number of shares)	**2011**	**2010**
Weighted average number of common shares (basic) at December 31	**500,396,239**	500,169,280
Effect of dilutive options	**9,483,636**	-
Weighted average number of common shares (diluted) at December 31	**509,879,875**	500,169,280

18 Earnings per share – (continued)

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding. The potential dilutive effect of 16,460,000 (2010 – 26,080,000) were excluded from the above calculations because these options were anti-dilutive.

19 Defined Contribution Plan

Under the terms of the Mining Industry Pension Fund ("Fund") in Zimbabwe, eligible employees contribute a fixed percentage of their eligible earnings to the Fund. Blanket makes a matching contribution plus an inflation levy as a fixed percentage of eligible earnings of these employees. The total contribution by Blanket for the year ended December 31, 2011 was $ 288 (2010: $277).

20 Share-based payments

Description of the share-based payment arrangements

At December 31, 2011 the Group has the following share-based payment arrangement:

Share option programme (equity-settled)

The Group has established incentive stock option plans (the "Plans") for employees, officers, directors, consultants and other service providers. In accordance with these programmes, options are granted at the market price of the shares at the date of grant.

Terms and conditions of share option program

The terms and conditions relating to the grants of the share option program are as follows; all options are to be settled by physical delivery of shares. Under the current plan, the maximum term of the options is 5 years. Under the Plans, the aggregate number of shares that may be issued will not exceed 10% of the number of the shares issued of the Group, and as at December 31, 2011, the Group has the following options outstanding:

Number of Options	Exercise Price	Expiry Date
	$	
9,450,000	0.07	April 24, 2012
1,300,000	0.07	May 31, 2012
13,320,000	0.07	March 18,2013
1,000,000	0.07	July 1, 2013
210,000	0.07	April 29, 2014
500,000	0.07	Mar 23, 2014
16,460,000	0.13	Jan 31, 2016
300,000	0.07	May 11, 2016
42,540,000	0.093	

20 Share-based payments – (continued)

Disclosure of share option program

The continuity of the options granted, exercised, cancelled and expired under the Plans during 2011 and 2010 are as follows:

	Number of Options	Weighted Avg. Exercise Price
		$
Options outstanding at January 1, 2010	32,580,000	0.1706
Granted	-	
Forfeited or expired	-	
Options outstanding and exercisable at December 31, 2010	32,580,000	0.07[1]
Granted	16,460,000	0.13
Forfeited or expired	(6,500,000)	0.07
Options outstanding and exercisable at December 31, 2011	42,540,000	0.093

(1) As a result of the re-pricing of the options in 2010, the weighted average exercise price was changed to $0.07.

The weighted average remaining contractual life of the outstanding options is 2.16 years (2010: 2 years).

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, 2011 there are 7,514,928 stock options available to grant (2010: 17,436,928 stock options)

Employee expenses

	2011	2010
	$	$
Share options modified in 2010	**-**	354
Share options granted in 2011	**1,101**	-
Total expense recognised as employee costs	**1,101**	354

Inputs for measurement of grant date fair values

The fair value of share based payments noted above was estimated using the Black-Schöles Option Pricing Model with the following assumptions for the years ended December 31, 2011 and 2010.

20 Share-based payments – (continued)

	2011	**2010**
Fair value of share options and assumptions		
Risk-free interest rate	**1.1%**	1-2%
Expected dividend yield	**Nil**	Nil
Expected stock price volatility	**60.47%**	45-55%
Expected option life in years	**5**	1.7-5.8
Exercise price	**0.13**	0.07
Share price at grant date	**0.13**	0.07
Fair value at grant date	**0.067**	0.011
Expected forfeiture rate	**0%**	0%

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 Group's stock options.

21 Provisions

	Site restoration
	$
Balance at January 1, 2010	1,789
Foreign currency adjustment	(48)
Unwind of discount	44
Adjustment made during the period	114
Balance at December 31, 2010	1,899
Balance at January 1, 2011	1,899
Foreign currency adjustment	(47)
Unwind of discount	50
Adjustment made during the period	(117)
Balance at December 31, 2011	1,785
Non-current	1,785
Current	-

The non-credit adjusted discount rates currently applied in the calculation of the net present value of the provision is 1.96% and 5% (2010 – 1.25% and 5%)

21 Provisions – (continued)

Site restoration

Site restoration relates to the net present value of the estimated cost of closing down the mine and site and environmental restoration costs, estimated to be paid in 2024 based on the estimated life of mine. Site restoration costs are capitalised to mineral properties at initial recognition and amortised systematically over the estimated life of the mine.

22 Trade and other payables

	2011	2010	January 1, 2010
	$	**$**	**$**
Other trade payables	**3,087**	3,316	1,789
Non-trade payables and accrued expenses	**754**	566	380
	3,841	3,882	2,169

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 5 and note 24.

The Directors consider the carrying amounts of trade and other payables as a reasonable approximation of their fair values.

23 Cash flow

Items not involving cash are as follows:

	2011	2010
	$	**$**
Net finance costs (income)	**162**	3
Income tax expense	**8,464**	1,042
Profit on sale of investment	**-**	(43)
Site restoration	**67**	(158)
Share-based payment expense	**1,101**	354
Depreciation	**2,983**	2,586
Impairment	**3,884**	-
Write down of RBZ Bond and accrued interest	**-**	1,064
Interest accrued on RBZ bond	**-**	(264)
Foreign exchange loss	**(303)**	(359)
Other	**290**	(12)
	16,648	4,210

23 Cash flow – (continued)

Net changes in non-cash working capital

	2011	2010
Trade and other payables	**(41)**	1,712
Income taxes payable	**295**	-
Trade and other receivables	**(1,338)**	(762)
Inventories	**(1,858)**	(37)
Prepayments	**(241)**	37
	(3,183)	950

24 Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount	**2011**	**2010**	**January 1, 2010**
	$	**$**	**$**
Available-for-sale financial assets	**5**	5	59
Trade and other receivables	**3,652**	2,314	2,362
Cash and cash equivalents	**9,686**	1,145	1,622
	13,343	3,464	4,043

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

Carrying amount	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
	$	**$**	**$**
Canada	**8**	11	-
Other regions	**3,644**	2,303	2,362

24 Financial instruments – (continued)

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of counterparty was:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Bullion sales receivable	**2,278**	893	1,501
VAT receivable	**694**	902	749
Deposits for stores and equipment	**680**	519	112
	3,652	2,314	2,362

The Group's most significant customer accounts for $2,278 of the trade and other receivables carrying amount at December 31, 2011 (2010: $893; January 1, 2010: $691).

Impairment losses

The aging of trade and other receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment	Gross	Impairment
	2011		2010		January 1, 2010	
	$	$	$	$	$	$
Not past due	**3,652**	-	2,314	-	1,552	-
Past due 0-30 days	**-**	-	-	-	-	-
Past due 31-120 days	**-**	-	-	-	-	-
More than one year	**-**	-	-	-	3,280	2,470
	3,652	-	2,314	-	4,832	2,470

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. The Group early applied the exemption in IFRS 1 that allows an entity not to provide comparative information for periods ending before December 31, 2010 in respect of the liquidity disclosures below.

24 Financial instruments – (continued)

December 31, 2011	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	$	$	$	$	$	$
Non-derivative financial liabilities						
Trade and other payables	**3,841**	**3,841**	-	-	-	-
Bank overdraft	**430**	**430**	-	-	-	-
	4,271	**4,271**	-	-	-	-
December 31, 2010						
Non-derivative financial liabilities						
Trade and other payables	3,882	3,882	-	-	-	-
Bank overdraft	747	747	-	-	-	-
	4,629	4,629	-	-	-	-

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

The values are the Canadian dollar equivalent of the respective asset or liability that is denominated in a currency other than the Canadian dollar.

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Trade receivables	**3,474**	2,302	2,362
Trade payables	**(3,413)**	(3,474)	(1,869)
Cash and cash equivalents	**9,210**	1,067	1,221
Bank overdraft	**(430)**	(747)	(588)
Gross statement of financial position exposure	**8,841**	(852)	1,126

24 Financial instruments – (continued)

The following exchange rates applied during the year:

	Average rate		**Reported date spot rate**		
	2011	**2010**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
(In Canadian dollars)	**$**	**$**	**$**	**$**	**$**
USD 1	**1.0236**	1.0308	**1.0199**	1.0002	1.0494

Sensitivity analysis

A strengthening/ weakening of the Canadian dollar, as indicated below, against the USD at December 31 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010, all be it that the reasonably possible foreign exchange rate variances were different, as indicated below.

	Equity	**Profit or loss**
(Effect in thousands of Canadian dollars)	**$**	**$**
December 31, 2011		
USD (1 percent strengthening)	389	98
December 31, 2010		
USD (1 percent strengthening)	221	26

Interest rate risk

At the reporting date the interest rate of the Group's interest-bearing financial instruments was insignificant.

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

At January 1, 2010 the Bond was shown at the estimated recoverable amount of $810. In arriving at this recoverable amount the Company estimated the weighted average probability of the Bond being redeemed over periods of up to 5 years and applied a discount factor of 43%.

24 Financial instruments – (continued)

The Bond plus interest is guaranteed by RBZ on maturity. Blanket has been unable to sell the Bond at an acceptable discount rate and the RBZ did not redeem the Bond on the initial maturity date nor any subsequently advised maturity dates. As a result of the uncertain redemption date and the lack of information coming from the RBZ, the Bond has been written down to nil whilst Blanket continues to retain legal ownership of the RBZ debt.

The basis for determining all other fair values is disclosed in note 4.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The Group early applied the exemption in IFRS 1 that allows an entity not to provide comparative information for periods ending before December 31, 2010 in respect of the fair value hierarchy disclosures below.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
December 31, 2011				
Available-for-sale financial assets	**5**	-	-	5
December 31, 2010				
Available-for-sale financial assets	5	-	-	5

25 Contingencies and commitments

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

Commitment to purchase plant and equipment at year end is $309 (2010 - $2,197)

26 Related parties

Transactions with key management personnel

Key management personnel compensation:

In addition to their salaries, the Group also contributes to a defined contribution plan on behalf of eligible employees. For the terms of the plan refer to note 19: Defined Contribution Plan.

Employees, officers, directors, consultants and other service providers also participate in the Group's share option program (see note 20).

Key management personnel compensation comprised.

	2011	2010
	$	$
Salaries and wages	**1,289**	1,109
Share-based payments	**947**	308
	2,236	1,417

Key management personnel and director transactions:

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

26 Related parties – (continued)

		Transactions		**Balance outstanding**		
		Year ended Dec 31,		**As at Dec 31,**		**As at Jan 1,**
	Note	**2011**	**2010**	**2011**	**2010**	**2010**
		$	**$**	**$**	**$**	**$**
Management fees, allowances and bonus paid or accrued to a company which provides the services of the Company's President	i	**588**	552	**-**		
Rent for office premises paid to a company owned by members of the President's family		**48**	49	**-**		
Legal fees paid to a law firm where a Director is a partner		**97**	58			
Fees, allowances and interest paid to the past Chairman of the Board	ii	**-**	38	**-**		
Owing to directors for unpaid salaries and directors' fees		**-**		**-**	155	172

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

(ii) On January 31, 2005, the Group entered into an agreement (the "Chairman's Agreement") with the Group's former Chairman for services as the non-executive Chairman of the board of directors of the Group. This agreement was terminated in December 2010.

27 Group entities

	Country of incorporation	Ownership interest December 31 2011	December 31, 2010	January 1, 2010
Significant subsidiaries		%	%	%
Caledonia Holdings Zimbabwe (Private) Limited	Zimbabwe	100	100	100
Caledonia Mining Services Limited	Zimbabwe	100	100	100
Caledonia Kadola Limited	Zambia	100	100	100
Caledonia Mining (Zambia) Limited	Zambia	100	100	100
Caledonia Nama Limited	Zambia	100	100	100
Caledonia Western Limited	Zambia	100	100	100
Eersteling Gold Mining Corporation Limited	South Africa	100	100	100
Fintona Investments (Proprietary) Limited	South Africa	100	100	100
Greenstone Management Services (Proprietary) Limited	South Africa	100	100	100
Maid O' Mist (Pty) Ltd	South Africa	100	100	100
Mapochs Exploration (Pty) Ltd	South Africa	100	100	100
Caledonia Holdings (Africa) Limited	Zimbabwe	100	100	100
Blanket (Barbados) Holdings Limited	Barbados	100	100	100
Blanket Mine (1983) (Private) Limited	Zimbabwe	100	100	100

28 Operating Segments

The Group's operating segments have been identified based on geographic areas.

The Group has four reportable segments as described below, which are the Group's strategic business units. The strategic business units are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's CEO reviews internal management reports on at least a quarterly basis. The following geographical areas describe the operations of the Group's reportable segments: Corporate, Zimbabwe, South Africa and Zambia.

The accounting policy of the reportable segments is the same as described in note 4.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management report that are reviewed by the Group's CFO. Segment profit is used to measure performance as management

believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

28 Operating Segments – (continued)

Information about reportable segments

2011	**Corporate**	**Zimbabwe**	**South Africa**	**Zambia**	**Total**
	$	**$**	**$**	**$**	**$**
External Revenue	**1**	**55,704**	**-**	**-**	**55,705**
Royalty	**-**	**(2,514)**	**-**	**-**	**(2,514)**
Production costs	**-**	**(20,489)**	**(604)**	**-**	**(21,093)**
Administrative and share-based payment expenses	**(3,411)**	**(305)**	**(1,062)**	**-**	**(4,778)**
Depreciation	**-**	**(2,773)**	**(210)**	**-**	**(2,983)**
Impairment	**-**	**-**	**(3,884)**	**-**	**(3,884)**
Finance income	**-**	**-**	**55**	**-**	**55**
Finance cost	**-**	**(217)**	**-**	**-**	**(217)**
Foreign exchange gain/(loss)	**173**	**130**	**-**	**-**	**303**
Segment profit before income tax	**(3,237)**	**29,536**	**(5,705)**	**-**	**20,594**
	-				
Income tax expense	**-**	**(8,791)**	**327**	**-**	**(8,464)**
Segment profit after income tax	**(3,237)**	**20,745**	**(5,378)**	**-**	**12,130**
Geographic segment assets:					
Current	**8,703**	**7,629**	**1,779**	**43**	**18,154**
Non Current	**55**	**25,753**	**1,159**	**7,281**	**34,248**
Expenditure on property, plant and equipment	**-**	**5,768**	**51**	**2,709**	**8,528**
Geographic segment liabilities					
Current	**(691)**	**(3,535)**	**(333)**	**(7)**	**(4,566)**
Non-current	**-**	**(7,502)**	**(320)**	**-**	**(7,822)**

28 Operating Segments – (continued)

2010	**Corporate**	**Zimbabwe**	**South Africa**	**Zambia**	**Total**
	$	**$**	**$**	**$**	**$**
External revenues	-	22,388	-	-	22,388
Royalty	-	(825)	-	-	(825)
Production costs	-	(12,204)	(413)	-	(12,617)
Administrative and share-based payment expenses	(1,924)	(274)	(963)	-	(3,161)
Depreciation	-	(2,367)	(219)		(2,586)
Other (expenses)/income	-	(1,064)			(1,064)
Finance income	-	269	1		270
Finance expense	-	(267)			(267)
Foreign exchange gain/(loss)	8	(539)	890	-	359
Segment profit before income tax	(1,916)	5,117	(704)	-	2,497
Income tax expense	-	(1,042)			(1,042)
Segment profit after income tax	(1,916)	4,075	(704)	-	1,455
Geographic segment assets:					
Current	1,070	4,380	684	42	6,176
Non-current	56	22,388	5,057	4,482	31,983
Expenditure on property, plant and equipment		6,706	(11)	609	7,304
Geographic segment liabilities					
Current	(408)	(3,244)	(970)	(7)	(4,629)
Non-current	-	(6,688)	(362)	-	(7,050)

28 Operating Segments – (continued)

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2011	2010
	$	$
Revenues		
Total revenue for reportable segments	**65,036**	30,086
Elimination of inter-segment revenue	**(9,331)**	(7,698)
Consolidated revenue	**55,705**	22,388

	2011	2010
Profit or loss		
Total profit or loss before tax for the reportable segments	**21,685**	6,255
Elimination of inter-segment profits	**1,091**	773
Consolidated profit before income tax	**20,594**	5,482
Assets		
Total assets for reportable segments	**54,128**	39,174
Elimination of inter-segment profits	**(1,726)**	(1,015)
Consolidated total assets	**52,402**	38,159
Liabilities		
Total liabilities for reportable segments	**12,388**	11,679

Other material items 2011

	Reportable segment totals	Elimination of inter-segment profits	**Consolidated totals**
	$	**$**	**$**
Finance income	**55**	**-**	**55**
Finance cost	**(217)**	**-**	**(217)**
Expenditure on property, plant and equipment	**9,413**	**885**	**8,528**
Depreciation	**(3,157)**	**174**	**(2,983)**

28 Operating Segments – (continued)

Other material items 2010

	Reportable segment totals	Elimination of inter-segment profits	**Consolidated totals**
	$	**$**	**$**
Finance income	270	-	270
Finance cost	(267)	-	(267)
Expenditure on property, plant and equipment	7,801	497	7,304
Depreciation	(2,610)	24	(2,586)

Major customer

Revenues from one customer of the Group's Zimbabwe segment represents approximately $55,848 (2010: $22,388) of the Group's total revenues.

29 Subsequent events

In 2008 the Zimbabwean parliament passed the Indigenisation and Economic Empowerment Act 2007 ("Act") that stipulated that 51% ownership of all companies had to reside in the hands of Indigenous Zimbabwean citizens.

On February 20, 2012 Caledonia announced it has signed a Memorandum of Understanding ("MoU") with the Minister of Youth, Development, Indigenisation and Empowerment of the Government of Zimbabwe pursuant to which Caledonia has agreed that Indigenous Zimbabweans will acquire an effective 51% ownership interest of the Blanket Mine for a paid transactional value of US$30.09 million on the following basis:

- 16% will be sold to the National Indigenisation and Economic Empowerment Fund;
- 10% will be sold to a Management and Employee Trust for the benefit of the present and future managers and employees of Blanket;
- 15% will be sold to identified Indigenous Zimbabweans; and
- 10% will be donated to the Blanket Gwanda Community Trust. Blanket will also make a non-refundable donation of US$1.0 million to the Trust as soon as it has been established.

Caledonia will facilitate the vendor funding of these transactions (other than the 10% interest which will be donated to the Community Trust) which will be repaid by way of future dividends from Blanket.

Caledonia has undertaken to complete the implementation of all the components of the indigenisation transaction as soon as possible. The Government of Zimbabwe has agreed that implementation of the terms of the MoU will constitute full compliance by Blanket and Caledonia with the requirements of the Act.

29 Subsequent events – (continued)

Further details of the MoU are subject to a confidentiality agreement.

The above transactions are anticipated to be accounted for in accordance with IFRS 2, Share based payments, however an estimate of the financial statement effects is dependent on the finalisation of the various agreements related to the above transactions.

30 Explanation of transition to IFRS 1

As stated in note 2(a), these are the Group's first consolidated financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board.
In the preparation of the quarterly IFRS compliant financial statements, certain interpretations of IFRS were applied. Having now completed the first annual financial statements under IFRS, some presentations adopted in the quarterly financial statements have been amended. The areas affected are:

- The cumulative translation difference at the date of transition was not taken to accumulated deficit although the IFRS 1 exemption was adopted at transition, this has now been done in these annual financial statements.
- The cumulative effect of exploration activities expensed in the subsidiary accounts were not capitalised in the quarterly IFRS financial statements in accordance with the Group's accounting policies. The exploration expenses attributable to the Rooipoort platinum property in South Africa have been fully impaired in these annual financial statements.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Group's date of transition).

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010.

(a) Business Combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election.

30 Explanation of transition to IFRS 1 – (continued)

(b) Cumulative translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates* for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted accumulated deficit at the date of transition to IFRS.

(c) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share-based Payments* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

(d) Borrowing Costs

The Company has elected to apply the transitional provisions of *IAS 23 Borrowing Costs* which permits prospective capitalization of borrowing costs on qualifying assets whose construction commenced after the Transition Date.

In preparing its opening IFRS statement of financial position, the Group has not made any adjustments for borrowing costs in amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and financial performance. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of operations, statement of comprehensive income, statement of financial position and statement of cash flows for the year ended December 31, 2010 have been reconciled to IFRS, with the resulting differences explained. In addition, a revised statement of financial position was prepared at the date of transition (January 1, 2010) with the resulting differences explained.

(A) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective

30 Explanation of transition to IFRS 1 – (continued)

evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

(B) Severe Hyperinflationary Environment for Blanket

In recent years, Zimbabwe has been a severe hyperinflationary economy and Caledonia's Blanket Mine has been specifically impacted by this. As a result of the situation in Zimbabwe, IAS 29 *Financial Reporting in Hyperinflationary Economies* was not applied because there was neither a reliable price index nor exchangeability of the Zimbabwean Dollar into a stable foreign currency (i.e. US Dollar).

During 2009, the commonly used currency in Zimbabwe changed from Zimbabwean Dollar to US Dollar. As a result, the operations of Blanket Mine ceased to be subject to severe hyperinflation on this date.

Caledonia has elected to measure Blanket's assets and liabilities in accordance with IFRS1.D29, which has been early adopted, and to recognise the difference as an adjustment to opening deficit.

As a consequence of the above, the carrying values under IFRS increased over the amount under Canadian GAAP.

With the resultant higher carrying value for Blanket Mine's property, plant and equipment, and the same application of the same depreciation rates, the depreciation amount under IFRS increased over the amount under Canadian GAAP. In addition the deferred tax liability related to Blanket Mine's property, plant and equipment increased under IFRS over the amount under Canadian GAAP.

(C) Share-based payment

IFRS

• Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.

• Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

Canadian GAAP

• The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period.

• Forfeitures of awards are recognized as they occur.

30 Explanation of transition to IFRS 1 – (continued)

No change resulted in the figures because of these differences.

(D) Provision for environmental rehabilitation

An obligation exists to perform certain site rehabilitation resulting from the Group's operations. Under IFRS, a liability can arise as a result of a constructive and/or legal obligation. However Canadian GAAP only requires a liability to be raised if there is a legal obligation.

IFRS

• The provision for environmental rehabilitation must be adjusted for changes in the discount rate.

Canadian GAAP

• The provision for environmental rehabilitation is not adjusted for changes in the discount rate.

A small change in the figures resulted from this difference.

(E) Deferred tax asset/liability

IFRS

• All deferred tax assets and liabilities must be classified as non-current and offset to the extent that they relate to the same entity and same taxation authority.

Canadian GAAP

• Deferred tax assets and liabilities can be classified as current or non-current as appropriate.

As a result of the transition to IFRS the carrying amounts of various assets and liabilities have been adjusted (see B above). There has not been a corresponding change to the tax basis of these assets and liabilities. As a result of the change in the carrying values of the Blanket assets, and other changes, the deferred tax liability has also increased.

(F) Other comprehensive income (loss)

Other comprehensive income (loss) consists of the change in the accumulated other comprehensive income(loss) (“AOCI”). Due to other IFRS adjustments, the balances that are used to calculate the AOCI are different in accordance with IFRS than in accordance with Canadian GAAP. As a result, AOCI and other comprehensive income (loss) are different in accordance with IFRS than in accordance with Canadian GAAP.

30 Explanation of transition to IFRS 1 – (continued)

(G) Impairment

IFRS – If an indication of impairment is identified, the asset's carrying value is compared to the asset's recoverable amount, being the higher of fair value less cost to sell and the value in use. If the recoverable amount is less than the carrying value, the asset is impaired by an amount equal to the difference between the recoverable amount and the carrying value.

Canadian GAAP - If indication of impairment is identified, the asset's carrying value is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the fair value and the carrying value.

The Company completed an analysis of its assets at January 1, 2010 and concluded that the assets were not impaired in accordance with IFRS.

(H) Presentation

The presentation of the cash flow statement in accordance with IFRS differs from the presentation of the cash flow statement in accordance with Canadian GAAP.

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(I) Functional currency

Under IFRS the functional currencies of certain subsidiaries differed from the determination under Canadian GAAP. Accordingly the values for the non-monetary assets and liabilities have been adjusted on the transition to IFRS.

30 Explanation of transition to IFRS 1 – (continued)

Reconciliation of equity **January 1, 2010**

	Note	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Assets				
Property, plant and equipment	*B,I*	15,304	12,915	28,219
Other investments		59	-	59
Trade and other receivables		810	-	810
Total non-current assets		16,173	12,915	29,088
Inventories		2,590	(3)	2,587
Prepayments	*I*	158	(28)	130
Trade and other receivables		1,547	5	1,552
Cash and cash equivalents		1,622	-	1,622
Total current assets		5,917	(26)	5,891
Total assets		22,090	12,889	34,979
Equity and liabilities				
Share capital		196,125	-	196,125
Contributed surplus		1,952	-	1,952
Accumulated other comprehensive income/(loss)	*F,I*	(551)	601	50
Accumulated deficit	*B,D,E*	(180,784)	8,777	(172,007)
Total equity		16,742	9,378	26,120
Liabilities				
Provisions	*D,I*	1,730	59	1,789
Deferred tax liability	*B*	859	3,454	4,313
Total non-current liabilities		2,589	3,513	6,102
Trade and other payables		2,171	(2)	2,169
Bank overdraft		588	-	588
Total current liabilities		2,759	(2)	2,757
Total Liabilities		5,348	3,511	8,859
Total equity and liabilities		22,090	12,889	34,979

30 Explanation of transition to IFRS 1 – (continued)

Reconciliation of equity		**December 31, 2010**		
	Note	**Canadian GAAP**	**Effect of transition to IFRS**	**IFRS**
		$	**$**	**$**
Assets				
Property, plant and equipment	*B,I*	21,289	10,689	31,978
Other investments		5	-	5
Total non-current assets		21, 294	10,689	31,983
Inventories		2,626	(2)	2,624
Prepayments	*I*	114	(21)	93
Trade and other receivables		2,309	5	2,314
Cash and cash equivalents		1,145	-	1,145
Total current assets		6,194	(18)	6,176
Total assets		27,488	10,671	38,159
Equity and liabilities				
Share capital		196,125	-	196,125
Contributed surplus		2,306	-	2,306
Accumulated other comprehensive income/(loss)	*F,I*	(1,062)	(337)	(1,399)
Accumulated deficit	*B,D*	(178,527)	7,975	(170,552)
Total equity		18,842	7,638	26,480
Liabilities				
Provisions	*D,I*	1,731	168	1,899
Deferred tax liability	*B*	2,286	2,865	5,151
Total non-current liabilities		4,017	3,033	7,050
Trade and other payables		3,882	-	3,882
Bank overdraft		747	-	747
Total current liabilities		4,629	-	4,629
Total Liabilities		8,646	3,033	11,679
Total equity and liabilities		27,488	10,671	38,159

30 Explanation of transition to IFRS 1 – (continued)

Reconciliation of comprehensive income for the year ended December 31, 2010

	Note	**Canadian GAAP**	**Effect of transition to IFRS**	**IFRS**
(In thousands of Canadian dollars except earnings per share amounts)		**$**	**$**	**$**
Continuing operations				
Revenue	*I*	22,401	(13)	22,388
Royalty		(825)	-	(825)
Production costs	*I,D*	(13,298)	681	(12,617)
Depreciation	*B,I*	(566)	(2,020)	(2,586)
Gross profit		7,712	(1,352)	6,360
Administrative expenses	*I*	(3,978)	(247)	(4,225)
Foreign exchange (loss)/gain	*I*	(50)	409	359
Results from operating activities		3,684	(1,190)	2,494
Finance income		270	-	270
Finance cost		(267)	-	(267)
Net finance costs		3	-	3
Profit before income tax		3,687	(1,190)	2,497
Income tax expense	*B,E*	(1,430)	388	(1,042)
Profit for the year		2,257	(802)	1,455
Other comprehensive income(loss)				
Reclassification adjustment of other investment		(45)	-	(45)
Foreign currency translation differences for foreign operations	*I*	(466)	(938)	(1,404)
Other comprehensive income for the year, net of income tax		(511)	(938)	(1,449)
Total comprehensive income for the year		1,746	(1,740)	6

30 Explanation of transition to IFRS 1 – (continued)

	Canadian GAAP	Effect of transition to IFRS	IFRS
	$	$	$
Earnings per share			
Basic and diluted earnings per share	0.005	(0.002)	0.003

Material adjustments to the statement of cash flows for 2010

Consistent with the Group's accounting policy choice under IAS 7, Statement of Cash Flows, there were several reclassifications required as a result of the requirements for reporting finance income, finance cost and tax paid. There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

Directors and Management at March 29, 2012

BOARD OF DIRECTORS

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Principal of Tupper Jonsson& Yeadon
Barristers & Solicitors
Vancouver, British Columbia,
Canada

S. E. Hayden(3) (4) (5)
President and Chief Executive Officer
Johannesburg, South Africa

J. Johnstone (1)
Retired Mining Engineer
Gibsons, British Columbia, Canada

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

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

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

BOARD COMMITTEES

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

OFFICERS

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Corporate Secretary
Principal of Tupper Jonsson& Yeadon
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President and Chief Executive Officer
Johannesburg, South Africa

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

Dr. T. Pearton
Vice-President Exploration
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CAPITALIZATION at March 29, 2012
Authorised: Unlimited
Shares, Warrants and Options Issued:

Common Shares:	500,549,280
Warrants:	Nil
Options:	42,540,000

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