CALEDONIA MINING CORPORATION **MAY 10, 2010**

Management's Discussion and Analysis

This discussion and analysis of the consolidated operating results and financial condition of Caledonia Mining Corporation ("Caledonia") is for the fiscal quarter ended March 31, 2010 and the period until May 10, 2010. It should be read in conjunction with the Unaudited Consolidated Financial Statements as at March 31, 2010 and the Annual Report for the year ended December 31, 2009, all of which are available from the System for Electronic Data Analysis and Retrieval at www.sedar.com or from Caledonia's website at www.caledoniamining.com. The Unaudited Consolidated Financial Statements and related notes have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Note that all currency references in this document are to Canadian Dollars.

Listings
Caledonia's shares are listed on the Toronto Stock Exchange as "CAL", on London's AIM as "CMCL" and are also traded on NASDAQ-OTCBB as "CALVF".

1. EXECUTIVE SUMMARY

1.1 Core Business and Strategy

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

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

Now that Blanket has been returned to production the focus is on completing the No. 4 Shaft Expansion Project to achieve 40,000 ounces of gold production per annum. In addition to the No. 4 Shaft Expansion Project, judicious expenditure on the essential sustaining capital expenditure and exploration and development work will continue to progressively remedy the lack of investment over the last few years due to foreign currency shortages in Zimbabwe.

Activity at Nama and Rooipoort/Mapochs exploration properties will be determined by available cash resources.

1.2 Key Performance Drivers

The positive drivers for the Blanket Mine are a high gold price, the successful retention of its skilled workforce during the 2008/2009 mine shutdown, and the dollarization of the Zimbabwean economy which has resulted in the elimination of hyperinflation. However operating a mine in Zimbabwe is subject to numerous challenges namely, access to affordable and sufficient working capital, lack of past investment, rising labour and power costs, frequent disruptions to power supplies and the vagaries of changing legislation which all ultimately lead to increased operating costs and production interruptions.

Continuous extensive staff safety and operating training provides a safe and efficient working environment for all personnel, and upgrades the skills of the mine's employees.

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

1.3 Capability to Deliver

Negotiations to increase Blanket's short term debt facilities have been concluded with a Zimbabwean Bank. The increased facility, in conjunction with forecast internally generated cash flows, should provide Blanket with sufficient financial resources to complete the No. 4 Shaft Expansion Project, which when completed will enable Blanket to increase its gold production to about 40,000 ounces per annum. The No. 4 Shaft Expansion Project is currently underway and its completion is estimated to be achieved by the 4th quarter 2010.

The average daily power outage (see table below) for the quarter does not adequately illustrate the substantial increase in average daily outages that were incurred towards the end of the quarter and in the early part of Quarter 2. In the first week of May, average daily power interruptions amounted to over 9 hours. This dramatic increase in the Zimbabwe Electricity Supply Authority ("ZESA") electrical power outages during the first quarter of 2010 has negatively affected the gold production and progress on the completion of the No. 4 Shaft Project. As a consequence an order has been placed for a 2.5 MVA diesel generator with a suitable step-up transformer and associated switchgear together known as "Genset". This Genset will provide sufficient power to Blanket's underground operations to ensure that the mining tonnage targets are met and that the underground installations for the No. 4 Shaft Project continue as planned. It is anticipated that the genset will be operational by early June. There is some excess capacity in the metallurgical plant to offset some of the electrical interruptions.

Lost production hours as a result of power supply shortages			
Month	**Production hours Lost**	**As % of expected available hours**	**Total employee headcount on Mine**
Oct 2009	11	1.6	744
Nov 2009	133	18.5	720
Dec 2009	67	8.9	744
Jan 2010	75	10.1	744
Feb 2010	152	22.6	672
Mar 2010	212	28.5	744
April 2010	236	32.8	720
To May 07, 2010	28	38.8	736

Suitable personnel have been recruited by Blanket to ensure that a skilled and trained work force is available to achieve the targeted 40,000 ounce production level once the No. 4 Shaft Project has been completed.

1.4 Results and Outlook

At Blanket, tonnages milled and gold produced since the resumption of production in April 2009 are shown in the table below:

	Year	Tonnes Milled	Gold Ounces Produced	Recovered Gold Grade g/t
First quarter	**2010**	**29,805**	**3,148**	**3.29**
Fourth quarter	2009	45,001	4,164	2.96
Third quarter	2009	34,266	4,117	3.63
Second quarter	2009	24,177	2,746	3.53
First quarter	2009	-	-	-

1.5 Operational Risks

The previously identified operational risks in Zimbabwe were accurately identified in that power interruptions during the first quarter of 2010 had increased to the level of approximately 21% average daily power loss. This along with the depletion of reserves above the 510m level (as previously reported) has resulted in lower gold production and consequently increased operating costs per ounce due to the high proportion of fixed costs being amortised over lower production and which includes increasing labour costs for staff being recruited and trained for the planned tonnage increase to 40,000 oz per annum. The strength of the gold price has been positive but the strong Rand/US Dollar exchange rate has increased the cost of consumables and capital items most of which are imported from South Africa. Legislated increases in the royalty and taxation rates effective in 2010 and the ongoing wage demands will reduce profitability and cash flow. Ongoing political instability and the as yet to be determined impact of indigenization legislation once finalised will make Zimbabwe a very difficult investment and operational environment.

2. OPERATIONAL REVIEW AND RESULTS OF OPERATIONS

2.1 Safety, Health and Environment ("SHE")

The following safety statistics have been recorded at Blanket in Zimbabwe:

Class	Q1 2010	Q1 2009
Lost time injury	0	0
Occupational illness	1	0
Medical aid	3	0
Restricted work activity	3	1
First aid	3	1
Total	**10**	**2**
Incidents	11	6
Near misses	13	4

The increase in the number of incidents in Q1 2010 is directly related to the low level of activity in Q1 2090 when there was no gold production.

The positive effect of Blanket's HIV/AIDS education is starting to show. Testing for HIV/AIDS is conducted purely on a voluntary basis and 21 new cases were identified amongst employees and 2 cases amongst their dependents.

There were no adverse environmental issues during the quarter. Water sampling results from the 14 monitoring holes downstream of the tailing dams continue to verify satisfactory environmental controls.

Human Resources

The Chamber of Mines Zimbabwe ("COMZ") has been unable to settle a wage demand dispute with the mining union AMWUZ. The union has given 14 day notice of its intention to call for a national strike. The COMZ has taken appropriate legal advice and action, but the AMWUZ has indicated that it will call for the strike on May 11-12. We have been advised that strike action has taken place at a number of mines in Zimbabwe but Blanket was unaffected.

2.2 Gold Production

Blanket Mine – Zimbabwe

Milled tonnes for the 1st quarter were significantly lower than the 4th quarter of 2009 by 15,196 tonnes due almost entirely to power shortages and lack of availability of ore above the 510 m level, which in turn negatively impacted the gold production. A further reason for the low production tonnes was the (previously reported) decision to shut down those mining sections that continuously yielded border line to sub economic ore gold grades during the previous quarter. The intention was to replace these stopes by opening up new sections but this took longer than expected due to power cuts.

Mined grade improved by 0.40g/t during Quarter 1 in accordance with revised mining plan to mine higher grades rather than focus on higher volumes of lower grade material. Overall gold recoveries have been increased from 90% to 92% and the tailings grade has been reduced compared to prior periods. The improved recovery can be attributed to the installation of 4 new CIL mixers with altered impellors during Q4 2009.

During Q2 Blanket will continue with the establishment of new and additional stope benches in two particular areas in order to increase the number of production machines in these sections. This will allow it to rapidly increase the mined tonnages once the No. 4 Shaft Expansion Project is completed later this year.

Underground

As previously reported, the completion and commissioning of the No. 4 Shaft Expansion Project is a necessity, as the three year delay in completing this project, due solely to the economic circumstance prevailing in Zimbabwe during this period, have resulted in the depletion of economic grade ores above the current mid shaft loading station on the 14 Level- 510 metres . All production is currently taking place below the 510m level which results in all the mined ore and waste having to be hoisted up either the No.6 Winze or the Eroica Shaft before it can be hoisted to surface by the No. 4 Shaft Winder. The combined capacity of these two shafts is, at most, 500 tonnes of ore assuming 100%

availability of electricity. Any attempt to mine ore above the 510m level will result in diluting ore grades significantly and thereby increasing operating costs to maintain similar gold production, therefore all mining above the 510 level has been terminated.

Capital Projects
Number 4 Shaft Expansion Project
After the resumption of the No. 4 Shaft Expansion Project during the last quarter, the following works are in progress:

- All engineering design for the 765m level such as the conveyor structures, crusher station, ore silo bulkhead and chutes, and the travelling overhead gantry have been completed and the fabrication of steelwork will be completed by end May. The crushing equipment complete with accessories, vibrating grizzly, conveyor belt and accessories, head and tail pulleys and magnet were ordered and together with the fabricated steelwork have been delivered to site.
- The design for the loading chutes, flasks and spillage handling systems are completed and fabrication is at an advanced stage and is scheduled for completion by the end of May when it will be shipped to site.
  The mining of the bulkheads, the crusher gantry and crusher pit are behind schedule due to ongoing frequent disruptions caused by power outages and load shedding but should be completed by mid May.
- Installation of the various surface components has commenced and will continue during the second quarter.
- The installation of No.7 rod mill has commenced and this mill should be completely installed and commissioned by end of Quarter 2.

It has been decided to delay the modifications in the tertiary crushing circuit in the plant due to the repeated electrical outages which have impacted Blanket's cash flows.

<u>750m AR – Lima Haulage</u>

The haulage has been started but is progressing slowly due to waste handling constraints on the 750m level. This Project has been deliberately slowed down until such time as the No. 4 Shaft Expansion Project has been completed. This delay has been caused by a combination of factors, these being the ongoing ZESA electrical outages and the delays in completing the No. 4 Shaft Expansion Project as disclosed above.

As soon as is practical after the No. 4 Shaft Expansion project has been completed this primary haulage development on 750m level to link Blanket and Lima will be restarted. This 22 level haulage will also provide the drilling platform access required to further evaluate ore above and below this development level.

This capital work was not in the original scope of the No. 4 Shaft Expansion Project but was a new Project to be able to sustain the 40,000 ounce of gold per year production target. The calculated cost, utilizing internal resources is estimated to be about US$ 887 per metre advanced. It is expected to take 2 years to complete the haulage assuming one blast per day at an overall capital cost of about $1.5 million to be funded from internal cash flows.

Operations
During the period January to April 2010 Blanket experienced extensive metallurgical plant downtime. The composition of this abnormal downtime was 65% for no power, 24% due to no available feed ore caused by no power to run compressors and winders, 9% for engineering issues, 1% for planned stoppages and 1% for miscellaneous operational issues.

There was an improvement in mined grade during Quarter 1 of 0.40g/t as a result of the focused mining effort mentioned previously in this report. Metallurgical gold recoveries continue to improve with overall gold recovery improving by two percentage points over the previous quarter from 90% to 92%. This improvement is attributable to better efficiencies in the carbon-in-leach (CIL) plant as a result of improved mixing from the new CIL agitator gearboxes and impellors demonstrated by an improved CIL recovery of 84% - a three percentage point improvement over last quarter of 2009.

The secondary and tertiary crusher section operated well with no major problems although the current tertiary crushing circuit operated at very high cost and will be entirely replaced once the new gyratory crushing circuit is installed and commissioned. These high costs are mainly attributable to high frequency of spares replacement on the Crushtec impact crusher.

Production results		1st Quarter 2010	1st Quarter 2009	April 2010
Ore milled	Tonnes	**29,805**	-	12,786
Ore Gold Grade milled	Grams/tonne	**3.58%**	-	3.88%
Recovery %	Per cent	**92%**	-	92%
Gold produced	Ounces	**3,148**	-	1,462
Gold Sold	Ounces	**3,908**	-	1,462

Despite the high power-related stoppages in April (about 33% of available milling time), the plant still processed 12,786 tonnes of ore significantly above the rate of the 1st quarter.

Outlook

Completion of the No. 4 Shaft Expansion Project continues and is scheduled for completion in the third quarter of 2010. The timeous execution of this project is dependent on certain uncontrollable factors that could impact the project negatively namely:

- Power shortages which seem to be worsening in 2010 and should be offset, but at an increased operating cost, by the installation of the new diesel genset.
- A pending threat by labour Unions to disrupt mining operations by going on strike in support of a demand for higher wages.
- Impending Indigenization implementation.

Risks

- Continued power shortages, in excess of the economic parameter of operating the 2.5MVA diesel genset may derail our efforts.
- Government actions and the introduction of constraining legislation, such as the introduction of the "use or lose it" policy in the ownership of mining claims.
- The political environment in Zimbabwe is still far from being stable and the lack of progress in the Government of National Unity threatens business confidence.
- It is imperative that there be no disruption of operations and that current production plans are met in order to generate the predicted free cash flow required for our current and sustaining capital funding requirement.
- Uncertainty regarding Blanket's obligations in respect of the implementation of Indigenization and the general climate of uncertainty that indigenization policies have created in Zimbabwe creates multiple risks which include: investor uncertainty, continued difficulty in raising debt, both locally and internationally, uncertainty as to the identity of indigenization partners, and uncertainty as to any future revenue obligations that may be required to offset a requirement for direct equity participation by indigenous parties.

Opportunities

- In addition to the No. 4 shaft expansion, considerable opportunities exist to expand Blanket further to between 1,500 and 1,800 tonnes per day. The current mine ore reserve/resources can support this size of operation, but, significant capital development is required to achieve such production rates.
- Blanket owns a number of claims in the Gwanda greenstone belt. Most of these are sited on disused mines which were last worked at least thirty years ago. At the current gold prices an opportunity exists to revisit these mines. Blanket has selected those disused mines that have, from previous exploration work indicated a high potential for economic gold mineralization and headgears and winders have been or are currently being installed on three of these properties preparatory to further exploration work.

2.3 EXPLORATION AND PROJECT DEVELOPMENT

2.3.1 Base Metals

Nama Copper/Cobalt Project – Zambia

January to March is normally the peak of the rainy season in Zambia when field work is very limited on account of the rains and resultant impassable ground conditions. With the extended rains this season, field work has been hampered more than usual and field activities have been limited to the more accessible areas.

Follow-up investigations of the more important anomalies defined during the 2009 field program has continued. Excavation of deep pits to determine and sample bedrock geology in critical areas has been attempted where the ground water conditions have permitted.

Advantage has been taken of the period of reduced field mobility to upgrade the drill core, sample handling and storage facilities at the base camp in preparation for the 2010 field season. All core storage is now containerized for security and weather proof purposes.

Office based work including data processing and map compilation has continued to build on our 2009 geological map and supporting field work continues in the form of test pitting of selected areas to confirm critical geological relationships in preparation for the planned drilling program.

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

Discussions with potentially interested parties continue.

3. SUMMARY OF QUARTERLY RESULTS

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

($000's-except per share amounts.)	Mar 31/10	Dec 31/09	Sept 30/09	June 30/09	Mar 31/09	Dec 31/08	Sept 30/08	June 30/08
Sales from continuing operations	4,490	4,263	4,932	2,364	-	29	2,280	2,883
Income/(loss) for continuing operations -per share basic	688 0.001	(2,812) (0.006)	862 0.0017	(162) (0.0003)	(799) (0.0016)	(2,066) (0.0041)	(2,749) (0.0055)	(261) (0.0005)
Discontinued operations (loss)	(29)	(67)	(36)	(37)	(40)	(531)	(30)	(24)
Net Income/ (loss) after discontinued operations - per share basic	659 0.001	(3,738) (0.007)	826 0.0017	(199) (0.0004)	(839) (0.0017)	(2,597) (0.0052)	(2,779) (0.0056)	(285) (0.0006)
No. of shares basic '000	500,169	500,169	500,169	500,169	500,169	500,169	500,169	500,169

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

During the quarter Caledonia made gross operating profit of $1,237,000 ($1,088,000 loss – 2009) which resulted in a net profit of $688,000 (loss $799,000 – 2009) from continuing operations which included an unrealized foreign exchange gain of $156,000 ($739,000 – 2009). The operating profit was achieved from the sale of 3,908 (Nil – 2009) ounces of gold. The monthly operating costs per ounce during the quarter are as per the table below:

USD'000s	Apr-Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010
USD cost per ounce produced					
Labour costs	213	377	276	341	236
Consumables	222	323	294	305	265
Electricity	83	150	107	125	89
Other admin costs	43	64	55	84	51
WIP		(154)	-	-	-
Total Cost per ounce produced	561	760	731	854	641

The cost per ounce of gold produced during Q1 2010 was negatively affected by the lower gold production caused by the high frequency of electricity outages and limitation on tonnages mined due to the operational reasons already identified. The labour cost per ounce is disproportionally high because the labour force has been built up and is being trained to support a production rate of 40,000 ounces per annum. This higher labour cost is thus amortised over the lower gold production recorded during the quarter.

The unrealised exchange gain of $156,000 ($739,000 – 2009) relates to the translation of the South African operations into C$ whilst the translation of Blanket resulted in a loss of $70,000 ($275,000 – 2009) that has been charged to other comprehensive income.

The interest received of $100,000 includes $57,000 accrued interest for the RBZ Gold Bonds. The provision against the Gold Bond receivable has been increased by a similar amount.

Other expenses of $202,000 ($4,000 income – 2009) include an amount of $145,000 (Nil -2009) for gold royalties paid to the Zimbabwe Government.

The discontinued operations relate to Eersteling Mine.

4. INVESTING

During Q1 2010 Caledonia invested $1,076,000 ($386,000 – 2009) in capital assets and mineral properties. Of the amount invested in 2010, $156,000 ($384,000 – 2009) was spent at Nama and $915,000 ($Nil – 2009) at Blanket.

5. FINANCING

Caledonia financed its operations, except Blanket Mine, using funds on hand. No equity fund raising is currently intended during 2010. Blanket has secured an increased loan facility from its bankers in Zimbabwe which now is set at US$2.5 million. This increased facility was granted in May 2010 and was obtained to assist with the funding of the genset that has been ordered. The facility is for 180 days on a renewable basis and bears an effective interest rate of 8.85% pa. The interest rate is higher than the previous facility as liquidity remains a serious problem in Zimbabwe.

6. LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2010, Caledonia had a working capital surplus of $2,823,000 ($3,158,000 – 2009). Although current assets have increased marginally by March 2010 both accounts receivable and inventory have decreased by $337,000 and $562,000 respectively whilst the cash balances have increased by $1,028,000. Short term borrowings from our Zimbabwe bankers have increased by $686,000 to $1,274,000 which was the full extent of that facility. The current facility expires on May 31, 2010 but our bankers have already agreed to extend the facility for a further 6 months to November 30, 2010 and to increase the facility to US$2.5 million.

Liquidity remains very tight in Zimbabwe and trade credit is difficult to obtain. Working capital planning is in place to ensure the operation is capable of supporting a production rate of 40,000 ounces pa.

During 2010, it is expected that the cash requirements of Caledonia will be met from the cash on hand, Blanket loan repayments and from excess cash from receipts of gold sales from Blanket Mine.

As of March 31, 2010 Caledonia had potential liabilities for rehabilitation work on the Blanket and Eersteling Mines - if and when those Mines are permanently closed - at an estimated cost of $1,667,000

7. OFF-BALANCE SHEET ARRANGEMENTS

There are no off balance sheet arrangements.

8. RELATED PARTY TRANSACTIONS

Caledonia had the following related party transactions:

	Three months ended March 31		
	2010	2009	2008
	$'000	$'000	$'000
Management, and amounts paid or accrued to a company which provides the services of the Corporation's President	**138**	141	128
Rent paid to a Company owned by members of the President's family	**13**	11	11
Fees paid to the Chairman of the Board	**12**	50	-
Legal fees paid to a law firm where a Director is a partner	**12**	2	14

9. CRITICAL ACCOUNTING POLICIES

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

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

There have been no accounting policy changes adopted since January 1, 2010.

9.1. International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes amounts reported by Caledonia for the year ended December 31, 2010.

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

The approach followed was:

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

This approach provided Caledonia with a clear and concise format for understanding and communicating the effects of implementing IFRS to senior management, the Audit Committee and the Board. Reference to the relevant standards and other authoritative material will be made and specific advice taken before acting if considered necessary.

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

We have considered all standards and interpretations in issue at the date of the Report that will also be effective for Caledonia's first IFRS financial statements, being the year ending 31 December 2011. A review of the impact that the IFRS requirements would have on Caledonia's systems was not performed at this stage as all Caledonia's subsidiaries are operating in IFRS compliant jurisdictions.
IFRS 1 states that, if an entity becomes a first-time adopter later than its subsidiaries, the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements of the subsidiaries after adjusting for consolidation. Therefore, for the purposes of the transition to IFRS, Caledonia would have to use the financial statements of these subsidiaries and cannot make any adjustments. However, Caledonia will have to assess the consolidation entries made to evaluate whether any IFRS 1 exemptions can be applied to these entries.

The areas that require additional work and quantitative evaluation are:

- Business combinations

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

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

Reconciliations between Canadian GAAP and IFRS will commence to establish comparative figures for the 2011 quarterly reports that will commence from March 31, 2011.

Management have continued to participate in web training sessions to enhance its knowledge for preparation of the opening IFRS balance sheet in January 2011 and for the collection of quarterly information that will be required in 2011.

10. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT

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

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

The types of risk exposure and the way in which such exposures are managed are as follows:

i) Currency Risk

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

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

A significant portion of the Corporation's assets and liabilities are denominated in South African Rand and United States Dollars. Management does not consider that the fluctuation of the value of these currencies to the Canadian Dollar could have a significant impact on the results of operations. Blanket Mine operations are now transacted using United States Dollars as the functional currency. As a result of the introduction of the US Dollar as legal tender in Zimbabwe the hyperinflationary environment has been eliminated. The shareholder loan account in Zimbabwe is denominated in US Dollars and may generate foreign exchange losses for Blanket Mine depending on the exchange rate between the US dollar and the Canadian Dollar. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. The Corporation does not use any derivative instruments to reduce its foreign currency risks.

ii) Interest Rate Risk

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

Unless otherwise noted, it is the opinion of management that the Corporation is not exposed to significant interest rate risk as it is only debt is in Zimbabwe where it has a short term loan facility of US$2.5 million. This loan will bear interest of 8.85%. The Corporation’s cash and cash equivalents include highly liquid investments that earn interest at market rates. The Corporation manages its interest rate risk by endeavoring to maximize the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Corporation’s policy focuses on preservation of capital and limits the investing of excess funds to liquid term deposits in “A” grade financial institutions.

Fluctuations in market interest rates have not had a significant impact on the Corporation’s results of operations due to the short-term to maturity of the investments held.

iii) Concentration of Credit Risk

Credit risk is the risk of a financial loss to the Corporation if a gold sales customer fails to meet its contractual obligation. Credit risk arises principally from the Corporation’s Gold Bonds payable by the RBZ as the amount owing by the RBZ is no longer increasing as gold is no longer sold to the RBZ. Future credit exposure to RBZ is limited to the recovery of the value of the Gold Bonds.

Current gold sales are made to Rand Refineries in South Africa.

iv) Liquidity Risk

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

The Corporation manages its liquidity by ensuring that there is sufficient capital to meet short and long term business requirements, after taking into account cash flows from operations and the Corporation’s holdings of cash and cash equivalents. The Corporation believes that these sources will be sufficient to cover the likely short and long term 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.

v) Commodity Price Risk

The value of the Corporation’s mineral resource properties is related to the price of gold, platinum and cobalt, and the outlook for these minerals. In addition, adverse changes in the price of certain raw materials can significantly impair the Corporation’s cash flows.

Gold prices historically have fluctuated widely and are affected by numerous factors outside of the Corporation's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and macro-economic variables, and certain other factors related specifically to gold.

11. SECURITIES OUTSTANDING

As at May 10, 2010 the following securities were outstanding:

(1) 500,169,280 common shares;

(2) Options and warrants as follows:

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

As Caledonia’s Option Plan allows the granting of options on a number of shares equal to 10% of the issued shares, Caledonia could grant options on 50,016,928 shares.

It was announced in a Caledonia press release on September 4, 2009 that the Board has approved a proposal to reduce the exercise price of 32,580,000 share purchase options currently outstanding from exercise prices averaging approximately $0.1706 per share to $0.07 per share. These share purchase options are in favour of directors, officers, and service providers. This reduction recognises the fact that the existing options are all substantially “out of the money” due to the reduced trading price of Caledonia’s shares which, in common with most other publicly traded shares, has been adversely affected by the recent economic and market downturn. The existing option arrangement no longer provides an incentive to directors, officers, and service providers and is the reason for this proposal. The Toronto Stock Exchange rules require that options with reduced exercise prices cannot be exercised at the reduced prices until the reduction has been approved by the shareholders. The reduction will be submitted to the shareholders for approval at the general meeting of Caledonia’s shareholders scheduled to be held on May 18, 2010.

12. CONTROLS

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

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

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

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

(i) Unaccrued Liabilities

An unaccrued 2008 Zambian liability was identified in 2009, as previously reported. Systems have been put in place to ensure that such an under accrual will not reoccur.

(ii) Segregation of duties

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

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

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

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

13. FORWARD LOOKING STATEMENTS

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

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

14. QUALIFIED PERSONS

Dr. Trevor Pearton, BSc Eng (Mining Geology), PhD (Geology) FGSSA, VP Exploration is the Corporation’s qualified person as defined by NI 43-101. Dr. Pearton is responsible for the technical information provided on this MD&A except where otherwise stated.