CALEDONIA MINING CORPORATION **AUGUST 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 period ended June 30, 2010 and the period until August 10, 2010. It should be read in conjunction with the Unaudited Consolidated Financial Statements as at June 30, 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 undeveloped diamond exploration properties 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.

The Corporation's main focus is currently on completing the No. 4 Shaft Expansion Project at Blanket 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, exploration and mine development work will continue in order 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 the vast majority of its skilled workforce during the 2008/2009 mine shutdown, the dollarization of the Zimbabwean economy which has resulted in the elimination of hyperinflation, and the imminent completion of the No.4 Shaft Expansion project. However operating a mine in Zimbabwe continues to be subject to numerous challenges, the most important being:

- frequent disruptions of the electrical power supplies and the high cost of alternative power sources:
- continued uncertainty regarding the implementation of the Indigenisation policy of the Zimbabwean Government:
- unavailability of affordable and sufficient working capital:and
- unrealistic demands and expectations of the labour unions relating to US Dollar based pay increases.

Continuous extensive staff safety and operating training, together with strict environment management 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

The existing short term bank facility granted to Blanket in conjunction with forecast internally generated cash flows continues to be considered sufficient financing 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 the completion of the installation phase is expected to be achieved by the end of 3rd quarter 2010 and commissioning and ramp up of production will take place during the 4th quarter.

During the 2nd quarter the average daily power outage (see table below) continued to be a major disruption. The first new 2.5 MVA generator, transformer, switchgear and bulk diesel tanks (“Genset”)were installed and commissioned on June 14, 2010, within the indicated timeframe, and have played a major role in allowing the No.4 Shaft Expansion Project to continue during power disruptions. This Genset provides sufficient power to Blanket’s underground operations and contributes to meeting the mining tonnage targets and allows the underground installations for the No. 4 Shaft Project to continue as planned. As there is some excess capacity in the metallurgical plant at present we are capable of offsetting some of the power interruptions when power is available to run the plant on a continuous basis.

	Power supply interruptions and lost production tonnage				
	Actual			Estimate	
Month	Production hours Lost	As % of expected available 24 hour power	Daily production target	Lost Tonnage (month target less tonnes achieved)	Potential lost gold production in ounces
Oct 2009	11	1.6	600	2,100	200
Nov 2009	133	18.5	600	4,350	380
Dec 2009	67	8.9	600	6,950	815
Jan 2010	75	10.1	600	7,070	530
Feb 2010	152	22.6	550	5,200	630
Mar 2010	212	28.5	550	5,200	460
April 2010	236	32.8	550	5,900	810
May 2010	231	31.1	550	7,000	745
June 2010	202	28.0	550	6,100	740
July 2010	54	7.3	550	1,650	210

The apparent improvement in the supply of electricity which was experienced in July has not continued into August. Outages in the first five calendar days of August amounted to 68 hours which is approximately 57% of available 24 hour power.

Suitable personnel have been recruited by Blanket and are being trained 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
Second quarter	**2010**	**30,788**	**3,408**	**3.79**(1)
First quarter	**2010**	**29,805**	**3,129**	**3.58**
Fourth quarter	2009	45,001(2)	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) Increase in recovered grade is a direct result of discontinuing mining operations above the 510 m level
(2) High tonnes milled as a direct result of low power disruptions.

1.5 Operational Risks

The recently installed Genset can only supply power to the underground section, compressors and No. 4 Shaft Winder. However, the ability of Blanket to achieve 40,000 ounces of gold production per annum requires a higher degree of uninterrupted electrical power supply to the crushing, milling and CIL plant than has been experienced in recent months. The continuing power disruptions, which worsened in the 2nd quarter, has again resulted in lower than planned gold production and consequently increased operating costs per ounce due to the high proportion of fixed costs (which primarily includes increased labour costs) being amortised over lower production. The Corporation has plans to mitigate the impact of this risk by investing in additional standby generators, if required. 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. A recently announced increase in the 3.5% royalty to 4% (October 2010) and taxation rate from 15% to 25% (January 2010) will further reduce profitability and cash flow. The as yet to be determined impact of indigenization legislation if ultimately finalised in its current form 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	2nd quarter 2010	YTD June 2010	YTD June 2009
Lost time injury	-	-	-
Occupational illness	-	1	-
Medical aid	-	3	1
Restricted work activity	2	5	4
First aid	5	8	1
Total	**7**	**17**	**6**
Incidents [1]	14	25	15
Near misses	6	19	8

(1) The increase in the number of incidents in 2010 is directly related to the low level of activity in the 1st quarter and 2nd quarter 2009 as there was no gold production in 1st quarter 2009.

Blanket's HIV/AIDS education continued but only 19 people volunteered for testing and counselling and 6 employees and 1 dependent tested positive for HIV.

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 dispute with the mining union AMWUZ. National strike action took place at a number of mines in Zimbabwe in May but Blanket was unaffected. COMZ has advised its members to give an interim pay increase to employees. Blanket had already given a similar interim increase to its employees two months prior to the COMZ decision and therefore no further adjustment by Blanket was necessary.

2.2 Gold Production

Blanket Mine – Zimbabwe

Milled tonnes for the 2nd quarter were 3.3% higher than the 1st quarter and gold production was 9.2% higher at 3,408 ounces despite power outages being 52% higher at 669 hours during the 2nd quarter. The higher gold production is a direct result of management implementing its revised mining plan as previously advised i.e. shutting down those mining sections that continuously yielded low gold grades during the previous quarter and to replacing these with new sections of better grade. For the last few weeks of the quarter, the new Genset enabled the mine to continue with underground activities despite power interruptions, however the Genset was unable to significantly reverse the lost production that had been experienced during the majority of the quarter.

Mined grade improved by a further 0.21 g/t over and above the 0.4g/t improvement during the 1st quarter in accordance with revised mining plan outlined above.. Overall gold recoveries continued at 92% and the tailings grade has increased marginally compared to prior periods. The improved recovery can be attributed to the installation of 4 new CIL mixers with their altered dual impellor design during 4th quarter of 2009.

Blanket continues 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 for a rapid increase in mined tonnages once the No. 4 Shaft Expansion Project is completed..

Underground Operations

The completion of the No. 4 Shaft Expansion Project continues and is estimated, at this stage, to be less than two weeks behind its original 2010 schedule notwithstanding the effect of the very high level of electricity outages which were experienced for much of the quarter. The installation of the Genset has enabled the project to operate on a 20 hour per day basis since mid-June. It is expected that the work on the Project will still be completed before the end of the 3rd quarter, as previously communicated and that production will be increased to an annualised rate of 40,000 ounces during the 4th quarter.

Capital Projects

Number 4 Shaft Expansion Project

After the resumption of the No. 4 Shaft Expansion Project during the last quarter of 2009, the following works are in progress:

- All engineering design for the 765m level ore silo bulkheads and pneumatically controlled chutes, the conveyor system, metal detector, vibrating grizzly feeder, 20x36 jaw crusher and the overhead travelling gantry have been completed and the equipment and fabrication of steelwork was completed and was all delivered to site before the end of May.
- The design for the automated 785-789m level loading chutes and flasks system, the 802m pneumatically controlled spillage deflector doors, and the 813m level spillage handling systems are completed, fabricated, and were delivered to site by the end of May.
- The mining of the bulkheads, the crusher gantry and crusher pit was behind schedule due to ongoing frequent disruptions caused by power outages and load shedding but was completed by mid-May.
- Installation of two new shaft inspection cages, and shaft bank turntables was completed by the end of May.
- The installation of equipment and steelwork for the various underground levels detailed above commenced on 4th June but was subject to continual delays caused by power disruptions until the Genset was installed and commissioned on the 14th June. Since then the underground installations have been able to proceed on the planned 20 hour per day basis for 26 days per month.
- The installation of No.7 rod mill, rod handling system, and the mill pumps has been completed and is ready for commissioning once its feed conveyor system is completed during August.

750m AR – Lima Haulage

This capital work was not in the original scope of the No. 4 Shaft Expansion Project but is a new Project to sustain the 40,000 ounce of gold per year production target. The cost of this project, utilizing internal resources, is estimated to be about US$ 900 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 $2.5 million to be funded from internal cash flows. The haulage has been started but is progressing slowly due to waste handling constraints on the 750m level. This Project has therefore been slowed down until such time as the No. 4 Shaft Expansion Project has been completed and the ability to handle waste is improved. 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.

Operations

During the 2nd quarter the plant suffered down time of 814 hours (37% of available time) resulting in an estimated loss of 15,412 tonnes of production tonnage if plant feed had been available. The composition of this abnormal downtime was 81% for no power, 15% due to no available feed ore caused by no power to run compressors and winders, 2% for engineering issues, 2% for planned stoppages and miscellaneous operational issues. If the effect of electricity outages is discounted, Blanket's operations have been running at over 95% availability.

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.

		2010		2009		
Production results		**2nd Quarter**	**YTD June**	2nd Quarter	YTD June	**July 2010**
Ore milled	Tonnes	**30,788**	**58,299**	24,177	24,177	**14,052**
Head Grade	Grams/tonne	**4.07**	**3.85**	4.13	4.13	**4.43**
Recovery %	Per cent	**92**	**92**	89	89	**93**
Gold produced	Ounces	**3,408**	**6,537**	2,746	2,746	**1,852**
Gold Sold	Ounces	**3,408**	**7,316**	3,164	3,164	**1,852**

Gold production in July was 1,852 ounces, which was the combined effect of only 54 hours of power outages, the availability of the Genset to supply power to the compressors, the underground and the No.4 Shaft Winder and the increased grade.. It should be noted that while the underground installations for No. 4 Shaft Expansion Project are in progress the No. 4 Shaft Winder is only available to haul ore from underground for 12 hours per day as the balance of the time is used to move materials and equipment underground for these installations on the various levels from 750m to shaft bottom on 825m.

Outlook

Completion of the No. 4 Shaft Expansion Project continues and installation of all equipment is scheduled for completion during the 3rd quarter of 2010. Once completed, the system will be commissioned with the waste rock excavated from the first of the three 800 tonne underground storage bins. It is expected that, subject to the incidence of electricity outages, Blanket will be producing at an annualized rate of 40,000 ounces of gold by the end of the 4th quarter.

Risks

- Continued power shortages at the levels experienced in the 2nd quarter will start to impact gold production as the plant will not be able to make up sufficient lost time as the mine attains the planned ramp-up to 1,000 tonnes per day. The Corporation's Board has authorized management to purchase 3 additional diesel powered generators if the power outages continue at unsustainable levels.
- 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 recently announced increase in royalty from 3.5% to 4% with effect from October 1, 2010
- In the absence of debt funding at realistic rates of interest and tenor, 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 long term debt both locally and internationally, uncertainty as to the legislated requirements regarding the identity of indigenization partners, and any future revenue obligations that may be required in terms of legislation to offset a requirement for direct equity participation by indigenous parties.
- A fall in the gold price.
- The continued inability of the government to redeem the Specially Traded Gold Bonds.
- Currency exchange rates especially the increasing value of the SA Rand against the US$.

Opportunities

- Following the imminent completion of the No. 4 Shaft Expansion, Blanket has considerable opportunities to further expand production to between 1,500 and 1,800 tonnes per day. The estimated current mine ore reserve/resources can support this size of operation, but, significant capital investment and time is required to achieve these 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 the opportunity exists to revisit these mines and preliminary exploration work has commenced. Blanket's initial focus is on those areas that have, from previous exploration work indicated a high potential for economic gold mineralization. Headgears and winders have now or are currently being installed on three of these properties and shaft sinking has begun preparatory to further underground development exploration work.

2.3 EXPLORATION AND PROJECT DEVELOPMENT

2.3.1 Base Metals

Nama Copper/Cobalt Project – Zambia
Discussions with potential joint venture partners continue Follow-up investigations of the more important anomalies defined during the 2009 field program has continued. Excavation of deep pits to determine the bedrock geology and take samples 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 the 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 a possible drilling program.

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

Discussions with 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.)	June 30/10	Mar 31/10	Dec 31/09	Sept 30/09	June 30/09	Mar 31/09	Dec 31/08	Sept 30/08
Sales from continuing operations	4,154	4,490	4,263	4,932	2,364	-	29	2,280
Income/(loss) for continuing operations -per share basic	322 0.001	688 0.001	(2,812) (0.006)	862 0.0017	(162) (0.0003)	(799) (0.0016)	(2,066) (0.0041)	(2,749) (0.0055)
Discontinued operations (loss)	(26)	(29)	(67)	(36)	(37)	(40)	(531)	(30)
Net Income/ (loss) after discontinued operations - per share basic	294 0.001	659 0.001	(3,738) (0.007)	826 0.0017	(199) (0.0004)	(839) (0.0017)	(2,597) (0.0052)	(2,779) (0.0056)
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 all outstanding share purchase options are "out of the money".*

During the quarter Caledonia made gross operating profit of $1,262,000 ($881,000 – 2009) which resulted in a net profit of $322,000 (loss $162,000 – 2009) from continuing operations which included an unrealized foreign exchange gain of $128,000 ($181,000 loss – 2009). The operating profit was achieved from the sale of 3,408 (3,164 – 2009) ounces of gold. The monthly operating costs per ounce in US$, for Blanket, during the quarter are as per the table below:

	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	June 2010	Estimate July 2010
USD operating cost per ounce							
Labour costs	377	276	341	236	345	438	195
Consumables	323	294	305	265	283	393	210
Electricity (incl diesel**)	127	90	106	76	87	**129	**75
Other admin costs	64	55	84	51	97	142	55
Total Cost per ounce produced	891	715	836	628	812	1,102	535
Ounces produced	867	1,220	1,042	1,453	1,055	899	1,852
Hours of power outages	75	152	212	236	231	202	54
Number of employees	744	672	744	720	752	748	750

As can be seen from the table above the cost per ounce is highly sensitive to ounces produced as fixed costs during the 2nd quarter amounted to 52% of total operating costs. The substantial reduction in the cost per ounce achieved in July 2010 is largely the result of substantially increased production.
The unrealised exchange gain of $128,000 ($181,000 loss – 2009) relates to the translation of the South African operations into C$ whilst the translation of Blanket resulted in a YTD gain of $382,000 ($175,000 – 2009) that has been charged to other comprehensive income.

The interest received of $163,000 ($65,000 – 2009) includes $119,000 ($Nil -2009) accrued interest for the RBZ Gold Bonds. The provision against the Gold Bond receivable has been increased by a similar amount. The RBZ Gold Bonds were not redeemed on July 31, 2010 as previously announced by RBZ. Despite our enquiries we have been unable to ascertain what decision has been taken by RBZ or the Ministry of Finance relating to a new redemption date.

General and administration costs were higher in the 2nd quarter than 1st quarter by $113,680 mainly as a result of costs incurred for the AGM of $67,000 and payment of the annual insurance premium for D&O insurance of $42,000

Other expenses of $413,000 ($Nil – 2009) includes an amount of $294,000 (Nil -2009) for gold royalties paid to the Zimbabwe Government.

The discontinued operations relate to Eersteling Mine.

4. INVESTING

During the 2nd quarter 2010 Caledonia invested $2,362,000 ($251,000 – 2009) in capital assets and mineral properties. Of the amount invested in 2010, $147,000 ($193,000 – 2009) was spent at Nama and $2,200,000 ($27,000 – 2009) at Blanket mainly on the No. 4 Shaft Expansion project.

5. FINANCING

Caledonia financed its operations, except Blanket Mine, using funds on hand. No equity fund raising is currently intended during 2010. Blanket has utilised the 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 purchased.

6. LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2010, Caledonia had a working capital surplus of $1,366,000 ($2,436,000 – 2009) excluding the amount due to Blanket by RBZ for unpaid Gold Bonds. Since December 2009 current assets have remained fairly static with an increase in gold receivables from Rand Refineries and a compensating reduction in inventory levels. Short term borrowings from Blanket's Zimbabwe bankers have increased by $1,767,000 since December 2009 of which $1,081,000 increased during the 2nd quarter 2010. The current facility expires on November 30, 2010.

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

During the balance of 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 June 30, 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:

	Six months ended June 30		
	2010	2009	2008
	$'000	$'000	$'000
Management, and amounts paid or accrued to a company which provides the services of the Corporation's President	**276**	281	256
Rent paid to a Company owned by members of the President's family	**27**	23	21
Fees paid to the Chairman of the Board (1)	**10**	75	537
Legal fees paid to a law firm where a Director is a partner	**12**	41	43

(1) The fee payable to the Chairman of the Board has yet to be finalised by the Compensation Committee. Once finalised any arrear payment necessary will be made and recorded accordingly.

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. The principal and accrued interest to June 30, 2010 of US$3,278,000 was carried on the balance sheet at the depreciated amount of $809,000.

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 has assessed 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.

An annual revision of the revaluation exercise will be conducted during the 3rd quarter of 2010. Also during the 3rd quarter the IFRS compliant consolidated balance sheet for Caledonia as at December 31, 2009 will be prepared and the 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.

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 its only debt is in Zimbabwe where it has a short term loan facility of US$2.5 million. 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.

The Corporation continues to use the long term projected gold price in all its cash flow models developed for strategic planning purposes.

11. SECURITIES OUTSTANDING

As at August 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 of 50,016,928 shares.

It was announced in a press release on September 4, 2009 that the Board had 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. The Toronto Stock Exchange rules require that options with reduced exercise prices cannot be exercised at the reduced prices until the reduction had been approved by the shareholders. This proposed reduction was submitted to the shareholders for approval at the annual general meeting of Caledonia’s shareholders held on May 18, 2010 and was approved. Having complied with the necessary regulatory filings Caledonia will formally implement the reduction of the exercise prices of all of its outstanding share purchase options to $0.07 per share effective August 10, 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 more additional staff to correct any further 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.