

# **2001 Annual Report**



**Caledonia**  
Mining Corporation

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Note: All figures in the 2001 Annual Report are in Canadian dollars unless otherwise noted.

## Corporate Objective

Caledonia Mining Corporation (the "Corporation") was formed on February 5, 1992. The business objective of the Caledonia group of companies is to identify and acquire properties and projects early in the development cycle and then add value by operating or disposing of the asset at the most opportune time. The definition of operations for the Corporation can be described as the acquisition, funding, development, operating and thereafter the possible divestiture of property. The divestiture of property will occur at different points in time on the valuation curve possibly when the asset is in production or perhaps when it is at the exploration stage. The economics of the decision and the cash requirements of the Corporate group will govern the timing of any transaction.

## Environmental Policy

Caledonia Mining Corporation ("Caledonia") and its Board of Directors are committed to maintain the highest environmental standards such that its operations and/or its products do not present an unacceptable risk to its employees, its customers, the public or the environment. The Corporation and its subsidiaries operate under an environmental code of practice that encompasses the following:

- I. Caledonia directs its employees and its subsidiary companies to conduct their exploration and operations activities in a professional, environmentally responsible manner, in compliance with all applicable legislation and policies in the jurisdictions in which they undertake business.
- II. Caledonia liaises closely with the applicable government regulatory bodies and the public to optimize communication and an understanding of the Corporation's activities in relation to environmental protection.
- III. Caledonia is committed to the diligent application of technically proven, economically feasible, environmental protection measures throughout its exploration, development, mining, processing and decommissioning activities.
- IV. Caledonia on a regular ongoing basis monitors its environmental protection management programs to ensure their compliance with the applicable regulatory requirements.

It is the responsibility of all the employees of Caledonia and its subsidiaries to carry out their employment activities in accordance with this code of practice. Operational line management has the direct responsibility for regular environmental protection management.

(Signed) S. E. Hayden,  
Chairman of the Board, President and  
Chief Executive Officer

(Signed) J. Johnstone,  
Vice-President Operations and  
Chief Operating Officer

# Performance Highlights

<sup>(1)</sup> Filon Sur to June 30 for year 2000 only.

	2001	2000	1999	1998	1997
<b>Financial - \$ Thousands<sup>(1)</sup></b>					
Revenue from Sales	124	6,623	14,701	15,523	11,106
Gross Profit (Loss)	(126)	304	2,090	2,771	1,249
Expenses (General and Administration, Interest and Amortization)	1,130	2,143	3,853	7,566	6,419
Net Income (Loss) - before Write-Downs	(1,195)	7,412	3,082	(4,439)	(9,650)
Net Income (Loss) - after Write-Downs	(1,195)	7,412	(7,460)	(50,437)	(58,095)
Cash	90	75	51	91	2,007
Current Assets	184	200	2,179	4,175	4,148
Assets	24,973	25,063	33,189	50,831	97,014
Current Liabilities	2,701	2,556	5,143	7,678	17,864
Long Term Liabilities	1,813	1,813	21,747	34,032	26,555
Working Capital (Deficiency)	(2,517)	(2,356)	(2,964)	(3,503)	(13,716)
Shareholders' Equity	20,459	20,694	6,299	9,121	56,740
Total Capital Expenditures	-	-	345	464	6,916
Expenditures on Mineral Properties	23	120	353	2,458	8,195
Financing Raised	1,078	979	497	2,452	3,419
<b>Share Information</b>					
Market Capitalization (\$ Thousands)	9,086	10,374	3,441	4,578	13,706
Shares Outstanding (Thousands)	165,202	148,202	68,830	41,615	33,429
Warrants & Options (Thousands)	19,566	7,566	7,566	3,986	3,961
Earnings (Loss) per Share	(0.01)	0.08	(0.12)	(1.35)	(1.78)
TSE Share Price High	0.09	0.35	0.15	0.72	4.20
TSE Share Price Low	0.04	0.05	0.05	0.09	0.35
TSE Share Volume (Thousands)	22,310	22,939	16,397	6,254	5,978
NASDAQ Share Price High (US\$)	0.06	0.18	0.09	0.50	3.06
NASDAQ Share Price Low (US\$)	0.02	0.03	0.03	0.06	0.25
NASDAQ Share Volume(Thousands)	74,714	61,919	34,815	36,721	22,088
<b>Operating Results<sup>(1)</sup></b>					
Gold Production (Ounces)	114	14,558	32,300	32,567	28,903
Silver Production (Ounces)	-	122,665	240,675	227,945	125,590
Average Cost per Ounce Gold (US \$) Sold	-	240	204	216	246
Average Revenue per Ounce Gold (US \$) Sold	-	285	288	296	327
Year End Gold Resource (Thousand Ounces)	2,930	2,930	3,487	3,519	3,526

## Letter to Shareholders

The resource industry experienced another difficult year during 2001 as gold and silver prices remained at cyclical lows until December.

One breath of excitement has been the diamond exploration in the Coronation Gulf area of Nunavut, Canada. This was sparked by the discovery of the Potentilla diamondiferous kimberlite on the Caledonia's Kikerk Lake Joint Venture and the Artemesia kimberlite on Ashton's nearby Kim property. These finds were followed by a staking rush in the area similar to that experienced following the diamond discovery at Lac de Gras in 1991.

Shareholders should note that Caledonia's two other diamond exploration properties, the Mulonga Plain JV in Zambia and the Goedgevonden Diamond Project in South Africa are both as advanced as the Kikerk Lake JV. Details of these properties can be found elsewhere in this report, and the very latest details on all Caledonia's properties and interests can be found on the Caledonia website at: "[www.caledoniamining.com](http://www.caledoniamining.com)".

During 2001 exploration work continued on the Mulonga Plain and Kalimba joint ventures in Zambia, at the Kikerk Lake property in Northern Canada, and at the Goedgevonden diamond prospect in South Africa. Additional properties acquired by the Corporation during 2001 include the Pruissen and Vier-en-Twintig Rivier option and the adjacent Rooipoort property east of Potgietersrus in South Africa which are prospective for platinum group metals and/or diamonds, and the Konkola West licence in Northern Zambia, strategically located between Caledonia's Nama licence area and the Konkola Deep copper mine area.

Caledonia completed the return of the Barbrook mine to limited production in February 2002. The feasibility study of returning Barbrook to commercial-scale production is well advanced and should be completed during the second quarter. As has been widely reported, the South African Rand has weakened against the US Dollar and this has dramatically improved the gold price in Rand terms and consequently the operating margin available to South African gold mines.

As can be seen from these financial statements Caledonia remains largely debt free and will continue to focus its efforts on protecting and advancing its assets, largely through joint venture agreements with experienced partners. During 2002 Caledonia intends to extend this focus to include, where possible, the addition of income producing assets in order to fund its activities.

My thanks to Caledonia's management, directors, staff, joint venture partners, and particularly to our shareholders for supporting Caledonia during the challenges and opportunities of another difficult year. The management and directors look forward to your continued confidence as we work diligently towards the objective of building Caledonia into a significant international mining company

On behalf of the Board of Directors,

(Signed) S. E. Hayden,  
Chairman of the Board, President and  
Chief Executive Officer  
May 8, 2002

## Activity Report on Properties

Caledonia owns a diversified portfolio of carefully selected properties in Canada, Zambia, South Africa, and Democratic Republic of Congo with excellent exploration potential for gold, diamond, platinum group metals, nickel, copper and cobalt. These properties, most of which are under joint venture agreements with major mining companies, are the key assets of Caledonia that should, in future, provide shareholders with significant returns. However, the realization of value from a resource property requires time, money and expertise. It is the strategic objective of Caledonia to enter into joint venture agreements with major mining companies in order to conserve cash resources and draw on the expertise and skills of joint venture partners to develop these properties.

This annual report presents only those properties where there has been significant activity during the current year. Where properties have been largely inactive, no descriptive report is presented. Information on these properties can be obtained by referring to the 1997 to 2000 annual reports. Copies of these reports can be obtained from the Caledonia Head Office in Mississauga, Ontario, Canada or from our website at "www.caledoniamining.com".

## Gold

### Barbrook Mines Limited- South Africa

Barbrook is located near the town of Barberton in the Mpumalanga province of South Africa. The mine was placed on care and maintenance in July 1997. In 1997 the monthly underground mining and milling rate was 17,000 tonnes of ore. Design capacity of the plant is 30,000 to 40,000 tonnes per month for free-milling oxide ores, or 25,000 tonnes per month for the refractory sulfide ores. Approximately 105,000 tonnes of underground ore is immediately available for mining when operations resume. An evaluation of returning the mine to commercial production is expected to be completed in the second quarter of 2002.

A revised metallurgical process circuit was developed by Caledonia during 2001 and was satisfactorily lab tested by Mintek of South Africa. This process resulted in a significant increase in gold recoveries on Barbrook ore. Pilot scale plant tests, if required, will be conducted in 2002.

<b>RESOURCES (Undiluted) - as at December 31, 2001</b>			
Resource category	Tonnes	Gold Grade - g/tonne	Gold Ounces
Measured	830,071	6.68	178,292
Indicated	954,457	6.12	187,798
Inferred	9,202,524	6.51	1,926,068
Oxide Reserves and Resources	1,508,617	2.21	107,331
Total Mineral Resource	12,495,669	5.97	2,399,489

### Eersteling Gold Mining Company Limited - South Africa

Eersteling Gold Mining Company Limited is listed on the Johannesburg Stock Exchange and is 96% owned by Caledonia. The mine is located near the town of Pietersburg in the Northern Transvaal in South Africa. Production was halted in early 1997 due to the prevailing low gold prices. The property is less than 10% explored. The mine will remain on care and maintenance until sustainable commercial production at Barbrook has resumed.

<b>RESOURCES (Undiluted) - as at December 31, 2001</b>			
Resource category	Tonnes	Gold Grade - g/tonne	Gold Ounces
Measured	60,527	7.43	14,457
Indicated	537,232	7.78	134,382
Inferred	2,048,961	5.79	381,600
Total Mineral Resource	2,646,720	6.23	530,439

## Base Metals

### **Nama: Copper / Cobalt - Zambia**

Caledonia Mining Nama Limited, 100% owned by Caledonia, holds four exploration licences which cover 1,148 km<sup>2</sup> in northern Zambia and host near-surface low grade cobalt /copper mineralization. A soil sampling program has been completed over the majority of the remaining licence area. This program has identified a number of high priority anomalous targets within the required geological setting. These require to be followed up in the search for possible sulphide ore bodies. In January, 2001 Caledonia was awarded a fifth licence, the Konkola West licence, which covers an additional 128km<sup>2</sup> and is located immediately to the east of the Nama licence area and west of the Konkola mining area. The Konkola West licence area was acquired due to its strategic location - east of Caledonia's Nama licence area - as the oxide mineralization identified from the 1995/97 Nama drilling program continues into the Konkola West licence. Exploration information which has been gained at Nama will be invaluable in developing exploration models and strategy at our nearby Katanga Joint Ventures in the D. R. of Congo and in the Konkola West licence area.

During 2001 the 2,260 geochemical soil samples collected during 2000 were processed in Canada. The results from these soil samples have been analysed and four additional anomalies including one drill target for future programs have been identified.

### **Kadola Group: Gold / Copper / Cobalt / Nickel / Pyrite - Zambia**

Caledonia's wholly-owned subsidiary, Caledonia Mining Kadola Limited, holds three exploration licences covering 6,099 km<sup>2</sup> of the southernmost extension of the "Zambian Copperbelt". Within the licence areas, several distinct targets have been identified.

## Diamonds

### *Canada*

#### **Kikerk Lake**

In September 2001 Caledonia announced the discovery of a diamondiferous kimberlite, "Potentilla", on the Kikerk Lake property in Nunavut, by its joint venture partner and operator of the property, Ashton Mining of Canada Inc. ("Ashton").

The Potentilla kimberlite is represented by a magnetic anomaly with approximate dimensions of 140 x 60 metres. A vertical hole drilled in the center of the anomaly intersected kimberlite breccia beneath 9.9 metres of glacial overburden to a depth of 142.3 metres and terminated in hypabyssal kimberlite at a depth of 184.7 metres. A second hole was drilled from the same location at a 53 degree angle from horizontal. The orientation of this hole was approximately parallel to the longest dimension of the anomaly. The drill intersected kimberlite breccia from 9.7 to 98.4 metres and hypabyssal kimberlite from 98.4 to 107.0 metres. Drilling was terminated in sedimentary rock at 161.2 metres. These results suggest that the kimberlite extends 65 metres from the center of the anomaly along its longest dimension.

Drilling at Potentilla identified two different facies within the kimberlite pipe: an upper diatreme facies underlain by a hypabyssal facies. Samples of both materials were processed by caustic dissolution at Ashton's North Vancouver laboratory and the following numbers of diamonds were recovered.

Kimberlite Facies	Sample Weight (kg)	Number of Diamonds	
		Micro (0.1 - 0.5 mm)	Macro (> 0.5 mm in one dimension)
Diatreme	129.1	160	15 (Note 1)
Hypabyssal	78.7	70	7 (Note 2)
<b>Total</b>	<b>207.8</b>	<b>230</b>	<b>22</b>

**Notes:**

1. Seven of the macrodiamonds from this sample measure greater than 0.5 mm in two dimensions with the three largest stones measuring 2.13 x 1.94 x 0.87 mm, 1.37 x 0.99 x 0.87 mm and 1.12 x 0.90 x 0.40 mm.
2. Three of the macrodiamonds from this sample measure greater than 0.5 mm in two dimensions with the largest stone measuring 0.80 x 0.52 x 0.39 mm.

The 2001 drilling program also tested a one kilometre long linear structure in the vicinity of the Potentilla kimberlite. The objective of the drilling was to identify the source of an indicator mineral dispersion fan containing a significant number of G10 pyrope garnets. Two inclined holes drilled at the same location approximately 500 metres northeast of Potentilla intersected brecciated host rock containing kimberlite dykes measuring 45 cm and 15 cm respectively and abundant thin stringers of kimberlite. Initial analysis suggests that these kimberlite intersections may not be the source of the indicator mineral dispersion fan.

The diamond results from Potentilla are reported by Ashton to be among the best obtained from the ten kimberlites discovered by Ashton in Nunavut and the Northwest Territories. These results and the presence of well-defined indicator mineral trains clearly indicate the need for further evaluation of Potentilla and continued exploration on the Kikerk Lake property.

Caledonia and Ashton each have a 35% interest in the property, Northern Empire Minerals Ltd. holds a 30% participating interest in the property. Ashton is entitled to earn a 52.5% interest from Caledonia by incurring \$750,000 in exploration expenditures on the property not later than May 31, 2003. This can be increased to 59.5% if Ashton funds Caledonia's share through a completed feasibility study.

A formal joint venture agreement between the three parties was signed in March 2002.

## ***Zambia***

Caledonia has a joint venture agreement with BHP World Exploration Inc. and its affiliate Motapa Diamonds Inc., collectively "the BHP Entity", on the Mulonga Plain, Kashiji Plain and Kakenge River licences in Western Zambia. Motapa is the project operator on behalf of the Joint Venture. The BHP Entity has fulfilled its obligation to spend an initial US\$3 million on the property and is now vested with a 60% participating interest. BHP will continue to fund operations through the completion of a feasibility study at which point their interest will increase to 75%. Caledonia will then have various options including that of BHP funding the project through to commercial production.

### **Mulonga Plain:**

The 2001 field program included 967 line-km of ground magnetic and 268 line-km of gravity surveys within the Mulonga licence. In all 730 samples were collected, yielding 10,000 indicator minerals which are now undergoing mineral chemistry evaluation. The information obtained has been used to further define the location and prioritization of the 2002 drilling targets.

A 10 to 20 hole drilling program is planned at Mulonga Plain for 2002 starting in early September. A drill contractor is being selected and will mobilise specialised equipment to Zambia in preparation for the program.

### **Kashiji Plain:**

This licence area is located in Northwest Zambia, adjacent to the Angolan border. A limited amount of field work was carried out in 2001 as resources were concentrated in the Mulonga licence area. In 2002 it is intended to conduct an airborne magnetic survey over the Kashiji Plain licence to assist in locating the sources of the kimberlite indicator minerals identified in previous programs.

## **Kakenge River Licence:**

The Kakenge licence lies immediately east of the southern portion of the Mulonga licence and is along strike of the defined anomalous area within the Mulonga licence. In 2001, follow-up sampling was completed over seven prospective sites identified by the exploration program in 2000. The kimberlite indicator minerals recovered will undergo mineral chemistry evaluation to determine the future program for the area.

Results from all of the previous exploration work is being evaluated and will be used in determining the future program for each of the three licence areas.

## ***South Africa***

Caledonia has acquired Prospecting and Option Agreements over three exploration properties in South Africa which are prospective for diamonds and platinum.

## **Goedgevonden**

Caledonia has signed a Prospecting and Option Agreement over the Goedgevonden diamond bearing kimberlite pipe located approximately 20 kilometres north of the Stilfontein Gold Mine in the Klerksdorp district of the North West Province in South Africa. Prospecting activities carried out in the mid 1970's indicated that the pipe is oval in shape and covers a surface area of approximately 27,000 square metres. This work also indicated that the pipe which outcrops has been drill intersected at a depth of 425 metres and that further down dip extensions remain undefined. Previous drilling reported an average diamond content of 35 to 45 carats/100 tonnes, with one hole yielding 65 carats/100 tonnes. A fair portion of the diamonds recovered from the drilling were gem quality with a notable tendency toward pink coloured diamonds. Caledonia conducted a Stratagem survey in November 2001 prior to commencing drilling in 2002.

## **Diamonds/ Platinum**

### **Vier en Twintig Rivier / Pruisen**

In June 2001 Caledonia and Sutherland Services Limited ('Sutherland') signed an agreement whereby Caledonia has the option to acquire 50% of Sutherland's interest in the Pruisen and Vier-en-Twintig Rivier properties near Potgietersrus in the Northern Province of South Africa. The properties are considered to be highly prospective for platinum and diamond deposits.

The property lies some 15 to 20 kilometers west of Southern Era's Klipspringer fissure diamond mine and Marsfontein open-pit kimberlite pipe and about 15 kilometers east of Potgietersrus Platinum Mines (a wholly-owned subsidiary of Anglo American Platinum Corporation).

A prospecting licence has been applied for, and exploration will commence once it is received.

## **Platinum**

### **Rooipoort**

Caledonia's 96% subsidiary Eersteling Gold Mining Company Limited has acquired the rights to explore and develop the mineral rights on the farm Rooipoort 46 KS from Anglo Platinum Mining Services in exchange for certain surface rights held by Eersteling in the Pietersburg area. Rooipoort 46 KS is immediately adjacent to the Pruisen property which was optioned by Caledonia in 2001. The property is approximately 8 kilometres east of Potgietersrus in the Northern Province of South Africa and is considered to be highly prospective for platinum deposits.

Caledonia is presently negotiating with a number of parties to escalate the return of Eersteling to production and simultaneously commence the platinum exploration and exploitation if found to be commercially viable.

## **Management Discussion and Analysis of Financial Results**

### **Forward-looking Statements**

Statements regarding the Corporation's expectations as to the effectiveness of its plan of business, exploration and development programs, production of gold and certain other information presented in this report constitute forward looking statements (as defined in the US Securities Exchange Act of 1934). Such statements are based on assumptions and estimates related to future economic and market conditions. While the reasonableness of such assumptions and estimates is reviewed by management, unusual or unanticipated events may occur which render them inaccurate. Under such circumstances, future performance may differ materially from present expectations.

### **General**

As was the case in the past three years, the Corporation along with other companies in the junior resource industry continued to experience difficult economic times during 2001. The primary focus of management was the continuance of operations without incurring significant debt, the continuing development of the assets of the Corporation and the procurement of longer term financing.

During the period from mid 1994 to early 1995 Caledonia expanded rapidly with the acquisition of the Barbrook and Eersteling gold mines in South Africa, the Cononish gold property in Scotland and the acquisition of essentially 100% of the remaining interest of the Filon Sur gold mine in Spain, which was not already owned by the Corporation. Exploration activities were pursued for alluvial diamonds in the Northwest Territories of Canada and other property interests were added to the property portfolio in southern Africa. During this period, gold revenue per ounce was in the US\$400 range and the Corporation was optimistic that the two South African gold mines could be brought successfully into production. Plans were also underway to develop the gold property in Scotland. The expansion programme was financed in part by the issue of common stock during a period when the share price achieved an all time high of \$13.13 per share. Debt financing was also used for the expansion resulting in the issue of approximately \$20.4 million of convertible debentures. Bank financing of US\$10.5 million US was used to expand the production capacity of the Filon Sur gold mine in Spain.

Subsequent to this expansion activity, revenue derived from gold production started to decline due to the falling price of gold and market support eroded as investors searched for better returns from other industry sectors. In response, the Corporation cut back dramatically on exploration programs, placed higher cost gold mining operations on care and maintenance status and slashed administrative expenditures. Discussions during 1999 with CIBC for a further restructuring of the Filon Sur debt continued, culminating in an agreement to sell Filon Sur and gain access to future financing for the Corporation. Similarly, discussions with the convertible debenture holders resulted in the conversion of the debentures to common shares in 1999.

In September 2000, the Corporation completed the previously announced sale and debt restructuring of the Corporation's subsidiary Filon Sur. The specifics of the transaction are contained in the 1999 Annual Report. As a result of this transaction, the Corporation no longer consolidates the operations of Filon Sur and Filon Sur's subsidiary Fynegold. The Corporation is essentially debt free, except to the extent of financing provided by The Oak Consortium ("Oak") and creditors and during 2001 continued to have access to a potential cash flow from Filon Sur for the performance of management services. Operations at Filon Sur did not generate excess cash flow and therefore no management fee was received.

A small quantity of gold was recovered from oxide ores treated at Barbrook early in 2001 under the agreement with Spring Hills Trading Limited. This agreement is fully described in the 2000 annual report.

### **Results of Operations**

For the year ended December 31, 2001, the Corporation recorded a net loss of \$1.2 million (\$0.008 per share) compared to a net income of \$7.4 million (\$0.08 per share) in 2001. The gain in 2000 resulted from the conversion of the convertible debenture net of the loss on the sale of Filon Sur, and was a non-recurring transaction. As in 2000 there were no write-

downs of capital assets and mineral properties recorded in 2001. Despite the difficulties experienced by the mining industry in 2001 with continuing low gold prices, the Corporation moved forward on several fronts. Exploration activities by the Corporation's joint venture partners continued in Zambia and in Canada. Exploration at Kikerk Lake in Nunavut, Canada identified the diamondiferous Potentilla kimberlite. These positive results from Potentilla together with other successes in the area were instrumental in sparking considerable interest in the diamond exploration activities in the Coronation Gulf area of Canada. In Zambia, the Konkola West exploration licence, adjacent to the four Nama group licences was acquired. In South Africa three adjacent properties in the Potgietersrus area, Vier-en-Twintig Rivier, Pruisen and Rooipoort, were also added to the Corporation's portfolio of exploration properties during the year.

In 2001, the sole contributors to revenue from sales were the Barbrook and Eersteling gold mines in South Africa in an amount of \$0.1 million as compared to revenue of \$6.6 million in 2000. In 2000 all revenue was contributed by the Filon Sur gold mine in Spain until its sale in June 2000. A total of 114 ounces of gold were sold in the 2001 calendar year.

The lower gold sales in 2001 resulted in a gross loss of \$0.1 million compared with an operating profit of \$0.3 million in 2000. Gross profit is defined as sales revenue less cost of sales, but includes management services fee revenue. Cost of sales includes all direct operating costs of production excluding amortization and financing costs but including administrative expenses at the mine location.

The production and sale of gold for 2002 is difficult to estimate, and will depend on the feasibility of returning the Barbrook mine to commercial production and on the production and tonnage levels achieved.

## **Liquidity and Capital Resources**

As of December 31, 2001 the Corporation had a working capital deficiency of \$2.5 million compared to a deficiency of \$2.4 million at December 31, 2000. Cash and short term deposits increased from \$0.075 million at the end of 2000 to \$0.090 million at December 31, 2001.

During 2001, the Corporation raised \$1.0 million in equity financing from a private placement by issuing 17 million common shares of the Corporation and 17 million common share purchase warrants exercisable at \$0.075. The warrants expire in February 2003. Additional cash requirements of the Corporation were met from access to short term financing provided by Oak in the amount of \$0.1 million. During 2002 it is expected that the cash requirements of the Corporation will be met from private placement equity financing activity.

## **Corporate Governance Practices**

The Toronto Stock Exchange Committee on Corporate Governance in Canada issued a report in December, 1994 containing guidelines for effective corporate governance of corporations. The by-laws of The Toronto Stock Exchange were subsequently amended to require each listed corporation incorporated in Canada to make annual disclosure of its corporate governance practices with reference to those guidelines. The Board believes that sound corporate governance practices are essential to the effective operation of the Corporation and that these practices should be reviewed regularly to ensure that they are appropriate.

The Corporation's directors and management have responded to the need to establish forward-looking governance policies and to constantly evaluate and modify them to ensure their effectiveness. Caledonia's disclosure is set out in the Management Proxy Circular relating to the Corporation's June 21, 2002 Annual and Special Meeting of Shareholders. This disclosure statement has been prepared by the Corporate Governance Committee of the Board and has been approved by the Board of Directors.

## Management's Responsibility for Financial Reporting

### *To the Shareholders of Caledonia Mining Corporation:*

The accompanying consolidated financial statements of the Corporation were prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and within the framework of the summary of significant accounting policies in these consolidated financial statements. Management is responsible for all information in the annual report. All financial and operating data in the annual report is consistent, where appropriate, with that contained in the consolidated financial statements.

A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee composed of three directors, two of whom are not members of management. This Committee meets with management to assure that it is performing its responsibility to maintain financial controls and systems and to approve the annual consolidated financial statements of the Corporation. The Audit Committee also meets with the independent auditors to discuss the results of their audit, their review of internal accounting controls and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval.

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

(Signed) S. E. Hayden  
Chairman of the Board, President and  
Chief Executive Officer

(Signed) S. W. Poad  
Vice-President Finance  
and Administration

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## Auditors' Report

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### To the Shareholders of Caledonia Mining Corporation

We have audited the consolidated balance sheets of Caledonia Mining Corporation as at December 31, 2001 and 2000 and the consolidated statements of deficit, operations and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financials statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) BDO Dunwoody LLP  
Chartered Accountants

Toronto, Ontario  
April 19, 2002

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

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In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in the summary of significant accounting policies. Our report to the shareholders dated April 19, 2002 is expressed in accordance with Canadian reporting standards which do not require a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

(Signed) BDO Dunwoody LLP  
Chartered Accountants

Toronto, Ontario  
April 19, 2002

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

<b>December 31</b>	<b>2001</b>	<b>2000</b>
<b>Assets</b>		
Current		
Cash and short term deposits	\$90	\$75
Accounts receivable	89	118
Prepaid expenses	5	7
	<b>184</b>	<b>200</b>
<b>Capital assets (Note 1)</b>	<b>7,424</b>	<b>7,505</b>
<b>Mineral properties (Note 2)</b>	<b>17,365</b>	<b>17,358</b>
	<b>\$24,973</b>	<b>\$25,063</b>
<b>Liabilities and Shareholders' Equity</b>		
Current		
Accounts payable	\$1,604	\$1,577
Loan payable (Note 3)	1,097	979
	<b>2,701</b>	<b>2,556</b>
<b>Provision for site restoration</b>	<b>1,026</b>	<b>1,026</b>
<b>Non-controlling interest</b>	<b>787</b>	<b>787</b>
	<b>4,514</b>	<b>4,369</b>
<b>Shareholders' Equity</b>		
Share capital (Note 5)	143,986	143,026
Deficit	(123,527)	(122,332)
	<b>20,459</b>	<b>20,694</b>
	<b>\$24,973</b>	<b>\$25,063</b>

On behalf of the Board:

\_\_\_\_\_  
 (Signed) F. C. Harvey                      Director

\_\_\_\_\_  
 (Signed) J. Johnstone                      Director

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

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

<b>For the years ended December 31</b>	<b>2001</b>	<b>2000</b>
<b>Deficit</b> , beginning of year	(\$122,332)	(\$129,744)
<b>Net income (loss) for the year</b>	<u>(1,195)</u>	<u>7,412</u>
<b>Deficit</b> , end of year	(\$123,527)	(\$122,332)

**Consolidated Statements of Operations**  
**(in thousands of Canadian dollars except per share amounts)**

<b>For the years ended December 31</b>	<b>2001</b>	<b>2000</b>
<b>Revenue and operating costs</b>		
Revenue from sales	\$124	\$6,623
Revenue from management services	-	109
Operating costs	<u>250</u>	<u>6,428</u>
<b>Gross profit (loss)</b>	<u>(126)</u>	<u>304</u>
<b>Costs and expenses</b>		
General and administrative	1,030	1,225
Interest	84	41
Amortization	16	877
Other expense (income) (Note 8)	<u>(61)</u>	<u>(245)</u>
	<u>1,069</u>	<u>1,898</u>
<b>(Loss) before the undernoted</b>	<u>(1,195)</u>	<u>(1,594)</u>
Net gain on conversion of the convertible debentures and sale of subsidiary companies - net (Note 4)	-	9,003
<b>Income (loss) before income taxes</b>	<u>(1,195)</u>	<u>7,409</u>
Income taxes (Note 6)	<u>-</u>	<u>-</u>
<b>Income (loss) before non-controlling interest</b>	<u>(1,195)</u>	<u>7,409</u>
Non-controlling interest	<u>-</u>	<u>3</u>
<b>Net income (loss) for the year</b>	<u>(\$1,195)</u>	<u>\$7,412</u>
<b>Income (loss) per share (Note 7)</b>		
Basic and fully diluted	<u>(\$0.008)</u>	<u>\$0.080</u>

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

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

<b>For the years ended December 31</b>	<b>2001</b>	<b>2000</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the year	(\$1,195)	\$7,412
Adjustments to reconcile net cash from operations (Note 9)	16	(8,257)
Changes in non-cash working capital balances ( Note 9)	58	731
	<u>(1,121)</u>	<u>(114)</u>
<b>Investing activities</b>		
Cash given up on sale of Filon Sur	-	(721)
Proceeds from sale of capital assets	81	-
Expenditures on mineral properties	(23)	(120)
	<u>58</u>	<u>(841)</u>
<b>Financing activities</b>		
Loan payable	118	979
Issuance of share capital, net of issue costs	960	-
	<u>1,078</u>	<u>979</u>
<b>Increase in cash for the year</b>	<b>15</b>	<b>24</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>75</b>	<b>51</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$90</b>	<b>\$75</b>

**Caledonia Mining Corporation**  
**Summary of Significant Accounting Policies**  
**December 31, 2001 and 2000**

**Nature of Business**

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

As of June 30, 2000, the Company has been managing Filon Sur, SA ("Filon Sur"), a former subsidiary on behalf of private investors.

# Caledonia Mining Corporation

## Summary of Significant Accounting Policies (continued)

December 31, 2001 and 2000

### **Basis of Presentation**

These financial statements have been prepared on the basis of a going concern, which contemplates that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon attaining profitable operations and obtaining sufficient financing to meet its liabilities, its obligations with respect to operating expenditures and expenditures required on its mineral properties.

### **Measurement Uncertainties**

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring estimates relate to mineral resources, future cash flows associated with capital assets and mineral properties. Management's calculation of mineral resources and cash flows are based upon engineering and geological estimates and financial estimates including gold prices and operating costs. The amount ultimately recovered could be materially different than the estimated values.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company together with all its subsidiaries.

The Company's principal consolidated subsidiaries are Barbrook Mines Limited (100% owned) ("Barbrook"), Eersteling Gold Mining Company Limited (96% owned) ("Eersteling") and Caledonia Mining (Zambia) Limited, Caledonia Kadola Limited, Caledonia Nama Limited and Caledonia Western Limited (all 100% owned) (collectively known as "Caledonia Zambia").

Effective with the close of business on June 30, 2000, the Company recorded the sale of Filon Sur (previously 99.5% owned) and Filon Sur's wholly owned subsidiary, Fynegold Exploration Limited ("Fynegold") to the Oak Consortium ("Oak"), a group of private investors, as part of the debt restructuring of Filon Sur. Accordingly, these consolidated financial statements reflect the operating activities of Filon Sur and Fynegold up to the close of business as of June 30, 2000. The Company's revenue from sales and operating costs for the first six months of 2000 were principally derived from the Filon Sur operation.

### **Inventories**

Inventories are stated at the lower of cost, which is determined on the first-in, first-out basis, and net realizable value.

### **Capital Assets**

#### ***Producing Assets***

Producing assets are recorded at cost less government grants, accumulated amortization and write-downs.

Producing assets are amortized using the straight line method based on the estimated useful lives of the assets. The estimated useful life of the producing assets range from 3 to 5 years. Repairs and maintenance expenditures are charged to operations; major improvements and replacements which extend the useful life of an asset are capitalized and amortized over the remaining useful life of that asset. As of December 31, 2001 and 2000, the Company does not have any producing capital assets.

# Caledonia Mining Corporation

## Summary of Significant Accounting Policies (continued)

December 31, 2001 and 2000

### *Non-Producing Assets*

Non-producing assets are recorded at cost less write-downs. During non-producing periods, no amortization is recorded.

At the time of commercial production, the assets are reclassified as producing and amortized in the manner described above.

### **Mineral Properties**

#### *Producing Properties*

When and if properties are placed in production, the applicable capitalized costs are amortized using the unit-of-production method on the ratio of tonnes of ore mined or processed to the estimated total measured, indicated and inferred mineral resources as defined by the "Australasian Code" and which are profitable under prevailing economic conditions. As of December 31, 2001 and 2000, the Company does not have any producing mineral properties.

#### *Non-Producing Properties*

Costs relating to the acquisition, exploration and development of non-producing resource properties which are held by the Company or through its participation in joint ventures are capitalized until such time as either economically recoverable reserves are established, or the properties are sold or abandoned. The carrying amount of non-producing properties are written down to their estimated net recoverable amount. The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the properties or the mineral rights. The amounts shown for non-producing resource properties do not necessarily reflect present or future values.

### **Joint Ventures**

Certain of the Company's exploration activities are conducted jointly with others. These financial statements reflect only the Company's expenditures on these properties.

### **Foreign Currency Translation**

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

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

Exchange gains or losses arising on these translations are reflected in income in the period incurred. Gains and losses arising on translation of long term foreign currency denominated liabilities at each period end are deferred and amortized to earnings over the remaining life of such liabilities.

Effective for year ends beginning after January 1, 2002, gains and losses arising on translation of long term foreign exchange denominated liabilities at each period end are reflected in income as incurred. The Company has no long term debt denominated in foreign currency.

Filon Sur which was a self-sustaining foreign subsidiary up to June 30, 2000, was translated at current rates of exchange.

### **Revenue Recognition**

Revenue from the sale of precious metals is recognized when delivery occurs.

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**Caledonia Mining Corporation**  
**Summary of Significant Accounting Policies (continued)**

**December 31, 2001 and 2000**

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**Provision for Site Restoration**

Site restoration costs are accrued when the need for such expenditure is established, and then written off as part of the cost of production. It is always possible that the Company's estimate of its ultimate site restoration liability could change in the near term due to possible changes in laws and regulations in applicable jurisdictions and changes in cost estimates.

**Income Taxes**

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

**Stock Based Incentive Plan**

The Company has a stock based compensation plan as described in Note 5 (c). Under the plan, no compensation expense is recognized when stock or stock options are issued to employees, officers, directors or consultants. The amount paid on exercise of stock options is credited to share capital.

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**per share amounts)**

December 31, 2001 and 2000

**1. Capital Assets**

	2001		
	<u>Cost</u> <sup>(1)</sup>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Land - plant sites	\$1,711	\$-	\$1,711
Plant and equipment			
- non-producing <sup>(2)</sup>	6,372	664	5,708
Office furniture and equipment	735	730	5
Vehicles	343	343	-
	<u>\$9,161</u>	<u>\$1,737</u>	<u>\$7,424</u>
	2000		
	<u>Cost</u> <sup>(1)</sup>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Land - plant sites	\$1,711	\$-	\$1,711
Plant and equipment			
- non-producing <sup>(2)</sup>	6,453	664	5,789
Office furniture and equipment	735	730	5
Vehicles	343	343	-
	<u>\$9,242</u>	<u>\$1,737</u>	<u>\$7,505</u>

- (1) Cost is comprised of the original cost of the asset, less previous write downs, removal of cost for disposals and government grants.
- (2) The non-producing plant and equipment relates to the Barbrook and Eersteling properties. In 1997 the mines were placed on care and maintenance resulting in write downs to estimated net realizable amount.

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**per share amounts)**

December 31, 2001 and 2000

**2. Mineral Properties**

	2001		
	<u>Cost <sup>(1)</sup></u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Non-producing - care and			
Barbrook, South Africa - gold	\$3,461	\$17	\$3,444
Eersteling, South Africa -	357	67	290
Non-producing - exploration:			
Nunavut, Canada	750	-	750
Zambia	12,881	-	12,881
Other	488	488	-
	<u>\$17,937</u>	<u>\$572</u>	<u>\$17,365</u>
	2000		
	<u>Cost <sup>(1)</sup></u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Non-producing - care and			
Barbrook, South Africa - gold	\$3,461	\$17	\$3,444
Eersteling, South Africa -	357	67	290
Non-producing - exploration:			
Nunavut, Canada	750	-	750
Zambia	12,874	-	12,874
Other	472	472	-
	<u>\$17,914</u>	<u>\$556</u>	<u>\$17,358</u>

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

The Company has entered into joint venture agreements with third parties on one Canadian property and two Zambian properties. The third parties may earn varying percentage interests in these properties by carrying out exploration work on the properties.

**3. Loan Payable**

As part of the restructuring of debt (Note 4), Oak agreed to provide short term financing, due on demand, interest accruing at 8%, and secured by a General Security Agreement over certain assets of the Company.

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**December 31, 2001 and 2000** **per share amounts)**

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**4. Net Gain on Conversion of Convertible Debenture and Sale of Subsidiary**

In 2000, the Company completed the restructuring of its long term debt which process commenced in 1999. The result of the restructuring is summarized as follows:

- (a) In 1999, the Company converted 4% Convertible Debentures into 14,593,750 common shares at a conversion price of a \$1.40 per share. As a result, \$4,185 was allocated to share capital and \$15,526 to a pre-tax gain on restructuring. An amount of \$10,216 of the gain was deferred since the debenture holders retained the right to become a creditor of the Company under certain circumstances.
- (b) On June 30, 2000, as part of a series of transactions, the Company disposed of its investment in Filon Sur and Fynegold, including its inter-company debt, for nominal consideration to Oak. As part of this transaction CIBC Wood Gundy Ireland Limited ("CIBC") waived its right to receive payment in cash for a Convertible Note (the "Note") which it held as a result of the debt restructuring that commenced in 1999. The Note was subsequently purchased by Oak from CIBC and settled by the issuance of 79,371,973 common shares to Oak pursuant to its original terms of conversion.

The result of these transactions was the settlement of long term debt, disposal of the Company's investment in Filon Sur and Fynegold and the realization of the deferred gain from the conversion of the Convertible Debentures.

The deferred gain realized in 2000 was calculated as follows:

Realization of deferred gain	\$10,216
Loss on disposal of Filon Sur and Fynegold	<u>1,213</u>
Net gain	<u>\$9,003</u>

In addition, as part of the sale and debt restructuring, the Company was contracted to provide management services over the activities of Filon Sur and Fynegold on behalf of Oak for 30% of the distributable cash flow of Filon Sur. The agreement provides that if the Company committed an unremedied default under the terms of the agreement, the Company would have a liability of \$1,000 in liquidation damages, which amount would be payable in cash or shares of the Company at the Company's election.

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**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**per share amounts)**

**December 31, 2001 and 2000**

**5. Share Capital**

(a) Authorized

Unlimited number of common shares.  
 Unlimited number of preference shares.

(b) Issued

	<b>Number of Shares</b>	<b>Amount</b>
Common shares		
Balance, December 31, 1999	68,830,142	\$136,838
Issued for Convertible Note (see Note 4)	79,371,973	6,188
Balance, December 31, 2000	148,202,115	143,026
Issued pursuant to a private placement <sup>(1)</sup>	17,000,000	960
Balance, December 31, 2001	165,202,115	\$143,986

<sup>(1)</sup> On August 3, 2001 the Company issued 17,000,000 units at \$0.06 per unit for gross proceeds of \$1,020. Each unit is comprised of one common share and one common share purchase warrant exercisable at \$0.075 per share expiring February 3, 2003.

(c) Stock Option Plan

The Company has established an incentive stock option plan (the "Plan") for employees, officers, directors, consultants and other service providers. Under the Plan, as at December 31, 2001, the Company has the following options exercisable and outstanding:

Number of Shares	Exercise Price	Expiry Date
413,200	\$0.75	April 28, 2005
1,239,600	0.50	April 28, 2005
863,000	0.33	February 9, 2008
50,000	0.28	September 22, 2008

The continuity of the options granted, exercised and cancelled under the Plan during 2001 and 2000 are as follows:

	Number of Options	Weighted Average Price
Options outstanding as at December 31, 1999	3,985,800	\$0.35
Options granted	1,257,116	\$0.12
Options exercised	(2,557,116)	(\$0.11)
Options cancelled	(120,000)	(\$0.41)
Options outstanding as at December 31, 2000 and 2001	2,565,800	\$0.48

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**per share amounts)**  
**December 31, 2001 and 2000**

**5. Share Capital** (continued)

- (d) The Company has issued the following common share purchase warrants pursuant to the private placement which are outstanding as of December 31, 2001:

Number of Warrants	Warrants to Share Ratio	Exercise Price	Expiry Date
17,000,000	1 to 1	\$0.075	February 3, 2003

The continuity of warrants issued and outstanding is as follows:

	Number of Warrants
Warrants outstanding December 31, 1999 and 2000	5,000,000
Expired during the year	(5,000,000)
Issued pursuant to private placement	17,000,000
Warrants outstanding December 31, 2001	17,000,000

**6. Income Taxes**

Effective January 1, 2000, the Company calculates income taxes using the liability method as explained in the Summary of Significant Accounting Policies. The effect of this change was not material to the Company.

The Company's effective tax rate, which differs from the combined federal and provincial statutory income tax rates, may be reconciled as follows:

	2001		2000	
	\$	%	\$	%
Basic rate applied to pre-tax income (loss)	(509)	(42.6)	3,232	43.6
Losses and other benefits not tax affected	509	42.6	230	3.0
Non taxable portion of capital loss	-	-	(1,998)	(26.9)
Utilization of prior year losses	-	-	(1,464)	(19.7)
	-	-	-	-

The Company and its subsidiaries have non-capital losses of approximately \$15,129 which may be carried forward to reduce future taxable income. The right to claim \$142 and \$628 and \$10,191 and \$2,969 and \$1,199 expires in 2008, 2007, 2005, 2004 and 2002 respectively. The Company also has approximately \$70,713 in capital losses which can be applied to reduce future capital gains. The right to claim these losses is carried forward indefinitely.

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**per share amounts)**

**December 31, 2001 and 2000**

**6. Income Taxes (continued)**

The Company also has the following expenses which are available to be applied against future income for income tax purposes:

Canadian exploration and development expenses	\$7,560
Foreign exploration and development expenses	\$1,812

The benefit of the above tax assets have not been recognized in the accounts for financial statement purposes and have been reduced by a valuation adjustment.

**7. Income (Loss) Per Share**

The income (loss) per share figures have been calculated using the weighted average number of common shares outstanding during the respective fiscal years which amounted to 155,285,448 (2000 - 92,750,463). Effective January 1, 2001, the Company adopted the treasury method of calculating fully diluted income per share on a retroactive basis. Exercise of the outstanding stock options and warrants would be anti-dilutive in 2001 and 2000.

**8. Other Expense (Income)**

Other expense (income) is comprised of the following:

	2001	2000
Investment income	(\$2)	\$-
Oil and gas net income	(27)	(24)
Foreign exchange (gain) loss	(32)	(221)
	(\$61)	(\$245)

**9. Statement of Cash Flow**

Items not involving cash are as follows:

	2001	2000
Amortization	\$16	\$877
Gain on retirement of long-term debt	-	(10,216)
Loss on disposal of subsidiary companies	-	1,213
Non-controlling interest in loss	-	(3)
Foreign currency translation adjustment	-	(128)
	\$16	(\$8,257)

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**per share amounts)**

**December 31, 2001 and 2000**

**9. Statement of Cash Flow (continued)**

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

	2001	2000
Accounts payable	\$27	\$554
Accounts receivable	29	77
Inventories	-	105
Prepaid expenses	2	(5)
	\$58	\$731

Additional cash flow information:

In 2000, the Company issued 79,371,973 shares to settle the Convertible Note (see Note 5) for \$6,188.

	2001	2000
Cash paid for interest	\$-	\$5

**10. Financial Instruments**

Unless otherwise noted, it is the opinion of management that the Company is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

**11. Related Party Transactions**

The Company had the following related party transactions:

	2001	2000
Management and administrative services paid or accrued to a company controlled by the Company's chairman	\$180	\$182

The related party transactions are recorded at the exchange amount.

The Company has the following related party balances:

	2001	2000
Included in accounts payable		
- owing to a company controlled by the Company's chairman	\$271	\$166
- owing to directors/officers for unpaid salaries	588	391

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**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**December 31, 2001 and 2000** **per share amounts)**

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**11. Related Party Transactions** (continued)

The Company utilizes the services of a company indirectly controlled by an officer of the Company for management and administrative services on a per diem basis. The Company paid \$17 (2000 - \$ nil) in respect of these services.

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**12. Subsequent Events**

On February 14, 2002, the Company entered into a loan agreement with the South African Export Development Fund for 1,000,000 Rand (\$140) of funding to be used at the Barbrook mine. The loan is convertible into 1,165,500 units of the Company comprised of one share of the Company at a price of \$0.12 per share and one quarter share purchase warrant. One whole purchase warrant entitles the holder to purchase one further share of the Company at \$0.15 per share for a period of one year. The loan bears interest at the prime bank interest rate as quoted by ABSA Bank Limited plus 3% for a term of one year. The conversion value of the loan is based upon 7.15 Rand per Canadian dollar and is convertible during the term of the loan at any time at the option of the holder. If Barbrook should fail to repay the loan when due, the conversion option shall remain in effect for a further six months after which time the it expires with no further liability.

On April 12, 2002, the Company concluded a private placement financing for \$3.0 million gross proceeds comprised of 20,689,655 units. Each unit is comprised of one common share and one half share purchase warrant issued at \$0.145 per unit. In addition a total of 1,724,163 broker warrants were issued with each warrant exchangeable for one whole share. Whole warrants are exchangeable for shares at \$0.195 per share for a period of twenty four months. Share issue and broker fee expenses were \$329.

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**13. Segmented Financial Information**

The Company has been engaged directly or through subsidiaries in the production of and the exploration for precious metals in various geographical locations.

The Company's operating segments have been identified based on geographic areas as follows:

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**per share amounts)**

December 31, 2001 and 2000

**13. Segmented Financial Information** (continued)

	For the year ended December 31, 2001			
	Corporate	South Africa	Zambia	Total
Revenue from sales	\$-	\$124	\$-	\$124
Operating costs	-	(250)	-	(250)
General and administrative	(891)	(139)	-	(1,030)
Interest	(84)	-	-	(84)
Amortization	-	(16)	-	(16)
Other income	26	35	-	61
Net income (loss) for the year	(\$949)	(\$246)	\$-	(\$1,195)
Identifiable assets	\$934	\$11,158	\$12,881	\$24,973
Expenditures on capital assets and mineral properties	\$-	\$-	\$23	\$23

	For the year ended December 31, 2000				
	Corporate	Europe	South Africa	Zambia	Total
Revenue from sales	\$-	\$6,623	\$-	\$-	\$6,623
Revenue from management services	109	-	-	-	109
Operating costs	-	(6,367)	(61)	-	(6,428)
General and administrative	(1,081)	-	(144)	-	(1,225)
Interest	(36)	(5)	-	-	(41)
Amortization	(2)	(847)	(28)	-	(877)
Other (expense)	(7)	-	(238)	-	(245)
Income (loss) before the undernoted	(1,003)	(596)	5	-	(1,594)
Net gain on conversion of convertible debenture and sale of subsidiary companies	9,003	-	-	-	9,003
Non-controlling interest	-	3	-	-	3
Net income (loss) for the year	\$8,000	(\$593)	\$5	\$-	\$7,412
Identifiable assets	\$912	\$19	\$11,258	\$12,874	\$25,063
Expenditures on capital assets and mineral properties	\$-	\$-	\$-	\$120	\$120

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**December 31, 2001 and 2000** **per share amounts)**

**14. Generally Accepted Accounting Principles in Canada and the United States**

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

(a) Mineral Properties

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

(b) Other Paid in Capital

Under Canadian GAAP, convertible debentures have been segregated into a debt and equity component. The resulting debt discount is amortized over the term of the debt and is included with interest expense. Under US GAAP, the convertible debentures would be shown as debt only and therefore would not include an equity component or amortization expense. As a result of the conversion of the convertible debt, there is no equity component.

(c) Employee and Directors Stock Options

The Company accounts for employee and directors stock options under APB Opinion No. 25 under which no compensation cost is recognized when the exercise price equals or exceeds the fair value at the date of grant. Since no stock options were granted with an exercise price less than fair value, no compensation was recorded under US GAAP.

Under Canadian GAAP, the Company is not required to account for additional compensation when stock options are granted at exercise prices less than fair value.

(d) Comprehensive Income

Under US GAAP, comprehensive income must be reported which is defined as all changes in equity other than those resulting from investments by owners and distributions to owners.

(e) Recently Issued Accounting Standards

In June 2001, The FASB issued FASB Statement No. 141, "Business Combinations" (SFAS 141), and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Corporation recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Corporation reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill impairment at least annually. In addition, SFAS 142 requires that the Corporation identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with guidance in

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
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**December 31, 2001 and 2000** **per share amounts)**

**14. Generally Accepted Accounting Principles in Canada and the United States (continued)**

SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 31, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires that the Corporation complete a transitional goodwill impairment test six months from the date of adoption. The Corporation is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Corporation's previous business combination has been accounted for using the purchase method. The Corporation has determined that the adoption of SFAS 141 and SFAS 142 will have no material impact on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. SFAS No. 143 is effective for the fiscal year ending December 31, 2003. Management believes the adoption of this statement will have no material impact on the financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets". SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuous operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively. Management believes the adoption of this statement will have no material impact on the financial statements.

(f) Net Gain on Conversion of the Convertible Debentures

For US GAAP the net gain would be considered an extraordinary item.

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

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**per share amounts)**

**December 31, 2001 and 2000**

**14. Generally Accepted Accounting Principles in Canada and the United States (continued)**

(a) Income Statement

	<u>2001</u>	<u>2000</u>
Loss for the year before extraordinary item per Canadian GAAP	( <b>\$1,195</b> )	(\$1,591)
Mineral property expenditure with no proven reserves expensed	(7)	(120)
Loss on sale of subsidiary not considered an extraordinary item for US GAAP	-	(1,061)
	<u>(1,202)</u>	<u>(2,772)</u>
Loss for the year before extraordinary item and income taxes per US GAAP	(1,202)	(2,772)
Utilization of prior year losses	-	291
	<u>(1,202)</u>	<u>(2,481)</u>
Loss for the year before extraordinary item	(1,202)	(2,481)
Extraordinary item per US GAAP		
Net gain on conversion of the convertible debentures \$11,551, net of tax \$291	-	11,260
	<u>-</u>	<u>11,260</u>
Net income (loss) per US GAAP	(1,202)	8,779
Foreign currency translation adjustment	-	795
	<u>-</u>	<u>795</u>
Comprehensive net income (loss) per US GAAP	<u>(1,202)</u>	<u>\$9,574</u>
Basic and diluted (loss) per share before extraordinary item	<u>(\$0.008)</u>	<u>(\$0.030)</u>
Basic earnings per share on the extraordinary item for the year	-	\$0.120
	<u>-</u>	<u>\$0.120</u>
Basic and diluted income (loss) per share for the year	<u>(\$0.008)</u>	<u>\$0.090</u>

**Caledonia Mining Corporation**  
**Notes to Consolidated Financial Statements**  
**(in thousands of Canadian dollars (unless otherwise indicated) except**  
**December 31, 2001 and 2000** **per share amounts)**

**14. Generally Accepted Accounting Principles in Canada and the United States (continued)**

(b) Balance Sheet

	<b>2001</b>	<b>2000</b>
Total assets per Canadian GAAP	<b>\$24,973</b>	\$25,063
Mineral properties with no proven reserves expensed	<b>(13,631)</b>	(13,624)
Total assets per US GAAP	<b>\$11,342</b>	\$11,439
Total liabilities per Canadian and US GAAP	<b>\$4,514</b>	\$4,369
Share capital Canadian GAAP	<b>\$143,986</b>	\$143,026
Other paid in capital	<b>(560)</b>	(560)
Share capital US GAAP	<b>143,426</b>	142,466
Shareholders' equity		
Deficit end of the year per Canadian GAAP	<b>(123,527)</b>	(122,332)
Mineral properties with no proven reserves expensed	<b>(13,631)</b>	(13,624)
Debenture discount amortization	<b>560</b>	560
	<b>(136,598)</b>	(135,396)
Total shareholders' equity/(deficiency) US GAAP	<b>(\$6,828)</b>	(\$7,070)

## Directors and Management

### BOARD OF DIRECTORS

S. E. Hayden (1) (2) (3) (4)  
*Chairman of the Board, President and  
Chief Executive Officer  
Johannesburg, South Africa*

J. Johnstone  
*Vice President Operations and  
Chief Operating Officer  
Mississauga, Ontario, Canada*

F. C. Harvey  
*Technical Director  
Mississauga, Ontario, Canada*

W. I. L. Forrest (1) (2) (4)  
*Business Executive  
Gingins, Switzerland*

C. R. Jonsson (1) (2) (3)  
*Principal of Tupper Jonsson  
& Yeadon  
Barristers & Solicitors  
Vancouver, British Columbia,  
Canada*

### BOARD COMMITTEE

#### MEMBERS

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

### OFFICERS

S. E. Hayden  
*Chairman of the Board, President and  
Chief Executive Officer*

F. C. Harvey  
*Technical Director*

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

S. W. Poad  
*Vice-President Finance and  
Administration*

J. Smith  
*Vice-President Exploration*

## Corporate Directory

### CORPORATE & MINE OFFICES

#### Canada - Head Office

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

#### South Africa

Greenstone Management Services  
(PTY) Limited  
P. O. Box 587  
Johannesburg 2000  
South Africa  
Tel: (27)(11) 447-2499  
Fax: (27)(11) 447-2554

#### Zambia

Caledonia Mining (Zambia) Limited  
P. O. Box 36604  
Lusaka, Zambia  
Tel: (260)(1) 291-574  
Fax: (260)(1) 292-154

### SHARES LISTED

The Toronto Stock Exchange  
Symbol "CAL"  
NASDAQ OTC BB  
Symbol "CALVF"

### CAPITALIZATION

(December 31, 2001)  
Authorized: Unlimited  
number of common shares  
Issued Common Shares: 165,202,115  
Warrants: 17,000,000  
Options: 2,565,800

### SOLICITORS

#### Borden Ladner Gervais LLP

Suite 4100, Scotia Plaza  
40 King Street West  
Toronto, Ontario  
M5H 3Y4

#### Tupper, Jonsson & Yeadon

1710-1177 West Hastings Street  
Vancouver, British Columbia  
V6E 2L3 Canada

### AUDITORS

#### BDO Dunwoody LLP

#### Chartered Accountants

Suite 3200, 200 Bay Street  
Royal Bank Plaza, South Tower  
Toronto, Ontario  
M5J 2J8 Canada

### REGISTRAR & TRANSFER AGENT

#### Equity Transfer Services Inc.

Suite 420  
120 Adelaide Street West  
Toronto, Ontario  
M5H 4C3 Canada  
Tel: (416) 361-0152  
Fax: (416) 361-0470

### BANK

#### Canadian Imperial Bank Of Commerce

6266 Dixie Road  
Mississauga, Ontario  
L5T 1A7 Canada

### INTERNET

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

## **NOTES:**

## **NOTES:**

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