

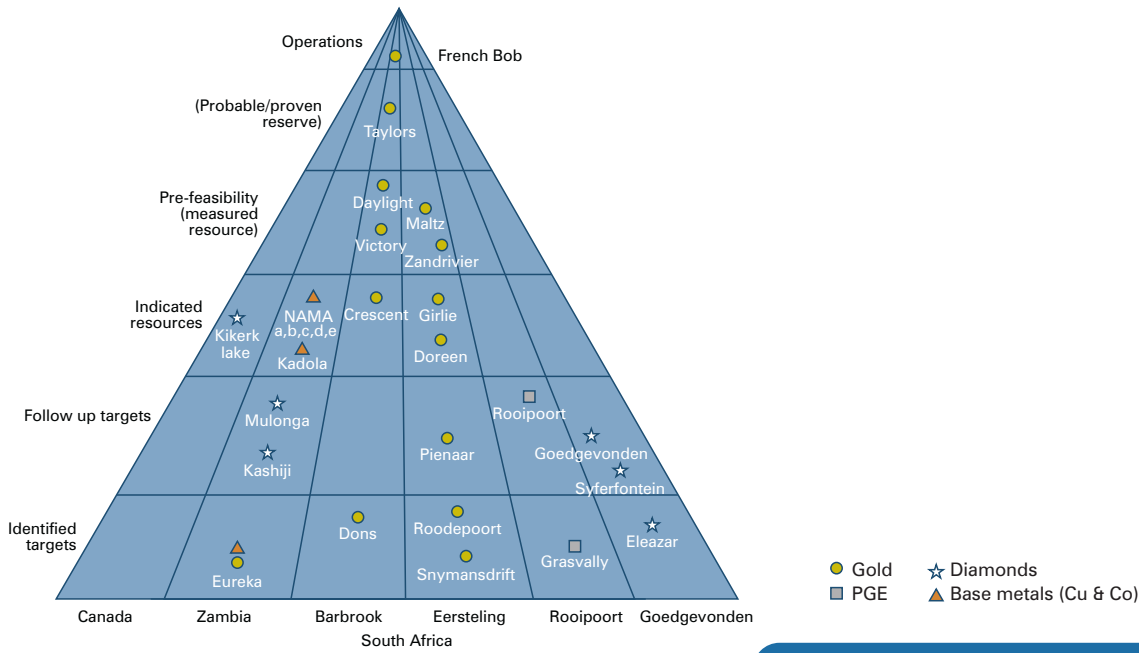


Caledonia Mining Corporation



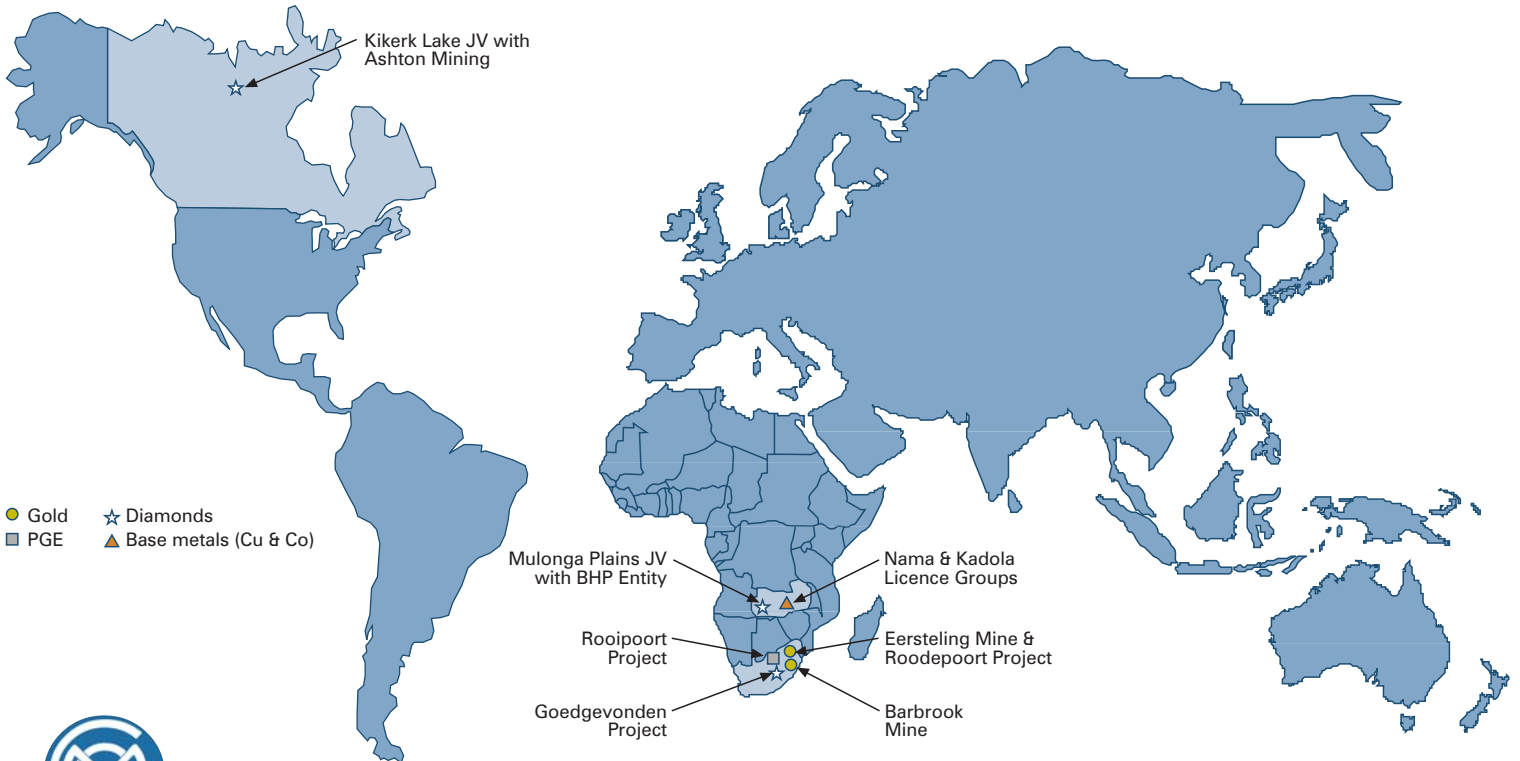
*Annual
Report*

2004



Resource triangle - status of projects

World activities



2004 HIGHLIGHTS

Barbrook Gold Mine

- Completed major modifications to Barbrook metallurgical plant and continued to improve gold recoveries in the resin-in-leach (RIL) circuit
- Barbrook underground development continued at the French Bob's, Taylors and Daylight/Victory zones to delineate the mine's reserves and resources

Exploration

- Completed detailed soil sampling and a preliminary three hole (500m) drilling program at the Roodepoort Gold Exploration Project
- Commenced a detailed soil sampling programme at Eersteling, to complement a planned high resolution aeromagnetic survey that was flown in January 2005
- Phase 1 and 2 drilling implemented at the Rooipoort Platinum Exploration Project
- Purchased prospecting rights over an additional 342 hectares immediately adjacent to the Rooipoort Platinum Exploration Project property on the farm Grasvally 293 KR
- Gravity and magnetic Falcon® survey conducted at the Mulonga Plain Diamond Joint Venture and 73 heavy mineral samples collected at Kashiji Plain
- Heavy mineral sampling program completed at the Kikerk Lake Diamond Joint Venture
- Mini bulk sample at the Nama Cobalt Project in Zambia tested to confirm feasibility of producing economic cobalt. Initiated plans and environmental applications to excavate a larger sample which will be treated in pilot plant on site in 2005

Corporate / Financial

- Obtained shareholder approval to increase the Caledonia board of directors to six members and appointed Roland Fasel, a Swiss based businessman, to the Caledonia Board of directors
- Appointed Mike Tombs as Vice President Finance and Chief Financial Officer, based in Johannesburg, South Africa. Steven Poad has assumed the position of Controller
- Redeemed minority shareholdings in Eersteling, thus making Eersteling a 100% owned subsidiary of Caledonia
- Raised \$13.4 million net of financing costs from private placement and \$0.8 million from the exercise of warrants

2005 OBJECTIVES

- Return the Barbrook Gold Mine in South Africa to economic gold production
- Continue developing additional reserves/resources at the Barbrook Mine
- Complete the feasibility studies of installing a Biox® bacterial leach and/or ultra-fine milling and/or Dense Media Separation circuit at Barbrook and commence construction
- Obtain the prospecting licence for the Grasvally portions of the Rooipoort Platinum Exploration Project
- Identify the platinum resource on the farms Rooipoort and Grasvally which form the Rooipoort Platinum Exploration Project in South Africa
- From the existing exploration information together with the recently completed high resolution airborne Geophysics and Soil Chemical Programs identify and drill possible extensions to the known ore zones on the Eersteling and Zandrivier Mining Licence areas
- Conclude an agreement with a cobalt end producer to purchase cobalt concentrate produced at Nama or possibly form a strategic alliance to achieve this objective
- Confirm the feasibility of producing an economic cobalt concentrate from the Nama property in Zambia. Construct a pilot plant at Nama to produce a cobalt concentrate for testing
- Seek a joint-venture partner to commence an exploration program at the Kadola copper/cobalt and the Eureka copper/gold properties in Zambia
- Expand the Board of Directors to address ongoing Corporate Governance requirements
- Implement succession plans for senior executive and operational staff
- Strengthen the Investor Relations and Public Relations functions within Caledonia
- List Caledonia on the London Stock Exchange Alternative Investment Market (“AIM”)
- Arrange necessary financing to support the activities required to meet these objectives:

PERFORMANCE HIGHLIGHTS

	2004	2003 ⁽²⁾	2002 ⁽²⁾	2001 ⁽²⁾	2000 ⁽²⁾
Financial – C\$ 000's					
Revenue from Sales	841	646	27	124	6,623
Gross Profit (Loss)	(5,610)	(2,984)	(118)	(143)	284
Expenses (General and Administration, Interest and Amortization)	2,959	1,841	1,585	1,130	2,143
Net Income (Loss) – before Write-Downs	(8,917)	(4,737)	(1,856)	(1,096)	7,451
Net Income (Loss) - after Write-Downs	(9,979)	(14,496)	(4,446)	(1,096)	7,451
Cash	6,470	4,179	1,864	90	75
Current Assets	7,481	4,573	2,094	184	200
Assets	23,666	19,530	24,969	25,183	25,273
Current Liabilities	1,062	790	1,336	2,701	2,556
Long Term Liabilities	423	1,089	1,073	1,499	1,598
Working Capital (Deficiency)	6,419	3,783	758	(2,517)	(2,356)
Shareholders' Equity	22,181	17,651	22,560	20,983	21,119
Total Capital Expenditures including Mineral	3,813	2,279	613	23	120
Expenditures on Mineral Properties	2,298	2,042	624	23	120
Financing Raised	14,314	9,511	5,174	1,078	979
Share Information					
Market Capitalization (\$ Thousands)	39,145	105,955	86,836	9,086	10,374
Shares Outstanding (Thousands)	301,112	252,274	211,795	165,202	148,202
Warrants & Options (Thousands)	52,342	27,348	28,055	19,566	7,566
Earnings (Loss) per Share	(0.03)	(0.06)	(0.02)	(0.01)	0.08
TSE Share Price High	0.465	0.610	0.44	0.09	0.35
TSE Share Price Low	0.12	0.215	0.060	0.04	0.05
TSE Share Volume (Thousands)	56,934	99,233	81,234	22,310	22,939
NASDAQ Share Price High (US\$)	0.37	0.39	0.281	0.06	0.18
NASDAQ Share Price Low (US\$)	0.10	0.16	0.040	0.02	0.03
NASDAQ Share Volume (Thousands)	210,251	440,811	271,404	74,714	61,919
Operating Results ⁽¹⁾					
Gold Production (Ounces)	1,693	1,187	52	114	14,558
Silver Production (Ounces)	66	42	4	-	122,665
Average Cost per Ounce Gold (US \$) Sold	2,310	3,129	-	-	240
Average Revenue per Ounce Gold (US \$) Sold	415	402	-	-	285
Year End Gold Resource (Thousand Ounces)	2,459	2,478	2,489	2,930	2,930

(1) Filon Sur to June 30 for year 2000 only.

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

Letter to Shareholders

2004 has been another challenging yet exciting year for Caledonia as we work towards bringing the Barbrook Gold Mine into profitable gold production and consolidate work on our exciting Nama Cobalt/Copper Deposit in Zambia. While the macro-economic environment in South Africa continues to be favourable, the overall outlook for commodity prices is positive and a stronger rand has had a negative impact on the South African mining industry.

Work at the Barbrook Gold Mine in South Africa continues to focus on optimizing the metallurgical circuit and proving up additional reserves and resources to establish a sustainable and profitable production base. Following improvements achieved during 2004, and further enhancements planned for 2005, we remain confident that we will be able to return Barbrook to economic gold production during 2005, despite the strong rand. Extensive modifications have been made to the metallurgical circuit to improve gold recovery from the complex refractory sulphide ore body. Following these changes, there has been a significant improvement in the operating efficiency in the resin-in-leach ("RIL") section with a corresponding increase in gold recovery to above 80%. This should result in an immediate increase in tonnage throughput to between 7,000 and 8,000 tonnes per month. The full impact and sustainability of the above changes will be determined in March 2005 when all of the process changes are complete. Metallurgical test work continued on a number of different process alternatives including Ultra-fine milling, Dense Media Separation and Biox®. A decision on whether to implement the Biox® plant and/or Ultra-fine milling and/or Dense Media Separation is anticipated in the first half of 2005.

Exploration work continued at the Rooipoort Platinum Project, south of Mokopane (previously Potgietersrus) with the completion of a stratigraphic diamond drill program and in November the initial drilling program, which is intended to define an indicated PGM resource at Rooipoort commenced. Recent exploration results show that the mineralization is closer to surface near the northern, and extreme southern property boundaries and drilling is now concentrating in these areas. Caledonia also purchased an additional 342 hectares of mineral and prospecting rights on the farm Grasvally adjacent to the Rooipoort property to the south. We believe Grasvally to be highly prospective as the mineralization in this area appears to be near surface with a shallow dip. Caledonia's application for the necessary Prospecting Permit from the Department of Minerals and Energy, which was filed on April 23, 2004, was refused on March 11, 2005 on the grounds only of not having a shareholders agreement in place with a black economic partner. Caledonia believes that this refusal has no basis in law and continues to actively pursue this permit by all available means

Caledonia subscribes to the Black Economic Empowerment ("BEE") legislation, which was introduced to reverse previous discriminatory practices in South Africa, and is actively seeking suitable BEE partners for its South African operations in the strong conviction that, in the long term, this approach will add significant value for Caledonia shareholders. We hope to update shareholders on progress in this regard during the course of 2005.

Our exciting cobalt project Nama, in northern Zambia, has made steady progress. Nama could be one of the largest primary cobalt deposits in the world. Encouraging results from the mini bulk sample have been received. The sample was tested at MINTEK's laboratory in South Africa and confirmed that a suitable cobalt concentrate can be extracted. In 2005 a larger tonnage sample will be excavated and will be processed through a pilot plant to be built on site in order to produce a suitable cobalt concentrate for testing through a smelter or hydrometallurgical plant. If this test is successful and satisfactory economic terms are obtained, it is expected that a long-term supply contract for the Nama cobalt/copper concentrate could be negotiated with a large cobalt user or users. The entering into a joint venture with a suitable partner to assist developing this project further during 2005 is being investigated.

At the Mulonga Plain Diamond Project in Zambia and the Kikerk Lake Diamond Venture in Northern Canada our joint venture partners have continued their obligation to fund the exploration programs. Based on the results of a 5,000 line km Falcon® airborne gravity and magnetic survey, flown over the identified kimberlite mineral clusters located in the most eastern portion of the Mulonga licence area, a drilling budget of US\$520,000 has been allocated to follow up the identification of the targets derived from previous work and the 71 gravity anomalies identified by the preliminary interpretation of the Falcon® data. At Kashiji Plain, a number of samples were collected and are currently undergoing laboratory work. Budget allocation

and planning for 2005 has been deferred until these analyses are complete. Caledonia's interest in Mulonga Plain remains 40%.

Caledonia continues to believe the gold price will maintain its upward trend in the near term. The US\$ gold price has continued to rise, reaching in excess of US\$450 per ounce in December 2004. Caledonia management believes that gold bullion and gold shares remain in a long-term bull market. To maximise the benefit of the current strong price Caledonia has decided to remain unhedged. It should be noted, however, that the South African Rand gold price has decreased slightly due to ongoing Rand currency strength. As Barbrook's operating costs are in Rand this continues to hamper the project economics.

Turning to the financial performance of the company Caledonia continues to be debt free having raised \$14.3 million from private placements and exercise of options and warrants. During 2004 the company suffered a loss of \$10.0 million which included an operating loss of \$5.6 million and a write-down of mineral properties of \$1.1 million. \$3.8 million was invested in capital assets and mineral properties in South Africa. Cash available at year end totalled \$6.5 million

Caledonia plans during 2005 to list the company's shares on the Alternative Investment Market in London, England in conjunction with a financing. The Board believes this listing will introduce Caledonia to London's institutional investors, offer Caledonia greater market exposure, and further broaden the shareholder base, ultimately benefiting all shareholders.

I am delighted to welcome two new non-executive members to the Board, Rupert Pardoe and Roland Fasel. Mr Pardoe was elected non-executive Chairman in February 2005. These two individuals bring additional experience to the Board, particularly in the sphere of corporate governance as both are independent of management. This year, the company will focus on implementing succession plans for senior executive and operational staff, as well as expand the Board of Directors to address ongoing Corporate Governance requirements.

The future for Caledonia shareholders is promising, as the company is uniquely positioned to develop its gold production and diverse base metals projects, platinum exploration programs and the diamond joint venture exploration projects. The further strengthening of its Board of Directors should also show benefits in ensuring that the company meets its Corporate Governance and Strategic objectives.

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

On behalf of the Board of Directors,

(Signed)
S. E. Hayden
President and Chief Executive Officer

Johannesburg, 18th March 2005

CALEDONIA MINING CORPORATION March 18, 2005

Management's Discussion and Analysis

This discussion and analysis of the consolidated operating results and financial condition of the Caledonia Mining Corporation (the "Company", "Caledonia") for the fiscal years ended December 31, 2004 and December 31, 2003 should be read in conjunction with the Consolidated Financial Statements and the Annual Information Form and Press Releases issued by the company, all of which are available from the System for Electronic Data Analysis and Retrieval at www.sedar.com or from the Company website at www.caledoniamining.com. The Consolidated Financial Statements and related notes have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Caledonia was formed in February 1992 and is listed on the Toronto Stock Exchange as "CAL" and on NASDAQ-OTCBB as "CALVF".

VISION and STRATEGY

Caledonia is an exploration, development and mining company with a gold operation in South Africa and a diversified exploration portfolio of projects in Canada, South Africa and Zambia, some of which are joint ventures. Caledonia's objective is to develop the asset base into a significant diversified international mining company through profitable gold production and successful exploration activity, focused primarily on Southern Africa.

Caledonia's business model is to identify and 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 a joint venture agreement. The possibility of divestiture in whole or part will be considered at different points in time on the valuation curve and will be governed by the benefit to shareholders. Where appropriate, Caledonia will seek strategic alliances with well-managed exploration or operating companies through existing or new joint ventures.

The Company has a strong management team and Board of Directors with diverse expertise in gold production, mineral exploration, mine development, finance and marketing.

With the expectation of continuing improvements in commodity prices over the long term, Caledonia is following the strategy of diversification through its current exploration activities for diamonds, gold, platinum group metals and base metals. With the potential of improved political conditions in many Southern African countries, Caledonia is reviewing mining opportunities in these countries.

CORE BUSINESSES

GOLD MINING

Barbrook Mines Limited

The 100% owned Barbrook Mines Limited ("Barbrook") is located near the historic gold-mining town of Barberton in the Mpumalanga province of the Republic of South Africa, approximately 375 km west of Pretoria and Johannesburg. Barberton has a history of gold mining dating back more than 100 years. The Barbrook property, which covers an area of 10,625 acres and extends for a distance of about 28 km along strike, represents a consolidation of approximately 20 previously worked gold mines.

The Barbrook gold deposits occur in the Barberton Greenstone belt, the host for the other gold deposits in the area. The belt is of Archean age and includes some of the oldest volcanic and sedimentary rocks in South Africa. The belt trends southwest to the northeast and has been intruded and deformed by various granite plutons at the margins. The Barbrook property covers two steeply-dipping, banded iron formations oriented in an east-west direction. These two shear zones, called the Zwartkoppie and Barbrook lines, are the host to the Barbrook gold deposits. The gold mineralization at Barbrook is complex, the gold is

generally extremely fine-grained, associated with refractory minerals such as pyrite and arsenopyrite, and contains significant concentrations of “preg-robbing” organic carbon.

Mining at Barbrook is from underground using an open-stope, sub-level benching method. Broken ore is transported to the surface crushing area along the main 10 level haulage way. At present all workings are on or between 7 level and the main 10 level haulage. A decline shaft is currently in development on the French Bob’s ore zone to access the ore block below 10 level.

The Barbrook Mine gold reserves and resources are as follows:

GOLD RESERVES & RESOURCES (Undiluted) – as at December 31, 2004			
Category	Tonnes *	Gold Grade grams/tonne	Gold Ounces
<u>RESERVES</u>			
Proven	191,200	5.87	36,078
Probable	44,947	6.29	9,097
Total	236,147	5.95	45,175
<u>RESOURCES</u>			
Measured	463,954	2.93	43,635
Indicated	1,240,501	5.36	213,695
Inferred	8,781,652	5.76	1,626,145
Total	10,486,107	5.59	1,883,475
Total Mineral Reserves & Resources	10,722,254	5.59	1,928,650
* 1 Tonne = 1,000 kilograms = 2,204.6 pounds			

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

In the metallurgical processing plant, the broken ore is de-slimed, crushed to minus 13mm size and stored in a coarse ore storage bin. From this bin, ore is conveyed to the 250 kW Vecor primary ball mill, with its associated flash flotation cell. This flash flotation cell recovers up to 70% of the gold in the mill feed. The milled ore passes to the flotation plant which includes a second flash cell, scavenger, cleaner and recleaner circuits. The combined flotation concentrate with a gold grade of between 30 to 40 g/t is processed through a combined gravity/cyclone plant to remove most of the organic carbon that previously caused metallurgical problems in gold recovery. The organic carbon is discarded with the main flotation tailings. The “carbon-free” concentrate is re-ground in the Sala 90 kW regrind mill to produce a product of about 95% -25 microns. This fine-milled concentrate is pumped to the 2-stage, newly developed Aachen pre-oxidation circuit where oxygen gas is added to satisfy the high oxygen demand of the fine sulphide concentrate. Lime is then added to increase the pH to above 10 and thence the treated slurry is pumped to the resin-in-leach (RIL) circuit. Gold is recovered from the loaded resin in the elution and electrowinning circuits located in the smelt house. This produces high-grade gold bullion bars that are sent to a South African refinery for further processing and sale of gold.

The present metallurgical circuit, as designed can readily treat between 8,000 to 10,000 tonnes per month. This throughput is planned to be increased to 10,000 tonnes per month as the underground and stope development progresses and provides greater mining flexibility. The on-site, un-utilized as yet, 1300 kW drive Vecor ball milling circuit is designed to process sulphide ore at the rate of 25,000 tonnes per month. Tailings are pumped to the tailings deposition area located about 3km from the mine site. Tailings deposition operations are managed by a licensed contractor and are fully compliant with all requisite legislation and codes of practice.

There is a full mine infrastructure at Barbrook including administration areas, change-house, lamp room, security barracks, training and first aid rooms, mine stores, engineering/maintenance workshops, assay and metallurgical laboratories, explosive magazines and the tailings deposition area.

Eersteling Gold Mining Company Limited

The 100% owned Eersteling Gold Mining Company Limited ("Eersteling") is located 36 km south of the city of Polokwane in Limpopo Province of the Republic of South Africa, 300 km north of Johannesburg.

The Eersteling Mine property has an area of 47,000 acres (19,020 hectares), extends for a distance of about 25 km and is located in the Pietersburg Greenstone belt which is of Archean age consisting of an upper and lower sequence. The upper sequence is mainly conglomerate, grit and sandstone and the lower sequence is undifferentiated mafic and ultramafic volcanic rocks and intrusives, with banded iron formation and chert. The Willemse shear feature most dominates gold mineralization in the Eersteling area.

Eersteling listed on the JSE Securities Exchange South Africa on July 16 1987. In June 2004, due to the illiquidity of trading and the high cost of maintaining the listed company, Caledonia redeemed the 3.6% of minority shareholders and subsequently de-listed Eersteling from the JSE.

The Eersteling mine has been on care and maintenance since early 1997 when production was suspended due to low gold prices. Despite the high US dollar gold price, the strong rand and rand gold price have prevented the mine being returned to production at an economic level. In 2002 Eersteling applied for its required Section 9 permanent mining licence which was granted during April 2003. Caledonia intends, subject to a sustainable economic rand gold price and favourable Eersteling/Roodepoort exploration results, to re-commence commercial production at Eersteling in the future.

The Eersteling Mine gold resource estimate based on the 1997 data before the mine was placed on a care and maintenance is as follows:

GOLD RESOURCES (Undiluted) - as at December 31, 2004			
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

The above resource estimate is historic and the company does not consider this estimate to be a defined resource in terms of National Instrument 43-101. The Company has not completed the work necessary to verify the classification of the resource in terms of National Instrument 43-101 and as such the historic estimate should not be relied upon.

Eersteling has a number of exploration prospects on its mineral holdings, including the Roodepoort Gold Exploration Project and the Rooipoort Platinum Exploration Project. These are detailed further in the Exploration section of this report.

There is a full mine infrastructure at Eersteling including administration areas, change-house, lamp room, security barracks, training and first aid rooms, mine stores, engineering/maintenance workshops, assay and metallurgical laboratories, explosive magazines and a licensed tailings deposition area. In the event that gold-mining operations resume at Eersteling these facilities will require some refurbishing prior to being returned to use.

MARKETING

All gold bullion produced is refined by Rand Refinery in Germiston, South Africa and sold at spot at the discretion of the company to Absa Bank Limited in Johannesburg, South Africa under contract. The company nominates the currency of settlement for each individual sale.

KEY PERFORMANCE FACTORS

The key performance factor of a gold mine is the ability to produce gold at a cost per ounce that is low enough to pay all obligations and generate an acceptable return to shareholders. The price of gold is established in an international market and is considered a commodity. The future Rand price of gold plays a large part in determining the profitability of South African gold mines. During 2004, the South African Rand continued to strengthen by 14.8% against the United States dollar and this to a large extent negated the 6.6% increase in the US\$ gold price, resulting in a 9.5% decrease in the Rand gold price per ounce over the year.

CAPABILITY TO DELIVER RESULTS

The successful operation of mining and exploration depends on the presence of economic in-situ resources, the availability of experienced and skilled management and employees and financial resources to be able to carry out the work, and the support of the holding company.

Caledonia initiated a human resources program focused on strengthening senior management. This program commenced in late 2003 and is detailed in the 2003 Annual Report. As an extension of this program to further strengthen the Board of Directors and Caledonia's management team, two additional appointments were made in 2004 and a further appointment in 2005:

- Mr. Mike Tombs was appointed Vice President Finance and Chief Financial Officer of the Corporation. He is based in the Johannesburg office.
- Mr. Roland Fasel was appointed to the Caledonia Board of Directors in August 2004. Mr Fasel is a qualified accountant and a director of several public companies in Switzerland. He is based in Geneva, Switzerland. The addition of Mr Fasel strengthens the board, particularly in the area of Corporate Governance. Mr Fasel has been appointed to Caledonia's Audit Committee, which is now comprised entirely of independent directors, as recommended by the Toronto Stock Exchange.
- Mr. Rupert Pardoe was appointed to the Caledonia Board of Directors and elected as non-executive Chairman, with immediate effect in February 2005. He is based in Johannesburg, South Africa. Mr Pardoe was previously Deputy Group Chief Executive of Absa Group Limited, the largest retail bank and financial services group in Southern Africa, which he joined in September 2001 after twenty years at Anglo American Corporation of South Africa Limited. Mr Pardoe brings to Caledonia a wealth of international business experience, particularly in the mining and financial sectors. With the election of Mr. Pardoe, Mr. Hayden relinquished his position as Chairman, thereby separating the posts of Chairman and CEO as recommended by the Toronto Stock Exchange.
- These two Board appointments bring the total number of independent Board directors to four.

The financings of 2003 and of April/May 2004 enabled Caledonia to carry out the planned development of its projects into 2005. The 2003 financing also permitted Caledonia to pay off its debt to its officers and it is now completely debt free.

CONSOLIDATED FINANCIAL RESULTS

For the year ended December 31, 2004, the Company recorded a net loss, after write downs, of \$ 10,0 million (\$0.034 per share) compared to a net loss of \$14.5 million (\$0.062 per share) in 2003 and a net loss of \$4.4 million (\$0.023 per share) in 2002. The loss in 2004 included a write down of mineral properties of \$1.1 million and losses from operations of \$5.6 million. There was a mineral property write down of \$9.8 million in 2003 and \$2.6 million in 2002. The loss from operating activities of \$5.6 million has increased from \$3.0 million in 2003 and \$0.1 million in 2002 reflecting a higher level of activity associated with ongoing activities to refurbish the Barbrook operation. In 2004 general and administrative expense includes a charge of \$0.2 million for stock option grant expense as compared to \$0.1 million in 2003 and \$0.2 million in 2002.

OPERATIONAL REVIEW

Barbrook Mine

Operations at Barbrook during 2004 focused mainly on improving metallurgical circuits and gold recoveries. When mining operations re-started during 2003, the characteristics of the French Bob's ore fed to the plant were not as defined in earlier test work and as a result of this variability the gold recoveries were below projections. The ore was considerably more refractory with more arsenopyritic content than expected, although these ores were of higher grade than the pyritic ore types tested previously. This resulted in lower than expected gold recovery as the organic, "preg-robbing" carbon continued to contaminate and interfere with the gold recovery process. A number of alternative metallurgical circuits were installed, tested and evaluated, and circuit improvements have now virtually been completed, resulting in improved gold recoveries during the later part of the first quarter 2005.

The mineability, geology, and mineralization of the French Bob's ore body, which is the main operating area of the mine, was re-evaluated and re-modeled during 2002 to determine the optimum mining methods to minimize grade dilution. Mining has been concentrated in the French Bob's ore zone between 10 and 7 levels. Geological sampling and evaluation on the Taylor's and the newly discovered Tswala zones, adjacent to, and along strike from, the French Bob's zone is ongoing. Development and stope tonnages from these areas will supplement the present production allowing the mill throughput to be increased to the 8,000 building to 10,000 tonnes per month planned range for 2005.

Bulk ore samples from the Daylight/Victory zones will be taken once these ore zones have been fully exposed and will be tested to confirm the metallurgical amenability of this material in a Biox® circuit. Previous and ongoing Biox® tests on Barbrook concentrates showed gold leach recovery in excess of 90%. Testing Daylight/Victory ores on Biox® will commence in 2005 and if, as anticipated, prove positive, and then the Daylight/Victory area could provide the plant with an additional potentially higher grade ore source than that of the French Bob's ore zone. To ensure the continuity of the ore supply from the French Bob's and adjacent ore zones, development has started on a decline shaft, which will provide access to the French Bob's zone below the 10 level elevation. The mine plan is focused on converting Resources to Reserves by means of underground development and drilling and has now embarked on an aggressive development program to access the Taylor's, Victory, Daylight, Crescent and newly discovered Naude's Strike ore zones.

Circuit changes and necessary mechanical repairs at the Barbrook metallurgical plant resulted in sporadic operation during much of 2004. The results achieved are as follows:

Barbrook Mine – 2004 Production Results		
Ore mined	Tonnes	44,175
Development advance	Meters	1,935
Ore milled	Tonnes	26,592
Grade milled	g/t	4.5
Gold recovered	Ounces	1,693

Owing to the extreme metallurgical variability of the Barbrook ores, the higher gold grades associated with the refractory arsenopyritic ore zones and lower gold metallurgical recoveries associated with these highly refractory ore types, Barbrook commissioned Goldfields of South Africa to carry out an economic study for the design and installation of a full-plant Biox® process of gold recovery. Goldfields are internationally recognized for their expertise and experience in the bacterial oxidation of refractory gold ores such as those found at Barbrook. Caledonia believes that the Goldfields Biox® technology, successfully used since 1988 at the Barberton Mines complex, located next to Barbrook, will be amenable to all of the different ore types at Barbrook. If implemented, the Biox® plant will be designed in a modular form capable of being readily expanded to take concentrates from Caledonia's other mines and from toll processing.

Owing to the poorer than expected gold recoveries, a series of modifications were made to the metallurgical circuit to correct gold recovery problems or shortcomings identified when the expected improvements from previous plant changes did not meet expectation. Between late February and May 2004 the operations at the plant were temporarily suspended to carry out modifications, aimed at improved metallurgical gold recovery and increased throughput to 8,000 tonnes per month. The plant modifications included:

- Installation of a "fines washing and screening" section in the crusher circuit to improve the existing crushing and screening efficiency and to allow for a finer screening size of the crusher product. However, this circuit did not provide the necessary washing efficiency and was by-passed.
- Tests at Barbrook and SGS Lakefield laboratories in Johannesburg have shown that satisfactory flotation gold recovery could be achieved by coarser flotation feed ore sizing. The 8 x 10 Vecor mill (that previously milled to a product size of about 85% minus 75 microns) was reconfigured to enable it to produce a coarser grind to about 65 to 75% minus 75 microns.
- An "organic carbon pre-float" circuit was added to the front of the flotation circuit to remove as much of this 'preg-robbing' material from the circuit as possible. This should have reduced the amount of blinding agent present in the leach circuit and consequently reduce the foaming problem in RIL. However, this "carbon pre-float", although it successfully removed considerable amounts of the organic carbon from the sulphide concentrate, resulted in high gold losses with the carbon and was discontinued.
- Changes were made in the regrind/thickener section to achieve finer regrind sizes and more consistent concentrate feed densities to pre-oxidation and leaching.
- The PreOx and high-intensive agitation sections were not effective in maintaining consistent satisfaction of the concentrate oxygen demand and were replaced by 2 Aachen high-efficiency oxygen dispersion units. Pilot plant tests and plant operation at Barbrook have shown these units provide excellent oxygenation of the fine reground flotation concentrate and lead to more consistent leach gold recoveries. However, the physical operating conditions encountered when using these units have required intense engineering testing of pumps, filters and instrumentation to keep the Aachen units operating in their design ranges.
- Automatic cyanide measurement and addition equipment has been installed in the RIL section to optimize gold recovery and reduce cyanide consumption.
- The size of the elution facility for loaded resin was redesigned by Caledonia and substantially increased. This now allows for improved gold security and greater flexibility of RIL operation.
- A flash flotation cell was added to the Vecor mill circuit treating 100% of the Vecor mill cyclone underflow circuit. This effectively concentrates up to 70% of the gold feeding the flotation section – the flash flotation concentrate being fed directly to the concentrate regrind circuit.
- A second G-cell was installed in flotation for re-cleaning of the cleaner flotation concentrate. This increased the gold grade in the final concentrate product whilst maintaining gold recovery and made operation of the flotation section less complex.
- Towards the year-end, a combined gravity/cyclone plant was designed, developed and installed by Barbrook to remove most of the organic carbon that consistently caused metallurgical problems in gold recovery. This circuit has now been optimized and removes most of the liberated organic carbon. The organic carbon is discarded with the main flotation tailings.

Despite the introduction of the above new processes, the improvements in gold recoveries at the year end and in January 2005 did not improve as significantly as anticipated, and were still recorded well below the level forecast. It had been determined that the gold absorption activity of the resin used in the RIL circuit was much lower than the "fresh" or "new" resin. Despite many tests by the resin suppliers and developers,

specific reasons for this reduction in absorption activity were not found. One of the most probable causes was thought to be 'oxidation' or 'organic fouling' of the resin. The presence of the fine organic carbon, addition of high paraffin (blinding agent), high oxygen gas addition in the RIL and possible high slurry temperatures gave a combined effect of foam formation in the RIL, and this coupled with the low resin gold absorption activity caused low leaching gold recoveries.

The following plant changes were made in late 2004 and early 2005 to remedy the above resin problems and to improve other areas of the process:

- A new crusher capable of crushing the ore finer was bought and installed. This, together with the fines washing system which was re-commissioned in early March 2005, should produce a finer mill feed which should result in an increased throughput.
- A second flash flotation cell was installed in the main flotation circuit to replace the large 4-cell rougher circuit that was proving difficult to control due to the high organic carbon presence.
- The combined gravity/cyclone plant was further optimized and has increased removal of more than 95% of the liberated organic carbon from the feed to the RIL. Since this optimisation there has been a further improvement in the Aachen and RIL circuits and has eliminated completely the frothing/foaming problem.
- The lower carbon content enabled a much lower dosage of paraffin addition.
- Gold losses in the carbon removal process at about 5% are presently acceptable in view of the improved RIL operation. It is believed that these losses can be removed by optimization of the cyclone circuit.
- Technical management visited the Penjom mine in Malaysia, where a similar RIL operation to Barbrook's, but on a much larger scale, has operated for several years to gain experience of some of the problems faced by Penjom and their solution.
- The whole of the resin inventory was replaced by fresh resin.
- A test Metso ultra-fine grinding mill was introduced into the circuit.
- A number of Barbrook's circuit changes have now been copied by a mine in the area with similar challenges.

Following the above circuit changes, there has been a significant improvement in the operating efficiency in the RIL section with a corresponding increase in gold recovery. The full effect of the above changes will only be determined during March 2005 when all of the process changes are complete and the new plant operation has been optimized. The effect of the changes will mean an immediate increase in tonnage throughput to about 8000 tonnes per month and possibly higher. The metallurgical circuits operating at present are completely different to that originally installed at Barbrook, save for portions of the crushing circuit.

Eersteling Gold Mine

A full geological review of the Eersteling property, including the mine plans and other technical data, was commenced in October 2004. The resources at Eersteling were evaluated and a development program prioritized. Other prospective areas, which should be investigated as potential ore sources, were identified and a surface exploration program has commenced to test some of these areas. This included a high resolution aeromagnetic and radiometric survey, which was completed in January 2005. Potential target zones will be identified and are planned to be drilled during 2005. In the soil geochemical program, 500 soil samples in a 3,500 sample program were collected at Eersteling, with the results currently pending.

Outlook

The forecast production and sale of Caledonia's gold for 2005 is at this stage difficult to estimate, and will depend upon the rate and timing of the improved gold production expected at the Barbrook, which will be better established during March 2005, the Rand exchange rate and US Dollar gold price that will prevail during 2005.

Looking to the future, should the Biox® process tests prove positive, the Daylight/Victory ore zone could provide the Barbrook plant with a readily accessible, additional source of higher than average grade ore. As highlighted, development is currently in progress on 10 level to provide access to other known ore shoots which extend 110 vertical meters above 10 level at Barbrook. To ensure continuity of the ore supply

from the French Bob's ore zone, development has already started on a decline shaft which will provide access to the French Bob's zone below the 10 level elevation. Further, the mine has also embarked on an aggressive development program to access the lower portions of the French Bob's, Victory/Daylight, Crescent and Browns ore zones, and the newly discovered Tswala's and Naude's Strike, all part of the Barbrook's existing underground infrastructure.

Caledonia intends, subject to a sustainable economic rand gold price and favourable Eersteling/Roodepoort exploration results to re-commence commercial production at Eersteling at some time in the future.

EXPLORATION AND PROJECT DEVELOPMENT

GOLD

Roodepoort

The near-surface Roodepoort Gold Property is located 22 kms. north east of the Eersteling Mine area and 8 kms. east of the Zandrivier mine area. Roodepoort is situated on an area of historical gold mining and an unusual (for South Africa) gold-bearing albitite intrusive (a hydrothermally altered granodiorite). Grab samples have returned values of up to 2 g/t gold from pyritic portions of this unit and values greater than 16g/t gold from younger shear zones.

A diamond drill program, consisting of three angled (-45°) core holes, was completed during September. Although some results are interesting, the best intersections are 100m deep and were not repeated in the results from the other drill holes. These intersections are believed to correspond to the down dip extension of a number of old workings to the east, whose workings extend to the 30m level. Based on the recent re-evaluation of the drill results. Caledonia now has concluded that the potential for an open-pit operation, based on reported gold mineralization in the albitite body, as previously envisaged requires further exploration. However potential exists for narrower higher grade vein mineralization on this property, which will require further evaluation as a source of ore for the Eersteling metallurgical plant. Further compilation of previous data and assessment of the intersections made will be conducted. Evaluation is planned for 2005 to determine any further work on this property. Drill sections and drill logs from this program can be found for the Roodepoort Project in the "Maps and Reports" section of the Caledonia website.

DIAMONDS

Kikerk Lake

The Kikerk Lake property consists of 15 mineral leases currently pending approval by the Nunavut Mining Recorder. These leases cover 38,738 acres (15,677 hectares). In 2001 and 2002, Caledonia announced the discoveries of two diamondiferous kimberlites, "Potentilla" and "Stellaria", on the Kikerk Lake property in Nunavut Canada, by its joint venture partner and operator of the property, Ashton Mining of Canada Inc. ("Ashton"). The two kimberlite pipes are approximately 700 metres apart. All remaining heavy mineral follow-up samples collected from six separate areas on the property during the 2003 summer season were processed during 2004 in Ashton's laboratory. A total of 361 heavy mineral samples were collected during July and August 2004 by Ashton. The sampling program had two objectives. The first was to better define known indicator mineral trains or confirm isolated indicator anomalies. The second was to increase the sample density across the property in those areas of the property where sampling was considered inadequate to confidently assess mineral potential. Results from this sampling program are expected by the end of the second quarter 2005.

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

Mulonga Plain

Caledonia has a joint venture agreement with BHP World Exploration Inc. and its affiliate Motapa Diamonds Inc., ("Motapa") collectively known as "the BHP Entity", on the Mulonga Plain, Kashiji Plain and Lukulu licences in Western Zambia. Motapa is the project operator on behalf of the joint venture. The BHP Entity is now vested with a 60% participating interest, with Caledonia holding a 40% interest. In terms of the joint venture, the BHP Entity 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.

The Mulonga Plain licence area is located in Western Zambia, between the Zambezi River and the Angolan border. Previous work by Motapa has identified four discrete prospective areas within the licence area. The eastern portion of the Mulonga Plain anomaly has been identified as having a higher probability for an initial kimberlite discovery. In November and December 2004 Motapa completed a 5,000 line kilometre airborne gravity and magnetic survey over this eastern area. This survey information has been processed and has identified 71 potential targets for further follow-up. This evaluation will form the basis for drill test work planned for mid-2005 and budgeted at US\$520,000.

Kashiji Plain

This licence area is located in northwest Zambia, adjacent to the Angolan border. Prior work by Motapa has recovered 22 microdiamonds in association with numerous kimberlitic ilmenites. Field work in 2004 focused on follow-up sampling and ground geophysical work in two discrete areas of anomalous kimberlite indicator mineral and diamond recoveries. In the Chundra Falls anomaly area, located in the northern portion of the Kashiji Plain, 33 heavy mineral samples, ranging in size from 1000 kg bulk macrodiamond samples to 5 kg infill samples were collected. In late 2003, the joint venture added the Lukulu licence area to its land holdings.

The Lukulu licence consists of 1,900 km² and is immediately adjacent to the south-east portion of the Kashiji licence area. During 2004 previous work, which has resulted in the recovery of anomalous diamond and kimberlitic ilmenites was followed-up by sampling and ground magnetic surveys. Results from the ground magnetic data and heavy mineral samples will determine the extent of drill test work that may be warranted in 2005.

Goedgevonden

Caledonia has 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. In early 2002, Caledonia signed Prospecting and Option Agreements over adjacent areas of interest, including the exploration rights to the Syferfontein kimberlite pipe that is located about 1 km north east of the Goedgevonden pipe and other adjacent areas of interest.

Previous prospecting activities carried out in the mid 1970's on Goedgevonden indicated that the pipe is oval in shape and covers a surface area of approximately 27,000 square metres. This work also confirms that the pipe was 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 cpht, with one hole yielding 65 cpht. A fair portion of the diamonds recovered from the drilling were gem quality with a notable tendency toward pink coloured diamonds.

In 2001, Caledonia conducted a stratagem geophysical survey prior to planning a preliminary drilling program in 2002. The preliminary drilling program consisted of 7", 8" and 12" diameter reverse circulation drill holes, the collection of the drill samples and diamond recovery. Four holes were drilled in the centre of the pipe, three to a depth of 150 metres, and the other to 120 metres. The three remaining holes were drilled to delineate the pipe in more detail. All of the 7 holes drilled entered the kimberlite at a depth of about 6 metres, and the 4 centrally-located holes were stopped whilst still in the kimberlite. A total of about 56 tonnes of drilling sample was collected and processed through a Van Eck and Lurie dense-media separation ("DMS") plant and wet Sortex machine. From the diamond recoveries it was confirmed that the Goedgevonden pipe was diamondiferous, and sufficient gem-quality diamonds were recovered to warrant a larger bulk sample. Geological interpretive work was completed during 2003 but there was no exploration activity on this property during 2004 as corporate resources were concentrated on Caledonia's other projects which are considered as being of higher priority in adding shareholder value.

PLATINUM

Rooipoort

In 2002, Eersteling acquired the Rooipoort Platinum Prospect from Anglo Platinum. The property is located approximately 30 km southwest of the Eersteling Gold Mine property and is located in an area that is presently undergoing a surge in platinum group metal exploration along a well mineralised feature known as the "Platreef". To date Caledonia has drilled a total of 11,005 meters on the Rooipoort Platinum Exploration Project to complete Phases 1 and 2 of this exploration program. A total of 624 metres has been completed of a proposed initial 3,250 metre drilling programme to outline an indicated resource on the property.

Initial exploration results indicate that there is PGM and base metal (nickel and copper) mineralization in most of the holes drilled to date over a 6 km strike length. A provisional interpretation of the drill results indicates that the northern and extreme southern portions of the Rooipoort property are most prospective for mineralization at even shallower depths. Future exploration activity will be concentrated in these areas and in the Grasvally property following receipt of the prospecting permit.

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

In 2004 Caledonia purchased and acquired prospecting rights over an additional 342 hectares on the farm Grasvally, immediately adjacent and to the south of the Rooipoort property. On March 11, 2005 Caledonia's application for the necessary Prospecting Permit from the Department of Minerals and Energy, which was filed on April 23, 2004, was refused on the grounds only of not having a shareholders agreement in place with a black economic empowerment partner. Caledonia believes that this refusal has no basis in law and continues to actively pursue this permit by all available means. Exploration drilling in this area will commence once the necessary exploration permits are issued by the South African Department of Minerals and Energy.

Maps and drill logs for the "Rooipoort Platinum Project" shown on Caledonia's website provide an appreciation of the exploration activity that has been carried out on the Rooipoort property.

BASE METALS

Nama

Caledonia Nama Limited, a wholly owned subsidiary of Caledonia, holds five contiguous exploration licences in northern Zambia which host open-pittable near-surface low grade cobalt /copper mineralization. The 2001/2002 soil-sampling program carried out jointly by Caledonia and BHP Billiton was completed over the majority of the remaining licence area. This program identified a number of high priority anomalous targets within the required geological setting. These targets should be followed up in the search for the suspected presence of larger, deeper, sulphide ore bodies. With the recent substantial increase in the price of copper, Caledonia will search for joint venture partners for the exploration of the potential deeper sulphide-ore zones.

In the second quarter of 2004 a mini bulk sample was excavated at Nama and underwent successful screening tests and heavy media/gravity separation tests in South Africa. Following encouraging results, it is now planned to excavate a larger tonnage sample, in conjunction with a cobalt end-user, which will be screened and processed on site to produce a suitable cobalt concentrate for testing through a Zambian smelter. If the test, which is planned for 2005, is successful and satisfactory economic terms are obtained, it is expected that a long-term supply contract for the Nama cobalt/copper concentrate will be negotiated with a smelter or other end users.

Kadola

This large exploration property consisting of three contiguous licence areas was previously joint ventured with Cyprus Amex and is prospective for copper and cobalt. With the recent substantial increase in the price of copper, Caledonia will search for joint venture partners for the exploration of the copper/cobalt potential of Kadola.

The Kadola properties also include the Eureka gold/copper/pyrite anomaly. With the significant increase in the price of gold and copper, this project area will be re-evaluated for either joint-venture or for further work by Caledonia.

OUTLOOK

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

STRATEGIC ALLIANCES

Exploration is a high-risk, high-cost but potentially high-reward business. Caledonia's strategy in this area is to position itself to participate in a significant part of the "reward" through joint venture interests in order to minimize early exploration costs. Details of the strategic alliances with joint venture partners have been discussed above.

Caledonia currently has two joint venture interests in place, each of which is presently conducting aggressive diamond exploration programmes. Caledonia intends to continue to focus its exploration activities of prospective properties by developing the properties through strategic alliances with senior producers.

ENVIRONMENTAL POLICY

Caledonia is 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.

Caledonia and its subsidiaries operate under Caledonia's Environmental Policy that encompasses the following:

- 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.
- Caledonia liaises closely with the applicable government regulatory bodies and the public to optimize communication and an understanding of Caledonia's activities in relation to environmental protection.
- Caledonia is committed to the diligent application of technically proven, economically feasible, environmental protection measures throughout its exploration, development, mining, processing and decommissioning activities.
- 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.

INVESTING

During 2004 Caledonia invested \$3.8 million on capital assets and mineral properties as compared to \$2.3 million in 2003. The majority of the \$3.8 million invested in 2004 was spent in South Africa on Barbrook, Eersteling, Rooipoort and Roodepoort.

FINANCING

During the year, \$14.3 million was raised from private placements, exercise of warrants and options as compared to \$9.5 million in 2003 and \$5.2 million in 2002 (all net of issue costs). The increased financing level reflects improving investor confidence in gold mining and exploration companies in general.

The majority of these funds will be used to finance the improvements in the processing of gold ore at Barbrook and exploration activity on the Company's most prospective projects.

Caledonia and its subsidiaries are completely debt-free.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2004 the Company had working capital of \$6.4 million as compared to \$3.8 million at December 31, 2003 and \$0.8 million at December 31, 2002. Cash and short term deposits increased from \$4.2 million at the end of 2003 to \$6.5 million at December 31, 2004.

During 2004, Caledonia raised \$13.3 million in equity financing net of expenses from a private placement by issuing 45,388,175 common shares and \$0.8 million from the exercise of 3,449,114 common share purchase warrants and options. Details of financing activities are presented in note 4 (b) of the notes to the consolidated financial statements. During 2005 it is expected that further cash requirements of Caledonia will be met from equity financing activity in conjunction with the proposed listing on the Alternate Investment Market of the London Stock Exchange, and cash flow from gold production at Barbrook.

The following table summarizes cash flows and cash on hand (\$ thousands):

	2004	2003	2002
Cash	\$6,470	\$4,179	\$1,864
Working capital	6,419	3,783	758
Debt	-	-	-
Cash provided (used) by operating activities	(8,210)	(4,848)	(2,320)
Cash provided (used) by investing activities	(3,813)	(2,279)	(692)
Cash provided (used) by financing activities	14,314	9,442	4,786

USES OF LIQUIDITY

It is the belief of Caledonia that the planned financing activity discussed in the previous paragraph will sustain Caledonia for 2005 and into the year 2006. The anticipated increase of gold production at Caledonia's Barbrook Mine will also generate cash flow in 2005. However, if funds fall short of requirements, Caledonia will undertake financing options such as private placements with private investors, and if this is still insufficient for its needs, will investigate either project joint ventures or project bank funding. The funds raised by the 2004 financing have been and will be used mainly by Caledonia on its exploration, development and production activities such as:

- at Barbrook by developing access to ore resources below the 10 level and to the east along strike, providing continuity of the mining operations, making capital additions to the Barbrook metallurgical plant, such as a Biox® circuit;
- by further drilling/possible bulk sampling and processing of material from Caledonia's Goedgevonden Diamond Project;
- by further drilling at Caledonia's Rooipoort Platinum Project;
- by further bulk sampling and concentration test work on Caledonia's Nama Cobalt/Copper Project; and
- by further exploration in respect of the Eersteling Mine to establish the prospects of re-opening it.

The funds raised will be sufficient to move forward with the direct development of the above assets if the projects are proven to be economically and technically justified. The Mulonga Plain joint venture with the BHP Entity is subject to joint venture agreements and is fully funded by the joint venture partner through to commercial production. Similarly the Kikerk Lake joint venture with Ashton Mining is fully funded by Ashton. Caledonia continues to actively review the benefits, to Caledonia and its shareholders, of seeking new joint venture partners for most, if not all of its exploration properties.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The Company does not have any significant long-term contractual obligations or commercial commitments other than its responsibilities pursuant to two joint venture agreements discussed elsewhere in this document, except as given below.

Contractual Obligations (\$000's)	Total	Less than 1 year	1 to 5 years	After 5 years
Purchase Obligations	\$320	\$52	\$268	\$ 0

The above relates to the South African head office. The company has minor obligations in respect of licence fees for its exploration and mining properties some of which are paid by Caledonia's joint venture partners.

QUARTERLY DATA (unaudited)

Selected Financial Highlights - 2004

\$000's except per share amount	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Balance Sheet					
Current assets	\$11,621	\$13,022	\$9,753	\$7,481	\$7,481
Capital assets	8,484	9,411	9,731	7,158	7,158
Mineral properties	7,395	7,891	8,454	8,948	8,948
Shareholders' equity	25,362	28,882	26,646	22,181	22,181
Operations					
Revenue	140	30	202	469	841
Operating costs	1,315	1,396	2,054	1,686	6,451
Costs and expenses ⁽¹⁾	563	69	398	3,352	4,382
Net (loss) for the period	(1,725)	(1,435)	(2,250)	(4,569)	(9,979)
Net (loss) per share ⁽²⁾	(0.007)	(0.005)	(0.008)	(0.015)	(0.034)

Selected Financial Highlights – 2003⁽⁴⁾

\$000's except per share amount	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Balance Sheet					
Current assets	\$2,938	\$1,133	\$4,623	\$4,573	\$4,573
Capital assets	7,899	7,909	8,123	7,666	7,666
Mineral properties	15,915	15,960	16,070	7,212	7,212
Shareholders' equity	24,454	23,057	26,656	17,651	17,651
Operations					
Revenue	53	-	259	334	646
Operating costs	72	1,232	921	1,405	3,630
Costs and expenses ⁽³⁾	189	174	410	10,777	11,550
Net (loss) for the period	(208)	(1,406)	(1,072)	(11,810)	(14,496)
Net (loss) per share ⁽²⁾	(0.001)	(0.006)	(0.004)	(0.052)	(0.062)

⁽¹⁾ Includes a write down of mineral rights and capital assets at Eersteling in South Africa in the fourth quarter of \$1,062

⁽²⁾ Represents basic and fully diluted loss per share, in \$ per share

⁽³⁾ Includes a write down of mineral properties in Zambia and South Africa in the fourth quarter of \$9,759

⁽⁴⁾ Restated for the adoption of the Asset Retirement Obligation change in accounting policy.

The fluctuation in operating costs through the year related primarily to variations in activities at Barbrook as various modifications were made to the gold-recovery plant. The revenue increase in the last quarter is from the increase in gold production at Barbrook. The significant reduction in carrying value of capital assets and mineral properties is explained in Notes ⁽¹⁾ and ⁽³⁾. Gold production at Barbrook remained below target, due to poor metallurgical recoveries, despite an improvement during the second half of the year. Further laboratory and pilot plant test work is continuing into 2005 to ensure sustainable higher recoveries. A significant increase in gold recovery was obtained in February 2005 and is continuing into March.

CRITICAL ACCOUNTING POLICIES

Preparing financial statements requires management to make estimates and assumptions that affect the reported results. Estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. The Company's accounting policies are those that affect the Consolidated Financial Statements and are summarized under the "Summary of Critical Accounting

Policies". The critical accounting policies include accounting for foreign currency translation, capitalization of exploration expenditures and the recognition of impairment of those assets.

Costs relating to the acquisition, exploration and development of non-producing resource properties are capitalized until such time as either economically recoverable reserves are established or the properties are sold or abandoned. Based on the results at the conclusion of each phase of an exploration program, properties that are not suitable as prospects are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate. The decision to capitalize exploration expenditures and the timing of the recognition that capitalized exploration is unlikely to have future economic benefits can materially affect the reported earnings of the Company.

A significant portion of the Company's assets and liabilities are denominated in South African rand. Fluctuations in the value of the rand relative to the Canadian dollar could have a significant impact on results of operations. Exchange gains or losses arising from the translation of South African assets and liabilities are reflected through the income statement in the period in which they occur.

CHANGES IN CANADIAN ACCOUNTING RECOMMENDATIONS

2002

During 2002, the Company chose to present the impact of stock-based compensation as pro-forma information in the notes of the financial statements.

2003

Effective January 1, 2003, the Company adopted the new recommendations of the CICA in Handbook Section 3870, "Stock-based compensation and other stock-based payments". Section 3870 is applied prospectively to all stock-based payments granted on or after January 1, 2003. The Company has chosen to reflect the stock-based compensation as an expense in the statement of operations from that date.

Effective January 1, 2003, the Company adopted a new accounting standard of the CICA in respect of the impairment or disposal of long-lived assets. During the year, the Company reviewed the carrying value of numerous long-lived assets under the new standard resulting in the recording of valuation adjustments as disclosed in Note 3 of the financial statements.

2004

The Company has adopted the accounting guidelines issued by the CICA in respect of hedging relationships for Canadian reporting purposes. The new guidelines will be applied at such time as Caledonia undertakes any hedging contracts. The Company does not anticipate that the new guidelines will have a material effect on the results of operations and financial condition.

Effective January 1, 2004, the Company has adopted CICA 1100, Generally Accepted Accounting Principles. CICA 1100 describes what constitutes Canadian GAAP and its sources. The Company does not anticipate that this will have a material effect on the results of operations and financial condition.

Effective January 1, 2004, the Company has adopted the new CICA rules concerning the accounting for asset retirement obligations. The adoption of this rule will bring Canadian and US GAAP into alignment. For Canadian reporting purposes the new rules have been adopted retrospectively to 1st January 2002.

SUPPLEMENT TO THE FINANCIAL STATEMENTS

As at March 18, 2005 the following equity instruments were outstanding:

301,112,286 common shares and the following options and warrants:

Number	Description	Exercise Price	Validity
17,108,700	Common share purchase options	Average \$0.22	Various until February 1, 2015
13,797,765	Common share purchase warrants	\$0.55	Until September 29,2005
9,905,489	Common share purchase warrants	\$0.55	Until October 5, 2005
1,983,091	Common share purchase warrants	\$0.55	Until October 13, 2005
1,546,564	Common share purchase warrants	\$0.55	Until October 26,2005

FORWARD LOOKING STATEMENTS

This annual report contains certain forward-looking statements relating but not limited to the Company'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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

To the Shareholders of Caledonia Mining Corporation:

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

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

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

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

(signed)
S. E. Hayden
President and Chief Executive Officer

(signed)
M. D. Tombs
Vice-President, Finance and Chief Financial Officer

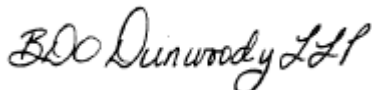
Auditors' Report

To the Shareholders of Caledonia Mining Corporation

We have audited the consolidated balance sheets of Caledonia Mining Corporation as at December 31, 2004 and 2003 and the consolidated statements of deficit, operations and cash flow for each of the years in the three year period ended December 31, 2004. 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 the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial 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.

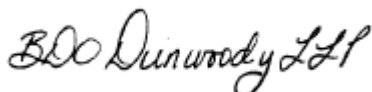
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flow for each of the years in the three year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Ontario
February 11, 2005

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

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in the summary of significant accounting policies. The United States reporting standards also require the addition of an explanatory paragraph when changes in an accounting policy, such as those involving asset retirement obligations, stock based compensation and impairment of long lived assets described in the summary of significant accounting policies, have a material effect on the consolidated financial statements. Our report to the shareholders dated February 11, 2005 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.



Chartered Accountants
Toronto, Ontario
February 11, 2005

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

December 31	2004	2003
Assets		
Current		
Cash and short term deposits	\$6,470	\$4,179
Accounts receivable	316	178
Inventories	508	86
Prepaid expenses	187	130
	<u>7,481</u>	<u>4,573</u>
Investment at cost (Note 1)	79	79
Capital assets (Note 2)	7,158	7,666
Mineral properties (Note 3)	8,948	7,212
	<u>\$23,666</u>	<u>\$19,530</u>
Liabilities and Shareholders' Equity		
Current		
Accounts payable	\$1,062	\$790
Provision for site restoration	<u>423</u>	<u>353</u>
	1,485	1,143
Non-controlling interest (Note 13)	<u>0</u>	<u>736</u>
	<u>1,485</u>	<u>1,879</u>
Shareholders' Equity		
Share capital (Note 4(b))	173,304	159,151
Contributed surplus (Note 4 (c))	480	285
Warrants (Note 4 (b))	321	160
Deficit	(151,924)	(141,945)
	<u>22,181</u>	<u>17,651</u>
	<u>\$23,666</u>	<u>\$19,530</u>

On behalf of the Board:

(signed) _____ Director
F.C. Harvey

(signed) _____ Director
J. Johnstone

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)

For the years ended December 31	2004	2003	2002
Deficit , beginning of year	(\$141,945)	(\$127,449)	(\$123,003)
Net (loss) for the year	(9,979)	(14,496)	(4,446)
Deficit , end of year	(\$151,924)	(\$141,945)	(\$127,449)

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

For the years ended December 31	2004	2003	2002
Revenue and operating costs			
Revenue from sales	\$841	\$646	\$27
Operating costs	6,451	3,630	145
Gross profit (loss)	(5,610)	(2,984)	(118)
Costs and expenses			
General and administrative	1,984	1,276	1,540
Interest	175	127	29
Amortization	800	438	16
Other expense (income) (Note 7)	361	(50)	166
Write down of mineral properties	1,062	9,759	2,590
	4,382	11,550	4,341
(Loss) before non-controlling interest	(9,992)	(14,534)	(4,459)
Non-controlling interest	(13)	(38)	(13)
Net (loss) for the year	(\$9,979)	(\$14,496)	(\$4,446)
Net (loss) per share (Note 6)			
Basic and fully diluted	(\$0.034)	(\$0.062)	(\$0.023)

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)

For the years ended December 31	2004	2003	2002
Cash provided by (used in)			
Operating activities			
Net (loss) for the year	(\$9,979)	(\$14,496)	(\$4,446)
Adjustments to reconcile net cash from operations (Note 8)	2,114	10,289	2,599
Changes in non-cash working capital balances (Note 8)	(345)	(641)	(473)
	(8,210)	(4,848)	(2,320)
Investing activities			
Purchase of investment	-	-	(79)
Expenditures on capital assets and mineral properties	(3,813)	(2,279)	(613)
	(3,813)	(2,279)	(692)
Financing activities			
Loan payable	-	(69)	(388)
Issue of share capital net of issue costs	14,314	9,511	5,174
	14,314	9,442	4,786
Increase in cash for the year	2,291	2,315	1,774
Cash and cash equivalents, beginning of year	4,179	1,864	90
Cash and cash equivalents, end of year	\$6,470	\$4,179	\$1,864

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

Caledonia Mining Corporation

Summary of Significant Accounting Policies

December 31, 2004, 2003 and 2002

Nature of Business

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

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 reserves and resources and cash flows are based upon engineering and geological estimates and financial estimates including gold prices and operating costs. The amount ultimately recovered could be materially different than the estimated values.

Principles of Consolidation

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

The Company's consolidated subsidiaries (all 100% owned) are Barbrook Mines Limited ("Barbrook"), Eersteling Gold Mining Company Limited (100% owned since June 2004) ("Eersteling") Greenstone Management Services (Proprietary) Limited, Fintona Investments (Proprietary) Limited, Maid O' Mist (Proprietary) Limited, Caledonia Mining (Zambia) Limited, Caledonia Kadola Limited, Caledonia Nama Limited and Caledonia Western Limited.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand in operating bank accounts and money market funds.

Inventories

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

Revenue Recognition

Revenue from the sale of precious metals is recognized when the significant risks and rewards of ownership are transferred to the buyer and collection is reasonably assured.

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
December 31, 2004, 2003 and 2002

Capital Assets

Producing Assets

Producing assets are recorded at cost less grants, accumulated amortization and write-downs. Producing assets are amortized using the straight line method basis on the estimated useful lives of the assets. The estimated life of the producing assets ranges up to 10 years. Repairs and maintenance expenditures are charged to operations; major improvements and replacements which extend the useful life of an asset are capitalized and amortized over the remaining useful life of that asset. Barbrook continues to undertake activities to re-establish commercial operations and has been presented as a producing asset in these financial statements for 2004 and 2003. As of December 31, 2002, the Company did not have any producing capital assets.

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 proven and probable mineral reserves as defined by the Canadian Institute of Mining, Metallurgy and Petroleum. Barbrook continues to undertake activities to re-commence commercial operations and has been presented as a producing asset in these financial statements for both 2004 and 2003. For the 2002 fiscal year the Company did 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.

A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases, and the general likelihood that the Company will continue exploration on the project. However, based on the results at the conclusion of each phase of an exploration program, properties that are not suitable as prospects are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the properties or the mineral rights. The amounts shown for non-producing resource properties do not necessarily reflect present or future values.

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
December 31, 2004, 2003 and 2002

Strategic Alliances

The Company has entered into various agreements under which the participants earn a right to participate in the mineral property by incurring exploration expenditures in accordance with the conditions of the agreements. Upon satisfaction of the conditions of the agreement a joint venture may be formed with customary joint venture terms and provisions and then accounted for on a proportionate consolidation basis. Until a joint venture is formed only the expenditures on the properties incurred by the Company are reflected in these financial statements.

Foreign Currency Translation

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

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

Exchange gains or losses arising on these translations are reflected in income in the year incurred. Gains and losses arising on translation of long term foreign currency denominated liabilities at each year end are reflected in income.

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.

Change in Accounting Policies

(a) Asset Retirement Obligations

Effective January 1, 2004 the Company adopted the Canadian Institute of Chartered Accountants Standard 3110, "Asset Retirement Obligations" This standard requires that a liability for retirement obligations to be settled as a result of an existing law, regulation or contract be recognized when incurred and recorded at fair value on a retroactive basis. The new standard has been applied retroactively to January 1, 2002, and results previously reported have been restated as necessary.

The restatement has resulted in the following notable adjustments (in thousands of Canadian Dollars)

	2003	2002
(Loss) for the period previously reported	(14,556)	(4,331)
(Loss) for the period restated	(14,496)	(4,446)
Basic and fully diluted earnings per share previously reported (\$)	(0.063)	(0.023)
Basic and fully diluted earnings per share restated (\$)	(0.062)	(0.023)
Total shareholder equity previously reported	17,182	22,151
Total shareholder equity restated	17,651	22,560
Total assets previously reported	19,335	24,767
Total assets restated	19,530	24,969

Caledonia Mining Corporation
Summary of Significant Accounting Policies (continued)
December 31, 2004, 2003 and 2002

(b) Stock Based Compensation

The Company has adopted the new accounting standard of the Canadian Institute of Chartered Accountants (“CICA”) for the accounting of stock-based compensation expense effective January 1, 2002 on a prospective basis. Under this standard, compensation expense on stock options granted to non-employees is recorded as an expense in the period the options are vested using the fair value method estimated by using the Black-Scholes Option Pricing Model.

During 2002, the Company reported compensation expense associated with stock options granted to directors, officers and employees as pro-forma information in Note 4 (c). Effective January 1, 2003, the Company commenced recording compensation expense for stock options granted to directors, officers and employees in the Consolidated Statements of Operations.

Any consideration paid by directors, officers, employees and non-employees on exercise of stock options or purchases of shares is credited to share capital.

(c) Impairment of Long-lived Assets

Effective January 1, 2003, the Company adopted the new accounting standard of the CICA in respect of the impairment or disposal of long-lived assets. The new standard requires that a fair value determination be made for long-lived assets. During the year, the Company reviewed the carrying value of numerous long-lived assets under the new standard resulting in the recording of valuation adjustments.

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)
December 31, 2004, 2003 and 2002

1. Investment at Cost

On May 9, 2002 the Company participated in a private placement of the purchase of shares of Motapa Diamonds Inc. (“Motapa”) in an amount of US\$50 (\$79 Canadian). The shares of Motapa are listed on the TSX Venture Exchange in Canada. Motapa Diamonds Inc. is participating in a strategic alliance with the Company on the Mulonga Plain diamond exploration project in Zambia.

2. Capital Assets

	2004		
	<u>Cost</u> ⁽¹⁾	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u> <u>Book Value</u>
	Land - plant sites	\$1,541	\$ -
Plant and equipment			
- producing ⁽²⁾	4,967	497	4,470
- non-producing ⁽³⁾	887	-	887
Office equipment	869	786	83
Vehicles	451	274	177
	\$8,715	\$1,557	\$7,158
	2003		
	<u>Cost</u> ⁽¹⁾	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u> <u>Book Value</u>
Land - plant sites	\$1,833	\$ -	\$1,833
Plant and equipment			
- producing ⁽²⁾	4,529	451	4,078
- non-producing ⁽³⁾	1,596	-	1,596
Office furniture	771	749	22
Vehicles	395	258	137
	\$9,124	\$1,458	\$7,666

- (1) Cost is comprised of the original cost of the asset, less previous write downs, removal of cost for disposals and government grants, and includes the capitalized value of the estimated asset retirement obligations.
(2) The producing plant and equipment in 2004 and 2003 relates to the Barbrook operation.
(3) The net book value of non-producing plant and equipment at December 31, 2004 represents Eersteling.

The recoverability of the carrying amount of the Barbrook capital assets is dependent upon the availability of sufficient funding, the ability of the Company to bring the property into production, the price of gold, the exchange rate of the South African rand relative to the US dollar and the undertaking of a profitable mining operation. The recoverability of the carrying amount of the Eersteling capital assets is dependent upon the availability of sufficient funding to bring the property into profitable production or the value realized from the possible disposal of the assets. As a result of these uncertainties, the actual amount recovered may vary significantly from the carrying amount.

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)

December 31, 2004, 2003 and 2002

3. Mineral Properties

	2004		
	<u>Cost</u> ⁽¹⁾	<u>Accumulated</u> <u>Amortization</u>	<u>Net Book</u> <u>Value</u>
Producing:			
Barbrook, South Africa - gold property	\$6,132	\$646	\$5,486
Non-producing – care and maintenance:			
Eersteling, South Africa - gold property	-	-	-
Non-producing - exploration:			
Rooiport and Roodeport, South Africa	1,671	-	1,671
Nunavut, Canada	750	-	750
Zambia	1,041	-	1,041
	\$9,594	\$646	\$8,948
	2003		
	<u>Cost</u> ⁽¹⁾	<u>Accumulated</u> <u>Amortization</u>	<u>Net Book</u> <u>Value</u>
Producing:			
Barbrook, South Africa - gold property	\$4,692	\$17	\$4,675
Non-producing – care and maintenance:			
Eersteling, South Africa - gold property	810	67	743
Non-producing - exploration:			
Nunavut, Canada	750	-	750
Zambia	1,044	-	1,044
	\$7,296	\$84	\$7,212

- (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 strategic alliances with third parties on a Canadian property and a Zambian property valued at \$750 and \$1,041 respectively. The third parties may earn varying percentage interests in these properties by carrying out exploration work on the properties.

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

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)
December 31, 2004, 2003 and 2002

4. Share Capital

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

(b) Issued

	<u>Number of Shares</u>	<u>Amount</u>
Common shares		
Balance, December 31, 2001	165,202,115	\$143,986
Issued pursuant to private placements	27,409,655	4,023
Warrants exercised	18,018,000	1,474
Shares Issued for debt – note ⁽²⁾	1,165,500	140
Balance, December 31, 2002	211,795,270	149,623
Issued pursuant to private placements	25,280,000	5,674
Warrants exercised	15,093,252	3,814
Shares issued from exercise of stock options	106,475	40
Balance, December 31, 2003	252,274,997	\$159,151
Issued pursuant to private placements	45,388,175	13,392
Warrants exercised	3,449,114	761
Balance, December 31, 2004	301,112,286	\$173,304

- (1) On April 12, 2002, the Company completed a private placement for proceeds of \$3,000 comprised of gross cash consideration of \$2,500 and the retirement of debt of \$500. The issue price was \$0.145 per unit, each unit being comprised of one common share and one half common share purchase warrant exercisable at \$0.195 per whole common share purchase warrant for a period of two years from the issue date. A total of 20,689,655 shares were issued pursuant to the private placement of which 3,448,029 were issued for the retirement of debt. Share issue costs of \$328 for the private placement have been charged to share capital. In addition, whole broker warrants in the amount of 1,724,163 were issued exercisable at \$0.195 per warrant. A value of \$0.06 per warrant was assigned to the broker compensation warrants for a total consideration of \$103.
- (2) A loan convertible into common shares of the Company was redeemed and converted during the third quarter of 2002 into 1,165,500 common shares valued at \$140.
- (3) During December 2002, the Company commenced a private placement to raise \$3,000. As at December 31, 2002 the first closing raised gross proceeds of \$1,680 resulting in the issuance of 6,720,000 common units. The balance of the offering was received on January 6, 2003 upon completion of the second closing (see (4) below). A total of 12 million units priced at \$0.25 per unit were subscribed for both closings. Each unit consisted of one common share and one half common share purchase warrant. Each full warrant entitled the holder to purchase one common share at a price of \$0.33 for a period of one year from the date of issue. Share issue costs for the first closing of \$152 have been charged to share capital in 2002. A total of 672,000 broker warrants were issued on behalf of the first closing under the same terms and conditions as noted above. A value of \$0.11 per warrant was assigned to broker compensation warrants for a total consideration of \$74.

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)

December 31, 2004, 2003 and 2002

4. Share Capital (continued)

- (4) On January 6, 2003, the Company concluded the private placement described above with the second closing for gross proceeds of \$1,320 resulting in the issuance of 5,280,000 units. A further 528,000 broker warrants were issued under the same terms and conditions as noted above. A value of \$0.11 per warrant was assigned to the broker compensation warrants for total consideration of \$58. Share issue costs associated with the second closing have been charged to share capital in 2003 in an amount of \$119.
- (5) During the third quarter of 2003, the Company concluded a private placement financing for \$5,000 gross proceeds comprised of 20,000,000 units. Each unit is comprised of one common share and one half common share purchase warrant issued at \$0.25 per unit. In addition, a total of 2,000,000 whole broker warrants were issued with each warrant exchangeable for one whole common share. Whole warrants are exchangeable for shares at \$0.35 per share for a period of eighteen months from the date of closing. The 2,000,000 broker compensation warrants issued upon closing were assigned a value of \$0.08 per warrant for total considerations of \$160. Share issue costs of \$544 have been charged to share capital.
- (6) During the first half of 2004, Caledonia raised a gross amount \$14,978 from a private placement by the issuance of 45,388,175 units consisting of one common share and one-half common share purchase warrant. Each unit is priced at \$0.33 per unit and the common share purchase warrants are exercisable for one common share at \$0.55 per whole warrant for a period of eighteen months from the date of issuance.

The private placement agents were paid a commission of 9% of the gross proceeds raised and whole common share purchase warrants equal to 10% of the total units sold. The agent compensation warrants are exercisable for one common share at \$0.55 per warrant for a period of eighteen months from the date of issuance. A total of 4,538,818 agent compensation warrants were issued at an assigned value of \$161. Cash commissions and expenses paid amounted to \$1,425.

- (7) The fair value of the warrants noted above was estimated using the Black-Scholes Option Pricing Model with the following assumptions for the periods ended December 31, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Risk-free interest rate	2.25%	3.63%	3.63%
Expected dividend yield	nil	nil	nil
Expected stock price volatility	64-65%	48%	48%
Expected option life in years	1	1	1

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)
December 31, 2004, 2003 and 2002

4. Share Capital (continued)

(c) Stock Option Plans and Stock-Based Compensation

The Company has established incentive stock option plans (the "Plans") for employees, officers, directors, consultants and other service providers. Under the Plans, as at December 31, 2004, the Company has the following options exercisable and outstanding:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
410,700	\$ 0.750	April 28, 2005
813,000	\$ 0.330	February 9, 2008
9,950,000	\$ 0.235	April 24, 2012
225,000	\$ 0.345	June 2, 2012
500,000	\$ 0.280	November 4, 2013
1,010,000	\$ 0.260	April 29, 2014
200,000	\$ 0.260	August 15, 2014

The continuity of the options granted, exercised and cancelled under the Plans during 2004 and 2003 are as follows:

	<u>Number of Options</u>	<u>Weighted Avg. Exercise Price</u>
Options outstanding at December 31, 2001	2,565,800	\$0.48
Options granted	10,225,000	\$0.24
Options cancelled	<u>(110,000)</u>	(\$0.33)
Options outstanding at December 31, 2002	12,680,800	\$0.29
Granted	500,000	\$0.28
Exercised	(106,475)	(\$0.38)
Cancelled or expired	<u>(1,175,625)</u>	(\$0.50)
Options outstanding at December 31, 2003	11,898,700	\$0.26
Granted	<u>1,210,000</u>	\$0.26
Options outstanding at December 31, 2004	<u>13,108,700</u>	\$0.26
Options exercisable at December 31, 2004	<u>12,910,700</u>	\$0.26

The options to purchase common shares noted above, have been granted to directors, officers, employees and service providers at exercise prices determined by reference to the market value of the common shares on the date of grant. The vesting of options is made at the discretion of the board of directors at the time the options are granted. As of December 31, 2004 there are 12,220,625 stock options available to grant

Effective January 1, 2003 the Company commenced recording compensation expense on a prospective basis in the Consolidated Statements of Operations for stock options granted to directors, officers and employees using the fair value method. During 2004, stock option expense of \$195 for the grant of 1,210,000 options was charged to expense and credited to contributed surplus. During 2003 stock option expense of \$76 was recorded in respect of 500,000 stock options granted. Of the stock options granted to directors in 2002, an amount of 1,000,000 options were granted

Caledonia Mining Corporation

Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)
December 31, 2004, 2003 and 2002

4. Share Capital (continued)

as compensation for legal services. The fair value assigned to the options granted for legal services amounted to \$209 and the amount was recorded as an expense and credited to contributed surplus. The fair value of the remaining 9,225,000 stock options granted in 2002 was valued at \$1,916 and disclosed as pro-forma information as noted below. For the year ended December 31, 2001, no stock options were granted to directors, officers and employees.

The fair value of compensation expenses noted above was estimated using the Black-Scholes Option Pricing Model with the following assumptions for the periods ended December 31, 2004, 2003 and 2002.

	2004	2003	2002
Risk-free interest rate	2.25%	3.63%	3.63%
Expected dividend yield	Nil	nil	nil
Expected stock price volatility	100-113%	48%	48%
Expected option life in years	3	3	3

The pro-forma effect on net loss and loss per share for the period ended December 31, 2002 of the actual results had the Company accounted for the 9,225,000 stock options granted to directors, officers and employees using the fair value method is as follows:

Net loss for the period	
Reported	\$4,446
Compensation expense	<u>\$1,916</u>
Pro-forma	<u>\$6,362</u>
Basic loss per share	
Reported	<u>\$ 0.023</u>
Pro-forma	<u>\$ 0.033</u>

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

(d) Warrants

The Company has issued the following common share purchase warrants pursuant to private placements which are outstanding as of December 31, 2004:

<u>Number of Warrants</u>	<u>Shares for Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
12,000,000	1 for 1	\$0.350	February 6, 2005
7,467,319	1 for 1	\$0.550	September 29, 2005
19,765,590	1 for 1	\$0.550	October 26, 2005

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)

December 31, 2004, 2003 and 2002

4. Share Capital (continued)

The continuity of warrants issued and outstanding is as follows:

	<u>Number of Warrants</u>
Outstanding December 31, 2001	17,000,000
Issued pursuant to private placements	13,704,828
Issued to Broker	2,396,163
Issued for conversion of debt	291,375
Exercised	(18,018,000)
Outstanding December 31, 2002	15,374,366
Issued pursuant to private placements	12,640,000
Issued to Broker	2,528,000
Exercised	(15,093,252)
Outstanding December 31, 2003	15,449,114
Issued pursuant to private placements	22,694,091
Issued to Broker	4,538,818
Exercised	(3,449,114)
Outstanding December 31, 2004	39,232,909

5. Income Taxes

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

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Basic rate applied to pre-tax income (loss)	(3,609)	(36.12)	(5,319)	(36.6)	(1,721)	(38.6)
Losses and other benefits not recognized	3,609	36.12	5,319	36.6	1,721	38.6
	-	-	-	-	-	-

The Company and its subsidiaries have non-capital losses of approximately \$35,123 which may be carried forward to reduce future taxable income. The right to claim non-capital losses of \$1,584, \$18,984, \$3,611, \$142, \$611, and \$10,191 expires in 2011, 2010, 2009, 2008, 2007 and 2005 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 capital losses is carried forward indefinitely but can only be claimed against capital gains.

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)

December 31, 2004, 2003 and 2002

5. 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

A valuation allowance had been recorded to offset the benefit of these non-capital losses and expenses in these consolidated financial statements as the realization thereof is not considered likely.

6. Net (Loss) Per Share

The net (loss) per share figures have been calculated using the weighted average number of common shares outstanding during the respective fiscal years which amounted to 289,843,080 (2003 – 232,280,330; 2002 – 190,296,440). Under the treasury method of calculating fully diluted income per share, exercise of the outstanding stock options and warrants would be anti-dilutive in 2004, 2003 and 2002.

7. Other Expense (Income)

Other expense (income) is comprised of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Investment income	(\$152)	(\$51)	(\$7)
Oil and gas net income	-	-	(7)
Foreign exchange (gain) loss	513	1	180
	\$361	(\$50)	\$166

8. Statement of Cash Flow

Items not involving cash are as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Amortization	\$800	\$438	\$16
Write down of mineral properties and capital losses	1,062	9,759	2,590
Provision for site restoration	70	54	(203)
Non-controlling interest	(13)	(38)	(13)
Option grant expensed	195	76	209
	\$2,114	\$10,289	\$2,599

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)

December 31, 2004, 2003 and 2002

8. Statement of Cash Flow (continued)

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Accounts payable	\$272	(\$477)	(\$337)
Accounts receivable	(138)	(65)	(24)
Inventories	(422)	(86)	-
Prepaid expenses	(57)	(13)	(112)
	\$(345)	(\$641)	(\$473)

Additional cash flow information:

In 2002, the Company issued 4,163,529 shares to settle loans payable of \$640.

9. Financial Instruments

Unless otherwise noted, it is the opinion of management that the Company is not exposed to significant interest rate or credit risks arising from its financial instruments. A significant portion of the Company's assets and liabilities are denominated in South African rand. Fluctuations in the value of the rand relative to the Canadian dollar could have a significant impact on the results of operations. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. The Company does not use any derivative instruments to reduce its foreign currency risks.

10. Related Party Transactions

The Company had the following related party transactions:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Management and administrative services paid or accrued to a company which employs the Company's President	\$225	\$180	\$180
Interest paid to the Corporation's President ⁽¹⁾	127	-	-
Rent paid to a company owned by members of the President's family	83	78	63
Interest paid to a company owned by members of the President's family ⁽²⁾	23	-	-
Sale of a motor vehicle to the President at a market-related price	114		
Purchase of a motor vehicle from the President at a market-related price	16		

(1) In prior years the President delayed submitting regular expense claims due to the Corporation's cash situation. During 2004 all outstanding claims were submitted and the amount due, including interest at market-related rates, was paid to him.

(2) In prior years office rental payable to a company owned by members of the President's family was not always paid. During 2004 all outstanding amounts were paid, including interest at market-related rates.

Caledonia Mining Corporation Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)
December 31, 2004, 2003 and 2002

10. Related Party Transactions (continued)

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Included in accounts payable			
- owing to a company that employs the Company's President	\$ -	\$55	\$296
- owing to the Corporation's President	3	-	-
- owing to directors/officers for unpaid salaries	-	112	556

11. Segmented Financial Information

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

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

	For the year ended December 31, 2004			
	<u>Corporate</u>	<u>South Africa</u>	<u>Zambia</u>	<u>Total</u>
Revenue from sales	\$ -	\$841	\$ -	\$841
Operating costs	-	(6,451)	-	(6,451)
General and administrative	(1,676)	(308)	-	(1,984)
Interest	-	(175)	-	(175)
Amortization	-	(800)	-	(800)
Other income (expense)	5	(366)	-	(361)
Write down of mineral properties	-	(1,062)	-	(1,062)
(Loss) before the undernoted	(1,671)	(8,321)	-	(9,992)
Non-controlling interest	-	13	-	13
Net income (loss) for the year	(1,671)	(8,308)	-	(9,979)
Identifiable assets	7,181	15,395	1,090	23,666
Expenditures on capital assets & mineral properties	\$ -	\$3,813	\$0	\$3,813
	For the year ended December 31, 2003			
	<u>Corporate</u>	<u>South Africa</u>	<u>Zambia</u>	<u>Total</u>
Revenue from sales	\$ -	\$646	\$ -	\$646
Operating costs	-	(3,630)	-	(3,630)
General and administrative	(1,276)	-	-	(1,276)
Interest	-	(127)	-	(127)
Amortization	-	(438)	-	(438)
Other income (expense)	(26)	76	-	50
Write down of mineral properties	-	(225)	(9,534)	(9,759)
(Loss) before the undernoted	(1,302)	(3,698)	(9,534)	(14,534)
Non-controlling interest	-	38	-	38
Net income (loss) for the year	(1,302)	(3,660)	(9,534)	(14,496)
Identifiable assets	5,000	13,486	1,044	19,530
Expenditures on capital assets & mineral properties	\$ -	\$2,140	\$139	\$2,279

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)
December 31, 2004, 2003 and 2002

12. Segmented Financial Information (continued)

	For the year ended December 31, 2002			
	Corporate	South Africa	Zambia	Total
Revenue from sales	\$ -	\$27	\$ -	\$27
Operating costs	-	(145)	-	(145)
General and administrative	(1,405)	(135)	-	(1,540)
Interest	(29)	-	-	(29)
Amortization	(9)	(7)	-	(16)
Write down of mineral properties	-	-	(2,590)	(2,590)
Other income (expense)	(23)	(143)	-	(166)
(Loss) before the undernoted	(1,466)	(403)	(2,590)	(4,459)
Non-controlling interest	-	13	-	13
Net (loss) for the year	(1,466)	(390)	(2,590)	(4,446)
Identifiable assets	2,614	11,946	10,410	24,969
Expenditures on capital assets & mineral properties	\$ -	\$504	\$119	\$613

13. Acquisition of the Minority Interest of Eersteling Gold Mining Company Limited

On the 14th June 2004 Eersteling Gold Mining Company Limited, a subsidiary of the Corporation acquired the remaining 3.6% minority shareholdings from the shareholders for a cash consideration of \$26. The transaction has been accounted for as a step-by-step acquisition by the Corporation, resulting in negative goodwill of approximately \$746 which has been allocated on a pro-rata basis as a reduction of the non-monetary assets of the subsidiary.

14. Subsequent Event

On January 31, 2005 the company issued 2,000,000 stock options to the new non-executive Chairman of the Board of Directors.

15. 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 reserves 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.

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)
December 31, 2004, 2003 and 2002

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

(c) **Employee and Directors Stock Options**

Prior to 2003, the Company accounted for employee and director stock options under APB Opinion No. 25 under which no compensation cost is recognized when the exercise price equals or exceeds the fair value at the date of grant. Effective 1 January 2003, the company has for US reporting purposes prospectively applied the fair-value recognition provisions of SFAS 123.

Under Canadian GAAP, effective January 1, 2002 on a prospective basis, the Company adopted the new CICA policy of accounting for stock based compensation. Compensation expense on stock options granted to directors, officers and employees, was not recorded. However, disclosure of the effects of accounting for the compensation expense, utilizing the fair value method estimated using the Black-Scholes Option Pricing Model, was disclosed as pro-forma information. For 2002, a compensation expense was shown reflecting the intrinsic value attributable to stock options granted to directors, officers and employees.

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

(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) **Net Gain on Conversion of the Convertible Debentures and Settlement of Debt**

For US GAAP purposes a loss is recognized on settlement of debt to the extent that the quoted market value of shares and fair value of warrants issued at the date of settlement exceeds the carrying amount of debt.

(f) **Asset Retirement Obligations**

In 2004, the Company adopted the Canadian GAAP standards of "Asset Retirement Obligations" which are consistent with SFAS No. 143, "Accounting for Asset Retirement Obligations". These standards address financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. These standards require that the fair value of a liability for an asset retirement obligation 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 value of the long-lived asset. For Canadian accounting purposes, the Company adopted this standard during 2004 with retroactive restatement to 2002. Under US GAAP the cumulative effect of the change in accounting principles is shown, with no retroactive restatement of the comparative figures.

Caledonia Mining Corporation

Notes to the Consolidated Financial Statements

(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)

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

(g) Marketable Securities

Under accounting principles generally accepted in Canada, gains (losses) in shares of public companies are not recognized until investments are sold unless there is deemed to be an impairment of value which is other than temporary. Under US GAAP, such investments are recorded at market value and the unrealised gain and losses are recognized in other comprehensive income unless there is deemed to be an impairment which is other than temporary. Under FAS 115 the Company is accounting for the marketable securities as available for sale.

(h) Recently Issued United States Accounting Standards

In January 2003, the FASB issued Financial Interpretation 46 "Accounting for Variable Interest Entities" ("FIN 46") that will require the consolidation of certain entities that are controlled through financial interests that indicate control (referred to as "variable interests"), subsequently revised through the issuance of FIN 46R. Variable interests are the rights or obligations that convey economic gains or losses from changes in the values of the entity's assets or liabilities. The holder of the majority of an entity's variable interests will be required to consolidate the variable interest entity. FIN 46 applies to variable interest entities as of January 31, 2003, and to variable interest entities created after or in which an enterprise obtains an interest after that date. The Company does not have any arrangements with variable interest entities that will require consolidation of their financial information in the financial statements.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities". The changes are intended to improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. Additionally, those changes are expected to result in more consistent reporting of contracts as either derivatives or hybrid instruments. SFAS No. 149 is effective for contracts and hedging relationships entered into or modified after June 30, 2003, and for provisions that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, apply in accordance with their respective effective dates. The adoption of this statement did not have a significant effect on the Company's consolidated financial position or results of operations.

Caledonia Mining Corporation

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(in thousands of Canadian Dollars unless otherwise indicated and except for share and per share amounts)

December 31, 2004, 2003 and 2002

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

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liability and equity. It also requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective generally at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of non-public entities. It is to be implemented by reporting a cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this statement did not have a material effect on the financial position of the Company or results of its operations.

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R (Revised), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Statement No. 123(R). Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values and is effective at the beginning of the first interim or annual period beginning after June 15, 2005. The Company has determined that this will have no effect on the Company's consolidated financial position or results of operations.

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

(a) Income Statement

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Loss for the year per Canadian GAAP	(\$9,979)	(\$14,496)	\$(4,446)
Mineral property expenditure with no proven reserves (expensed) or previously expensed under US GAAP	(406)	9,081	2,303
Asset retirement obligation	-	(60)	115
Amortisation and closure accretion expense	-	(69)	-
Compensation expense	-	-	(1,405)
Loss on settlement of debt	-	-	(362)
Income before cumulative effect adjustment	(\$10,385)	(\$5,544)	(\$3,795)
Cumulative effect adjustment	-	559	-
Net income (loss) per US GAAP	(\$10,385)	(\$4,985)	(\$3,795)
Other comprehensive loss	(36)	-	-
Total comprehensive loss	(\$10,421)	(\$4,985)	(\$3,795)
(Loss) per share before cumulative effect adjustment	(\$0.036)	(\$0.024)	(\$0.020)
Cumulative effect adjustment per share	-	.002	-
Basic and diluted (loss) per share	(\$0.036)	(\$0.022)	(\$0.020)

Caledonia Mining Corporation
Notes to the Consolidated Financial Statements
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December 31, 2004, 2003 and 2002

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

(b) Balance Sheet

	<u>2004</u>	<u>2003</u>
Total assets per Canadian GAAP	\$23,666	\$19,530
Unrealised Loss on marketable securities	(36)	-
Mineral properties with no proven reserves expensed	(2,653)	(2,247)
Total assets per US GAAP	<u>\$20,977</u>	<u>\$17,283</u>
Total liabilities per Canadian and US GAAP	<u>\$1,485</u>	<u>\$1,879</u>
Shareholders' equity		
Shareholders' equity per Canadian GAAP	\$22,181	\$17,651
Mineral properties with no proven reserves expensed	(2,653)	(2,247)
Accumulated other comprehensive loss	(36)	-
Shareholders' equity per US GAAP	<u>\$19,492</u>	<u>\$15,404</u>

Directors and Management

BOARD OF DIRECTORS

G.R. Pardoe (2) (3) (4)
Chairman of the Board,
Johannesburg, South Africa

S. E. Hayden (2) (3)
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,
Secretary to Corporation
Mississauga, Ontario, Canada

W. I. L. Forrest (1) (2) (3)
Business Executive
Nyon, Switzerland

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

R.G. Fasel (1) (4)
Business Executive
Geneva, Switzerland

BOARD COMMITTEE MEMBERS

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

OFFICERS

S. E. Hayden
President and
Chief Executive Officer

F. C. Harvey
Technical Director, Secretary of
the Corporation

J. Johnstone
Vice President Operations and
Chief Operating Officer

M.D. Tombs
Vice-President Finance
and Chief Financial Officer

J. Smith
Vice-President Exploration



Caledonia Mining Corporation

Corporate directory

CORPORATE 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) Ltd.
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) 29-1574
Fax: (260) (1) 29-2154

SHARES LISTED

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

CAPITALIZATION at December 31, 2004

Authorised: Unlimited
Shares, Warrants and Options Issued:
Common Shares: 301,112,286
Warrants: 39,232,909
Options: 13,108,700

SOLICITORS

Borden Ladner Gervais LLP
Suite 4100, Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4 Canada

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

BANKERS

Canadian Imperial Bank of Commerce
6266 Dixie Road
Mississauga, Ontario
L5T 1A7 Canada

Caledonia Mining Corporation

Unit # 9
2145 Dunwin Drive
Mississauga, Ontario, Canada
L5L 4L9

Tel: (905) 607-7543
Fax: (905) 607-9806
info@caledoniamining.com

www.caledoniamining.com



Caledonia Mining Corporation