

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") of the consolidated operating results and financial position of Caledonia Mining Corporation Plc ("Caledonia" or the "Company") is for the quarter ended June 30, 2016 ("Q2 2016" or the "Quarter"), the six months ended June 30, 2016 (the "Half Year") and the period ended August 11, 2016. It should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements of Caledonia for the quarter ended June 30, 2016 ("the Unaudited Condensed Consolidated Interim Financial Statements") which are available from the System for Electronic Data Analysis and Retrieval at www.sedar.com or from Caledonia's website at www.caledoniamining.com. The Unaudited Condensed Consolidated Interim Financial Statements and related notes have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. In this MD&A, the terms "Caledonia", the "Company", "we", "our" and "us" refer to the consolidated operations of Caledonia Mining Corporation and our subsidiaries unless otherwise specifically noted or the context requires otherwise.

Note that all currency references in this document are to US Dollars, unless otherwise stated.

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1. OVERVIEW

Caledonia is an exploration, development and mining corporation focused on Southern Africa. Following the implementation of indigenisation at the Blanket Mine (“Blanket” or the “Blanket Mine”) in September 2012, Caledonia’s primary asset is a 49% legal ownership in Blanket, an operating gold mine in Zimbabwe. Caledonia continues to consolidate Blanket, as explained in Note 5 to the Unaudited Condensed Consolidated Interim Financial Statements, accordingly operational and financial information set out in this MD&A is on a 100% basis, unless otherwise specified. Caledonia’s shares are listed in Canada on the Toronto Stock Exchange (symbol - “CAL”), on London’s AIM (symbol - “CMCL”) and are also traded on the American OTCQX (symbol - “CALVF”).

2. HIGHLIGHTS

	Q2 2015	Q2 2016	H1 2015	H1 2016	Comment
Gold produced (oz)	10,401	12,510	20,360	23,332	Higher gold production due to increased tonnes mined and milled and higher grade
On-mine cost (\$/oz) ¹	720	629	718	658	Cost per ounce falls as fixed costs are spread across higher production and sales ounces
All-in Sustaining Cost (\$/oz) (“AISC”)	1,030	936	1,007	943	Lower cost per ounce due to lower on-mine cost per ounce, offset by higher royalty cost due to the higher gold price
Average realised gold price (\$/oz)	1,173	1,252	1,186	1,211	Higher realised price reflects the higher prevailing gold price
Gross profit (\$’000) ²	3,252	5,936	7,000	9,824	Higher gross profit due to higher production and sales, higher realised gold price and lower average costs per ounce
Net profit attributable to shareholders (\$’000)	266	3,607	1,522	4,150	Higher attributable profit due to increased gross profit and the profit arising on the sale of the treasury bills
Adjusted basic earnings per share (“EPS”) ³ (cents)	1.5	6.1	4.1	8.6	Higher adjusted earnings per share excludes the sale of the treasury bills and deferred tax
Net cash and cash equivalents (\$’000)	19,170	10,581	19,170	10,581	Net cash increased in the quarter, but is lower than June 30 2015 due to high levels of capital investment
Cash from operating activities (\$’000)	1,853	7,215	3,186	8,964	Increase in operating cash flows reflects the higher sales volumes and gold price and lower average costs of production

Dividend Policy

On November 25, 2013 Caledonia announced a dividend policy in terms of which it paid a dividend of 6 Canadian cents per share in 2014, split into 4 equal quarterly payments of 1.5 Canadian cents per share.

¹ Non-IFRS measures such as “On-Mine Cost per ounce”, “AISC” and “average realised gold price” are used throughout this document. Refer to Section 10 of this MD&A for a discussion of non-IFRS measures.

² Gross profit is after deducting royalties, production costs and depreciation but before administrative expenses.

³ Adjusted EPS is a non-IFRS measure which aims to reflect Caledonia’s ordinary trading performance. Refer to Section 10 of this MD&A for a discussion of non-IFRS measures.

The first quarterly dividend was paid on January 31, 2014 and subsequent quarterly dividends were paid thereafter.

Following the announcement on December 16, 2015 that henceforth Caledonia will report its financial results in United States Dollars, the quarterly dividends that were paid at the end of January and April 2016 were declared and denominated in United States Dollars as 1.125 United States cents.

On July 5, 2016 Caledonia announced a quarterly dividend of 1.375 United States cents per share, or 5.5 United States cents per annum. The increased dividend represents Caledonia's revised dividend policy. It is currently envisaged that the dividend of 5.5 United States cents per annum will be maintained.

Hedging

In February 2016, the Company entered into a derivative contract in respect of 15,000 ounces of gold over a period of 6 months and accordingly, the contract expired in July 2016. The contract protected the Company if the gold price fell below \$1,050 per ounce but gave Caledonia full participation if the price of gold exceeded \$1,079 per ounce. The derivative contract was entered into by the Company for economic hedging purposes and not as a speculative investment.

The derivative financial liability was measured at fair value and resulted in an expense of \$435,000 (being the maximum economic exposure arising from the contract) which was included in profit or loss for Q1 2016. Of the \$435,000 expense recognised in Q1 2016, \$145,000 was realised as at March 31, 2016 and \$236,000 was realised in Q2 2016. The Company settled the expense with the \$435,000 margin call deposited with the hedge counter-party. Blanket continues to sell all of its gold production to Fidelity Printers and Refiners Ltd ("Fidelity"), as required by Zimbabwean legislation, and receives the spot price of gold less an early settlement discount of 1.25%.

Re-domicile from Canada to Jersey, Channel Islands

On February 18, 2016 a Special Meeting of Caledonia's shareholders voted to approve the continuance (the "Continuance") of the Company from Canada to Jersey, Channel Islands. Caledonia's Board of Directors subsequently resolved to proceed with the proposed Continuance which became effective on March 19, 2016, whereupon the Company also adopted new charter documents and changed its name to Caledonia Mining Corporation Plc. Following the Continuance, Caledonia is domiciled in Jersey, Channel Islands for legal and tax purposes; Caledonia's shares (or depository interests) continue to be listed and traded on the Toronto Stock Exchange and on AIM and they continue to be traded on the OTCQX in the USA.

Strategy and Outlook

Caledonia's strategic focus continues to be the implementation of the Revised Investment Plan at Blanket, which was announced in November 2014 and is expected to extend the life of mine by providing access to deeper levels for production and further exploration. Implementation of the Revised Investment Plan remains on target in terms of timing and cost. Caledonia's board and management believe the successful implementation of the Revised Investment Plan is in the best interests of all stakeholders because it is expected to result in increased production, reduced operating costs and greater flexibility to undertake further exploration and development, thereby safeguarding and enhancing Blanket's long term future. Caledonia's cash position is expected to improve as a result of the implementation of the Revised Investment Plan; Caledonia will continue to assess new opportunities to invest surplus cash.

Exploration

There has been an increased focus on exploration and resource development at Blanket Mine for several quarters which is now beginning to bear fruit. As reported in the previous quarter, new drilling machines have been acquired and commissioned as a result of which the meters of diamond drilling has approximately doubled to 6,100 per quarter. On July 27, 2016 Caledonia announced that 343,000 tonnes of

ore at a grade of 5.19g/t had been upgraded from inferred resource to indicated resource and 1.2 million tonnes of new inferred resource at a grade of 5.00g/t had also been added to inventory.

Director and Management Appointments

On July 26, 2016 Caledonia announced the appointment of John McGloin as an independent non-executive director and Maurice Mason as Vice President Investor Relations and Corporate Development.

In addition to his recent and relevant experience as an executive in the mining industry, Mr McGloin's appointment will support Caledonia's increased focus on exploration and resource development and will enhance Caledonia's access to institutional investors.

Mr Mason will take over the day-to-day responsibility for Investor Relations and Corporate Development from Mr Learmonth, who, since November 2014 had combined this role with that of Chief Financial Officer.

Sale of Treasury Bills

On May 16, 2016 the Company announced that Blanket Mine had sold treasury bills ("Bills") issued by the Government of Zimbabwe for a gross value of approximately \$3.2 million. The Bills were issued to Blanket in 2015 and replaced the Special Tradeable Gold Bonds ("Bonds") which were issued to Blanket in 2009 as part consideration for gold sales that were made by Blanket in 2008 under the terms of the sales mechanism that existed at that time for Zimbabwean gold producers. The Bonds were fully written down in a previous accounting period, and the impairment value was applied as a deduction from Blanket's taxable income. The gross sales proceeds are treated as income in the Quarter and the income were subject to Zimbabwean income tax at 25.75%. The net proceeds are deducted for the purposes of calculating adjusted earnings per share⁴

⁴ Adjusted earnings per share is a non-IFRS measure which aims to reflect Caledonia's ordinary trading performance. Refer to Section 10 of this MD&A for a discussion of non-IFRS measures

3. SUMMARY FINANCIAL RESULTS

The table below sets out the consolidated profit and loss for the three and six months ended June 30, 2016 and 2015 prepared under IFRS.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)				
<i>(\$'000's)</i>				
	3 months ended June		6 months ended June	
	2015	2016	2015	2016
Revenue	12,212	15,681	25,128	29,104
Royalty	(611)	(785)	(1,258)	(1,457)
Production costs	(7,515)	(8,081)	(15,198)	(16,123)
Depreciation	(834)	(879)	(1,672)	(1,700)
Gross profit	3,252	5,936	7,000	9,824
Other income	15	17	23	74
Administrative expenses	(1,889)	(1,799)	(3,519)	(3,236)
Foreign exchange gain/(loss)	114	(228)	619	(200)
Share based payment expense	-	(159)	-	(250)
Sale of Blanket Mine treasury bills	-	3,203	-	3,203
Margin call on gold hedge	-	-	-	(435)
Operating profit	1,492	6,970	4,123	8,980
Net finance cost	(34)	(53)	(70)	(89)
Profit before tax	1,458	6,917	4,053	8,891
Tax expense	(986)	(2,381)	(1,954)	(3,507)
Profit for the period	472	4,536	2,099	5,384
Other comprehensive income/(loss)				
<i>Items that are or may be reclassified to profit or loss</i>				
Foreign currency translation differences for foreign operations	(218)	(131)	(548)	(27)
Total comprehensive income for the period	254	4,405	1,551	5,357
Profit attributable to:				
Shareholders of the Company	266	3,607	1,522	4,150
Non-controlling interests	206	929	577	1,234
Profit for the period	472	4,536	2,099	5,384
Total comprehensive income attributable to:				
Shareholders of the Company	48	3,476	974	4,123
Non-controlling interests	206	929	577	1,234
Total comprehensive income for the period	254	4,405	1,551	5,357
Earnings per share (cents)				
Basic	0.4	6.7	2.7	7.7
Diluted	0.4	6.7	2.7	7.7
Adjusted earnings per share (cents) ⁽ⁱ⁾				
Basic	1.5	6.1	4.1	8.6

(i) Adjusted EPS is a non-IFRS measure which aims to reflect Caledonia's ordinary trading performance. Refer to Section 10 for a discussion of non-IFRS measures

Revenues in the Quarter were 28.4% higher than Q2 2015 (the “comparable quarter”) due to a 20.3% increase in ounces sold from 10,401 ounces to 12,510 ounces and a 6.8% increase in the average realised price of gold from \$1,173 per ounce to \$1,252 per ounce. The royalty rate payable to the Zimbabwean government remained unchanged at 5%.

Production costs increased by 7.5% due to increased production and sales. The cost per tonne milled in the Quarter fell by 9.8% compared to the comparable quarter. The all-in sustaining cost per ounce of gold sold fell by 9.2% from \$1,030 per ounce in Q2 of 2015 to \$935 per ounce in the Quarter because fixed costs were spread over higher production tonnage and higher sales. Costs are discussed further in Section 4.6 of the MD&A.

Administrative expenses were 4.8% lower following measures taken in previous quarters to reduce overheads, including the closure of operations in Zambia in mid-2015. Administrative expenses are analysed on note 7 to the Unaudited Condensed Consolidated Interim Financial Statements. Approximately 35% of total administrative expenses relate to employee costs in Harare, Johannesburg and St Helier. The other largest component of administrative costs is legal and other costs relating to Caledonia’s general corporate affairs including regulatory and tax compliance in all relevant jurisdictions

With effect from 1 January 2016 the functional currency of the Company was changed from Canadian dollars to US dollars. Thus foreign exchange movements in the profit and loss in the Quarter and henceforth will only relate to gains and losses arising on US dollar-denominated cash balances and inter-company loans which are held by CMSA (which has the South African rand as its functional currency) and rand-denominated intercompany loans which are held by the Company.

The Company made Long Term Incentive Plan (“LTIP”) awards in the first quarter of 2016 to certain executives in the form of Restricted Share Units (“RSUs”) and Performance Share Units (“PSUs”). To avoid equity dilution for shareholders, RSUs and PSUs will be settled in cash, reflecting the prevailing Company share price at the maturity of the award and no shares will be issued as a result of the LTIP awards. The LTIP charge in the Quarter reflects a combination of the following factors: the change in the Company’s share price; the increase in the number of RSU’s due to the re-investment of attributable dividends and the erosion of the time period until vesting. Further information on the calculation of the charge is set out in note 8 to the Unaudited Condensed Consolidated Interim Financial Statements.

On May 16, 2016 the Company announced that Blanket Mine had sold Bills issued by the Government of Zimbabwe for a gross value of approximately \$3.2 million. The Bills were issued to Blanket in 2015 and replaced the Special Tradeable Gold Bonds (“Bonds”) which were issued to Blanket in 2009. The Bonds were issued as part consideration for gold sales that were made by Blanket in 2008 under the terms of the sales mechanism that existed at that time for Zimbabwean gold producers. The Bonds were fully written down in a previous accounting period, and the impairment value was applied as a deduction from Blanket’s income tax liability. The gross sales proceeds are treated as income in the Quarter which was subject to Zimbabwean income tax at 25.75%. The net proceeds are deducted for the purposes of calculating adjusted earnings per share⁵

In February 2016, the Company entered into a derivative contract in respect of 15,000 ounces of gold over a period of 6 months. This contract expired in July 2016. The maximum potential cost of the hedge was \$435,000 (being the difference between the collar value of \$1,050 per ounce and the cap value of \$1,079 per ounce multiplied by the number of ounces that were subject to the contract) which was recognised in Q1 2016. Caledonia retained full upside participation at a gold price above \$1,079 per ounce. Margin calls were deducted from the margin that Caledonia deposited with the hedge counter-party in February 2016. The contract expired in July 2016 and there was no further adverse cash flow effect arising from the contract.

The tax expense for the Quarter comprises: \$1,624,000 of deferred tax at Blanket due to the difference

⁵ Adjusted earnings per share is a non-IFRS measure which aims to reflect Caledonia’s ordinary trading performance. Refer to Section 10 of this MD&A for a discussion of non-IFRS measures

between the accounting tax treatments of capital investment; \$622,000 of Zimbabwean income tax arising on the sale of the Bills less a tax credit; \$148,000 of Zimbabwean withholding tax on the payment of management fees from Blanket to CMSA and a tax credit of \$13,000 arising at CMSA.

The non-controlling interest is 16.2% of the net profit of Blanket which is attributable to Blanket's Indigenous Zimbabwean shareholders and reflects their participation in the economic benefits generated by Blanket from the effective date of the indigenisation. This is explained in Note 5 of the Unaudited Condensed Consolidated Interim Financial Statements.

The adjusted earnings per share is a non-IFRS measure which reflects Caledonia's ordinary trading performance and is calculated on the share of profit attributable to Caledonia shareholders excluding foreign exchange profits or losses, non-cash items such as the charges for deferred tax and non-recurring profit or loss items such as the Zambian administrative expenses which were incurred in the comparative quarter and the net sale proceeds of the sale of the Bills. Refer to Section 10 of this MD&A for a discussion of non-IFRS measures.

Risks that may affect Caledonia's future financial condition are discussed in Section 17 of the MD&A.

The table below sets out the consolidated statements of cash flows for the quarter and six months to June 30, 2016 and 2015 prepared under IFRS.

Condensed Consolidated Statement of Cash Flows (unaudited)				
<i>(\$'000's)</i>				
	For the 3 months ended June 30		For the 6 months ended June 30	
	2015	2016	2015	2016
Cash flows from operating activities				
Cash generated by operating activities	2,096	7,902	3,874	9,835
Net interest paid	(24)	(54)	(49)	(90)
Tax paid	(219)	(633)	(639)	(781)
Net cash from operating activities	1,853	7,215	3,186	8,964
Cash flows from investing activities				
Acquisition of Property, plant and equipment	(2,689)	(4,926)	(5,800)	(8,230)
Proceeds from property, plant and equipment	-	3	-	59
Net cash used in investing activities	(2,689)	(4,923)	(5,800)	(8,171)
Cash flows from financing activities				
Dividends paid	(634)	(599)	(1,298)	(1,197)
Share issues	-	47	-	105
Net cash used in financing activities	(634)	(552)	(1,298)	(1,092)
Net (decrease)/increase in cash and cash equivalents	(1,470)	1,740	(3,912)	(299)
Cash and cash equivalents at beginning of the period (net of overdraft)	20,640	8,841	23,082	10,880
Cash and cash equivalents at end of the period (net of overdraft)	19,170	10,581	19,170	10,581

Cash generated from operating activities is analysed in Note 13 to the Unaudited Condensed Consolidated Interim Financial Statements. Cash generated from operating activities in the Quarter is higher than the comparable quarter and includes the non-recurring gross proceeds of \$3,203,000 arising on the sale of the

Bills by Blanket. Cash generated by operations before working capital changes in the Quarter was \$7,526,000. Changes in revenues and operating costs are discussed above in the discussion of the consolidated statement of profit or loss and other comprehensive income. The unrealised portion of the maximum potential loss on the hedge of \$54,000 and the charge of \$250,000 in respect of the share based payment expense arising from the LTIP awards to senior executives were added back to operating profit as they are not cash expenses in the Quarter.

Investment in property, plant and equipment in the Quarter was \$4,926,000 in terms of the Revised Investment Plan, which is discussed further in Section 4.7 of this MD&A and in sustaining capital investment.

The dividends paid in the Quarter relate to the quarterly dividend paid by Caledonia on April 29, 2016 of 1.125 US cents per share. No dividends were paid in the Quarter or in the comparable quarter by Blanket following the suspension of Blanket's dividend payments with effect from January 1, 2015 so that all cash generated by Blanket can be used to fund the Revised Investment Plan as described in Section 4.8 of this MD&A.

Shares issued were following the exercise of share options.

The table below sets out the consolidated statements of Caledonia's financial position at June 30, 2016 and 2015 prepared under IFRS.

Consolidated Statements of Financial Position (unaudited)		
(\$'000's)		
	<i>As at</i>	
	December 31 2015	June 30 2016
Total non-current assets	49,276	55,817
Inventories	6,091	6,440
Prepayments	667	457
Income tax receivable	397	233
Trade and other receivables	3,839	5,134
Cash and cash equivalents	12,568	10,581
Total assets	72,838	78,662
Total non-current liabilities	14,080	16,899
Trade and other payables	6,656	7,035
Income taxes payable	53	102
Bank overdraft	1,688	-
Total liabilities	22,477	24,036
Total equity	50,361	54,626
Total equity and liabilities	72,838	78,662

Trade and other receivables are analysed in note 11 to the Unaudited Condensed Consolidated Interim Financial Statements. The increase in receivables during the Quarter is due to the increased receivable in respect of bullion sales to Fidelity Printers and Refiners: the amount receivable at December 31, 2015 was zero due to restrictions on bullion deliveries over the New Year holiday period; the receivable at June 30, 2016 reflects a normal level and the amount due was received in full shortly after the end of the Quarter.

Blanket has an unsecured \$5 million facility with a Zimbabwean Bank which was undrawn at June 30, 2016 and is repayable on demand.

The following information is provided for each of the eight most recent quarterly periods ending on the dates specified. The figures are extracted from underlying unaudited interim financial statements that have been prepared using accounting policies consistent with IFRS.

(Thousands of US dollars except per share amounts)	Sept 30, 2014	Dec 31 2014	Mar 31, 2015	June 30, 2015	Sept30, 2015	Dec 31, 2015	Mar 31, 2016	June 30, 2016
Revenue from operations	12,477	11,139	12,916	12,212	12,096	11,753	13,423	15,681
Operating profit/(loss)	1,729	2,804	2,631	1,492	2,599	1,773	2,010	6,970
Earnings/(loss) per share – basic (cents)	1.9	(0.6)	2.3	0.4	2.6	3.6	1.0	6.7
Earnings/(loss) per share – diluted (cents)	1.9	(0.6)	2.3	0.4	2.6	3.6	1.0	6.7
Cash and cash equivalents (net)	25,323	23,082	20,640	19,170	14,653	10,880	8,841	10,581

Our quarterly results fluctuate materially from quarter to quarter primarily due to changes in production levels and gold prices but also due to the recording of impairments and other unusual costs and income such as indigenisation and the sale in Q2 of 2016 of the Bills by Blanket. Significant changes relating to prior quarters are discussed in the relevant MD&A's and financial statements.

4. OPERATIONS AT THE BLANKET GOLD MINE, ZIMBABWE

4.1 Safety, Health and Environment (“SHE”)

The following safety statistics have been recorded for the Quarter and the preceding seven quarters.

Classification	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Fatal	0	0	0	1	0	0	0	0
Lost time injury	2	1	3	1	2	2	2	0
Restricted work activity	12	9	5	12	8	6	6	4
First aid	4	0	3	4	1	7	4	2
Medical aid	2	1	3	1	1	0	1	5
Occupational illness	0	0	0	0	0	0	0	0
Total	20	11	14	19	12	15	13	11
Incidents	4	19	8	6	18	15	13	9
Near misses	4	1	0	5	4	5	9	5
Disability Injury Frequency Rate	1.75	0.24	0.67	0.46	0.46	0.44	0.44	0.00
Total Injury Frequency Rate	4.00	4.32	3.15	4.41	2.73	3.32	2.87	2.30
Man-hours worked (thousands)	800	833	889	861	878	904	906	957

There was an improvement in the safety performance at Blanket Mine in the Quarter, which reflects extensive management attention to this area in the Quarter and in previous quarters.

4.2 Social Investment and Contribution to the Zimbabwean Economy

Blanket's investment in community and social projects which are not directly related to the operation of the mine or the welfare of Blanket's employees, the payments made to the Gwanda Community Share Ownership Trust (“GCSOT”) in terms of Blanket's indigenisation, and payments of royalties, taxation and other non-taxation charges to the Government of Zimbabwe and its agencies are set out in the table below.

Payments to the Community and the Zimbabwe Government (US\$'000's)					
Period	Year	Community and Social Investment	Payments to GCSOT	Payments to Zimbabwe Government	Total
Year 2012	2012	416	3,000	20,569	23,985
Year 2013	2013	2,147	2,000	15,354	19,501
Year 2014	2014	35	-	12,319	12,354
Year 2015	2015	50	-	7,376	7,376
Q1 2016	2016	-	-	2,085	2,085
Q2 2016	2016	-	-	2,963	2,963

Payments to the Zimbabwe government were higher in the Quarter compared to the preceding quarter due to higher royalty payments due to the higher prevailing gold price and sales ounces and the tax payable on the profit arising on the sale of the Bills by Blanket.

4.3 Gold Production

Tonnes milled, average grades, recoveries and gold produced during the Quarter, the preceding 9 quarters and July 2016 are shown in the table below.

Blanket Mine Production Statistics					
		Tonnes Milled	Gold Head (Feed) Grade (g/t Au)	Gold Recovery (%)	Gold Produced (oz)
	Year	(t)			
Quarter 1	2014	92,846	3.67	93.6	10,241
Quarter 2	2014	99,229	3.74	94.1	11,223
Quarter 3	2014	98,575	3.34	93.4	9,890
Quarter 4	2014	100,085	3.47	93.2	10,417
Year	2014	390,735	3.55	93.4	41,771
Quarter 1	2015	104,755	3.19	92.7	9,960
Quarter 2	2015	103,551	3.35	93.3	10,401
Quarter 3	2015	116,694	3.14	92.7	10,927
Quarter 4	2015	115,079	3.34	93.1	11,515
Year	2015	440,079	3.25	93.0	42,804
Quarter 1	2016	114,527	3.16	93.0	10,822
Quarter 2	2016	120,590	3.47	93.1	12,510
July	2016	45,599	3.37	93.1	4,623

Gold production in the Quarter was 369 ounces above target. Mine production and grade are discussed in Section 4.4 of this MD&A; gold recoveries are discussed in Section 4.5 of this MD&A.

4.4 Underground

As set out in Sections 4.7 and 4.9 of this MD&A, Caledonia announced the Revised Investment Plan for Blanket Mine on November 3, 2014. The objectives of the Revised Investment Plan are to improve the underground infrastructure and logistics and allow an efficient and sustainable production build-up. The infrastructure improvements include the development of a “Tramming Loop” (which was completed in June 2015), the sinking and equipping of the No.6 Winze (which commenced production at the end of Q1 2016) and the sinking of a new 6-meter diameter Central Shaft from surface to 1,080 meters (which is scheduled to commence production in mid-2018).

Completion of the Tramming Loop in June 2015 substantially improved the underground logistics which means that more material - ore and waste - can be transported underground. The tonnes hoisted in the Quarter represent a new record from underground mining.

The No. 6 Winze and the Decline development into the AR South ore body below 750 meters were both completed at the end of March 2016 and provide access to ore below 750 meters. In the Quarter 8,644 tonnes of ore were mined from below 750 meters.

Following completion of the 750 haulage to the Eroica ore body and subsequent development, this area is now a significant contributor to mine production. Eroica provided 19.5% of total mine production in the Quarter.

The head grade in the Quarter was 3.47 g/t compared to a plan of 3.32 g/t and 3.16 g/t in the preceding quarter. The improved grade was partly due to increased production from higher grade areas such as Eroica between 750m and 630m where the trammed grade was 5.32g/t and AR South below 750m where the achieved grade was 4.76g/t. In other areas there was continued focus on grade control to reduce dilution.

4.5 Metallurgical Plant

Plant throughput was 58.3 tph which was lower than the plan of 61.5 tph due to limitations on the re-grind mill cyclone and cyclone feed pumps, both of which have now been replaced, increasing the capacity of this system to 70tph with the option to upgrade it further to 80 tph.

Plant recovery increased from 93.0 % in the preceding quarter to 93.1%, mainly due to the improved feed grade from 3.16g/t to 3.47 g/t as discussed in Section 4.4. Recoveries were adversely affected due to reduced retention time in the CIL circuit due to planned tank refurbishment and continued difficulties with the very old oxygen plant. Management continues to evaluate options to replace the existing oxygen plant.

Capital projects at the metallurgical plant include:

- replacement of the cluster cyclones, as discussed above; and
- preparation work for the new ball mill which will increase milling capacity from 1,500 tonnes per day to 1,900 tonnes per day and thereby accommodate the planned increase in mine production from quarter three of 2016 to full production at 1,800 tonnes per day.

4.6 Production Costs

A narrow focus on the direct costs of production (mainly labour, electricity and consumables) does not fully reflect the total cost of gold production. Accordingly, cost per ounce data for the Quarter and the comparative quarter have been prepared in accordance with the Guidance Note issued by the World Gold Council on June 23, 2013 and is set out in the table below on the following bases:

- i. **On-mine Cost per ounce⁶**, which shows the on-mine cash costs of producing an ounce of gold;
- ii. **All-in Sustaining Cost per ounce⁵**, which shows the On-mine Cost per ounce *plus* additional costs incurred outside the mine (i.e. at offices in Harare, Johannesburg and St. Helier) and the costs associated with maintaining the operating infrastructure and resource base that are required to maintain production at the current levels; and
- iii. **All-in Cost per ounce⁵**, which shows the All-in Sustaining Cost per ounce *plus* the additional costs associated with activities that are undertaken with a view to increasing production.

Cost per Ounce of Gold Sold ⁵ (US\$/ounce)	3 months to June 30		6 months to June 30	
	2015	2016	2015	2016
On-mine cost	720	629	718	658
All-in sustaining cost per ounce	1,030	936	1,007	943
All-in cost per ounce	1,223	1,239	1,166	1,206

Per-ounce costs are calculated on the basis of sales and not production, so that an accurate value can be ascribed to the royalty. A reconciliation of costs per ounce to IFRS production costs is set out in Section 10.1

On mine cost per ounce fell by 12.6 per cent in the Quarter compared to the comparable quarter. On-mine costs comprise labour, electricity, consumables and other costs which include security and insurance. Blanket did not experience significant inflationary pressure on input costs. Approximately 65% of Blanket's on-mine costs are fixed: as production increases, fixed costs are spread over more ounces of production and sales hence the average on-mine cost per ounce falls. Fixed costs and variable cost per tonne mined remained broadly unchanged in the Quarter compared to the comparative quarter.

⁶ On mine cost per ounce, all-in sustaining cost per ounce and all-in cost per ounce are non-IFRS measures. Refer to Section 10 for a reconciliation of these amounts to IFRS

All-in sustaining costs per ounce comprise on-mine costs and also include royalty payments, group administrative costs and sustaining costs. The all-in sustaining cost fell by 9.1 per cent in the Quarter compared to the comparable quarter. The royalty cost per ounce increased due to the higher prevailing gold price; the group administrative cost per ounce (excluding the Zambian administration costs which were incurred in 2015) fell from \$150/ounce to \$144/ounce and the sustaining capital expenditure cost per ounce fell from \$97/ounce to \$94/ounce.

All-in costs include investment in expansion projects which was higher in the Quarter due to the continued investment in Blanket's capital projects, which are discussed in section 4.7 of this MD&A. Investment in expansion projects in Q2 2016 was \$319/ounce of gold sold compared to \$188/ounce in the comparative quarter.

4.7 Capital Projects

Following completion of the No. 6 Winze in the preceding Quarter, the main capital development project is the Central Shaft, which is the remaining component of the Revised Investment Plan which is discussed in Section 4.9 of this MD&A. The shaft is being sunk in one single phase from surface to 1,080 meters. The estimated completion date of the shaft is mid-2018; first production from the Central Shaft is expected shortly thereafter as pre-development in the initial areas to be mined will be effected via the No. 6 Winze. During the Quarter a 23-meter high sinking headgear was installed and commissioned with all of the facilities required to commence the permanent sinking phase of the project i.e. 4 x 10 tonne stage winders and a three-deck stage. Permanent sinking commenced in May 2016 and the shaft is now 170 metres deep. The main sink will continue down to 1,080 meters below surface. During the main sinking phase, it is anticipated that shaft-sinking will increase to the target rate of approximately 3 meters per day. The Central Shaft remains on track in terms of the timing of completion in mid-2018 and capital costs.

Other capital projects include:

- the installation of a conveyor system at the AR South decline from 750 meters to 765 meters, which was commissioned in early August;
- the extension of the AR South decline from 765 meters to 780 meters. The decline reached the 780 m level in the Quarter and lateral development has commenced;
- a second decline development below 750 meters at the Blanket ore body;
- an extraction haulage on 750 meter level at Eroica;
- a footwall haulage on the 870 meter level to link the Blanket ore bodies to the AR South ore body;
- 22 Level Lima Haulage extension: work on this project was suspended in the Quarter in preference to work on the decline development at Blanket and the Eroica extraction haulage. The haulage has a further 130 meters to reach Lima and work is expected to resume in the third quarter of 2016; and
- Several refurbishment and expansion projects have been completed and are in progress at the metallurgical plant, as discussed in Section 4.5.

4.8 Indigenisation

Transactions that implemented the Indigenisation of Blanket were completed on September 5, 2012 following which Caledonia owns 49% of Blanket and has received a Certificate of Compliance from the Government of Zimbabwe which confirms that Blanket is fully compliant with the *Indigenisation and Economic Empowerment Act*.

As a 49% shareholder, Caledonia receives 49% of Blanket's dividends plus the repayment of vendor facilitation loans which were extended by Blanket to certain of the Indigenous Shareholders and which carry interest at LIBOR plus 10%. The vendor facilitation loans are repaid by way of dividends from Blanket Mine. 80% of the dividends declared by Blanket Mine which are attributable to the beneficiaries of the vendor facilitation loans are used to repay such loans and the remaining 20% unconditionally accrues to the respective Indigenous Shareholders. Blanket suspended dividend payments in 2015 until early

August 2016 in order to fund the capital projects provided under the Revised Investment Plan as a result of which the repayment of facilitation loans by Blanket's indigenous shareholders will also be suspended. During this period, there was a moratorium on the interest roll-up on the outstanding facilitation loans. The interest moratorium had no effect on either Caledonia's cash receipts or its reported earnings as interest on the facilitation loans is not recognized in Caledonia's financial statements.

The average realised gold price in 2015 was lower than \$1,200 per ounce which was used as the basis for planning the funding of the Revised Investment Plan at Blanket. Accordingly, to ensure that Blanket had the financial capacity to implement the Revised Investment Plan, in October 2015 Caledonia provided funding of \$5m to Blanket as an inter-company loan. As disclosed in the MD&A for the preceding quarter, it was envisaged that the inter-company loan would be re-structured as a rights issue by Blanket in the second quarter of 2016. As a result of the higher gold price and the realisation of the Bills in May 2016, Blanket's cash position is better than anticipated. Accordingly, Blanket no longer requires an injection of permanent capital and the planned rights issue by Blanket has been cancelled. In July 2016 Blanket repaid the intercompany loan due to Caledonia and in early August, Blanket resumed dividend payments.

The outstanding balance of the facilitation loans as at June 30, 2016 was \$31.3 million (December 31, 2015, \$31.3 million). As noted above, Blanket had suspended dividend payments and a moratorium was placed on interest on the loans until dividends are resumed by Blanket Mine. Accordingly, there was neither any capital repayment of the loans nor any accumulation of interest on the loans during the Quarter.

Following the resumption of dividend payments by Blanket in August 2016, the interest moratorium was lifted. 80% of the dividends paid to the indigenous Zimbabwean shareholders who hold 41% of Blanket will be used to pay interest and make capital repayments on the facilitation loans. The dividends attributable to GCSOT, which holds 10% of Blanket will be withheld by Blanket to repay the advance dividends which were paid to GCSOT in 2012 and 2013 and which had an outstanding balance of \$3,237,000 as June 30 2016.

The vendor facilitation loans are not shown as receivables in Caledonia's Unaudited Condensed Consolidated Interim Financial Statements in terms of the International Financial Reporting Standards. These loans are effectively equity instruments as their only means of repayment is via dividend distributions from Blanket. Caledonia continues to consolidate Blanket for accounting purposes. Further information on the accounting effects of indigenisation at Blanket is set out in Note 5 to the Unaudited Condensed Interim Financial Statements and in a Frequently Asked Questions page which is available on Caledonia's website.

4.9 Opportunities and Outlook

Revised Investment Plan to Increase Production

On November 3, 2014 Caledonia announced its Revised Investment Plan and production projections for the Blanket Mine. The objectives of the Revised Investment Plan are to improve the underground infrastructure and logistics and allow an efficient and sustainable production build-up. The infrastructure improvements include the development of a "Tramming Loop", deepening the No.6 Winze and sinking a new 6-meter diameter Central Shaft from surface to 1,080 meters. As discussed in Section 4.7, implementation of the Revised Investment Plan is proceeding on schedule and within budget: the Tramming Loop and the sinking of the No. 6 Winze were both completed slightly ahead of target and work on the Central Shaft is proceeding according to plan. In addition to the projects that form the Revised Investment Plan, Blanket has also completed a decline development into the AR South ore body which is being extended as described in Section 4.7 and has commenced work on a second decline development below 750 meters at the Blanket ore bodies.

The Revised Investment Plan provides for proposed investment of approximately US\$50 million between 2015 and 2017 and a further US\$20 million in the period 2018 to 2020. The Revised Investment Plan includes a revised life of mine plan for the Blanket Mine (the "LOM Plan") in terms of which it is anticipated that the approximate production from existing proven and probable mineral reserves above 750 m Level will be as set out below.

Approximate production from proven and probable mineral reserves above 750m (per LOM Plan)							
	2015	2016	2017	2018	2019	2020	2021
Tonnes milled ('000)	430	460	430	380	230	100	50
Gold production (koz)	42	45	43	39	23	10	6

Based on the Preliminary Economic Analysis (“PEA”), additional approximate production from current inferred mineral resources (excluding the projected production set out above) may be achieved in the following indicative ranges:

Possible production from inferred mineral resources below 750m (as per PEA)							
	2015	2016	2017	2018	2019	2020	2021
Tonnes milled ('000)	0	35	160	215	390	550	600
Gold production (koz)	0	4-5	20-22	27-30	46-50	63-67	70-75

Canadian regulations do not allow planned production from inferred resources to be added to those from proven and probable reserves for disclosure purposes.

There is no certainty that the PEA will be realised. The updated Technical Report was authored by Daan van Heerden, Uwe Englemann, Dario Clemente, Johan Odendaal and Jaco Burger of Minxcon (Pty) Ltd., each of whom is a qualified person who is independent of Caledonia for the purposes of National Instrument 43-101.

Exploration

Caledonia intends to continue its exploration efforts at the Blanket Mine as discussed in Section 5.1 of the MD&A; further exploration at the first two of Blanket’s portfolio of satellite properties (Mascot and GG) continued as discussed in Section 5.2. No production forecasts are currently attributed to either GG or Mascot. Further information on Blanket’s exploration is set out in Section 5 of this MD&A.

Strategy

Caledonia’s strategic focus is on implementing the Revised Investment Plan at Blanket on schedule and within budget. Caledonia’s board and management believe the successful implementation of the Revised Investment Plan remains in the best interests of all stakeholders because it is expected to result in increased production, reduced operating costs and greater flexibility to undertake further exploration and development, thereby safeguarding and enhancing Blanket’s long term future.

Caledonia’s cash generation is expected to improve as production increases in terms of the Revised Investment Plan. Caledonia will consider additional investment opportunities where it can invest the cash generated by Blanket.

5 EXPLORATION AND PROJECT DEVELOPMENT

Caledonia’s exploration activities are focussed on Blanket Mine and its satellite properties.

5.1 Blanket Exploration

The deep drilling program continues to confirm economic mineralisation at the AR South and Blanket ore zones to a depth of 1,300 meters and at the Eroica south shoot to a depth of 900 meters. 6,106 diamond drill meters were achieved in the Quarter compared to a plan of 4,500 meters and an average quarterly rate of approximately 3,500 meters in 2015. The increased drilling rate is due to the commissioning of new machines in the first six months of 2016. .

On July 28, 2016 Caledonia released a resource update based on the drilling over the previous six months. 343,000 tonnes were upgraded from the Inferred to the Indicated Resource category and an additional 1,276,000 tonnes of new inventory has been added to Inferred Resources.

This upgraded Indicated Resource of 343,000 tonnes, combined with the resources upgraded during 2015 increased the quantum of reserves and indicated resources that may be used in the life of mine plan from 2,934,000 tonnes used for the Technical Report prepared by Minxcon in December 2014, to 4,889,000 tonnes currently and represents an increase of 67% per cent in terms of mineable tonnes and hence in the

life of the mine.

Blanket Section Indicated Resources upgraded from Inferred Resources				
Orebody	In situ Tonnes	Ave Width (m)	Grade (g/t)	Gold (oz)
<i>Blanket Quartz Reef</i>	60,200	3.82	6.72	6,400
<i>No. 1 Orebody</i>	51,900	6.07	5.52	6,600
<i>No. 2 Orebody</i>	150,700	4.28	4.24	25,300
<i>2 Leader Reef</i>	80,600	3.85	3.15	9,400
<i>No. 4 Orebody</i>	-	-	-	-
TOTAL	343,400	4.40	5.19	47,700

Blanket Section New Inferred Resources				
Orebody	In situ Tonnes	Ave Width (m)	Grade (g/t)	Gold (oz)
<i>Blanket Quartz Reef</i>	611,000	3.82	5.80	103,000
<i>No. 1 Orebody</i>	326,000	6.07	5.58	50,000
<i>No. 2 Orebody</i>	281,000	4.28	3.70	35,000
<i>No. 4 Orebody</i>	58,000	3.65	4.80	14,000
TOTAL	1,276,000	4.47	5.00	202,000

The additional inferred resources in the Blanket section doubles the quantum previously estimated from this section of the mine.

After this update, Blanket Mine's resources are set out in the table below.

Blanket Total Resources (July 2016)			
Mineral Resource Category	Tonnes	Grade (g/t)	Contained Gold (oz)
Measured Resources	1,177,079	4.01	151,657
Indicated Resources	3,677,828	4.31	509,222
Total M&I	4,854,907	4.23	660,879
Inferred Resources	3,862,991	5.01	622,613

Caledonia has a conservative approach to accruing new resources: only resource blocks with an estimated grade in excess of the current pay limit are taken into inventory. Resources that are below the pay limit are reviewed on an annual basis.

5.2 Blanket Satellite Prospects

Blanket Mine has exploration title holdings in the form of registered mining claims in the Gwanda Greenstone Belt totalling 78 claims, including a small number under option, covering properties with a total area of about 2,500 hectares. Included within these claim areas are 18 previously operated small gold workings which warrant further exploration, i.e. the Satellite Projects. Blanket's main exploration efforts on these satellite properties are focused at this stage on the GG Project and the Mascot Project Area which, based on past production records, are likely to have the greatest potential.

GG Project

The GG Project is located approximately seven kilometers southeast of Blanket Mine. Surface drilling programs have been carried out at the GG Project over the past eight years consisting of 24 diamond-cored holes totalling 6,360 meters of drilling. Two zones of gold mineralization have been established down to a depth of at least 300 meters, each with a potential strike length of up to 150 meters. Current activities

involve the definition of the extent and characteristics of this mineralization by way of a prospect shaft and level development. Limited work took place during the Quarter and further work will be suspended pending the outcome of metallurgical studies so that resources can be released to focus on exploration and development at Blanket Mine.

Mascot Project Area

The Mascot Project Area includes three sections - the Mascot prospect, the Penzance prospect and the Eagle Vulture prospect. Mascot was previously mined to a depth of approximately 250 meters, exploiting an east-west trending mineralised body the strike extent of which decreased at depth but which was accompanied by a doubling in width. Previous surface drilling undertaken by Blanket has indicated the existence of two further mineralised zones, one to the north and one to the south of the mined out area. Development at Mascot in the Quarter was restricted to a single machine crew which completed the blocking exercise in the North parallel zone. Further work will be suspended pending the outcome of further metallurgical studies so that resources can be released to focus on exploration and development at Blanket Mine.

6. INVESTING

An analysis of investment in the Quarter, the preceding quarter in 2016 and the Years 2014 and 2015 is set out below

Capital Investment (\$'000's)	2014 Year	2015 Year	2016 Q1	2016 Q2
Total Investment	6,060	16,567	3,304	4,926
Nama Project	96	-	-	-
Blanket	5,917	16,567	3,304	4,926
Other	47	-	-	-

All further investment at Blanket is expected to be funded from Blanket's internal cash flows and its Zimbabwean borrowing facilities. No further investment will take place at the Nama project in Zambia following the termination of all of Caledonia's presence in Zambia during 2015.

7. FINANCING

Caledonia financed all its operations using funds on hand and those generated by its operations. No equity financing took place in the Quarter and none is currently planned. Blanket has an unsecured \$5 million loan facility in Zimbabwe which is repayable on demand. At June 30, 2016 the facility was undrawn.

8. LIQUIDITY AND CAPITAL RESOURCES

An analysis of Caledonia's capital resources as at June 30, 2016 and each of the preceding 5 quarters is set out below.

Caledonia: Liquidity and Capital Resources (\$'000's)	As at	Mar 31	June 30	Sept 30	Dec 31	Mar 31	June 30
		2015	2015	2015	2015	2016	2016
Overdraft		-	-	2,065	1,688	4,673	-
Cash and cash equivalents in the statement of cashflows (net of overdraft)		20,640	19,170	14,653	10,880	8,841	10,581
Working capital		25,649	24,000	19,625	15,165	14,101	15,708

Movements in Caledonia's net cash, the overdraft and working capital and an analysis of the sources and uses of Caledonia's cash are discussed in Section 3 of this MD&A. The overdraft facility is held by

Blanket with a Zimbabwean Bank and is unsecured and repayable on demand. The Company's liquid assets as at June 30, 2016 exceed its planned and foreseeable commitments as set out in Section 9 of this MD&A.

9. OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL COMMITMENTS AND CONTINGENCIES

There are no off balance sheet arrangements apart from the facilitation loans of \$33.6 million which are not reflected as loans receivable for IFRS purposes (refer to Note 5 of the Unaudited Condensed Consolidated Interim Financial Statements). The company has the following contractual obligations at June 30, 2016.

Payments due by Period						
(\$'000's)						
	Falling due	Within 1			After 5	
		year	1-3 Years	4-5 Years	Years	Total
Trade and other payables		7,035	-	-	-	7,035
Provisions		-	-	-	2,798	2,798
Capital expenditure commitments		388	-	-	-	388

In addition to the committed purchase obligations set out above, Blanket currently intends to invest approximately \$24.8 million between July 2016 and December 2017 which is not yet committed and a further \$8 million in the years 2018 to 2020, which is also uncommitted. The committed and uncommitted investment will be used to maintain Blanket's existing operations and implement the Revised Investment Plan which are discussed in Sections 4.7 and 4.9 of this MD&A. Committed and uncommitted purchase obligations will be met from the cash generated from Blanket's existing operations and Blanket's existing borrowing facility. Caledonia has no obligations in respect of capital or operating leases. As of June 30, 2016, Caledonia had potential liabilities for rehabilitation work on the Blanket and Eersteling Mines⁷ – if and when those mines are permanently closed – at an estimated discounted cost of \$2,798,000.

10. NON-IFRS MEASURES

Throughout this document, we have provided measures prepared in accordance with IFRS in addition to some non-IFRS performance measures for investors who use them to evaluate our performance. Since there is no standard method for calculating non-IFRS measures, they are not a reliable way to compare Caledonia against other companies. Non-IFRS measures should be used along with other performance measures prepared in accordance with IFRS. We have defined below the non-IFRS measures we have used in this document and provide a reconciliation of such non-IFRS measures to the IFRS measures we report.

10.1 Cost per ounce

Non-IFRS performance measures such as "On-Mine Cost per ounce", "All-in Sustaining Cost per ounce" and "All-in Cost per ounce" are used in this document. Management believes these measures assist investors and other stakeholders in understanding the economics of gold mining over the life-cycle of a mine. These measures are calculated on the basis set out by the World Gold Council in a Guidance Note published on June 23, 2013 and accordingly differ from the previous basis of calculation. The table below reconciles "On-mine Cost per ounce", "All-in Sustaining Costs per ounce" and "All-in Cost per ounce" to the production costs shown in the financial statements which have been prepared under IFRS.

⁷ Eersteling Mine is a South African gold property, which has been held on care and maintenance for several years.

Reconciliation of IFRS Production Costs to Non-IFRS cost per Ounce				
<i>(\$'000's unless otherwise indicated)</i>				
	3 Months to 30 June		6 Months to 30 June	
	2015	2016	2015	2016
Production costs (IFRS)	7,515	8,081	15,198	16,123
Less IFRS exploration and permitting costs	(102)	(97)	(188)	(189)
Other	74	(118)	187	(144)
On-mine production costs	7,487	7,866	15,197	15,790
<i>Gold Sales (oz)</i>	<i>10,401</i>	<i>12,510</i>	<i>21,174</i>	<i>24,008</i>
On-mine cash cost (US\$/oz)	720	629	718	658
Royalty	611	785	1,258	1,457
Exploration and permitting relating to production	28	54	58	105
Reclamation and remediation	27	29	54	59
Administrative expenses	1,889	1,799	3,519	3,236
Less Zambian costs	(330)	-	(529)	-
Sustaining capital investment	1,004	1,173	1,770	1,990
All-in Sustaining cost	10,717	11,707	21,327	22,637
<i>Gold sales (oz)</i>	<i>10,401</i>	<i>12,510</i>	<i>21,174</i>	<i>24,008</i>
All-in sustaining cost per ounce (US\$/oz)	1,030	936	1,007	943
Costs not related to current production				
Permitting	14	6	28	12
Exploration	25	38	52	73
Capital investment	1,960	3,753	3,282	6,240
All-in Costs	12,716	15,504	24,689	28,962
<i>Gold Sold (oz)</i>	<i>10,401</i>	<i>12,510</i>	<i>21,174</i>	<i>24,008</i>
All-in Costs per ounce (US\$/oz)	1,223	1,239	1,166	1,206

10.2 Average realised gold price per ounce

“Average realised price per ounce” is a non-IFRS measure which, in conjunction with the cost per ounce measures described above, allows stakeholders to assess our performance. The table below reconciles “Average realised price per ounce” to the Revenue shown in the financial statements which have been prepared under IFRS.

Reconciliation of Average Realised Gold Price per Ounce				
<i>(\$'000's unless otherwise indicated)</i>				
	3 Months to 30 June		6 Months to June 30	
	2015	2016	2015	2016
Revenue (IFRS)	12,212	15,681	25,128	29,104
Revenues from sales of silver	(11)	(14)	(24)	(26)
Revenues from sales of gold	12,201	15,667	25,104	29,078
Gold ounces sold (oz)	10,401	12,510	21,174	24,008
Average realised gold price per ounce (US\$/oz)	1,173	1,252	1,186	1,211

10.3 Adjusted earnings per share

“Adjusted earnings per share” is a non-IFRS measure which management believes assists investors in understanding the company’s underlying performance. The table below reconciles “adjusted earnings per share” to the Profit/Loss attributable to Owners of the Company shown in the financial statements which have been prepared under IFRS.

Reconciliation of Adjusted Earnings per Share to IFRS Profit Attributable to Owners of the Company <i>(\$'000's unless otherwise indicated)</i>				
	3 Months to 30 June		6 months to 30 June	
	2015	2016	2015	2016
Profit attributable to owners of the Company (IFRS)	266	3,607	1,522	4,150
Add back/(deduct) amounts attributable to owners of the company in respect of:				
Foreign exchange	(114)	228	(619)	200
Deferred tax	318	1,361	689	2,123
Reversal of Zambian G&A	330	-	529	-
Post-tax proceeds of treasury bill sale	-	(1,993)	-	(1,993)
Adjusted profit	800	3,203	2,121	4,480
Weighted average shares in issue (m)	52.1	52.1	52.1	52.1
Adjusted EPS (cents)	1.5	6.1	4.1	8.6

11. RELATED PARTY TRANSACTIONS

There were no related party transactions in the Quarter.

12. CRITICAL ACCOUNTING POLICIES

Caledonia's accounting policies are set out in the Audited Consolidated Financial Statements for the year ended December 31, 2015 (the Audited Consolidated Financial Statements²⁷) which have been publicly filed on SEDAR at www.sedar.com. In preparing the Unaudited Condensed Consolidated Interim Financial Statements, management is required to make estimates and assumptions that affect the amounts represented in the Unaudited Condensed Consolidated Interim Financial Statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Discussion of recently issued accounting pronouncements is set out in note 4(p) of the Audited Consolidated Financial Statements.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Unaudited Condensed Consolidated Interim Financial Statements is included in the following notes:

i) Indigenisation transaction

The directors of CHZ, a wholly owned subsidiary of the Company, performed an assessment, using the requirements of IFRS 10: *Consolidated Financial Statements* (IFRS 10), and concluded that CHZ should continue to consolidate Blanket Mine and accounted for the transaction as follows:

- Non-controlling interests ("NCI") are recognised on the portion of shareholding upon which dividends declared by Blanket Mine accrue unconditionally to equity holders as follows:
 - (a) 20% of the 16% shareholding of NIEEF;
 - (b) 20% of the 15% shareholding of Fremiro;
 - (c) 100% of the 10% shareholding of the Community Trust.
- This effectively means that NCI is recognised at Blanket Mine level at 16.2% of the net assets.
- The remaining 80% of the shareholding of NIEEF and Fremiro is recognised as non-controlling interests to the extent that their attributable share of the net asset value of Blanket Mine exceeds the balance on the facilitation loans including interest. At June 30, 2016 the attributable net asset value did not exceed the balance on the respective loan accounts and thus no additional NCI was recognised.

The transaction with BETS is accounted for in accordance with IAS 19 *Employee Benefits* (profit sharing arrangement) as the ownership of the shares does not ultimately pass to the employees. The employees are entitled to participate in 20% of the dividends accruing to the 10% shareholding in Blanket Mine if they are employed at the date of such distribution. To the extent that 80% of the attributable dividends exceed the balance on the BETS facilitation loan they will accrue to the employees at the date of such declaration.

The Employee Trust and BETS are structured entities which are effectively controlled and consolidated by Blanket Mine. Accordingly the shares held by BETS are effectively treated as treasury shares in Blanket Mine and no NCI is recognised.

ii) Site restoration provisions

The site restoration provision has been calculated for the Blanket Mine based on an independent analysis of the rehabilitation costs as performed in 2015 and based on the internal assessment for Eersteling Gold Mining Corporation Limited. Estimates and assumptions are made when determining the inflationary effect on current restoration costs and the discount rate to be applied in arriving at the present value of the provision. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized site rehabilitation provisions may be higher or lower than currently provided for.

(ii) Functional and change in presentation currency

Effective December 31, 2015, Caledonia Mining Corporation changed its presentation currency in the consolidated financial statements from the Canadian dollar to the United States dollar (“US dollar”). The change in presentation currency was made to better reflect the Group's business activities and to improve investor ability to compare the Group's financial results with other publicly traded businesses in the industry. In making the change to a US dollar presentation currency, the Group applied the change retrospectively as if the new presentation currency had always been the Group's presentation currency. The change in presentation currency was applied retrospectively up to January 1, 2010, which was the date of initial adoption of IFRS by the Group. Equity was translated at the exchange rate at January 1, 2010, except for the foreign currency translation reserve which was reset to zero and with the balance recognised in retained earnings, in accordance with IFRS 1: *First-time Adoption of International Financial Reporting Standards*. The financial statements for all the periods presented have been translated to a US dollar presentation currency. For comparative balances, assets and liabilities was translated into the presentation currency at the rate of exchange prevailing at the reporting date for those periods, income and expenses was translated into the presentation currency using the exchange rate at the date of transaction or using a reasonable average exchange rate that approximates the exchange rates at the dates of the transactions in accordance with IAS 21: *The Effects of Changes in Foreign Exchange Rates*. Exchange rate differences arising on translation to the presentation currency were recognised in the foreign currency translation reserve in shareholders' equity.

iv) Exploration and evaluation (“E&E”) expenditure

The application of Caledonia's accounting policy for exploration and evaluation expenditures requires judgements when determining which expenditures are recognised as exploration and evaluation assets (“E&E properties”).

Caledonia also makes estimates and assumptions regarding the possible impairment of E&E properties by evaluating whether it is likely that future economic benefits will flow to Caledonia, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If information becomes available suggesting that the recovery of

expenditures is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

The recoverability of the carrying amount of the South African mineral properties (if not impaired) is dependent upon the availability of sufficient funding to bring the properties into commercial production, the price of the products to be recovered, the exchange rate of the local currency relative to the currency of funding and the undertaking of profitable mining operations. As a result of these uncertainties, the actual amount recovered may vary significantly from the carrying amount.

v) Income taxes

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

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

vi) Share-based payment expense

The fair value of the amount payable to employees in respect of share based awards, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period over which the employee becomes unconditionally entitled to payment. The liability is re-measured at each reporting date. Any changes in the fair value of the liability are recognised as a personnel expense in profit or loss. Additional information about significant judgements and estimates and the assumptions used to estimate fair value for cash settled share-based payment transactions are disclosed in note 8 to the Unaudited Condensed Consolidated Interim Financial Statements.

vii) Impairment

At each reporting date, Caledonia determines if impairment indicators exist, and if present, performs an impairment review of the non-financial assets held in Caledonia. The exercise is subject to various judgemental decisions and estimates. Financial assets are also reviewed regularly for impairment.

13. FINANCIAL INSTRUMENTS

Commodity risk

Caledonia is exposed to fluctuations in the price of gold because Blanket produces and sells gold doré and receives the prevailing spot price for the gold contained therein. In light of the volatility in the gold price, Blanket's continued investment in the Revised Investment Plan and Caledonia's divided policy, in February 2016 Caledonia entered into a financial transaction in respect of 15,000 ounces of gold over a 6 month period which provided Caledonia with a guaranteed minimum gold price of \$1,050 per ounce on the hedged ounces (the "Collar" price) and full price participation if the gold price is above \$1,079 per ounce (the "Cap" price). The maximum cost to Caledonia of this transaction was \$435,000 being 15,000 ounces at \$29/oz. Blanket continued to sell all of its production to Fidelity on the same terms as prevailed previously i.e. it will continue to receive the spot price of gold less a 1.25% "early settlement" discount.

Credit risk

The carrying amount of financial assets as disclosed in the statements of financial position and related notes represents the maximum credit exposure. The trade receivable relates to gold bullion sold before quarter end. The amount was settled in July 2016.

Impairment losses

None of the trade and other receivables is past due at the period-end date.

Liquidity risk

All trade payables and bank overdraft have maturity dates that are expected to mature in under 6 months.

Currency risk

A small proportion of Caledonia's assets, financial instruments and transactions are denominated in currencies other than the United States Dollar. The financial results and financial position of Caledonia are reported in United States dollars in the Audited Condensed Consolidated Interim Financial Statements.

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

Caledonia has certain financial assets and liabilities denominated in foreign currencies. Caledonia does not use any derivative instruments to reduce its foreign currency risks. To reduce exposure to currency transaction risk, Caledonia maintains cash and cash equivalents in the currencies used by Caledonia to meet short-term liquidity requirements.

Interest rate risk

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. Unless otherwise noted, it is the opinion of management that Caledonia is not exposed to significant interest rate risk as it has no debt financing apart from short term borrowings utilized in Zimbabwe. Caledonia's cash and cash equivalents include highly liquid investments that earn interest at market rates. Caledonia manages its interest rate risk by endeavouring to maximize the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Caledonia's policy focuses on preservation of capital and limits the investing of excess funds to liquid term deposits in high credit quality financial institutions.

14. DIVIDEND POLICY AND OTHER SHAREHOLDER INFORMATION

Caledonia paid its inaugural dividend of 5 Canadian cents per share in February 2013 following a capital re-structure which was approved by shareholders in January 2013 which allowed it to make dividend payments. The inaugural dividend did not relate to any specific accounting period. Caledonia paid a further dividend of 5 Canadian cents per share in April 2013 in respect of the earnings for the year to December 31, 2012.

On November 25, 2013 Caledonia announced a revised dividend policy pursuant to which it intended to pay a dividend of 6 Canadian cents per share in 2014, split into 4 equal quarterly payments of 1.5 Canadian cents per share. The first quarterly dividend was paid on January 31, 2014; further payments were made quarterly thereafter.

Following the announcement on December 16, 2015 that henceforth Caledonia will report its financial results in United States Dollars, the quarterly dividend that was paid at the end of January 2016 was declared and denominated in United States Dollars as 1.125 United States cents. A further quarterly dividend of 1.125 United States cents was paid at the end of April 2016.

On July 5, 2016 Caledonia announced a quarterly dividend of 1.375 United States cents per share, or 5.5 United States cents per annum. The increased dividend represents Caledonia's revised dividend policy. It is currently envisaged that the dividend of 5.5 United States cents per annum will be maintained in 2016.

15. DIRECTORS AND MANAGEMENT

On July 26, 2016 Caledonia announced that John McGloin had joined the Board as an independent non-executive director and that Caledonia had also appointed Maurice Mason as Vice President, Investor Relations and Corporate Development.

Mr McGloin holds an MSc in Mining and Exploration Geology from the Camborne School of Mines and a BSc in Geology from the National University of Ireland, Galway. After he graduated, Mr McGloin worked as a geologist and a consultant geologist where he gained experience of a range of projects and multiple jurisdictions. Following this, he spent 10 years working in the City of London, initially as a mining analyst and latterly as head of the mining teams at various London-based stockbrokers. From April 2012 to April 2016, Mr McGloin was Executive Chairman and Chief Executive Officer of Amara Mining PLC (“Amara”), which was focused on the Yaoure gold project in Cote d’Ivoire in West Africa. In April 2016, Amara was subject to a recommended combination with Perseus Mining Limited (“Perseus”), an Australian mining group which is listed on the Toronto and Australian stock exchanges and operates gold mines in West Africa. Following the combination between Perseus and Amara, Mr McGloin joined the board of Perseus as a non-executive director, a role which he intends to combine with his role at Caledonia. In addition to his recent and relevant experience as an executive in the mining industry, Mr McGloin’s appointment will support Caledonia’s increased focus on exploration and resource development and will enhance Caledonia’s access to institutional investors.

Mr Maurice Mason is a dual South African and UK national, resident in London, who holds a BSc in Engineering from the University of Natal, South Africa and an MBA from Henley Management College. Mr Mason’s career includes positions at Unilever, SABMiller and Anglo American. Most recently, Mr Mason was director, Equity Research, for Stifel Nicolaus Europe Ltd covering mining companies listed in the UK. Mr Mason will take over the day-to-day responsibility for Investor Relations and Corporate Development from Mr Learmonth, who, since November 2014 had combined this role with that of Chief Financial Officer.

In May 2016 Paul Mathews joined the management team as Mineral Resource Manager and is based at the Blanket Mine in Zimbabwe. Paul obtained a BSc (Hons) Geology degree at The University of Southampton, United Kingdom in 1980. He has twenty five years broad-based experience in the mineral exploration and mining industry in Africa, Australasia and East Asia ranging from grass roots exploration to resource definition drilling and mining. Over the last 14 years his experience has been weighted towards GIS and database management, 3D geological modelling, resource evaluation and project management. He will be responsible for mineral resource management, mine planning and exploration.

Subsequent to the appointment of Paul Mathews, Dr. Trevor Pearton has stepped down as VP Exploration on a permanent basis and he will provide consulting services to Caledonia in the future. Management thank Trevor for his contribution over the past 10 years and look forward to working with him on specific projects as a consultant. Dr Pearton will remain the Qualified Person (QP) for Caledonia for the remainder of 2016 after which Paul Mathews will take over as QP during 2017.

16. SECURITIES OUTSTANDING

As at August 11, 2016 Caledonia had **52,245,905** common shares issued. As at August 11, 2016, outstanding options to purchase Common Shares (“Options”) are as follows:

Number of Options	Exercise Price	Expiry Date
	Canadian \$	
620,420	0.90	Sept 10, 2017
190,000	0.72	Nov 21, 2018
25,000	0.80	Oct 8, 2025
<hr/>		
835,420		

Caledonia's Omnibus Equity Incentive Compensation Plan (the "Plan") allows that the number of shares reserved for issuance under the Plan, together with Shares reserved for issue under any other share compensation arrangements of the Company, shall not exceed the number which represents 10% of the issued and outstanding Shares from time to time. Accordingly, Caledonia could grant Options on a further 4,389,171 shares at August 11, 2016.

17. RISK ANALYSIS

The business of Caledonia contains significant risk due to the nature of mining, exploration and development activities. Risks such as interest rate, foreign exchange and credit risks are considered in Notes 6 and 24 to the Audited Consolidated Financial Statements. Caledonia's business contains significant additional risks due to the jurisdictions in which it operates and the nature of mining, exploration and development. Included in the risk factors below are details of how management seeks to mitigate the risks where this is possible.

- **Liquidity risk:** The Company needs to generate capital to be able to continue to invest in properties and projects without raising third party financing. Caledonia currently has sufficient cash resources and continues to generate sufficient cash to cover all of its anticipated investment needs.
- **Exploration Risk:** The Company needs to identify new resources to replace ore which has been depleted by mining activities and to commence new projects. Blanket has embarked on development and exploration programmes as set out in sections 4.7 and 5. No assurance can be given that exploration will be successful in identifying sufficient mineral resources of an adequate grade and suitable metallurgical characteristics that are suitable for further development or production.
- **Development Risk:** The Company is engaged in development activities at Blanket Mine and the Satellite properties including the implementation of the Revised Plan as set out in section 4.9 of the MD&A. Construction and development of projects are subject to numerous risks including: obtaining equipment, permits and services; changes in regulations, currency rate changes; labour shortages; fluctuations in metal prices and the loss of community support. There can be no assurance that construction will commence or continue in accordance with the current expectations or at all.
- **Production Estimates:** Estimates for future production are based on mining plans and are subject to change. Production estimates are subject to risk and no assurance can be given that future production estimates will be achieved. Actual production may vary from estimated production for a variety of reasons including un-anticipated variations in grades, mined tonnages and geological conditions, accident and equipment breakdown, changes in metal prices and the cost and supply of inputs and changes to government regulations.
- **Mineral Rights:** The Company's existing licences and permits are in good standing. The Company has to pay fees etc. to maintain its rights and licence. No assurance can be given that the Company will be able to make payments by the required date or will meet development and production schedules that are required to protect licences.
- **Metal Prices:** The Company's operations and exploration and development projects are heavily influenced by the price of gold, which is particularly subject to fluctuation. Following the expiry of the hedging transaction in July 2016, Caledonia has no strategy to limit the effect of adverse gold price movements.
- **Increasing input costs:** Mining companies generally have experienced higher costs of steel, reagents, labour and electricity and from local and national government for levies, fees, royalties and other direct and indirect taxes. Blanket's planned growth should allow the fixed cost component to be absorbed over increased production, thereby helping to alleviate somewhat the effect of any further price increases.
- **Illegal mining:** There has been an increase in illegal mining activities on properties controlled by Blanket. This gives rise to increased security costs and an increased risk of theft and damage to

equipment. Blanket has received adequate support and assistance from the Zimbabwean police in investigating such cases.

- **Electricity supply:** Zimbabwe produces and imports less electricity than it requires and has insufficient funds to adequately maintain or upgrade its distribution infrastructure. This has historically resulted in frequent interruptions to the power supply at Blanket Mine. Blanket has addressed the issue of interrupted power supply by installing stand-by generators and by entering into an un-interrupted power supply arrangement with the state-owned electricity company in return for paying a premium tariff. The un-interrupted power supply arrangement and the stand-by generators do not cover the GG and Mascot exploration properties
- **Succession planning:** The limited availability of mining and other technical skills and experience in Zimbabwe and the difficulty of attracting appropriately skilled employees to Zimbabwe creates a risk that appropriate skills may not be available if, for whatever reason, the current skills base at the Blanket Mine is depleted. The Caledonia and Blanket management teams have been augmented so that, if required, it could provide appropriate support to Blanket.
- **Country risk:** The commercial environment in which the Company operates is unpredictable. Potential risks may arise from: unforeseen changes in the legal and regulatory framework which means that laws may change, may not be enforced, or judgements may not be upheld; restrictions on the movement of currency and the availability of exchange to make payments from Zimbabwe; risks relating to possible corruption, bribery, civil disorder, expropriation or nationalisation; risks relating to restrictions on access to assets. Management believes that it has minimised such risks by complying fully with all relevant legislation and by obtaining all relevant regulatory permissions and approvals.
- **Gold marketing arrangements:** In terms of regulations introduced by the Zimbabwean Ministry of Finance in January 2014, all gold produced in Zimbabwe must be sold to Fidelity, a company which is controlled by the Zimbabwean authorities. Accordingly, all of Blanket's production has been sold to Fidelity. Blanket has received all payments due from Fidelity in full and on time. However the requirement to sell to Fidelity increases Blanket's credit risk because Fidelity has failed to pay Blanket in the past.

18. FORWARD LOOKING STATEMENTS

Information and statements contained in this MD&A that are not historical facts are “forward-looking information” within the meaning of applicable securities legislation that involve risks and uncertainties relating, but not limited to, Caledonia's current expectations, intentions, plans, and beliefs. Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “expect”, “goal”, “plan”, “target”, “intend”, “estimate”, “could”, “should”, “may” and “will” or the negative of these terms or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Examples of forward-looking information in this MD&A include: implementation schedules for, and other uncertainties inherent in, the Revised Plan; costs associated with the LOM Plan; production guidance; estimates of future/targeted production rates; planned mill capacity increases; estimates of future metallurgical recovery rates and the ability to maintain high metallurgical recovery rates; timing of commencement of operations; plans and timing regarding further exploration, drilling and development; the prospective nature of exploration and development targets; the ability to upgrade and convert mineral resources to mineral reserves; capital costs; our intentions with respect to financial position and third party financing; and future dividend payments. This forward-looking information is based, in part, on assumptions and factors that may change or prove to be incorrect, thus causing actual results, performance or achievements to be materially different from those expressed or implied by forward-looking information. Such factors and assumptions 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, success of future exploration and drilling programs, reliability of drilling, sampling and assay data, assumptions regarding the representativeness of mineralization being inaccurate, success of planned metallurgical test-work, capital and operating costs

varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, changes in government regulations, legislation and rates of taxation, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors.

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. Such factors include, but are not limited to: risks relating to estimates of mineral reserves and mineral resources proving to be inaccurate, fluctuations in gold price and payment terms for gold sold to Fidelity, risks and hazards associated with the business of mineral exploration, development and mining (including environmental hazards, industrial accidents, unusual or unexpected geological or structural formations, pressures, power outages, explosions, landslides, cave-ins and flooding), risks relating to the credit worthiness or financial condition of suppliers, refiners and other parties with whom the Company does business; inadequate insurance, or inability to obtain insurance, to cover these risks and hazards, employee relations; relationships with and claims by local communities and indigenous populations; political risk; availability and increasing costs associated with mining inputs and labour; the speculative nature of mineral exploration and development, including the risks of obtaining or maintaining necessary licenses and permits, diminishing quantities or grades of mineral reserves as mining occurs; global financial condition, the actual results of current exploration activities, changes to conclusions of economic evaluations, and changes in project parameters to deal with un-anticipated economic or other factors, risks of increased capital and operating costs, we are affected by environmental, safety or regulatory risks, expropriation, the Company's title to properties including ownership thereof, increased competition in the mining industry for properties, equipment, qualified personnel and their costs, risks relating to the uncertainty of timing of events including targeted production rate increase and currency fluctuations. 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 reviews forward-looking information for the purposes of preparing each MD&A, however 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.

19. CONTROLS

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.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR"). Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

At June 30, 2016 we have tested our ICFR and management has evaluated the effectiveness of Caledonia's internal control over financial reporting and concluded that such internal control over financial reporting was effective and there were no material weaknesses. As part of their monitoring and oversight role, the Audit Committee performs a review and conducts discussions with management. No material exceptions were noted based on the additional procedures and no evidence of fraudulent activity was found.

Segregation of Duties

Management has concluded, and the Audit Committee has agreed, that the hiring of additional staff needs to be constantly addressed and assessed in light of risks to ICFR and the costs associated with additional staff. There have been no changes in the Corporation's internal controls over financial reporting since the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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

20 QUALIFIED PERSON

Dr. Trevor Pearton, B.Sc. Eng. (Mining Geology), Ph.D. (Geology), Pr.Sci.Nat., F.G.S.S.A., VP Exploration is the Corporation's qualified person as defined by NI 43-101. Dr. Pearton is responsible for the technical information provided in this MD&A except where otherwise stated. Dr. Pearton has reviewed the scientific and technical information included in this document and has approved the disclosure of this information for the purposes of this MD&A.