

Caledonia Mining Corporation


Q3 2016 Results Overview


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Profit and Loss
Overview

Summary P&L (US$m)	3 months ended September 30		9 months ended September 30	
	2015	**2016**	2015	**2016**
Revenue	12.1	**17.6**	37.2	**46.7**
Royalty	(0.6)	**(0.9)**	(1.9)	**(2.3)**
Production costs	(7.8)	**(9.1)**	(23.0)	**(25.2)**
G&A costs	(1.7)	**(2.0)**	(5.2)	**(5.2)**
EBITDA	2.0	**5.7**	7.2	**14.0**
Depreciation	(0.9)	(0.9)	(2.6)	(2.6)
Other income	0.0	**0.0**	0.1	**0.1**
Foreign exchange gain/(loss)	1.5	**(0.1)**	2.1	**(0.3)**
Cash settled share based payment	-	**(0.5)**	-	**(0.7)**
Profit on sale of Blanket Mine treasury bills	-	**-**	-	**3.2**
Margin call on gold hedge	-	**-**	-	**(0.4)**
Operating Profit	2.6	**4.2**	6.7	**13.1**
Finance Charges	(0.4)	**(0.1)**	(0.4)	**(0.1)**
Profit before tax	2.2	**4.1**	6.3	**13.0**
Tax	(0.7)	**(2.3)**	(2.7)	**(5.8)**
Net Profit	1.5	**1.8**	3.6	**7.2**
Attributable to:				
Caledonia Shareholders	1.3	**1.1**	2.8	**5.3**
NCI	0.2	**0.7**	0.8	**1.9**
Earnings per share (cents)				
EPS (cents)	2.6	**1.9**	5.2	**9.6**
Adjusted EPS (cents)*	2.9	**4.4**	7.2	**13.0**

* *Adjusted EPS is a non-IFRS measure which is discussed in Section 10 of the MD&A*

- Increased revenues reflected higher production and a higher gold price
- Costs for Q3 remain under control with on mine costs of $618 per ounce and AISC of $969 per ounce
- Profitability for the quarter was impacted by a number of non production related costs including South African Rand currency strength, increased share based payment expenses and non-recurring costs in the evaluation of a number of investment opportunities
- Tax includes a substantial component of deferred tax which has been reversed out of the adjusted earning
- Adjusted EPS excludes gains on sale of treasury bills, deferred tax and foreign exchange gains and losses.

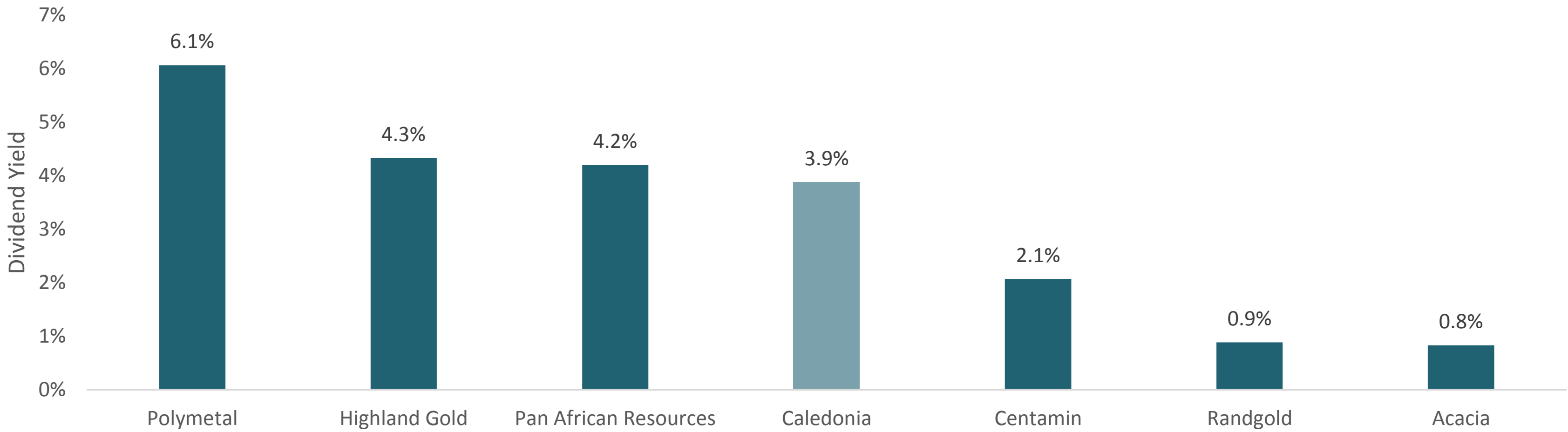
Production and Revenues
Effect of Changes in Production, Gold Price

Production and Revenues	Q3 2015	Q3 2016	% change
Tones Milled (000's)	116,694	**133,375**	14%
Average grade (g/t)	3.14	**3.36**	7%
Average recovery (%)	92.7	**93.2**	0.5%
Gold Production (oz)	10,927	**13,428**	23%
Average realised gold price ($/oz)	1,107	**1,313**	19%
Gold revenues ($m)	12.1	**17.6**	46%

- Blanket mine set a consecutive production record as gold production and sales were 23% higher year on year, mainly due to increased production rates and the extraction of ore from below 750m level
- Over 133,000 tonnes mined and milled in the quarter: a new record from underground and reflects the recent investment in infrastructure
- Grade is expected to continue to trend gradually upwards towards 4g/t as production from below 750m increases
- The average realised gold price was also 19% higher year on year which combined with a 14% increase in tonnes milled contributed to a 46% annual increase in revenue for the quarter

Dividend
A track record of sustainable and increasing dividends

Dividend Peer Comparison

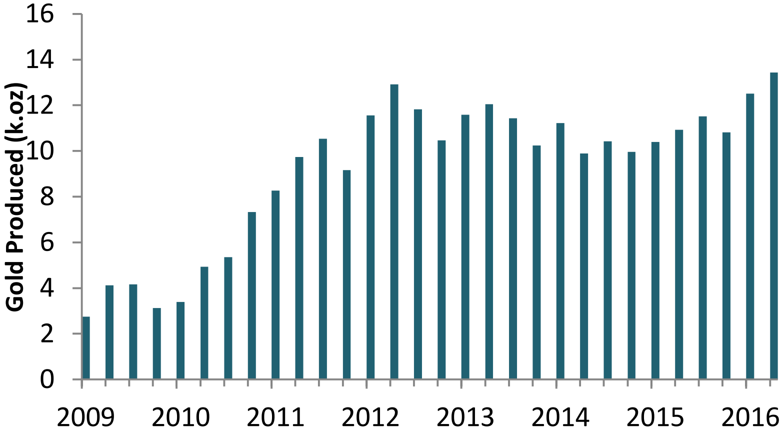


Payout Ratio	98%	-188%	58%	31%	35%	33%	-10%

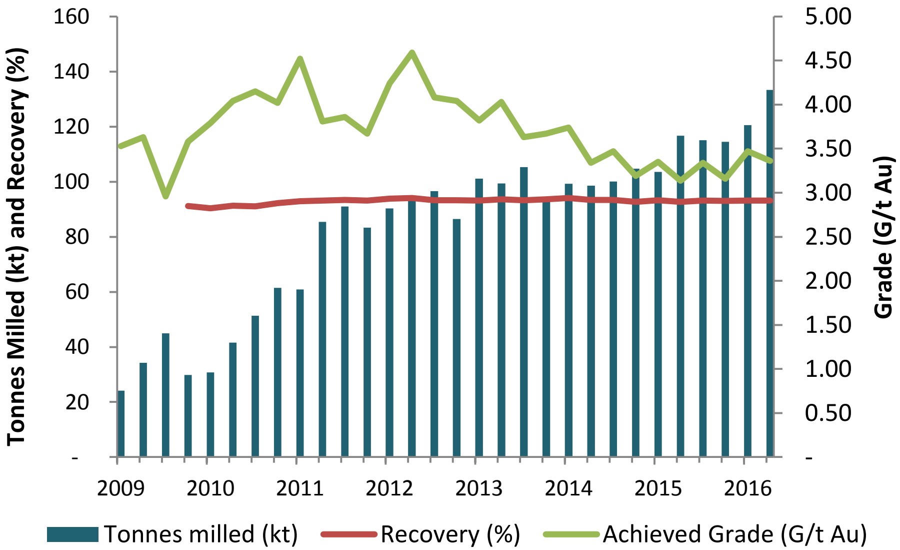
- In July 2016 Caledonia increased its quarterly dividend by 22% from 1.125 US cents per quarter to 1.375 US cents per quarter delivering a dividend yield of over 3.9%
- Caledonia's dividend is 3.3 times covered by earnings and 8 times covered by operating cash flow
- Dividends remain a vital component of the Caledonia strategy for delivering shareholder value
- Dividends have been paid each quarter since January 2014 over a period of sustained weakness in the gold price and a significant capital investment program – a strong testament to the cash generating potential of Caledonia

Gold Production

Quarterly Production



Tonnes Milled, Grade and Recovery



- Blanket mine set a new production record with quarterly production increasing to over 13k ounces as a result of increased tonnes milled and grade improvements
- Production was boosted by improved access to resources below 750m in depth
- Guidance of 50,000 ounces remains on track for 2016
- Production guidance for 2017 is 60koz, a 20 per cent increase on 2016 production with target on mine costs and All-In sustaining costs for 2017 in the ranges of $600-$630 per ounce and $810-850 per ounce, respectively.
- Management is increasingly confident of delivering the longer term target of 80k ounces as development below 750m continues to progress and the Central Shaft project remains on track
- Improved underground logistics: completion of the tramming loop and decline development have boosted operational flexibility
- Grade is anticipated to continue to improve gradually towards 4g/t as deeper resources are accessed

Production Costs

	YTD 2016	YTD 2015	Change
Gold produced (oz)	**36,760**	31,288	17%
On-mine cost ($/oz)	**643**	701	-8%
All-in Sustaining Cost ($/oz)	**952**	1,006	-5%
Average realised gold price ($/oz)	**1,247**	1,158	8%
Tonned Milled (kt)	**368**	**325**	13%
Cost per tonne milled ($/t)	**68**	71	-3%
Production costs			
Salaries, wages and bonuses	***9,914***	*8,715*	14%
Consumable materials	***12,429***	*11,650*	7%
Site restoration	**-**	*22*	-
Exploration	***449***	*266*	69%
Safety	***357***	*397*	-10%
On mine administration	***2,064***	*1,951*	6%
	25,213	23,001	10%

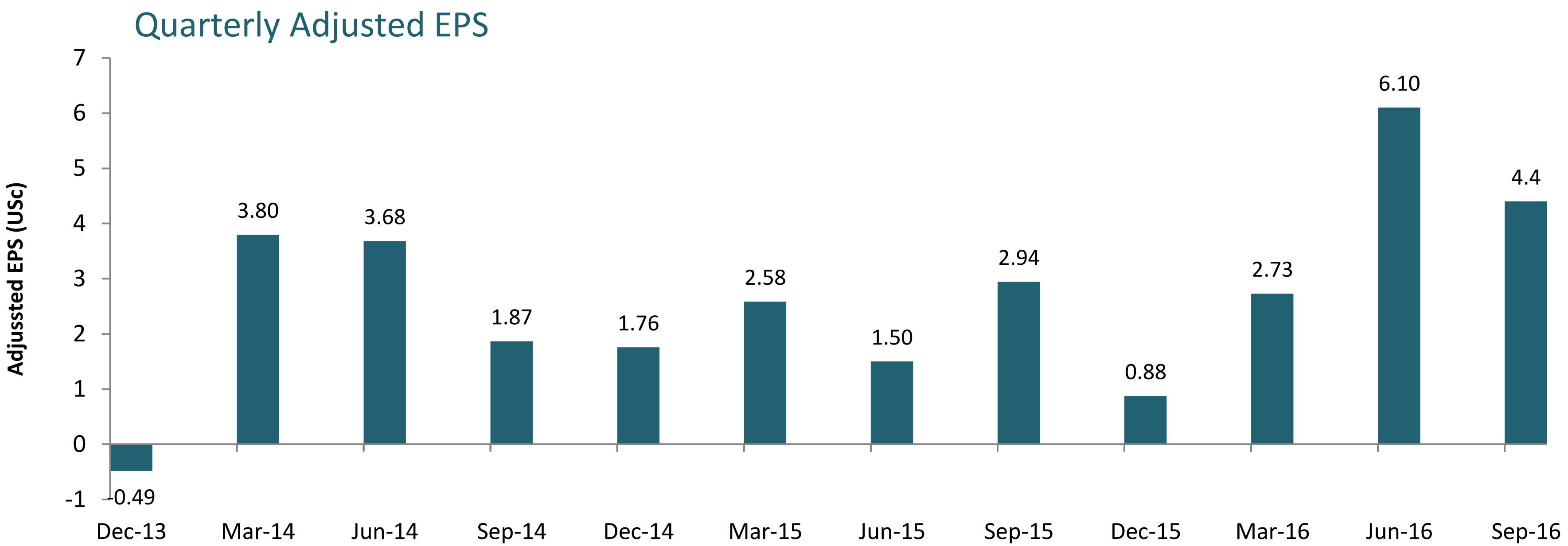
- Blanket did not experience significant inflationary pressure on input costs
- Unit operating costs per ounce and per tonne milled benefitted from increased mine and plant throughput.
- Further throughput improvements are expected to yield additional cost reductions:
- Increase total production costs corresponds to increased tonnes mined and milled

G&A

	YTD 2016	YTD 2015	Change
Investor relations	**478**	**408**	17%
Eersteling gold mine holding costs	**81**	**90**	-10%
Professional consulting fees	**774**	**338**	129%
Audit fee	**148**	**204**	-27%
Legal fee and disbursements	**510**	**222**	130%
Accounting services fee	**312**	**161**	94%
Listing fees	**237**	**116**	104%
Travel and accommodation	**393**	**265**	48%
Directors fee – Company	**173**	**150**	15%
Directors fee – Blanket	**35**	**47**	-26%
Tax penalties	**-**	**166**	-
Unrecoverable VAT	**-**	**266**	-
Employee costs	**1,788**	**1,745**	2%
Zambian holding costs	**-**	**763**	-
Other	**294**	**242**	21%
	5,223	5,183	1%

- Higher IR reflects increased coverage in UK and Europe
- Management continue to investigate options for the disposal of Eersteling Gold mine
- Zambia office closed with effect end of May 2015, no further costs incurred in 2016
- Accounting services includes fees in respect of tax compliance and re-structuring
- Professional and consulting fees and legal fees are approx. $700k more than 2015 and include: costs associated with appraisal of new investments; re-structuring costs (re-domicile to Jersey); and costs relating to Caledonia's general corporate affairs including regulatory and tax compliance in all relevant jurisdictions

Earnings per Share



	Q3 2016	Q3 2015
Attributable Profit (IFRS)	**1,118**	1,317
Adjustments for:		
IFRS 19 adjustment	**40**	-
Foreign exchange	**132**	-1,457
Deferred tax	**1,004**	750
Reversal of Zambian G&A	**-**	139
South African tax remediation costs	**-**	744
Post-tax proceeds of treasury bill sale	**-**	-
Adjusted profit	**2,392**	1,493
Weighted average shares in issue (m)	**52.1**	52.1
Adjusted EPS (cents)	**4.4**	2.9

- IFRS EPS affected by forex gains, deferred tax and once off gains on the sale of treasury bonds and losses on the hedge implemented in the first quarter
- Adjusted EPS for Q3 2016 of 4.4 cents

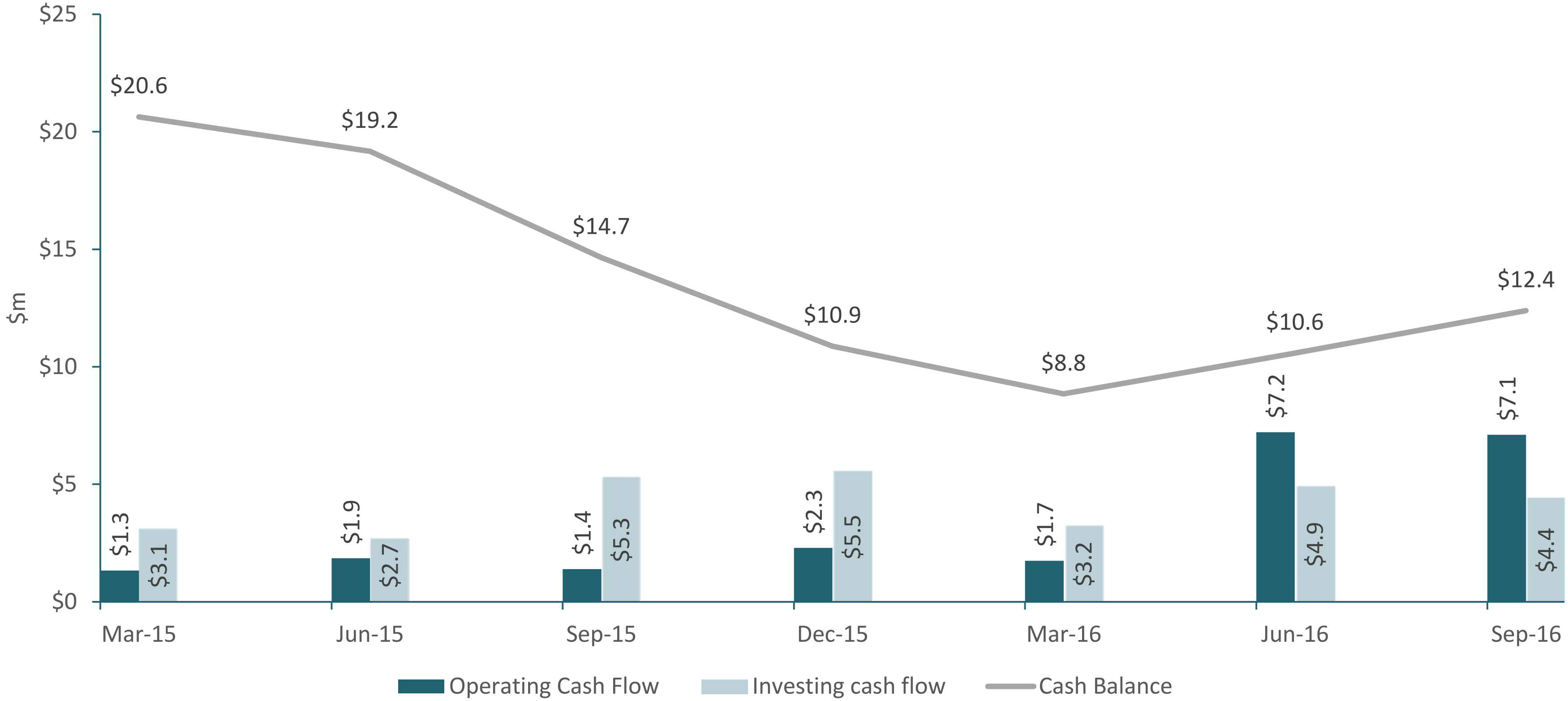
Cash Flow

	Q3 2016	Q3 2015	**YTD 2016**	YTD 2015
Operating Cash Flow				
Cash generated by operating activities	**8,057**	1,585	**17,892**	5,459
Net finance cost paid	**-52**	-25	**-142**	-74
Net tax paid	**-898**	-168	**-1679**	-806
Cash from operating activities	**7,107**	1,392	**16,071**	4,579
Investing Cash Flow				
Acquisition of Property, plant and equipment	**-4,440**	-5,313	**-12,670**	-11,143
Proceeds from Property, plant and equipment	**19**	-	**78**	-
Net cash used in investing activities	**-4,421**	-5,313	**-12,592**	-11,143
Financing Cash Flow				
Dividend paid	**-925**	-596	**-2,122**	-1,865
Shares issued	**48**	-	**153**	-
Net cash used in financing activities	**-877**	-596	**-1,969**	-1,865
Change in cash and cash equivalents	**1,809**	-4,517	**1,510**	-8,429
Cash and cash equivalents at beginning of period	**10,581**	19,170	**10,880**	23,082
Cash and cash equivalents at end of period	**12,390**	14,653	**12,390**	14,653

- Cash from operating activities remains robust, boosted by higher production volumes and a stronger gold price
- Significant increase in capital investment is anticipated in 2016 with Capex for the year of $18m
- Zimbabwe debt facilities of US$5m provide adequate liquidity
- At 30 September 2016 net cash was approx. $12.4m, Caledonia anticipates remaining cash generative whilst sustaining the dividend and Blanket capital investment program

Operations remain strongly cash generative

Operating and investing cash flow and cash balance: 2015 - 2016



- Caledonia’s operations remain strongly cash generative with cash from operations sufficient to support both the investment program and the dividend and grow the group’s cash balance in 2016
- Investing cash flow is likely to decline from 2018 onwards as the Blanket investment plan nears completion

Balance Sheet

	Sep-16	Dec-15
Fixed Assets	**59,394**	49,276
Current Assets		
Inventories	**6,701**	6,091
Prepayments	**867**	667
Income tax receivable	**157**	397
Trade and other receivables	**4,149**	3,839
Cash and cash equivalents	**13,939**	12,568
Total assets	**85,207**	72,838
Total non-current liabilities	**18,435**	14,080
Current Liabilities		
Trade and other payables	**9,432**	6,656
Income taxes payable	**146**	53
Bank overdraft	**1,549**	1,688
Total liabilities	**29,562**	22,477
Total equity	**55,645**	50,361
Total equity and liabilities	**85,207**	72,838

- Caledonia mining remains debt free with adequate cash resources and strong operating cash flow
- Dividends are comfortably covered by cash resources and operating cash flows
- Increase in PPE includes investment of $12.7m for the 9 months to September 2016
  - Rate of capital expenditure increases as planned to implement the Revised Plan
  - Adverse effect on RoE until related increase in production and profitability from 2016 onwards

Operational Issues

- Central Shaft is progressing well
  - Achieved a depth of 348 meters as at October 31, 2016
  - Unstable electricity supply from grid has impeded work and requires the installation of equipment to protect Blanket's equipment

- Work has commenced on new projects that are incremental to the Investment plan with the objective of enhancing mine flexibility:
  - Decline 1 into AR South is being extended from 785m below surface to 870m below surface
  - Decline 2 will provide improved access to the Blanket ore body below 750m

- No. 8 Ball Mill commissioned in October 2016:
  - milling capacity is now sufficient to process the tonnage required to achieve 80,000 ounces of gold per annum

- Metallurgical recoveries continue to be affected by un-reliability of the existing oxygen plant
  - A new plant is expected to be installed in mid-2017

- Increased focus on deep level drilling continues

Outlook

- Focus remains on the investment program to double production to 80,000 ounces by 2021
  - Higher production and reduced costs will secure Blanket's long term position as a low cost producer
  - Creates greater operational flexibility for continued deep-level exploration and development
- The resumption of dividends from Blanket and the recent strong gold price is likely to see an improvement in Caledonia's cash position going forward
- Guidance of 50koz for 2016 maintained with long term growth plans for 80koz by 2021
- Guidance for 2017 of 60koz with on mine cash costs of \$600-\$630 per ounce and AISC of \$810-850 per ounce
- Costs are anticipated to continue to trend downwards as the benefit of increased throughput and low marginal costs are materialised
- Conservative approach to cash management
  - Retain the financial capacity to accommodate a lower gold price and maintain the current dividend
  - Recent cost economies balanced by the need to build up technical capacity to ensure delivery of the Revised plan: current corporate structure is now right-sized