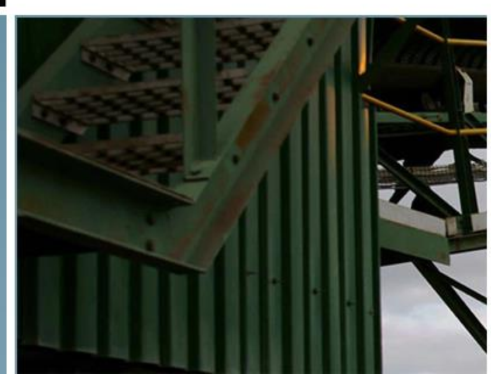


Caledonia Mining
Corporation Plc


# Q3 2017 Results Overview

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# Q3 2017 Results Summary

## Production was flat and unit operating costs were higher for the quarter

| | 3 months to 30 September 2016 | 3 months to 30 September **2017** | yoy % Change | 9 months to 30 September 2016 | 9 months to 30 September **2017** | yoy % Change | Comment |
|---|---|---|---|---|---|---|---|
| Gold produced (oz) | 13,428 | **14,396** | +7% | 36,760 | **39,710** | +8% | Increased gold production in the quarter due to higher grade |
| On-mine cost per ounce ($/oz)[1] | 618 | **638** | +3% | 643 | **663** | +3% | On mine costs remain broadly stable; slight increase due to the short-term effects of equipment in new working areas below 750 metres |
| All-in Sustaining Cost ($/oz) ("AISC") | 1,004 | **773** | -23% | 971 | **827** | -15% | Lower AISC due to lower administrative expenses and sustaining capital expenditure and the recognition of the export incentive credit in 2017 |
| Average realised gold price ($/oz) | 1,312 | **1,265** | -4% | 1,247 | **1,238** | -1% | Realised gold price reflects the market price |
| Gross profit [2] | 6,780 | **7,229** | +7% | 16,604 | **17,910** | +8% | Increased gross profit due to higher production and sales, offset by a lower gold price |
| Net profit attributable to shareholders | 1,118 | **3,120** | +179% | 5,268 | **6,152** | +17% | Higher attributable profit for the Quarter due to higher gross profit and reduced administrative and share-based payment expenses |
| Adjusted basic earnings per share ("EPS")[3] (cents) | 22.1 | **40.8** | +85% | 65.4 | **87.3** | +33% | Increased adjusted EPS for the Quarter due to higher attributable profit and the add-back of deferred taxation |
| Cash and cash equivalents | 12,390 | **11,830** | -5% | 12,390 | **11,830** | -5% | Cash position remains robust despite increased capital expenditure |
| Cash from operating activities | 7,107 | **10,118** | +42% | 16,071 | **16,598** | +3% | Cash from operating activity benefits from reduced working capital |

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, other income, interest and finance charges and taxation.
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. Per share data for current and prior periods has been adjusted to reflect the effective 1-for-5 share consolidation which was effected on June 26, 2017

# Income Statement

*Higher costs, taxation and share based payment expenses led to a decrease in EPS*

| Summary P&L (US$m) | 3 months ended September 30 | | | 9 months ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2016 | **2017** | **yoy % Change** | 2016 | **2017** | **yoy % Change** |
| Revenue | 17.6 | **18.2** | +3% | 46.7 | **50.2** | +7% |
| Royalty | (0.9) | **(0.9)** | +3% | (2.3) | **(2.5)** | +7% |
| Production costs | (9.1) | **(9.1)** | +0% | (25.2) | **(27.0)** | +7% |
| G&A costs | (2.0) | **(1.6)** | -20% | (5.2) | **(4.5)** | -13% |
| EBITDA | 5.7 | **6.6** | +17% | 14.0 | **16.1** | +15% |
| Depreciation | (0.9) | **(1.0)** | +14% | (2.6) | **(2.7)** | +6% |
| Other income | 0.0 | **0.7** | | 0.1 | **1.9** | |
| Foreign exchange gain/(loss) | (0.1) | **(0.0)** | | (0.3) | **0.0** | |
| Share based payments | (0.5) | **(0.1)** | -85% | (0.7) | **(1.4)** | +93% |
| Sale of Blanket Mine treasury bills | - | - | | 3.2 | - | |
| Margin call on gold hedge | - | - | | (0.4) | - | |
| **Operating Profit** | 4.2 | **6.2** | +49% | 13.1 | **13.8** | +5% |
| Finance Charges | (0.1) | **(0.0)** | | (0.1) | **(0.0)** | |
| **Profit before tax** | 4.1 | **6.2** | +51% | 13.0 | **13.8** | +6% |
| Tax | (2.3) | **(2.3)** | +2% | (5.8) | **(5.9)** | +1% |
| **Net Profit** | 1.8 | **3.9** | +113% | 7.2 | **7.9** | +10% |
| **Attributable to:** | | | | | | |
| Caledonia Shareholders | 1.1 | **3.1** | +179% | 5.3 | **6.2** | +17% |
| NCI | 0.7 | **0.8** | | 1.9 | **1.8** | |
| **Earnings per share (cents)** | | | | | | |
| EPS (cents) | 10.0 | **29.0** | +190% | 49.0 | **57.0** | +16% |
| Adjusted EPS (cents)* | 22.0 | **41.0** | +86% | 65.0 | **87.0** | +34% |

- Higher revenues due to higher production offset by a lower realised gold price
- Production costs were flat in the quarter and include incremental costs arising from new production areas e.g. declines below 750 metres
- Profit in 2017 also benefits from lower admin costs and the recognition of the export incentive credit at 3.5% of revenues
- Net profit for the 9 months in 2016 was boosted by a large one-off gain in the sale of Blanket mine treasury bills
- NCI is calculated at 16.2% of Blanket earnings
- Adjusted eps primarily excludes deferred taxation

# Production and Revenues

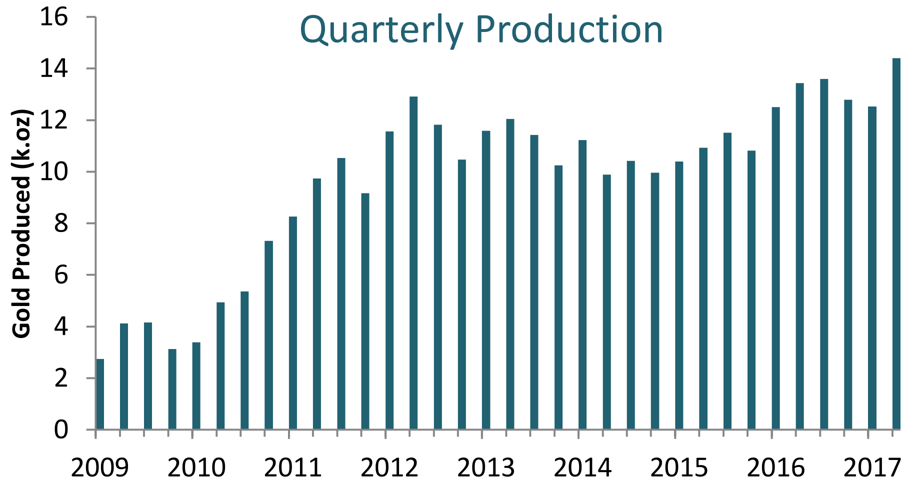
## Effect of Changes in Production, Gold Price

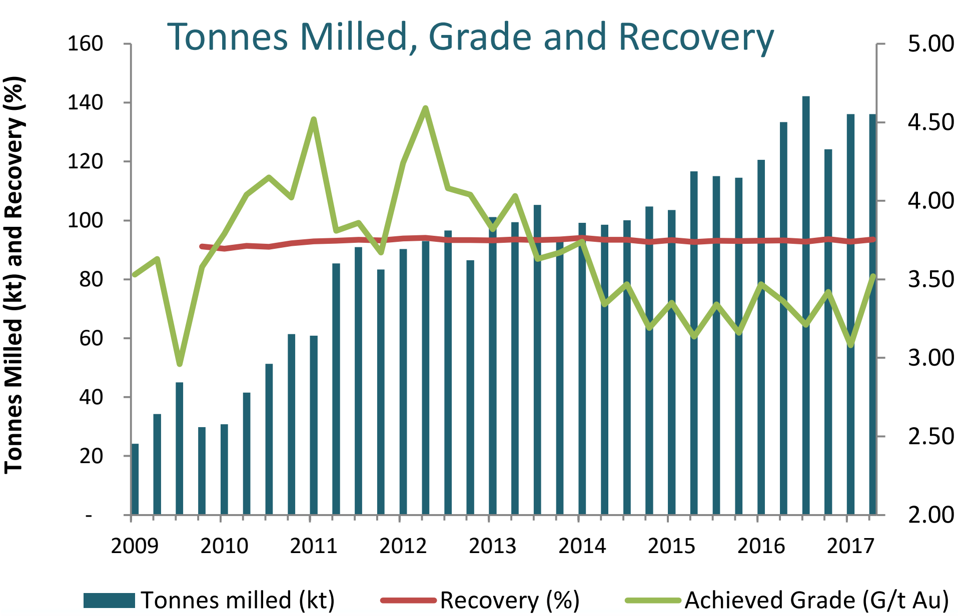
| Production and Revenues | 3 months to 30 September | | % change | 9 months to 30 September | | % change |
|---|---|---|---|---|---|---|
| | 2016 | **2017** | | 2016 | **2017** | |
| Tonnes Milled (000's) | 133,375 | **136,064** | +2% | 368,492 | **396,452** | +8% |
| Average grade (g/t) | 3.36 | **3.52** | +5% | 3.33 | **3.34** | +0% |
| Average recovery (%) | 93.2 | **93.6** | +0% | 93.1 | **93.4** | +0% |
| Gold Production (oz) | 13,428 | **14,396** | +7% | 36,760 | 39,711 | +8% |
| Average realised gold price ($/oz) | 1,312 | **1,265** | -4% | 1,247 | **1,238** | -1% |
| Gold revenues ($m) | 17.6 | **18.2** | +3% | 46.7 | **50.2** | +7% |

- Production in Q1 and Q2 of 2017 was adversely affected by logistical constraints on 22 Level (750 metres below surface) which restricted tonnage and hampered mining flexibility i.e. the ability to access higher grade areas
- Management have implemented various mitigating actions which have resulted in a modest improvement in tonnes and grade. Typically, a higher grade also results in improved recovery

# Gold Production

## Operations remain on track for 80,000 ounces by 2021




- Underground logistical constraints have been partially addressed, but will not be completely resolved until the Central Shaft is commissioned in early 2020
- November: commence mid-shaft loading of development waste using the Central Shaft:
  - A temporary expedient (6 months) after which shaft sinking will resume
  - Allows No. 4 Shaft to focus on hoisting ore
  - Allows horizontal development on 870 level to catch up to plan.
- Grade has recovered in the quarter, but remains below the mine average:
  - Further grade improvement is expected as higher grade deeper resources
- 2017 production target of 52,000 to 57,000 ounces of gold has been narrowed to 54,000 to 56,000 ounces
- Management is confident of delivering the longer term target of 80,000 ounces by 2021

# Production Costs

## On-mine costs remain contained; substantial drop in AISC

| | 3 Months to September 30 | | | 9 Months to September 30 | | |
|---|---|---|---|---|---|---|
| | 2016 | **2017** | Change | 2016 | **2017** | Change |
| On-mine cost ($/oz) | 618 | **638** | +3% | 643 | **663** | +3% |
| All-in Sustaining Cost ($/oz) | 1,004 | **773** | -23% | 951 | **827** | -13% |
| Tonned Milled (t) | 133,375 | **136,064** | +2% | 368,492 | **396,452** | +8% |
| Cost per tonne milled ($/t) | 62.2 | 67.5 | +9% | 65.4 | 67.7 | +4% |
| **Production costs ($ 000's)** | | | | | | |
| Salaries, wages and bonuses | | | | *9,914* | ***10,566*** | +7% |
| Consumable materials | | | | *12,429* | ***13,753*** | +11% |
| Site restoration | | | | - | ***24*** | |
| Exploration | | | | *449* | ***307*** | -32% |
| Safety | | | | *357* | ***382*** | +7% |
| On mine administration | | | | *2,064* | ***1,960*** | -5% |
| | | | | 25,213 | **26,992** | +7% |

- Blanket did not experience significant inflationary pressure on input costs. Modest increase in on-mine costs due to the increased costs arising from new underground equipment and the opening of new production ends
- Cost per tonne milled increased by 9% due to abnormal intercompany adjustments in Q3 2016.
- AISC reduced by 23% quarter-on-quarter due to:
  - the recognition of the export incentive credit in 2017 (this was only recognised at the end of 2016)
  - lower sustaining capex ($98k in Q3 2017 was unusually low)
  - Lower G&A

# General & Administrative Costs

## G&A costs reduced

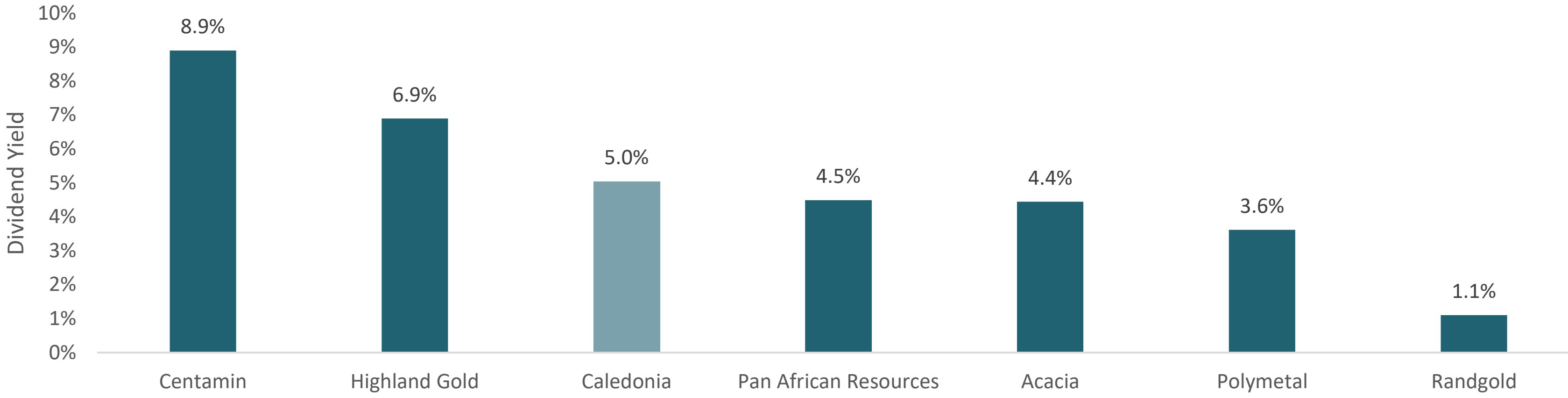
| | 9 Months to 30 September | | |
|---|---|---|---|
| | 2016 | **2017** | Change |
| Investor relations | 478 | **414** | -13% |
| Eersteling gold mine holding costs | 81 | **124** | +53% |
| Audit fee | 148 | **170** | +15% |
| Advisory services fee | 1,596 | **688** | -57% |
| Listing fees | 237 | **289** | +22% |
| Travel | 393 | **303** | -23% |
| Directors fee – Company | 173 | **191** | +10% |
| Directors fee – Blanket | 35 | **27** | -23% |
| Employee costs | 1,788 | **2,018** | +13% |
| Other office administration cost | 294 | **317** | +8% |
| | 5,223 | 4,541 | -13% |

- G&A costs for the 9 months to September 30 were 13% lower year-on-year
  - Lower advisory fees due to use of in-house legal resource and the reduced costs of evaluating external investment opportunities
- Gains in the South African Rand were sustained in the quarter leading to sustained higher South African employee costs
- Increased head office capacity also contributed to the increased employee costs

# Dividend

## A track record of sustainable and increasing dividends

### Dividend Sector Comparison

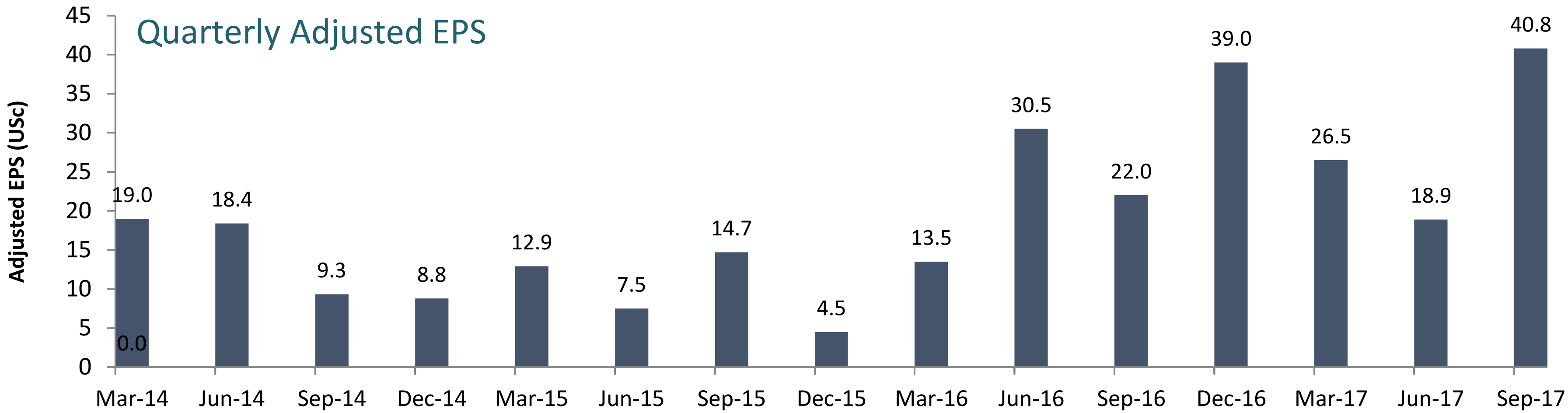



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Payout Ratio | 83% | 90% | 26% | 58% | 43% | 47% | 38% |

- Dividends have been paid each quarter since January 2014 over a period of sustained weakness in the gold price and a significant capital investment programme – a testament to the cash generating potential of Caledonia
- Following the re-domicile to Jersey in March 2016, Caledonia's dividends no longer attract Canadian withholding tax resulting in a significant increase in the net dividend received by non-Canadian shareholders
- Following the company's 1 for 5 share consolidation in June 2017 the quarterly dividend was increased five-fold to 6.875 US cents per share
- Conservative payout ratio: the dividend paid in October 2017 (6.875 cents) is 4.2 times covered by Q3 earnings and 14 times covered by net cash from operating activities
- Total dividends paid since dividends commenced in February 2013: US$7.97 per post consolidation share

# Earnings per Share

## A strong recovery




| | 3 months ended September 30 | | | 9 months ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2016 | **2017** | % change | 2016 | **2017** | % change |
| Attributable Profit (IFRS) | 1,118 | **3,120** | +179% | 5,268 | **6,152** | +17% |
| **Adjustments for:** | | | | | | |
| IFRS 19 adjustment | 40 | **50** | | 40 | **50** | |
| Equity-settled share based payments | - | - | | - | **806** | |
| Foreign exchange | 132 | **(65)** | -149% | 332 | **(84)** | -125% |
| Deferred tax | 1,004 | **1,199** | 19% | 3,544 | **2,288** | -35% |
| Sale of Blanket Mine treasury bills | - | - | | (2,378) | - | |
| **Adjusted profit** | 2,294 | **4,304** | +88% | 6,806 | **9,212** | +35% |
| | | | | | | |
| Weighted average shares in issue (m)* | 10.4 | **10.5** | | 10.4 | **10.5** | |
| Adjusted EPS (cents) | 22.1 | **40.8** | +85% | 65.4 | **87.3** | +33% |

# Cash Flow

## Strong cash generation despite significant investment and dividends

| | 3 months ended September 30 | | 9 months ended September 30 | |
|---|---|---|---|---|
| | 2016 | **2017** | 2016 | **2017** |
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | 8,057 | **11,652** | 17,892 | **19,526** |
| Net interest paid | (52) | **(116)** | (142) | **(121)** |
| Tax paid | (898) | **(1,418)** | (1,679) | **(2,807)** |
| Net cash from operating activities | 7,107 | **10,118** | 16,071 | **16,598** |
| **Cash flows from investing activities** | | | | |
| Acquisition of Property, plant and equipment | (4,440) | **(8,056)** | (12,670) | **(15,575)** |
| Proceeds from property, plant and equipment | 19 | **-** | 78 | **-** |
| Net cash used in investing activities | (4,421) | **(8,056)** | (12,592) | **(15,575)** |
| **Cash flows from financing activities** | | | | |
| Dividends paid | (925) | **(964)** | (2,122) | **(2,416)** |
| Repayment of term loan facility | - | **(375)** | - | **(1,125)** |
| Share repurchase | - | **-** | - | **(146)** |
| Share issued | 48 | **84** | 153 | **84** |
| Net cash used in financing activities | (877) | **(1,255)** | (1,969) | **(3,603)** |
| Net decrease in cash and cash equivalents | 1,809 | **807** | 1,510 | **(2,580)** |
| Effect of exchange rate fluctuations on cash held | - | **145** | - | **75** |
| Cash and cash equivalents at beginning of the period | 10,581 | **10,878** | 10,880 | **14,335** |
| **Cash and cash equivalents at end of the period** | 12,390 | **11,830** | 12,390 | **11,830** |

- Cash from operating activities remains robust
- High capex in Q3 2017 was according to plan
- Caledonia anticipates that its cash resources in conjunction with further cash generation will allow dividend to be sustained and continue the capital investment programme at Blanket

# Balance Sheet

## Financial position remain robust through the investment cycle

| | Dec-16 | Sep-17 |
|---|---|---|
| **Fixed Assets** | 64,917 | **77,027** |
| **Current Assets** | | |
| Inventories | 7,222 | **8,098** |
| Prepayments | 810 | **2,001** |
| Trade and other receivables | 3,425 | **5,813** |
| Cash and cash equivalents | 14,335 | **11,830** |
| **Total assets** | 90,709 | **104,769** |
| | | |
| **Non-current Liabilities** | | |
| Provisions | 3,456 | **3,481** |
| Deferred tax liability | 15,909 | **18,213** |
| Cash-settled share based payments | 618 | **1,224** |
| Long-term portion of term loan facility | 1,577 | **333** |
| Total non-current liabilities | 21,560 | **23,251** |
| **Current Liabilities** | | |
| Short-term portion of term loan facility | 1,410 | **1,666** |
| Trade and other payables | 8,077 | **13,135** |
| Income taxes payable | 345 | **1,113** |
| **Total liabilities** | 31,392 | **39,165** |
| **Total equity** | 59,317 | **65,604** |
| **Total equity and liabilities** | 90,709 | **104,769** |

- Caledonia Mining's balance sheet has remained strong through a period of cyclically low gold prices and significant capital investment over the past 2 years.
- Increased fixed assets reflects the continued investment in the Central Shaft
- Term debt is in Zimbabwe
- Increase in trade payables reflects restrictions on Blanket's ability to effect offshore payments to suppliers and service providers due to the shortage of foreign exchange in Zimbabwe

# Operational Matters

- Underground logistical constraints have been partially addressed
  - Improved rostering of underground employees; improved maintenance of haulages
  - Introduction of mid-shaft loading using Central shaft from November 2017
    - A temporary measure: allows No.4 Shaft to focus on hauling ore;
    - Allows development on 26 level (870m) to catch up to plan
- New projects enhance mine flexibility until the Central Shaft has been completed
  - Decline 1 into AR South is being extended from 785m below surface to 870m below surface
  - Decline 2 will provide improved access to the AR Main ore body below 750m
  - Both declines will allow the exploitation of deeper level ore bodies until the Central Shaft is operational
- Metallurgical recoveries continue to be affected by unreliable oxygen supply
  - Liquid oxygen is being used as a temporary measure pending the installation of a new plant
  - Recoveries of 92.8% for the quarter remain acceptable
  - Installation of a new oxygen plant is likely to be delayed due to foreign exchange shortages
- Resource update increases total resources by 326,000 ounces
  - M&I increases by 6% from 671,000 ounces to 714,000 ounces
  - Inferred increases by 47% from 604,000 ounces to 887,000 ounces
  - Encouraging results (above and below 750 metres)
  - The increased resource justifies the continuation of the central shaft project from 1,080 metres to 1,330 metres

# Operational Matters

## Extend the Central Shaft to 1,320 metres

- Central Shaft is the main component of the investment programme at Blanket Mine
  - The plan commenced in early 2015 and envisages production of 80,000 ounces by 2021 with a mine life until 2027 based on the resources existing at December 2014 to a depth of 1080 metres
  - Central Shaft is currently at a depth of 870 metres
- The resource upgrade on November 2, 2017 identified additional indicated resources below 30 level (i.e. the lowest level of operation under the existing plan) which justifies the further deepening of the shaft to a target depth of 1,330 metres
  - The extension will add two further production levels: 34 level (1,110 metres ) and 38 level (1,230 metres)
  - The extension will cost $18m and will be funded from internal cash generation: no adverse effect expected on the Caledonia dividend
  - The two additional production levels will provide access to indicated and inferred resources below 30 level and potentially extend Blanket's mine life from 2027 to 2031
  - Project NPV (@10%) over the revised life of mine: $193 million
- Implementing the shaft extension now (i.e. before the shaft is completed and equipped to 1,080 metres) will be cheaper, quicker and less disruptive than a subsequent deepening after commissioning
- Extending the Central Shaft is a low-cost, low-risk opportunity to substantially increase NPV

# Outlook

- Focus remains on the investment programme to increase production to 80,000 ounces by 2021
  - Creates greater operational flexibility for continued deep-level exploration and development

- Guidance for 2017 of 54,000 to 56,000 ounces
  - On mine cash costs are forecast to be $615-$645 per ounce and AISC of $820-860 per ounce
  - Costs are anticipated to continue to trend downwards as the benefit of increased throughput and low marginal costs are realised

- Increased focus on deep level drilling continues
  - Resource updates are expected to be issued periodically

- Conservative approach to cash management
  - Retain the financial capacity to
    - continue the investment programme
    - accommodate a lower gold price
    - maintain the current dividend
    - withstand commercial instability that may arise in Zimbabwe in the forthcoming election period