



Caledonia Mining Corporation



Expanding, Low-Cost, Zimbabwean Gold Producer

May 2015





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Caledonia Mining Overview

Blanket Gold Mine, Zimbabwe

- 49% owned - fully indigenised
- 2014 production 41,771oz
- Low-cost: 2014 cash-cost \$652/oz; AISC \$969/oz
- \$70m, internally-funded growth to 80koz by 2021

Caledonia Group

- Robust net cash position: C\$26.1m at March 31, 2015
- Low PE Ratio; High dividend yield

Dividend Paying

- 1.5 cents Canadian per share per quarter
- 8% yield at share price of 73 cents

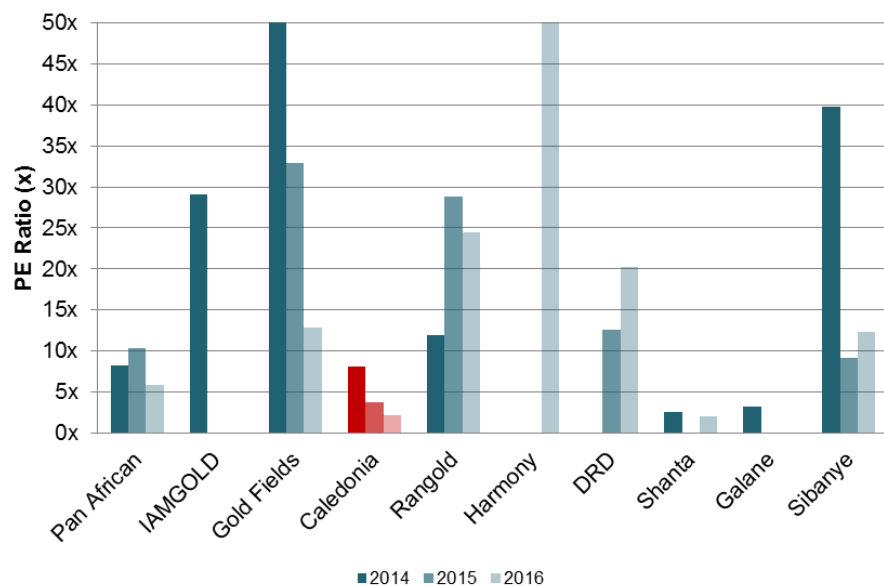
Low-cost and growing production underpins increasing profit and cash generation



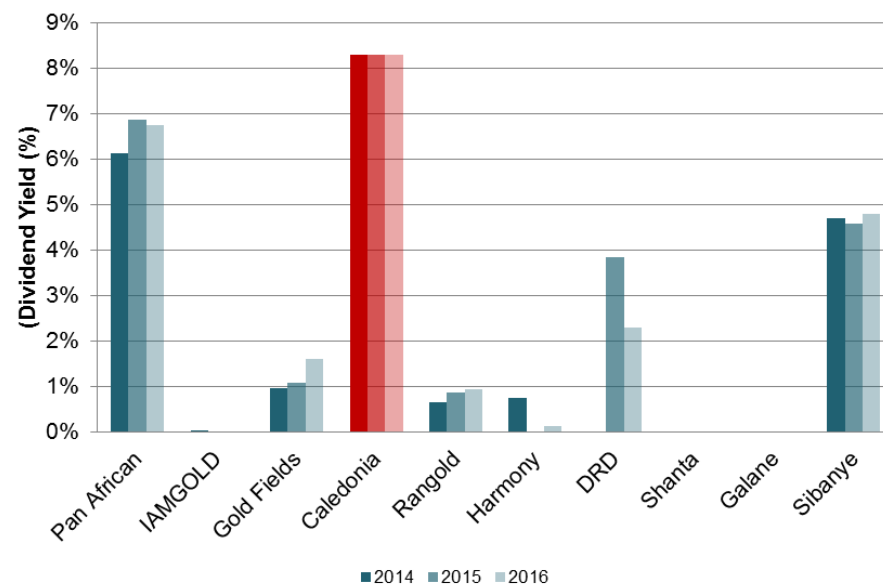
Valuation Parameters

High Yield; Low PE Ratio

African Gold Miners - PE Ratios



African Gold Miners - Dividend Yields



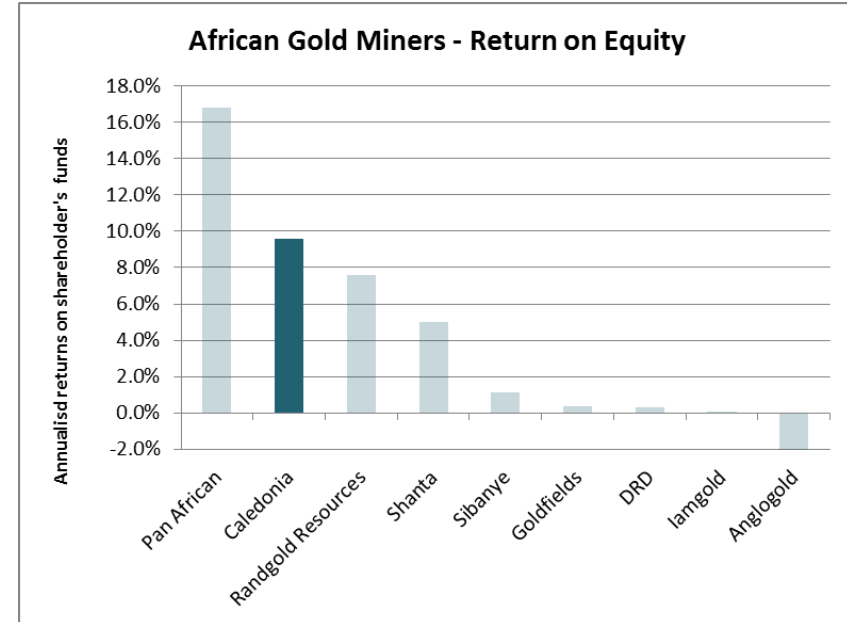
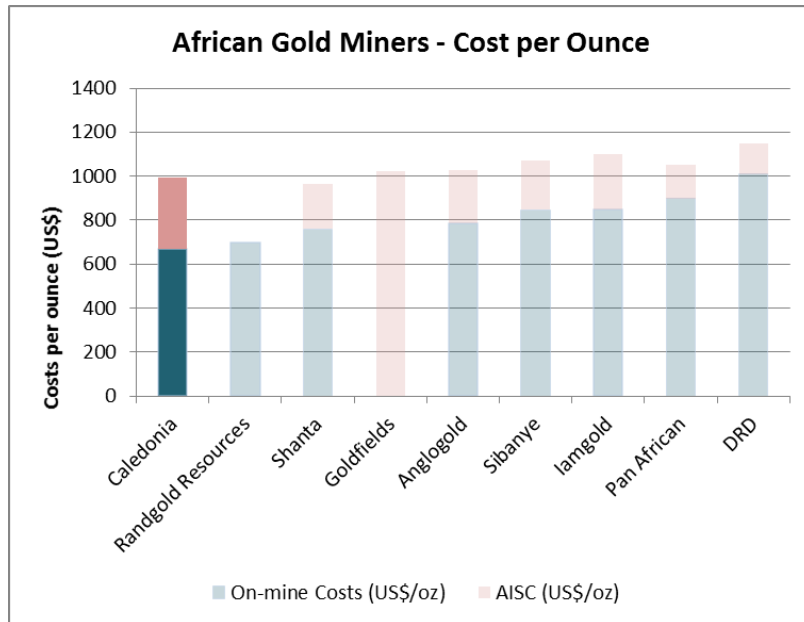
Sources: Company Information; S&P Capital IQ

- Low rating is due largely to negative perceptions about Zimbabwe
- Blanket is fully indigenised and has significant, fully-funded growth plans
- Investor concerns about Zimbabwe are over-done!



Blanket Mine

Competitive Operational Performance



- Caledonia compares well to other African gold producers in terms of costs and return on equity
- As Caledonia implements its growth strategy, Caledonia's relative operational and financial performance should improve significantly
 - 2018 target AISC: US\$741/oz
 - 2018 target RoE: over 25%



Zimbabwe Investor Concerns

Political Stability

- Political continuity: ZANU-PF in power since 1980
- New government is pragmatic and pro-business
- No civil disorder; established, functional government administration

Indigenisation

- 51% of all businesses must be owned by Zimbabweans
- Caledonia implemented indigenisation in 2012
- IZ shareholders include community (10%) and workers (10%)

Inflation

- Hyper-inflation up to 2009 destroyed the economy
- Zim dollar abolished in 2009: functional currency is US\$
- Mild deflation

Infrastructure

- Adequate, reliable power (ytd outage at Blanket: 27 hours)
- Functioning roads, airports – efficient supply from Johannesburg
- Effective “soft” infrastructure: education, labour, administration

Exchange Controls

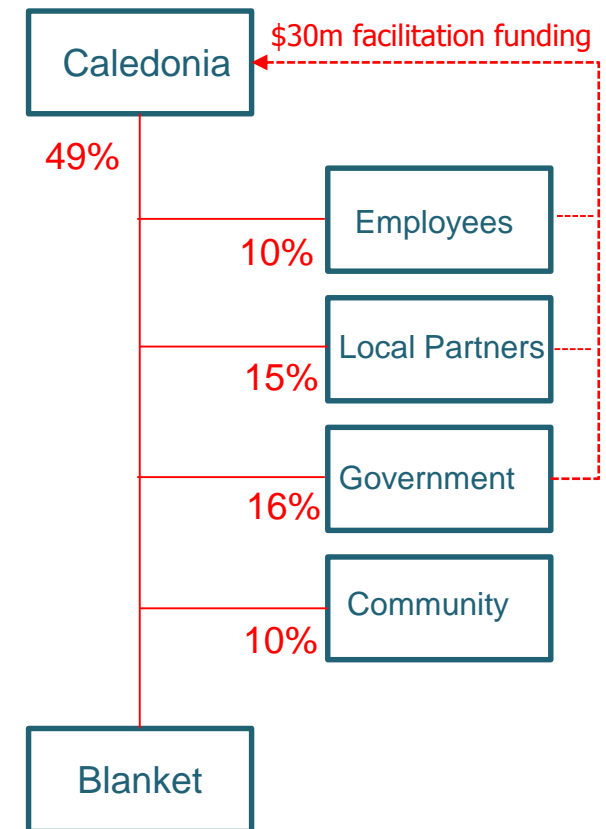
- Manageable exchange controls: no interruptions to remittances (dividends, management fee and South Africa procurement margin)



Blanket Gold Mine, Zimbabwe

The First Indigenised Zimbabwean Gold Miner

- Indigenisation completed and implemented in Q3 2012
 - 10% of Blanket donated to local community
 - 41% of Blanket sold to 3 parties for US\$30.09 million
 - Zimbabweans given full credit for resources in the ground
- Caledonia continues to consolidate Blanket
- US\$30.09M sale transaction is **vendor-financed** by Blanket
 - Purchasers repay their loans from 80% of their attributable Blanket dividends
 - \$30m vendor-finance receivable is not shown on Caledonia's balance sheet
- **Minimal effect on Caledonia's medium term net cash receipts from Blanket**
- **As an indigenised entity, Blanket can implement its growth strategy**





Zimbabwe

Improving Investment Climate

- Recent measures have been implemented by the Zimbabwe government to improve the operating environment for Gold producers
 - October 2014: royalty reduced from 7% to 5%, comparable with the royalty rate in other African countries
 - February 2015: discount on gold sales reduced from 1.5% to 1.25%
 - Significant working capital benefit from selling to Fidelity
- Income tax rate remains at 25%
- Signs that western governments are beginning to normalise relations with Zimbabwe
 - 2014: relaxation of sanctions, which target a few key individuals
 - October 2014: first British Trade Delegation to visit Zimbabwe in 20 years
 - February 2015: European Union announces Euro234m aid package to Zimbabwe
- Caledonia's recent contact with senior Ministers and officials in the Zimbabwe government confirm a strong focus on facilitating growth in the gold sector
- Improving domestic banking climate: more debt available at cheaper prices



Capital Structure, Financials

Caledonia Mining Total Shareholder Return
(1 Jan 2014 to 7 May 2015)



Capital Structure

Shares in issue (m)	52.1
Options (m)	2.7
Cash (31 March 2015)	C\$26.1m
Net Assets (31 December 2014)	C\$64.4m

Listing and Trading

Share price (11 May 2015)	C\$0.76
Market capitalisation (C\$m)	C\$39.6m
52 week low/high (C\$)	0.6-1.17
30 day trading volume	6.4%

Summary Profit and Loss (C\$m except per share data)

	Year 2013	Year 2014
Revenues	65.1	59.1
EBITDA	25.4	16.2
Profit after Tax	(0.5)	6.6
EPS - basic	(6.1)	9.3
EPS - adjusted	28.3	12.1

Shareholders

	%
Management	0.9
Allan Gray	13.5
USA (mainly retail)	42.4
Canada (mainly retail)	32.2
Other	11.0

Mineral Resources at August 2014 (at \$1,250 gold)

	Tonnes (000' s)	Grade (g/t)	Gold (k.oz)
Measured & Indicated Resources	4,051	3.82	498
Inferred Resources	3,345	5.11	-
Total Reserves and Resources	7,397		-

1. Tonnes are in situ
2. All figures are in metric tonnes
3. Mineral Resources include Mineral Reserves
4. Mineral Resources are stated at cut-off grade of 1.96g/t
5. No geological losses were applied to the tonnage
6. Tonnage and grade have been rounded and this may result in minor adding discrepancies
7. The tonnages are stated at a relative density of 2.86t/m³
8. Conversion from kg to oz: 1:32.15076

Mineral Reserves at October 2014 (at \$1,250 gold)

	Tonnes (000' s)	Grade (g/t)	Gold (k.oz)
Proven Reserves	856	3.40	94
Probable Reserves	2,078	3.78	253
Total Reserves	2,934	3.67	346

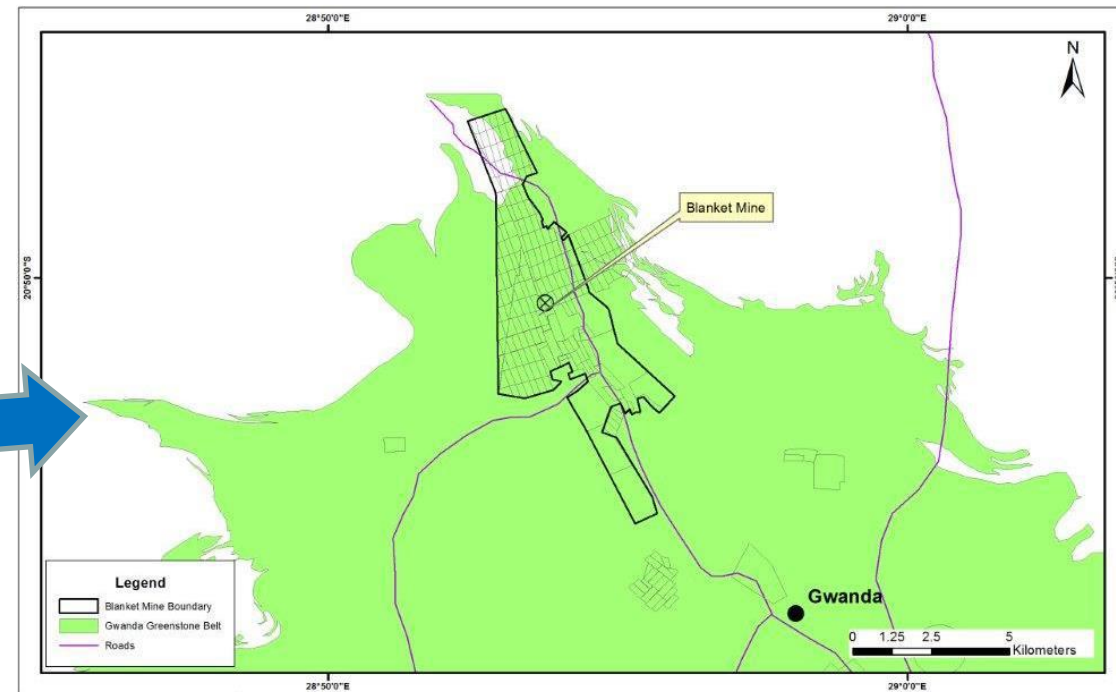
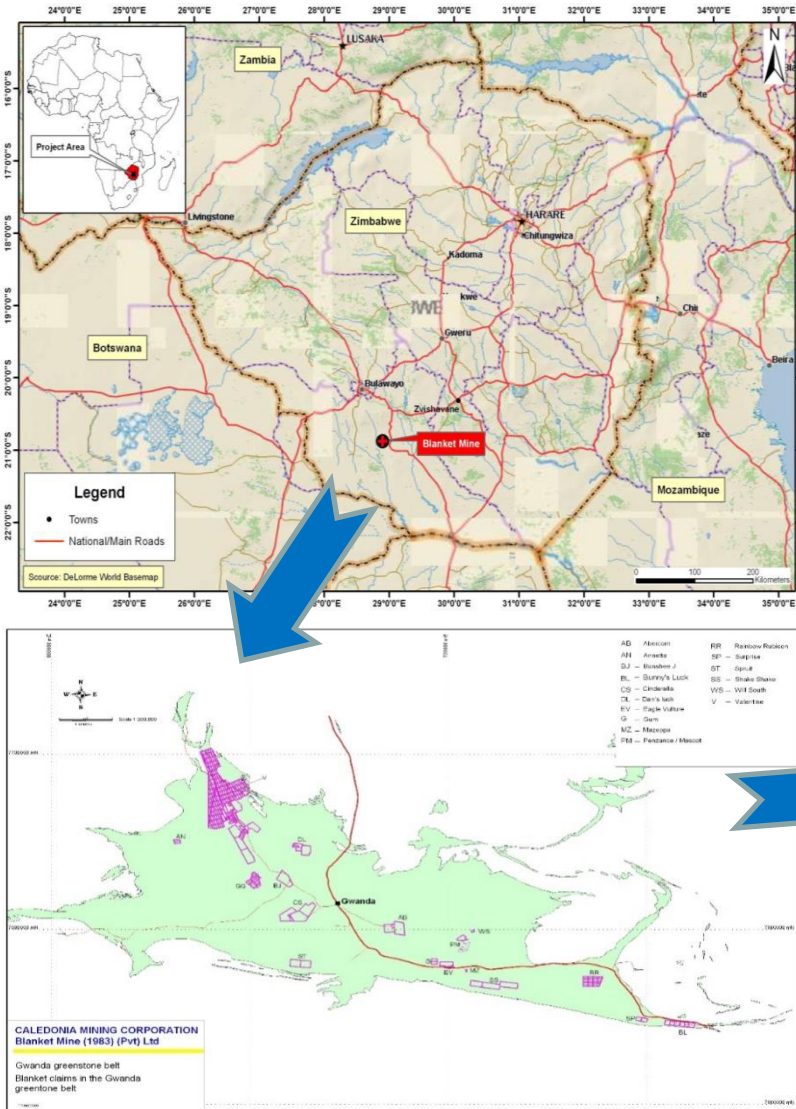
1. Tonnages refer to tonnes delivered to the metallurgical plant
2. All figures are in metric tonnes
3. 1kg = 32.1507 oz
4. Pay limit at Blanket mine is 2.03g/t
5. Pay limit calculated : US\$/oz = \$1,250; Direct cash cost (C1) – US\$ 71/t milled

- Only material above pay-grade is added to inventory: historically a high resource to reserve conversion has been achieved
- Deep level exploration from underground drilling and exploration
 - Slower but more accurate drilling



Location

- Key greenstone mining district
- All infrastructure in place
- Skills and labour freely available
- Close enough to Johannesburg for easy supply of SA-sourced supplies

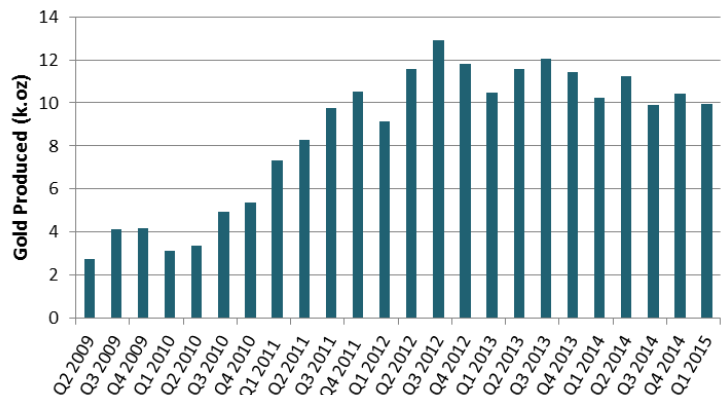




Gold Production

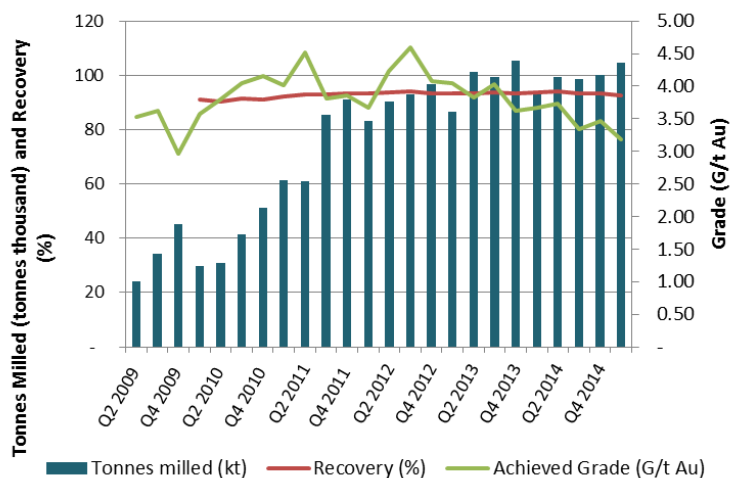
Revised Investment Plan Addresses Falling Production

Quarterly Gold Production



- Quarterly production approx. 10,000 ounces per quarter compared to over 12,000 ounces per quarter in mid-2012
 - Lower production due to lower grades which have fallen from a peak of 4.5g/t to 3.4g/t in Q4 2014.
- Constraints on underground logistics on 22-Level prevent build-up in tonnes to compensate for lower grades
- Revised Plan announced in November 2014 will address both issues
 - Improved logistics allow increased production volumes
 - Access to higher grade, ores on deeper levels

Tonnes Milled, Grade and Recovery





The Revised Investment Plan

Improved Logistics; Accelerate Access to Deeper Resources

Increase Underground Material Handling

- A new tramming Loop on 22 Level (750m below surface) increases tramming capacity (ore and waste) from 400tpd to 1,000tpd
- Modest capital cost (\$0.8m approx) complete by July 2015

Continue No. 6 Winze 630m to 870m

- Rapid access to Blanket zone below 750m
- production starts Jan 2016; ramp-up to 500tpd by mid-2017
- Resume sinking from 870m after completion of Central Shaft

New Central Shaft Surface to 1,080m

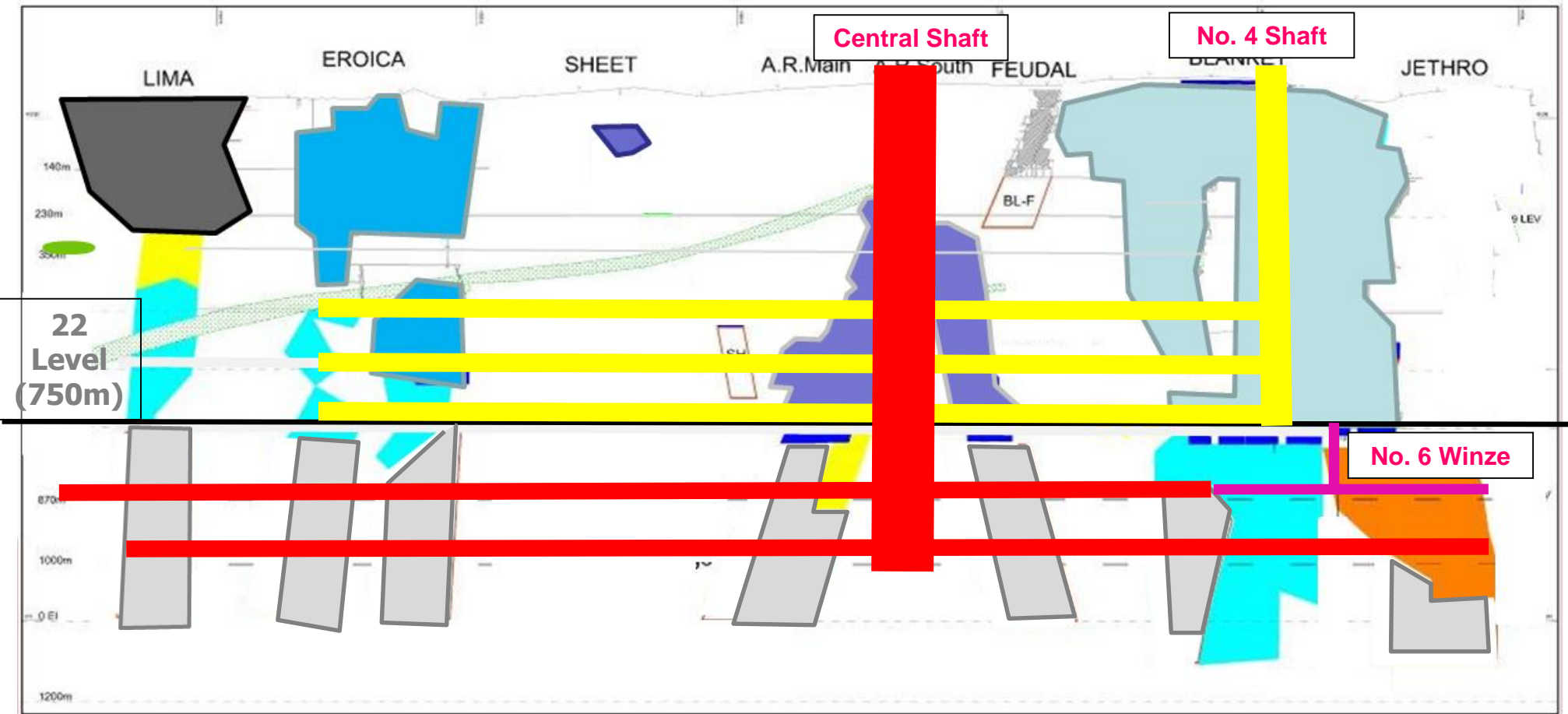
- Capital cost \$23m
- Commence Aug 2015; complete in July 2017
- 6m diameter; 4-compartment; 3,000tpd; men, material, equipment
- Access horizontal development: 2 directions on 2 levels sub-750m
- Improves efficiency and de-risks current single-shaft status

Major impact on production, costs and flexibility



Revised Investment Plan

Improved Logistics; Accelerate Access to Deeper Resources

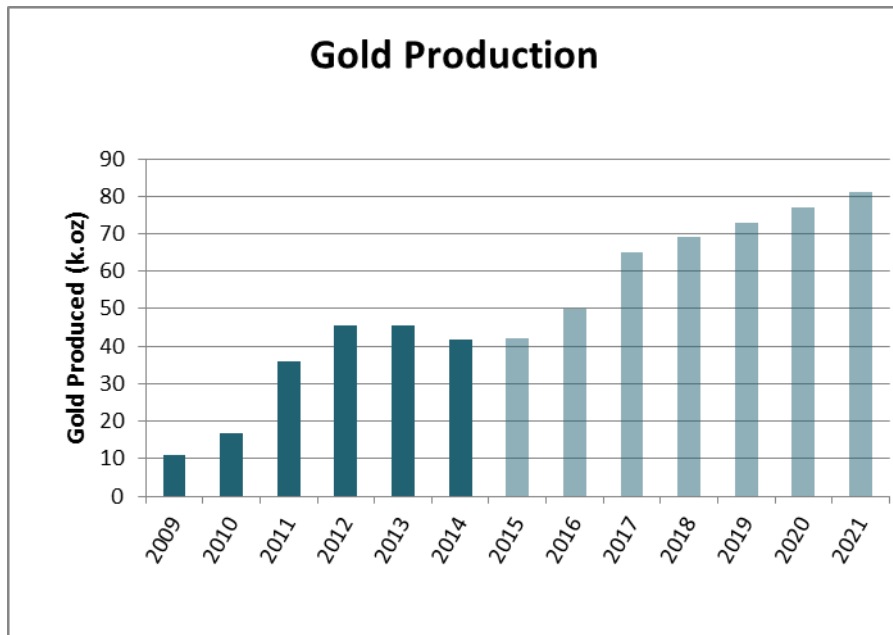


Plan illustrative and not to scale



Revised Investment Plan Projected Production

- Projected production in terms of the revised Life of Mine Plan is set out below



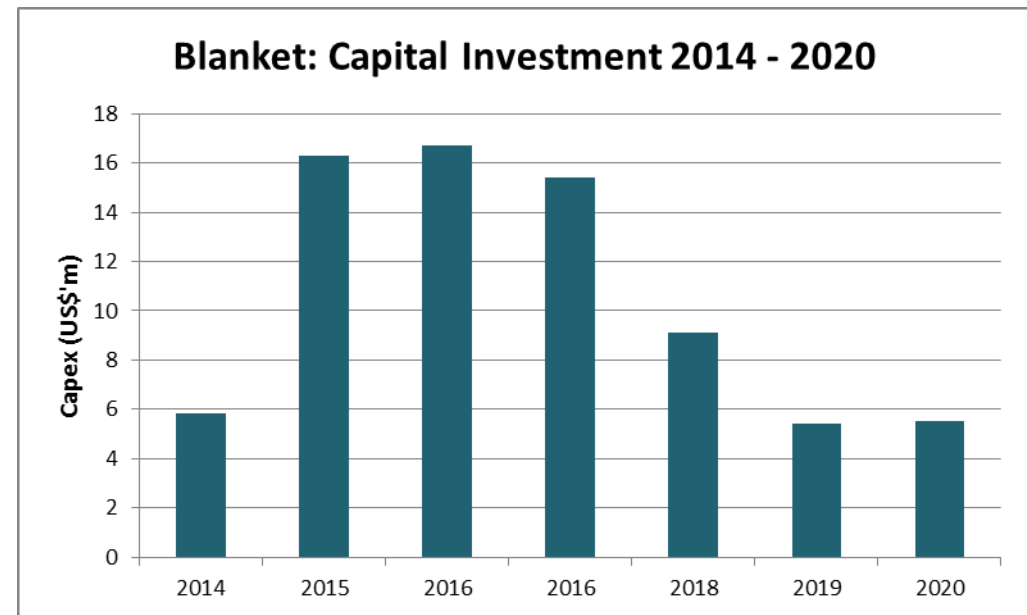
- Revised Life of Mine Plan has been independently reviewed and confirmed by Minxcon, Johannesburg.
- Payback Block – 97% from Reserves and M&I Resources**
- Projections exclude any production from the satellite exploration properties



Revised Investment Plan

Capital Expenditure and Funding

- US\$70m of capital investment 2015 to 2021
- At \$1,200/oz all capex can be funded using Blanket's internal cash generation
 - budgeted 2015 pre-capex cash flow is \$14m
 - 97% of the total capex is covered by mining existing Reserves and M&I resources
- Local debt funding increased from \$2.5m to \$5m
- Blanket board (including Indigenous Zimbabwean representatives) has agreed to suspend the Blanket dividend in 2015: all cash will be redeployed into investment
 - Anticipated that Blanket dividends will resume in early 2016
- Caledonia will provide funding support if required (e.g. materially lower gold price):
 - Net cash at December 2014 - C\$26.8m
- Caledonia intends to maintain its own dividend
 - Caledonia's cash will reduce in 2015, stabilise in 2016 and start to grow from 2017





Revised Investment Plan

Low-Risk Growth

Not a “Stretch” plan

- Implementation parameters (e.g. daily sinking rate) based on achieved rates at other Blanket projects
- Allowance built in for slippage
- Highly experienced management team with experience of similar projects

Fully Funded

- 97% of the investment cost is generated by cash flows from mining existing higher-confidence resources
- Caledonia retains the financial capacity to provide support if required

Low-cost, high return

- Use of highly-skilled, in-house labour instead of contractors reduces costs and increases control
- Availability of high-quality, low-cost, refurbished equipment from South Africa
- Favourable rock dynamics: no need for shaft lining

Mature environment

- Access to existing on-site experience and skills
- Management with long-standing experience of the geology and operating environment
- Established and highly efficient supply network

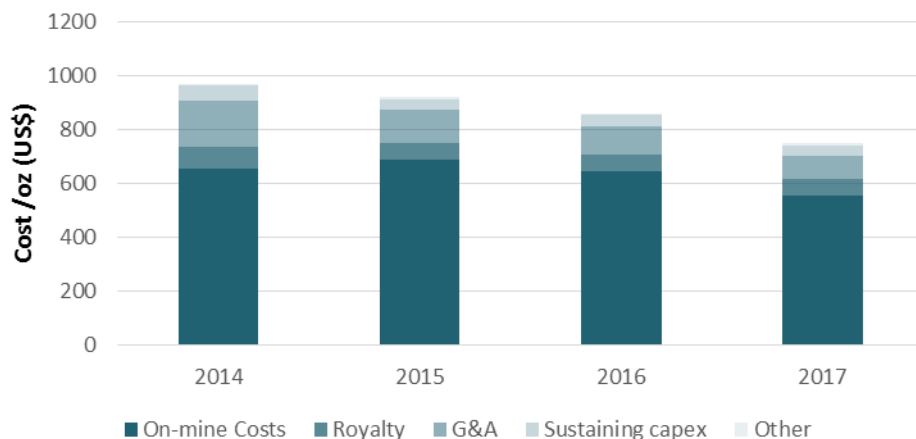


Revised Investment Plan

Increasing Production and Falling Costs Boost Profit

- Strong growth in profit and cash flows
 - 2015: due to reduced G&A and lower taxes
 - 2016 onwards: due to increasing production and falling average costs of production

Projected All-In Sustaining Cost per Ounce



Caledonia - Forecast Profit and Cash Flow 2015-2017

	2014	2015	2016	2017	CAGR
	Act.	F'cast	F'cast	F'cast	%
Production (k.oz)	41.7	42.0	49.5	64.0	
Gold price (US\$)	1,245	1,285	1,334	1,402	
PBT (C\$'m)	13.2	14.3	27.4	43.0	48%
EPS (Canadian cents)*	12.1	20.4	35.5	52.6	63%
Operating Cash flow (C\$'m)	13.7	17.6	30.6	45.6	49%

* normalised

Source: Edison Research, April 1, 2015

- Robust value proposition: opportunity for rapid share price appreciation:
 - Increasing profit due to higher production and lower costs
 - Increasing cash flows due to higher profit and cash flows from repayment of facilitation loans
 - Potential for rapid re-rating of Zimbabwe

- **Strengths**

- Management understanding of greenstone operations
- Cash on balance sheet
- Strong operational management
- Good resource base
- Operational enhancements add value
- Dividend policy

- **Opportunities**

- Neighbours
- Further operational refinement
- Acceleration of mine plan
- Depth extensions
- Satellite exploration properties
- Re-rating potential for Zimbabwe

- **Weaknesses**

- Misinterpretations of Zimbabwean risk
- Cost containment
- Logistics and operational flexibility
- Single-shaft, single mine operation

- **Threats**

- Largely being addressed as a result of full compliance with local ownership requirements and the Revised Investment Plan

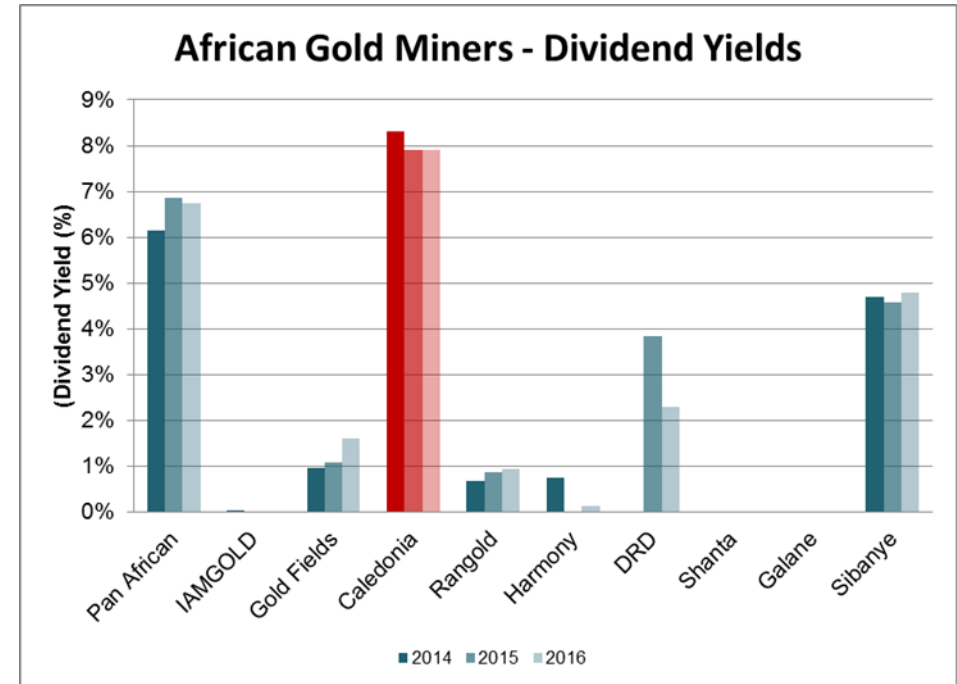
On balance a well positioned, growing and dividend-paying, small producer



Dividend Policy

Committed to Shareholder Returns

- November 2013 Caledonia announced a new dividend policy:
 - 2014 dividend of 6 Canadian cents
 - payable quarterly @1.5 cents/quarter
- August 2014, Caledonia guides that the quarterly dividends of 1.5 cents are expected to continue for 2015
- Total 2015 dividend cost: C\$3.1m
 - 8x covered by cash resources
 - 2.5x covered by net cash generated
- Board will review dividend guidance for 2016 in mid-2015, based on company performance and prevailing conditions



Increased cash generation from 2017 onwards creates the opportunity for higher dividends and/or new, high return investments



Milestones to unlocking value proposition

Completion of tramming loop: mid-2015

Production commences at No 6 Winze: Jan 2016

Completion of vertical Central shaft mid-2017

Commence production from Central Shaft: mid-2018



Concentrating on focused optimal extraction and lower costs



Core attributes of Caledonia

In-house big project experience and Greenstone competence



Fully funded development of existing resource



Dividend underpinned by low cost structures



Strong balance sheet with capacity



Collaborative corporate culture



Existing African mining expertise



Fully indigenized structure



Undervalued, stable low cost producer



Investment Case

Fully Indigenised

- Reduces Zimbabwe political risk
- Creates a platform for growth

Cash-generative

- Profitable and cash generative at current or lower gold price

Strong Balance Sheet

- C\$26m of cash, mainly held in UK, South Africa and Canada

Growing

- Production to double via internally-funded expansion
- Growth expected to reduce average production costs

Committed to Shareholder Returns

- Dividend policy had matured into quarterly dividends
- Dividend guidance extended to October 2015

Undervalued

- Low PE; high yield reflects perceived Zimbabwe risk.
- Scope for re-rating as risk perceptions moderate
- Potential earnings growth as expansion plans are implemented

Yield of 8% should fall to sector average of 2% as re-investment plan takes hold



Contacts

Caledonia Mining

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**Share Codes: TSX - CAL; OTCQX – CALVF;
AIM - CMCL**

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Tim Blythe, Halimah Hussain

AIM Broker/Nomad: WH Ireland

Research: Edison Investment Research

www.edisoninvestmentresearch.co.uk/research



Directors and Management

Management

Chief Executive	Steve Curtis
Chief Finance Officer	Mark Learmonth
Chief Operating Officer	Dana Roets
VP Exploration	Dr Trevor Pearton
Blanket Mine Manager	Caxton Mangezi

- Management is based in Johannesburg, South Africa, except Mr Mangezi who lives at Blanket Mine
- Caledonia's management team strengthened by the appointment of Dana Roets as COO
- Strong in-country support in Zimbabwe from Blanket's Indigenous Shareholders, including Mr. Nick Ncube, Blanket's chairman

Directors

Chairman	Leigh Wilson (USA)
CEO	Steve Curtis (S Africa)
Independent Director	Johan Holtzhausen (S Africa)
Independent Director	Jim Johnstone (Canada)
Non Executive Director	Richard Patricio (Canada)
Independent Director	John Kelly (USA)

- Independent directors bring additional technical, legal, financial and commercial expertise
- Re-structure of Caledonia's management and board improves transparency and effectiveness