

Due Diligence and Valuation Report

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 Fair share value bracket: USD 11.03 to USD 11.31ⁱ
 Share price on date: USD 6.60ⁱⁱ

Analyst Team

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Company: Caledonia Mining Corporation Plc.
 Ticker: TSX: CAL, NYSE: CMCL, LSE-AIM: CMCL
 Headquarters: St Helier, Jersey
 Chief Executive Officer: Steve Curtis
 Website: www.caledoniamining.com

Market Data

	CAL (CAD)	CMCL (USD)
52-Week Range ⁱⁱⁱ	6.70 – 12.55	5.16 – 9.94
Average Daily Volume ^{iv}	6,422	13,216
Market Cap. on date ^v	85.9	70.0

Fiscal Year (FY) 1st January – 31st December

Summary

Caledonia Mining Corporation Plc. ('Caledonia' or 'the company') is primarily involved in mining, development and exploration of minerals. Currently, the company is focused on mining and development at the 100+ year old Blanket gold mine located in Zimbabwe. The mine consists of nine deposits within an extensively mineralized system including Sabiwa, Jethro, The Blanket, Feudal, AR South, AR Main, Sheet, Eroica and Lima ore bodies. Blanket, AR South, AR Main, Eroica and Lima are being mined currently.

In April 2006, Caledonia acquired the Blanket mine and Carbon-in-leach plant from Kinross Gold Corporation with a current capacity of 3,800 tpd (tons per day). At the end of 2010, the company completed an expansion project at the Blanket mine, which increased its gold production capacity from 24,000 ounces per annum to 40,000 ounces per annum.

During 2012, to comply with the Indigenisation and Economic Empowerment Act, which is a Zimbabwean law, the company transferred 51% of the ownership through a vendor funding agreement to indigenous Zimbabweans. On 24 August 2018, Caledonia entered into a Memorandum of Understanding (MOU) with Fremiro to purchase Fremiro's 15% shareholding in Blanket. Caledonia

will acquire Fremiro's shareholding in Blanket for a gross consideration of USD 16.667 million to be settled through a combination of:

- The cancellation of the loan between the two entities which stood at USD 11.467 million as at June 30, 2018; and
- The issue of 727,266 new shares in Caledonia at an issue price of USD 7.15 per share.

On completion of the transaction, Caledonia will have a 64% shareholding in Blanket and Fremiro will hold 6.42% of Caledonia's diluted equity.

Resource Update: Based on development and diamond core drilling that has been completed up to the end of July 2018 and combined with improvements to the geological model, the total Measured and Indicated gold ounces at Blanket mine have increased by 13% from 714,000 ounces, in August 2017, to 805,000 ounces, as at July 2018. Total Measured and Indicated resources now stand at 6.74 million tons at a grade of 3.72 grams per ton (g/t).

Inferred gold resources at Blanket have been increased by 9% from 887,000 ounces, in August 2017, to 963,000 ounces, as at July 2018. Total Inferred resources now stand at 6.63 million tons at a grade of 4.52g/t.

The increase in Measured and Indicated resources has increased the Proven reserves and Indicated resources that may be used in the life of mine plan by 10% from 4.52 million tons used for the Technical Report published in December 2017, to 4.98 million tons currently.

Investment plan: As on 30 June 2018, one of the key improvements has been the construction of a central shaft, with a final target depth for the extended central shaft to 1,330m with the last operating level being 36 level at a depth of 1,250m. The construction of this shaft is expected to allow greater production capacity. Located between the AR Main and AR South ore bodies, the central shaft currently has a depth of 870m. It is expected that the extended shaft (to 990m at 30 level) will be fully commissioned by the end of the first quarter of 2020. Once it becomes operational, a ramp-up in production from 55,000 ounces to 80,000 ounces is expected by 2021, and this is also expected to bring down unit costs, thus, leading to an increase in margins.

Extension of Central Shaft: On November 10, 2017, the company announced further expansion of the investment plan by extending the central shaft from the initially planned 1,080m to 1,330m. A 6 Winze sub-shaft located close to 5 Winze sub-shaft is to be used to access the Blanket complex below 750m level and will provide secondary access to the new central shaft. Progress on sinking the shaft was adversely affected by several factors, which include - the raise boring of the ventilation hole from 870m to 750m, power trips due to the unstable incoming supply from the grid, the installation of mid-shaft loading, which took longer than expected, and the requirement to progress horizontal development on the 26 and 30 levels. Most of these issues have been resolved, and 446m of capital development were achieved in 2Q 2018 as against 646m in 1Q 2018.

Further deepening of the central shaft will provide access to indicated and inferred resources below level 30 and will increase the life of the mine by four years, up to 2031. Caledonia expects the extension of the central shaft to cost approximately USD 10 million and a further USD 8 million for the development of two new levels.

The company has also begun the development of a mid-shaft loading system at the Blanket mine to facilitate better waste management and to improve the overall production and operational flexibility.

The extension of the central shaft and the addition of two new levels are unlikely to impact the company's dividend policy and its production target of 80,000 ounces till FY 2021.

The company expects the total capital cost for the central shaft, including the additional USD 18 million for extension of the central shaft, to be approximately USD 51 million. The sustainability capex over the mine's life period is expected to be around USD 63 million, about USD 4.5 million per year till 2031.

The investment plan also includes the construction of a tramming loop and sinking of the No. 6 Winze, which have been completed ahead of schedule and are contributing to the company's increased production.

A new ball mill, installed in 2016, has been fully commissioned. The new mill is expected to increase the daily throughput by 20%, from 1,500 tpd to 1,800 tpd, and to allow Blanket to meet its planned production of 80,000 ounces by 2021.

In addition to the Investment Plan, Caledonia is involved in the exploration and development of AR South and AR Main ore bodies below 750m.

In 2016, the company completed 19,768m of reserve definition and resource expansion drilling from underground compared to 14,948m in 2015. The increase was due to the purchase of new drill machines in the first half of 2016. Most of the drilling in 2016 was completed at the Blanket, AR Main and Eroica ore bodies. In 2017, the company completed 19,035m of drilling and this entailed a total drilling of 66,665m by end of 2017.

In 2017, the company produced 56,133 ounces of gold compared with 50,351 ounces in 2016, and this increase was because of higher quantities milled and a higher grade. In 1H 2018, the company has produced 25,582 ounces of gold, and it maintains its production target for 2018 between 55,000 and 59,000 ounces of gold as production is expected to be higher in the second half of 2018.

Development of other properties: Caledonia is also evaluating various other mines that could meet the investment criteria. Once the investment plan is delivered, the company expects to gain significant excess cash which can be utilized for the development of other properties. The greenstone terrain in Zimbabwe has many prospective and less explored projects.

The company has also benefited from the Export Credit Incentive (ECI). In February 2018, the 2018

monetary policy statement by the governor of the Reserve Bank of Zimbabwe proposed to increase the ECI paid to all gold miners from 2.5% to 10% of revenues. On April 4, 2018, Caledonia announced that Blanket had received funds commensurate with the increased level of ECI for gold produced in February 2018. Blanket has continued to receive the ECI at the revised rate of 10% of revenues. This incremental revenue arising from the increased ECI is likely to have a material positive impact on Caledonia’s forecast EPS for 2018.

Given Caledonia’s focus on delivering the investment plan and the extension of the central shaft, we expect significant ramp-up in gold production once the shaft is operational. The company is poised to generate excess cash by 2020.

Given the due diligence and valuation estimations based on discounted cash flows, we believe that Caledonia’s fair share value lies between USD 11.03 to USD 11.31.

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Company Presentation

Caledonia is a mining exploration and development company in Southern Africa. The company's primary asset was a 49% ownership in the Blanket gold mine in Zimbabwe. Caledonia acquired the Blanket mine from Kinross Gold Corporation in April 2006. During 2012, to comply with Zimbabwean law, Caledonia sold 51% of ownership interest to indigenous Zimbabweans. The funding for this was facilitated by Caledonia, which was to be repaid by way of dividends from the Blanket mine to Caledonia (80% of dividend being used to repay loans). This had resulted in Caledonia's current effective ownership much higher than 49% on a temporary basis until the loan is repaid. However, on 24 August 2018, Caledonia entered into a Memorandum of Understanding (MOU) with Fremiro to purchase Fremiro's 15% shareholding in Blanket. Caledonia will acquire Fremiro's shareholding in Blanket for a gross consideration of USD 16.667 million to be settled through a combination of:

- The cancellation of the loan between the two entities which stood at USD 11.467 million as at June 30, 2018; and
- The issue of 727,266 new shares in Caledonia at an issue price of USD 7.15 per share.

On completion of the transaction, Caledonia will have a 64% shareholding in Blanket and Fremiro will hold 6.42% of Caledonia's diluted equity.

On November 3, 2014, the company announced the Investment Plan for the Blanket mine to improve underground infrastructure and logistics in order to facilitate sustainable and increased production. The current infrastructure improvements include the development of a tramming loop, deepening the No. 6 Winze and sinking a new 6-m diameter central shaft of 1,250m depth. The tramming loop and the sinking of the No. 6 Winze were both completed before the target date and the work on the central shaft is proceeding according to plan and is currently at an approximate depth of 870m.

On November 10, 2017, the company announced that it has decided to deepen the central shaft to 1,330m, instead of the earlier plan of 1,080m (according to the investment plan). As on 30 June 2018, the company had already reached 36 level (1,250m). The company expects to complete the Central Shaft by Q1 2020. Once completed, a ramp-up in production up to 80,000 ounces of gold is expected by 2021. The extension of the central shaft is expected to increase the life of the mine by four years to 2031.

Financial summary: As of June 30, 2018, Caledonia had a cash equivalent of USD 8.1 million. On June 26, 2017, the company completed a one-for-five share consolidation after which its common shares commenced trading on the New York Stock Exchange (NYSE) American under the symbol "CMCL." The company has consistently paid dividends and a quarterly dividend policy was adopted in January 2014. The quarterly dividend was increased 22% last year, changed to reflect the share consolidation and is maintained at 6.875 US cents per quarter. Caledonia did not have any financial hedging instruments outstanding to hedge its effective sale price.

Premiums

Increasing stakes from 49% to 64%: The company is on the verge to increase its shareholding in Blanket to a majority stake, moving from 49% to 64% following this transaction with Fremiro Investments (Private) Limited with the intention to purchase Fremiro's 15% shareholding in Blanket Mine (1983) (Private) Limited.

Higher free cash flow generation: The capital investments are funded through cash flow from operations. Once the central shaft is operational, Caledonia expects linear production ramp-up up to 80,000 ounces of gold by 2021. This will lead to excess cash from 2020. The company has no debt outstanding and only a small USD 1 million working capital facility in Zimbabwe.

Higher dividends and potential for further increase: Caledonia has been paying dividend since the beginning of 2014. It paid quarterly dividend of 1.125 US cents in January and April 2016, following which

the dividend was increased to 1.375 US cents. After the consolidation of the company’s shares, it announced a quarterly dividend of 6.875 US cents, equivalent to 1.375 US cents paid earlier. The company has further scope to increase the dividend once the central shaft is completed in 2020.

Opportunities to increase resources and production: Caledonia is engaged in further development of the Blanket mine and its surrounding properties. Drill drive development has advanced to improve access to test the potential for more resources at a depth where only limited drilling has been completed. On November 2, 2017, the company updated and increased the measured and inferred resources of the Blanket mine by 6% to 5.62 Mt @ 3.95 g/t and indicated resources by 47% to 5.53 Mt @ 4.99 g/t. The company believes there is further scope to increase the resource estimate based on the ongoing exploration. The greenstone belt that hosts the Blanket mine is considered highly prospective and the company is well-funded to define additional resources and develop the mine to its full potential.

Strong and experienced management team: Caledonia has an experienced management team with a wealth of knowledge and expertise in Zimbabwe. The management team has diversified and relevant experience in the fields of exploration, mining operations, project development and also in corporate finance and investment banking.

Infrastructure	Location of mine
	

Portfolio and Risks

Commodity price risk: Caledonia is primarily involved in exploration and mining of gold. The company sells all the gold production to Fidelity, a company controlled by the Zimbabwean authorities, at a spot price less than that of the early settlement discount. The company’s revenues have a direct exposure to the prices of gold. Currently, Caledonia does not use any financial instruments to hedge its exposure to commodity risk.

Credit risk: Since January 2014, as per the regulations introduced by the Zimbabwean Ministry of Finance, all the gold produced in Zimbabwe has to be sold to Fidelity. Presently, all payments from Fidelity have

been cleared in full and on time. However, the rules that restrict gold sales only to Fidelity increase the company's credit risk.

Exploration and development risk: Over the long-term, Caledonia needs to identify new resources to replace ore depleted by mining activities and to commence new projects on time. There is no assurance that the exploration will be successful in identifying mineral resources sufficient for further development or production. The current revenue and cash generation of the company are exposed to development of the Blanket mine. Long-term growth of the company will depend on the exploration and development of additional resources. However, the company has expertise and a competitive advantage of developing and exploring mines in Zimbabwe, which reduces the risk.

Country and political risk: Caledonia's operations are located in Zimbabwe, which exposes the company to various political and economic risks. In 2009, the government abolished the Zimbabwe dollar and adopted US dollar as the functional currency. The company faces the risk of reintroduction of Zimbabwe dollar.

Corporate Strategy:

Execution of the Investment Plan: On November 3, 2014, the company announced the investment plan for further development and exploration of the Blanket mine. The plan covers the undertaking of several initiatives to access and exploit measured, indicated and inferred resources between 750m – 1,000m below the surface. It is expected that, the plan will improve Blanket's long-term operational efficiency, flexibility and sustainability. The key objective of the plan is to develop a 1,330m central shaft to improve the underground infrastructure and logistics to allow an efficient and sustainable production build-up. The other improvements include the development of a tramming loop and the deepening of the No. 6 Winze, which are completed and contributing to its overall operations. The company later decided to further expand the investment plan by deepening the central shaft to 1,330m. This reflects the additional mineralization potential at the Blanket mine. The company plans to complete the development of central shaft by Q1 2020. Once completed, a linear ramp-up in the gold production up to 80,000 ounces per year is expected in 2021. Delivering the investment plan and further extension of central shaft have constituted the key strategic focus of the company.

Development of other mines: The Blanket mine has numerous smaller satellite deposits or prospects in the exploration stage within the surrounding Gwanda greenstone terrain. Some of these properties have been operated historically and have shaft infrastructure facilities for rapid underground access for exploration and development of mining activity.

The company is also actively looking for acquisitions of various other mines and projects that meet its investment criteria. Once the investment plan is successfully delivered, the company expects significant excess cash flows from 2019 onwards; this, in turn, is expected to increase the company's scope to consider the acquisition of new properties for exploration and mine development.

The Gwanda greenstone terrain and the greater Zimbabwe region is considered highly prospective and underexplored and can be developed utilizing modern exploration techniques. With the company's operating success in Zimbabwe and along with its expertise and excellent relationship with the Zimbabwean government, the company holds a competitive edge to develop new projects.

News

- **Caledonia declared quarterly dividend:** On October 02, 2018, the company declared a quarterly dividend of 6.875 US cents on each of the company's common shares.
- **Caledonia increases its shareholding in Blanket Mine to 64%:** On August 24, 2018, the company announced that it has entered into a MOU with Fremiro Investments (Private) Limited, with the intention to purchase Fremiro's 15% shareholding in Blanket Mine (1983) (Private) Limited. The transaction remains subject to approvals from various Zimbabwean regulatory authorities and the execution of a legally binding sale agreement. The company announced the transaction to buy one of its local Zimbabwean partners for approximately 6% dilution in its shareholder base, thus increasing its shareholding in the asset from 49% to 64%.
- **Purchase of securities by Director:** On August 10, 2018, the company announced that Leigh Wilson, a director and the chairman, had purchased a total of 4,000 common shares of no-par value each in the company at an average price per share of USD 8.435. Following this transaction, Mr. Wilson holds 52,000 shares in the company, representing approximately 0.49% of the issued share capital of Caledonia.
- **Announcement of 2Q 2018 results:** On August 9, 2018, the company announced its 2Q 2018 results. Revenues increased 4.6% year-on-year (YoY) to USD 16.2 million. Total gold produced in 2Q 2018 was 12,657 ounces, representing an increase of 1.1% YoY. The average realised gold price increased 3.5% YoY to USD 1,278. On-mine cost per ounce increased 3.0% YoY to USD 717 due to increased labor rates, higher prices of explosives and the inclusion of the costs of the pilot plant. Adjusted basic EPS stood at USD 0.35.
- **Accident at Blanket Mine:** On July 12, 2018, the company announced a fatality at the Blanket mine in Zimbabwe in a mining-related accident. The accident occurred in a development area at the Blanket ore body section of the mine.
- **Production update for 2Q 2018:** On July 12, 2018, the company announced that approximately 12,657 ounces of gold were produced during 2Q 2018. Gold produced in 1H 2018 was 25,582 ounces, marginally ahead of the 25,316 ounces produced in 1H 2017. Caledonia maintains its 2018 full-year production guidance of 55,000 ounces to 59,000 ounces and remains on track with progress towards its long-term target of 80,000 ounces by 2021.
- **Caledonia declared quarterly dividend:** On July 3, 2018, the company declared a quarterly dividend of 6.875 US cents on each of the company's common shares.
- **Notice for change of auditor:** On May 18, 2018, the company announced change of its auditor from KPMG to Grand Thornton, effective from the next annual general meeting scheduled on June 27, 2018.
- **Announcement of 1Q 2018 results:** On May 14, 2018, the company announced its 1Q 2018 results. Revenues increased 9.8% YoY to USD 18.1 million. Total gold produced in 1Q 2018 was 12,924 ounces, representing an increase of 1% YoY. The average realised gold price increased 8.2% YoY to USD 1,312. On-mine cost per ounce increased 4.2% YoY to USD 687 due to the inclusion of the operating costs of the pilot plant and the trackless and other equipment used in the declines. Adjusted basic EPS stood at USD 0.40.
- **Announced 1Q18 gold production at Blanket Mine:** On April 9, 2018, the company announced that approximately 12,924 ounces of gold were produced during 1Q 2018, in line with production expectations for FY18. Caledonia maintains its 2018 full-year production guidance of 55,000 ounces to 59,000 ounces and remains on track with progress towards its long-term target of 80,000 ounces by 2021.

- **Increase to Zimbabwean Export Credit Incentive:** On April 4, 2018, the company announced that following the 2018 Monetary Policy Statement by the governor of the Reserve Bank of Zimbabwe in February 2018 relating to an increase in the Export Credit Incentive (ECI) paid to all gold miners from 2.5% to 10%, the Blanket Gold Mine received funds commensurate with the increased level of ECI for gold produced in February 2018.
- **Caledonia declared quarterly dividend:** On April 3, 2018, the company declared a quarterly dividend of 6.875 US cents on each of the company's common shares.
- **Announcement of FY17 results:** On March 21, 2018, the company announced its FY17 results. Revenues increased 12.5% YoY to USD 69.8 million due to an 11.5% increase in the ounces of gold sold and a 0.9% increase in the average realized gold price. The on-mine cost per ounce for the year decreased by 0.4% from USD 636 per ounce in FY16 to USD 633 per ounce in FY17. The EPS stood at USD 0.88 per share.
- **Release of technical report:** On March 2, 2018, the company released an updated version of the 'National Instrument 43-101 Technical Report' on the Blanket Mine in Gwanda Area of Zimbabwe. The report pertained to the detailed description of the mine along with its location, feasibility and various types of risks.
- **Accident at Blanket Mine:** On February 26, 2018, the company announced a fatality at the Blanket Mine in Zimbabwe in a mining-related accident. The accident occurred in the Blanket Quartz Reef area of the mine.
- **Record quarterly and annual gold production at Blanket Mine:** On January 15, 2018, the company announced that approximately 16,425 ounces of gold were produced during the 4Q 2017, a new quarterly production record for the mine. Production in the given quarter was 14% higher than the previous quarter (3Q 2017), and 21% higher than the corresponding quarter of 2016 (4Q 2016). Total FY 2017 gold production was approximately 56,135 ounces, marginally ahead of FY 2017 production guidance of 54,000 – 56,000 ounces. FY 2017 production represented a new annual production record for the Blanket Mine, an increase of 11.4% over the annual gold production in FY 2016.
- **Caledonia declared quarterly dividend:** On January 2, 2018, the company declared a quarterly dividend of 6.875 US cents on each of the company's common shares.
- **Release of technical report:** On December 15, 2017, the company released its 'National Instrument 43-101 Technical Report' on the Blanket Mine in Gwanda Area of Zimbabwe. The report covered a detailed description of the mine along with its location, feasibility and various types of risks.
- **Exercise of share options:** On December 1, 2017, the company announced that Mr. John Kelly, a director of the company, exercised options in respect of 18,000 common shares of no par value each in the company, which the company had issued and allotted to him. The exercise price was CAD 4.50 per option share. Following this transaction, Mr. Kelly owned 29,493 shares in the company, representing approximately 0.28% of its issued share capital.
- **Announcement of 3Q17 results:** On November 13, 2017, the company announced its 3Q 2017 results. Revenues increased 3% YoY. In 3Q 2017, 968 ounces more gold was sold as compared with 3Q 2016, representing an increase of 7% in ounces of gold sold. The average realised gold price in 3Q 2017 was USD 1,265, which was 3.6% lower than the average realized price per ounce in 3Q 2016.
- **Blanket mine resource update:** On November 2, 2017, the company announced an increase in the Blanket mines resource, based on positive exploration activities and diamond drilling carried out up to the end of August 2017. The total measured and indicated resource are 5.62Mt at a grade of 3.95 g/t, and the inferred resources stand at 5.53Mt at a grade of 4.99 g/t. The total measured and indicated

resources increased by 6% to 714,000 ounces and the inferred resources have increased by 47% to 887,000 ounces.

- **Extension of Central Shaft:** On November 10, the company announced that it intends to extend the depth of the central shaft by 250m to 1,330m. The extension will also include the addition of two new production lines on 34 level (1,110m) and 38 level (1,230m). These production levels are in addition to the two on 26 level (870m) and 30 level (990m) that had already been planned according to the investment plan. The total capital expenditure of the extension is estimated at USD 18 million and is expected to be operational by Q1 2020. The company is also developing a mid-shaft loading system to handle development waste. A Preliminary Economic Assessment (PEA) report indicates an NPV of USD 193 million at a 10% discount rate.
- **Record gold production in 2017:** On October 5, 2017, the company announced that a record 14,389 ounces of gold were produced in 3Q 2017, a 15% increase against the previous quarter. Guidance for 2017 has been between 54,000 and 56,000 ounces and the company remains on track to reach its production target of 80,000 ounces in 2021.
- **Listing of shares on NYSE:** On July 24, 2017, the company announced that it has received approval from the NYSE for listing of its shares and trading commenced on July 27, 2017. The company remains listed on the Toronto Stock Exchange (TSX: CAL) and depositary interests in the common shares will be traded on AIM of the London Stock Exchange (CMCL). However, trading of shares on OTCQX will cease upon commencement of trading on NYSE.
- **Accident at Blanket mine:** On July 10, 2017, the company announced that a fatal accident took place in number 6 shaft area of the mine on July 7, 2017. The Ministry of Mines Inspectorate Department's investigation has been completed and no fault has been found in the company's working practices or safety procedures. The company has increased focus on safety since the accident.
- **Declares quarterly dividend of 6.875 US cents per share:** On July 7, 2017, the company informed that the board of directors declared a quarterly dividend of USD 0.06875 on each common share. This dividend represented a revised quarterly dividend policy based on the completion of one-for-five consolidation of company's common shares. The dividend is in line with the dividend paid in January and April 2017 after adjustments for consolidation effect.
- **Share consolidation:** On June 27, 2017, the company announced successful completion of one-for-five shares consolidation. Previously, the board approved a one-for-five share consolidation in order to satisfy the listing requirements of the NYSE. As of June 30, 2017, the company had an issued share capital of 10,533,873, including 3,406,082 in depositary interests.
- **Mining resumed at Eroica Ore Body:** On May 15, 2017, the company resumed its mining operation at the Eroica Ore Body (Blanket mine in Zimbabwe) after the fatal accident that took place on May 12, 2017. The Eroica Ore Body contributed 10% of production during 1Q 2017.
- **Revised production guidance for 2017:** On May 9, 2017, the company announced a revision to its 2017 production guidance from the previous estimate of 60,000 ounces to the new estimate of 52,000 – 57,000 ounces of gold production. Blanket has not been able to transport the volume of material necessary to meet its previous guidance. The company, however, retained its long-term target to achieve a 80,000-ounce production by 2021.
- **Record gold production in 2016:** On January 11, 2017, the company announced that approximately 13,591 ounces of gold were produced during 4Q 2016, a new quarterly production record representing an 18% increase on the gold produced in 4Q 2015 of 11,515 ounces. Gold production in 2016 was approximately 50,351 ounces, a new annual production record representing a 17.6% increase over the 2015 production of 42,804 ounces. The increase in production in 2016 was a result of the company's investment plan at Blanket.

- **Sale of gold arrangement:** On December 01, 2016, the company confirmed that the settlement system has not undergone any change after the introduction of "Bond notes" by the Reserve Bank of Zimbabwe. Since January 2014, the company has sold all the gold produced to Fidelity, a subsidiary of the Reserve Bank of Zimbabwe. Blanket has previously received all the sales proceeds within 48 hours of delivery to Fidelity.
- **Installation of new ball mill:** On October 05, 2016, the company announced successful installation of a new ball mill. The new mill is expected to increase the daily throughput by 20% to 1,850 tpd from 1,500 tpd, which will allow Blanket to meet its plan to reach the gold production of 80,000 ounces by 2021. Currently, the commissioning process is proceeding according to the plan.
- **Upgrade of resource category:** On July 28, 2016, the company announced that, based on the diamond core drilling done at depth below the Blanket Section over six months, 343,000 tons have been upgraded from the Inferred to the Indicated Resource and an additional new inventory of 1,276,000 tons has been added to inferred resources. The quantum of reserves and indicated resources have increased by 67% from 2,934,000 tons to 4,889,000 tons.
- **Appointment of board and management:** On July 26, 2016, the company announced the appointment of John McGloin as an independent non-executive director of the board. Mr. McGloin has previously worked as a geologist and a consultant geologist, where he gained experience of a range of projects and multiple jurisdictions. Caledonia has also appointed Maurice Mason as Vice President, Investor Relations and Corporate Development. Previously, Mr. Mason has been a director, Equity Research, for Stifel Nicolaus Europe Ltd, covering mining companies listed in the UK.
- **Sale of government treasury bills:** On May 16, 2016, the company announced that Blanket mine, has sold Treasury Bills ("Bills") issued by the Government of Zimbabwe for a gross value of approximately USD 3.2 million. These bonds were issued in 2015 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.
- **Re-domicile completion:** On March 21, 2016, the company announced that it has successfully completed the re-domicile of the company into Jersey, Channel Islands, after shareholder approval of the continuance and approval by Canadian and Jersey regulatory authorities. The International Securities Identification Number (ISIN) of the Depositary Interests (DIs) in common shares will change to JE00BD35H902 and the new SEDOL of the DIs in common shares will change to BD35H90.

Listing Information

Caledonia is listed on the TSX (CAL) in Canada and on NYSE (CMCL) in the US. The depositary interests in shares are traded on London's AIM (CMCL). The company's headquarters are at Saint Helier, Jersey.

Contacts

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Major Shareholders^{vi}

Equity Holder	Market Value of the Shares (USD) (Million)	Percentage shareholding
Allan Gray International Proprietary Ltd	8.86	12.47%
Auwarter Heinrich	6.29	8.85%
Sales promotion Services SA	6.29	8.85%
TD Ameritrade	5.93	8.34%
Orbis Allan Gray Ltd	5.42	7.63%
UBS AG	3.83	5.40%
Sloane Robinson LLP	2.14	3.01%
Hillsdale Investment Management Inc.	0.83	1.17%

Management and Governance

Personnel	Designation	Current and total experience
Steve Curtis, Chartered Accountant (SA)	Chief Executive Officer (Caledonia Mining South Africa Proprietary Ltd)	Curtis, a Chartered Accountant, has 30 years of expertise and has held a number of senior financial positions in the manufacturing industry. He is a member of the South African Institute of Chartered Accountants and has graduated from the University of Cape Town. Previously, he served as Financial Director and then Managing Director of Jackstadt GmbH's South African operation. He has also been Director Finance and Supply Chain for Avery Dennison South Africa before joining Caledonia in March 2006. He was appointed to the Caledonia board in July 2008. He was Caledonia's Chief Financial Officer and later, in November 2014, was appointed as Caledonia's Chief Executive Officer.
Dana Roets BSc	Chief Operating Officer (Caledonia Mining South Africa Proprietary Ltd)	Dana Roets, a qualified Mining Engineer, holds a B.Sc. Mining Engineering degree from Pretoria University (1986) and an MBA from the University of Cape Town (1995). He has over 26 years of operational and managerial experience in the South African gold and platinum industry. He started his career with Gold Fields at the St Helena Gold mine as a graduate trainee and later went on to become Vice President and Head of Operations at Kloof Gold mine in January 1999. Later, he was the Chief Operating Officer at Great Basin Gold which had gold mining operations in the US and South Africa.
Mark Learmonth	Chief Financial Officer	Learmonth holds a graduate degree from Oxford University and is a Chartered Accountant. He has over 17 years of experience in corporate finance and investment banking, predominantly in the resources sector in Africa. Previously, he has held the position of a Division Director of Investment Banking at Macquarie First South in South Africa. He joined Caledonia in July 2008 and was appointed Caledonia's Chief Financial Officer in November 2014.
Caxton Mangezi	General Manager and Director, Blanket Mine	Mangezi, a qualified miner and mine manager, has worked at Blanket gold mine since 1969 in a range of roles, including geological technician, overseer miner and underground manager. He has been General Manager of Blanket mine since 1993.
Maurice Mason	VP Corporate Development & Investor Relations	Maurice, an engineer, holds an MBA from Henley Reading University. He worked for six years with Anglo American in their Platinum and Coal operations based in both the Johannesburg and London offices. Prior to joining Caledonia, he was a securities analyst at Stifel, a US investment bank, where he focused on the mining sector.
Adam Chester	General Counsel, Company Secretary and Head of Risk and Compliance	Chester, a dual qualified lawyer (England and Jersey, Channel Islands), has worked as a solicitor of the Supreme Court of England and as an advocate of the Royal Court of Jersey at an international offshore law firm in which he was a partner. He has extensive experience in advising businesses and individuals on a variety of commercial and corporate legal issues. He was appointed General Counsel, Company Secretary and Head of Risk and Compliance in January 2017.

Assets and Projects

Caledonia is primarily involved in the exploration and development of mineral properties. Currently, the company is focused on exploration of the Blanket mine, a gold mine located in the southern region of Zimbabwe. Caledonia acquired the Blanket mine from the Kinross Gold Corporation in April 2006. In August 2018, Caledonia announced that an agreement had been reached to swap the 15% shareholding in Blanket held by local partners for a 6.4% interest in CMC Plc. Once this transaction has been legally completed, Caledonia will hold 64% of Blanket.

On November 3, 2014, the company announced an investment plan with an objective to improve the underground infrastructure and logistics, along with an efficient and sustainable production build-up. This plan was further revised in November 2017 following the resource upgrade announced on July 31, 2018. The Investment Plan will improve the company's long-term operational efficiency, flexibility and sustainability. This is expected to lead to increased production, reduced operating costs and increased flexibility to undertake further exploration and development, thereby safeguarding and enhancing Blanket's long-term future. The investment includes a revised life-of-mine plan with an aim to achieve production of resources below the 750m level. Following the successful implementation of the investment plan, the company expects to ramp-up the production capacity to approximately 80,000 ounces of gold by 2021.

In 4Q 2017, the company announced extension of the investment plan to extend the central shaft for an additional 250m to a depth of 1,330m. The last operating level was 36 level at a depth of 1,250m. The deepening of the Central Shaft to 1,330m will increase the life of the mine by an additional four years to 2031, based on the current indicated and inferred resources. The capital cost of the extension project is expected to be approximately USD 18 million.

Company's Asset Portfolio

Project locations	Project overview
	<div style="text-align: center; border: 1px solid black; padding: 5px; margin-bottom: 10px;"> Blanket Mine </div> <div style="text-align: right; font-weight: bold; margin-bottom: 10px;">Zimbabwe</div> <ul style="list-style-type: none"> • Target Commodity: Gold • Area: ~2,500 ha • 2016 production: 50,351 ounces • Depth: 750m below surface • Interest: 49% • 2016 All-in Sustaining Cost: USD 912/oz • 2017 All-in Sustaining Cost reduced to approximately USD 847/oz • 1H 2018 All-in Sustaining Cost: USD 843/oz
<p>Source: Company filings</p>	<p>Source: Company filings</p>

Blanket Gold Mine

Target commodities: Gold

Company's interest: 64%

In order to comply with Zimbabwean law, which requires that indigenous Zimbabweans should own

at least 51% of the Blanket mine, the company entered into an agreement to transfer 51% of interest in Blanket mine to the following:

- 16% interest to the National Indigenization and Economic Empowerment Fund ("NIEEF")

- 15% interest to Fremiro Investments (Private) Limited (“Fremiro”)
- 10% interest to Blanket Employee Trust Services Limited (“BETS”) for the benefit of present and future managers and employees
- 10% ownership interest to the Gwanda Community Share Ownership Trust (“Community Trust”).

Now, the company has announced that it has entered into an MOU with Fremiro Investments (Private) Limited, with the intention to purchase Fremiro’s 15% shareholding in Blanket Mine (1983) (Private) Limited. The transaction remains subject to approval from various Zimbabwean regulatory authorities and the execution of a legally binding sale agreement. Caledonia will acquire Fremiro’s shareholding in Blanket for a gross consideration of USD 16.667 million to be settled through a combination of:

- The cancellation of the loan between the two entities which stood at USD 11.467 million as on June 30, 2018; and
- The issue of 727,266 new shares in Caledonia at an issue price of USD 7.15 per share.

On completion of the transaction, Caledonia will have a 64% shareholding in Blanket with the constituent Blanket shareholders as follows:

- 64% interest to wholly-owned subsidiaries of Caledonia,
- 10% to the National Indigenisation and Economic Empowerment Fund,
- 10% interest to Blanket Employee Trust Services Limited for the benefit of present and future managers and employees, and
- 10% ownership interest to the Gwanda Community Share Ownership Trust.

Caledonia has funded the above-mentioned transaction by giving loans to indigenous Zimbabweans. The loans will be repaid by the dividends received from Blanket mine. Caledonia will receive 49% of the dividend from the Blanket mine and it will also receive 80% of the remaining 51% of the dividends paid to the indigenous Zimbabweans as a repayment towards the loan. As a result of this transaction, the effective interest in the dividends from Blanket mine to Caledonia is much higher than 49% on a temporary basis.

Asset summary: The Blanket mine is a well-established Zimbabwean gold mine with a gold production of 56,135 ounces in 2017 and 25,582 ounces in 1H 2018. Blanket also holds extensive exploration properties both on the existing mine area and on its satellite projects, including the GG and Mascot projects. Caledonia acquired the Blanket mine from Kinross Gold Corporation with effect from April 2006.

Since the acquisition, Caledonia has made considerable capital investments in the mine underground facility, its surface area and the township facilities. The Blanket Gold Plant consists of crushing, milling, carbon-in-leach and batch elution electrowinning circuits.

The company has installed a new ball mill which has increased daily throughput by 20%, from 1,500 tpd to 1,850 tpd.

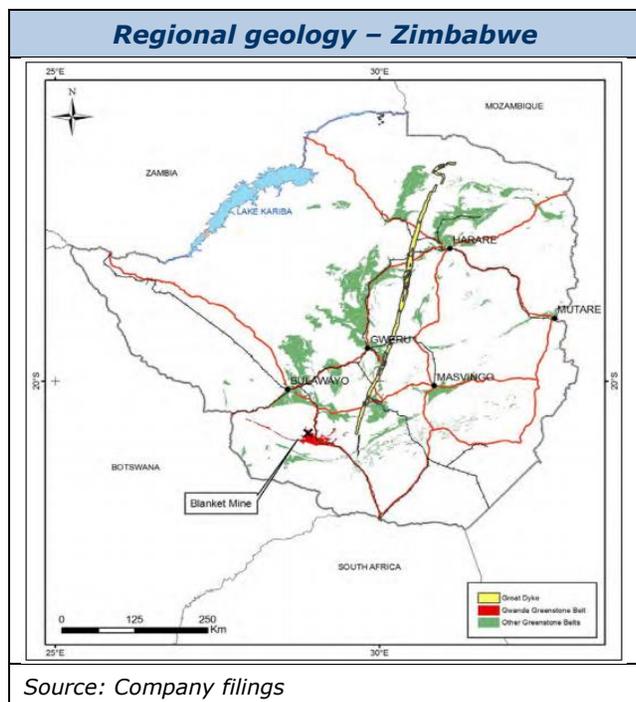
Location: The Blanket mine is located in the south-west of Zimbabwe, approximately 15 km west of Gwanda - the provincial capital of Matabeleland South. Gwanda is 150 km south east of Bulawayo (Zimbabwe’s second-largest city) and 196 km northwest of the Beit Bridge Border post with South Africa, and 560 km from Harare, capital of Zimbabwe.

Access to the mine is via a road from Gwanda, which is linked from Beit Bridge to Bulawayo and Harare by a national highway. The road is accessible in all weather conditions. The company has also entered into an uninterrupted power supply agreement with the state-owned electricity supplier.

Availability of adequate infrastructure facilities, power backups and easy accessibility through roads enable effective functioning of the mine.

Regional geology: The Blanket mine is located in the northwest part of the Gwanda greenstone belt, an Archaean greenstone-hosted gold deposit. The Blanket gold deposit is the largest producing mine in the belt. The Gwanda greenstone Belt consists predominantly of basaltic rocks - greenstones with minor felsic and ultramafic units. The gold ore in the area has vertical orientation and is the result of the basaltic rocks.

Given the long history of gold production in the current region, the company has avenues for greater exploration opportunities through modern exploration techniques.



Property geology: As the rock units of the Gwanda greenstone Belt are tilted towards the side, and strike north-south of the Blanket mine, the stratigraphic sequence is exposed to the oldest in the east to the youngest in the west.

Blanket mine is a part of the North Western Mining Camp, also referred to as the Sabiwa group of mines. These mines include Jethro in the south, Blanket, Feudal, AR South, AR Main, Sheet, Eroica and Lima in the north. Active mining occurs over a 3 km strike that includes 8 discrete vertical ore shoots along the north-south axis.

Gold mineralization takes place at ductile tensional high strain areas of the shear zone when rising hot fluids come in reaction with iron rich minerals. Gold gets transported by the fluids and becomes attached to the arsenopyrite to form gold ore.

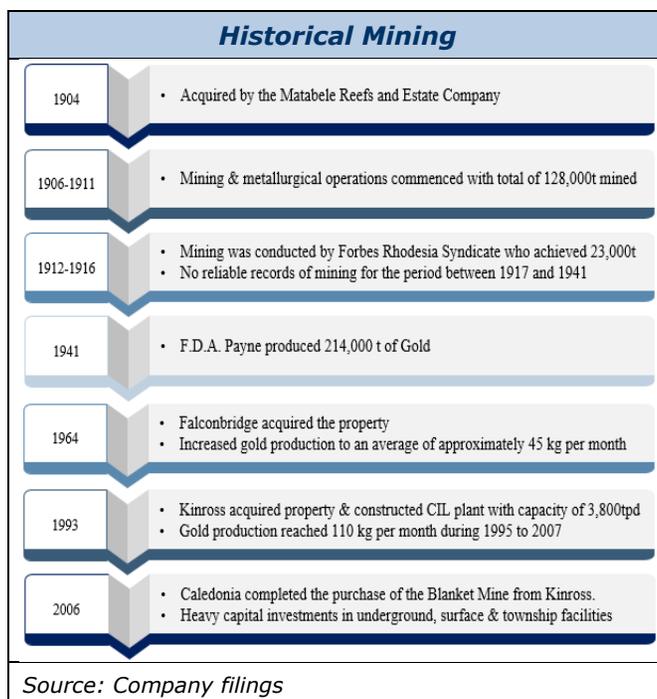
Potential mineralization:

On July 31, 2018, the company upgraded its mineral resource estimates for Blanket mine based on the recent exploration and diamond drilling activities. Currently, the project has a measured and indicated resource of 6.74 million tons (at average grade of 3.72 g/t), and an inferred resource of 6.63 million tons (at avg. grade of 4.52 g/t). The gold production for measured and indicated resource increased by 13% to 805kt compared to 714kt in August 2017, and the

inferred resources increased by 9% to 963kt compared to 887kt in August 2017.

Resource estimate	Million Tons	Grade g/t	Gold (Ounces)
Measured	2.01	3.80	245,000
Indicated	4.73	3.68	560,000
M+I	6.74	3.72	805,000
Inferred	6.63	4.52	963,000

Historical mining: Given below are the key highlights of historical events of Blanket mine.



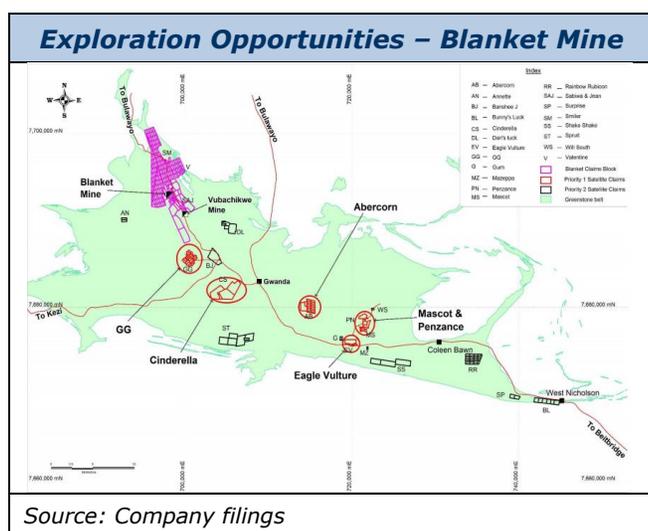
In late 2010, Blanket mine successfully completed an expansion project which increased the production capacity from 24,000 ounces of gold per annum to 40,000 ounces of gold per annum.

Mining operations and explorations: The Blanket mining area covers total eight ore shoots in the producing section of the mine. Out of this, AR Main and AR South are up to 30m wide and are the largest ore bodies, while the other Blanket ore bodies are tabular shaped ores. Due to this, AR Main and AR South are ideally suited for the long-hole open stope mining method, while the others are suited for underhand stopping methods.

The Jethro & Eroica Shafts and the No. 5 & No. 6 Winzes are used for transporting personnel and materials underground.

Currently, majority of the gold production is sourced from the AR Main Ore bodies. Blanket, AR Main and Eroica were the main attraction for drilling in 2016. Ahead in 2017, the company was focused towards AR South, with only limited drilling below 22 level.

In 2016, the company drilled 19,768m compared to 14,948m in 2015, an increase of 32.2% primarily because of purchase of new drill machines during the first half of 2016. In 2017, the company completed 19,035m of drilling and this entailed a total drilling of 66,665m by end of 2017.



Metallurgical process: Ore fed into the belt is crushed to minus 50mm using Telsmith jaw crushers. Ore from stockpile conveyor, having live capacity of 2,000 ton, is further reduced to minus 12mm by one of the two 38H Telsmith Gyrasphere crushers.

The 12mm ore is then fed into 600-ton Mill Bin, where it is milled to 70% passing microns. Later it is passed through Knelson Concentrators where 49% of the total gold production is recovered.

The Knelson Concentrator tails are pumped into a regrind ball mill. The insoluble particles from the mill are injected into the carbon-in-leach plant where assimilation of dissolved gold onto activated carbons takes place. The carbon-in-leach plant has over capacity of 3,800 tpd.

Gold solids from steel wool cathodes are heated in an induction furnace to produce gold bullion of

90% purity. With the setting up of an automated liquid sodium cyanide facility and effective functioning of CIL agitators, gold recovery rates increased to 94% from 85% since the acquisition of Caledonia.

The current crushing and milling capacity of 1,850 tpd meets the requirements of the Blanket mine. There is spare Carbon-in-leach capacity up to 3,800 tpd required at the Blanket mine so there is potential to treat more ore if new supplies can be identified in the future. In 2016, the company completed a few capital development projects in the metallurgical process:

1. Commissioned the new conveyor system from the secondary crushers to the new fine ore bin;
2. A new No. 8 ball mill was installed to increase the milling capacity to 90 tph, sufficient to mill the 650,000 tons per annum which will be required to produce 80,000 ounces of gold per annum by 2021
3. The refurbishment of the carbon-in-leach tanks

Investment Plan: On November 3, 2014, the company announced the investment plan and the production projections for the Blanket mine. This plan was further revised in November 2017 following the resource upgrade announced on July 31, 2018. With this, the company targets to improve the underground infrastructure and logistics, while allowing an efficient and sustainable production build-up. This is also expected to bring down unit costs, thus, leading to an increase in margins.

The investment plan includes the development of a tramming loop, deepening the No. 6 Winze and sinking a new 6m diameter Central Shaft of 1,330m.

- **No. 6 Winze Project** - The No. 6 Winze project has enabled the company to get access to the four Blanket resources below 750m level. The company completed this project at the end of 1Q 2016 and currently have access to the ore below 750m.

The company plans to get further access, deepening down to 980m and expects to commence the operations after the completion of Central Shaft.

- **Tramming Loop** - The development of Tramming loop has resulted in better underground logistics along with increase in mine production. Loop work commenced during October 2014 and was completed in the

second half of 2015. Since the completion, the company has consistently increased mine production.

- **Central Shaft** - is the key to the investment plan. The project comprises a new 6m diameter, four-compartment shaft from the surface to 1,330m below the surface that will transport men, equipment and materials with a capacity of 3,000 tpd. The shaft will be located between the AR Main and AR South ore bodies, in the middle of the Blanket's mining area.

Permanent sinking of the Central Shaft started in May 2016 and is currently 870m deep with 202m of sinking achieved during 2Q 2017 compared to a budget of 124m. Currently, a horizontal development is being done on 26 level with the station being cut and 70m of level development up to the tipping area.

The total capital cost of the expansion project is expected to be approximately USD 70 million. The figure includes the Central Shaft, horizontal development, the new ball mill and additional surface and underground infrastructure.

After the development of central shaft and the deepening of No. 6 Winze, the company will have access to the inferred mineral resources below 750m. This will also provide further exploration and development of mines in other ore sections.

The investment plan is expected to increase the resource production to 80,000 ounces by 2021. This will also have positive impact on the company's operational efficiency and sustainability.

Extension of Central Shaft: On November 10, 2017, the company announced the deepening of the central shaft by an additional 250m to a target depth of 1,330m. The 6 Winze sub-shaft located close to 5 Winze sub-shaft is used to access the Blanket complex below 750m level and will provide secondary access to the new Central Shaft. The shaft has reached 36 level (1,250m). Progress on sinking the shaft was adversely affected by several factors, which included - the raise boring of the ventilation hole from 870m to 750m, power trips due to the unstable incoming supply from the grid, the installation of mid-shaft loading, which took longer than expected, and the requirement to progress horizontal development on the 26 and 30

levels. Production in 2017 was disrupted by an inconsistent supply of electricity from the national grid. Hence, the management has installed equipment to regulate the incoming electricity supply. It has also put two stand-by generator farms in place, which were operational by the end of 2017. Most of the issues have been resolved, and 446m of capital development were achieved in 2Q 2018 compared to 646m in 1Q 2018.

Approximately USD 51 million of capital investment is expected to occur from 2018 – 2022, and, Caledonia is planning to fund the capital cost from the internally generated cash flow without affecting the current dividend policy.

The Preliminary Economic Assessment of the extension project indicates an NPV of USD 193 million, considering a 10% discount rate for an average gold price of USD 1,260 per ounce.

Caledonia is also developing a mid-shaft loading system at the Blanket mine, using the central shaft infrastructure, to better manage the waste and to reduce the logistics constraints. The mid-shaft loading system is expected to improve the overall project's waste management system and will also provide operational and production flexibility.

The development will also enable the company to commence the horizontal development on 26 and 30 levels, 10 months earlier than the original planned. Once operational, the No. 6 Winze will be capable to hoist more ore, rather than hoisting ore and waste.

AR South Decline: In addition to the Investment Plan, Caledonia is involved in the development of AR South Ore body below 750m. Currently, the company is extending the exploration of AR South to 870m to have access to further mineral deposits below 750m.

During 2Q 2017, a conveyor was commissioned below 750m. The company also completed, the extraction haulage on 780m level.

AR Main Decline: During 2Q 2017, the company commenced the development of AR Main ore body below 750m and planned to extract the resources from 750m to 780m.

Development of Non-Producing Claims: In the area surrounding existing mines, the company has 18 other brownfield projects, many of which have been mined commercially from the early 1900s until the 1960s. Although historical operations, these mines have shaft infrastructure facilities for

rapid underground access for exploration and development of mining activity.

Out of these projects, the company has commenced exploration of GG and Mascot properties to assess their potential. If successful, the extracted ore will be processed at the Blanket plant.

GG project: GG project is located 7km south east of Blanket mine. 4,751m of drilling has been carried out, which includes 17 diamond-cored holes. Two economic gold mineralization zones at a depth of 200m each having a strike length of 150m have been established.

An existing shaft is present to a depth of 120m and mineralization below 60m of the surface has returned an average grade of 6.0g/t gold. The sulphide intensity has reduced between 60m and 90m levels with the shear structure remaining intact.

Horizontal development has commenced at 60m, 90m and 120m levels to allow for diamond drilling of the identified zones. Four holes totaling 400m have been drilled to investigate the North Main Shear and three holes have intersected mineralization with grades and thickness of 4g/t over about 2m.

Given below are the mineral resource estimates for the GG property:

Resource estimate	Tons	Grade (g/t)	Gold (Ounces)
Measured (M)	127,178	3.79	15,486
Indicated (I)	55,123	5.86	10,386
M + I	182,301	4.41	25,872
Inferred	110,242	2.87	10,173

GG Project



Source: Company filings

Mascot Project: The Mascot project area has three existing shafts - Mascot, Penzance and Eagle Vulture extending to 450m depth. Production has ceased due to political issues and limited technology, and hence requires extensive rehabilitation. The company has prioritized Mascot and work at Penzance and Eagle Vulture will commence after completion of underground development at Mascot.

The management believes that the application of modern exploration and processing techniques may allow some or all of these shafts to operate profitably for a period of time. After installation of ZESA electricity, the shaft was re-accessed to 120m below the surface.

Below are the mineral resource estimates for the Mascot property:

Resource estimate	Tons	Grade g/T	Gold (Ounces)
Measured (M)	66,532	2.60	5,571
Indicated (I)	69,006	4.83	10,716
M + I	135,538	3.74	16,288
Inferred	69,587	8.23	18,416

Due to high capital investment, works at GG and Mascot were suspended in 2016 and resources were diverted towards Blanket at the AR South. The company believes that there will be better returns on the capital investment in the Blanket. During 2Q 2018, 1,346 tons of low-grade material from Mascot was treated at the pilot plant over a 28-day period. This work indicated that the material from Mascot is amenable to be processing at the existing Blanket plant. Operations at the pilot plant were suspended at the end of 2Q 2018 as there is no high-grade material available from Mascot to allow this study to be completed.

Mascot Project Area



Source: Company filings

Financial Summary: -

2Q 2018 vs. 2Q 2017: In 2Q 2018, revenues increased by 4.6% YoY to USD 16.2 million, primarily due to a 1.1% increase in gold ounces sold from 12,521 ounces in 2Q 2017 to 12,657 ounces in 2Q 2018 and a 3.5% increase in the average realized price of gold from USD 1,235 per ounce in 2Q 2017 to USD 1,278 per ounce in 2Q 2018. The All-in Sustainability Cost per ounce was broadly stable at USD 656 per/oz due to the offset in the increase in on-mine costs by ECI. The operating profit increased sharply in the quarter owing to USD 1.6 million ECI received from the Government of Zimbabwe.

<i>in USD '000</i>	2Q 2018	2Q 2017	Δ
Gold sales (oz)	12,657	12,521	1.1%
Average gold price (USD/oz)	1,278	1,235	3.5%
Revenues	16,198	15,484	4.6%
Operating Profit	5,070	3,223	57.3%
Profit After Tax	3,254	1,123	189.8%
Basic Adjusted EPS (USD cents)	0.24	0.06	300.0%

1H 2018 vs. 1H 2017: Revenues during 1H 2018 increased by 7.3% YoY to USD 34.3 million, reflecting a 1.1% increase in sales volumes and 5.9% increase in sales price. The company sold 25,581 ounces during 1H 2018 at an average price of 1,296 per ounce, compared to 25,315 ounces at a price of 1,224 during 1H 2017.

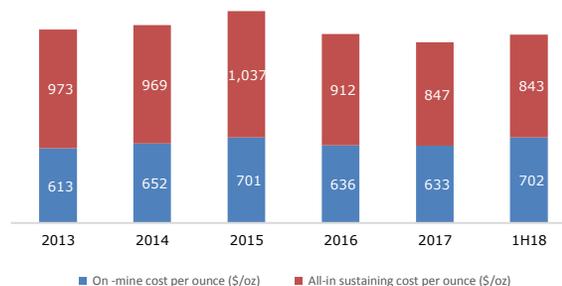
<i>in USD '000</i>	1H 2018	1H 2017	Δ
Gold sales (oz)	25,581	25,315	1.1%
Average gold price (USD/oz)	1,296	1,224	5.9%
Revenues	34,257	31,933	7.3%
Operating Profit	11,075	7,598	45.8%
Profit After Tax	7,133	4,031	77.0%
Basic Adjusted EPS (USD cents)	0.53	0.28	89.3%
Cash and cash equivalents	8,057	10,878	(25.9%)

The all-in sustaining cost decreased by 1.5% to USD 843 per/oz in 1H 2018 compared to USD 856 per/oz in 1H 2017, due to lower on-mine costs per ounce, the reduced royalty cost per ounce due to the effect of the export incentive credit for incremental production, lower general and

administrative costs per ounce and lower sustaining capital expenditure per ounce.

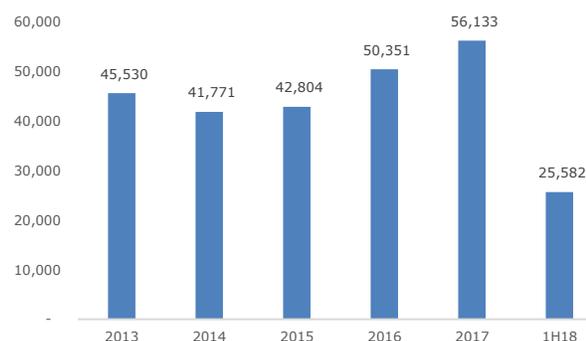
During 2Q 2018, Caledonia filed an F-3 registration statement with the Securities Exchange Commission to allow the company to raise up to USD 30 million of new equity over the next 3 years if appropriate investment opportunities arise. The company currently has no plans to raise equity. Blanket has an unsecured USD 4 million loan facility in Zimbabwe which is repayable on demand. On June 30, 2018, the facility was drawn as to USD 2.7 million. In October 2016, Blanket drew down a USD 3 million two-year term facility of which USD 746,000 was payable as on June 30, 2018. Caledonia has also changed its mining method to long hole open stoping in the Blanket orebody, following recent safety issues at the mine.

Historic unit costs for Blanket Mine



Source: Company filings

Historic Gold Production (oz.)



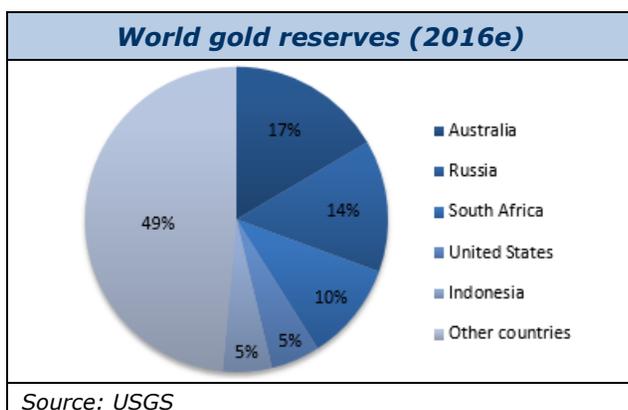
Source: Company filings

Technologies and Markets

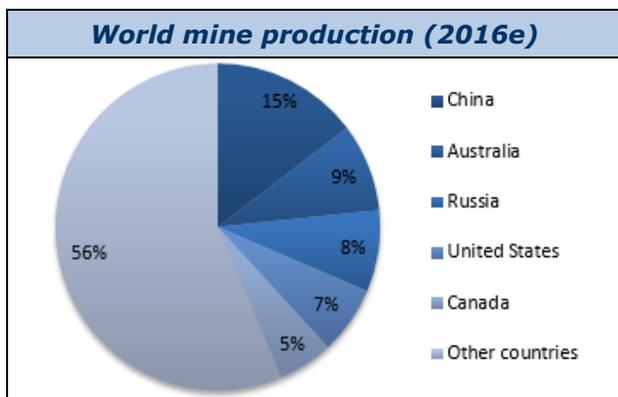
Gold

Chemistry and Properties: Gold (Au) with an atomic number of 79 is a dense, soft & shiny metal. It is the most malleable and ductile of all metals; it is bright yellow in color and luster. It is a transition metal and can form trivalent and univalent cations in solutions. Pure gold is chemically least reactive and is solid under standard conditions.

Sources^{vii}: Mostly, Gold occurs in native forms as nuggets or grains in rocks, veins, and alluvial deposits. According to an USGS report, the global gold reserves stood at 57,000MMT in 2015.



Supply and Production^{viii} : Gold production involves comparatively long lead times, with new mines taking up to 10 years to come onstream. As a result, its output is relatively inelastic to change in price outlook. The global mine production in 2016 remained constant at 3.10MT when compared with that in 2015.



Source: USGS

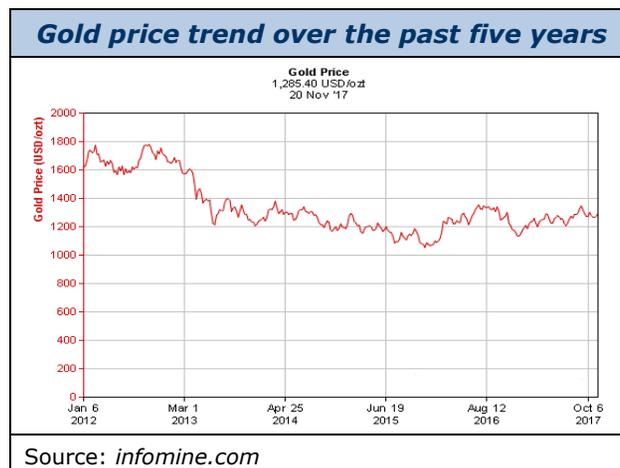
Applications: Gold is a precious metal used as coins or bars, as an investment, jewelry and for technological purposes. It also has industrial uses, including medicine, food and beverages and electronics due to its good resistance to oxidative corrosion and excellent quality as a conductor of electricity.

Demand: Gold demand is mainly driven by the need for preservation of value. The bullion's modest price recovery, as compared with other commodities, has resulted in a reduction in spending on exploration to less than USD 4 billion from almost USD 10 billion in 2012.

Such a scenario has left many companies in the gold industry forecasting a supply shortage by the end of the decade. Across the world, miners have instead spent their cash in expanding existing deposits, improving efficiency or cautiously looking at acquisitions.

Commodity Pricing^{ix} : Gold prices have been rising since 2001, when price was around USD 250/oz, and reached record levels in September 2011 driven by an increase in money supply in the US.

However, during 2015, the average gold price declined by 7% YoY due to the Fed tightening and consequent strengthening of the USD, low global inflationary pressure, and lower demand from India and China. Currently, gold prices are at USD 1,266.60/oz.



Zimbabwe's Mineral Scenario^x: A leading gold producer, Zimbabwe's gold production reached a peak of 29.7 tons in 1999. Though in 2008, the production fell drastically to just 3.5 tons as all gold mines in Zimbabwe were shut down due to the Reserve Bank of Zimbabwe's inability to pay for gold (as per the prior to February 2009 regulations, the Reserve Bank of Zimbabwe was the sole buyer of gold produced in Zimbabwe).

Post-liberalization, most of the Zimbabwean gold mines reopened, leading to an increase in gold production to 13 tons in 2013.

After realizing the contribution of the mining industry to the economy, particularly gold mining, the Zimbabwean government relaxed restrictions over foreign payments in February 2009. Recently, currency exchange controls have been reintroduced with restrictions on the payment of foreign currency out of the country.

Project Risk Profile Analysis

Based on our analysis of the project stage, resource characteristics and management expertise, we believe that the Blanket mine has a low risk profile.

Blanket Mine Project – LOW

Project Stage Risk – LOW

- Caledonia acquired the Blanket mine in April 2006, and since then, has made significant developments in the mine. The mine is currently fully operational and has produced 50,351 ounces of gold with a revenue of USD 61.9 million in 2016
- On November 4, 2014, the company announced 'the investment plan' to further improve the underground infrastructure and logistics thereby allowing sustainable gold production below 750m level. On November 10, 2017, the company announced the further deepening of central shaft to 1,330m, thereby gaining access to resources below 30 level and increasing the mine life by four years to 2031.
- The company is currently on track to complete the development of central shaft by 2020. This will further increase the production to 80,000 ounces by 2021.
- As of December 31, 2016, the mine had a measured and inferred resource of 5.62Mt @ 3.95 g/t and indicated resource of 5.53Mt @ 4.99 g/t.
- Based on the above factors, we consider the Blanket mine to have a low project risk.

Financing/Capex Risk – LOW

- Since its acquisition in 2006, the company has invested significant capital to increase the mine's production capacity.
- As per the current investment plan, the company is currently focused on the development of central shaft to gain further access to resources below 750m. The total estimated capital expenditure for the expansion is expected to be approximately USD 70 million and is expected to be funded from its projected cash flow.
- Since the implementation of the investment plan, the company has successfully funded the

required capital expenditure from the internally generated cash flows.

- Once the development of central shaft is completed in 2020, the company expects significant excess cash flow, which can be used to fund any further mine developments.
- Based on the above factors, we consider Blanket mine to have a low financing risk profile.

Operational Risk – LOW

- Blanket has been in operation since it was acquired by the company in 2006. It is well connected to the road from Gwanda, which is linked from Beit Bridge to Bulawayo and Harare by a national highway.
- The company is well-positioned to complete the development of Central Shaft. Once operational, it will lead to linear ramp-up in the gold production from current level of 55,000 to 80,000 ounces by 2021.
- All the gold production is currently sold to Fidelity, a subsidiary of the Zimbabwean Reserve Bank, at spot price less an early settlement discount of 1.25%. The company is always paid within 24 hours of the delivery of the gold and has never experienced a late payment.
- Furthermore, the project has no known regulatory or environmental interferences which will hamper the development.
- Considering the above factors, we believe that the project has attractive operational characteristics. As such, we believe the project to have a low operational risk profile.

Key Personnel Risk – LOW

- The current management has operational and managerial experience in exploration, mining operations, project development, and also in finance and investment banking functions.
- A member of the management team is also involved in development of Blanket gold mine since 1969 with experience as a geological technician, overseer miner and underground manager.
- Considering the diversified experience of the management, we consider the project to have a low Key Personnel Risk profile.

Risk Parameters – Definition

Project Stage Risk

The following are the various stages of a project:

- **Early-stage exploration:** In this stage, the exploration location is decided using a combination of various techniques such as samplings, drilling, geophysics, and other extensive geological and exploration services.
- **Pre-feasibility study:** A preferred base-case option is identified from the possible options available to the company. The preferred base-case option provides some level of confidence in the production capacity, ore grades, metal recovery, capital and operating costs, project schedule, and project risks/opportunities. A financial analysis is also carried out to assess the economic viability of the project.
- **Feasibility study:** This includes a collection of more detailed information, additional designs, and project-specific cost information to refine the project cost and schedule. It also addresses information gaps, issues of concern, risks, and opportunities identified in the advanced exploration stage.
- **Detailed engineering:** Detailed designs based on the project scope, concept designs, and the purchase of key plant equipment are completed.
- **Site construction:** Site construction starts as per the field engineering designs and is expected to confirm adherence to appropriate quality-control practices.
- **Commissioning and start of operations:** After the completion of construction, operability testing, and acceptance, the owner is asked to confirm if the project construction and performance are as per the design and meet the required plant performance and safety requirements. The final operating control programs are then completed, installed, and tested for functional efficiencies.

High risk: We consider a project to have high risk when it is in the initial stages of development and is yet to report a resource estimate on the prospect.

Medium risk: On the completion of a pre-feasibility report having initial evaluations of mine characteristics and other operational estimates

such as capex and opex, project stage risk is reduced from high to medium.

Low risk: As the project advances to site construction and commissioning, the project stage risk is reduced further to the low risk category.

Project Financing Risk

Initial stages of project development, including exploration and resource estimation, require higher levels of capital investment. Investments in the exploration stage can be riskier as the economic viability of deposit is not established. The risk level of the capital reduces as it advances through various exploration stages.

Initial stages of exploration and development of the project attract high-risk capital investors. As the project stages proceed, the company has varied options such as equity (IPO) and debt financing, among others.

High risk: Companies in the initial stages of project development, without proper estimates on fund requirement and clear view on financing options, are considered to have high financing risk.

Medium risk: When a company has established reasonable estimates on fund requirement and has visibility on early funding for planned project milestones, it is estimated to have medium financing risk.

Low risk: When the company's fund requirements are clearly stated and has already secured adequate funding, the company has low financing risk.

Operational Risk

The following are the various parameters considered to measure operational risk:

- **Geopolitical and Regulatory factors:** The location of projects and their regulatory environment are key factors in acquiring licence and the subsequent development of the project. Obtaining necessary approvals can be time consuming, the delay of which could result in monetary losses, and operational delay.
- **Environmental factors:** The potential for environmental damage caused by mining activity and the likely cost to be covered by the company contribute to the economic viability of the project.

- **Mining technique:** The development plan for the mines, including the extraction methodology and the corresponding capex estimates, together define the operational efficiency of the project. The high quality of ore reserves (grade) and the ease for extraction provide higher return on investment and reduce the operational risk involved.
- **Geotechnical and other factors:** Mining machinery transportation, implementation of new technology for operations, and availability of power supply in areas with complicated geological and climatic conditions determine operational risks. Other risks include chances of flooding, pit slope, rim slide and accidents caused by the use of mining transport equipment in adverse weather conditions.

We consider a project based on all the above parameters and assign high-/medium-/low-risk profiles in comparison with their peers. Also, as the company moves to advanced stages, operational risk is reduced considerably.

High risk: The Company has a high operational risk profile with assets that are in an early stage of

development and located in countries with regulatory uncertainties.

Medium risk: As the company progresses toward the acquisition of necessary licenses and environmental clearances, regulatory risks are reduced. Also, depending on the resource grade and the possible methodologies of extraction, an operational risk profile is assigned in comparison with peers.

Low risk: A company that is in the advanced stages of development has attractive project characteristics, such as ore grade, capex, opex. NPV and IRR too have low operational risk profile.

Key Personnel Risk

We consider a project to be of a lower risk profile if the management team is highly qualified, has a good experience in the resource sector and has lower dependability on a few people. It is desirable that the company has independent directors on its board and does not rely heavily on a few individuals.

Value

The Fair Market Value of Caledonia shares stands between USD 116.91 million and USD 119.87 million. The Fair Market Value for one Caledonia's publicly traded share stands between USD 11.03 to USD 11.31.

Caledonia Mining Corporation Plc. Balance Sheet Forecast

CONSOLIDATED BALANCE SHEET

*all figures in
'000 USD,
unless stated
differently*

High bracket estimates

<i>year ending Dec 31</i>	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Total Current Assets	26,469	25,164	29,527	39,609	51,889	65,563	78,159
Total Non-Current Assets	97,693	112,753	120,178	125,250	128,098	130,789	131,388
TOTAL ASSETS	124,162	137,917	149,705	164,858	179,986	196,352	209,546
Total Current Liabilities	16,152	16,974	13,312	10,414	8,175	7,958	7,931
Total Non-current Liabilities	28,023	28,023	28,023	28,023	28,023	28,023	28,023
TOTAL LIABILITIES	44,175	44,997	41,335	38,437	36,198	35,981	35,954
Total Shareholders' Equity	79,987	92,921	108,370	126,421	143,788	160,371	173,593
TOTAL LIABILITIES and EQUITY	124,162	137,917	149,705	164,858	179,986	196,352	209,546

CONSOLIDATED BALANCE SHEET

*all figures in
'000 USD,
unless stated
differently*

Low bracket estimates

<i>year ending Dec 31</i>	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Total Current Assets	25,793	23,348	26,805	36,227	48,015	61,117	73,178
Total Non-Current Assets	97,693	112,753	120,178	125,250	128,098	130,789	131,388
TOTAL ASSETS	123,486	136,101	146,983	161,476	176,113	191,906	204,565
Total Current Liabilities	16,152	16,862	13,380	10,590	8,410	8,191	8,166
Total Non-current Liabilities	28,023	28,023	28,023	28,023	28,023	28,023	28,023
TOTAL LIABILITIES	44,175	44,885	41,403	38,613	36,433	36,214	36,189
Total Shareholders' Equity	79,311	91,216	105,580	122,864	139,679	155,692	168,376
TOTAL LIABILITIES and EQUITY	123,486	136,101	146,983	161,476	176,113	191,906	204,565

Important information on Arrowhead methodology

The principles of the valuation methodology employed by Arrowhead BID are variable to a certain extent, depending on the sub-sectors in which the research is conducted. However, all Arrowhead valuation researches possess an underlying set of common principles and a generally common quantitative process. With Arrowhead commercial and technical due diligence, the company researches the fundamentals, assets and liabilities of a company, and builds estimates for revenue and expenditure over a coherently determined forecast period.

Elements of past performance such as price/earnings ratios, indicated as applicable, are mainly for reference. Still, elements of real-world past performance enter the valuation through their impact on the commercial and technical due diligence.

Arrowhead BID Fair Market Value Bracket

The Arrowhead Fair Market Value is given as a bracket. This is based on quantitative key variable analyses such as key price analysis for revenue and cost drivers or analysis and discounts on revenue estimates for

projects, especially relevant to projects estimated to provide revenue near the end of the chosen forecast period. Low and high estimates for key variables are produced as a valuation tool.

In principle, an investor comfortable with high brackets of our key variable analysis will align with the high bracket in the Arrowhead Fair Value Bracket, and, likewise, in terms of low estimates. The investor will also note the company's intangibles to analyze the strengths and weaknesses, and other essential company information. These intangibles serve as supplementary decision factors for adding or subtracting a premium in investor's own analysis.

The bracket should be taken as a tool by Arrowhead BID for the reader of this report and the reader should not solely rely on this information to make his decision on any particular security. The reader must also understand that while on the one hand global capital markets contain inefficiencies, especially in terms of information, on the other, corporations and their commercial and technical positions evolve rapidly. This present edition of the Arrowhead valuation is for a short- to medium-term alignment analysis (one to twelve months). The reader should refer to important disclosures on page 25 of this report.

Information on the Caledonia Mining Corporation Plc. valuation

Caledonia mining valuation methodology: The Arrowhead fair valuation of Caledonia is based on the discounted cash flow (DCF) valuation method of Blanket mine.

Time horizon: The Arrowhead fair valuation for Caledonia is based on a DCF method. The time period chosen for the valuation is as per the Blanket mine's life. We expect revenues and cash flow from operations to ramp up significantly after 2020 as it is expected that the company would successfully deliver the investment plan.

Underlying business plan: Caledonia is currently focused on exploration and development of its flagship project Blanket mine.

Terminal value: The terminal value is estimated to depend on a terminal growth rate of 0%, representing the maturity, technology change, and prospective competitiveness in the business.

Prudential nature of valuation: This Arrowhead Fair Value Bracket estimate is a relatively prudential estimate, as it is based on the company's current flagship project – Blanket mine – and excludes the value of other projects – GG and Mascot.

Key variables in Caledonia revenue estimations

Variable 1 – Hypothesis for production

We believe the company would be able to achieve the production as per the life-of-mine plan. Grade and recovery rate are based on the company's estimates.

Tons Milled in '000 Tons	2018E	2019E	2020E	2021E
Low	554.0	560.0	635.0	715.0
High	564.0	570.0	640.0	720.0

Gold Head (Feed) Grade (g/t Au)	
Low	3.7
High	3.8

Gold Recovery (%)	
Low	93.0 %
High	93.5 %

Resource Estimate	Measured + Indicated	Inferred
Low	800,000.0	960,000.0
High	805,000.0	963,000.0

Variable 2 – Metal prices

Forecasted prices are based on the estimates from Bloomberg

Average realized gold price USD/ounce	2018E	2019E	2020E	2021E
Low	1,275.0	1,290.0	1,310.0	1,320.0
High	1,280.0	1,295.0	1,315.0	1,330.0

Valuation

WACC

Risk-free rate	8.7%	xi
Beta	0.6	xii
Risk premium	1.6%	xiii
Additional risk premium	0.5%	
Cost of equity	10.1%	
Terminal Growth Rate	0.0%	

	Production capacity	Commodity price	Exchange rate
Max value	Please refer to the Key Variables Section		
Min value			

Cumulative Cash Flows and Valuation

FCFE (High) Time Period ->

	2018E	2019E	2020E	2021E	2022E	2023E	2024E
EBITDA	26,472	30,171	37,263	43,002	41,983	42,135	41,384
Tax	(3,831)	(4,565)	(5,807)	(7,206)	(6,974)	(9,239)	(9,015)
Capital Expenditure	(20,614)	(21,000)	(14,000)	(12,000)	(10,000)	(10,000)	(8,000)
Free Cash Flow	2,028	4,606	17,456	23,796	25,009	22,896	24,368
Caledonia Share of FCF	1,699	3,859	14,628	19,941	20,958	19,187	20,421
PV of FCF	1,662	3,429	11,808	14,623	16,661	13,857	13,398

FCFE (Low) Time Period ->

	2018E	2019E	2020E	2021E	2022E	2023E	2024E
EBITDA	25,503	28,695	35,826	41,986	41,305	41,468	40,754
Tax	(3,656)	(4,285)	(5,534)	(7,003)	(6,838)	(9,062)	(8,848)
Capital Expenditure	(20,614)	(21,000)	(14,000)	(12,000)	(10,000)	(10,000)	(8,000)
Free Cash Flow	1,233	3,410	16,292	22,983	24,467	22,406	23,905
Caledonia Share of FCF	1,033	2,858	13,652	19,259	20,503	18,776	20,033
PV of FCF	1,010	2,539	11,021	14,124	16,300	13,560	13,143

In the model, the valuation is continued till FY 2031.

Arrowhead Fair Value Bracket

<i>in USD '000</i>	Low	High
Implied Enterprise Value	108,857	111,812
+ Cash ^{xiv}	8,057	8,057
Equity Value Bracket	116,914	119,869
Shares Outstanding (in '000) ^{xv}	10,603.2	10,603.2
Fair Value Bracket (USD)	11.03	11.31
Current Market Price (USD)	6.60	6.60
Current Market Capital (MM USD)	70.0	70.0
Target Market Capital (MM USD)	116.91	119.87

Analyst Certifications and Important Disclosures

Analyst Certifications

I, Sumit Wadhwa, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and the subject company.

I, Natasha Agarwal, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and the subject company.

Important disclosures

Arrowhead Business and Investment Decisions, LLC received fees in 2017 and will receive fees in 2017 and 2018 from Caledonia Mining for researching and drafting this report and for a series of other services to 5N Plus Inc., including distribution of this report, investor relations and networking services.

Aside from certain reports published on a periodic basis, the large majority of reports are published by Arrowhead BID at irregular intervals as appropriate in the analyst's judgment.

Any opinions expressed in this report are statements of our judgment to this date and are subject to change without notice.

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, any of the financial or other money-management instruments linked to the company and company valuation described in this report, hereafter referred to as "the securities", may not be suitable for all investors.

Investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary.

Investors are advised to gather and consult multiple information sources before making investment decisions. Recipients of this report are strongly advised to read the information on Arrowhead Methodology section of this report to understand if and how the Arrowhead Due Diligence and Arrowhead Fair Value Bracket integrate alongside the rest of their stream of information and within their decision taking process.

Past performance of securities described directly or indirectly in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from any of the financial securities described in this report may rise as well as fall and may be affected by simple and complex changes in economic, financial and political factors.

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Arrowhead Business and Investment Decisions, LLC is not responsible for any loss, financial or other, directly or indirectly linked to any price movement or absence of price movement of the securities described in this report.

Notes and References

- i Arrowhead Business and Investment Decisions (ABID) Fair Value Bracket. See information on valuation on pages 25-28 of this report and important disclosures on page 29 of this report*
- ii Bloomberg as on 08-Oct-2018*
- iii Bloomberg as on 08-Oct-2018*
- iv 3 months average volume from Bloomberg as on 08-Oct-2018*
- v Bloomberg as on 08-Oct-2018*
- vi Bloomberg as on 08-Oct-2018*
- vii <https://minerals.usgs.gov/minerals/pubs/commodity/gold/mcs-2017-gold.pdf>*
- viii <https://minerals.usgs.gov/minerals/pubs/commodity/gold/mcs-2017-gold.pdf>*
- ix <http://www.infomine.com/investment/metal-prices/gold/5-year/>*
- x <http://www.caledoniamining.com/index.php/operations/blanket-gold-mine?limitstart=0>*
- xi Bloomberg as on 08-Oct-2018*
- xii Arrowhead Estimate*
- xiii Bloomberg as on 08-Oct-2018*
- xiv Company's cash and cash equivalents as on June 30, 2018*
- xv Bloomberg as on 08-Oct-2018*