

Condensed Consolidated Interim Financial Statements
(In U.S. dollars) (Unaudited)

GALANE GOLD LTD.

For the three month period ended March 31, 2014

Note to Reader:

The accompanying unaudited condensed consolidated interim financial statements of Galane Gold Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

GALANE GOLD LTD.

Condensed Consolidated Interim Statement of Financial Position
(In U.S. dollars) (Unaudited)

As at March 31, 2014 and December 31, 2013

	Notes	March 31, 2014	December 31, 2013
Assets			
Current assets:			
Cash		\$ 11,641,120	\$ 11,239,537
Trade and other receivables	6	1,536,845	936,392
Inventories	7	4,033,511	5,238,609
		17,211,476	17,414,538
Non-current assets:			
Mining and exploration properties	8	16,347,889	14,794,993
Plant and equipment	8	2,272,745	2,129,666
Ore stockpiles	7	6,494,534	6,890,871
		25,115,168	23,815,440
		\$ 42,326,644	\$ 41,229,978

Liabilities and Shareholders' Equity

Current liabilities:			
Accounts payable and accrued liabilities	10	\$ 5,138,601	8,726,178
Current portion of interest bearing loans	11	2,629,941	1,363,686
		7,768,542	10,089,864
Non-current liabilities:			
Interest-bearing loans and borrowings	11	2,623,064	1,432,061
Restoration and rehabilitation provision	9	3,196,279	3,117,685
		5,819,343	4,549,746
Shareholders' equity:			
Share capital	13	\$ 35,189,146	\$ 35,189,146
Reserves	13	1,372,490	1,345,154
Retained earnings		(7,822,877)	(9,943,932)
		28,738,759	26,590,368
		\$ 42,326,644	\$ 41,229,978

Commitments and contingencies (note 15)

Approved and authorized by the Board on May 14, 2014:

“Ravi Sood” Director “Ian Egan” Director

The notes on pages 5 to 14 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

Condensed Consolidated Interim Statement of Earnings and Comprehensive Earnings
(In U.S. dollars) (Unaudited)

Three month period ended March 31,

	Note	2014	2013
Mining Revenue		\$ 12,437,196	\$ 12,166,886
Mining Costs:	14	9,859,696	16,279,422
Earnings (Loss) from mining operations		2,577,500	(4,112,536)
Expenses:			
Exploration costs		33,013	39,839
Foreign exchange gain		(163,795)	(281,948)
Corporate general and administration	14	468,427	599,872
Financing income	14	114,853	(793,519)
Other expenses	14	3,947	509,324
		456,445	73,568
Earnings (Loss) for the period before taxation		\$ 2,121,055	\$ (4,186,104)
Taxation	12	\$ -	\$ -
Net earnings (loss) and comprehensive earnings for the period		\$ 2,121,055	\$ (4,186,104)
Basic earnings (loss) per common share	13	\$ 0.041	\$ (0.082)
Fully diluted earnings (loss) per common share	13	\$ 0.041	\$ (0.082)
Weighted average number of common shares – basic	13	51,285,622	50,881,745
Weighted average number of common shares – fully diluted	13	51,528,906	50,881,745

The notes on pages 5 to 14 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

Condensed Consolidated Interim Statement of Changes in Equity
(In U.S. Dollars) (Unaudited)

Three month periods ended March 31, 2014 and 2013

	Notes	Capital Stock		Reserves		Total
		Number	Amount	Stock based payments	Retained Earnings	
Balance as at December 31, 2012		48,381,745	\$ 33,087,705	\$ 3,150,905	\$ 18,835,618	\$ 55,074,228
Performance Shares		2,500,000	2,045,000	(2,045,000)	-	-
Stock-based compensation for the period		-	-	39,959	-	39,959
Net loss for the three months ended March 31, 2013		-	-	-	(4,186,104)	(4,186,104)
Balance as at March 31, 2013		50,881,745	\$ 35,132,705	\$ 1,145,864	\$ 14,649,514	\$ 50,928,083
Balance as at December 31, 2013		51,285,622	35,189,146	1,345,154	(9,943,932)	26,590,368
Stock-based compensation for the period	13	-	-	27,336	-	27,336
NLE acquisition exploration shares	13	-	-	-	-	-
Net earnings for the three months ended March 31, 2014		-	-	-	2,121,055	2,121,055
Balance as at March 31, 2014		51,285,622	\$ 35,189,146	\$ 1,372,490	\$ (7,822,877)	\$ 28,738,759

The notes on pages 5 to 14 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

Condensed Consolidated Interim Statement of Cash Flows
(In U.S. Dollars) (Unaudited)

Three month period ended March 31,

	Notes	2014	2013
Cash flows from operating activities:			
Net earnings (loss) for the period		\$ 2,121,055	\$ (4,186,104)
Items not involving cash:			
Loss on disposal of equipment		-	257,977
Depreciation and amortization	8	1,154,791	3,273,241
Share based compensation		27,336	39,959
Accretion	9	78,594	140,693
Restoration and rehabilitation expenditures	9	-	(33,872)
Interest expense		36,259	50,190
Financing income	13	-	(999,126)
Foreign exchange gain		17,277	289,442
Working capital adjustments:			
Change in trade and other receivables		(596,337)	(4,141,476)
Change in inventories		1,601,346	832,833
Change in trade and other payables relating to operating activities		(1,221,782)	(1,888,732)
Cash flows from operating activities		3,218,539	(6,364,975)
Cash flows from investing activities:			
Proceeds from sale of equipment		-	47,051
Mining assets acquired	8	(2,850,766)	(3,573,979)
Cash flows used in investing activities		(2,850,766)	(3,526,928)
Cash flow from financing activities:			
Interest paid		-	(50,190)
Repayment of interest bearing loans		-	(1,266,667)
Capital lease obligations		31,985	(31,349)
Cash flows from financing activities		31,985	(1,348,206)
Increase (Decrease) in cash		399,758	(11,240,109)
Effect of unrealized foreign exchange gain on cash		1,825	(59,829)
Cash, at January 1		11,239,537	15,269,405
Cash, at March 31		\$ 11,641,120	\$ 3,969,467

The notes on pages 5 to 14 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March, 2014 and 2013

1. Corporate Information

Galane Gold Ltd., (the “Company”), operates through its wholly owned subsidiary, Galane Gold Mines Ltd. which was incorporated under the *Business Corporations Act* (Ontario) on November 15, 2010 and whose principal business activities are the exploration for, development of, and operation of gold mining properties. The Company’s registered and head office is located at Suite 1800, 181 Bay St., Toronto, Ontario, Canada.

2. Basis of preparation:

(a) Statement of compliance

The unaudited condensed consolidated interim financial statements (the “Financial Statements”) of the Company and all of its subsidiaries as at and for the three months ended March 31, 2014 have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required for full annual consolidated financial statements. Accordingly certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed.

(b) Significant accounting judgments, estimates and assumptions

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The particular areas of estimation uncertainty and critical judgments are outlined in detail in the annual audited consolidated financial statements for the year ended December 31, 2013 (the “Annual Financial Statements”).

(c) Basis of consolidation

The significant subsidiaries of the Company are accounted for as follows:

	Country of incorporation	% equity interest	Accounting Method
Galane Gold Mines Ltd.	Canada	100%	Consolidation
Mupane Gold Mines Limited	Mauritius	100%	Consolidation
Gallery Gold Pty Ltd.	Australia	100%	Consolidation
Mupane Gold Mining (Pty) Ltd.	Botswana	100%	Consolidation
The Northern Lights Exploration Company (Pty) Ltd.	Botswana	100%	Consolidation

The Company’s other subsidiaries are Galane Gold Botswana (Pty) Ltd. (Botswana) (100% owned) and Shashe Mines (Pty) Ltd. (Botswana) (85% owned).

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

2. Basis of preparation (continued):

(d) Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and each of its subsidiaries. All amounts are in U.S. dollars, except where otherwise indicated.

3. Significant Accounting Policies:

These Financial Statements have been prepared following the same accounting policies and methods of computation as the Annual Financial Statements other than as described below due to the adoption of the following accounting standards effective January 1, 2014.

IFRIC 21 – Levies

IFRIC 21 provides guidance on the accounting for levies in accordance with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. The Company adopted IFRIC 21 in its financial statements for the period beginning January 1, 2014 and it did not have a material impact on the financial statements.

4. Future Accounting Policies:

The following new standards and amendments to standards and interpretations which were issued but not yet effective for the quarter ended March 31, 2014, have not been applied in preparing these Financial Statements. They are summarized as follows:

IFRS 9- Financial Instruments

The IASB has issued IFRS 9, Financial Instruments, which is a four-part project proposing to replace IAS 39, Financial Instruments: Recognition and Measurement. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after January 1, 2015, but rather be left open pending the finalization of the impairment and classification and measurement requirements. The Company will evaluate the impact of the change to its financial statements based on the characteristics on its financial instruments at the time of adoption.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

5. Financial instruments:

The following table presents the carrying and estimated fair values of the Company's financial instruments.

Financial Assets	Carrying and Fair value	
	March 31, 2014	December 31, 2013
Cash (level 1 of fair value hierarchy ⁽⁴⁾)	\$ 11,641,120	\$ 11,239,537
Trade and other receivables ⁽¹⁾	1,536,846	936,392
	<u>\$ 13,177,966</u>	<u>12,175,929</u>
Financial Liabilities		
Accounts payable and accrued liabilities ⁽²⁾	\$ 5,138,601	\$ 8,726,178
Loans and borrowings ⁽³⁾	5,253,005	2,795,747
	<u>\$ 10,391,606</u>	<u>11,521,925</u>

⁽¹⁾ The fair value of trade and other receivables approximates the carrying amount given the short maturity period.

⁽²⁾ The fair value of accounts payable and accrued liabilities approximates the carrying amount given the short maturity period.

⁽³⁾ The fair value of loans and borrowings approximates the carrying amount given the short maturity period, and the fair market value rate of interest that it carries.

⁽⁴⁾ The level of the fair value hierarchy are defined as follows:

1. Level 1- there are quoted prices in active markets for identical assets or liabilities.
2. Level 2- there are inputs other than quoted prices that are either directly or indirectly observable for the asset or liability.
3. Level 3- these are inputs that are not based on observable market data.

6. Trade and other receivables

	March 31, 2014	December 31, 2013
Trade receivables	\$ -	\$ -
Other receivables	23,202	19,377
Taxes recoverable	530,025	642,765
Prepaid expenses	983,618	274,250
	<u>\$ 1,536,845</u>	<u>\$ 936,392</u>

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

7. Inventories

The amount of inventories recognized as an expense during the period is included in mining costs in the condensed consolidated interim statement of earnings and comprehensive earnings. The carrying value at the end of the respective periods is:

		March 31, 2014	December 31, 2013
Gold in process	\$	1,157,062	\$ 1,705,666
Supplies		2,876,449	3,532,943
	\$	4,033,511	5,238,609
Ore Stockpiles	\$	6,494,534	\$ 6,890,781

8. Mining assets

The continuity of mining assets for the three months ended March 31, 2014 is as follows:

	Construction in Progress	Mining and Exploration Properties	Plant and Equipment	Total
Cost at December 31, 2013	\$ 264,153	\$ 49,573,348	\$ 5,693,273	\$ 55,530,774
Additions:				
Additions in the period	717,678	2,039,343	93,745	2,850,766
Cost at March 31, 2014	\$ 981,831	\$ 51,612,691	\$ 5,787,018	\$ 58,381,540
Accumulated depreciation and amortization at December 31, 2013	\$ -	\$ (34,778,355)	\$ (3,827,760)	\$ (38,606,115)
Amortization charge for the period	-	(486,447)	(668,344)	(1,154,791)
Accumulated depreciation and amortization at March 31, 2014	\$ -	\$ (35,264,802)	\$ (4,496,104)	\$ (39,760,906)
Net book value, March 31, 2014	\$ 981,831	\$ 16,347,889	\$ 1,290,914	\$ 18,620,634

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

9. Restoration and rehabilitation provision

	Restoration and rehabilitation provision	
At December 31, 2013	\$	3,117,685
Accretion during the three month period ended March 31, 2014		78,594
At March 31, 2014	\$	3,196,279

10. Trade accounts payable and accrued liabilities:

	March 31, 2014		December 31, 2013	
Trade accounts payable	\$	3,946,896	\$	7,622,530
Accrued liabilities		1,191,705		1,103,648
	\$	5,138,601	\$	8,726,178

Trade accounts payable and accrued liabilities are non-interest bearing and are normally settled on 30 day terms after date of receipt of invoice.

11. Interest-bearing loans and borrowings:

	March 31, 2014		December 31, 2013	
Current				
Unsecured note ⁽¹⁾	\$	2,533,333	\$	1,266,667
Capital lease obligation ⁽²⁾		96,608		97,019
	\$	2,629,941	\$	1,363,686
Non-Current				
Unsecured note ⁽¹⁾	\$	-	\$	1,266,666
Mining Royalties ⁽³⁾		2,489,243		-
Capital lease obligation ⁽²⁾		133,821		165,395
	\$	2,623,064	\$	1,432,061

⁽¹⁾ The Company issued an unsecured note to IAMGOLD Corporation ("IAMGOLD") as part of the consideration paid for the purchase of the shares of Gallery Gold Pty Ltd. on August 30, 2011. The terms of the unsecured note were amended on July 18, 2013 to extend the repayment period by 12 months. Details are as follows:

- Initial principal amount \$3,800,000
- Interest rate fixed rate of 6% per annum, payable on principal repayment dates
- Principal repayment \$1,266,667 on August 30, 2014 and February 28, 2015

⁽²⁾ The Company acquired seven vehicles for use at the mine for total cost of \$364,348 and financed the purchase through capital lease obligations. The capital leases are for a term of 36 months, at a fixed interest rate of 9%, with monthly payments of \$9,456 per month principal and interest and a final payment of \$98,296.

⁽³⁾ The Government of Botswana has agreed to the deferral of royalties payable on the sale of gold under the following terms:

- Royalties due to February 2015 to be deferred.
- Repayment of royalties due to February 2015 to commence in June 2015 over 13 months
- Interest to be charged from July 1, 2015 at Bank of Botswana commercial bank prime lending rate plus 5%.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

12. Income and Mining Taxes:

The Company estimates the effective tax rate expected to be applicable for the full fiscal year and uses that rate to provide for income taxes in interim reporting periods. The Company also recognizes the tax impact on certain discrete (unusual or infrequently occurring) items, including changes in judgment concerning the probable realization of losses and effects of changes in tax laws or rates, in the interim period in which they occur.

As a result of the effect of utilization of loss carry forwards available to the Company, the Company reported no income tax expense for the three months ended March 31, 2014 (three months ended March 31, 2013 - \$nil). The effective income tax rates vary from the combined Canadian federal and provincial statutory income tax rate of 26.50% for the three months ended March 31, 2014 (three months ended March 31, 2013 – 26.50%) due to the geographical distribution of earnings, which are subject to different tax rates, fluctuations in exchange rates and other non deductible expenses.

13. Share Capital

(a) Authorized share capital:

As at March 31, 2014, the authorized share capital of the Company consisted of an unlimited number of common shares. All issued shares are fully paid.

(b) Issued share capital:

During the three month period ended March 31, 2014 no share capital was issued.

During the three month period ended March 31, 2013 the Company issued an aggregate of 2,500,000 common shares to the Chairman and the former CEO of the Company pursuant to the terms of performance share agreements dated August 30, 2011. The associated compensation amount was recognized in 2012.

(c) Stock Options:

The Company has a stock option plan whereby options may be granted to directors, officers, employees and consultants. As at March 31, 2014, a maximum of 5,266,062 options to purchase common shares were issuable under the Company's stock option plan, of which 1,231,062 remained available for issuance.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

13. Share Capital (continued)

(d) Earnings (loss) per share:

The calculation of earnings (loss) per share is based on the following data:

	March 31, 2014	March 31, 2013
(Loss) Earnings	\$ 2,121,055	\$ (4,186,104)
Weighted average number of common shares outstanding for purposes of basic earnings per share	51,285,622	50,881,745
Dilutive options	243,284	-
Weighted average number of common shares outstanding for the purpose of diluted earnings per share	51,528,906	50,881,745
Earnings per share		-
Basic	\$ 0.041	\$ (0.082)
Diluted	\$ 0.041	\$ (0.082)

Basic earnings (loss) per share are computed by dividing the earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of outstanding warrants and stock options in the weighted average number of common shares outstanding during the period, if dilutive. For Q1 2013, all instruments were considered anti-dilutive due to the net loss in the period.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

14. Breakdown of earnings and comprehensive earnings items:

The following is a breakdown of certain items in the Condensed Consolidated Interim Statement of Earnings and Comprehensive Earnings:

(a) Mining costs

	Three month period ended March 31, 2014	Three month period ended March 31, 2013
Mining and production	\$ 7,562,356	11,530,019
Administrative	1,142,549	1,476,162
Total costs	\$ 8,704,905	13,006,181
Depreciation and amortization	1,154,791	3,723,241
	\$ 9,859,696	16,279,422

(b) Corporate general and administration

	2014	2013
On-going professional fees	101,227	120,869
Corporate administration	339,864	439,044
Share-based compensation	27,336	39,959
	\$ 468,427	\$ 599,872

(c) Financing costs

	2014	2013
Interest on long term debt	\$ 36,259	\$ 50,190
Decrease in value of warrants denominated in foreign currency	-	(984,402)
Accretion on restoration and rehabilitation provision	78,594	140,693
	\$ 114,853	\$ (793,519)

(d) Other expenses

	2014	2013
Other income	\$ -	\$ (8,048)
(Gain)/Loss on disposal of equipment	-	(17,667)
Staff retrenchment costs	-	473,274
Other Expenses	3,947	61,765
	\$ 3,947	\$ 509,324

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

15. Commitments and Contingencies

(a) Royalty expenses

Production from the Company's Mupane operation is subject to third party royalties (included in mining costs) of 5% of revenues based on market prices at the date of shipment. For the three month period ended March 31, 2014, the Company accrued \$623,514 in royalties (March 31, 2013 – paid \$614,434).

(b) Operating contractual obligations

The Company has operating lease obligations which relate to obligations in 2014 for land operating lease agreements as follows:

- Incurred during the three month period ended March 31, 2014 \$93,617
- To be incurred in the remainder of 2014 \$260,310
- To be incurred 2015-2018 \$1,290,060

(c) Claims

The Company is subject to two known employment-related litigation actions, and management with the assistance of outside legal advisors has assessed the potential outcome of the litigation. At this time it has been determined that any potential payment will not be material.

The Company is also subject to the possibility of revised tax assessments for some years. The Company does not believe that, should unfavourable decisions arise from any review of its tax filings, that any amount it might be required to pay will be material. No amounts have been provided for in the Financial Statements.

16. Segmented information

The Company operates in one reportable segment, being the exploration, development and operation of gold mining properties. All of the Company's equipment and mining assets are located in the Republic of Botswana and all revenues of the Company are earned in the Republic of Botswana. A breakdown of the total assets by geographic segment is as follows:

	Canada	Botswana	Total
Cash	\$ 9,807	\$ 11,631,313	\$ 11,641,120
All other assets	95,108	30,590,416	30,685,524
Balance, March 31, 2013	\$ 104,915	\$ 42,221,729	\$ 42,326,644

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

17. Related party transactions

During the three months ended March 31, 2014, the following related party transactions occurred:

- Charles Byron, a director of the Company:
 - Mr Byron may be entitled to 4,200,000 of the 8,750,000 common shares that are payable pursuant to the NLE acquisition (Note 18);
 - The Company paid rent of \$1,464 for office premises to Great African Services (Pty) Ltd., a company owned by a consortium of individuals that includes Charles Byron (March 31, 2013 - \$5,882);
- IAMGOLD, a shareholder with significant influence, by holding in excess of 20% of the common shares of the Company:
 - During the three months ended March 31, 2013 the Company paid \$1,266,667 in cash representing the initial payment on the interest bearing note to IAMGOLD (March 31, 2014 - \$nil);
 - The Company accrued \$36,529 representing the interest payable on the interest bearing note to IAMGOLD (March 31, 2013 - paid \$57,000 in cash).

The remuneration of directors and other members of key management personnel during the three months ended March 31, 2014 are as follows:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Salaries	\$ 239,585	208,000
Management fees ⁽¹⁾	30,000	180,000
Directors fees	34,161	66,171
Share-based compensation ⁽²⁾	27,336	41,346
	\$ 331,082	495,517

(1) Management fees represent compensation paid to officers of the Company pursuant to contracts for services.

(2) Share-based compensation is the fair value of options granted and vested with key management personnel.

18. Subsequent event

On April 8, 2014, the Company issued an aggregate of 1,375,000 common shares to the former shareholders of The Northern Lights Exploration Company (Pty) Ltd. ("NLE"). The Company entered into an agreement (the "NLE Agreement") dated July 27, 2011 with the shareholders of NLE (refer to note 17 on related party transactions for Charles Byron) to acquire all of its issued and outstanding shares. NLE owns the rights to a number of exploration licenses near the Company's Mupane Property. On April 7, 2014, the independent members of the Board determined that the resource target for the first milestone in the NLE Agreement was met, waived the requirement to confirm the mineral resource by way of a NI 43-101 technical report and approved the issuance of 1,375,000 common shares by the Company.