

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

GALANE GOLD LTD.

For the three and nine month periods ended September 30, 2016

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 September 30, 2016 and December 31, 2015

	Notes	September 30, 2016	December 31, 2015
Assets			
Current assets:			
Cash		\$ 2,011,696	\$ 1,887,179
Trade and other receivables	7	1,210,337	859,454
Inventories	8	8,050,353	8,729,705
		11,272,386	11,476,338
Non-current assets:			
Mining and exploration properties	9	32,786,703	34,196,825
Plant and equipment	9	4,083,092	2,607,674
		36,869,795	36,804,499
		\$ 48,142,181	\$ 48,280,837

Liabilities and Shareholders' Equity

Current liabilities:			
Accounts payable and accrued liabilities	11	\$ 9,716,979	8,538,785
Current portion of interest bearing loans and borrowings	12	5,118,407	5,709,605
		14,835,386	14,248,390
Non-current liabilities:			
Interest-bearing loans and borrowings	12	10,101,323	8,195,566
Warrants denominated in a foreign currency	14	115,822	113,349
Restoration and rehabilitation provision	10	4,123,487	3,656,728
		14,340,632	11,965,643
Shareholders' equity:			
Share capital	14	\$ 36,957,247	\$ 36,401,916
Reserves	14	2,024,070	1,814,369
Retained earnings (deficit)		(19,879,891)	(16,760,292)
Equity attributable to Galane Gold Ltd. Shareholders		19,101,426	21,455,993
Non-controlling interest		(135,263)	610,811
		18,966,163	22,066,804
		\$ 48,142,181	\$ 48,280,837

Commitments and contingencies (note 16)

Approved and authorized by the Board for issue on November 29, 2016:

“Ravi Sood” Director “Ian Egan” Director

The notes on pages 5 to 16 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 and nine month periods ended September 30, 2016 and 2015.

	Note	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Mining Revenue		\$ 8,398,808	\$ 8,533,141	\$ 25,088,136	\$19,471,199
Mining Costs	15	(8,390,587)	(8,565,368)	(24,672,706)	(23,410,586)
Earnings (Loss) from mining operations		\$ 8,221	\$ (32,227)	\$ 415,430	\$(3,939,387)
Expenses:					
Exploration costs		(6,928)	(29,106)	(22,288)	(111,416)
Foreign exchange gain (loss)		(912,582)	375,175	(1,384,962)	499,973
Corporate general and administration	15	(637,452)	(516,669)	(1,624,041)	(1,648,998)
Financing (costs) income	15	(234,169)	(165,764)	(573,037)	(446,781)
Other (expenses) income	15	197,558	(271,377)	(676,775)	(269,886)
		\$ (1,593,573)	\$ (607,741)	\$ (4,281,103)	\$ (1,977,108)
(Loss) earnings from comprehensive (loss) earnings for the period before taxation		\$ (1,585,352)	\$ (639,968)	\$ (3,865,673)	\$ (5,916,495)
Taxation	13	\$ -	\$ -	\$ -	\$ -
Net (loss) earnings and comprehensive (loss) earnings for the period		\$ (1,585,352)	\$ (639,968)	\$ (3,865,673)	\$(5,916,495)
Attributable to:					
Equity holders of Galane Gold Ltd.		\$ (1,285,626)	\$ (639,968)	\$ (3,119,599)	\$ (5,916,495)
Non-controlling interest		\$ (299,726)	\$ -	\$ (746,075)	\$ -
Net (loss) earnings and comprehensive (loss) earnings for the period		\$ (1,585,352)	\$ (639,968)	\$ (3,865,673)	\$ (5,916,495)
Basic (loss) earnings per common share	14	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.11)
Fully diluted (loss) earnings per common share	14	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.11)
Weighted average number of common shares- basic	14	142,628,884	52,837,122	108,793,565	52,826,887
Weighted average number of common shares- fully diluted	14	142,628,884	52,837,122	108,793,565	52,826,887

The notes on pages 5 to 16 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)

Nine month periods ended September 30, 2016 and 2015

	Notes	Capital Stock		Reserves			Non-Controlling Interest	Total
		Number	Amount	Stock based payments	Retained Earnings (deficit)	Attributable to Galane Shareholders		
Balance as at December 31, 2014		52,820,290	\$ 35,392,969	\$ 1,487,961	\$(8,067,324)	\$ 28,813,606	\$ -	\$ 28,813,606
Stock-based compensation	14	-	-	263,614	-	263,614	-	263,614
Participation in share purchase plan	14	16,832	16,226	(16,226)	-	-	-	-
Net loss for the nine months ended September 30, 2015		-	-	-	(5,916,495)	(5,916,495)	-	(5,916,495)
Balance as at September 30, 2015		52,837,122	35,409,195	1,735,349	(13,983,819)	23,160,725	-	23,160,725
Balance as at December 31, 2015		71,314,442	36,401,916	1,814,369	(16,760,292)	21,455,993	610,811	22,066,804
Rights Offering	14	71,314,442	555,331	-	-	555,331	-	555,331
Stock-based compensation	14	-	-	209,701	-	209,701	-	209,701
Net loss for the nine months ended September 30, 2016		-	-	-	(3,119,599)	(3,119,599)	(746,074)	(3,865,673)
Balance as at September 30, 2016		142,628,884	36,957,247	2,024,070	(19,879,891)	19,101,426	(135,263)	18,966,163

The notes on pages 5 to 16 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Nine month period ended September 30,

	Notes	2016	2015
Cash flows from operating activities:			
Net (loss) earnings for the period		\$ (3,865,673)	\$ (5,916,495)
Items not involving cash:			
Loss on revaluation of warrants		2,473	-
Loss on disposal of equipment		-	11,159
Deferral of royalties	12	915,135	909,007
Depreciation and amortization	9	2,770,689	2,089,097
Share based compensation	15	209,701	263,614
Accretion	10	175,735	239,104
Interest expense	15	397,302	207,677
Foreign exchange (gain) loss		852,307	(910,323)
Working capital adjustments:			
Change in trade and other receivables		(306,582)	828,073
Change in inventories		679,352	3,393,147
Change in trade and other payables		808,907	709,204
Cash flows from operating activities		2,639,346	1,823,264
Cash flows from investing activities:			
Mining assets acquired	9	(2,835,984)	(6,309,304)
Cash flows used in investing activities		(2,835,984)	(6,309,304)
Cash flow from financing activities:			
Interest paid		-	(207,677)
Rights Offering	14	555,331	-
Repayment of interest bearing loans		(180,000)	(1,939,000)
Capital lease obligations		(60,831)	(186,970)
Cash flows from financing activities		314,500	(2,333,647)
(Decrease) Increase in cash		117,862	(6,819,687)
Effect of unrealized foreign exchange gain on cash		6,655	(28,187)
Cash, at January 1		1,887,179	9,653,807
Cash, at September 30		\$ 2,011,696	\$ 2,805,933

The notes on pages 5 to 16 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(in U.S. Dollars)

For the three and nine months ended September 30, 2016 and 2015

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 and nine months ended September 30, 2016 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 judgements, 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, 2015 (the “Annual Financial Statements”).

(c) Basis of consolidation

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

	Country of Incorporation	% equity interest September 30, 2016	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
Galaxy Gold Mining Limited	South Africa	98.6%	Consolidation

The Company’s other subsidiaries are Galane Gold Botswana (Pty) Ltd. (Botswana) (100% owned), Galaxy Gold Reefs (PTY) Ltd. (98.6% owned) and Shashe Mines (Pty) Ltd. (Botswana) (85% owned).

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In U.S. Dollars)

For the three and nine months ended September 30, 2016 and 2015

2. Basis of preparation (continued):

(c) Basis of consolidation (continued)

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial information of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

(d) Functional and presentation currency

The 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.

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 September 30, 2016, have not been applied in preparing these Financial Statements. They are summarized as follows:

(a) 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. IFRS 9 is effective for annual periods beginning or after January 1, 2018, with early adoption permitted. 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.

(b) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15). The standard replaces IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfer of Assets From Customers” and SIC 31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 is effective for periods beginning on or after January 1, 2018, permits early adoption, and is to be applied retrospectively. IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. The Company is in the process of evaluating the requirements of the new standard.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In U.S. Dollars)

For the three and nine months ended September 30, 2016 and 2015

4. Future accounting policies (continued...):

(c) IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 “Leases” (“IFRS 16”). This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption, provided IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 requires lessees to recognize assets and liabilities for most leases. The Company is in the process of determining the impact of IFRS 16 on its consolidated financial statements.

(d) Amendment to IFRS 2 – Classification and measurement of share based payment transactions

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations;
- and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

5. Acquisitions

On November 20, 2015 and December 23, 2015, the Company closed the acquisition of a majority of the issued and outstanding ordinary shares (each, a “Galaxy Share”) of Galaxy Gold Mining Limited (“Galaxy”), a gold mining company with operations in the Mpumalanga Province of South Africa. A wholly-owned subsidiary of the Company acquired approximately 74% of the issued and outstanding Galaxy Shares in exchange for 18,334,492 common shares with an aggregate value of approximately Cdn.\$1.1 million, based on a market price of Cdn.\$0.07 per common share, and common share purchase warrants exercisable to acquire an aggregate of up to 4,076,598 common shares until November 20, 2017 at Cdn.\$0.102 per common share (Cdn.\$0.175 before being adjusted as a result of the Rights Offering. See Note 14). The Company had advanced \$149,853 to Galaxy before the acquisition to fund working capital upon acquisition this amount has been treated as part of the acquisition cost.

The Company made an offer (the “Mandatory Offer”) to all other shareholders of Galaxy to acquire the remaining Galaxy Shares on economically equivalent terms which closed on September 13, 2016. As a result of the completion of the Mandatory Offer, the Company will own approximately 98.6% of the outstanding Galaxy Shares. Pursuant to the terms of the Mandatory Offer, Galane Gold has agreed to pay an aggregate purchase price of approximately Cdn.\$235,000 to holders of Galaxy Shares who elected to receive cash consideration and to issue 2,340,094 common shares and 520,016 common share purchase warrants, with each warrant being exercisable at a price of Cdn.\$0.175 per common share until the date of which is two years subsequent to their issuance, to those holders of Galaxy Shares that elected to subscribe for securities of Galane Gold in lieu of receiving cash consideration. The Company is in the process of finalising the payment and issue of shares to the Galaxy shareholders and expects to have completed the transaction by December 2016. As the Mandatory Offer was accepted by holders of more than 90% of the Galaxy Shares not owned by Galane Gold, Galaxy intends to exercise, to the fullest extent legally possible, its rights under the Companies Act (South Africa) to compulsorily acquire all of the Galaxy Shares that remain outstanding.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In U.S. Dollars)

For the three and nine months ended September 30, 2016 and 2015

5. Acquisitions (continued...):

The preliminary allocation of the purchase price to assets and liabilities acquired is provided below. Final valuations of assets and liabilities are not yet complete due to the timing of the acquisition and the inherent complexity associated with the valuations. The preliminary allocation is subject to adjustment with the final allocation to be completed in 2016.

Mining properties	\$ 12,526,313
Inventory	59,504
Other current assets	250,300
Cash	2,329
Trade and other payables	(3,309,382)
Interest bearing loans	(6,330,133)
Restoration and rehabilitation provision	(1,539,922)
Net assets	\$ 1,659,009
Consideration:	
Cash consideration	\$ 149,853
Share and warrant consideration	
• 18,332,492 common shares	964,465
• 4,076,598 warrants to purchase common shares	113,349
Non-controlling interest ⁽¹⁾	431,342
Acquisition of subsidiary	\$ 1,659,009

⁽¹⁾ The non-controlling interest was measured at fair value at the date of the acquisition.

6. Financial instruments:

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

Financial Assets	Carrying and Fair value	
	September 30, 2016	December 31, 2015
Cash (level 1 of fair value hierarchy ⁽⁴⁾)	\$ 2,011,696	\$ 1,887,179
Trade and other receivables ⁽¹⁾	1,210,337	859,454
	\$ 3,222,033	\$ 2,746,633
Financial Liabilities		
Accounts payable and accrued liabilities ⁽²⁾	\$ 9,716,979	\$ 8,538,785
Warrants denominated in a foreign currency (level 2 of fair value hierarchy ⁽⁴⁾)	115,822	113,349
Loans and borrowings ⁽³⁾	15,219,730	13,905,171
	\$ 25,052,531	\$ 22,557,305

⁽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 levels 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.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In U.S. Dollars)

For the three and nine months ended September 30, 2016 and 2015

7. Trade and other receivables

	September 30, 2016	December 31, 2015
Trade receivables	\$ 353,469	\$ 282,162
Other receivables	108,410	4,615
Taxes recoverable	362,504	220,566
Prepaid expenses	385,954	352,111
	\$ 1,210,337	\$ 859,454

8. 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 values at the end of the respective periods are:

	September 30, 2016	December 31, 2015
Gold in process	\$ 1,237,474	\$ 1,128,858
Supplies	3,187,949	2,782,271
Ore Stockpiles	3,624,930	4,818,576
	\$ 8,050,353	\$ 8,729,705

9. Mining assets

The continuity of mining assets for the nine months ended September 30, 2016 is as follows:

	Construction in Progress	Mining and Exploration Properties	Plant and Equipment	Total
Cost at December 31, 2015	\$ 197,179	\$ 78,524,767	\$ 6,157,224	\$ 84,879,170
Additions:				
Additions in the period	1,508,700	1,194,460	132,824	2,835,984
Transfers in the period	-	-	-	-
Disposals in the period	-	-	-	-
Cost at September 30, 2016	\$ 1,705,879	\$ 79,719,227	\$ 6,290,048	\$ 87,715,154
Accumulated depreciation and amortization at December 31, 2015	\$ -	\$ (44,327,942)	\$ (3,746,728)	\$ (48,074,670)
Amortization charge for the period	-	(2,604,582)	(166,107)	(2,770,689)
Disposals in the period	-	-	-	-
Accumulated depreciation and amortization at September 30, 2016	\$ -	\$ (46,932,524)	\$ (3,912,835)	\$ (50,845,359)
Net book value, September 30, 2016	\$ 1,705,879	\$ 32,786,703	\$ 2,377,213	\$ 36,869,795

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In U.S. Dollars)

For the three and nine months ended September 30, 2016 and 2015

10. Restoration and rehabilitation provision

	Restoration and rehabilitation provision	
At December 31, 2015	\$	3,656,728
Revaluation		291,024
Accretion during the nine month period ended September 30, 2016		175,735
At September 30, 2016	\$	4,123,487

11. Trade accounts payable and accrued liabilities

	September 30, 2016		December 31, 2015	
Trade accounts payable	\$	7,700,825	\$	7,058,739
Accrued liabilities		2,016,154		1,480,046
	\$	9,716,979	\$	8,538,785

Trade payables and accrued liabilities are non-interest bearing and are normally settled on 60-day terms after the date of receipt of the invoice.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In U.S. Dollars)

For the three and nine months ended September 30, 2016 and 2015

12. Interest-bearing loans and borrowings

	September 30, 2016	December 31, 2015
Current		
Mining Royalties ⁽²⁾	\$ 1,364,250	\$ -
Secured Facility Mupane ⁽³⁾	2,821,000	1,033,808
Secured Facility Galaxy ⁽⁴⁾	-	3,249,433
Shareholder Loans Galaxy ⁽⁵⁾	796,478	1,306,914
Capital lease obligation ⁽⁶⁾	136,679	119,450
	\$ 5,118,407	\$ 5,709,605
Non-Current		
Debentures ⁽¹⁾	\$ 5,790,009	\$ 1,720,518
Mining Royalties ⁽²⁾	4,092,790	4,188,464
Secured Facility Mupane ⁽³⁾	-	1,990,000
Capital lease obligation ⁽⁶⁾	218,524	296,584
	\$ 10,101,323	\$ 8,195,566

⁽¹⁾ The Company issued unsecured debentures to certain Galaxy loan holders and other parties as settlement of amounts previously due for Galaxy. The terms of the debentures are as follows:

- Initial principal amount - \$5,650,268.
- Principal repayment - on November 20, 2019.
- Interest rate - fixed rate of 4% per annum, compounded annually and payable on the principle repayment date.
- Convertible into common shares at a price of Cdn.\$0.58 per share, based on a pre-determined exchange rate, with interest convertible into common shares, based on a pre-determined exchange rate, at a price equivalent to the greater of Cdn.\$1.00 and the Discounted Market Price (as defined by the TSX Venture Exchange) at the time of conversion, subject to acceptance of the TSX Venture Exchange.

⁽²⁾ The Government of Botswana has agreed to the deferral of royalties payable on the sale of gold under the following terms:

- Royalties due to June 2016 have been deferred until July 2017
- Repayment of royalties due to June 2016 to commence in July 2017 over 12 months
- Interest to be charged from July 1, 2017 at Bank of Botswana commercial bank prime lending rate plus 5%

The deferral amount is unsecured.

⁽³⁾ The Company entered into a loan facility and gold prepayment agreement with Samsung C&T UK Ltd. ("Samsung") dated as of August 22, 2014. On November 5, 2015 the Company agreed with Samsung new terms with regards to the loan facility and gold prepayment agreement. The Samsung facility has been amended on the following terms as of October 1, 2015:

- the current schedule of 10 remaining monthly instalments of \$277,000 and one monthly instalment of \$291,000 has been amended to a repayment of 12 instalments of \$20,000 per month effective from October 2015, followed by 9 instalments of \$277,000 and a final instalment of \$328,000 in July 2017;
- in each month during the repayment period, Mupane Gold Mines Limited ("Mupane") must deliver at least 1,607 ounces of gold at a price for the gold selected by Samsung from any one of the four London Bulletin AM or PM dollar gold fixing prices falling either on the delivery date or on the day immediately following the Delivery Date, less a discount of 1.25%;
- in each month following the repayment period and for such period as gold dore is produced Samsung will have the right to request delivery of all gold dore produced from the Tau ore body and the low grade stockpiles. In each case the price for the gold produced can be selected by Samsung from any one of the four London Bulletin AM or PM dollar gold fixing prices falling either on the delivery date or on the day immediately following the delivery date, less a discount of 2%;
- in each month following the repayment period Samsung has been provided with the right of first refusal to purchase all gold produced from the Company's operations in Botswana on terms that are no more favourable than offered by a third party;
- the rate of interest on the outstanding balance is 3% per annum, compounded annually; and
- the facility is secured by a first charge against the assets of Mupane.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In U.S. Dollars)

For the three and nine months ended September 30, 2016 and 2015

12. Interest-bearing loans and borrowings (continued):

- ⁽⁴⁾ On the acquisition of Galaxy, the Company fair valued a secured facility with Mine2Market SARL at \$3,249,433 which represents the settlement amount agreed between the parties subsequent to the year end. The Company issued an unsecured debenture as settlement of the amount agreed between the parties on March 29, 2016 (see Note (1) above).
- ⁽⁵⁾ There are numerous shareholder loan agreements with Galaxy denominated in South African Rand. The terms of the agreements are:
- the rate of interest is between 15% per annum and South African prime rate plus 6% calculated and compounded monthly; and
 - the amounts outstanding are repayable on demand.
- ⁽⁶⁾ The Company acquired one light vehicle in 2014 for use at the mine for total cost of \$27,000 and financed the purchase through capital lease obligations. The capital leases are for a term of 36 months, with average monthly payments of \$870 per month principal and interest and a final payment of \$11,889, with the final payment in June 2017. In addition, the Company acquired a Komatsu Dozer in March 2015 and financed \$535,000 of the acquisition costs. The lease term is 48 months with monthly payments of approximately \$13,500 per month principal and interest

13. 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 and nine months ended September 30, 2016 (three and nine months ended September 30, 2015 - \$nil). The effective income tax rates vary from the combined Canadian federal and provincial statutory income tax rate of 26.50% for the nine months ended September 30, 2016 (nine months ended September 30, 2015 – 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.

14. Share Capital

(a) Authorized share capital:

As at September 30, 2016, 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 nine month period ended September 30, 2016 the Company had the following share transaction:

On May 9, 2016, the Company closed an offering (the “Rights Offering”) with eligible shareholders of Common Shares of record at close of business on April 8, 2016. A total of 71,314,442 Common Shares were issued pursuant to the Rights Offering at an issuance price of Cdn.\$ 0.01 per share.

During the nine month period ended September 30, 2015 the Company had the following share transaction:

On July 1, 2015, 16,832 common shares were issued as deferred matching shares under the Company’s share purchase plan (“SPP”).

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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For the three and nine months ended September 30, 2016 and 2015

14. Share Capital (continued):

(c) Stock Options:

The Company has a stock option plan whereby options may be granted to directors, officers, employees and consultants. As at September 30, 2016, a maximum of 14,262,888 options to purchase common shares were issuable under the Company's stock option plan, of which 2,972,888 remained available for issuance.

(d) Earnings (loss) per share:

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

	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
Earnings (loss)	\$ (1,285,626)	\$ (3,119,599)	\$ (639,968)	\$ (5,961,495)
Weighted average number of common shares outstanding for purposes of basic earnings per share	142,628,884	108,793,565	52,837,122	52,826,887
Dilutive deferred share units	-	-	-	-
Dilutive options	-	-	-	-
Weighted average number of common shares outstanding for the purpose of diluted earnings per share	142,628,884	108,793,565	52,837,122	52,826,887
Earnings (loss) per share				
Basic	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.11)
Diluted	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.11)

Basic earnings (loss) per share is 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 the three and nine months ended September 30, 2016, and the three and nine months ended September 30, 2015, all instruments were considered anti-dilutive due to the net loss in the period.

(e) Deferred Share Units

The Company has established a deferred share unit plan whereby deferred share units ("DSUs") may be granted to directors, officers, employees and consultants. As at September 30, 2016, a maximum of 13,262,888 DSUs were issuable under the Company's deferred share unit plan, of which 9,423,844 remained available for issuance (as at September 30, 2014 – 5,266,062 and 1,427,018 respectively).

(f) Warrants:

The following is a summary of warrants outstanding as at September 30, 2016 and September 30, 2015 and changes during the periods then ended:

	Number of Warrants	Weighted Avg Exercise Price (Cdn.\$)
Balance, September 30, 2015	-	-
Warrants issued November 20, 2015 (Note 5)	4,076,598	0.04
Balance September 30, 2016 and December 31, 2015	4,076,598	0.04

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15. 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 months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
Mining and production	\$ 6,498,646	\$ 18,936,361	\$ 7,155,014	\$ 17,872,703
Administrative	1,076,957	2,965,656	1,092,574	3,448,786
Total	\$ 7,575,603	\$ 21,902,017	\$ 8,247,589	\$ 21,321,489
Depreciation and amortization	814,984	2,770,689	317,779	2,089,097
	\$ 8,390,587	\$ 24,672,706	\$ 8,565,368	\$ 23,410,586

(b) Corporate general and administration

	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
Professional fees	\$ 159,206	\$ 638,551	\$ 103,323	\$ 172,379
Stock based compensation	98,353	209,701	50,148	263,614
Corporate administration	379,983	775,789	363,198	1,213,005
	\$ 637,452	\$ 1,624,041	\$ 516,669	\$ 1,648,998

(c) Financing costs

	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
Interest on long term debt	\$ 174,127	\$ 397,302	\$ 84,070	\$ 207,677
Accretion on restoration and rehabilitation provision	60,042	175,735	81,694	239,104
	\$ 234,169	\$ 573,037	\$ 165,764	\$ 446,781

(d) Other expenses

	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
Other expenses (income)	\$ (1,755)	\$ (5,117)	\$ (6,654)	\$ (8,145)
Galaxy on-going costs	(195,803)	681,892	-	-
Loss (Gain) on disposal of equipment	-	-	11,159	11,159
Staff retrenchment costs	-	-	266,872	266,872
	\$ (197,558)	\$ 676,775	\$ 271,377	\$ 269,886

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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For the three and nine months ended September 30, 2016 and 2015

16. 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 nine month period ended September 30, 2016, the Company accrued \$1,279,567 in royalties (2015 - \$1,017,415).

(b) Operating contractual obligations

The Company has operating lease obligations which relate to obligations in 2015 for land operating lease agreements as follows:

- Incurred during the nine month period ended September 30, 2016 \$234,782
- To be incurred in the remainder of 2016 \$86,062
- To be incurred 2017-2020 \$1,223,066

(c) Claims

The Company is 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.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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For the three and nine months ended September 30, 2016 and 2015

17. Related party transactions

During the nine months ended September 30, 2016 and 2015, the following related party transactions occurred:

- Charles Byron, a director of the Company:
 - the Company paid rent of \$6,431 for office premises to Great African Services (Pty) Ltd., a company owned by a consortium of individuals that includes Charles Byron (2015 - \$9,693).

The remuneration of directors and other members of key management personnel during the nine months ended September 30, 2016 are as follows:

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Salaries	\$ 786,914	\$ 1,259,098
Directors fees	174,992	121,799
Share-based compensation ⁽¹⁾	172,789	214,864
	\$ 1,134,695	\$ 1,595,761

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

18. 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	South Africa	Botswana	Total
Cash	\$ 232,503	\$ 13,252	\$ 1,765,941	\$ 2,011,696
All other assets	19,125	12,768,686	33,342,674	46,130,485
Balance, June 30, 2016	\$ 251,628	\$ 12,781,938	\$35,108,615	\$ 48,142,181

19. Subsequent events

On October 26, 2016, the Company closed the compulsory acquisition of the remaining holders of Galaxy Shares, thereby becoming the beneficial owner of 100% of the shares of Galaxy. The Company is in the process of finalising certain precedent steps, including finalising payment to Galaxy shareholders and expects to have completed the transaction by December 2016.

On November 16, 2016, the Company issued 2,340,094 common shares and 520,016 warrants, with an exercise price of Cdn.\$0.175, to holders of Galaxy Shares who elected to subscribe for securities of the Company in lieu of cash consideration under the Mandatory Offer.