

Consolidated Financial Statements
(In U.S. dollars)

GALANE GOLD LTD.

For the year ended December 31, 2011 and the period from the date of incorporation on
November 15, 2010 to December 31, 2010

To the Shareholders of Galane Gold Limited

We have audited the accompanying consolidated financial statements of Galane Gold Limited, which comprise the consolidated statements of financial position as at December 31, 2011 and December 31, 2010, the consolidated statements of earnings and comprehensive earnings, changes in equity and cash flows for the year ended December 31, 2011 and the period from the date of incorporation November 15, 2010 to December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Galane Gold Limited as at December 31, 2011 and December 31, 2010, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2011 and the period from the date of incorporation November 15, 2010 to December 31, 2010 in accordance with International Financial Reporting Standards.

“ KPMG LLP”

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
April 27, 2012

GALANE GOLD LTD.

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

As at December 31, 2011 and December 31, 2010

	Notes	December 31, 2011	December 31, 2010
Assets			
Current assets:			
Cash		\$ 6,531,004	\$ 320
Trade and other receivables	6	8,341,572	-
Inventories	7	11,558,613	-
		<u>26,431,189</u>	<u>320</u>
Non-current assets:			
Mining properties	8	14,812,322	-
Plant and equipment	8	4,468,947	-
Ore stockpiles	7	7,321,516	-
		<u>26,602,785</u>	<u>-</u>
		<u>\$ 53,033,974</u>	<u>\$ 320</u>

Liabilities and Shareholders' Equity

Current liabilities:			
Accounts payable and accrued liabilities	11	\$ 7,196,711	-
		<u>7,196,711</u>	<u>-</u>
Non-current liabilities:			
Interest-bearing loans and borrowings	12	3,800,000	-
Restoration and rehabilitation provision	10	4,985,731	-
Warrants denominated in foreign currency	14	4,690,342	-
		<u>13,476,073</u>	<u>-</u>
Shareholders' equity:			
Share capital	14	\$ 30,348,992	\$ 320
Reserves	14	587,651	-
Retained earnings		1,424,547	-
		<u>32,361,190</u>	<u>320</u>
		<u>\$ 53,033,974</u>	<u>\$ 320</u>

Subsequent events (note 19)

Commitments and contingencies (note 16)

Approved and authorized by the Board on April 27, 2012:

"Ravi Sood "

Director

"Philip Condon "

Director

The notes on pages 5 to 39 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Year ended December 31, 2011, and the period from the date of incorporation November 15, 2010 to December 31, 2010

	Note	2011	2010
Mining Revenue		\$ 28,606,785	\$ -
Mining Costs:	15	23,609,524	-
Earnings from mining operations		4,997,261	-
Expenses:			
Exploration costs		35,250	-
Foreign exchange gain		(583,720)	-
Corporate general and administration	15	2,092,157	-
Financing costs	14,15	1,697,570	-
Other expenses	5,15	331,457	-
		3,572,714	-
Earnings and comprehensive earnings for the period before taxation		\$ 1,424,547	\$ -
Taxation	13	\$ -	\$ -
Net earnings and comprehensive earnings for the period		\$ 1,424,547	\$ -
Basic earnings per common share		\$ 0.0862	\$ -
Fully diluted earnings per common share		\$ 0.0860	\$ -
Weighted average number of common shares - basic		16,526,805	2,500,000
Weighted average number of common shares – fully diluted		16,558,880	2,500,000

The notes on pages 5 to 39 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Year ended December 31, 2011 and for the period from the date of incorporation November 15, 2010 to December 31, 2010

	Notes	Capital Stock		Reserves		Total
		Number	Amount	Stock based payments	Retained Earnings	
Issuance of shares on incorporation, November 15, 2010		2,500,000	\$ 320	\$ -	\$ -	\$ 320
Balance as at December 31, 2010		2,500,000	\$ 320	\$ -	\$ -	\$ 320
Cancelled		(500,000)	(64)			(64)
Issued for:						
Private placement	14	20,545,500	14,454,471	-	-	14,454,471
Share issuance costs	14		(2,485,126)	-	-	(2,485,126)
Completion of Gallery Acquisition	5, 14	21,875,000	17,893,750	-	-	17,893,750
Completion of Carlaw Acquisition	5, 14	687,500	485,641	-	-	485,641
Stock-based compensation for the period	14	-	-	587,651	-	587,651
Net earnings for the year		-	-	-	1,424,547	1,424,547
Balance as at December 31, 2011		45,108,000	30,348,992	587,651	1,424,547	32,361,190

The notes on pages 5 to 39 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Year ended December 31, 2011 and for the period from the date of incorporation November 15, 2010 to December 31, 2010

	Notes	2011	2010
Cash flows from operating activities:			
Net earnings for the period		\$ 1,424,547	\$ -
Items not involving cash:			
Loss on disposal of equipment		2,150	-
Depreciation and amortization	8	2,485,258	-
Stock based compensation	14	587,651	-
Accretion	10	174,425	-
Financing costs	15	1,523,146	-
Foreign exchange		421,383	-
Other expenses	15	397,342	-
Working capital adjustments:			
Change in trade and other receivables		(6,119,025)	-
Change in inventories		(1,322,050)	-
Change in trade and other payables relating to operating activities		791,351	-
Cash flows from operating activities		366,178	-
Cash flows from investing activities:			
Cash acquired from Carlaw Acquisition	5	179,678	-
Net cash used in the Gallery Acquisition:	5	(6,559,462)	-
Mining assets acquired since Acquisition	8	(2,408,389)	-
Proceeds from sale of equipment		38,639	-
Cash flows used in investing activities		(8,749,534)	-
Cash flow from financing activities:			
Net proceeds from issuance of shares and warrants	5, 14	14,929,324	320
Interest paid		(79,241)	-
Cash flows from (used in) financing activities		14,850,083	320
Increase (decrease) in cash		6,466,727	320
Effect of unrealized foreign exchange gain on cash		63,957	
Cash, at January 1		320	-
Cash, at December 31		\$ 6,531,004	\$ 320
Non-cash investing activity:			
Rehabilitation and reclamation decrease in mining assets		\$ (160,139)	
Non-cash financing activities:			
Share issue costs in accounts payable		\$ 20,293	
Financing costs due to increase in warrants denominated in foreign currency		\$ 1,443,904	

The notes on pages 5 to 39 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

1. Corporate Information

Galane Gold Ltd., formerly Carlaw Capital III Corp., (the “Company” or “GGL”), operates through its wholly owned subsidiary, Galane Gold Mines Ltd. (“GGM”) 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.

Effective August 30, 2011, the Company, through its wholly owned subsidiary, Mupane Gold Mines Limited, a Mauritius company, acquired all of the issued and outstanding shares of an Australian company, Gallery Gold Pty Ltd. from IAMGOLD Corporation (“IAMGOLD”) (the “Gallery Acquisition”). The purchase price for such acquisition was paid by a combination of cash, shares and the issuance of interest bearing debt.

Effective August 30, 2011, the Company acquired all of the issued and outstanding shares of GGM by issuing an aggregate of 44,420,500 common shares from treasury in exchange for all of the issued and outstanding common shares of GGM. As a result of this share exchange, the former shareholders of GGM acquired control of the Company.

These consolidated financial statements include the results of operations of GGM from the date of incorporation, and Galane Gold Ltd. (formerly Carlaw Capital III Corp.) and Gallery Gold Pty Ltd. from August 30, 2011, the date of the Gallery Acquisition and the Carlaw Acquisition (collectively, the “Acquisitions”) (Note 5).

2. Basis of preparation:

(a) Statement of compliance

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IASB”).

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Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

2. Basis of preparation (continued):

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments which are at fair value. The methods used to measure fair values are discussed in Note 3.

(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

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

All balances, income and expenses and unrealized gains and losses resulting from transactions amongst subsidiaries of the Company are eliminated on consolidation.

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

(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.

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Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

2. Basis of preparation (continued):

(e) Significant accounting judgements, estimates and assumptions:

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually 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. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

(i) Mineral reserves and resources:

Mineral reserve and resources estimates have been estimated by qualified personnel of the Company in accordance with definitions and guidelines adopted by The Canadian Institute of Mining, Metallurgy and Petroleum ("CIM Standards on Mineral Resources and Reserves"). A mineral reserve is a technical estimate of the amount of metal or mineral that can be economically extracted from a mineral deposit. Mineral reserve and resource estimates include numerous uncertainties and depend heavily on geological interpretations and statistical inferences drawn from drilling and other data. Reserve statements also require an estimate of the future price for the commodity in question and an estimate of the future cost of operations. The mineral reserve and resource estimates are subject to uncertainty and may be inaccurate. Results from drilling, testing and production, as well as material changes in metal prices subsequent to the date of an estimate may justify a revision of such estimates.

Actual production costs may vary from estimated production costs due to many factors like changing costs of inputs such as labour, energy and consumables as well as varying royalty expenses related to the price of gold.

A number of accounting estimates, as described in the following relevant accounting policy notes, are impacted by the reserve and resource estimates:

- Note 3(f) – Depreciation rates
- Note 3(h)(ii) – Impairment of non-financial assets
- Note 3(i) – Restoration and rehabilitation provision
- Note 5 – Allocation of purchase price
- Note 8 – Mining assets

(ii) Other:

The following areas of judgements, estimates and assumptions are described in the following note:

- Note 9 – Financial instruments

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies:

(a) Foreign currency translation

The consolidated financial statements are presented in U.S. dollars, which is the Company and each of its subsidiaries' functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange on the date of the consolidated statement of financial position. All differences are taken to the consolidated statement of earnings and comprehensive earnings. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(b) Business combinations

On the acquisition of a subsidiary, the purchase method of accounting is applied whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition.

The cost of the business combination is the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer in exchange for control of the acquiree.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the fair value of the acquiree's identifiable net assets.

If the fair value attributable to the Company's share of the identifiable net assets exceeds the fair value of the consideration, the Company reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognizes any additional assets or liabilities that are identified in that review. If that excess remains after reassessment, the Company recognizes the resulting gain in the consolidated statement of earnings and comprehensive earnings on the acquisition date.

Professional fees and other costs directly related to business combinations are expensed in the year they are incurred.

(c) Financial instruments

The Company recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A regular way purchase of financial assets is recognized using the trade date accounting. Financial liabilities are not recognized unless one of the parties has performed or the contract is a derivative contract.

A financial asset (in whole or in part) is derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset or when cash flows expire.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

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Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies (continued):

(c) Financial instruments (continued)

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Certain financial instruments are recorded at fair value in the consolidated statement of financial position. Current market conditions impact these fair values. These represent management's best estimates and are subject to risks and uncertainties. Therefore, it is reasonably possible that changes could occur which may affect the carrying value recognized in the financial statements of the Company's financial instruments.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, accounts payable and accrued liabilities, interest bearing loans and borrowings and warrants denominated in foreign currency.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are classified and measured as described below.

Financial instruments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is acquired principally for the purpose of selling in the short-term or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management of investment strategy.

Cash and warrants denominated in foreign currency are designated as fair value through profit or loss. Any unrealized gains or losses related to changes in the fair value are included in interest income, and financing costs in the consolidated statement of earnings and comprehensive earnings.

Other financial instruments

Loans and receivables, which have fixed and determinable payments that are not specified in an open market, are recognized initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses. These include trade and other receivables.

Other financial liabilities are recognized initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. These include interest bearing loans and borrowings and accounts payable and accrued liabilities.

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Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies (continued):

(d) Inventories

Work in progress inventories are valued at the lower of cost or net realizable value. Production costs include the cost of materials, labour, mine site production overheads and depreciation to the applicable stage of processing.

Ore stockpiles are valued at the lower of cost and net realizable value. The cost of ore stockpiles is increased based on the related current mining cost per tonne of the period, and decreases in ore stockpiles are charged back to mining costs using the weighted average cost per tonne. Ore stockpiles are segregated between current and long-term inventories on the consolidated statement of financial position.

Consumables are valued at the lower of average purchase cost and net realizable value. Provisions for redundant and slow-moving items are made by reference to specific items of stock. Spare parts, stand-by and servicing equipment held are generally classified as inventories. However, if major spare parts (critical spares) and stand-by equipment (insurance spares) are expected to be used for more than one period or can only be used in connection with a particular capital asset, then they are classified as a component of mining assets.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling the final product.

(e) Mining properties and plant and equipment

Mining properties are measured at cost less accumulated depreciation and accumulated impairment charges.

The initial cost of an asset comprises its purchase or construction cost, any costs directly attributable to bringing the asset to a working condition for its intended use, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The cost of self-constructed assets includes the cost of materials and direct labour.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net within operating costs in the statement of earnings and comprehensive earnings.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in earnings as incurred.

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Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies (continued):

(e) Mining properties (continued)

Mining properties presented on the consolidated statement of financial position represent the capitalized expenditures related to:

- construction in progress; and
- stripping costs

(i) Mine construction in progress

Upon determination of technical feasibility and commercial viability of a mining property, all subsequent expenditure is capitalized within construction in progress and costs are not amortized until such time as the projects are brought into production. Mine construction costs include expenditures to develop new ore bodies, define further mineralization in existing ore bodies, construct and install or complete infrastructure facilities. Mine construction costs are net of proceeds from all but the incidental sale of ore extracted during the construction phase.

Where funds have been borrowed, either to specifically finance a project or for general borrowings during the period of construction, the amount of interest capitalized represents the actual borrowing costs incurred, in the case of specific finance arrangements, or an allocation of interest on general borrowings.

Upon commencement of production, all assets included in mine construction costs are transferred to the relevant categories within mining assets.

(ii) Stripping costs

After commencement of production, the Company recognizes mining costs associated with stripping activities in an open pit mine as variable production costs. Such costs are included in the cost of inventory unless the stripping activity can be determined to have future economic benefits that will flow to the entity, in which case the costs are capitalized.

Capitalized stripping costs represent further development of the mine that requires a phase of unusually high overburden removal activity to access ore which will be mined in future periods.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies (continued):

(f) Depreciation and amortization

Mining properties and plant and equipment are amortized when the assets are ready for their intended use using the units-of-production method over the shorter of the estimated economic life of the asset or the mining operation.

The reserve and resource estimate is the prime determinant of the life of the mine. In estimating the units-of-production, the nature of the ore body and the method of mining the ore body are taken into account. In general, an ore body where the mineralization is reasonably well defined is amortized over its proven and probable mineral reserves. Non reserve material may be included in depreciation calculations in limited circumstances where there is a high degree of confidence in its economic extraction. Changes in the estimate of mineral reserves and resources will result in changes to the depreciation and will be accounted for on a prospective basis over the remaining life of the operation.

Estimated useful lives vary from five to fifteen years for items of plant and equipment and are up to twenty years for buildings, however do not exceed the expected life of the mine.

The basis of amortization for capitalized stripping is the ore to be extracted as a result of the specific stripping activity and is determined on a units-of-production basis. Changes in a mine's life and design will usually result in changes to the stripping ratio and the basis of amortization. These changes are accounted for prospectively.

Residual values, useful lives and amortization methods are reviewed at least annually and adjusted if appropriate. Changes are accounted for prospectively.

(g) Mineral exploration and evaluation costs

Other than costs incurred to acquire new rights to explore, mineral exploration and evaluation costs are charged to earnings in the period in which they are incurred.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies (continued):

(h) Impairment

(i) Financial assets

Financial assets not carried at fair value through profit or loss are tested for impairment on an individual basis at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have indicated that the estimated future cash flows of the asset are less than its carrying value, and can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the amount of the reversal is recorded in the statement of earnings and comprehensive earnings. The amount of the reversal cannot result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(ii) Non-financial assets

If a property is abandoned or deemed economically unfeasible, the related project balances are written off.

The Company conducts annual impairment assessments of the values of long-lived assets, including mining assets and exploration and evaluation assets. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the asset's fair value less costs to sell ("FVLCS") and its value in use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets.

If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment loss is recorded so as to reduce the carrying amount to its recoverable amount. A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount for the asset since the impairment loss was recognized. If this is the case, the carrying amount is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in prior years.

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Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies (continued):

(h) Impairment (continued)

(ii) Non-financial assets (continued)

The recoverable amount is determined based on the present value of estimated future cash flows from each long-lived asset, which are calculated based on numerous assumptions such as proven and probable reserves, resources when appropriate, estimates of discount rates, estimated future metals prices, resources, operating costs, capital and site restoration expenses and estimated future foreign exchange and inflation rates, as defined under IFRS for FVLCS and VIU. Management's assumptions and estimate of future cash flows are subject to risk and uncertainties, particularly when market conditions such as the price of gold, inflation, currency values and interest rates are volatile, and may be partially or totally outside of the Company's control. Therefore, it is reasonably possible that changes could occur with evolving economic conditions, which may affect the recoverability of the Company's long-lived assets. If the Company fails to achieve its valuation assumptions or if any of its long-lived assets experiences a decline in its fair value, then this may result in an impairment charge, which would reduce the Company's earnings.

(i) Restoration and rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore and rehabilitate locations in the period in which the obligation is incurred with a corresponding increase in the carrying value of the related mining asset. The obligation is generally considered to have been incurred when mine assets are constructed or the ground environment is disturbed at the production location. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The discounted liability is adjusted at the end of each period to reflect the passage of time, based on the discount rates that reflect current market assessments and the risks specific to the liability, and changes in the estimated future cash flows underlying the obligation.

These estimates depend on labour costs, known environmental impacts, the effectiveness of remedial and restoration measures, inflation rates and average risk-free interest rates specific to each liability. The Company also estimates the timing of the outlays, which is subject to change depending on continued operation or newly discovered reserves.

The periodic unwinding of the discount is recognized in earnings as a finance cost. Additional disturbances or changes in restoration costs will be recognized as changes to the corresponding assets and asset retirement obligation when they occur. Environmental and on-going site clean-up costs at operating mines, as well as changes to estimated costs for closed sites, are charged to earnings in the period during which they occur.

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Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies (continued):

(j) Income taxes

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the date of the consolidated statement of financial position.

Current income tax assets and current income tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current income taxes relating to items recognized directly in equity are recognized directly in equity and not in the consolidated statement of earnings and comprehensive earnings.

(ii) Deferred income tax

Deferred income tax is provided using the asset and liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the parent, investor, or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- when results from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies (continued):

(j) Income taxes (continued)

(ii) Deferred income tax (continued)

The carrying amount of deferred income tax assets is reviewed at each date of the consolidated statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognized deferred income tax assets are reassessed at each date of the consolidated statement of financial position and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

A translation gain or loss will arise where the local tax currency is not the same as the functional currency. A deferred tax is recognized on the difference between the book value of the non-monetary assets and the underlying tax basis, translated to the functional currency using the current foreign exchange rate.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is expected to be realized or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the consolidated statement of financial position.

Deferred income taxes relating to items recognized directly in equity are recognized directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

There is no certainty that income tax rates will be consistent with current estimates. Changes in tax rates increase the volatility of the Company's earnings.

(k) Revenue recognition

Revenues include sales of gold. Revenues from the sale of gold are recognized when the significant risks and rewards of ownership have transferred to the purchaser and the amount of revenue can be measured reliably.

(l) Share-based payments

The Company has a stock option plan that is described in note 14(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from share-based payment reserve.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

3. Significant accounting policies (continued):

(m) Earnings per share

Basic earnings per share are calculated by dividing net earnings by the weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share uses the treasury stock method. The weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options or warrants are used to repurchase common shares at their average market price during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share.

4. Future Accounting Policies

(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 on or after January 1, 2015. The first part of this project provides new guidance for the classification and measurement of financial assets and liabilities. The Company is in the process of evaluating the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments.

(b) IFRS 10 – Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which is effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008). The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

(c) IFRIC 20 – Stripping costs in the production phase of a surface mine

IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. IFRIC 20 is applicable for annual periods beginning on or after January 1, 2013 and early application is permitted. The Company is in the process of evaluating the requirements of the new standard.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

4. Future accounting policies (continued):

(d) IFRS 12 – Disclosure of Interests in Other Entities

The IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. When applied, it is expected that the amendment to IFRS 12 will increase the current level of disclosure of interests in other entities.

(e) IFRS 13 – Fair Value Measurement

The IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

5. Acquisitions:

Gallery Acquisition:

On August 30, 2011, the Company acquired from IAMGOLD 100% of the outstanding shares of Gallery Gold Pty Ltd. ("Gallery"), an Australian company that, through its subsidiaries, holds the rights to conduct activities prescribed under mining and prospecting licenses at the Mupane gold mine, located in the Republic of Botswana (the "Mupane Property"). As consideration for the purchase of the shares of Gallery, IAMGOLD received 21,875,000 common shares, 1,265,253 warrants to purchase common shares in the capital of the Company and a promissory note in the amount of \$3,800,000 (note 12). Each warrant is exercisable into one common share of the Company on or before March 1, 2013 at a price of CDN \$1.10 per share.

On the closing of the NLE Acquisition referred to below, the number of warrants issued to IAMGOLD pursuant to the Gallery Acquisition was adjusted from 1,265,253 warrants to 4,377,778 warrants to purchase common shares in the capital of the Company exercisable on or before March 1, 2013 at a price of CDN\$1.10 per share. This issuance, combined with the common shares in the capital of the Company issued as a result of the NLE Acquisition would result in no change to IAMGOLD's percentage ownership interest in the Company.

The preliminary allocation of the purchase price to assets and liabilities acquired, based on preliminary estimates of fair value, is provided below. The Company's assessment of final valuation estimates is substantially complete in respect of inventories, restoration and rehabilitation provision, cash and other current assets. Final valuations of trade and other payables, plant and equipment, mining properties and ore stockpiles are not yet complete due to the inherent complexity associated with the valuations. This is a preliminary purchase price allocation and therefore subject to adjustment upon completion of the valuation process and analysis of resulting tax effects.

	Fair value
Mining properties	\$ 14,574,736
Plant and Equipment	4,984,330
Ore stockpiles	7,078,579
Inventory	10,479,500
Other current assets	1,977,930
Cash	5,946,998
Trade and other payables	(5,563,668)
Restoration and rehabilitation provision	(4,971,445)
Net assets	\$ 34,506,960
Consideration:	
Cash consideration	\$ 12,506,460
Share and warrant consideration	
• 21,875,000 common shares, plus 1,265,253 warrants to purchase common shares, exercisable until March 1, 2013 at CDN\$1.10 per share (Notes 14 (d),19)	18,200,500
Debt consideration (Note 12)	3,800,000
Acquisition of subsidiary	\$34,506,960

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

5. Acquisitions (continued):

Gallery Acquisition (continued):

The preliminary purchase price allocation has been done taking into account the fair market value of each item acquired at the date of acquisition, August 30, 2011.

The Gallery Acquisition was accounted for using the acquisition method in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective August 30, 2011. Gallery has contributed incremental revenue of \$28.6 million and pre-tax income of \$5.4 million for the four month period since the Gallery Acquisition to December 31, 2011. On a pro-forma basis, if the Gallery Acquisition had occurred at January 1, 2011, Gallery would have contributed \$81.2 million to the consolidated revenue, and \$9.2 million to the consolidated operating earnings of the Company. This pro-forma consolidated financial statement information is not intended to be indicative of the results that actually would have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated, and is subject to change as a result of finalization of the valuation of the net assets acquired. Any potential synergies that may be realized and integration costs that may be incurred have been excluded from this pro forma financial information.

Carlaw Acquisition:

On August 30, 2011, Carlaw acquired 100% of the outstanding shares of GGM by way of a “three-cornered amalgamation” pursuant to section 174 of the *Business Corporations Act* (Ontario). As the former shareholders of GGM acquired control of Carlaw, the Carlaw Acquisition is reported for accounting purposes as if GGM acquired Carlaw. As a result, the results of Carlaw are reflected only since the date of acquisition. Immediately after the Carlaw Acquisition, Carlaw filed articles of amendment to change its name to Galane Gold Ltd.

Carlaw is not considered a business for the purposes of IFRS 3, *Business Combinations*, and accordingly the transaction was accounted for as an acquisition of assets.

The fair values of identifiable assets and liabilities of Carlaw as at the date of acquisition were:

	Fair value
Other current assets	\$ 9,180
Cash and cash equivalents	179,678
Trade and other payables	(100,559)
Net assets	\$ 88,299

Consideration:

Share consideration (687,500 common shares)	\$ 485,641
Excess of fair value of identifiable assets over share consideration (included within other expense in the consolidated statement of earnings and comprehensive earnings)	(397,342)
	<u>\$ 88,299</u>

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

5. Acquisitions (continued):

Acquisition costs:

The Company incurred the following costs that were directly attributable to the Acquisitions:

Expensed in the period, as they relate to the Acquisitions:

• Professional fees	\$	668,679
• Travel and related costs		<u>63,294</u>
		<u>731,973</u>

NLE Acquisition:

In addition to the Acquisitions, the Company entered into an agreement dated July 27, 2011 with the shareholders of The Northern Lights Exploration Company (Pty) Ltd. (“NLE”) to acquire all of its issued and outstanding shares (the “NLE Acquisition”). NLE owns the rights to a number of exploration licenses near the Mupane Property.

The purchase agreement outlined certain conditions to closing and, as at December 31, 2011, the only remaining material conditions were approvals from the authorities in Botswana. These approvals have been subsequently obtained and the NLE Acquisition closed on April 10, 2012 (Note 19).

As consideration for all of the issued and outstanding shares of NLE, on April 10, 2012 the Company issued 3,125,000 common shares to the shareholders of NLE and promissory notes in the aggregate principal amount of CDN\$400,000. The notes bear interest from the date of closing at 6% per annum with principal payments as follows:

- | | |
|--|--------------|
| • On closing | CDN\$100,000 |
| • On the 2 nd , 4 th , and 6 th month anniversary after closing | CDN\$100,000 |

If, in the reasonable opinion of the Board of Directors of the Company, any principal payment would cause undue stress to the Company, the principal payment can be extended to a mutually agreed upon schedule.

The agreement also provides for the issuance of up to an additional 8,750,000 common shares upon the achievement of the following exploration milestones on the NLE mineral properties within seven years from the date of the closing of the NLE Acquisition. The milestones set forth below are cumulative.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

5. Acquisitions (continued):

NLE Acquisition (continued):

<u>Milestone</u>	<u>Share Consideration</u>	<u>Cumulative Consideration</u>
Exploration work on the mineral properties of NLE confirms by way of a NI 43-101 report a measured mineral resource containing at least 100,000 ounces of gold or the number of ounces of contained gold that is mined exceeds 100,000 ounces (or any combination thereof without duplication)	1,375,000 common shares	1,375,000 common shares
Exploration work on the mineral properties of NLE confirms by way of a NI 43-101 report a measured mineral resource containing at least 250,000 ounces of gold or the number of ounces of contained gold that is mined exceeds 250,000 ounces (or any combination thereof without duplication)	1,750,000 common shares	3,125,000 common shares
Exploration work on the mineral properties of NLE confirms by way of a NI 43-101 report a measured mineral resource containing at least 500,000 ounces of gold or the number of ounces of contained gold that is mined exceeds 500,000 ounces (or any combination thereof without duplication)	3,125,000 common shares	6,250,000 common shares
Exploration work on the mineral properties of NLE confirms by way of a NI 43-101 report a measured mineral resource containing at least 1,000,000 ounces of gold or the number of ounces of contained gold that is mined exceeds 1,000,000 ounces (or any combination thereof without duplication)	2,500,000 common shares	8,750,000 common shares
Total	8,750,000 common shares	8,750,000 common shares

On the closing of the NLE Acquisition, the number of warrants to purchase common shares issued to IAMGOLD was adjusted from 1,265,253 to 4,377,778, as outlined in Note 14.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

6. Trade and other receivables

	December 31, 2011	December 31, 2010
Trade receivables	\$ 6,264,462	\$ -
Taxes recoverable	1,717,871	-
Advances	108,875	-
Prepaid expenses	250,364	-
	\$ 8,341,572	\$ -

7. Inventories

The amount of inventories recognized as an expense during the year is included in mining costs in the consolidated statement of earnings and comprehensive earnings. The carrying value at the year ends are:

	December 31, 2011	December 31, 2010
Gold in process	\$ 5,837,071	\$ -
Supplies	5,721,542	-
	\$ 11,558,613	-
Ore Stockpiles	\$ 7,321,516	\$ -

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

8. Mining assets

The continuity of mining assets for the year ended December 31, 2011, with comparative amounts from the date of incorporation November 15, 2010 to December 31, 2010 is as follows:

	Construction in Progress	Mining Properties	Plant and Equipment	Total
Cost at date of incorporation November 15, 2010 and January 1, 2011	\$ -	\$ -	\$ -	\$ -
Additions:				
Net assets acquired on the Gallery Acquisition (Note 5)	2,596,490	14,574,736	2,387,840	19,559,066
Additions since acquisition	130,501	1,623,627	494,122	2,248,250
Transfers	(1,052,989)	171,377	881,612	-
Disposals	-	-	(345,378)	(345,378)
Cost, December 31, 2011	\$ 1,674,002	\$ 16,369,740	\$ 3,418,196	\$ 21,461,938
Accumulated depreciation and amortization at date of incorporation November 15, 2010 and January 1, 2011	\$ -	\$ -	\$ -	\$ -
Depreciation and amortization charge for the period	-	(1,557,418)	(927,840)	(2,485,258)
Disposals	-	-	304,589	304,589
Accumulated depreciation and amortization December 31, 2011	\$ -	\$ (1,557,418)	\$ (623,251)	\$ (2,180,669)
Net book value, December 31, 2011	\$ 1,674,002	\$ 14,812,322	\$ 2,794,945	\$ 19,281,269

Refer to Note 5 for a discussion on the allocation of the purchase price among the components of the mining properties in the Gallery Acquisition.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

9. Financial instruments

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

Financial Assets	Carrying and Fair value	
	December 31, 2011	December 31, 2010
Cash (level 1 of fair value hierarchy ⁽⁶⁾)	\$ 6,531,004	\$ 320
Trade and other receivables	8,341,572	-
	<u>\$ 14,872,576</u>	<u>320</u>
Financial Liabilities		
Accounts payable and accrued liabilities	\$ 7,196,711	\$ -
Loans and borrowings (level 2 of fair value hierarchy ⁽⁶⁾)	3,800,000	-
Warrants denominated in foreign currency (level 2 of fair value hierarchy ⁽⁶⁾)	4,690,342	-
	<u>\$ 15,687,053</u>	<u>-</u>

- (1) The fair value of cash approximates the carrying amount given the short maturity period.
- (2) The fair value of receivables and other approximates the carrying amount given the short maturity period. Refer to the credit risk section below.
- (3) The fair value of accounts payable and accrued liabilities approximates the carrying amount given the short maturity period. Refer to the liquidity risk section below.
- (4) 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.
- (5) The fair value of warrants denominated in foreign currency approximates the carrying amount as the fair value was calculated at the date of issuance, August 30, 2011, plus the effect of changes in the assumptions to the Black Scholes Model that have occurred to December 31, 2011 (Note 14(d)).
- (6) The appropriate level of fair value hierarchy is determined 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.

(a) Financial risk management objectives and policies

The Company manages capital and its exposure to financial risks by ensuring it has sufficient financial capacity to support its operations, current mine development plans and long-term growth strategy. The Company is subject to various financial risks that could have a significant impact on profitability and financial conditions. These risks include liquidity risk, credit risk and financial market conditions relating to interest rates, gold price, and currency rates.

The following discussion includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on profit or loss and equity, where applicable. Financial instruments affected by market risk include cash, trade and other receivables, and accounts payable and accrued liabilities.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

9. Financial instruments (continued)

(b) Risks

Management reviews and approves policies for managing each of the risks which are summarised below:

i. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As at December 31, 2011, the Company's cash balance was \$6,531,004 (2010 - \$320), and it had working capital of \$19,234,478 (2010 - \$320).

The Company has a treasury policy to assist in managing the liquidity risk, which requires management to:

- monitor cash balances;
- perform short to medium-term cash flow forecasting, as well as medium and long-term forecasting incorporating relevant budget information; and
- consider the need for expanding treasury activity if and when appropriate (including but not limited to hedging and derivatives).

ii. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is associated with cash, trade and other receivables.

The Company holds cash in credit worthy financial institutions and does not hold any asset-backed commercial paper.

The credit risk related to gold trade receivable is considered minimal as gold is sold to creditworthy major banks and settled promptly, usually within the following month. The amount of \$6,265,462 included in trade and other receivables relating to gold production in December 2011 was received on January 3, 2012.

The credit risk related to receivables from government related to taxes, mineral rights and exploration tax credits, included in trade and other receivables, relates to not receiving amounts claimed from certain government audits. As a result, the full balance recorded may not be ultimately realized. Management currently does not expect the amount to be ultimately realized to be materially different from that currently recorded.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

9. Financial instruments (continued)

(b) Risks (continued)

iii. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. At this point in time, the Company carries warrants that are denominated in foreign currency, and their fair value fluctuates with market conditions such as interest rates and share price volatility. A 10% fluctuation in the value of these market prices would effect their value by \$500,000 in either direction.

iv. Foreign currency risk

The Company is exposed to currency risk through transactions denominated in currencies other than the U.S. dollar. The risk is mainly due to transactions incurred in South African Rand and Botswana Pula, along with the Canadian dollar. Net assets (liabilities) denominated in currencies other than US Dollar are summarised as follows:

Non US Dollar Currency	US Dollar Amount
South African Rand	(52,428)
Botswana Pula	3,979,044
Canadian Dollar	995,489
	4,922,105

A 10% strengthening of the U.S. dollar against these foreign currencies at year-end would have resulted in an increase in the Company's earnings for the year of \$500,000. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% weakening of the U.S. dollar against these currencies at year-end would have had an equal but opposite effect on the Company's earnings for the year as summarised in this analysis.

(c) Capital management

The Company's objectives when managing capital are:

- to ensure the Company has sufficient financial capacity to support its operations, current mine development plans and the long-term growth strategy;
- to provide a superior return to its shareholders; and
- to protect the Company's value with respect to markets and risk fluctuations.

The Company manages capital by looking at the following items: debt and shareholders' equity.

The Company's capital structure reflects the requirements of a company focused on growth in a capital intensive industry that experiences lengthy development lead times as well as risks associated with capital costs and timing of project completion due to factors that are beyond the Company's control, including the availability of resources, the issuance of necessary permits, costs of various inputs and the volatility of the gold price.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

9. Financial instruments (continued)

(c) Capital management (continued)

The adequacy of the Company's capital structure is assessed on an ongoing basis and adjusted as necessary after taking into consideration the Company's strategy, the forward gold prices, the mining industry, economic conditions and the associated risks. In order to maintain or adjust its capital structure, the Company may adjust its capital spending, issue new shares, or arrange for a debt facility.

10. Restoration and rehabilitation provision

	Restoration and rehabilitation provision	
Date of incorporation November 15, 2010	\$	-
and at January 1, 2011		
Arising from the Gallery Acquisition (Note 5)		4,971,445
Accretion during the period		174,425
Reduction of liability arising since the Gallery Acquisition		(160,139)
At December 31, 2011	\$	4,985,731

The Company makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis on the development of mines or installation of those facilities.

The restoration and rehabilitation provision represents the present value of restoration and rehabilitation costs relating to mine sites, which are expected to be incurred up to 2014. These provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. Management used a pre-tax discount rate and inflation factor of 10.0% in preparing the Company's provision. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. It will also depend on the methods employed and related laws in force at the time of rehabilitation. Furthermore, the timing of rehabilitation is likely to depend on when the mine ceases to produce at economically viable rates. This, in turn, will depend upon future gold prices, which are inherently uncertain, and identification of future mineral reserves and resources. The undiscounted inflation adjusted liability for the restoration and rehabilitation provision is \$6,943,747.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

11. Accounts payable and accrued liabilities:

	December 31, 2011	December 31, 2010
Trade accounts payable	\$ 5,822,564	\$ -
Accrued liabilities	1,374,147	-
	\$ 7,196,711	\$ -

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

12. Interest-bearing loans and borrowings:

The Company issued an unsecured note to IAMGOLD as part of the consideration paid for the purchase of the shares in the Gallery Acquisition (see Note 5). Details are as follows:

- Initial principal amount \$3,800,000
- Interest rate fixed rate of 6% per annum, payable quarterly commencing November 30, 2011
- Principal repayment \$1,266,667 on February 28, 2013, August 30, 2013, and February 28, 2014

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

13. Income taxes:

A reconciliation between tax expense and the product of accounting income multiplied by the combined federal and Ontario tax rate of 28.25% (2010- 31%) is as follows:

	2011	2010
Accounting income before income tax	\$ 1,424,547	\$ -
Statutory income tax rate	28.25%	31%
Expected income tax expense	\$ 402,435	\$ -
Non-deductible items	892,946	-
Differences in foreign and statutory income tax rates	(306,046)	-
Deductible temporary differences not tax benefitted	228,730	-
Utilization of previously unrecognized non-capital losses	(1,211,156)	-
Other	(6,909)	-
Income tax expense reported in the consolidated statement of earnings and comprehensive earnings	\$ -	\$ -

The statutory rate has decreased 2.75% due to a decrease in the federal tax rate of 1.5% and a decrease in the Ontario tax rate of 1.25%.

Unrecognized temporary differences, in Botswana, for which no deferred taxes have been recognized:

	2011	2010
Tax losses	\$ 46,272,618	\$ -
Rehabilitation provisions	4,985,731	-
Royalty provisions	345,106	-
	\$ 51,603,455	\$ -

Botswana tax losses carry-forward indefinitely and the gross tax loss carry-forward is \$57 million. As well, the other deductible temporary differences do not expire under current Botswana tax legislation. Deferred tax assets have not been recognized in respect of these items as it is not probable that future taxable profit would be available against which the Company can utilize the benefits therefrom.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

13. Income taxes (continued):

The tax losses noted above do not include approximately \$17.0 million in tax losses of subsidiaries that are currently not available for utilization. The Company is reviewing its options for making them available to offset against income for future years.

The temporary differences associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized, aggregate to \$4.6 million (2010- \$0).

14. Share Capital

(a) Authorized share capital:

As at December 31, 2011, 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 year ended December 31, 2011, the Company had the following share transactions:

On August 5, 2011, GGM completed a brokered private placement (the "GGM Private Placement") of an aggregate of 20,545,500 subscription receipts (the "GGM Subscription Receipts") at a subscription price of CDN\$0.80 per receipt for aggregate gross proceeds of \$16,806,220 (CDN\$16,436,400). Each GGM Subscription Receipt entitled the holder to receive one common share of GGM (a "GGM Share") and one-half of one common share purchase warrant of GGM (a "GGM Warrant"). Each whole GGM Warrant is exercisable for one GGM Share for a period of 18 months from the date of closing of the Carlaw Acquisition at a price of CDN\$1.10 per share. The gross proceeds from the GGM Private Placement were held in escrow until immediately prior to the closing of the Gallery Acquisition on August 30, 2011.

The agent (the "Agent") retained by GGM pursuant to the GGM Private Placement received a cash commission of \$1,008,373 and was issued warrants ("GGM Agent Warrants") to purchase up to an aggregate of 1,888,980 GGM Shares with each GGM Agent Warrant being exercisable for one GGM Share for a period of 18 months from closing of the Acquisitions at a price of CDN\$0.80 per share. These warrants were valued at \$587,938 (see note 14(d)). Additional costs of \$352,002 were incurred in connection with the financing.

Immediately prior to the closing of the Gallery Acquisition, the GGM Subscription Receipts converted into an aggregate of 20,545,500 GGM Common Shares and 10,272,750 GGM Warrants. At the effective time of the closing of the Carlaw Acquisition, the GGM Common Shares, GGM Warrants and GGM Agent Warrants were then exchanged for an equivalent number of common shares, warrants and agent warrants of the Company without payment of any additional consideration. Accordingly, at the closing of the Acquisitions, the Company issued an aggregate of 20,545,500 common shares, 10,272,750 warrants valued at \$2,351,750 (Note 14(d)) and 1,888,980 agent warrants valued at \$587,938 (Note 14(d)) in connection with the GGM Private Placement.

Consideration for the Gallery Acquisition included 21,875,000 common shares, a note payable of \$3.8 million, and warrants to purchase up to 1,265,253 common shares, exercisable until March 1, 2013 at CDN\$1.10 per share ("IAMGOLD Warrants"). These warrants were valued at \$306,750 as described in Note 14(d). The Agent was paid \$536,812 for the issuance of the common shares.

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Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

14. Share Capital (continued)

(b) Issued share capital (continued):

At December 31, 2011, a total of 19,407,187 common shares and warrants to purchase up to 1,685,346 common shares held by certain directors and officers and IAMGOLD are held in escrow, releasable in equal tranches of 25% every six months after September 2, 2011. Over and above the escrow conditions, a total of 23,900,000 common shares are subject to a "lock-up" agreement with the Agent whereby the holders agree not to sell their shares for a period of 18 months from August 30, 2011, subject to early release in certain circumstances.

(c) Stock options:

The Company has a stock option plan whereby options may be granted to directors, officers, employees and consultants. As at December 31, 2011, a maximum of 4,510,800 options to purchase common shares were issuable under the Company's stock option plan, of which 2,383,300 remained available for issuance. Under the Company's stock option plan, the Company may grant options for up to 10% of the issued and outstanding common shares to directors, officers, employees and consultants. Under the plan, the exercise price and vesting is at the discretion of the Board, can be granted for a maximum term of ten years, with certain restrictions as to limits on amounts granted to insiders, consultants or person engaged in investor relations activities.

The following is a summary of stock options outstanding as at December 31, 2011 and December 31, 2010 along with changes during the periods then ended:

	Number of Options	Weighted Average Exercise Price (CDN\$)
Outstanding, date of incorporation November 15, 2010 and December 31, 2010	-	\$ -
Directors' officers' and charitable options assumed in the Carlaw Acquisition, expiring July 10, 2013	107,500	0.80
Directors' and officers' options assumed in the Carlaw Acquisition, expiring September 2, 2012	16,250	0.80
Options issued September 29, 2011, expiring September 29, 2016	1,765,000	0.80
Options issued October 12, 2011, expiring October 12, 2016	100,000	0.80
Options issued December 12, 2011, expiring December 12, 2016	450,000	0.80
Options that did not vest in the year and expired	(300,000)	
Balance, December 31, 2011	2,138,750	\$ 0.80

The exercisable dates for the options are as follows:

Currently exercisable at 12/31/2011	1,688,750
Exercisable on:	
December 12, 2012	100,000
December 12, 2013	150,000
December 12, 2014	200,000
	2,138,750

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14. Share Capital (continued)

(c) Stock Options (continued):

The Company recognizes share-based compensation expense for all stock options granted using the fair value based method of accounting as calculated by using the Black Scholes Model. Using the following weighted average assumptions for the Model:

- Share price	\$1.06
- Risk free discount rate	1.02%
- Expected volatility (using historic volatility of comparable companies as a basis)	80%
- Expected life	2.5 years
- Dividend rate	nil

A share-based compensation amount of \$587,651 has been recognized in general and administrative expenses for the options issued and vested in the year ended December 31, 2011.

(d) Warrants:

The following is a summary of warrants outstanding as at December 31, 2011 and December 31, 2010 and changes during the years then ended:

	Number of Warrants	Weighted Average Exercise Price (CDN\$)
Outstanding, date of incorporation November 15, 2010 and December 31, 2010	-	-
Issued from private placement August 30, 2011 (Note 13(b)) to investors ¹	10,272,750	1.10
Issued from private placement August 5, 2011 (Note 13(b)) to Agent ²	1,888,980	0.80
Issued on the Gallery Acquisition (Note 13(b)) (Note 19) ¹	1,265,253	1.10
Balance, December 31, 2011	13,426,983	\$ 1.06

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Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

14. Share Capital (continued)

(d) Warrants (continued):

¹ Using the Black Scholes Model for estimating fair market value, the warrants issued to investors were valued at \$2,351,750, and on the Gallery Acquisition were valued at \$306,750 on issuance. As a result of an increase in the share price of the Company since issuance to December 31, 2011 from \$0.80 to \$1.06, these warrants have increased in value by \$1,176,370, for a total balance at December 31, 2011 of \$3,834,870. The assumptions used in the Black Scholes Model are:

- Risk free discount rate	1.02%
- Expected volatility (using historic volatility of comparable companies as a basis)	80%
- Expected life from issuance	1.5 years

² Using the Black Scholes Model for estimating fair market value, the warrants issued to the Agent were valued at \$587,938 on issuance. As a result of an increase in the share price of the Company since issuance to December 31, 2011, these warrants have increased in value by \$267,534, for a total balance at December 31, 2011 of \$855,472. The assumptions used in the Black Scholes Model are:

- Risk free discount rate	1.02%
- Expected volatility (using historic volatility of comparable companies as a basis)	80%
- Expected life from issuance	1.5 years

At December 31, 2011, a total of 1,685,346 warrants were held in escrow, releasable in equal tranches of 25% every six months after September 2, 2011.

(e) Performance shares:

On August 30, 2011 the Company authorized for allotment, to the Chairman and the CEO of the Company, a maximum of 2,500,000 common shares (the "Performance Shares"), which will become issuable on the achievement by the Company and its subsidiaries of the following performance milestones prior to September 2, 2014:

1. 130,000 ounces of gold production from the Company's mining properties at an average cash cost per ounce of \$900 or less over any eight consecutive fiscal quarters ; or
2. \$25,000,000 of cash flow from operations from its mining properties in any four consecutive fiscal quarters.

To date, neither milestone has been reached, therefore no shares have been issued. The progress of the Company's mining operations to date plus budgeted amounts has been insufficient to indicate that these milestones will be achieved. The Company has not recorded any related expense or obligation as of December 31, 2011.

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Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

14. Share Capital (continued)

(f) Earnings per share:

The calculations of earnings per share is based on the following data:

	December 31, 2011	December 31, 2010
Earnings	\$ 1,424,547	\$ -
Weighted average number of common shares outstanding for purposes of basic earnings per share	16,526,805	2,500,000
Dilutive warrants	-	-
Dilutive options	32,075	-
Weighted average number of common shares outstanding for the purpose of diluted earnings per share	16,558,880	2,500,000
Earnings per share		-
Basic	\$ 0.0862	\$ -
Diluted	\$ 0.0860	\$ -

Basic earnings per share is computed by dividing the earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution of outstanding warrants, stock options and performance shares in the weighted average number of common shares outstanding during the year, if dilutive. In the year ended December 31, 2011, all of the stock options were dilutive, while the warrants were anti-dilutive. The performance shares were not included in the calculation of diluted earnings per share because the conditions for their issuance had not been met as though the end of the contingency period were the reporting date. In 2010, there were no warrants, stock options or performance shares.

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Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

15. Breakdown of earnings and comprehensive earnings items:

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

(a) Mining costs

	2011	2010
Cash costs		
Mining and production (including employee costs of \$2,538,148)	\$ 18,942,833	-
Administrative (including employee costs of \$672,130)	2,181,433	-
Total cash costs	\$ 21,124,266	-
Depreciation and amortization	2,485,258	-
	\$ 23,609,524	-

(b) Corporate general and administration

	2011	2010
Professional fees and other costs related to acquisitions	\$ 731,973	\$ -
Ongoing professional fees	463,970	-
Corporate administration	308,563	-
Share-based compensation	587,651	-
	\$ 2,092,157	\$ -

(c) Financing costs

	2011	2010
Interest on long term debt	\$ 79,241	\$ -
Increase in value of warrants denominated in foreign currency	1,443,904	-
Accretion on restoration and rehabilitation provision	174,425	-
	\$ 1,697,570	\$ -

(d) Other expenses

	2011	2010
Other income	\$ (68,035)	\$ -
Loss on disposal of equipment	2,150	-
Excess of fair value of identifiable assets over share consideration for the Carlaw Acquisition (Note 5)	397,342	-
	\$ 331,457	\$ -

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Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

16. Commitments and Contingencies

(a) Royalty expenses

Production from the 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. Since the date of the Gallery Acquisition, August 30, 2011 to December 31, 2011, the Company paid \$1,442,264 in royalties (2010 - \$nil).

(b) Operating contractual obligations

The Company has operating lease obligations which relate to obligations in 2011 for land operating lease agreements as follows:

• Incurred since the Acquisition Date to December 31, 2011	\$139,905
• To be incurred in 2012	\$306,099
• To be incurred 2013-2016	\$241,609

(c) Claims

The Company is subject to one known employment-related litigation action, and outside legal advisors have 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.

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Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

17. Related party transactions

During the year ended December 31, 2011, the following related party transactions occurred:

- Philip Condon, the Company's CEO and Miniera Group Limited (a consulting company owned by Philip Condon):
 - Management fees of \$134,454 were paid to Miniera Group Limited under its contract for the provision of the CEO services of Philip Condon;
 - Miniera Group Limited subscribed for and purchased 120,000 common shares and warrants to purchase up to 60,000 common shares as part of the GGM Private Placement, at a cost of CDN\$0.80 per share and warrant;
- Ravi Sood, the Company's Chairman:
 - Mr. Sood subscribed for and purchased 1,250,000 common shares and warrants to purchase up to 625,000 common shares as part of the GGM Private Placement, at a cost of CDN\$0.80 per share and warrant;
- Donald Cameron, the Company's CFO and InHouseCFO Inc. (a consulting company controlled by Donald Cameron):
 - Management fees of \$23,460 and accounting fees of \$5,865 were paid to InHouseCFO Inc. under its contract for the provision of the CFO services of Donald Cameron;
- Amar Bhalla, a director of the Company and Capit Investment Corp. (an investment company controlled by Amar Bhalla):
 - Capit Investment Corp. subscribed for and purchased 468,750 common shares and warrants to purchase up to 234,375 common shares as part of the GGM Private Placement, at a cost of CDN\$0.80 per share and warrant;
- Ian Egan, a director of the Company and Nagermir Pty Ltd. (a trust of which Ian Egan is a beneficiary):
 - Nagermir Pty Ltd. subscribed for and purchased 125,000 common shares and warrants to purchase up to 62,500 common shares as part of the GGM Private Placement, at a cost of CDN\$0.80 per share and warrant;
- Management fees of \$55,750 were paid to RKG Consulting Ltd. under its contract for the provision of CFO services of the former CFO of the company, Rajat Ganguly.
- The Company paid rent of \$6,100 for office premises to Great African Services (Pty) Ltd. a company owned by a consortium of individuals that includes Charles Byron, a director of the Company;
- IAMGOLD, a shareholder with significant influence, by holding in excess of 20% of the common shares of the Company (Note 5):
 - The Company had the following transactions with IAMGOLD as a result of the Gallery Acquisition:
 - Issued 21,875,000 common shares and 1,265,253 warrants;
 - Issued an interest bearing note (Note 12) of \$3,800,000; and
 - Paid cash of \$6,559,462 (net of amount acquired from Gallery); and
 - The Company accrued and paid \$79,241 in interest on the note payable to IAMGOLD.

At December 31, 2011, \$14,560 (2010 \$nil) was payable by the Company to Mr. Sood for reimbursement of out-of-pocket operating expenses he incurred during the fourth quarter of 2011.

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Notes to Consolidated Financial Statements

Year ended December 31, 2011 with comparative information for the period from incorporation November 15, 2010 to December 31, 2010

17. Related party transactions (continued):

The remuneration of directors and other members of key management personnel during the year ended December 31, 2011 is as follows:

	Year Ended December 31, 2011
Salaries	\$ 116,000
Management fees	213,755
Share-based compensation ⁽¹⁾	587,651
	<u>\$ 917,406</u>

(1) Share-based compensation is the fair value of options granted and vested with key management personnel. Details of those granted in the year ended December 31, 2011 are outlined in the discussion at Note 14(c).

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	Botswana	Total
Cash	\$ 1,436,554	\$ 5,094,450	\$ 6,531,004
All other assets	-	46,502,970	46,502,970
Balance, December 31, 2011	<u>\$ 1,436,554</u>	<u>\$ 51,597,420</u>	<u>\$ 53,033,974</u>

19. Events after the consolidated statement of financial position date:

The NLE Acquisition discussed in detail at Note 5 was completed on April 10, 2012. As a result:

1. The Company paid the first instalment of CDN\$100,000 to the former shareholders of NLE on the note payable resulting from the NLE Acquisition;
2. The Company issued 3,125,000 common shares; and
3. The number of IAMGOLD Warrants issued pursuant to the Gallery Acquisition increased by 3,112,525 to 4,377,778.