

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

GALANE GOLD LTD.

For the three month period ended March 31, 2012
(Unaudited)

Note to Reader:

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

GALANE GOLD LTD.

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

As at March 31, 2012 and December 31, 2011

	Notes	March 31, 2012	December 31, 2011
Assets			
Current assets:			
Cash		\$ 10,668,855	\$ 6,531,004
Trade and other receivables	6	11,182,378	8,341,572
Inventories	7	10,882,525	11,558,613
		<u>32,733,758</u>	<u>26,431,189</u>
Non-current assets:			
Mining properties	8	17,946,183	14,812,322
Plant and equipment	8	3,891,934	4,468,947
Ore stockpiles	7	6,990,061	7,321,516
		<u>28,828,178</u>	<u>26,602,785</u>
		<u>\$ 61,561,936</u>	<u>\$ 53,033,974</u>

Liabilities and Shareholders' Equity

Current liabilities:			
Accounts payable and accrued liabilities	11	\$ 5,402,316	\$ 7,196,711
		<u>5,402,316</u>	<u>7,196,711</u>
Non-current liabilities:			
Interest-bearing loans and borrowings	12	3,800,000	3,800,000
Restoration and rehabilitation provision	10	5,096,941	4,985,731
Warrants denominated in foreign currency	14	3,454,141	4,690,342
		<u>12,351,082</u>	<u>13,476,073</u>
Shareholders' equity:			
Share capital	14	\$ 30,348,992	\$ 30,348,992
Reserves	14	587,651	587,651
Retained earnings		12,871,895	1,424,547
		<u>43,808,538</u>	<u>32,361,190</u>
		<u>\$ 61,561,936</u>	<u>\$ 53,033,974</u>

Subsequent events (note 19)

Commitments and contingencies (note 16)

Approved and authorized by the Board on May 24, 2012:

“Ravi Sood ” Director “Philip Condon ” Director

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Three month period ended March 31

	Note	2012	2011
Mining Revenue		\$ 25,936,297	\$ -
Mining cost of sales	15	(15,094,293)	-
Earnings from mining operations		10,842,004	-
Income (Expenses):			
Exploration costs		(73,061)	-
Foreign exchange gain		(103,639)	-
Corporate general and administration	15	(257,248)	(226,343)
Financing income	14,15	1,050,826	-
Other expenses	5,15	(11,534)	-
		605,344	(226,343)
Earnings (loss) and comprehensive earnings (loss) for the period before taxation		\$ 11,447,348	\$ (226,343)
Taxation	13	-	-
Net earnings (loss) and comprehensive earnings (loss) for the period		\$ 11,447,348	\$ (226,343)
Basic earnings (loss) per common share	14	\$ 0.254	\$ (0.09)
Fully diluted earnings (loss) per common share	14	\$ 0.254	\$ n/a
Weighted average number of common shares - basic		45,108,000	2,500,000
Weighted average number of common shares – fully diluted		45,108,000	2,500,000

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Three month periods ended March 31, 2012 and 2011

	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)
Balance as at March 31, 2011		2,000,000	\$ 256	\$ -	\$ -	\$ 256
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 year	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
Net earnings and comprehensive earnings for the period					11,447,348	11,447,348
Balance as at March 31, 2012		45,108,000	\$ 30,348,992	\$ 587,651	\$ 12,871,895	\$ 43,808,538

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Three month period ended March 31

	Notes	2012	2011
Cash flows from operating activities:			
Net earnings (loss) for the period		\$ 11,447,348	\$ (226,343)
Items not involving cash:			
Depreciation and amortization	8	1,829,642	-
Accretion	10	127,357	-
Interest expense		58,108	-
Financing income	15	(1,236,201)	-
Foreign exchange		(45,296)	-
Working capital adjustments:			
Change in trade and other receivables		(2,858,644)	-
Change in inventories		1,007,543	-
Change in trade and other payables relating to operating activities		(1,688,577)	226,343
Cash flows from operating activities		8,641,190	-
Cash flows from investing activities:			
Restoration and rehabilitation expenditures	10	(16,146)	-
Mining assets acquired since Acquisition	8	(4,386,490)	-
Cash flows used in investing activities		(4,402,636)	-
Cash flow from financing activities:			
Shares cancelled			(64)
Interest paid		(58,108)	-
Share issue costs paid		(20,293)	-
Cash flows from financing activities		(78,311)	(64)
Increase (decrease) in cash		4,160,243	(64)
Effect of unrealized foreign exchange gain on cash		(22,392)	-
Cash, at January 1		6,531,004	320
Cash, at March 31		\$ 10,668,855	\$ 256

Non-cash financing activities:

- Financing income due to decrease in value of warrants denominated in foreign currency \$ (1,236,201) -

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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 unaudited condensed consolidated interim 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, being the date of the Gallery Acquisition and the Carlaw Acquisition (collectively, the “Acquisitions”) (Note 5).

2. Basis of preparation:

(a) Statement of compliance

The unaudited condensed consolidated interim financial statements (the “Financial Statements”) of the Company and all of its subsidiaries as at and for the three months ended March 31, 2012 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.

The Financial Statements have been approved by the Board of Directors on May 24, 2012.

(b) Significant accounting judgments, estimates and assumptions

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The particular areas of estimation uncertainty and critical judgements are outlined in detail in the annual audited consolidated financial statements for the year ended December 31, 2011 (the “Annual Financial Statements”).

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

2. Basis of preparation (continued):

(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.

3. Significant Accounting Policies:

These Financial Statements have been prepared following the same accounting policies and methods of computation as the Annual Financial Statements.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

4. Future Accounting Policies:

The following new standards and amendments to standards and interpretations were not yet effective for the first quarter ended March 31, 2012, and have not been applied in preparing these Financial Statements. They are summarized as follows:

IFRS 9- Financial Instruments

The IASB has issued IFRS 9, Financial Instruments, which is a four-part project proposing to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is expected to be effective on January 1, 2015. The Company is in the process of evaluating the impact of the changes to its consolidated financial statements as a result of the new standard.

IFRS 10- Consolidated financial statements

The IASB recently issued its new suite of consolidation and related standards, replacing the existing accounting for subsidiaries and joint ventures (now joint arrangements), and making limited amendments in relation to associates. IFRS 10 supersedes IAS 27, Consolidated and separate financial statements, and SIC 12, Consolidation- Special purpose entities. IFRS 10 will be effective January 1, 2013 and early adoption is permitted. The Company is in the process of evaluating the requirements of the new standards.

IFRS 13- Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance, and defines value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. IFRS 13 is applicable prospectively starting January 1, 2013 and early adoption is permitted. The Company is in the process of evaluating the requirements of the new standards.

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For the three months ended March 31, 2012

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

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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.

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)	<u>(397,342)</u>
	<u>\$ 88,299</u>

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

5. Acquisitions (continued):

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 NLE Acquisition closed on April 10, 2012 (Note 19). As consideration for all of the issued and outstanding shares of NLE, 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 2nd, 4th, and 6th 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.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

6. Trade and other receivables

	March 31, 2012	December 31, 2011
Trade receivables	\$ 8,180,503	\$ 6,264,462
Taxes recoverable	2,332,203	1,717,871
Advances	112,732	108,875
Prepaid expenses	556,940	250,364
	\$ 11,182,378	\$ 8,341,572

7. Inventories

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

	March 31, 2012	December 31, 2011
Gold in process	\$ 6,269,446	\$ 5,837,071
Supplies	4,613,079	5,721,542
	\$ 10,882,525	11,558,613
Ore Stockpiles	\$ 6,990,061	\$ 7,321,516

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

8. Mining assets

The continuity of mining assets for the three month period ended March 31, 2012, with comparative amounts for the year ended December 31, 2011 is as follows:

	Construction in Progress	Mining Properties	Plant and Equipment	Total
Cost at December 31, 2011	\$ 1,674,002	\$ 16,369,740	\$ 3,418,196	\$ 21,461,938
Additions:				
Additions in the period	73,259	4,194,903	118,328	4,386,490
Transfers in the period	(143,654)	-	143,654	-
Disposals in the period	-	-	-	-
Cost, March 31, 2012	\$ 1,603,607	\$ 20,564,643	\$ 3,680,178	\$ 25,848,428
Accumulated depreciation and amortization at December 31, 2011	\$ -	\$ (1,557,418)	\$ (623,251)	\$ (2,180,669)
Amortization charge for the period	\$ -	(1,061,042)	(768,600)	(1,829,642)
Accumulated depreciation and amortization March 31, 2012	\$ -	\$ (2,618,460)	\$ (1,391,851)	\$ (4,010,311)
Net book value, March 31, 2012	\$ 1,603,607	\$ 17,946,183	\$ 2,288,327	\$ 21,838,117

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.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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	
	March 31, 2012	December 31, 2011
Cash (level 1 of fair value hierarchy ⁽⁶⁾)	\$ 10,668,855	\$ 6,531,004
Trade and other receivables	11,182,378	8,341,572
	\$ 21,851,233	\$ 14,872,576
Financial Liabilities		
Accounts payable and accrued liabilities	\$ 5,402,316	\$ 7,196,711
Loans and borrowings (level 2 of fair value hierarchy ⁽⁶⁾)	3,800,000	3,800,000
Warrants denominated in foreign currency (level 2 of fair value hierarchy ⁽⁶⁾)	3,454,141	4,690,342
	\$ 12,656,457	\$ 15,687,053

- (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 March 31, 2012 (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.

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For the three months ended March 31, 2012

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 March 31, 2012, the Company's cash balance was \$10,668,855 (December 31, 2011 - \$6,531,004), and the Company had working capital of \$27,331,442 (December 31, 2011 - \$19,234,478).

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 \$8,180,503 included in trade and other receivables relating to gold production as at March 31, 2012 was received on April 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 the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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	\$ -
Botswana Pula	328,457
Canadian Dollar	689,311
	<hr/>
	\$ 1,017,768

A 10% strengthening of the U.S. dollar against these foreign currencies as at March 31, 2012 would have resulted in an increase in the Company's earnings for the period of \$100,000. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% weakening of the U.S. dollar against these currencies as at March 31, 2012 would have had an equal but opposite effect on the Company's earnings for the period 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.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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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
Opening balance at January 1, 2012	\$ 4,985,731
Accretion during the period	127,357
Expenditures in the period	(16,146)
At March 31, 2012	\$ 5,096,942

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 \$6,927,601.

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For the three months ended March 31, 2012

11. Trade Accounts payable and accrued liabilities:

	March 31, 2012	December 31, 2011
Trade accounts payable	\$ 3,889,267	\$ 5,822,564
Accrued liabilities	1,513,049	1,374,147
	<u>\$ 5,402,316</u>	<u>\$ 7,196,711</u>

Trade accounts payable 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

13. Income 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 the 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 first quarter ended March 31, 2012 (first quarter ended March 31, 2011 - \$nil). The effective income tax rates vary from the combined Canadian federal and provincial statutory income tax rate of 27% for the first quarter ended March 31, 2012 (first quarter ended March 31, 2011 – 28%) due to the geographical distribution of earnings, which are subject to different tax rates, fluctuations in exchange rates and other non deductible expenses.

The Company has generally not recognized tax benefits on losses generated in several countries where the recent history of operating losses does not satisfy the probable criteria for the recognition of deferred tax assets. Consequently, there are no income tax benefits recognized on the pre-tax losses in these jurisdictions.

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14. Share Capital

(a) Authorized share capital:

As at March 31, 2012, 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.

During the three month period ended March 31, 2012, the Company had no share transactions.

At March 31, 2012, a total of 12,938,124 common shares and warrants to purchase up to 1,123,564 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, as at March 31, 2012, a total of 16,608,333 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.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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 March 31, 2012, 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 March 31, 2012 and December 31, 2011 along with changes between such periods:

	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 2011 and expired	(300,000)	
Balance, March 31, 2012 and December 31, 2011	2,138,750	\$ 0.80

The exercisable dates for the options are as follows:

Currently exercisable at March 31, 2012	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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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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. The Company currently uses the following weighted average assumptions for the Model:

- 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

As no options were issued and/or vested in the period, no amount for share-based compensation has been recognized in the period.

(d) Warrants:

The following is a summary of warrants outstanding as at March 31, 2012 and December 31, 2011 and changes between such periods:

	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, March 31, 2012 and December 31, 2011	13,426,983	\$ 1.06

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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 on issuance, and on the Gallery Acquisition were valued at \$306,750 on issuance and then re-valued at December 31, 2011. As a result of a decrease in the share price of the Company since December 31, 2011 to March 31, 2012 from \$1.06 to \$0.93, these warrants have decreased in value by \$1,031,510, for a total balance at March 31, 2012 of \$2,803,360. 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 and then re-valued at December 31, 2011. As a result of a decrease in the share price of the Company since December 31, 2011 to March 31, 2012, these warrants have decreased in value by \$204,691, for a total balance at March 31, 2012 of \$650,780. 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

A recovery of \$1,236,201 (reflected as financing income) has been recorded in the statement of earnings and comprehensive earnings to reflect the movement in fair value of the warrant from December 31, 2011 to March 31, 2012.

At March 31, 2012, a total of 1,123,564 warrants were held in escrow, releasable in equal tranches of 561,782 warrants 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 March 31, 2012.

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

14. Share Capital (continued)

(f) Earnings per share:

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

	March 31, 2012	March 31, 2011
Earnings (loss)	\$ 11,447,348	\$ (226,343)
Weighted average number of common shares outstanding for purposes of basic earnings per share	45,108,000	2,500,000
Dilutive warrants	-	-
Dilutive options	-	-
Weighted average number of common shares outstanding for the purpose of diluted earnings per share	45,108,000	2,500,000
Earnings per share		-
Basic	\$ 0.254	\$ (0.09)
Diluted	\$ 0.254	\$ n/a

Basic earnings per share is computed by dividing the earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects any adjustments required to earnings resulting from the exercise and potential dilution of outstanding warrants, stock options and performance shares in the weighted average number of common shares outstanding during the period, if dilutive. In the three month period ended March 31, 2012, all of the stock options and 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 assuming that the end of the contingency period was the reporting date. As at March 31, 2011, there were no warrants, stock options or performance shares.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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 cost of sales

	Three Month Period Ended March 31	
	2012	2011
Cash costs		
Mining and processing (including employee costs of \$1,579,326, and royalties of \$1,277,431)	\$ 11,850,521	-
Administrative (including employee costs of \$685,861)	1,414,130	-
Total cash costs	\$ 13,264,651	-
Depreciation and amortization	1,829,642	-
	\$ 15,094,293	-

(b) Corporate general and administration

	2012	2011
Professional fees and other costs related to acquisitions	\$ -	\$ 90,000
Ongoing professional fees	96,373	-
Corporate administration	160,875	136,343
Share-based compensation	-	-
	\$ 257,248	\$ 226,343

(c) Financing income

	2012	2011
Interest on long term debt	\$ 58,018	\$ -
Decrease in value of warrants denominated in foreign currency	(1,236,201)	-
Accretion on restoration and rehabilitation provision	127,357	-
	\$ (1,050,826)	\$ -

(d) Other expenses

	2012	2011
Other expenses	\$ 11,534	\$ -

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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. For the three month period ended March 31, 2012, the Company paid \$1,277,431 in royalties (2011 - \$nil).

(b) Operating contractual obligations

The Company has operating lease obligations for land operating lease agreements as follows:

(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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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

17. Related party transactions

During the three month period ended March 31, 2012, 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 \$90,000 were paid to Miniera Group Limited under its contract for the provision of the CEO services of Philip Condon;
- Donald Cameron, the Company's CFO and InHouseCFO Inc. (a consulting company controlled by Donald Cameron):
 - Management fees of \$24,000 and accounting fees of \$6,000 were paid to InHouseCFO Inc. under its contract for the provision of the CFO services of Donald Cameron;
- Charles Byron, a director of the Company:
 - Salary of \$65,000 was paid in cash to Charles Byron under his contract for his role as Chief Geologist of the Company.
 - The Company paid rent of \$4,461 for office premises to Great African Services (Pty) Ltd. a company owned by a consortium of individuals that includes Charles Byron;
- IAMGOLD, a shareholder with significant influence by holding in excess of 20% of the common shares of the Company (Note 5):
 - The Company accrued and paid \$58,018 in interest on the note payable to IAMGOLD.

The remuneration of directors and other members of key management personnel during the three month period ended March 31, 2012 is as follows:

	Period Ended March 31, 2012
Salaries	\$ 65,000
Management fees	120,000
Share-based compensation	-
	<u>\$ 185,000</u>

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	\$ 689,311	\$ 9,979,544	\$ 10,668,855
All other assets	-	50,893,081	50,893,081
Balance, March 31, 2012	<u>\$ 689,311</u>	<u>\$ 60,872,625</u>	<u>\$ 61,561,936</u>

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012

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.