

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

GALANE GOLD LTD.

For the three and nine month periods ended September 30, 2014

Note to Reader:

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

GALANE GOLD LTD.

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

As at September 30, 2014 and December 31, 2013

	Notes	September 30, 2014	December 31, 2013
Assets			
Current assets:			
Cash		\$ 12,047,571	\$ 11,239,537
Trade and other receivables	6	1,232,864	936,392
Inventories	7	4,523,160	5,238,609
		17,803,595	17,414,538
Non-current assets:			
Mining and exploration properties	8	17,730,823	14,794,993
Plant and equipment	8	3,718,206	2,129,666
Ore stockpiles	7	7,274,437	6,890,781
		28,723,466	23,815,440
		\$ 46,527,061	\$ 41,229,978

Liabilities and Shareholders' Equity

Current liabilities:			
Accounts payable and accrued liabilities	11	\$ 6,423,276	\$ 8,726,178
Current portion of interest bearing loans	13	2,975,534	1,363,686
		9,398,810	10,089,864
Non-current liabilities:			
Interest-bearing loans and borrowings	13	5,723,328	1,432,061
Restoration and rehabilitation provision	10	3,359,461	3,117,685
		9,082,789	4,549,746
Shareholders' equity:			
Share capital	14	\$ 35,365,370	\$ 35,189,146
Reserves	14	1,410,012	1,345,154
Retained earnings		(8,729,920)	(9,943,932)
		28,045,462	26,590,368
		\$ 46,527,061	\$ 41,229,978

Commitments and contingencies (note 16)

Approved and authorized by the Board for issue on December 1, 2014:

“Ravi Sood ” Director “Ian Egan ” Director

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

GALANE GOLD LTD.

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

Three and nine month periods ended September 30, 2014 and 2013.

	Note	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Mining Revenue		\$ 9,460,910	\$ 13,847,644	\$ 32,671,217	\$ 40,058,783
Mining Costs	15	(8,483,754)	(14,944,065)	(28,892,585)	(51,212,310)
Impairment	9	-	-	-	(17,822,593)
Earnings (Loss) from mining operations		\$ 977,156	\$ (1,096,421)	\$ 3,778,632	\$ (28,976,120)
Expenses:					
Exploration costs		(20,542)	(42,834)	(85,363)	(125,256)
Foreign exchange gain (loss)		206,040	6,576	210,742	625,171
Corporate general and administration	15	(639,152)	(538,127)	(1,713,601)	(1,689,827)
Financing (costs) income	15	(126,734)	(196,600)	(358,637)	348,740
Other (expenses) income	15	(608,869)	(8,063)	(617,761)	(518,879)
		\$ (1,189,257)	\$ (779,048)	\$ (2,564,620)	\$ (1,360,051)
(Loss) earnings from comprehensive (loss) earnings for the period before taxation		\$ (212,101)	\$ (1,875,469)	\$ 1,214,012	\$ (30,336,171)
Taxation	12	\$ -	\$ -	\$ -	\$ (1,809,000)
Net (loss) earnings and comprehensive (loss) earnings for the period		\$ (212,101)	\$ (1,875,469)	\$ 1,214,012	\$ (32,145,171)
Basic (loss) earnings per common share	14	\$ (0.00)	\$ (0.04)	\$ 0.02	\$ (0.63)
Fully diluted (loss) earnings per common share	14	\$ (0.00)	\$ (0.04)	\$ 0.02	\$ (0.63)
Weighted average number of common shares- basic	14	52,677,458	50,902,790	52,173,631	50,889,993
Weighted average number of common shares- fully diluted	14	52,677,458	50,902,790	53,981,865	50,889,993

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

GALANE GOLD LTD.

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

Nine month periods ended September 30, 2014 and 2013

	Notes	Capital Stock		Reserves		Total
		Number	Amount	Stock based payments	Retained Earnings	
Balance as at December 31, 2012		48,381,745	33,087,705	3,150,905	18,835,618	55,074,228
Stock-based compensation for the period	14	-	-	38,655	-	38,655
Performance shares		2,500,000	2,045,000	(2,045,000)	-	-
Participation in share purchase plan		21,045	-	-	-	-
Net loss for the nine months ended September 30, 2013		-	-	-	(32,145,171)	(32,145,171)
Balance as at September 30, 2013		50,902,790	\$ 35,132,705	\$ 1,144,560	\$ (13,309,553)	\$ 22,967,711
Balance as at December 31, 2013		51,285,622	35,189,146	1,345,154	(9,943,932)	26,590,368
Stock-based compensation for the period	14	-	-	241,082	-	241,082
NLE acquisition	14	1,375,000	157,986	(157,986)	-	-
Participation in share purchase plan	14	16,836	18,238	(18,238)	-	-
Net earnings for the nine months ended September 30, 2014		-	-	-	1,214,012	1,214,012
Balance as at September 30, 2014		52,677,458	\$ 35,365,370	\$ 1,410,012	\$ (8,729,920)	\$ 28,045,462

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

GALANE GOLD LTD.

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

Nine month period ended September 30,

	Notes	2014	2013
Cash flows from operating activities:			
Net earnings (loss) for the period		\$ 1,214,012	\$ (32,145,171)
Items not involving cash:			
Loss on disposal of equipment		402,971	257,977
Depreciation and amortization	8	4,041,243	8,812,986
Impairment	9	-	17,822,593
Deferred Tax (derecognised)	12	-	1,809,000
Share based compensation	15	241,082	113,064
Accretion	10	241,776	432,810
Interest expense	15	116,861	127,412
Financing income	15	-	(999,126)
Foreign exchange gain (loss)		397,995	230,506
Working capital adjustments:			
Change in trade and other receivables		(246,682)	293,377
Change in inventories		331,794	4,588,766
Change in trade and other payables relating to operating activities		(2,684,898)	296,092
Cash flows from operating activities		4,056,154	1,640,286
Cash flows from investing activities:			
Restoration and rehabilitation expenditures	10	-	(35,257)
Proceeds from sale of equipment		-	47,050
Mining assets	8	(8,968,584)	(7,892,191)
Cash flows used in investing activities		(8,968,584)	(7,880,398)
Cash flow from financing activities:			
Net proceeds from interest bearing loans	13	8,498,535	-
Interest paid		(205,980)	(75,780)
Repayment of interest bearing loans	13	(2,533,333)	(1,266,667)
Capital lease obligations	13	(62,086)	(54,328)
Cash flows from financing activities		5,697,136	(1,396,775)
(Decrease) Increase in cash		784,706	(7,636,886)
Effect of unrealized foreign exchange gain on cash		23,328	(422,255)
Cash, at January 1		11,239,537	15,269,405
Cash, at September 30		\$ 12,047,571	\$ 7,210,264

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

GALANE GOLD LTD.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

1. Corporate Information

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

2. Basis of preparation:

(a) Statement of compliance

The unaudited condensed consolidated interim financial statements (the “Financial Statements”) of the Company and all of its subsidiaries as at and for the three and nine months ended September 30, 2014 have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required for full annual consolidated financial statements. Accordingly certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed.

(b) Significant accounting judgments, estimates and assumptions

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

(c) Basis of consolidation

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

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

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

(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 the Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

3. Significant Accounting Policies:

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

IFRIC 21 – Levies

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

4 Future Accounting Policies:

The following new standards and amendments to standards and interpretations which were issued but not yet effective for the quarter ended September 30, 2014, have not been applied in preparing these Financial Statements. They are summarized as follows

IFRS 9- Financial Instruments

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

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15). The standard replaces IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfer of Assets From Customers” and SIC 31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 is effective for periods beginning on or after January 1, 2017, permits early adoption, and is to be applied retrospectively. IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. The Company is in the process of evaluating the requirements of the new standard.

IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets

In May 2014, the IASB issued amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets. The amendments are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively. The amendments clarify the factors in assessing the technical or commercial obsolescence and the resulting depreciation period of an asset and state that a depreciation method based on revenue is not appropriate. The Company is in the process of evaluating the requirements of the new standard.

IFRS 11 – Joint Arrangements

In May 2014, the IASB issued amendments to IFRS 11 Joint Arrangements (IFRS 11). The amendments in IFRS 11 are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively. The amendments clarify the accounting for acquisition of interests in joint operations and require the acquirer to apply the principles on business combinations accounting in IFRS 3 Business combinations. The Company is in the process of evaluating the requirements of the new standard.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

5. Financial instruments:

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

Financial Assets	Carrying and Fair value	
	September 30, 2014	December 31, 2013
Cash (level 1 of fair value hierarchy ⁽⁴⁾)	\$ 12,047,571	\$ 11,239,537
Trade and other receivables ⁽¹⁾	1,232,864	936,392
	\$ 13,280,435	12,175,929
Financial Liabilities		
Accounts payable and accrued liabilities ⁽²⁾	\$ 6,423,276	\$ 8,726,178
Loans and borrowings ⁽³⁾	2,975,534	2,795,747
	\$ 9,398,810	11,521,925

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

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

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

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

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

6. Trade and other receivables

	September 30, 2014	December 31, 2013
Trade receivables	\$ 171,563	\$ -
Other receivables	126,560	19,377
Taxes recoverable	625,780	642,765
Prepaid expenses	308,961	274,250
	\$ 1,232,864	\$ 936,392

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For the three and nine months ended September 30, 2014 and 2013

7. Inventories

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

	September 30, 2014	December 31, 2013
Gold in process	\$ 1,152,761	\$ 1,705,666
Supplies	3,370,399	3,532,943
	<u>\$ 4,523,160</u>	<u>\$ 5,238,609</u>
Ore Stockpiles	<u>\$ 7,274,437</u>	<u>\$ 6,890,781</u>

8. Mining assets

The continuity of mining assets for the nine months ended September 30, 2014 is as follows:

	Construction in Progress	Mining and Exploration Properties	Plant and Equipment	Total
Cost at December 31, 2013	\$ 264,153	\$ 49,573,348	\$ 5,693,273	\$ 55,530,774
Additions:				
Additions in the period	3,600,812	5,195,622	172,150	8,968,584
Transfers in the period	(779,547)	-	779,547	-
Disposals in the period	-	-	(1,509,009)	(1,509,009)
Cost at September 30, 2014	<u>\$ 3,085,418</u>	<u>\$ 54,768,970</u>	<u>\$ 5,135,961</u>	<u>\$ 62,990,349</u>
Accumulated depreciation and amortization at December 31, 2013	\$ -	\$ (34,778,355)	\$ (3,827,760)	\$ (38,606,115)
Amortization charge for the period	-	(2,259,792)	(1,781,451)	(4,041,243)
Disposals in the period	-	-	1,106,038	1,106,038
Accumulated depreciation and amortization at September 30, 2014	<u>\$ -</u>	<u>\$ (37,038,147)</u>	<u>\$ (4,503,173)</u>	<u>\$ (41,541,320)</u>
Net book value, September 30, 2014	<u>\$ 3,085,418</u>	<u>\$ 17,730,823</u>	<u>\$ 632,788</u>	<u>\$ 21,449,029</u>

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

9. Impairment

	Three months ended September 30, 2014	Nine months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2013
Mining and Exploration Properties	\$ -	\$ -	\$ -	\$ 16,867,329
Inventory	-	-	-	955,264
	\$ -	\$ -	\$ -	\$ 17,822,593

a) Mining and Exploration Properties

As at June 30, 2013, the carrying value of the net assets of the Company exceeded its market capitalization, which is an indicator of potential impairment of the carrying value of its net assets. In addition, prior to the close of the quarter ended June 30, 2013, the gold price declined significantly and has subsequently remained at these lower levels. As a result the Company assessed the recoverable amount of its cash-generating unit (“CGU”), Mupane Gold Mining (Pty) Limited.

Key assumptions

The key assumptions used in determining the recoverable amount (fair value less costs to sell) for the CGU are commodity prices, discount rates, cash costs of production, capital expenditures, foreign exchange rates, and the value of in-situ ounces. The fair value of mining and exploration properties is determined primarily using an income approach based on unobservable inputs, and as a result, is classified within Level 3 of the fair value hierarchy.

The Company’s estimates of future metal prices are determined based on current prices, forward prices and forecasts of future prices prepared by industry analysts. For the June 30, 2013 impairment analysis, the Company estimated a gold price of \$1,400 per ounce.

The Company’s estimates of future cash costs of production and capital expenditures are based on the life of mine plan. Costs incurred in currencies other than the U.S. dollar are translated to U.S. dollar equivalents based on long-term forecasts of foreign exchange rates, on a currency by currency basis, obtained from independent sources of economic data.

The discount rate applied to present value the net future cash flows is based on a real weighted average cost of capital. For the June 30, 2013 impairment analysis, a discount rate of 6.25% was used.

The Company valued the potential of in-situ ounces declared in its latest mineral resource statement but not included in the life of mine plan. They were valued based on a review of the current market value of in-situ ounces recognised by the industry.

As at September 30, 2014, there were no indicators that suggested a review of the recoverable amount of the mining and exploration properties was required.

b) Inventory

As at September 30, 2013 an impairment charge of \$955,264 (September 30, 2014 - \$nil) was recorded within earnings from mining operations to reduce the carrying value of inventory to its net realizable value as per the June 30, 2013 impairment analysis carried out.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

10. Restoration and rehabilitation provision

	Restoration and rehabilitation provision	
At December 31, 2013	\$	3,117,685
Accretion during the nine month period ended September 30, 2014		241,776
At September 30, 2014	\$	3,359,461

11. Trade accounts payable and accrued liabilities:

	September 30, 2014		December 31, 2013	
Trade accounts payable	\$	5,038,315	\$	7,622,530
Accrued liabilities		1,384,961		1,103,648
	\$	6,423,276	\$	8,726,178

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

12. Income and Mining Taxes:

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

As a result of the effect of utilization of loss carry forwards available to the Company, the Company reported no income tax expense for the three and nine months ended September 30, 2014 (three and nine months ended September 30, 2013 - \$nil). The effective income tax rates vary from the combined Canadian federal and provincial statutory income tax rate of 26.50% for the nine months ended September 30, 2014 (nine months ended September 30, 2013 – 26.50%) due to the geographical distribution of earnings, which are subject to different tax rates, fluctuations in exchange rates and other non-deductible expenses.

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.

Due to the significant decline in the gold price prior to the close of June 30, 2013, the Company reassessed the carrying value of the deferred tax asset. It was considered that it was no longer probable, given the revised life of mine plan, that there would be sufficient taxable profits to utilize all or part of the deferred tax asset. As a result the Company derecognised \$1,809,000 of deferred tax asset.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

13. Interest-bearing loans and borrowings:

	September 30, 2014	December 31, 2013
Current		
Unsecured note ⁽¹⁾	\$ -	\$ 1,266,667
Mining Royalties ⁽²⁾	874,634	-
Secured Facility ⁽³⁾	1,939,000	-
Capital lease obligation ⁽⁴⁾	161,900	97,019
	\$ 2,975,534	\$ 1,363,686
Non-Current		
Unsecured note ⁽¹⁾	\$ -	\$ 1,266,666
Mining Royalties ⁽²⁾	2,623,900	-
Secured Facility ⁽³⁾	3,061,000	-
Capital lease obligation ⁽⁴⁾	38,428	165,395
	\$ 5,723,328	\$ 1,432,061

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

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

The unsecured note and all outstanding interest were paid in full on September 4, 2014.

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

- Royalties due to February 2015 to be deferred.
- Repayment of royalties due to February 2015 to commence in July 2015 over 12 months
- Interest to be charged from July 1, 2015 at Bank of Botswana commercial bank prime lending rate plus 5%.

⁽³⁾ The Company entered into a loan facility and gold prepayment agreement with Samsung C&T UK Ltd dated as of August 22, 2014. Details are as follows:

- Initial principal amount - \$5,000,000
- Interest rate - a variable rate dependent upon the price of the gold sold to Samsung with a minimum rate of LIBOR plus 4.5% and a maximum rate of LIBOR plus 14.7%. It will be calculated using a fixed discount rate to the then prevailing spot price upon delivery of up to 1,607 ounces of gold per month at 1.5% for the first 12 months and 0.5% for the remaining 12 months. Any amount of gold delivered in excess of 1,607 ounces is sold at the prevailing spot price without discount.
- Principal repayment - 17 instalments of \$277,000 and a final instalment of \$291,000 with the first instalment due in March 2015.
- Gold - delivery of a minimum of 1,607 ounces of gold per month for a period of two years (38,568 ounces in aggregate) payable by Samsung at the prevailing spot price upon delivery subject to discount as noted above.
- Security - The facility is currently secured by a pledge of the shares of the Company's wholly owned indirect subsidiary Mupane Gold Mining (Pty) Ltd. The pledge is to be replaced with a first charge against the assets of Mupane once the security has been perfected.

⁽⁴⁾ The Company acquired seven vehicles for use at the mine for total cost of \$405,448 and financed the purchase through capital lease obligations. The capital leases are for a term of 36 months, with average monthly payments per vehicle of \$1,070 per month principal and interest and a final payment of \$11,889.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

14. Share Capital

(a) Authorized share capital:

As at September 30, 2014, the authorized share capital of the Company consisted of an unlimited number of common shares. All issued shares are fully paid.

(b) Issued share capital:

During the nine month period ended September 30, 2014 the Company had the following share transactions:

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

On June 15, 2014, in accordance with the Company's share purchase plan ("SPP") 16,836 common shares were issued as Deferred Matching Shares.

During the nine month period ended September 30, 2013 the Company had the following share transactions:

On March 22, 2013, the Company issued an aggregate of 2,500,000 common shares to the Chairman and the former CEO of the Company pursuant to the terms of performance share agreements dated August 30, 2011. The associated compensation amount was recognized in 2012.

On June 15, 2013, in accordance with the SPP 21,045 common shares were issued as Deferred Matching Shares.

(c) Stock Options:

The Company has a stock option plan whereby options may be granted to directors, officers, employees and consultants. As at September 30, 2014, a maximum of 5,267,746 options to purchase common shares were issuable under the Company's stock option plan, of which 932,746 remained available for issuance.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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14. Share Capital (continued):

(d) Earnings (loss) per share:

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

	Three months ended September 30, 2014	Nine months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2013
Earnings (loss)	\$ (212,101)	\$ 1,214,012	\$ (1,875,469)	\$ (32,145,171)
Weighted average number of common shares outstanding for purposes of basic earnings per share	52,677,458	52,173,631	50,902,790	50,889,993
Dilutive deferred share units	-	1,530,682	-	-
Dilutive options	-	277,552	-	-
Weighted average number of common shares outstanding for the purpose of diluted earnings per share	52,677,458	53,981,865	50,902,790	50,889,993
Earnings (loss) per share				
Basic	\$ (0.00)	\$ 0.02	\$ (0.04)	\$ (0.63)
Diluted	\$ (0.00)	\$ 0.02	\$ (0.04)	\$ (0.63)

Basic earnings (loss) per share is computed by dividing the earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of outstanding warrants and stock options in the weighted average number of common shares outstanding during the period, if dilutive. For the three months ended September 30, 2014, all instruments were considered anti-dilutive due to the net loss in the period.

(e) Deferred Share Units

The Company has established a deferred share unit plan whereby deferred share units ("DSUs") may be granted to directors, officers, employees and consultants. As at September 30, 2014, a maximum of 5,266,062 DSUs were issuable under the Company's deferred share unit plan, of which 1,323,834 remained available for issuance.

On issuance of the DSUs the fair value is calculated as the quoted share price on date of grant times the number of DSUs issued. The compensation expense is then recognized over the vesting period of the DSUs. The Board at its discretion can determine the vesting schedule applicable to an award of DSUs at the time of award.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

15. Breakdown of earnings and comprehensive earnings items:

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

(a) Mining costs

	Three months ended September 30, 2014	Nine months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2013
Mining and production	\$ 6,485,900	\$ 22,046,260	\$ 12,437,094	\$ 38,246,465
Insurance proceeds ¹	(800,000)	(800,000)	-	-
Administrative	1,038,457	3,605,082	1,232,759	4,152,859
Total	\$ 6,724,357	\$ 24,851,342	\$ 13,669,853	\$ 42,399,324
Depreciation and amortization	1,759,397	4,041,243	1,274,212	8,812,986
	\$ 8,483,754	\$ 28,892,585	\$ 14,944,065	\$ 51,212,310

¹ Insurance proceeds represents cash received for fixed costs incurred while the mill motor was on breakdown. The full amount of the claim is still to be agreed.

(b) Corporate general and administration

	Three months ended September 30, 2014	Nine months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2013
On-going Professional fees	\$ 152,791	\$ 391,046	\$ 192,097	\$ 447,599
Stock based compensation	121,398	241,082	31,001	113,064
Corporate administration	364,963	1,081,473	315,029	1,129,164
	\$ 639,152	\$ 1,713,601	\$ 538,127	\$ 1,689,827

(c) Financing costs

	Three months ended September 30, 2014	Nine months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2013
Interest on long term debt	\$ 44,128	\$ 116,861	\$ 38,285	\$ 127,411
Movement in value of warrants denominated in foreign currency	-	-	-	(984,402)
Accretion on restoration and rehabilitation provision	82,606	241,776	158,315	508,251
	\$ 126,734	\$ 358,637	\$ 196,600	\$ (348,740)

(d) Other expenses

	Three months ended September 30, 2014	Nine months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2013
Other expenses (income)	\$ (4,215)	\$ (22,938)	\$ 8,063	\$ 63,272
Loss (Gain) on disposal of equipment	375,356	402,971	-	(17,667)
Staff retrenchment costs	237,728	237,728	-	473,274
	\$ 608,869	\$ 617,761	\$ 8,063	\$ 518,879

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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16. Commitments and Contingencies

(a) Royalty expenses

Production from the Company's Mupane operation is subject to third party royalties (included in mining costs) of 5% of revenues based on market prices at the date of shipment. For the nine month period ended September 30, 2014, the Company accrued \$1,632,805 in royalties (2013 - \$2,026,575).

(b) Operating contractual obligations

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

• Incurred during the nine month period ended September 30, 2014	<u>\$339,119</u>
• To be incurred in the remainder of 2014	<u>\$113,647</u>
• To be incurred 2014-2017	<u>\$1,351,105</u>

(c) Claims

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

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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17. Related party transactions

During the nine months ended September 30, 2014, the following related party transactions occurred:

- Charles Byron, a director of the Company:
 - Mr Byron was issued 660,000 common shares that were payable pursuant to the NLE acquisition (Note 14 (b));
 - The Company paid rent of \$7,505 for office premises to Great African Services (Pty) Ltd., a company owned by a consortium of individuals that includes Charles Byron (2013 - \$17,444);
- IAMGOLD, a shareholder with significant influence, by holding in excess of 20% of the common shares of the Company:
 - During the nine months ended September 30, 2014 the Company paid to IAMGOLD \$2,533,333 in cash representing the final payment on its interest bearing note (2013 - \$1,266,667);
 - The Company paid to IAMGOLD \$191,978 representing the final interest payable on its interest bearing note (2013 - \$89,127).

The remuneration of directors and other members of key management personnel during the nine months ended September 30, 2014 are as follows:

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Salaries	\$ 1,107,335	427,041
Management fees ⁽¹⁾	90,000	435,936
Directors fees	71,705	170,352
Share-based compensation ⁽²⁾	241,082	113,064
	\$ 1,510,122	1,146,393

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

(2) Share-based compensation is the fair value of options, deferred matching shares and DSU's granted to key management personnel.

18. Segmented information

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

	Canada	Botswana	Total
Cash	\$ 66,183	\$ 11,981,388	\$ 12,047,571
All other assets	178,708	34,300,782	34,479,490
Balance, September 30, 2014	\$ 244,891	\$ 46,282,170	\$ 46,527,061