

Consolidated Financial Statements  
(In U.S. dollars)

**GALANE GOLD LTD.**

For the years ended December 31, 2019 and December 31, 2018



## *Independent auditor's report*

To the Shareholders of Galane Gold Ltd.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Galane Gold Ltd. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Material uncertainty related to going concern*

We draw attention to Note 2 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Platt.

**(signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
April 28, 2020

# GALANE GOLD LTD.

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

	Note	December 31, 2019	December 31, 2018
<b>Assets</b>			
Current assets:			
Cash		\$ 2,201,853	\$ 4,173,052
Trade receivables and other current assets	7	2,196,520	1,849,945
Inventories	8	4,947,196	4,410,241
		9,345,569	10,433,238
Non-current assets:			
Mining properties	9	36,584,539	34,133,406
Plant and equipment	9	2,328,285	1,788,543
		38,912,824	35,921,949
		\$ 48,258,393	\$ 46,355,187
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	12	\$ 9,345,504	\$ 9,321,370
Interest-bearing loans and borrowings	13	13,089,675	3,947,288
Warrants denominated in a foreign currency	15	1,228,626	-
		23,663,805	13,268,658
Non-current liabilities:			
Interest-bearing loans and borrowings	13	6,050,059	10,571,690
Warrants denominated in a foreign currency	15	-	1,109,662
Restoration and rehabilitation provision	10	5,625,905	6,420,233
		11,675,964	18,101,585
Equity			
Share capital	15	39,975,999	38,329,654
Reserves	15	2,626,081	2,515,382
Deficit		(29,683,456)	(25,860,092)
		12,918,624	14,984,944
		\$ 48,258,393	\$ 46,355,187

Going Concern (note 2)

Commitments and contingencies (note 17)

Approved and authorized by the Board on April 28, 2020:

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"Ravi Sood" Director "Dino Titaro" Director

See accompanying notes to the consolidated financial statements.

# GALANE GOLD LTD.

Consolidated Statements of Loss and Comprehensive Loss  
(In U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

	Note	2019	2018
Mining revenue		\$ 41,402,404	\$ 44,650,021
Mining cost	16	40,570,107	41,678,596
Earnings from mining operations		832,297	2,971,425
Expenses:			
Exploration costs		4,111	196,038
Foreign exchange (gain) loss		28,524	(1,634,469)
Corporate general and administration	16	1,704,567	2,980,094
Financing costs	16	2,179,175	916,925
Other (income) expenses	16	739,284	834,782
		4,655,661	3,293,370
Loss for the year before taxation		(3,823,364)	(321,945)
Taxation	14	-	-
Net loss and comprehensive loss for the year		\$ (3,823,364)	\$ (321,945)
Basic loss per common share	15	\$ (0.02)	\$ (0.00)
Diluted loss per common share	15	\$ (0.02)	\$ (0.00)
Weighted average number of common shares – basic	15	201,811,934	160,267,774
Weighted average number of common shares – diluted	15	201,811,934	160,267,774

See accompanying notes to the consolidated financial statements.

# GALANE GOLD LTD.

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

Years ended December 31, 2019 and December 31, 2018

	No te	Capital Stock		Reserves		Total
		Number	Amount	Stock based payments	Deficit	
<b>Balance as at December 31, 2017</b>		146,804,760	37,348,880	2,280,668	(25,538,147)	14,091,401
Stock-based compensation	15	-	-	203,312	-	203,312
Warrants expired unexercised	15	-	-	31,402	-	31,402
Common shares issued	15	54,000,000	980,774	-	-	980,774
Net loss for the year		-	-	-	(321,945)	(321,945)
<b>Balance as at December 31, 2018</b>		200,804,760	38,329,654	2,515,382	(25,860,092)	14,984,944
Stock-based compensation	15	-	-	140,138	-	140,138
Warrants exercised	15	22,436,150	1,616,906	-	-	1,616,906
DSUs issued	15	160,000	29,439	(29,439)	-	-
Net loss for the year		-	-	-	(3,823,364)	(3,823,364)
<b>Balance as at December 31, 2019</b>		223,400,910	39,975,999	2,626,081	(29,683,456)	12,918,624

See accompanying notes to the consolidated financial statements.

# GALANE GOLD LTD.

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

Years ended December 31, 2019 and December 31, 2018

	Note	2019	2018
Cash flows from operating activities:			
Net loss for the year		\$ (3,823,364)	\$ (321,945)
Items not involving cash:			
Depreciation and amortization	9	5,744,653	5,682,391
Loss on disposal of equipment	9	-	38,541
Asset write-off – exploration expenses	9	408,781	-
Stock based compensation	15	140,138	203,312
Accretion	11	391,105	378,077
Change in estimate -Restoration and rehabilitation provision	11	(994,248)	-
Interest expense	16	903,203	522,309
Foreign exchange		158,418	(1,233,492)
Net change in fair value of warrants	15d	884,867	16,539
Deferred financing charges	16	20,563	-
Working capital adjustments:			
Change in trade and other receivables		(325,028)	(368,430)
Change in inventories		(532,507)	362,112
Change in trade and other payables		(56,843)	(1,056,578)
Cash flows from operating activities		2,919,738	4,222,836
Cash flows from investing activities:			
Mining assets acquired	9	(8,202,814)	(3,656,286)
Capitalised concentrate sales		1,890,399	
Cash flows used in investing activities		(6,312,415)	(3,656,286)
Cash flow from financing activities:			
Warrants exercised		851,003	-
Debenture principal paid		(1,566,486)	-
Debenture interest paid		(479,843)	-
Equity issue		-	2,106,000
Equity issue costs		-	(32,102)
Deferred royalty paid		(1,219,116)	(215,930)
Deferred royalty interest paid		(340,884)	(284,074)
Barak facility drawdown		5,000,000	-
Barak facility fees		(200,000)	-
Capital lease obligation paid		(656,690)	(467,874)
Cash flows used in financing activities		1,387,984	1,106,020
Increase (decrease) in cash		(2,004,693)	1,672,570
Effect of foreign exchange rates on cash		33,494	(50,219)
Cash, at January 1		4,173,052	2,550,701
Cash, at December 31		\$ 2,201,853	\$ 4,173,052

See accompanying notes to the consolidated financial statements.

# GALANE GOLD LTD.

Notes to Consolidated Financial Statements

(In U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

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## 1. Corporate Information

Galane Gold Ltd. (the “Company” or “Galane”) 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. Going Concern

These financial statements were prepared using international financial reporting standards that are applicable to a going concern.

Subsequent to year-end several measures have been implemented in Botswana, South Africa and the rest of the world in response to the increased impact from COVID-19. The Company has been notified by the Republic of Botswana Government that, as a mining operation, Mupane is deemed an essential operation and is allowed to keep operating during the country’s 28 day lockdown which commenced on April 2, 2020. For Mupane to continue in operation it has been working closely with the Department of Mines to agree on protocols to manage the potential for spread of COVID-19 between its employees and in particular, in its underground operations. During this period Mupane production has been restricted, although approval was granted on April 28, 2020 to recommence operations. The Galaxy project was placed on temporary care and maintenance in late March, as mandated by the government of South Africa. On April 23, 2020, the Company was notified that Galaxy had been designated as an essential service and can operate at 50% of its normal capacity. The Company is currently working on a plan that complies with the capacity and enhanced operating requirements. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on our business operations, including the duration and impact on our future production, cannot be reasonably estimated at this time and we anticipate this could have an adverse impact on the Company’s financial position, results of operation and cash flows. The Company’s liquidity and ability to continue as a going concern may also be impacted.

As at December 31, 2019, the Company had a working capital deficiency (current assets less current liabilities) of \$14.3 million compared to a deficiency of \$2.8 million at December 31, 2018.

During 2019, the Company paid, on a timely basis, the 5% royalty to the government of Botswana on all gold sales in accordance with the terms of the royalty. The royalty expense for the year ended December 31, 2019, was \$2.1 million, which was funded from cash flows from operations, in addition to \$1.6 million repaid from deferred royalties in accordance with the agreement with the Government of Botswana for the repayment of deferred royalties. The increase in working capital deficiency is primarily due to an increase of \$5.7 million in the current deferred royalties, with the total outstanding balance of \$6.9 million now classified as a current liability. While management projects that the current gold price would allow the Company to repay the deferred royalties consistent with the payment schedule agreed with the Government of Botswana, the Company has entered into discussions with the Government of Botswana to reschedule the outstanding balance, however with the current focus on the COVID-19 shutdown of non-essential services in the country, these discussions have now been put on hold.

The impact of the COVID-19 pandemic results in material uncertainties which may give rise to significant doubt as to the ability of the Company to continue as a going concern. Because of these uncertainties, there can be no assurance that the measures that management are taking to mitigate the impact of the COVID-19 pandemic will be successful.

# GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

The ongoing strength in gold prices and positive operating performance at the Mupane mine have resulted in earnings from mining operations of \$0.8 million in 2019 compared to \$3.0 million in 2018. In addition, cash flow generated from operations in 2019 was \$2.9 million, after royalty payments made in the normal course of business, compared to \$4.2 million of cashflow from operations in 2018. The Company has no material commitments for capital expenditures at the Mupane mine as of December 31, 2019.

The current commodity price and exchange rate environment can be volatile, which may have an impact on the Company's cash flows. Despite the higher gold price currently being realized, the Company continues to review its near term operating plans and to take steps to reduce costs and maximize cash flow generated from operations.

These financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used, that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

### 3. 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 ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements were approved by the Board of Directors of the Company (the "Board") on April 28, 2020.

#### (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 December 31, 2019
Galane Gold Mines Ltd.	Canada	100%
Mupane Gold Mines Limited	Mauritius	100%
Gallery Gold Pty Ltd.	Australia	100%
Mupane Gold Mining Proprietary Limited	Botswana	100%
The Northern Lights Exploration Company (Pty) Ltd.	Botswana	100%
Galaxy Gold Mining (Pty) Limited	South Africa	83%

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

# GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

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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 Proprietary Limited (Botswana) (100% owned), Galaxy Gold Reefs (Pty) Ltd. (South Africa) (90% owned by Galaxy Gold Mining (Pty) Limited), Southern Cross Exploration and Development (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.

## **(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 resources:**

Mineral resources 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. 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 and resource statements also require an estimate of the future price for the commodity in question and an estimate of the future costs of operations. 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 4(b) – Business combinations
- Note 4(g) – Depreciation and amortization rates
- Note 4(i)(ii) – Impairment of non-financial assets
- Note 4(j) – Restoration and rehabilitation provision
- Note 4(f)(ii) – Deferred stripping

# GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

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**(ii) Impairment of mining properties and plant and equipment:**

Mining properties and plant and equipment are considered for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Assessment of impairment indicators involves the application of a number of significant judgements over internal and external factors including resource estimation, status of legal ownership, changes in government legislation, and regulations, the availability of financing and various other operational factors. If any such indication exists, an estimate of recoverable amount is undertaken. If the asset's carrying amount exceeds its recoverable amount, an impairment loss is recognized in the Company's statement of loss.

**(iii) Determination of deferred income tax assets:**

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. No deferred income tax asset has been recognised in these financial statements as it is not currently considered probable that they will be able to be realised. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that future taxable profit will be available to allow the deferred tax asset to be recovered. For more information, refer to Note 13.

**(iv) Share-based payments and warrants:**

Equity-settled share-based payments are measured at fair value at the grant date; warrants denominated in a foreign currency are measured at fair value through profit or loss. The fair value of options and warrants is determined using a Black-Scholes option pricing model based on assumptions including volatility, expected life, expected dividends and risk-free interest rate. A change in any or a combination of the key assumptions used to determine the fair value of share-based payments at grant date or warrants denominated in a foreign currency at the reporting date could have a material impact on their carrying values and the amount recorded in earnings.

**(v) Restoration and rehabilitation provision:**

Amounts recorded for restoration and rehabilitation provision require management to estimate the future costs the Company will incur to complete the reclamation and remediation work required to comply with applicable laws and regulations as well as the timing of the reclamation activities and estimated discount rate. Future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation costs.

**(vi) Going Concern**

Significant judgements are used in the Company's assessment of its ability to continue as a going concern which is described in Note 2.

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. The current and expected impacts on global commerce are anticipated to be far reaching. To date there have been significant stock market declines, significant volatility in commodity and foreign exchange markets and the global movement of people and some goods has become restricted. There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that it may have on our ability to ship and sell gold dore and gold concentrate, on our suppliers, on our employees and on global financial markets.

# **GALANE GOLD LTD.**

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

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Management is required to exercise judgment in order to ensure that disclosures relating to liquidity and the Company's ability to continue as a going concern are appropriate. To this end, the Company manages liquidity risk by maintaining an adequate level of cash and cash equivalents to meet its short-term ongoing obligations and reviews its actual expenditures and forecast cash flows on a regular basis and matches the maturity dates of its cash equivalents to capital and operating needs. Changes in production levels, and gold prices, foreign exchange rates and other factors all impact the Company's liquidity position.

## **4. Significant accounting policies:**

### **(a) Foreign currency translation**

Transactions in foreign currencies are translated 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 loss and comprehensive loss. 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.

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 loss and comprehensive loss on the acquisition date.

Costs directly related to business combinations are expensed in the year they are incurred.

If a transaction does not meet the definition of a business under IFRS, the transaction is recorded as an asset acquisition. Accordingly, the net identifiable assets acquired and liabilities assumed are measured at the fair value of the consideration paid, based on their relative fair values at the acquisition date. Acquisition-related costs are included in the consideration paid and capitalized.

### **(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. Financial liabilities are not recognized unless one of the parties has a legal or constructive obligation or the contract is a derivative contract.

On initial recognition, financial assets and liabilities are classified as and measured at: amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("OCI") according to their contractual cash flow characteristics and the business models under which they are held.

# **GALANE GOLD LTD.**

Notes to Consolidated Financial Statements

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Years ended December 31, 2019 and December 31, 2018

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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.

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.

## **Non-derivative financial instruments**

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

Warrants denominated in foreign currency are classified as fair value through profit or loss. Any unrealized gains or losses related to changes in the fair value are included in financing income or financing costs.

### *Other financial instruments*

Financial assets are measured at amortized cost if they are held for the collection of contractual cash flows where those cash flows solely represent payments of principal and interest. The Company's intent is to hold these financial assets in order to collect contractual cash flows and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding. All of the Company's financial assets fall under this category.

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 mining royalties, capital lease obligations, shareholder loans and accounts payable and accrued liabilities.

## **(d) Cash and cash equivalents**

Cash and cash equivalents comprise of cash in bank accounts and on hand and other short-term investments with initial maturities of less than 90 days.

## **(e) 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.

# GALANE GOLD LTD.

Notes to Consolidated Financial Statements

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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 for the period, and decreases in ore stockpiles are recorded in mining costs using the weighted average cost per tonne. Ore stockpiles are segregated between current and long-term inventories based on when they are expected to be processed.

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.

## **(f) 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.

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.

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

- Mine development; and
- Stripping costs

## **(i) Mine development**

Upon determination of technical feasibility and commercial viability of an exploration and evaluation asset, all subsequent expenditure is capitalized to mine development costs and the related costs are amortized when the projects are brought into production. Mine development costs include expenditures to develop new ore bodies, define further mineralization in existing ore bodies, construct and install or complete infrastructure facilities. Mine development costs are net of proceeds from the sale of ore extracted during the development phase.

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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.

## **(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 overburden removal activity to access ore which will be mined in future periods.

## **(g) Depreciation and amortization**

Mining properties and property, 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 life of mine, 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.

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 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. When no further future economic benefits are expected from an asset it will be de-recognised. Any gain or loss on de-recognition of the asset is included in the consolidated statement of loss and comprehensive loss in the year the asset is de-recognised.

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## **(h) Mineral exploration and evaluation costs**

Costs incurred to acquire new rights to explore mineral properties are capitalised. Exploration costs that do not relate to existing mining properties are expensed. The Company considers evaluation costs to have commenced once it has determined it is likely the Company will carry out economic mining activities for that ore body in the future. This assessment requires significant management judgement. Costs to evaluate the technical feasibility and commercial viability of a mineral property are capitalised. The Company reviews each exploration and evaluation asset as costs are incurred to ensure conditions for capitalisation still exist. Capitalised amounts are then assessed for indications of impairment at the end of each reporting period.

When the technical feasibility and commercial viability of the mineral property is determined, any capitalised costs are transferred to mine development costs and the balance is tested for impairment.

## **(i) Impairment**

### **(i) Financial assets**

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in the credit risk.

### **(ii) Non-financial assets**

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

The Company conducts quarterly 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 of disposal ("FVLCD") 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. The Company considers that it currently has two CGUs, being the Mupane mine and the Galaxy mine.

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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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 metal prices, operating costs, capital and site restoration expenses and estimated future foreign exchange and inflation rates, as defined under IFRS for FVLCD and VIU. Management's assumptions and estimates of future cash flows are subject to risks 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.

## **(j) Restoration and rehabilitation provision**

The Company records the present value of estimated costs of legal and constructive obligations required to restore and rehabilitate sites 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 environment is disturbed. 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 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.

## **(k) 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 or substantially 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.

### **(ii) Deferred income tax**

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

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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 as noted above.

The carrying amount of deferred income tax assets is reviewed at each period end date 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 period end date 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. 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 period end date.

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.

## **(I) Revenue recognition**

Revenues comprise sales of gold. Revenues from the sale of gold are recognized when control is transferred to the customer. Control transfers when gold is delivered to the customer, the customer has full discretion over the gold and there is no unfulfilled obligation that could affect the customer's acceptance of the gold. Control over the gold produced is transferred to the customer and revenue recognized upon delivery to the customer.

In the year ended December 31, 2019 the Company commenced selling gold concentrate from the Galaxy mine. Because the sales are prior to the Galaxy mine reaching commercial production, the sale proceeds have been offset against the capitalized costs of the construction and ramp up of the mine and have not been recorded as revenue.

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## **(m) Share-based payments**

The Company has a stock option plan that is described in Note 15(c), and deferred share unit plan described in Note 15(e). Share-based payments to employees are measured at the fair value of the instruments issued and are 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 balance is transferred to share capital. Charges for options that are forfeited before vesting are reversed through income.

## **(n) Earnings (loss) per share**

Basic earnings (loss) 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 (loss) 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.

## **5. New accounting standards adopted relevant to the Company**

The Company adopted the following IFRS standards effective January 1, 2019.

- (a) IFRS 16 Leases** - The Company adopted IFRS 16 on a modified retrospective basis effective January 1, 2019. The adoption of this standard did not have any measurement impact on prior period financial results or financial position.

On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 8.5%.

The change in accounting policy had the following effect on the balance sheet on January 1, 2019:

- Recognition of Right of Use liabilities of \$1,896,294 (Note 13).
- Recognition of Right of Use assets of \$1,896,294 (Note 9).

From January 1, 2019, leases are recognized as a right of use asset and corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use assets are depreciated over the shorter of their useful life and the lease term on a straight-line basis.

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## 6. Galaxy Share Donation

On March 19, 2019, the Company donated 17% of the issued and outstanding shares of Galaxy Gold Mining (Pty) Limited (“Galaxy”) to Phakamani Foundation Trust (operating as Phakamani Foundation NPC). The donation was made in relation to the terms of the *Mineral and Petroleum Resources Development Act, 2004* of South Africa, together with the *Broad-Based Social-Economic Empowerment Charter for Mining and Mineral Industry, 2018* and the requirement for Galaxy, as holder of existing gold mining rights, to be comprised, directly or indirectly, of at least a 20% shareholding by historically disadvantaged persons (the “BEE Requirement”).

On March 19, 2019, 10% of the issued and outstanding shares of Galaxy Gold Reefs (Pty) Ltd, was donated to a South African community based trust and a South African local employee share scheme. The donation was made in relation to the BEE Requirement.

Because the Company is deemed, for accounting purposes, to control the various trusts, these donations do not give rise to non-controlling interests.

## 7. Trade receivables and other current assets

	December 31, 2019	December 31, 2018
Trade receivables	\$ 464,873	\$ 262,434
Taxes recoverable	409,869	647,657
Prepaid expenses	644,689	847,128
Other receivables	677,089	92,726
	<u>\$ 2,196,520</u>	<u>\$ 1,849,945</u>

## 8. Inventories

	December 31, 2019	December 31, 2018
Gold in process	\$ 966,822	\$ 681,773
Supplies	3,675,542	3,425,227
Ore Stockpiles	304,832	303,241
	<u>\$ 4,947,196</u>	<u>\$ 4,410,241</u>

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## 9. Mining assets

The continuity of mining assets for the years ended December 31, 2019 and December 31, 2018 is as follows:

	Construction in Progress	Mining Properties	Plant and Equipment	Total
Cost at December 31, 2018	\$ 3,530,565	\$ 86,784,253	\$ 6,303,891	\$ 96,618,709
Adjustment on adoption of IFRS 16 (Note 5)	-	1,321,388	574,906	1,896,294
Restated balance at January 1, 2019	3,530,565	88,105,641	6,878,797	98,515,003
Movements:				
Additions <sup>(1)</sup>	4,455,716	1,656,457	980,188	7,092,361
Capitalised Interest	-	507,663	-	507,663
Change in estimate	-	(352,009)	-	(352,009)
Asset write-off - exploration expense	-	(408,781)	-	(408,781)
Disposals	-	-	(112,715)	(112,715)
Cost at December 31, 2019	\$ 7,986,281	\$ 89,508,971	\$ 7,746,270	\$ 105,241,522
Accumulated depreciation and amortization at December 31, 2018	\$ -	\$ (56,181,412)	\$ (4,515,348)	\$ (60,696,760)
Depreciation and amortization	-	(4,729,301)	(1,015,352)	(5,744,653)
Disposals	-	-	112,715	112,715
Accumulated depreciation and amortization at December 31, 2019	\$ -	\$ (60,910,713)	\$ (5,417,985)	\$ (66,328,698)
Net book value, December 31, 2019	\$ 7,986,281	\$ 28,598,258	\$ 2,328,285	\$ 38,912,824

(1) The additions for the current year include capitalised interest of \$507,663 related to the Barak facility that was utilised to fund the restart of the Galaxy mine (note 13)

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	Construction in Progress	Mining Properties	Plant and Equipment	Total
Cost at December 31, 2017	\$ 2,503,251	\$ 84,282,797	\$ 7,034,231	\$ 93,820,279
Movements:				
Additions	1,109,506	2,659,444	228,087	3,997,037
Transfers	(82,192)	(157,988)	240,180	-
Disposals	-	-	(1,198,607)	(1,198,607)
Cost at December 31, 2018	\$ 3,530,565	\$ 86,784,253	\$ 6,303,891	\$ 96,618,709
Accumulated depreciation and amortization at December 31, 2017	\$ -	\$ (51,554,433)	\$ (4,620,002)	\$ (56,174,435)
Depreciation and amortization	-	(4,626,979)	(1,055,412)	(5,682,391)
Disposals	-	-	1,160,066	1,160,066
Accumulated depreciation and amortization at December 31, 2018	\$ -	\$ (56,181,412)	\$ (4,515,348)	\$ (60,696,760)
Net book value, December 31, 2018	\$ 3,530,565	\$ 30,602,841	\$ 1,788,543	\$ 35,921,949

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## 10. Financial instruments

### (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, accounts payable and accrued liabilities and borrowings.

### (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, 2019, the Company's cash balance was \$2,201,853 (2018 - \$4,173,052), and it had a working capital deficit (current assets less current liabilities) of \$14,318,236 (2018 - \$2,835,420) (Note 2).

The Company has a treasury policy to assist in managing its 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 the trade receivable is considered minimal as gold and gold concentrate is sold to creditworthy major banks and offtake partners and settled promptly, usually within the following month. Gold concentrate is sold under pricing arrangements where final prices are set at a specified future date based on market gold prices. At December 31, 2019, there was \$524,712 outstanding (2018 - \$52,843) included in trade and other receivables relating to gold production.

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

### (iii) 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 (“ZAR”) and Botswana Pula (“BWP”), along with the Canadian dollar. Net assets (liabilities) denominated in currencies other than U.S. Dollar are summarised as follows:

U.S. Dollars	December 31, 2019	December 31, 2018
South African Rand	(4,707,561)	(5,284,507)
Botswana Pula	(9,741,976)	(7,154,154)
Canadian Dollar	(82,887)	504,782
	(14,532,424)	(11,933,879)

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 \$1,605,554 (2018 – \$1,084,898). 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 resulted in a decrease in the Company’s earnings for the year of \$1,584,739 (2018 – \$1,325,987). This analysis assumes that all other variables, in particular interest rates, remain constant.

### (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’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.

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.

There have been no changes in the Company’s capital management strategy during the period.

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## 11. Restoration and rehabilitation provision

	Restoration and rehabilitation provision	
January 1, 2018	\$	6,530,831
Foreign exchange movement		(488,675)
Accretion during the year		378,077
At December 31, 2018		6,420,233
Change in estimate		(1,346,257)
Foreign exchange movement		160,824
Accretion during the year		391,105
At December 31, 2019	\$	5,625,905

For the Mupane provision, management of the Company used a pre-tax nominal discount rate of 4.59% in preparing the Company's provision. The undiscounted inflation adjusted liability for the restoration and rehabilitation provision as at December 31, 2018 is \$2,601,077 (BWP 27,218,615) (2018 - \$3,980,893 or BWP 42,712,592).

For the Galaxy provision, management of the Company used a pre-tax nominal discount rate of 8.75% in preparing the Company's provision. The undiscounted inflation adjusted liability for the restoration and rehabilitation provision as at December 31, 2019 is \$4,641,838 (ZAR 66,989,302) (2018 - \$4,658,019 or ZAR 66,989,302).

## 12. Accounts payable and accrued liabilities:

	December 31,		December 31,	
	2019		2018	
Trade accounts payable	\$	7,921,914	\$	7,475,382
Accrued liabilities		1,423,590		1,845,988
	\$	9,345,504	\$	9,321,370

Trade payables and accrued liabilities are non-interest bearing.

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## 13. Interest-bearing loans and borrowings:

	December 31, 2019	December 31, 2018
Current:		
Debentures (1)	\$ -	\$ 2,690,970
Mining Royalties (2)	6,934,825	1,219,116
Lease liabilities (3)	788,289	37,202
Barak loan facility (4)	5,288,829	-
Barak royalty (4)	77,732	-
	<u>\$ 13,089,675</u>	<u>\$ 3,947,288</u>
Non-Current:		
Debentures (1)	\$ 4,475,516	\$ 3,608,028
Mining Royalties (2)	-	6,963,662
Lease liabilities (3)	1,412,879	-
Barak royalty (4)	161,664	-
	<u>\$ 6,050,059</u>	<u>\$ 10,571,690</u>

- (1) The Company issued unsecured debentures to certain loan holders of Galaxy and other parties as settlement of amounts previously due on the acquisition of Galaxy in 2015. The original principal amount of the debentures was \$5,650,269 and was originally due on November 20, 2019. The debentures have a fixed interest rate of 4% per annum, compounded annually. \$728,000 of such principal was repaid on September 27, 2019.

In accordance with an amended and restated debenture agreed to between the Company and a debenture holder in the second quarter of 2018: (i) \$3,249,433 of the principal amount of debentures is repayable on November 20, 2021 and is convertible into common shares at a price of C\$0.15 per common share, based on a pre-determined exchange rate; (ii) interest is convertible into common shares, based on a pre-determined exchange rate, at a price equivalent to the greater of C\$0.15 and the Discounted Market Price (as defined by the TSX Venture Exchange) at the time of conversion; (iii) the Company has a right of forced conversion for the principal where the trading price of the common shares exceeds C\$0.15 for 10 consecutive trading days; and (iv) commencing January 1, 2018, interest for a calendar year is due and payable on March 31 of the subsequent year, with the first such payment being due on March 31, 2019. The first payment of interest under the rescheduled agreement was made in April 2019.

Pursuant to an amending instrument dated September 30, 2019: (i) \$1,672,836 of the principal amount of the debentures is now repayable on November 20, 2021, (ii) such amount of principal is convertible into common shares at a price of C\$0.20 per common share, based on a pre-determined exchange rate, with interest on such principal convertible into common shares, based on a pre-determined exchange rate, at a price equivalent to the greater of C\$0.20 and the Discounted Market Price at the time of conversion, subject to acceptance of the TSX Venture Exchange, and (iii) the Company has a right of forced conversion for such principal where the trading price of the common shares exceeds C\$0.20 for 10 consecutive trading days. On December 15, 2019 the Company prepaid an additional \$838,486 of the principal and \$12,517 of interest on the debentures subject to this amending instrument.

- (2) The Government of Botswana royalties were all recorded as current liabilities at December 31, 2019, however on March 19, 2018 an agreement was reached with the government regarding royalties payable on the sale of gold and subsequent repayment thereof under the following terms:

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- \$8,398,709 of royalties deferred at December 2017 were to be repaid as follows:
  - principal repayments of \$21,593 per month for ten months commencing March 2018 (all paid),
  - principal repayments of \$101,593 per month for 12 months commencing January 2019 (all paid), and
  - the remaining balance to be repaid in 12 equal monthly payments commencing January 2020;
- interest to be charged at Bank of Botswana commercial bank prime lending rate plus 5%, applied on a simple interest basis, equating to \$28,407 per month over the 34 month repayment period; and
- the deferral amount is unsecured.

The Company is currently engaging with the Government of Botswana to negotiate a rescheduling of the repayments due in 2020, as yet no agreement has been reached between the parties. The Company repaid \$200,000 in each of January and February 2020.

- (3) The Company acquired a Komatsu Excavator in March 2019 and financed \$189,000 of the acquisition costs, and acquired a Remote GHH Loader in November 2019 and financed \$591,000. The term of the loans is 24 months, with payments of approximately \$8,600 and \$18,600 respectively coming due each month including payment of the principal and interest of between 8.25% and 8.5%. The loan is secured by the assets related to such loans.

On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as at January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on January 1, 2019, was 8.5%. A Right of use liability of \$1,896,294 was recognized on the initial application at January 1, 2019

- (4) On October 2, 2018, the Company finalized a loan agreement with Barak Fund SPC Limited (“Barak”) with respect to a \$5,000,000 secured loan facility (the “Barak Facility”), for a term ending three years from the date of the first drawdown and bearing interest at a rate of 14% per annum. The funds have been used towards the refurbishment and expansion of the processing facilities and restarting underground mining operations at the Galaxy Gold Mine in Barberton, South Africa. The Company has agreed to pay to Barak, or its nominee, 0.75% of the net proceeds accruing to Galaxy under an off-take agreement covering the annual gold concentrate production of the Agnes gold mine in Barberton owned and operated by Galaxy, after taking into account all attributable logistics and freight costs, State Royalties (as defined in the Barak Facility) and value-added tax (if applicable). The Company received the funds from drawdown requests totalling \$5,000,000 under the Barak Facility up to December 31, 2019. As the Company was in breach of the current ratio covenant at year end, the entire outstanding balance of the loan facility has been classified as a current liability in accordance with IFRS 7.

## Contractual Repayment Schedule

	2020	2021	2022 onwards	Total
	\$	\$	\$	\$
Debentures	-	4,475,516	-	4,475,516
Mining royalties	6,934,825	-	-	6,934,825
Lease liabilities	921,929	725,879	837,975	2,485,783
Barak loan facility	5,507,663	-	-	5,507,663
Barak royalty	77,732	149,229	12,435	239,396
<b>Total</b>	<b>13,442,149</b>	<b>5,350,624</b>	<b>850,410</b>	<b>19,643,183</b>

# GALANE GOLD LTD.

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In (U.S. dollars)

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## 14. Income taxes:

A reconciliation between tax expense and the product of accounting income multiplied by the combined federal and Ontario tax rate of 26.50% (2018 - 26.50%) is as follows:

	2019	2018
Accounting income (loss) before income tax	\$ (3,823,364)	\$ (321,945)
Statutory income tax rate	26.5%	26.5%
Expected income tax (recovery) expense	\$ (1,013,191)	\$ (85,315)
(Non-taxable)/non-deductible items	44,209	53,878
Differences in foreign income tax rates	(58,102)	(160,243)
Change in unrecognised deferred tax assets	1,027,084	191,680
Income tax expense/(recovery)	\$ -	\$ -

Net deferred tax assets have not been recognised in respect of the following, because it is not probable that future taxable profits will be available against which the group can use the benefits therefrom:

	2019	2018
Unused tax losses	\$ 50,988,904	\$ 57,019,762
Restoration and Rehabilitation provisions	2,601,077	3,687,707
Mining properties	(9,911,784)	(12,083,278)
Plant and equipment	(1,657,080)	(3,382,182)
Mining royalties payable	7,036,419	8,182,779
Un-deducted finance costs	219,673	332,789
	\$ 49,277,209	\$ 53,757,577

The unused tax losses by jurisdiction are as follows:

	2019	2018
Botswana	\$ 36,266,536	\$ 43,761,870
Canada	14,722,368	13,257,892
	\$ 50,988,904	\$ 57,019,762

The Botswana tax losses are classified as an operating loss and can be carried forward indefinitely. The Canadian losses are non-capital losses and expire over the years 2026 to 2038.

# **GALANE GOLD LTD.**

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## **15. Share Capital**

### **(a) Authorized share capital:**

As at December 31, 2019, the authorized share capital of the Company consisted of an unlimited number of common shares without par value. All issued shares are fully paid.

### **(b) Issued share capital:**

As at December 31, 2019, 223,400,910 common shares are issued and outstanding.

The common shares issued and outstanding increased in 2019 with the issue of 160,000 common shares under the Company's DSU plan (see note 15e) on November 7, 2019, and a warrant holder exercising their rights to purchase 22,436,150 Common Shares on December 15, 2019. The warrant holder purchased the common shares at a price of C\$0.05 per common share pursuant to the terms of the warrant, with proceeds received of \$851,003. The increase in share capital of \$1,616,906 resulted from attributing the closing share price on the date of exercise of C\$0.095 to the shares issued under the exercise of the warrants.

The Company issued 54,000,000 common shares during the year ended December 31, 2018. The increase in Common Shares issued and outstanding was due to the closing of a non-brokered private placement (the "Private Placement") on October 1, 2018 of 54,000,000 units (the "Units") at a price of C\$0.05 per Unit for aggregate gross proceeds of C\$2,700,000. Each Unit was comprised of one Common Share and one Common Share purchase warrant (each, a "Warrant"). The Warrant allows for the purchase of an additional common share at a cost of C\$0.05 within 2 years of the original share purchase. The warrants were attributed a value of \$1,093,123 using the Black-Scholes valuation method, and are recorded as a liability at FVTPL (Note 15d).

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Notes to Consolidated Financial Statements

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## (c) Stock options:

The Company has a stock option plan whereby options to purchase common shares may be granted to directors, officers, employees and consultants. As at December 31, 2019 options to purchase a maximum of 22,340,091 common shares were issuable under the Company's stock option plan, of which 9,640,091 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, and options can be granted for a maximum term of ten years, with certain restrictions as to limits on amounts granted to insiders, consultants or persons engaged in investor relations activities.

The following is a summary of stock options outstanding as at December 31, 2019 and December 31, 2018 along with changes during the years then ended:

	Number of Options	Weighted Average Exercise Price (CDN\$)
Balance December 31, 2017	9,700,000	\$ 0.11
Options expired	(1,000,000)	0.12
Balance December 31, 2018 <sup>(1)(2)</sup>	8,700,000	\$ 0.11
Options granted	5,000,000	0.09
Options forfeited	(1,000,000)	0.12
Balance December 31, 2019 <sup>(1)(2)</sup>	12,700,000	\$ 0.10

<sup>(1)</sup> The weighted average time to expiration for outstanding options is 2.9 years.

a. The range of exercise price are Cdn.\$0.085 to Cdn.\$0.125.

<sup>(2)</sup> As at December 31, 2019, 5,535,000 options were exercisable (2018 – 2,970,000).

The Company recognizes share-based compensation expense for all stock options granted using the fair value on grant date as calculated by using the Black Scholes Model. The Company used the following weighted average assumptions for the Model in 2019:

	2019
- Risk free interest rate	1.13%
- Expected volatility	133%
- Expected life	5 years
- Dividend rate	nil

# GALANE GOLD LTD.

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## (d) Warrants:

The following is a summary of warrants outstanding as at December 31, 2019 and December 31, 2018 and changes during the years then ended:

	Number of Warrants	Weighted Average Exercise Price (CDN\$)
Balance, December 31, 2017	520,016	0.18
Expired November 16, 2018	(520,016)	0.18
Issued October 1, 2018	54,000,000	0.05
Balance, December 31, 2018	54,000,000	0.05
Exercised December 15, 2019	(22,436,150)	0.05
Balance, December 31, 2019	31,563,850	0.05

The following is a summary of the value of the warrants outstanding as at December 31, 2019 and December 31, 2018 and the changes during the years then ended:

	Warrants denominated in a foreign currency (\$)
Balance, December 31, 2017	31,402
Expired November 16, 2018	(31,402)
Issued October 1, 2018 (Note 15b)	1,093,123
Revaluation	16,539
Balance, December 31, 2018	1,109,662
Exercised December 15, 2019	(873,165)
Revaluation	992,129
Balance, December 31, 2019	1,228,626

<sup>(1)</sup> Using the Black Scholes Model the outstanding warrants that remained outstanding as part of the private placement were valued at \$1,228,626 at year end. The assumptions used in the Black Scholes Model are:

- Risk free interest rate	1.69%
- Expected volatility	85%
- Expected life at December 31, 2019	9 months

## (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 December 31, 2019, a maximum of 13,262,888 DSUs were issuable under the Company’s deferred share unit plan, of which 4,967,060 remained available for issuance (2018 – maximum 13,262,888 of which 7,327,060 remained available). Included in stock-based compensation was \$65,062 in relation to the DSUs (2018 – \$88,481). The total value of the DSUs still to be expensed at December 31, 2019 is \$118,095 (December 31, 2018 – \$33,547). On issuance of the DSUs the fair value is calculated as the quoted share price on the 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.

# GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2019 and December 31, 2018

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**(f) Loss per share:**

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Loss attributable to Galane Shareholders	\$ (3,823,364)	\$ (321,945)
Weighted average number of common shares outstanding for purposes of basic earnings per share	201,811,934	160,267,774
Dilutive deferred share units	-	-
Dilutive options	-	-
Weighted average number of common shares outstanding for the purpose of diluted earnings per share	201,811,934	160,267,774
Loss per share		
Basic	\$ (0.02)	\$ (0.00)
Diluted	\$ (0.02)	\$ (0.00)

In the year ended December 31, 2019, 12,700,000 stock options, 31,563,850 warrants and 7,170,046 deferred share units were excluded from the calculation of loss per share as they were anti-dilutive. In the year ended December 31, 2018, 8,700,000 stock options, 54,000,000 warrants, 4,970,046 deferred share units were excluded from the calculation of loss per share as they were anti-dilutive.

# GALANE GOLD LTD.

Notes to Consolidated Financial Statements

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## 16. Breakdown of statement of loss and comprehensive loss items:

### (a) Mining costs

	2019	2018
Mining and production	\$ 31,312,092	\$ 32,436,728
Administrative	3,513,362	3,559,477
Total costs	34,825,454	35,996,205
Depreciation and amortization	5,744,653	5,682,391
	\$ 40,570,107	\$ 41,678,596

### (b) Corporate general and administration

	2019	2018
Professional fees	\$ 431,664	\$ 864,426
Corporate administration	1,132,765	1,912,356
Share-based compensation	140,138	203,312
	\$ 1,704,567	\$ 2,980,094

### (c) Financing costs

	2019	2018
Interest on long term debt	\$ 903,203	\$ 522,309
(Decrease) / Increase in value of warrants denominated in foreign currency (note 15d)	884,867	16,539
Accretion on restoration and rehabilitation provision	391,105	378,077
	\$ 2,179,175	\$ 916,925

### (d) Other (income) / expenses

	2019	2018
Other expenses (income)	\$ 28,267	\$ 29,206
Net deferred financing charges	20,565	-
Change in estimate – Restoration and rehabilitation provision	(994,248)	-
Asset write-off – exploration expense	408,781	-
Galaxy ongoing costs	1,275,919	805,576
	\$ 739,284	\$ 834,782

## 17. Commitments and Contingencies

### (a) Tax assessments

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 such amounts have been provided for in these financial statements.

# GALANE GOLD LTD.

Notes to Consolidated Financial Statements

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## 18. Related party transactions

During the year ended December 31, 2019 and 2018, no related party transactions occurred.

The remuneration of directors and other members of key management personnel during the year ended December 31, 2019 is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Salaries	\$ 648,484	\$ 1,504,141
Directors fees	255,284	252,618
Share-based compensation <sup>(1)</sup>	147,497	203,312
	\$ 1,051,265	\$ 1,960,071

(1) Share-based compensation is the fair value of options, deferred matching shares and DSUs granted to key management personnel.

## 19. 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 the Republic of South Africa. In the year ended December 31, 2019 and 2018 all revenues of the Company were earned in the Republic of Botswana. A breakdown of the total assets by geographic segment is as follows:

	Canada	South Africa	Botswana	Total
Cash	\$ 100,517	\$ 219,320	\$ 1,882,016	\$ 2,201,853
All other assets	86,486	21,239,660	24,730,394	46,056,540
Balance, December 31, 2019	\$ 187,003	\$ 21,458,980	\$ 26,612,410	\$ 48,258,393

	Canada	South Africa	Botswana	Total
Cash	\$1,237,790	\$ 403,381	\$ 2,531,881	\$ 4,173,052
All other assets	82,590	12,668,754	29,430,791	42,182,135
Balance, December 31, 2018	\$1,320,380	\$ 13,072,135	\$ 31,962,672	\$ 46,355,187