Consolidated Financial Statements
(In U.S. dollars)

GALANE GOLD LTD.

For the years ended December 31, 2017 and December 31, 2016

April 16, 2018

Independent Auditor's Report

To the Shareholders of Galane Gold Ltd.

We have audited the accompanying consolidated financial statements of Galane Gold Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Galane Gold Ltd. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants

GALANE GOLD LTD.

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

	Notes	December 31, 2017	December 31, 2016
Assets			
Current assets:			
Cash		$ 2,550,701	$ 823,740
Trade receivables and other current assets	7	1,582,958	1,369,988
Inventories	8	4,772,353	6,925,512
		8,906,012	9,119,240
Non-current assets:			
Mining properties	9	35,231,615	37,133,946
Plant and equipment	9	2,414,229	2,374,730
		37,645,844	39,508,676
		$ 46,551,856	$ 48,627,916
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	12	$ 10,921,451	$ 11,384,627
Interest-bearing loans and borrowings	13	8,862,616	6,276,950
		19,784,067	17,661,577
Non-current liabilities:			
Interest-bearing loans and borrowings	13	6,114,155	9,181,548
Warrants denominated in a foreign currency	15	31,402	142,523
Restoration and rehabilitation provision	11	6,530,831	5,620,295
		12,676,388	14,944,366
Equity			
Share capital	15	37,348,880	37,139,370
Reserves	15	2,280,668	2,077,781
Deficit		(25,538,147)	(23,195,178)
Equity attributable to Galane Gold Ltd. Shareholders		14,091,401	16,021,973
		$ 46,551,856	$ 48,627,916

Commitments and contingencies (note 17)

Approved and authorized by the Board on April 16, 2018:

"Ravi Sood " Director *"Ian Egan "* Director

The notes on pages 7 to 34 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Years ended December 31, 2017 and December 31, 2016

	Note		2017		2016
Mining revenue		$	37,295,656	$	32,664,379
Mining cost	16		35,564,762		33,969,498
Earnings (loss) from mining operations			1,730,894		(1,305,119)
Expenses:					
Exploration costs			220,869		26,527
Foreign exchange loss			1,710,944		1,710,398
Corporate general and administration	16		1,879,748		2,098,602
Financing costs	16		1,193,001		858,310
Other (income) expenses	16		(930,699)		663,859
			4,073,863		5,357,696
Loss for the year before taxation			(2,342,969)		(6,662,815)
Taxation	14		-		-
Net loss and comprehensive loss for the year		$	(2,342,969)	$	(6,662,815)
Attributable to:					
Equity holders of Galane Gold Ltd.		$	(2,342,969)	$	(5,916,740)
Non-controlling interest			-		(746,075)
Net loss and comprehensive loss for the year		$	(2,342,969)	$	(6,662,815)
Basic loss per common share	15	$	(0.02)	$	(0.05)
Diluted loss per common share	15	$	(0.02)	$	(0.05)
Weighted average number of common shares – basic	15		146,410,997		117,591,580
Weighted average number of common shares	15		146,410,997		117,591,580

The notes on pages 7 to 34 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Years ended December 31, 2017 and December 31, 2016

		Capital Stock		Reserves				
	Notes	Number	Amount	Stock based payments	Deficit	Attributable to Galane Shareholders	Non-Controlling Interest	Total
Balance as at December 31, 2015		71,314,442	$ 36,401,916	$ 1,814,369	$ (16,760,292)	$ 21,455,993	$ 610,811	$ 22,066,804
Rights Offering	15	71,314,442	555,331	-	-	555,331	-	555,331
Stock-based compensation	15	-	-	274,745	-	274,745	-	274,745
Participation in share purchase plan	15	120,000	11,333	(11,333)	-	-	-	-
Non-controlling interest acquisition		2,340,094	170,790	-	(518,146)	(347,356)	135,264	(212,092)
Net loss for the year		-	-	-	(5,916,740)	(5,916,740)	(746,075)	(6,662,815)
Balance as at December 31, 2016		145,088,978	37,139,370	2,077,781	(23,195,178)	16,021,973	-	16,021,973
Stock-based compensation	15	-	-	271,298	-	271,298	-	271,298
Warrants expired and unexercised	15	-	-	113,349	-	113,349	-	113,349
Deferred share units issued	15	965,782	164,431	(164,431)	-	-	-	-
Options exercised		750,000	45,079	(17,329)	-	27,750	-	27,750
Net loss for the year		-	-	-	(2,342,969)	(2,342,969)	-	(2,342,969)
Balance as at December 31, 2017		146,804,760	37,348,880	2,280,668	(25,538,147)	14,091,401	-	14,091,401

The notes on pages 7 to 34 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

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

Years ended December 31, 2017 and December 31, 2016

	Notes	2017	2016
Cash flows from operating activities:			
Net loss for the year		$ (2,342,969)	$ (6,662,815)
Items not involving cash:			
Capitalised critical spares expensed		-	86,801
Depreciation and amortization	9	4,161,119	4,080,964
Stock based compensation	15	271,298	274,745
Accretion	11	390,916	234,542
Interest expense	16	799,857	625,011
Foreign exchange		700,807	408,264
Loss (gain) on revaluation of warrants		2,228	(1,242)
Deferral of royalties payable	13, 17	1,915,633	1,702,082
Working capital adjustments:			
Change in trade and other receivables		(132,915)	(476,600)
Change in inventories		2,153,160	1,804,192
Change in trade and other payables		(1,010,475)	2,596,730
Cash flows from operating activities		6,908,659	4,672,673
Cash flows from investing activities:			
Acquisition of non-controlling interest		-	(78,616)
Mining assets acquired	9	(2,298,287)	(5,002,522)
Cash flows used in investing activities		(2,298,287)	(5,081,138)
Cash flow from financing activities:			
Short term note		499,888	-
Repayment of short term note		(1,000,000)	-
Rights offering		-	555,331
Interest paid		(28,233)	(101,943)
Options exercised		27,750	
Repayment of interest bearing loans		(1,961,767)	(1,011,000)
Capital lease obligation paid		(426,363)	(101,626)
Cash flows used in financing activities		(2,888,725)	(659,238)
Increase (Decrease) in cash		1,721,647	(1,067,703)
Effect of foreign exchange rates on cash		5,314	4,264
Cash, at January 1		823,740	1,887,179
Cash, at December 31		$ 2,550,701	$ 823,740

The notes on pages 7 to 34 are an integral part of these consolidated financial statements.

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. Liquidity risk

As at December 31, 2017, the Company had a working capital deficiency of $10.9 million compared to a deficiency of $8.5 million at December 31, 2016. Included in working capital as at December 31, 2017 is $8.4 million due to the government of Botswana relating to outstanding royalty payments. Subsequent to year end, $8.2 million of this balance has been deferred until after 2018 (see Note 20).

Commencing from January 1, 2018, the Company will be required to pay, on a timely basis, the 5% royalty to the government of Botswana on all future gold sales in accordance with the terms of the royalty. The royalty expense for the year ended December 31, 2017 was $1.9 million. As a result, for the year ending December 31, 2018 the Company has a debt repayment obligation, after adjusting for the deferred royalties referred to above, of $1.0 million, which the Company expects to be able to fund from cash flows from operations. During the year ended December 31, 2017, a net of $2.9 million in interest bearing debt was repaid.

The strength in gold prices and improved operating performance at the Mupane mine have had a positive impact on the Company's operating results, resulting in earnings from mining operations of $1.7 million in 2017 compared to a loss of $1.3 million in 2016. In addition, cash flow generated from operations in 2017 was $6.9 million compared to $4.7 million in 2016. The Company has no material commitments for capital expenditures at the Mupane mine as of December 31, 2017.

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.

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, as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements were approved by the Board of Directors on April 16, 2018.

(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, 2016	Accounting Method
Galane Gold Mines Ltd.	Canada	100%	Consolidation
Mupane Gold Mines Limited	Mauritius	100%	Consolidation
Gallery Gold Pty Ltd.	Australia	100%	Consolidation
Mupane Gold Mining Proprietary Limited	Botswana	100%	Consolidation
The Northern Lights Exploration Company (Pty) Ltd.	Botswana	100%	Consolidation
Galaxy Gold Mining Limited	South Africa	100%	Consolidation

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.

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. (100% owned), Southern Cross Exploration and Development (Pty) Ltd. (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 ("CIM Standards on Mineral Resources and Reserves"). A mineral reserve is a technical estimate of the amount of metal or mineral that can be economically extracted from a mineral deposit. Mineral reserve and resource estimates include numerous uncertainties and depend heavily on geological interpretations and statistical inferences drawn from drilling and other data. Reserve 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 3(b) – Business combinations and goodwill
- Note 3(f) – Depreciation rates
- Note 3(h)(ii) – Impairment of non-financial assets
- Note 3(i) – Restoration and rehabilitation provision
- Note 3(ii) – Deferred stripping

(ii) 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. There is no certainty that income tax rates will be consistent with current estimates. For more information, refer to Note 14.

(iii) 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 were 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.

(iv) 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.

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. A regular way purchase of financial assets is recognized using the trade date accounting. Financial liabilities are not recognized unless one of the parties has a legal or constructive obligation or the contract is a derivative contract.

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

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

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, interest bearing loans and borrowings and warrants denominated in foreign currency. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are classified and measured as described below.

Financial instruments at fair value through profit or loss

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

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

Other financial instruments

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

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

(d) Inventories

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

Ore stockpiles are valued at the lower of cost and net realizable value. The cost of ore stockpiles is increased based on the related current mining cost per tonne of the period, and decreases in ore stockpiles are 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.

(e) Mining properties and plant and equipment

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

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

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

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.

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.

(f) Depreciation and amortization

Mining properties 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.

(g) 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.

(h) Impairment

(i) Financial assets

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

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

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

(ii) Non-financial assets

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

The Company conducts annual impairment assessments of the values of long-lived assets, including mining assets and exploration and evaluation assets. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the asset's fair value less costs 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.

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. If the Company fails to achieve its valuation assumptions or if any of its long-lived assets experiences a decline in its fair value, then this may result in an impairment charge, which would reduce the Company's earnings.

(i) Restoration and rehabilitation provision

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

(j) Income taxes

(i) Current income tax

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

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.

(k) Revenue recognition

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

(l) Share-based payments

The Company has a stock option plan that is described in Note 15(c), an employee share purchase plan described in Note 15(b) contingent shares described in Note 15(e) and deferred share unit plan described in Note 15(f). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve balance is transferred to share capital. Charges for options that are forfeited before vesting are reversed through income.

(m) 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 following accounting standards are to be adopted in the future:

(a) IFRS 9 – Financial instruments
The IASB has issued IFRS 9, Financial Instruments, which is a four-part project proposing to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning or after January 1, 2018. The Company has evaluated the impact of this standard on its financial statements and it does not expect any significant measurement or presentation differences to arise.

(b) IFRS 15 – Revenue from Contracts with Customers
In May 2015, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15). The standard replaces IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets From Customers" and SIC 31 "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 is effective for periods beginning on or after January 1, 2018 and is to be applied retrospectively. IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. The Company has evaluated the impact of this standard on its financial statements and it does not expect any measurement or presentation differences to arise.

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

In (U.S. dollars)

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

The amendments provide requirements on the accounting for:

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

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The Company expects adoption of the standard to have a minimal impact on its financial statements.

6. Acquisitions:

Galaxy Acquisition:
On November 16, 2016, the Company completed the compulsory acquisition of the remaining 26.6% of the ordinary shares of Galaxy that it did not already own by the payment of approximately Cdn.$235,000 cash to holders of such shares who elected to receive cash consideration and the issuance of 2,340,094 common shares and common share purchase warrants exercisable to acquire an aggregate of up to 520,016 common shares until November 16, 2018 at Cdn.$0.175 per common share to holders of such shares who elected to receive securities of the Company in lieu of cash consideration. As a result, the Company became the beneficial owner of 100% of the shares of Galaxy.

7. Trade receivables and other current assets

		December 31, 2017		December 31, 2016
Trade receivables	$	501,890	$	394,543
Taxes recoverable		380,431		297,525
Prepaid expenses		616,807		575,070
Other receivables		83,830	$	102,850
	$	1,582,958	$	1,369,988

8. Inventories

		December 31, 2017		December 31, 2016
Gold in process	$	855,376	$	1,379,742
Supplies		3,062,476		3,110,903
Ore Stockpiles		854,501		2,434,867
	$	4,772,353	$	6,925,512

In (U.S. dollars)

9. Mining assets

The continuity of mining assets for the years ended December 31, 2017 and December 31, 2016 is as follows:

	Construction in Progress	Mining Properties	Plant and Equipment	Total
Cost at December 31, 2016	$ 2,654,539	$ 82,806,525	$ 6,203,247	$ 91,664,311
Additions:				
Additions	657,848	1,476,272	164,167	2,298,287
Transfers	(809,136)	-	809,136	-
Disposals	-	-	(142,319)	(142,319)
Cost at December 31, 2017	$ 2,503,251	$ 84,282,797	$ 7,034,231	$ 93,820,279
Accumulated depreciation and amortization at December 31, 2016	$ -	$ (48,327,118)	$ (3,828,517)	$ (52,155,635)
Depreciation and amortization	-	(3,227,315)	(933,804)	(4,161,119)
Disposals	-	-	142,319	142,319
Accumulated depreciation and amortization at December 31, 2017	$ -	$ (51,554,433)	$ (4,620,002)	$ (56,174,435)
Net book value, December 31, 2017	$ 2,503,251	$ 32,728,364	$ 2,414,229	$ 37,645,844

In (U.S. dollars)

	Construction in Progress	Mining Properties	Plant and Equipment	Total
Cost at December 31, 2015	$ 197,179	$ 78,524,767	$ 6,157,224	$ 84,879,170
Additions:				
Additions	2,457,360	4,281,758	132,824	6,871,942
Disposals	-	-	(86,801)	(86,801)
Cost at December 31, 2016	$ 2,654,539	$ 82,806,525	$ 6,203,247	$ 91,664,311
Accumulated depreciation and amortization at December 31, 2015	$ -	$ (44,327,942)	$ (3,746,729)	$ (48,074,671)
Depreciation and amortization	-	(3,999,176)	(81,788)	(4,080,964)
Disposals	-	-	-	-
Accumulated depreciation and amortization at December 31, 2016	$ -	$ (48,327,118)	$ (3,828,517)	$ (52,155,635)
Net book value, December 31, 2016	$ 2,654,539	$ 34,479,407	$ 2,374,730	$ 39,508,676

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, 2017, the Company's cash balance was $2,550,701 (2016 - $823,740), and it had a working capital deficit of $10,878,055 (2016 – $8,542,337) (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 is sold to creditworthy major banks and settled promptly, usually within the following month. At December 31, 2017, there was $115,113 outstanding (2016 - $10,708) included in trade and other receivables relating to gold production.

The credit risk related to receivables from government related to taxes, mineral rights and exploration tax credits, included in trade and other receivables, relates to not receiving amounts claimed 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, 2017	December 31, 2016
South African Rand	(6,204,675)	(6,063,373)
Botswana Pula	(7,674,016)	(6,740,761)
Canadian Dollar	(1,019,834)	(1,222,918)
	(14,898,525)	(14,027,052)

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 $1,354,511 (2016 – $1,275,187). 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 $1,655,392 (2016 – $1,358,798). This analysis assumes that all other variables, in particular interest rates, remain constant.

In (U.S. dollars)

(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 Company's capital is as follows:

	December 31, 2017	December 31, 2016
Cash	$2,550,701	$823,740
Interest-bearing loans and borrowings	$14,976,771	$15,458,498
Shareholders' equity	$14,091,401	$16,021,973
	$29,068,172	$31,480,471

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.

11. Restoration and rehabilitation provision

		Restoration and rehabilitation provision
January 1, 2016	$	3,656,728
Revaluation		1,729,025
Accretion during the year		234,542
At December 31, 2016		5,620,295
Revaluation		519,620
Accretion during the year		390,916
At December 31, 2017	$	6,530,831

The Company accounts for provisions for its operating assets Mupane and Galaxy.

For the Mupane provision, management of the Company used a pre-tax nominal discount rate of 3.63% in preparing the Company's provision. The undiscounted inflation adjusted liability for the restoration and rehabilitation provision as at December 31, 2016 is $3,943,022 (BWP 38,229,964) (2016 - $3,762,607 or BWP 39,763,235).

For the Galaxy provision, management of the Company used a pre-tax nominal discount rate of 9.62% in preparing the Company's provision. The undiscounted inflation adjusted liability for the restoration and rehabilitation provision as at December 31, 2017 is $5,421,995 (ZAR 66,989,302) (2016 - $4,469,100 or ZAR 61,110,474).

In (U.S. dollars)

12. Accounts payable and accrued liabilities:

		December 31, 2017		December 31, 2016
Trade accounts payable	$	8,761,301	$	9,566,761
Accrued liabilities		2,160,150		1,817,866
	$	10,921,451	$	11,384,627

Trade payables and accrued liabilities are non-interest bearing.

13. Interest-bearing loans and borrowings:

		December 31, 2017		December 31, 2016
Current:				
Mining Royalties (2)	$	8,398,709	$	2,932,110
Secured Facility Mupane (3)		-		1,990,000
Shareholder Loans Galaxy (4)		-		825,863
Capital lease obligation (5)		463,907		528,977
	$	8,862,616	$	6,276,950
Non-Current:				
Debentures (1)	$	6,072,987	$	5,846,976
Mining Royalties (2)		-		2,932,110
Capital lease obligation (5)		41,168		402,462
	$	6,114,155	$	9,181,548

(1) The Company issued unsecured debentures to certain Galaxy loan holders and other parties as settlement of amounts previously due on the acquisition of Galaxy in 2015. The terms of the debentures are as follows:

- initial principal amount - $5,650,269;
- principal repayment - on November 20, 2019;
- interest rate - fixed rate of 4% per annum, compounded annually and payable on the principal repayment date;
- $2,400,836 of such principal is convertible into common shares at a price of Cdn.$0.58 per share, based on a pre-determined exchange rate, with interest convertible into common shares, based on a pre-determined exchange rate, at a price equivalent to the greater of Cdn.$1.00 and the Discounted Market Price (as defined by the TSX Venture Exchange) at the time of conversion, subject to acceptance of the TSX Venture Exchange; and
- $3,249,433 of such principal is convertible into common shares at a price of Cdn.$0.58 per share, based on a pre-determined exchange rate, with interest convertible into common shares, based on a pre-determined exchange rate, at a price equivalent to the greater of Cdn.$0.58 and the Discounted Market Price (as defined by the TSX Venture Exchange) at the time of conversion, subject to acceptance of the TSX Venture Exchange.

(2) The Government of Botswana royalties were all recorded as current liabilities at December 31, 2017, 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 (see Note 20):

- $8,398,709 of royalties deferred to December 2017 will commence repayment in March 2018 over 34 months as follows:
    - principal repayments of $21,593 per month for ten months commencing March 2018,
    - principal repayments of $101,593 per month for 12 months commencing January 2019, 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.

(3) The Company entered into a loan facility and gold prepayment agreement with Samsung C&T UK Ltd dated as of August 22, 2014, as amended in November 2015, February 2017, March 2017 and April 2017. The current terms of the loan facility and the gold prepayment agreement are as follows:

- the final scheduled payment of $328,000 was made in October 2017;
- in each month following the repayment period and for such period as gold dore is produced Samsung will have the right to request delivery of all gold dore produced from the Tau ore body and the low grade stockpiles. In each case the price for the gold produced can be selected by Samsung from any one of the four London Bulletin AM or PM dollar gold fixing prices falling either on the delivery date or on the day immediately following the delivery date, less a discount of 2%; and
- in each month following the repayment period Samsung has been provided with the right of first refusal to purchase all gold produced from the Company's operations in Botswana on terms that are no more favourable than offered by a third party;

(4) There are numerous shareholder loan agreements entered into in connection with the acquisition of Galaxy denominated in South African Rand. The terms of the agreements are:

- the rate of interest is between 15% per annum and South African prime rate plus 6% calculated and compounded monthly; and
- under South African law the shareholder loan amounts are prescribed during the year which allows the Company to write-off the outstanding shareholder loan balances.

(5) The Company acquired one light vehicle in 2014 for use at the mine for total cost of $27,000 and financed the purchase through capital lease obligations. The capital leases are for a term of 36 months, with average monthly payments of $870 per month principal and interest and a final payment of $11,889, with the final payment paid in June 2017. In addition, the Company acquired a Komatsu Dozer in March 2015 and financed $535,000 of the acquisition costs. The lease term is 48 months with monthly payments of approximately $13,500 per month principal and interest. In December 2016, the Company acquired an Atlas Copco Simba drilling machine and financed $617,000 of the acquisition cost. The lease term is 24 months with monthly payments of approximately $28,616 in principal and interest.

Contractual Repayment Schedule

	2018	**2019**	**2020**	**Total**
	$	$	$	$
Mining Royalties	8,398,709	-	-	8,398,709
Capital lease obligation	463,907	41,168	-	505,075
Debentures	-	6,072,987	-	6,072,987
Total	8,862,616	6,114,155	-	14,976,771

In (U.S. dollars)

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% (2016 - 26.50%) is as follows:

		2017		2016
Accounting income (loss) before income tax	$	(2,342,969)	$	(6,662,815)
Statutory income tax rate		26.5%		26.5%
Expected income tax (recovery) expense	$	(620,887)	$	(1,765,646)
(Non-taxable)/non-deductible items		71,894		80,445
Differences in foreign income tax rates		(10,757)		(26,529)
Change in unrecognised deferred tax assets		559,750		1,711,730
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:

		2017		2016
Unused tax losses	$	61,511,505	$	60,776,788
Restoration and Rehabilitation provisions		3,606,746		3,210,107
Mining properties		(15,217,274)		(16,968,318)
Plant and equipment		(2,324,908)		(2,432,136)
Mining royalties payable		8,398,709		5,864,220
Un-deducted finance costs		400,000		175,128
	$	56,374,778	$	50,625,789

The unused tax losses by jurisdiction are as follows:

		2017		2016
Botswana	$	51,089,366	$	52,096,630
Canada		10,422,139		8,680,313
	$	61,511,505	$	60,776,788

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 2037.

15. Share Capital

(a) Authorized share capital:

As at December 31, 2017, 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:

As at December 31, 2017, 146,804,760 common shares are issued and outstanding.

The Company issued 1,715,782 common shares during the year ended December 31, 2017. The Company issued 965,782 common shares pursuant to the Company's deferred share unit plan at a weighted average price of C$0.17. There were also 750,000 common shares issued following the exercise of options at an exercise price of C$0.05 per share.

During the year ended December 31, 2016, the Company had the following share transactions:

On May 9, 2016, the Company closed an offering (the "Rights Offering") with a total of 71,314,442 common shares issued pursuant to the Rights Offering at an issuance price of C$0.01.

On November 16, 2016, the Company issued 2,340,094 common shares to holders of ordinary shares of Galaxy who elected to receive common shares.

On December 15, 2016, 120,000 common shares were issued as deferred matching shares under the employee share purchase plan.

In (U.S. dollars)

(c) Stock options:

The Company has a stock option plan whereby options may be granted to directors, officers, employees and consultants. As at December 31, 2017, a maximum of 14,680,476 options to purchase common shares were issuable under the Company's stock option plan, of which 4,980,476 remained available for issuance. Under the Company's stock option plan, the Company may grant options for up to 10% of the issued and outstanding common shares to directors, officers, employees and consultants. Under the plan, the exercise price and vesting is at the discretion of the Board, can be granted for a maximum term of ten years, with certain restrictions as to limits on amounts granted to insiders, consultants or person engaged in investor relations activities.

The following is a summary of stock options outstanding as at December 31, 2017 and December 31, 2016 along with changes during the years then ended:

	Number of Options		Weighted Average Exercise Price (CDN$)
Balance December 31, 2015 and 2014	3,255,000	$	0.54
Options expired	(1,165,000)		0.78
Options granted May 27, 2016, expiring May, 27, 2017	1,000,000		0.05
Options granted August 17, 2016, expiring August 17, 2021	8,200,000		0.12
Balance December 31, 2016 (1) (2)	11,290,000	$	0.18
Options expired	(1,090,000)		0.84
Options cancelled	(250,000)		0.05
Options exercised (3)	(750,000)		0.05
Options granted May 29, 2017, expiring May 29, 2022	500,000		0.10
Balance December 31, 2017 (1) (2)	9,700,000	$	0.11

(1) The weighted average time to expiration for outstanding options is 3.1 years.
  a. The range of exercise price are Cdn.$0.095 to Cdn.$0.12.

(2) As at December 31, 2017, 2,690,000 options were exercisable (2016 – 3,218,898).

(3) The weighted average share price on the exercise dates for the 2017 stock option exercises was CA$0.09 (2016 – n/a).

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 2017:

	2017	**2016**
- Risk free interest rate	0.94%	1.02%
- Expected volatility	8.99%	80.00%
- Expected life	5 years	2.5 years
- Dividend rate	nil	nil

A share-based compensation amount of $166,570 has been recognized in general and administrative expenses for stock options in the year ended December 31, 2017 (2016 - $138,920).

In (U.S. dollars)

(d) Warrants:

The following is a summary of warrants outstanding as at December 31, 2017 and December 31, 2016 and changes during the years then ended:

	Number of Warrants	Weighted Average Exercise Price (CDN$)
Balance, December 31, 2015	4,076,598	0.10
Warrants issued November 16, 2016 [1]	520,016	0.18
Balance, December 31, 2016	4,596,614	0.11
Warrants expired November 20, 2017	(4,076,598)	0.10
Balance, December 31, 2017	520,016	0.18

[1] Using the Black Scholes Model the warrants issued on the acquisition of the minority interest in Galaxy were valued at $30,416 on issuance. The assumptions used in the Black Scholes Model are:

- Risk free interest rate	0.61%
- Expected volatility (using historic volatility of comparable companies as a basis)	143%
- Expected life at December 31, 2016	3 years and 11 months

(e) NLE Shares:

The Company entered into an agreement (the "NLE Agreement") on July 27, 2011 to acquire all of the issued and outstanding shares of NLE.
The NLE Agreement provides for the issuance of up to an additional 8,750,000 common shares upon the achievement of exploration milestones on the NLE mineral properties within seven years from the date of the closing of the NLE Acquisition. On April 8, 2014, the Company issued an aggregate of 1,375,000 common shares as a result of the achievement of the first milestone. As a result, the Company provided for a share based compensation amount of $157,986 (1,375,000 common shares at a price of CDN$0.12 per share) which was recognized as an addition to fixed assets.

(f) 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, 2017, a maximum of 13,262,888 DSUs were issuable under the Company's deferred share unit plan, of which 7,327,060 remained available for issuance (2016 – maximum 13,262,888 of which 9,423,844 remained available). Included in stock based compensation was $104,726 in relation to the DSUs (2016 – $124,493). The total value of the DSUs still to be expensed at December 31, 2017 is $129,388 (December 31, 2016 – $69,945). 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.

In (U.S. dollars)

(g) Loss per share:

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

	December 31, 2017	December 31, 2016
Loss attributable to Galane Shareholders	$ (2,342,969)	$ (5,916,740)
Weighted average number of common shares outstanding for purposes of basic earnings per share	146,410,997	117,591,580
Dilutive deferred share units	-	-
Dilutive options	-	-
Weighted average number of common shares outstanding for the purpose of diluted earnings per share	146,410,997	117,591,580
Loss per share		
Basic	$ (0.02)	$ (0.05)
Diluted	$ (0.02)	$ (0.05)

In the year ended December 31, 2017, 9,700,000 stock options, 520,016 warrants and 4,970,046 deferred share units were excluded from the calculation of loss per share as they were anti-dilutive. In the year ended December 31, 2016, 11,290,000 stock options, 4,596,614 warrants, 3,839,044 deferred share units excluded from the calculation of loss per share as they were anti-dilutive.

In (U.S. dollars)

16. Breakdown of earnings and comprehensive earnings items:

The following is a breakdown of certain items in the consolidated statement of loss and comprehensive loss:

(a) Mining costs

		2017		2016
Mining and production	$	27,510,234	$	25,897,392
Administrative		3,893,409		3,991,142
Total costs		31,403,643		29,888,534
Depreciation and amortization		4,161,119		4,080,964
	$	35,564,762	$	33,969,498

(b) Corporate general and administration

		2017		2016
Professional fees	$	423,429	$	736,877
Corporate administration		1,185,021		1,086,979
Share-based compensation		271,298		274,745
	$	1,879,748	$	2,098,602

(c) Financing costs

		2017		2016
Interest on long term debt	$	799,857	$	625,011
(Decrease) / Increase in value of warrants denominated in foreign currency		2,228		(1,243)
Accretion on restoration and rehabilitation provision		390,916		234,542
	$	1,193,001	$	858,310

(d) Other (income) / expenses

		2017		2016
Other income	$	(14,372)	$	(14,537)
Galaxy ongoing costs		(916,327)		678,396
	$	(930,699)	$	663,859

In (U.S. dollars)

17. Commitments and Contingencies

(a) Royalty expenses

Production from the Mupane operation is subject to royalties due to the Government of Botswana (included in mining costs) of 5% of revenues based on market prices at the date of shipment. For the year to December 31, 2017, the Company expensed $1,915,633 in royalties (2016 - $1,665,519).

(b) Operating contractual obligations

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

- To be incurred in 2018 $394,411
- To be incurred 2019-2022 $1,303,816

(c) 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.

18. Related party transactions

During the year ended December 31, 2017 and 2016, the following related party transactions occurred:

- Charles Byron, the chief geologist and a former director of the Company:
  - In 2016 the Company paid rent of $8,586 for office premises to Great African Services (Pty) Ltd., a company owned by a consortium of individuals that includes Charles Byron.

The remuneration of directors and other members of key management personnel during the year ended December 31, 2017 is as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries	$ 1,025,663	$ 1,080,447
Directors fees	264,516	262,180
Share-based compensation(1)	271,298	237,834
	$ 1,561,475	$ 1,580,461

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

In (U.S. dollars)

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, 2017 and 2016 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	$ 70,528	$ 217,956	$ 2,262,217	$ 2,550,701
All other assets	5,851	12,837,244	31,158,060	44,001,155
Balance, December 31, 2017	$ 76,379	$ 13,055,200	$ 33,420,277	$ 46,551,856

	Canada	South Africa	Botswana	Total
Cash	$ 6,185	$ 76,210	$ 741,345	$ 823,740
All other assets	5,453	14,154,534	33,644,191	47,804,178
Balance, December 31, 2016	$ 11,638	$ 14,230,744	$ 34,385,536	$ 48,627,918

20. Subsequent Events

$5,000,000 Secured Loan Facility

On March 5, 2018, the Company announced that it had entered into 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 are to be 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 will pay to Barak, or its nominee, 0.75% of the net proceeds accruing to Galaxy Gold Mining Limited ("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). Drawdowns on the facility remain subject to certain conditions precedent, which the Company expects to complete by July 2018.

Royalty Deferral

On March 19, 2018, the Government of Botswana agreed to the deferral of royalties payable on the sale of gold and subsequent repayment thereof under the following terms:

- $8,398,709 of royalties deferred to December 2017 will commence repayment in March 2018 over 34 months as follows:
    - principal repayments of $21,593 per month for ten months commencing March 2018,
    - principal repayments of $101,593 per month for 12 months commencing January 2019, 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.

Earn in option agreement for Botswana prospecting sites

On March 19, 2018 the Company announced that it has entered into an earn-in option agreement (the “Earn-in Agreement”) with B2Gold Corp. (“B2Gold”). Under the Earn-in Agreement, B2Gold has the option to indirectly acquire, in tranches, up to 70% of the shares of Southern Cross Exploration and Development (Pty) Ltd. (“Newco”), a newly incorporated subsidiary of Galane, which has applied for two gold prospecting licenses over an aggregate of approximately 520km^2 located around the Company’s Mupane property, excluding its current operations and mining licenses, in Botswana.

The option is exercisable in tranches upon meeting certain exploration project related expenditure thresholds as follows:

i) B2Gold is to contribute $500,000 within one year of the Conditions Satisfaction Date (as described below);

ii) B2Gold is to receive a 51% indirect interest in Newco upon contributing an additional $2,000,000 in exploration project related expenses within three years of the Conditions Satisfaction Date; and

iii) B2Gold is to receive an additional 19% indirect interest in Newco upon contributing an additional $1,500,000 in exploration project related expenses within four years of the Conditions Satisfaction Date.

If B2Gold has not completed the last tranche of expenditure in the stipulated timeframe, B2Gold must transfer its 51% indirect interest in Newco to Galane for no additional consideration.

It is expected that the Earn-in Agreement will be replaced by a definitive shareholders agreement governing the parties’ interests in Newco.

The “Conditions Satisfaction Date” will occur upon the satisfaction or waiver of various conditions precedent in the Earn-in Agreement, including completion of due diligence by B2Gold and the issuance of the prospecting licenses to Newco. After the Conditions Satisfaction Date, B2Gold will carry out exploration on the properties with guidance received from a jointly formed technical committee. B2Gold may terminate the Earn-in Agreement if all conditions are not fulfilled or waived by June 13, 2018.