

Galane Gold

Introductory note

To the Galaxy and beyond

Since 2014, the ramp-up of Tau Underground has transformed Galane's Mupane mine, increasing mined grade and lowering cash operating costs to average just US\$871/oz over the past 12 months. Galane has now also secured funding to bring the Galaxy mine into production by Q119, which could add a further 25koz per year at cash costs of around US\$800/oz.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (\$)	DPS (c)	P/E (x)	Yield (%)
12/15	26.2	(8.5)	(0.16)	0.0	NA	NA
12/16	32.7	(6.7)	(0.05)	0.0	NA	NA
12/17	37.3	(2.3)	(0.02)	0.0	NA	NA

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Tau underground has transformed Mupane

In 2013, Mupane was a high-cost mine, mining from multiple open pits at grades of 1.8–2.2g/t. However, a new mine plan implemented in late 2013 shifted the focus to the development of the higher grade (2.9g/t) Tau Underground, which has resulted in a steady decrease in cash costs. Rolling 12-month average cash costs have fallen from a peak of US\$1,438/oz in Q313 to US\$871/oz in Q218.

Company now has funding for Galaxy restart

Completion of the recent C\$2.7m private placement together with the available US\$5m Barak loan facility and cash flow from Mupane should provide sufficient funds to cover the US\$5m estimated capex for Galaxy and required working capital. Galane aims to start development soon, with first production by the end of Q119.

Galaxy could add 25koz to group production by 2020

Galane estimates the Galaxy mine could produce 25koz per year of gold at an operating cash cost of around US\$800/oz. Adding that to Mupane's forecast production could mean that by 2020 Galane Gold's group production totals over 50koz per year at average on-mine operating cash costs of around US\$950/oz. If the company can deliver that, it could be a game-changer for Galane Gold. Longer term, further value opportunities are offered by the potential to double Galaxy capacity and from the exploration potential at and near Mupane (including on prospecting licences, where B2Gold is earning-in up to 70% by spending US\$4m).

Metals & mining

2 October 2018

Price **C\$0.045**
Market cap **C\$9m**

US\$/C\$1:1.3

Net debt (US\$m) at 30 June 2018 (adjusted for 1 October 2018 placing) 9.0

Shares in issue 200.8m

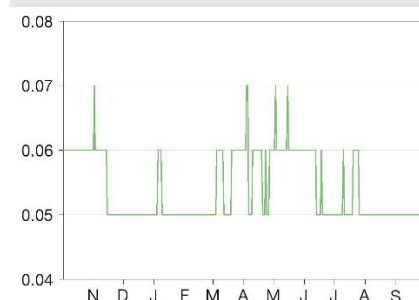
Free float 56%

Code GG

Primary exchange TSX.V

Secondary exchange OTC

Share price performance



%	1m	3m	12m
Abs	(10.0)	(10.0)	(35.7)
Rel (local)	(8.4)	(9.4)	(37.5)

52-week high/low C\$0.07 C\$0.05

Business description

Galane is a junior gold producer with one operating mine in Botswana (Mupane) and a second mine in South Africa (Galaxy) on care and maintenance but set to restart production within the next six months.

Next events

Q3 results October 2018

Analyst

Alison Turner +44 (0)20 3077 5700

mining@edisongroup.com

Galane Gold is a research client of Edison Investment Research Limited

Galaxy restart could launch Galane into a new sphere

Galane Gold comprises two main assets: the producing Mupane mine in Botswana, which is now focused on production from Tau underground, and the Galaxy mine in South Africa, which is on care and maintenance but expected to restart production by the end of Q119. Together these two mines could take Galane group production to over 50koz of gold at on-mine operating cash costs of around US\$950/oz by 2020.

Mupane

This operating mine in Botswana is focused on the exploitation of Tau Underground, supplemented by processing of low-grade historic stockpiles

- **Mine now profitable and cash flow positive.** In 2017 Mupane produced 29koz of gold at a cash operating cost of US\$933/oz. H118 production was 17.7koz at a cash cost of US\$905/oz.
- **Potential to extend the life of mine beyond the current four-year plan** through conversion of inferred to indicated resources and potential extension of the Tau orebody at depth
- **Tati Greenstone Belt exploration.** Galane has granted B2Gold an option to earn-in up to 70% on 520km² of prospecting licences by spending US\$4m over four years.

Galaxy

With funding now in place, Galane plans to restart the Galaxy mine by the end of Q119.

- **Potential to produce 25koz** per year at a cash cost at or below US\$800/oz.
- **Low capital cost** (US\$5m plus working capital) required for restart as most of the necessary infrastructure is already in place. The key activities required before the restart are the expansion of the existing flotation concentrate plant from 15ktpm to 30ktpm and completion of the 22-level adit.
- Longer-term potential to double capacity at Galaxy to 50koz of gold per year.

Reserves and resources

- **Galane's gold reserves total 337koz**, comprising 167koz at Mupane at 2.04g/t and 170koz at Galaxy at 3.62g/t.
- **Mupane resources total 634koz**, including 414koz of measured and indicated resources.
- **Galaxy resources total 1.48Moz**, including 602koz of measured and indicated resources at average grade of 3.01g/t.

Experienced management team

Nick Brodie (CEO) and Wayne Hatton Jones (COO) were appointed in November 2014, with Nick Brodie moving from his previous CFO role at the company to continue to steer Galane Gold's operational and financial recovery following a difficult period in early 2013 when issues with a mining contractor saw cash costs rising to over US\$1,500/oz in a falling gold price environment. Both bring extensive experience in African mining, including previous roles at Katanga Mining (Democratic Republic of the Congo), Metallon (Zimbabwe), Harmony Gold (South Africa), and Randgold Resources (Mali). CFO Gavin Vandervegt, brings over 15 years of mining experience.

Galane Gold is listed on the TSX-V (GG) and OTCQB (GGGOF). It reports in US dollars, and all figures in this report are in US\$ unless otherwise specified.

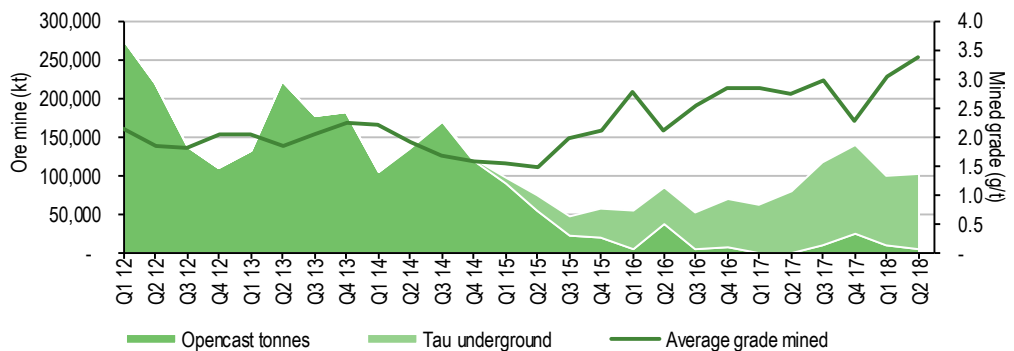
Mupane: Tau supports a higher-grade, lower-cost mine

The Mupane mine is located in north-eastern Botswana, 30km south-east of Francistown. The mine has been in production continuously since 2004. When Galane took over Mupane from Iamgold in late 2011, production was from multiple open pits at grades averaging 1.8–2.2g/t (supplemented by the processing of lower-grade stockpiles).

However, in early 2013 production hiccups relating to a change of mining contractor and the mining of higher cost ounces from Golden Eagle saw operating cash costs spike above US\$1,500/oz. Coupled with a sharply falling gold price, this triggered a comprehensive review of the mine plan, and Galane suspended production at the low-grade Golden Eagle pit and began development of higher-grade Tau Underground (measured and indicated resource grade of 2.9g/t; company annual information form, December 2017).

First development ore was mined from Tau Underground in May 2014 and stoping began in Q315. The chart below shows the impact that the ramp-up of Tau underground has had on average mined grades at Mupane. With mining at the small Tekwane pit completed in H118, Mupane is now mining at Tau underground only, supplemented by processing of historic stockpiles.

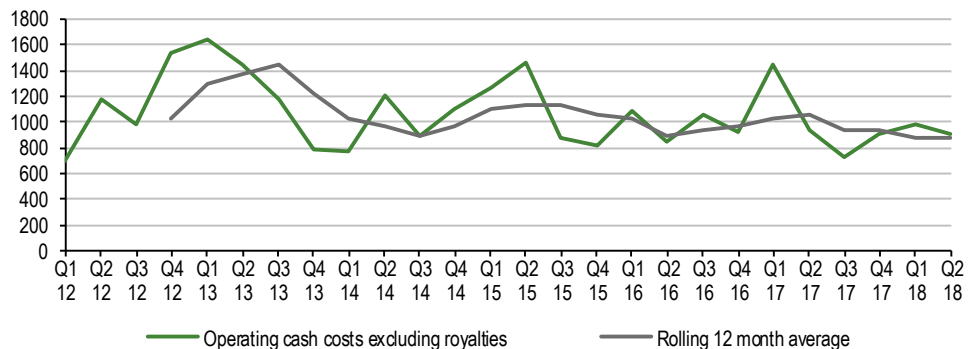
Exhibit 1: Mupane tonnes mined and grade (excluding mining from stockpiles)



Source: Extracted from quarterly MD&A reports, Q112 to Q218. Excludes mining from stockpiles

Exhibit 2 below shows the impact the transition to Tau Underground has had on the cost profile of the Mupane mine. Given the variability in quarterly figures, we consider rolling 12-month cash costs to be a better measure of cost performance; from a peak of US\$1,438/oz in Q313, Mupane's rolling 12 month average operating cash costs (before royalties) have fallen to just US\$871/oz in Q218. After taking into account Botswana government royalties (at 5% rate) and sustaining capital of US\$1.6m in H118, Mupane's H118 all-in site sustaining costs ran at US\$1,077/oz.

Exhibit 2: Mupane operating cash cost per ounce (before royalties)



Source: Company quarterly MD&A reports, Q413 to Q218. Note: Rolling 12-month average calculated by Edison on a production weighted basis.

In 2017, Galane Gold updated the mine plan for Tau Underground, extending the previous (2014) mine plan by 20 months and 44koz. Based on the December 2017 Tau resource and assuming a further 1.1Mt of low-grade stockpile and/or other resources are available for processing over the next three years, we estimate that Mupane could continue to produce at a rate of at least 28koz per year until at least 2020, with cash costs of between US\$950/oz and US\$980/oz and all-in sustaining site costs below US\$1,100/oz. Based on Edison's standard gold price deck, Mupane could generate more than US\$4m in pre-tax cash flow a year in 2018e and 2019e to help fund the restart of the Galaxy mine, corporate overheads, interest and debt repayments.

Exhibit 3: Mupane historic and forecast key metrics (before life extensions)

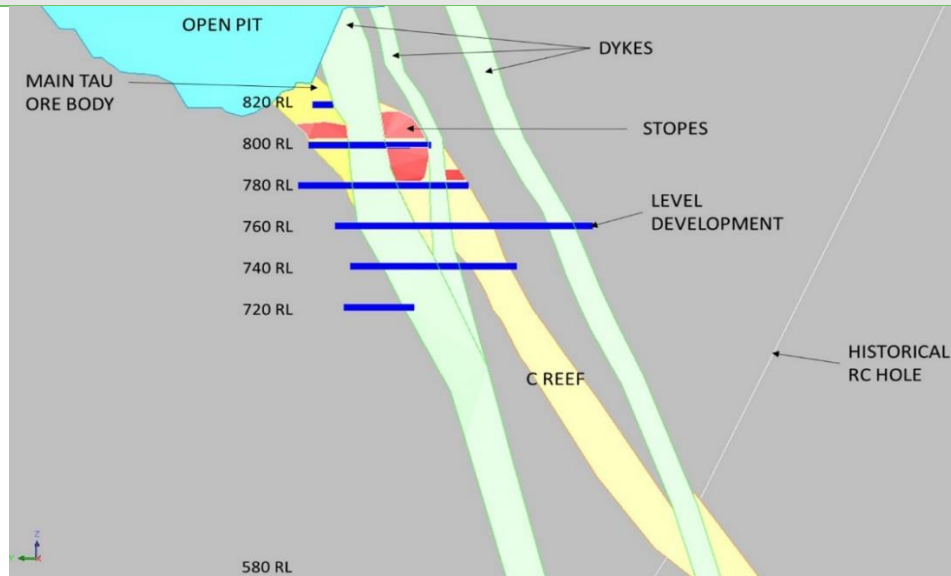
	2015	2016	2017	2018e	2019e	2020e
Tau tonnes	93,617	206,591	365,425	400,000	335,000	335,000
Tau grade (g/t)	2.74	3.06	2.71	2.87	2.94	2.94
Stockpiles and other tonnes	183,620	704,065	351,188	400,000	380,000	380,000
Stockpiles and other grade	1.20	0.77	0.96	0.98	0.90	0.80
Tonnes processed (kt)	810	908	740	797	715	715
Mill grade (g/t)	1.29	1.29	1.75	1.87	1.80	1.84
Recovery (%)	72%	71%	70%	66%	67%	67%
Gold production (koz)	24	27	29	32	28	28
Realised gold price (US\$/oz)	1,084	1,247	1,248	1,271	1,263	1,482
Revenue (US\$m)	26.2	32.7	37.3	40.3	35.5	41.1
Cash cost (US\$/oz)	1039	965	933	950	965	980
Cash cost (US\$m)	25	26	27	30	27	27
Royalties (US\$m)	1	2	2	2	2	2
Capex (US\$m)	7.9	2.4	1.5	2.2	2.2	1.0
All-in site sustaining cost (US\$/oz)	1,417	1,112	1,048	1,081	1,106	1,090
Mupane mine pre-tax cash flow (US\$m)*	-8.2	2.2	6.5	6.0	4.4	10.9

Source: Historic figures based on company quarterly MD&A reports and financial statements, Q415 to Q218. Forecasts Edison estimates. Note: *Mine pre-tax cash flow is calculated as revenue less cash operating costs, royalties and site sustaining capex. Stated before movement in working capital, corporate overheads, interest and tax.

Beyond 2020, the ability to sustain Mupane production at similar levels would be dependent on:

- **The conversion of inferred to measured and indicated resources** to extend the Tau underground life of mine. Measured and indicated resources currently support a three-year life of mine for Tau at current production levels.
- **Potential extension of the Tau orebody at depth.** As announced on 24 October 2016, Galane identified the potential for mineralisation at Tau to extend beyond the dyke that had previously been considered the limit of the orebody. Ore mineralisation characteristics of this 'C-Reef' are similar to those of the main Tau orebody. This area is not included in Tau resources; however, the company has recently completed 2,308m of drilling focused on the C-Reef, providing 31 intersections including one grading 24.85g/t over 3.0m.

Exhibit 4: Potential extension of Tau at depth



Source: Galane Gold Investor Presentation, September 2018

- Development of other known resources at Mupane**, such as the potential to exploit underground extensions of previously mined open pits. In addition to Tau, Mupane hosts a number of other significant deposits, with measured indicated and inferred resources totalling 318koz of contained gold at Jim's Luck, Tholo, Golden Eagle and Kwena. Mupane reserves total 167koz at 2.04g/t overall (Galane Gold AIF 2017) including 97koz at Jim's Luck, Golden Eagle and Kwena. The company is exploring how some of these orebodies could be profitably developed in the current gold price environment.

Exhibit 5: Mupane resources

	Measured and indicated			Inferred		
	kt	g/t	koz	kt	g/t	koz
Jim's Luck	2,518	1.15	93	1,337	1.08	46.4
Tholo	228	1.49	11	54	1.58	2.7
Golden Eagle	1,007	1.23	40	854	1.45	39.8
Kwena	736	1.12	26	1,641	1.11	58.6
Tau	1,056	2.87	98	627	3.06	61.7
Tekwane	12	1.57	1	138	2.36	10.5
Stockpiles	50	0.95	2	-	-	-
Total Mupane	5,607	1.50	270	4,651	1.47	220
Mupane Slimes	11,287	0.40	145	-	-	-
Mupane incl slimes	16,894	0.76	414	4,651	1.47	220

Source: Galane Gold AIF 2017

- Tati Greenstone Belt exploration potential.** In addition to its mining leases and known Mupane resources, Galane holds prospecting licences over a significant portion of the broader Tati Greenstone Belt. However, funding constraints limit Galane's ability to fully explore these prospective areas, so in March this year Galane granted an earn-in to B2Gold over 520km² of its prospecting licences. Under the terms of the agreement B2Gold would be granted a 51% share in the exploration properties by spending US\$2.5m within three years, and a further 19% by spending a further \$1.5m within four years. However, if B2Gold does not meet its full spending commitments over that term, full ownership of the exploration properties reverts to Galane. The combination of funding and B2Gold's exploration expertise has the potential to unlock value from this asset.

Galaxy: Poised for restart

Following the September 2018 C\$2.7m private placement together with the US\$5m Barak loan facility (subject to satisfaction of the remaining conditions precedent), Galane now plans to begin refurbishing and re-developing the Galaxy mine imminently with first production before the end of Q119. The company estimates that Galaxy could produce more than 25koz of gold a year at cash operating costs of below US\$800/oz (Galane Gold company announcement 17 September 2018).

In November 2015, Galane Gold closed the acquisition of Galaxy Gold Mining, which owned the mothballed Galaxy mine in South Africa's Barberton Greenstone Belt. Galaxy comprises 21 east-west trending orebodies and prospects at depths of 600–2,000m. Gold has been produced at Galaxy since the 1880s with 75 historical adits on the property. The mine was placed on care and maintenance in 2007. Following completion of the acquisition in 2015, Galane began refurbishing and restarting the Galaxy mine to produce a flotation concentrate. However, a weak gold price environment meant the required capital to complete the commissioning was not available to the company and activities were placed on hold in early 2017.

With funding in place for re-development, Galane now plans to restart production at Galaxy within the next six months, targeting a production rate of 30ktpm (>25koz per year). The mine will initially focus on two orebodies: Galaxy (measured and indicated resource of 124koz at 3.11g/t) and Princeton (measured and indicated resources of 171koz at 4.87g/t).

Key activities required for the redevelopment of Galaxy are:

- expansion of the existing flotation concentrate plant from 15ktpm to 30ktpm; and
- completing the 22-level adit to access the Galaxy orebody and removal of the shaft constraint.

Galane estimates that the capital cost to complete the restart of Galaxy totals US\$5m (company announcement 17 September 2018). In addition, we estimate that US\$3–4m would be required for working capital and contingencies.

The company estimates that cash operating costs for Galaxy could be at or even below US\$800/oz (which in a small, underground mine environment will require rigorous attention to efficiency). The table below provides an indicative view of what the economics of the Galaxy Mine could look like once in production – assuming a production rate of 25koz per year of payable gold, cash costs of US\$800/oz and sustaining capex of around US\$0.3m, the all in site sustaining cost of Galaxy would be US\$920/oz. At Edison's gold price forecast of US\$1,482/oz for 2020e, the mine could generate US\$14m in pre-tax free cash flow that year. Measured and indicated resources of 602koz for the Galaxy property would support a mine life of 15 years.

Longer term, there is potential to double mine and plant capacity to 60ktpm (>50koz per year).

Exhibit 6: Galaxy Gold Mine mineral resources (as at 31 August 2015)			
	Tonnes	Grade Au	Content Au
Mineral resource category	Tonnes	g/t	Oz
Measured	1,876,126	3.37	203,435
Indicated	4,350,781	2.85	399,261
Measured and indicated	6,226,907	3.01	602,696
Inferred	8,095,521	3.4	886,199

Source: MinxCon, Technical Report on the Galaxy Gold Mine, September 2015

Exhibit 7: Galaxy Gold Mine Mineral Reserves (as at 31 August 2015)

Mineral reserve category	Probable mineral resources				
	Pay limit Au	SG	Tonnes	Grade Au	Content Au
	g/t	t/m3	Tonnes	g/t	Oz
Underground					
Galaxy	2.43	2.73	117,887	3.29	12,470
Priceton	2.5	2.73	627,875	4.59	92,567
Woodbine & Giles Manual	2.82	2.73	248,803	3.8	30,400
Woodbine and Giles CAD	2.82	2.73	343,856	2.78	30,701
Surface					
Hostel West Dump	0.86	1.41	118,902	0.9	3,447
Total mineral reserve			1,457,322	3.62	169,586

Source: MinxCon, Technical Report on the Galaxy Gold Mine, September 2015

Capital structure and funding

On 1 October 2018, Galane Gold announced the completion of a private placement of 54m units (comprising one share and one warrant) raising C\$2.7m. Post this placement, the company has approximately US\$5.8m in cash (30 June 2018 adjusted for 1 October placing). A US\$5m Barak loan (announced in March 2018) is also now available for draw-down following the finalisation last week of an offtake agreement for Galaxy concentrate which was the last remaining condition precedent on this facility). Together with existing cash and cash flow from Mupane over the next six months, this should provide sufficient funds to cover the US\$5m estimated capital cost and all working capital requirements for the restart of the Galaxy mine by the end of Q119.

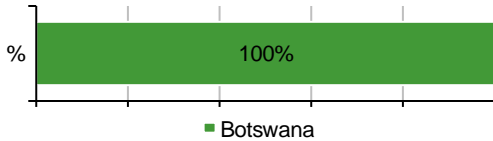
Exhibit 8: Galane Gold capital structure (post private placement)

Shares outstanding (1 October 2018)	200.8m
Share price	C\$0.045
Market capitalisation	C\$9.0m
Options, warrants and deferred share units	69.1m
Fully diluted shares	269.9m
Cash at 30 June 2018, adjusted for 1 October placement	US\$5.8m
Debt at 30 June 18	US\$14.8m
Net debt	US\$9.0m

Source: Company results 30 June 2018 and private placement announced on 1 October 2018. Note: Share price as at 28 September 2018.

Galane Gold has US\$14.8m in debt (as at 30 June 2018), consisting of:

- US\$8.3m in deferred royalties owed to the government of Botswana. Repayable on an agreed schedule over 34 months (US\$0.2m in 2018, \$1.2m in 2019 and the remainder in 2020);
- US\$6.2m in convertible debentures. Repayable in two tranches in November 2019 and November 2021 respectively; and
- US\$0.3m in capital lease obligations.

Contact details	Revenue by geography
181 Bay Street Suite 1800 Toronto Canada http://www.galanegold.com	 <p>■ Botswana</p>
Management team	
CEO: Nick Brodie	Chairman: Ravi Sood
Nick Brodie has extensive experience in Africa. Prior to joining Galane Gold, Mr Brodie was the CFO of Katanga Mining (DRC) and Copperbelt Energy (Zambia). He also spent time with Metallon (Zimbabwe). He is a Fellow of the Association of Certified Chartered Accountants and holds a BSc (Hons) in geography.	Ravi Sood is a financier and venture capitalist. He is the founder and former CEO of Navina Asset Management, a Toronto-based investment firm. Mr Sood is also the founder and chairman of Feronia, one of Africa's largest employers, and Transeastern Power Trust, a renewable energy producer.
COO: Wayne Hatton Jones	CFO: Gavin Vandervegt
Wayne Hatton-Jones has 30 years' experience working in South Africa, Mali West Africa, Tajikistan, Kazakstan, Romania and the Solomon Islands. Previous positions include general manager of Gold Ridge (Allied Gold) in the Solomon Islands, COO of Galaxy Gold Mining, acting general manager of Avocet Mining in Tajikistan, general manager of the Ergo gold surface retreatment operation at DRD Gold, process manager and Acting general manager of Randgold Resources and metallurgical manager for the Harmony Gold mine.	Gavin Vandervegt has had extensive experience in Africa and has held several senior finance positions in mining including group financial controller at Nautilus Minerals, finance director at Katanga Mining and commercial controller at Xstrata Coal.
Companies named in this report	
Galane Gold (TSX: GG.V), Randgold Resources (RRS.L), Harmony Gold (HARJ.J)	

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Galane Gold and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.