

## **OPERATIONS / BOTSWANA PROJECT**

### **HIGHLIGHTS**

Gallery Gold has been conducting a major gold exploration program in the Archaean greenstone belts of north-east Botswana since late 1996. The program, which includes exploration for other commodities as well, continues to produce very encouraging results. Gallery's 1,825 square kilometres of mineral tenements are mostly wholly owned.

The Company's Mupane Prospect is emerging as a significant gold deposit. A further 74 RC percussion and diamond holes were drilled at Mupane in the past twelve months focussing mainly on 50 x 50 metre resource definition drilling in Areas 1 and 2 of the Prospect.

In March 2001 an initial resource of 557,000 ounces of gold was estimated for Mupane by independent consultants Resource Service Group. Subsequently, a considerable amount of additional drilling has been completed and this resource is likely to increase appreciably. Calculation of new resource estimates has just commenced.

The high grade gold shoot in Area 1 at Mupane remains open at depth below 200 metres and along strike to the east. It is likely that this gold zone alone will contain a resource of well over 500,000 ounces. A lower grade resource at Area 2 has the potential to contribute an additional plus 100,000 ounces of gold resources.

An economic scoping study for a wholly owned mining operation based on a central mill at Mupane and potential mill feed from other prospects within a 15 kilometre radius commenced in June 2001 and is scheduled to be completed in early December. The tentative development schedule provides for a full bankable feasibility study to be completed by November 2002 with the first gold pour in late 2003.

The Company is presently evaluating the Signal Hill gold deposit as potential mill feed for a plant at Mupane. This deposit is located only 15 kilometres from Mupane and contains a drill indicated gold resource of 201,000 ounces of which some 143,000 ounces is oxide material suitable for open pit mining. Gallery Gold has an option to purchase the property for 1,500 ounces of gold.

Trenching on the Company's Molomolo Prospect earlier this year returned an impressive intersection of 56 metres at 3.6 g/t gold including 8 metres at 8.4 g/t gold. Further drilling has recently been completed on the Prospect and assay results are awaited.

## 2.

A reappraisal of the currently sub-economic Tekwane nickel-copper sulphide deposit has revealed strong platinum-palladium potential. The Company secured this property in early 2000 after Falconbridge Explorations Botswana (Pty) Ltd relinquished it. Re-assaying of previous diamond core holes is in progress and a geophysical induced polarisation survey, to help focus future drilling, has just been completed.

The Company has recently secured diamond rights to most of the areas in which it is already operating. Detailed aeromagnetic surveys and colour aerial photography that were flown as part of the regional gold exploration program have been reassessed to identify possible diamond targets. A joint venture farm out of the diamond rights is under consideration.

Galley Gold was dual listed on the Botswana Stock Exchange on 25 June 2001. The Company is the first Australian Company to list on this Exchange and is the only gold stock listed in Botswana. Shares in the Company now trade freely between both countries and Botswana shareholders already hold a combined interest of 7.2% in the Company.

With the assistance of major shareholder Lion Selection Group, the Company has been able to raise significant amounts of working capital despite continuing lack of market response for resource companies. A placement raising AUD 3.0 million at a share price of 10 cents was successfully completed on 3 November 2000. A subsequent placement that raised an additional AUD 3.91 million at a share price of 16 cents, was completed on 12 September 2001.

### **INTRODUCTION – “Gallery Gold continues to focus exclusively on its Botswana Project”**

Perth based Gallery Gold Limited has been conducting a major gold exploration program in the Archaean greenstone belts of north-east Botswana since late 1996. The Company's strategy has been to employ modern Australian exploration in Botswana to discover and develop large gold and other mineral deposits.

Field operations by the Company in the past twelve months have continued to focus exclusively on the Botswana Project. Evaluation of the promising Mupane gold deposit has continued to receive priority attention and significant progress has been made towards the development of a large scale gold mine based on the deposit.

An initial resource for the Mupane deposit was announced in March 2001 and an economic scoping study for possible mine development, including revised resource/reserve estimates, is currently in progress. This study is scheduled for completion in December 2001.

Beyond Mupane, the Company is continuing with its major regional exploration program and testing of a number of gold prospects is continuing. Additionally, platinum-palladium mineralisation on the Tekwane Prospect, which is associated with known nickel sulphide mineralisation, is being evaluated. The Company has also recently commenced an exploration program for diamonds, as the region in which we are operating has demonstrated potential for this commodity.

Gallery presently holds mineral rights to some 1,825 square kilometres of prospective greenstone terrain with partially overlapping diamond rights covering an additional 1,773 square kilometres. The majority of the mineral rights (94.4%), including those tenements covering the Mupane and Tekwane prospects and all the diamond rights, are wholly owned by Gallery Gold.

Since the Company commenced its Botswana Project exploration program in late 1996, it has focussed all operational activities exclusively in this country. In June this year Gallery Gold successfully dual listed on the small but rapidly growing Botswana Stock Exchange.

The Company has a workforce of seven geologists and some 35 other support staff based in the city of Francistown, which is centrally located in the Tati greenstone belt.

### **Background to Company's Botswana Project**

In 1994 Gallery Gold purchased the then operating Monarch Gold Mine which is situated on the outskirts of the city of Francistown. The Company conducted small scale mining operations at Monarch and then at the nearby Golden Eagle gold deposit until mid 1998.

In 1996 the potential of the surrounding greenstone belts for the discovery of significant gold deposits was recognised and the Company considerably expanded its tenement holdings. At this time, the greenstone belts that contain numerous historic gold workings were mostly in open ground and the Company was able to secure a valuable land position at little cost. It was also apparent that little gold exploration had previously been conducted in the belts.

In late 1997 Lion Selection Group Limited, a Melbourne based resources oriented Pooled Development Fund, agreed to provide finance to the Company for a major gold exploration program. Since this time, Lion Selection has provided the majority ongoing funding for the program and as a result has become a major shareholder with a 43.3% interest in Gallery Gold.

#### 4.

In mid 1998 the Mupane gold deposit was discovered by the Company's reconnaissance soil sampling program. Initial drilling conducted in mid 1999 revealed a potentially large gold system and further drilling was undertaken in 2000. The most recent drilling program conducted, between February and September 2001, has concentrated on delineating gold resources in Areas 1 and 2 at Mupane.

### **BOTSWANA – “An African success story”**

Botswana is a small landlocked country in southern Africa situated immediately north of South Africa and west of Zimbabwe (Figure 1). Over 50% of the Country is covered by the Kalahari Desert and the population of 1.6 million people lives mostly in the more hospitable east and south-east of the Country. Some 40% of the people live in modern cities, including the capital Gaborone and second largest city Francistown, with the remainder living a more traditional village based lifestyle. Land use in the areas being explored by Gallery Gold is mainly cattle ranching.

Botswana received its independence from Great Britain in 1966 and since this time a multi-party democratic system has operated successfully. The Country has enjoyed continuous peace and economic stability since independence and has carefully avoided conflicts that have occurred in neighbouring countries.

### **Botswana Economy**

Two world class diamond mines were discovered in Botswana in the late 1960's and this has brought rapid growth to the Country. Diamond production, in which the Government has a direct 50% interest, accounts for approximately 75% of the Country's export revenue. Today, Botswana is the wealthiest country in all of Africa, in terms of GDP per capita, with healthy foreign exchange reserves, negligible Government debt and a strongly growing economy.

The Country presently enjoys an A1 Moodys' Credit Rating with inflation under control at about 6.5%. Transparency International Consultants, who publish a worldwide Corruption Perception Index, regard Botswana as the least corrupt country in Africa.

The Government has established an excellent infrastructure of sealed roads, grid power and piped water throughout the Country. Education and health are also priorities for Government spending. Altogether, a very favourable environment in which for Gallery Gold to operate and to plan for a possible mine development.

Finally, Botswana abolished all foreign exchange controls in 1999 specifically to encourage foreign investment.

### **Botswana Mining Act**

Botswana introduced a new “investor friendly” Mining Act in 1999, based substantially on Australian and Canadian models. The Act provides for adequate security of title and abolished the Government’s previous right to free equity. New favourable mining tax provisions were also introduced.

### **MUPANE GOLD DEPOSIT – *“Scoping study for development is in progress”***

The Company’s wholly owned Mupane gold deposit is located in the southern Tati greenstone belt some 30 kilometres south-east of Francistown and only seven kilometres south-west from the operating Selkirk nickel mine (Figure 2).

In the past year the Company has continued to prioritize field work at Mupane with the aim of fast tracking a potential mine development. The program has involved a heavy emphasis on drilling and to a lesser extent trenching. Since October 2000, drilling has mainly focussed on delineating the extent of gold resources in Area 1 and Area 2 of the Prospect.

The most significant mineralisation defined to date is in Area 1 where a high grade gold zone has clear potential for a combined open pit and underground mining operation and remains open at depth. A lower grade gold zone in Area 2 is also potentially open pitable.

An initial gold resource estimate for the Mupane Prospect was completed in March 2001 giving a total inferred resource of 557,000 ounces. Subsequently, a fourth phase of drilling has been completed on Areas 1 and 2 and this is likely to add substantially to the resource.

### **Discovery**

In mid 1998 reconnaissance soil sampling on a 400 x 40 metre pattern in the southern Tati greenstone belt defined a coincident gold-arsenic anomaly extending over an area of 4 x 5 kilometres. Follow up detailed soil sampling and trenching subsequently confirmed the source of the anomaly to be an iron formation (BIF) which hosts gold mineralisation over a composite strike length of approximately 6.5 kilometres.

Initial RC percussion drilling in mid 1999 intersected ore grade gold mineralisation in several sub-areas and it became evident that the Prospect had the potential to host a major gold resource.

Despite the Tati area being the focus of a large gold rush in the 1860's, old time prospectors had failed to discover the Mupane gold deposit. This is probably because the gold mineralisation is relatively fine grained and is not associated with vein quartz. The prospect had not previously been drilled prior to Gallery Gold's discovery holes in 1999.

### **Main Elements of Mupane Field Program**

The field program at Mupane has been essentially ongoing since 1999 and has involved gridding, soil sampling, trenching, geophysical surveys (ground magnetic readings and a dipole-dipole induced polarisation survey), geological mapping, RC percussion drilling and diamond drilling.

Some 48 trenches totalling 8,480 metres have been excavated on the Prospect since October 1998 to help define the extent of the near surface gold mineralisation. At the time of writing this report, there was a backlog of just over 2,000 trench assay results still to be received and assessed.

Four separate phases of drilling totalling 155 holes and 20,170 metres have now been completed on the Prospect in the period July 1999 to September 2001. A summary of statistics for the various drilling phases follows:

<b>Phase</b>	<b>Dates</b>	<b>No. of Drill Holes</b>		<b>Metres</b>
		<b>RC Percussion</b>	<b>Diamond</b>	
1	Jul.-Aug. 1999	22		1,934
2	Feb.-Jun. 2000	56	3	6,337
3	Oct.-Dec. 2000	31		4,787
4	Feb.-Sept. 2001	22	21	7,112

The Mupane Prospect has been subdivided into eight sub-areas based on zones of semi-continuous BIF outcrop and named Area 1 through to Area 8 (Figure 3). The outcropping portions of BIF have generally been drilled at a nominal 100 metre spacing along the full 6.5 kilometres of the known mineralised BIF.

Additionally, infill 50 x 50 metre pattern resource drilling has been completed on Area 1 and Area 2 to vertical depths of 200 metres and 120 metres respectively.

Details of the distribution of drilling between the various Mupane sub-areas follows:

## 7.

Area	No. of Drill Holes		Metres
	RC Percussion	Diamond	
1	41	21	9,216
2	35	2	4,907
3	18	-	1,962
4	17	1	1,744
5	5	-	509
6	7	-	780
7	4	-	244
8	4	-	808

The Phase 4 drilling program undertaken this calendar year involved up to five rigs and was completed on 20 September 2001. At the time of writing this report results from the last three diamond holes on Area 1 were still awaited.

Diamond drilling in Phase 4 involved 20 holes on Area 1 and 1 hole on Area 2. All cores were oriented for subsequent structural analysis to help determine the directional controls on the gold mineralisation. A structural geological study to assess this data is presently in progress.

### **Mupane Geology**

The Mupane BIF unit varies in width between 10 to 90 metres and forms a range of hills 50 to 110 metres high extending over a distance of some 10 kilometres. Drilling and trenching has defined variable gold mineralisation hosted by the BIF and extending over a composite strike length of 6.5 kilometres.

The BIF forms in two converging trends named the Vermaaks Trend and the Dinokwe Trend that were originally interpreted as limbs of the same fold structure (Figure 3). The east-west striking and south dipping Vermaaks Trend hosts the high grade Area 1 gold mineralisation. The south-east striking Dinokwe Trend also dips in the same sense (to the south-west) and hosts the lower grade Area 2 gold mineralisation. Recent structural studies indicate that both trends are probably separate thrust repeats of the same BIF unit rather than a simple fold structure.

Gold mineralisation at Mupane is confined to the altered BIF rocks and to narrow black shale bands that are closely associated with the BIF. The gold is associated with an arsenopyrite-pyrite-pyrrhotite sulphide assemblage which generally forms 2-15% of the rock. Gold grades are closely associated with the amount of visible arsenopyrite that tends to occur as coarse crystals up to several millimetres in size.

## 8.

Pervasive silica alteration and minor biotite usually accompany the mineralisation but vein quartz is uncommon and when present appears to postdate the gold-sulphide bearing rocks. Variable carbonate and graphite in the host BIF are probably not related to the alteration accompanying the gold mineralisation.

Country rocks are fine grained sediments and andesitic volcanics and the whole sequence exhibits upper amphibolite metamorphic grade. A suite of post-mineralisation dolerite dykes of Karoo age cuts through the area.

The gold-sulphide assemblage occurs as fairly uniform disseminations and stringers in very continuous stratabound shoots rather than in cross cutting or vein-like structures. Overall, controls on the gold mineralisation are still poorly understood. Oriented diamond core from the recently completed drilling program is presently being studied by a consultant structural geologist and this will hopefully lead to a better understanding of structural controls on the Mupane gold mineralisation and assist with the targeting of further drilling.

Oxidation of the mineralised zones at Mupane extends to some 50 to 70 metres vertical depth but there is very little near surface leaching of gold. Trenching has confirmed that ore grades extend to the surface. However, the mineralised zones rarely form prominent outcrops and are normally slightly recessive being covered with a thin soil containing barren BIF material.

### **Mupane Area 1**

Infill 50 x 50 metre spaced resource drilling in Area 1 at Mupane has defined a robust high grade gold shoot shown in Figures 4 to 7. The shoot varies in width between 10 to 60 metres and has a strike length of approximately 250 metres. It has been drilled to depths varying between 150 and 240 metres and remains open at depth over most of its strike length (Figure 5). Further drilling along strike is also required to define the eastern limit of the gold mineralisation.

Intersections include:

67 metres @ 4.4 g/t gold including 40m @ 5.8 g/t  
58 metres @ 5.3 g/t gold including 8m @ 18.7 g/t  
65 metres @ 4.2 g/t gold including 36m @ 6.3 g/t  
55 metres @ 4.1 g/t gold including 29m @ 6.3 g/t  
34 metres @ 5.7 g/t gold  
and 17 metres @ 5.7 g/t gold (deepest intersection to date)

A complete tabulation of significant gold intersections for Area 1 is listed in Table 3.



An initial resource estimate for Area 1 by independent consultants Resource Service Group (RSG) in March 2001 yielded 3.74 million tonnes at 3.6 g/t gold for 438,000 contained ounces. This resource was to a variable vertical depth of 100 to 200 metres dictated by depth of drilling.

The recently completed Phase 4 drilling program, which was conducted subsequent to this resource estimate, has confirmed that the high grade gold mineralisation extends well below the boundary of the previous estimate. Infill diamond drilling within the existing resource also verified the reliability of previous RC percussion drill hole intersections and confirmed continuity of the ore shoot. Consequently, new resource estimates currently in progress are likely to result in a significant increase in Area 1 resources.

The Area 1 gold shoot is clearly open pitable, possibly to a vertical depth of some 200 metres. The mineralisation appears to be sufficiently high grade and continuous to offer the potential for underground mining beneath open pit range.

### **Mupane Area 2**

Infill 50 x 50 metre spaced resource drilling in Area 2 at Mupane has defined a continuous but lower grade zone of gold mineralisation over a strike length of 350 metres and to a vertical depth of 100 –150 metres (Figures 8 and 9). The mineralisation is typically 20 to 35 metres wide and averages about 1.8 g/t gold. A relatively continuous higher grade portion on the hanging wall averages about 2.5 g/t gold over widths of some 10 metres or so.

An initial resource estimate for Area 2 by RSG in March 2001 yielded 1.33 million tonnes at 1.8 g/t gold for 76,000 ounces. This resource was to a vertical depth of 90 metres. Drilling completed since this time has extended the known depth of the mineralisation a further 50 metres and a significant increase in the resource is likely.

Area 2 gold mineralisation also remains open at depth over its full strike length. However additional deeper drilling will only be initiated if it can be demonstrated that an open pit below the depths of current drilling would be economic.

### **Other Mupane Areas**

While Area 1 and Area 2 are presently considered to have the best immediate potential for building gold resources, exploration in the various other sub-areas of the Mupane prospect is in its early stages and considerable potential remains for the discovery of additional ore shoots.

A further phase of trenching in selected non-outcrop areas of the Mupane Prospect was conducted in June-July this year. Analytical results from the 2,768 metre program are yet to be received due a priority being placed on processing drilling samples in the Company's in-house sample preparation facility.

Additional drilling of other Mupane sub-areas will be planned once the new trenching results have been assessed and after the present structural study on the known gold mineralisation has been completed. This will permit a more focussed drilling program rather than simply stepping out from existing drill hole gold intersections.

### **Metallurgical Study**

A comprehensive metallurgical testing program on the gold mineralisation in Area 1 and Area 2 at Mupane is nearing completion. Four diamond holes were specially drilled for the study and additional existing percussion hole material used. Material was collected from the oxide, transition and primary zones in both areas.

The study has confirmed that despite its close association with arsenopyrite, the gold is non-refractory and can be readily recovered by a conventional milling and CIL circuit. Preliminary results from Area 1 indicate recoveries in the mid 90%'s for both oxide ore and for primary ore using a standard 75 micron grind. Test work to optimise grind size is continuing.

The metallurgical testing program is being conducted by Ammtec Limited in Perth and supervised by Mr R.A. Adrian of Project Advisory Services Pty Ltd

### **Mupane Economic Scoping Study**

An economic scoping study for a wholly owned mining operation based on a central mill at Mupane and potential mill feed from other prospects within a 15 kilometre radius commenced in June 2001 and is scheduled to be completed in early December. A standard CIL plant capable of milling one million tonnes of ore per annum and producing some 100,000 ounces of gold per year is envisaged.

Consultant Mr G.M. Jones of JMG Projects Pty Ltd (and now a Director of Gallery) has been engaged to conduct and coordinate the study. RSG has again been contracted to complete revised resource estimates, preliminary mining engineering and then initial open pit optimisations for Mupane and for Signal Hill, a potential mill feed prospect discussed below.

The scoping study will, as far as is practical, use real Botswana costs and it is intended that it be of sufficient detail to permit the Project to move directly into a detailed feasibility study. Discussions with the Mines Department and other Government Departments in Botswana for a probable mine development at Mupane have commenced.

### **Outlook for Mupane – “Mupane in production by late 2003”**

The recently completed Phase 4 drilling program at Mupane is likely to have significantly expanded the resource base. Area 1 is emerging as a significant gold deposit in its own right with the revised resource estimate likely to be well in excess of 500,000 ounces of gold. The ore shoot remains open at depth and along strike to the east and given further drilling, it could contain a total resource in excess of one million ounces of gold.

The Area 2 resource is also now likely to have a revised resource of over 100,000 ounces of gold.

The Company is confident that the scoping study will produce a positive outcome and that the Mupane Prospect can be fast tracked to mine production. The deposit is ideally located within 30 kilometres of Francistown, a city of some 100,000 people. Existing sealed roads, power grid and a nearby water source will all impact favourably on costs. Preliminary estimates suggest that the capital cost for Mupane will be of a similar order of magnitude building the equivalent sized operation in Australia.

The tentative development schedule provides for a full bankable feasibility study to be completed by November 2002 with the first gold pour in late 2003. Initial discussions with several banking groups concerning possible project financing have also been very positive.

No gold mining is presently occurring in the Tati greenstone belt and when the Mupane mill is commissioned Gallery Gold will be in the privileged position of operating the only gold mill in the belt. Additionally, the Company already controls most of the belt and the likelihood of discovery of further gold deposits is considered high

### **SIGNAL HILL GOLD DEPOSIT – “Additional ore for central Mupane mill”**

The Signal Hill gold deposit is located 45 kilometres south-east of Francistown and only 15 kilometres east-south-east of Mupane (Figure 2). The deposit has a drilled out gold resource of 201,000 ounces of which some 143,000 ounces is in oxide material amenable to open pit mining.

Gallery Gold has an option to purchase the deposit from owner Sigmor Mines (Pty) Ltd by paying Sigmor 1,500 ounces of gold by 7 June 2002. The Company is presently evaluating the deposit as additional mill feed for a plant at Mupane.

The Signal Hill gold deposit was discovered by Falconbridge in 1984. In common with Mupane, the deposit was located by soil sampling and is not associated with old gold workings. The deposit has been extensively drilled and trenched with some 173 drill holes (15,000 metres) and 238 trenches (11,500 metres) being completed prior to Gallery Gold's involvement.

In the mid 1990's Sigmor Mines completed a full scale feasibility on the deposit with a view to developing a heap leach operation. Construction had commenced before falling gold prices lead to a suspension of operations.

Gallery Gold has recently reprocessed the extensive Signal hill data base and drilled four additional RC percussion holes into the deposit to verify previous assaying and to provide material for further metallurgical testing. RSG has commenced estimating a revised resource and will complete a new open pit optimisation for the deposit.

The Signal Hill gold deposit consists of four main mineralised zones that have previously been termed the A, B, C and F Zones (Figure 10). The present study is being restricted to the A and F Zones that have the best open pit potential.

The gold mineralisation occurs in linear shear zones in a metasediment sequence of arkose and conglomerate. The mineralisation is hosted by quartz veins and stringers and when fresh is associated with pyrite, arsenopyrite and stibnite. The sulphides are largely oxidised above 70 metres depth.

The A Zone has a strike length of 1.5 kilometres, is 1 to 14 metres wide and dips at a 45-55 degree angle. Better intersections include 20.5 metres at 11.5 g/t gold and 6.8 metres at 8.9 g/t. The F Zone is located 400 metres to the east of the A Zone and is 150 metres long.

Previous resource estimates by Falconbridge applying a 1.0 g/t gold cutoff indicate that the A Zone contains 1.2 million tonnes of oxide ore at 3.0 g/t gold to a vertical depth of 80 metres for 115,000 ounces. The F Zone contains an additional 172,000 tonnes at 3.7 g/t gold for 18,700 ounces.

Only limited drilling has been conducted on the sulphide ore below Area 1. An inferred resource of 235,000 tones at 7.6 g/t gold suggests that this primary ore may have underground mining potential.

The Company's reappraisal of the Signal Hill data base will be incorporated into the present Mupane scoping study. The country between Mupane and Signal Hill is relatively flat and construction of a haul road should be relatively easy.

### **MOLOMOLO GOLD PROSPECT – “*Another potential satellite deposit*”**

The Molomolo Prospect is situated 15 kilometres south-east of Mupane and only four kilometres south-west of the Signal Hill gold deposit (Figure 2). The Prospect was discovered in 1999 during the Company's regional reconnaissance soil sampling program. No old gold workings occur in the vicinity and gold mineralisation at Molomolo was unrecognised before Gallery Gold commenced work in the area.

Detailed Infill soil sampling defined a strong gold and arsenic anomaly 1,000 x 800 metres in extent. Early trenching located bedrock gold mineralisation hosted by felsic meta-sediments adjacent to a sheared contact with intermediate volcanic rocks and ultramafics.

In the period 1 July 2001 to the present, some 2,609 metres in 20 trenches was excavated and three phases of drilling totalling 1,942 metres in 35 holes was completed.

First-pass RC percussion drilling comprising 6 holes for 740 metres failed to find significant, deep mineralisation beneath the mineralisation revealed by the early trenching. Subsequent trenching was completed to help understand distribution and controls of mineralisation.

The best trench intersection from this work is an impressive 56 metres at 3.6 g/t gold including 8 metres at 8.4 g/t (Figure 11). Drilling down dip from this trench revealed a shallow south dipping gold zone with hole MOLC 8 intersecting a true width of 9 metres at 3.1 g/t gold including 5 metres at 5.2 g/t.

A further six RC percussion holes were recently drilled over a 200 metre strike length to define the extent of this mineralised zone. Analytical results have not yet been received.

Analytical results are also awaited from some 17 open hole percussion drill holes (973 metres) recently completed elsewhere on the Prospect and beneath bedrock gold mineralisation found in trenches and on a number of untested soil geochemical anomalies.

While the Molomolo Prospect is unlikely to contain a major stand-alone orebody the Prospect is seen to have good potential to host supplemental mill feed ore for a central gold plant at Mupane. Lack of prior mining in the area has ensured that near surface high grade gold mineralisation is still available.

### **GOLD RESOURCES – “Approaching critical mass to justify mine development”**

The Company’s Botswana Project has a present total gold resource inventory of 8.1 million tonnes at an average grade of 3.6 g/t gold for a combined total of 930,500 ounces. Details of the separate resources that comprise the inventory are listed in Table 4. In summary, three gold deposits comprise the inventory:

<b>Deposit</b>	<b>Tonnes</b>	<b>Grade (g/t)</b>	<b>Ounces Gold</b>
Mupane	5,840,000	3.0	557,000
Shashe	515,100	10.4	172,400
Signal Hill	1,740,700	3.6	<u>201,100</u>
			Total 930,500

#### **Mupane Resources**

In February 2001, Gallery Gold commissioned RSG to conduct an independent audit of field procedures on its Botswana Project and to prepare an initial estimate of gold resources for the Mupane Prospect.

The Mupane deposit contains just over half the total resource inventory and Area 1 at Mupane accounts for 79% of the Mupane total. Relatively small resources listed for Areas 3 and 4 directly reflect the small amount of drilling completed in these sub-areas to date.

The above total of 557,000 ounces of gold was based on drilling completed to the end of 2000 and a significant increase in resources at Mupane is anticipated as a result of further drilling already completed this calendar year.

#### **Shashe Resources**

The Shashe gold resource relates to a former Phelps Dodge underground mining operation located six kilometres south-east of Francistown and which was inherited by the Company in 1994. In 1989-1990 Phelps Dodge drilled out the Shashe gold deposit and proceeded with underground mine development. The project was abandoned when the purpose built roaster failed to process the refractory ore.

After the roasters closure, subsequent metallurgical testing indicated that the ore could be treated by Biox methods. The headframe and winder remain on the Shashe mine and Gallery Gold may consider reopening the mine after an operation has been successfully established at Mupane.

### **Signal Hill Resources**

The 201,100 ounce Signal Hill gold resource was estimated by Falconbridge in 1995 and has not yet been independently audited to Australian standards. RSG has just commenced a revised resource estimation for the oxide only portion of Zones A and F on the Prospect.

### **Golden Eagle and Monarch**

Underground gold resources previously reported for the Golden Eagle and Monarch mines have been deleted from the present inventory as the Company considers that it is unlikely that the existing resources could be converted to viable reserves. Additionally the exploration potential for any significant increase in the resources on either mine is considered low.

The Company's previous mining operation at Golden Eagle was rehabilitated during the year. The Golden Eagle mine occurs within the large Shashe Mining Licence which will be retained because of its continuing exploration potential. The Company plans to surrender the Monarch Mining Licence as soon as rehabilitation has been completed.

### **REGIONAL GOLD PROGRAM – *“Excellent discovery potential for new gold deposits”***

#### **Exploration Strategy**

The Tati and Vumba greenstone belts on which the Company's Botswana Project is centred occur in that portion of the Zimbabwe Archaean Craton that protrudes into north-east Botswana. Within Zimbabwe, the greenstone belts within this Craton have produced many millions of ounces of gold, most of the production being historic. Some 13 Zimbabwean gold deposits exceeded 1.0 million ounces in size.

Gallery Gold's geologists hypothesized that the Botswana greenstone belts were likely to be equally well endowed with gold mineralisation as the greenstone belts in neighboring Zimbabwe. The presence of some 200 or so small gold workings through the Botswana greenstone belts demonstrated that gold was widespread. Old time prospectors mainly focused on quartz reef gold that tended to occur in narrow shears and there had been very little modern exploration. The potential for large gold deposits, possibly not associated with obvious quartz, was considered high.

## **Summary of Regional Work Completed**

To date Gallery Gold has concentrated its exploration activities on the Tati greenstone belt, a 60 kilometre long sequence of Archaean greenstone rocks (Figure 2). The Company's tenements cover approximately 90% of the belt. The only mining activities presently in progress in the Tati greenstone belt are two nickel sulphide mines owned jointly by Anglo American and LionOre.

Gallery Gold commenced its regional exploration program with a detailed low level aeromagnetic and radiometric survey of the Tati greenstone belt. A regional geological and structural interpretation was then completed to help prioritize areas for ground follow up.

Reconnaissance soil sampling on a 400 x 40 metre pattern commenced in mid 1997 and coverage of the entire Tati greenstone sequence within the Company's tenements was completed in late 2000. This involved some 1,600 kilometres of ground traversing and the collection and assaying of some 38,900 soil samples, all of which were shipped back to Australia for assay. An additional 5,100 reconnaissance soil samples have also been collected in the Vumba greenstone belt.

Gold-in-soil anomalies defined by the first pass reconnaissance sampling were then followed up with 100 x 25 metre grid based soil sampling, trenching and detailed geological assessment. Some 19,800 soil samples have been collected to date in this follow up work including some recent sampling directed towards platinum exploration.

In period from 1 July 2000 to 30 September 2001 a total of 15,400 soil samples was collected.

The soil geochemical approach has worked extremely well enabling the entire greenstone belt to be assessed relatively effectively and cheaply. Importantly, the program defined a number of large and very significant gold-in-soil anomalies in the southern half of the Tati belt that were not associated with any old known gold workings and which had not been previously drilled tested (Figure 12). This led directly to the discovery of the Mupane gold deposit in mid 1998 and to the Matopi, Molomolo and other gold prospects that are presently being evaluated.

Assessment of the many gold-in-soil anomalies is still ongoing and the potential for further discovery is considered high. To date only three of the new gold anomalies have been progressed to the drilling stage.



A feature of most of the new gold discoveries is that they are not associated with the vein quartz that attracted the old time prospectors. Host rocks in the various new prospects vary from banded iron to ultramafic rocks to felsic sediments.

Work directed at discovering additional gold resources continued for most of the past year throughout the southern Tati Greenstone Belt. There are at least thirty-two gold occurrences in this area of which nineteen were discovered through Company work. Exploration activities were undertaken on some fifteen of these during the past year, mostly on ground wholly owned by the Company.

Prior to the confirmation of a significant resource at Mupane and the likelihood of a gold processing plant being developed there, the regional exploration target was an ore body of stand-alone proportions. When it became clear in mid 2001 that Mupane would likely warrant a plant, regional exploration targeting shifted to include smaller satellite ore bodies.

#### **TEKWANE PLATINUM PROSPECT - *“Promising platinum associated with nickel sulphides”***

In early 2000 the Company acquired the Tekwane property that covers the eastern half of an 8 x 5 kilometre gabbro intrusive that hosts the operating Selkirk nickel mine (Figure 13). Drilling by previous owner Falconbridge and others had defined a sub-economic nickel-copper sulphide deposit on the area now held by Gallery Gold.

The platinum prospectivity of the property emerged when surface prospecting by the Company returned values of 4.0 g/t platinum and 4.5 g/t palladium from a gossan associated with the known low-grade nickel-copper mineralisation in the north of the property. Subsequent trenching intersected an encouraging 18 metres at 0.8 g/t combined platinum plus palladium including 3 metres at 2.8 g/t.

A reappraisal of Falconbridge archival drilling data revealed significant widths of anomalous platinum-palladium associated with the taxitic gabbro that hosts the low-grade nickel-copper mineralisation. Better intersections include 24 metres at 1.3 g/t platinum plus palladium and 34 metres at 1.1 g/t platinum plus palladium. It was noted that only 15% of the logged taxitic gabbro intersections were assayed

Core from the 22 hole (6,455 metre) Falconbridge diamond drilling program is still available and relogging and sampling is in progress.

The Tekwane platinum/nickel mineralisation has a clear sulphide association that responded well to a trial Induced Polarisation (I.P.) survey conducted by Goldfields Botswana (Pty) Ltd in the late 1980's. Gallery Gold has just completed a new detailed I.P survey over the most prospective area to help focus future drilling. The survey involved 47 line-kilometres of readings on 100 metre spaced lines. Results are still being processed but early indications are that a number of anomalies have been defined which have not been tested by previous drilling.

The Tekwane platinum mineralisation bears certain similarities to the large platinum group metal deposit at Lac des Iles in Canada. Lac des Iles has broad zones of mineralisation, a high palladium:platinum ratio and is hosted by altered and tectonically disturbed gabbroic rocks within a relatively small mafic intrusive complex.

The Selkirk mine and the sub-economic Tekwane nickel sulphide deposit are both associated with prominent gravity anomalies as seen in archival data. This data also indicated an undrilled gravity anomaly in the south of the property. Re-modelling of this data indicated it to be shallower than previously thought and less than 200 metres below surface.

In August 2001, a 337 metre RC percussion drill hole was completed to test this gravity anomaly at depth. This hole intersected variously sheared and altered gabbro throughout and only very low nickel values. Specific gravity determinations on drill cuttings suggest that the source of the gravity anomaly was not intersected and the geophysical data is now being re-evaluated.

#### **DIAMOND EXPLORATION – “*Several diamond targets under evaluation*”**

Mindful that Botswana is the world's largest producer of diamonds by value, Gallery Gold applied for and was granted two diamond exploration Prospecting Licences over the southern Tati greenstone belt and surrounding areas. These provide rights to "Precious Stones" over some 1,773 square kilometres (Figure 2).

The Company's Diamond Licences are regionally prospective, lying within the Zimbabwe Archaean Craton. Orapa, the largest producing Kimberlite in the world, lies 200 kilometres to the west and is thought to be on the craton's western margin.

Although much of the ground covered by the Company's Licences had been evaluated for diamond potential by previous explorers, this prior work was guided in part by low definition geophysical data. The Company's 1997 database of high resolution aeromagnetics and radiometrics provides an enhanced opportunity to identify kimberlite bodies. This is an especially important consideration as the district is underlain by a swarm of highly magnetic dykes that could conceal the magnetic signature of diamond bearing kimberlite bodies.

A review of historical data has been completed together with an appraisal of all available Company data. This work suggests there are some 34 targets to be assessed of which 6 are considered of high priority (Figure 2).

Consideration is being given for farm-out of the diamond tenements to an experienced diamond exploration group.

**FUTURE PROGRAM – *“Focus will remain on gold to achieve an early cash flow”***

The Company plans to continue to focus on gold exploration, particularly in the southern Tati greenstone belt. Current priority is to complete the Mupane scoping study and to commence development on this gold deposit as soon as possible. Exploration will concentrate on defining additional satellite deposits for the proposed central mill at Mupane.

The platinum exploration program at Tekwane will be reassessed once all data from the recent I.P. survey and sampling of Falconbridge drill core has been completed. Current favoured strategy to progress Tekwane is a joint venture farm out.

Similarly we will likely be seeking to farm out the diamond rights to a company with demonstrated diamond expertise.

**MINERAL TENEMENTS – *“Large strategic holding mostly 100% owned”***

Since 1995 Gallery Gold has built a large and strategic land holding, presently totalling 1,825 square kilometres, in the greenstone belts of north-east Botswana. The Company currently holds some 90% of the Tati and Vumba greenstone belts that host many old gold workings and 100% of a third greenstone belt (Kgarimacheng) with no historic gold workings.

The Company's Botswana Project consists of thirteen Mineral Prospecting Licences and three Mining Licences. Details of individual mineral tenements are listed in Table 1. In addition, the Company holds two Diamond Prospecting Licences that essentially cover the same area as the mineral tenements (Table 2).

The Company wholly owns thirteen of the 16 mineral tenements and also wholly owns the two diamond tenements. On an area basis, the Company wholly owns 94.4% of the mineral tenements including those covering the Mupane gold deposit.

Annual rental payments for all tenements total only 26,832 Botswana Pula (AUD 9,100). The Prospecting Licences have annual obligatory expenditure commitments totalling 900,000 Botswana Pula (AUD 306,000) and the Company met all such commitments in the year under review.

No payments were made in the past year to parties other than the Government to either maintain tenement rights or to secure new rights. The Company is in the fortunate position that most of its exploration expenditure is directed in ground where it counts most.

Main tenement changes in the past year included a reduction in the size of the Kgarimacheng Prospecting Licence, one new mineral Prospecting Licence (Mabete), the two new diamond tenements and a new joint venture covering the old Rainbow gold mine.

On 6 November 2000 an agreement was signed with Kudu Mining (Pty) Ltd for Gallery Gold to earn a 95% interest in the old Rainbow gold mine by free carrying Kudu Mining to a decision to mine. Kudu Mining's right is limited to a 7.5 square kilometre area covered by the former Rainbow Mining Licence and not the whole 44.4 square kilometre Rainbow Prospecting Licence.

The Mupane gold deposit is located on a Prospecting Licence that is owned 100% by the Company. An application for a Mining Licence for Mupane is envisaged towards the end of the planned feasibility study later next year. No major delays are anticipated and the Mines Department has indicated that the Licence should be approved within a two-month period.

## **BOTSWANA SAMPLE PREPARATION LABORATORY**

Following a series of problems encountered when using South African commercial laboratories over a two year period, the Company established its own sample preparation facility in Francistown for the crushing and pulverising of trench and drilling samples.

The facility was constructed by Labtech Essa Pty Ltd in Perth and then shipped to Botswana and commissioned under the supervision of Genalysis Laboratory Services Pty Ltd. Since May 2001 all trench, rock and drilling samples from the Botswana Project have been shipped back to Genalysis in Australia for assay.

A third pulverising mill was recently installed in the facility to increase nominal daily throughput from 100 to 150 samples and to reduce a backlog of samples presently awaiting processing.

## **CORPORATE MATTERS**

### **Botswana Stock Exchange Listing**

On 25 June 2001 Gallery Gold was dual listed on the Venture Capital Board of the Botswana Stock Exchange (BSE). The Company is the first Australian Company to list on the BSE and is the only gold stock listed on the Exchange.

Botswana stockbroker Capital Securities (Pty) Ltd was the sponsoring broker to the Company's dual listing and PricewaterhouseCoopers has been appointed as the Company's local share registry agent.

Botswana's stock exchange was established in 1989 and incorporated under terms of the Botswana Stock Exchange Act in 1994. Including Gallery Gold, there are 24 companies listed on the BSE, 16 being local Botswana companies and 8 being dual listed foreign companies, mostly South African. The combined market capitalisation of the local companies is in the order of A\$2.5 billion.

Since Gallery Gold's discovery of the Mupane gold deposit there has been considerable Botswana investor interest in the Company and the dual listing will permit locally based investors to trade more readily in the Company's shares. Due to the favourable regulatory regime in Botswana, the Company opted to dual list its Australian listed entity rather than to separately list its wholly owned Botswana subsidiary.

Shares in Gallery Gold trade freely between both countries with 74 separate Botswana shareholders now holding a combined interest of 7.2% in the Company as at 30 September 2001. It is anticipated that the Botswana shareholder base in the Company will grow significantly in the next 12 months.

On 19 July the Botswana Ministry of Finance granted "Local Asset" status to Gallery Gold thus enabling local institutional pension funds to invest in the Company.

The BSE has experienced rapid growth in recent years as a result of Botswana's continuing political and financial stability and has the potential to become a new financial hub for both southern and central Africa.

### **Capital Raisings**

A capital raising in September 2000 was fully reported in last year's Annual Report. The AUD 3.0 million placement to Lion Selection Group Limited, African Lion Limited and clients of JB Were & Son involved issuing a total of 30 million new shares at an issue price of 10 cents. Shareholders gave approval for the placement at a General Meeting on 23 October 2000 and the placement was completed on 3 November 2000.

On 24 May 2001 the Company announced plans for a placement of 31.25 million new shares at an issue price of 16 cents each to raise a total of AUD 5.0 million. The proposed placement was approved by shareholders at a General Meeting on 29 June 2001. The placement was to be supported by Lion Selection for an amount of AUD 1.5 million, African Lion Limited for an amount of AUD 1.25 million and clients of Botswana stockbroker capital Securities (Pty) Ltd for an amount of AUD 2.0 million.

Finalisation of the placement was delayed due to slower than anticipated uptake of shares by Botswana investors and it was decided to close the issue on 29 August 2001 after a total of AUD 3,911,425 had been raised. The placement was completed on 12 September with a total of 24,446,402 new shares being issued. Participants in the placement contributed the following amounts:

Lion Selection Group Limited	AUD 1,173,427
African Lion Limited	AUD 977,856
Clients of Capital Securities (Pty) Ltd	AUD 1,510,141
Australian Investors	AUD 250,000

As a result of the new capital raising, the Company now has 135,373,590 fully paid ordinary shares on issue.

Funds raised are more than sufficient to complete this calendar year's field program including the Mupane scoping study.

### **Conversion of Convertible Note**

A Convertible Note held by Australian Selection Pty Ltd, a wholly owned subsidiary of Lion Selection Group Limited, matured on 26 April 2001 and the Company received notice that the holder wished to convert the Note rather than extend it for a further period. Three million new shares were issued to Cogent Nominees Pty Ltd, a nominee company of Australian Selection, on 11 May 2001 in satisfaction of the Note.

### **Appointment of New Director**

On 18 September the Company announced that consulting engineer Mr Geoff M. Jones had been appointed as a non-executive director of Gallery Gold Limited.

Mr Jones' engineering expertise and in particular his African experience, will greatly assist the Board as the Company continues to progress its Mupane gold deposit towards development.

### **Lion Selection Group Limited**

Lion Selection Group now holds a 43.3% interest in the Company, if shares held by subsidiary Australian Selection via Cogent Nominees are included. It holds an additional 1.5% indirect interest in the Company via African Lion Limited in which it has an 18.5% interest.

Lion Selection Group has been an enthusiastic supporter of the Botswana Project from the outset and the Company's successful exploration program culminating in the discovery and delineation of the Mupane gold deposit would not have been possible without the Group's major financial support.



Keith McKay

Managing Director

10 October 2001