GALANTAS GOLD CORPORATION

Management's Discussion and Analysis

Year Ended

December 31, 2012

GALANTAS GOLD CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December, 2012

This document constitutes management's discussion and analysis (MD&A) of the financial and operational results of Galantas Gold Corporation (the Company) for the year ended December 31, 2012. This MD&A supplements, but does not form part of the consolidated financial statements of the Company, and should be read in conjunction with the audited consolidated annual financial statements and related notes for the year ended December 31, 2012. The currency referred to in this document is the Canadian dollar. The MD&A is prepared in conformance with National Instrument 51-102F1 and was approved by the Company's Audit Committee on April 15, 2013.

As of January 1, 2010, Galantas adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The audited consolidated annual financial statements for the year ended December 31, 2012, have been prepared in accordance with IFRS.

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the potential of Galantas's properties to contain gold, silver and lead deposits; the Company's ability to meet its working capital needs at the current level, the plans, costs, timing and capital for future exploration and development of Galantas's property interests, including the costs and potential impact of complying with existing and proposed laws and regulations; management's outlook regarding future trends and general business and economic conditions.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond Galantas's ability to predict or control. These risks, uncertainties and other factors include, but are not limited to, gold deposits, price volatility, changes in debt and equity markets, timing and availability of external financing on acceptable terms, the uncertainties involved in interpreting geological data and confirming title to its properties, the possibility that future exploration results will not be consistent with Galantas's expectations, increases in costs, environmental compliance and changes in environmental and other local legislation and regulation, interest rate and exchange rate fluctuations, changes in economic and political conditions and other risks involved in the mining industry, as well as those risk factors listed in the "Risk and Uncertainties" section below. Readers are cautioned that the foregoing list of factors is not exhaustive of the factors that may affect the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions that may prove to be incorrect, including, but not limited to, assumptions about the following: the availability of financing for Galantas's exploration and development activities; operating and exploration costs; the Company's ability to retain and attract skilled staff; timing of the receipt of regulatory and governmental approvals for exploration projects and other operations; market competition; and general business and economic conditions.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Galantas's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

OVERVIEW – STRATEGY - DESCRIPTION OF BUSINESS

Company Overview

Galantas Gold Corporation is a producing mineral resource issuer and the first to acquire planning consent to mine gold in Northern Ireland. The Company's wholly owned Ontario holding company, Cavanacaw Corporation, owns all of the shares of two Northern Ireland companies – Omagh Minerals Limited, owner of prospecting and mining rights, planning consent plus land, buildings and equipment; and Galantas Irish Gold Limited a jewellery business which is no longer being pursued and for which the Company is examining the availability of a joint venture opportunity.

Mining at the Omagh mine is conducted by open pit methods. The mine produces a flotation concentrate which is shipped to a smelter in Canada under a life of mine off-take agreement. The Company's strategy to increase shareholder value is to:

- Continue production at the mine and processing plant;
- Obtain the necessary planning permits for an underground development;
- Continue to explore and develop extensions to the Kearney, Kerr, Joshua and nearby known deposits so as to expand minable reserves and increase gold production in stages;
- Explore the Company's prospecting licences which aggregate 600 square kilometres, focusing on the more than 60 gold targets identified to date;

Reserves and Resources

During 2008, ACA Howe International Ltd prepared an updated estimate of mineral resources for the Omagh mine. The report, entitled Technical Report on the Omagh Gold Project is dated 28th May 2008 and is published on www.sedar.com and www.galantas.com.

In June 2012 ACA Howe International Ltd (Howe UK) completed an updated NI 43-101 compliant Mineral Resource Estimate together with a Preliminary Economic Assessment. This report, which was based on drilling results and analyses received to June 2012, identified all resources discovered at that date. The Company subsequently filed the complete Technical Report and Preliminary Economic Assessment on SEDAR in August 2012. A further updated report will be prepared during the first half of 2013 when the remaining results of the extended 18,000 metre drilling programme are received. This updated report will incorporate all drilling results and analyses received subsequent to June 2012.

Mining Project

The project currently embraces an open pit mine capable of supplying ore to a crushing-grinding-froth flotation plant. The plant is designed to produce a gold and silver rich sulphide flotation concentrate for sale to a commercial smelter. The plant was commissioned as stated in a press release dated June 26, 2007.

Galantas Irish Gold Limited

During 2011 Galantas announced that it would review joint venture opportunities related to its gold jewellery business as management focus is now entirely on the mine operation.

Management and Staff

Overall management is exercised by one Executive Director along with a General Manager who is in charge of operations in Omagh where the mine, plant and administration currently employs 29 personnel.

Key Performance Driver

The key performance driver is the achievement of production and cash flow from profitably mining the deposits at Omagh.

Overview of 2012

Production at the Omagh mine during the year ended December 31, 2012 was significantly below production levels for the year ended December 31, 2011 due primarily to the processing of lower grade ore from stockpile during the year. The high level of low grade material processed was due to the increasing lack of available ore from the Kearney open pit during the course of 2012. Mining from the Kearney pit was restricted due to limitations in the disposal of surplus rock which had been stockpiled over a period of time from earlier mining at the Kearney pit. Whilst the mine is required under its planning permission to dispose of surplus rock from the site the consent to transport the surplus rock offsite was not forthcoming from the local planning authorities.

Galantas Gold Corporation reported a Net Loss of $ 593,866 for the year ended December 31, 2012 which compared with a Net Income of $ 1,610,990 for the year ended December 31, 2011. When the net loss is adjusted for non cash items before changes in non-cash working capital the cash from operating activities amounted to $ 177,737 for the year ended December 31, 2012 compared to cash generated from operations of $ 2,885,412 for the year ended December 31, 2011.The cash from operating activities after changes in non-cash working capital amounted to $ 569,610 for the year ended December 31, 2012 compared to cash generated from operating activities $ 3,339,617 for 2011.

The Company had cash balances at December 31, 2012 of $ 1,164,868 compared to $ 4,240,081 at December 31, 2011. The working capital deficit at December 31, 2012 amounted to $ 2,309,307 which compared with a deficit of $ 536,142 at December 31, 2011.

During 2012 Kenglo One Limited exercised its right to acquire 20,560,340 common shares of the Company under the terms of warrants held by it. The warrants were exercisable at $0.10 per share. The aggregate consideration from the exercise of the warrants of $ 2,056,034 was used by the Company to extinguish, in its entirety, the principal and interest obligations outstanding under the convertible loan agreement between Kenglo and the Company.

The exploration drilling program expanded considerably during 2012. The two principal objectives of the drilling programme were to complete the deeper holes on Kearney in order to gain a more accurate picture of the zone of mineralization for the purpose of underground mine plan and to extend the strike of Joshua to the north and the south, and begin to target deeper sections of the vein. During the year 11,991 metres were drilled with 35 holes targeting the Joshua vein, 14 holes on the Kearney veins and 4 holes on the Kerr veins. Assay results to date have been positive, in particular the assays released in January 2013 from ten of the drill holes on Joshua which had thirteen significant mineral intersects. Since the beginning of the 15,000 metre program in 2011 a total of 16,347 metres had been drilled to the end of 2012 which completes that phase on target. Drilling has continued into 2013 using the company's own core drilling rig manned by in-house drillers. A further 1,600 metres of drilling are planned in the short term, extending the program to 18,000 metres following up the recently reported gold intersects on the Joshua vein.

Earlier in the year ACA Howe International Ltd prepared an Interim Resource for the Omagh Gold Project to Canadian National Instrument NI 43-101 standard. This interim report, which is based on drilling results and analyses received up to June 2012, together with a Preliminary Economic Assessment was published during the third quarter and was filed on SEDAR in August 2012. A further updated report will be prepared during the first half of 2013 when the remaining results of the extended 18,000 metre drilling programme are received. This updated report will incorporate all drilling results and analyses received subsequent to June 2012.

1.1 DATE OF THE MD&A

The MD&A was prepared on April 15, 2013.

1.2 REVIEW OF FINANCIAL RESULTS

Year Ended December 31, 2012

The Net Loss for the year ended December 31, 2012 amounted to $ 593,866 compared to a Net Income of $ 1,610,990 for the year ended December 31, 2011 as summarized below.

	Year Ended December 31, 2012	**Year Ended December 31, 2011**
Revenues	**$ 4,659,330**	**$ 9,492,157**
Production costs	$ 3,146,359	$ 4,795,838
Inventory movement	$ 20,767	$ 64,589
Cost of sales	**$ 3,167,126**	**$ 4,860,427**
Income before the undernoted	**$ 1,492,204**	**$ 4,631,730**
Amortization and depreciation	$ 748,711	$ 837,068
General administrative expenses	$ 1,604,162	$ 2,264,226
Gain on debt extinguishment	$ (190,624)	$ 0
Gain on sale of assets	$ (86,816)	$ (485)
Foreign exchange loss (gain)	$ 10,637	$ (80,069)
Net (Loss) Income for the Year	**$ (593,866)**	**$ 1,610,990**

Sales revenues primarily consisted of concentrate sales from the mine. Jewellery sales remained low during the year. Sales revenues for the year ended December 31, 2012 amounted to $ 4,659,330 which compared to revenues of $ 9,492,157 for 2011. The decrease in sales revenues during 2012 was primarily due to the lower level of metal produced and shipped when compared to 2011. This decrease was marginally offset by the favourable movement in gold prices during 2012. A review of 2012 Production is included in Section 1.4 of the MD&A – Results of Operations.

Cost of sales includes production costs at the mine and inventory movements. Production costs, which are summarized on Note 17 of the Financial Statements, amounted to $ 3,146,359 for the year ended December 31, 2012 compared to $ 4,795,838 for the year ended December 31, 2011. Production costs at the Omagh mine, the majority of which are incurred in UK£, include production wages, oil and fuel, equipment hire, repairs and servicing, carriage, consumables and royalties. The lower production costs for the year ended December 31, 2012 particularly reflect the reduced level of open pit mining activity during the year. These lower production costs for the year ended December 31, 2012 include decreases in Production Wages of $ 469,408 to $ 1,009,074 reflecting the reduced cost of production personnel following the redundancies that were effected during 2012, Oil and Fuel decreases of $ 350,188 to $ 1,060,611 due primarily to lower usage arising from lower mining activity, Repairs and Servicing cost decreases of $ 294,874 to $ 467,926 due to both a reduction in major repairs in the mill where there was a high level of crusher repair costs in 2011 together with a reduced number of breakdowns at the mine reflecting the lower level of mobile equipment operating in the mine, Equipment hire decreases of $ 329,459 to $ 193,069 arising from the off-hire of machinery in 2012 as a result of the reduced mining activity, Consumable cost decreases of $ 45,242 to $ 202,797 arising mainly from the reduced usage of consumables in 2012, Royalty costs , which are based on sales revenues, decreased by $ 106,843 to $ 90,557 reflecting the lower level of sales revenues during the year and Carriage costs decreases of $ 37,989 to $ 44,236 arising from the lower level of shipments during 2012.

The inventory movements for both the years ended December 31, 2012 and 2011 of $ 20,767 and $ 64,589 respectively reflect a decrease in inventory at December 31, 2012 and 2011 compared to January 1, 2012 and 2011 inventory levels.

This resulted in a Net Operating Income before amortization and depreciation, general administrative expenses, gain on sale of assets, gain on debt extinguishment and foreign exchange loss for the year ended December 31, 2012 of $1,492,204 compared to Income of $ 4,631,730 for 2011.

Amortization of deferred development and exploration costs for the year ended December 31, 2012 totalled $ 166,241 which compared to $ 387,022 for the year ended December 31, 2011.The 2012 amortization charge, which is calculated on the unit of production basis, is substantially lower than that for the year ended December 31 2011 due to the lower production levels in 2012. Depreciation of property, plant and equipment during the year ended December 31 2012 totalled $ 582,470 which compared with $ 450,046 for 2011. This increase is due mainly to the depreciation on the additional plant and equipment acquired subsequent to December 31, 2011.

General administrative expenses for the year ended December 31, 2012 amounted to $ 1,604,162 compared to $ 2,264,226 for 2011.General administrative expenses are reviewed in Section 1.15 Other MD&A Requirements.

There was a gain on debt extinguishment of $ 190,624 following the extinguishment of the convertible debenture debt during 2012 which compared to $ Nil for the year ended December 31, 2011.

The gain on sale of assets during the year ended December 31, 2012 amounted to $ 86,816 in 2012 compared to a gain of $ 485 for the year ended December 31, 2011.

There was a Foreign exchange loss of $ 10,637 for the year ended December 31, 2012 which compared with a Foreign exchange gain of $ 80,069 for 2011.

This has resulted in a Net Loss of $ 593,866 for the year ended December 31, 2012 compared to a Net Income of $ 1,610,990 for 2011. When the Net Loss is adjusted for non cash items before changes in non-cash working capital the cash generated from operating activities amounted to $ 177,737 for the year ended December 31, 2012 compared to cash generated from operating activities of $ 2,885,412 for the year ended December 31, 2011 as per the Statement of Cash Flows. The cash generated from operating activities after changes in non-cash working capital amounted to $ 569,610 for the year ended December 31, 2012 compared to $ 3,339,617 for 2011.

Foreign Currency Translation Gain which is included in Other Comprehensive Income amounted to $ 211,760 for the year ended December 31, 2012 which compared to a Foreign Currency Translation Gain of $ 57,307 for 2011. This resulted in a Total Comprehensive Loss of $ 382,106 for the year ended December 31, 2012 compared to a Total Comprehensive Income $ 1,668,297 for the year ended December 31, 2011.

Total assets at December 31, 2012 amounted to $ 14,019,111 compared to $ 14,070,093 at December 31, 2011. Cash at September 30, 2012 was $ 1,164,868 compared to $ 4,240,081 at December 31, 2011. The working capital deficit at December 31, 2012 amounted to $ 2,309,307 compared to a deficit of $ 536,142 at December 31, 2011. Accounts receivable consisting mainly of trade debtors, reclaimable sales taxes and prepayments amounted to $ 673,054 at December 31, 2012 compared to $ 1,056,573 at December 31, 2011. Inventory at December 31, 2012 amounted to $ 326,249 compared with an inventory of $ 347,016 at December 31, 2011. Inventory mainly consists of jewellery products and unworked gold belonging to the jewellery business. There was a low level of concentrate stocks at December 31, 2012 and December 31, 2011 due to almost all concentrates produced having been shipped at year end.

Property plant and equipment totalled $ 3,566,778 at December 31, 2012 compared to $ 3,547,393 at December 31, 2011. There was an increase in property, plant and equipment in 2012 arising mainly from the acquisition of additional land during the year which was partially offset by the depreciation charge for the year. Deferred development and exploration costs totalled $ 7,859,445 at December 31, 2012 compared to $ 4,507,753 at the end of 2011. This increase is mainly due to the capitalization of both exploration costs related to the exploration drilling programme and costs incurred in connection with the underground mine development. Long term deposit at December 31, 2012, representing funds held in trust in connection with the Company's asset retirement obligations, amounted to $ 428,717 compared to $ 371,277 at December 31, 2011.

Current liabilities at December 31, 2012 amounted to $ 4,473,478 compared to $ 6,179,812 at the end of 2011. Accounts payable and accrued liabilities totalled $ 1,670,729 compared to $ 1,683,142 at December 31, 2011. Amounts due to related parties at December 31, 2012 amounted to $ 2,802,749 compared to $ 2,517,067 at the end of 2011. The convertible debenture, which was repaid during the second quarter of 2012 by way of the exercise of warrants of $ 2,056,034 which were used by Galantas to extinguish the debt, amounted to $ Nil at December 31, 2012 compared to $ 1,979,603 at December 31, 2011. The asset retirement obligation at December 31, 2012 amounted to $ 404,450 compared to $ 394,975 at December 31, 2011.

1.3 SELECTED ANNUAL INFORMATION

	Year Ended December 31 2012 IFRS	Year Ended December 31 2011 IFRS	Year Ended December 31 2010 IFRS	Year Ended December 31 2009 Canadian GAAP	Year Ended December 31 2008 (Restated) Can. GAAP
Revenue (including interest income)	$ 4,659,330	$ 9,492,157	$ 6,831,410	$ 5,409,913	$ 4,403,114
Net income (loss)	$ (593,866)	$ 1,610,990	$ 750,200	$ (6,361,697)	$ (2,452,220)
Net income (loss) per share basic	$ (0.00)	$ 0.01	$ 0.00	$ (0.03)	$ (0.01)
Net income (loss) per share diluted	$ (0.00)	$ 0.01	$ 0.00	$ (0.03)	$ (0.01)
Cash and cash equivalents	$ 1,164,868	$ 4,240,081	$ 2,661,798	$ 485,997	$ 587,489
Working Capital (Deficit)	$ (2,309,307)	$ (536,142)	$ (292,336)	$ (3,711,772)	$ (3,541,359)
Total Assets	$14,019,111	$ 14,070,093	$ 9,912,522	$ 11,946,303	$ 18,426,892
Long Term Liabilities	$ 0	$ 0	$ 0	$ 34,102	$ 618,025
Shareholders' Equity	$ 9,141,183	$ 7,495,306	$ 5,407,725	$ 6,163,851	$ 12,249,846

The Net Income (Loss) is discussed in Section 1.2 - Review of Financial Results.

The Company does not have any extraordinary items and has not declared a dividend for the years presented above.

The December 31, 2008 amounts reflect the restated 2008 Financial Statements as detailed in Note 15 of the December 31, 2009 Financials.

Revenue primarily consists of sales of concentrates from the Omagh mine. Revenue is discussed in Section 1.2 - Review of Financial Results.

Cash levels at December 31, 2012 are below those of December 31, 2011 reflecting both the expenditures on the Company's exploration drilling programme and underground development costs together with capital expenditures and in particular the land acquisition during 2012.

Up to 2009 the Company's working capital deficit had been increasing from year to year due to both increases in loans from related parties and long term liabilities being reclassified as current liabilities. However the Company's improved financial performance together with the 2010 private placement enabled Galantas to substantially reduce its working capital deficit in 2010 and 2011.The increased working capital deficit at December 31, 2012 reflects both the expenditures on the Company's exploration drilling programme and underground development costs together with capital expenditures and in particular the land acquisition during 2012.

Total assets had reduced at December 31, 2009 as a result of the 2009 impairment charge and the amortization/depreciation of assets. However the Company's improved performance together with the private placement in 2010 and debenture loan in 2011 resulted in an increase in total assets at December 31, 2010, 2011 and 2012.

Long term liabilities are $ Nil at December 31, 2011 as a result of both loan repayments and the related party loans now being reclassified within current liabilities.

The reduction in shareholders' equity in 2009 and 2008 is primarily due to the increased deficits as a result of the net losses incurred in those years. Shareholders equity then increased following the Company's return to profitability in 2010 and 2011. Shareholders equity further increased in 2012 following the shares issued for exercise the Kenglo warrants. This increase was partially offset as a result of the loss in 2012.

1.4 RESULTS OF OPERATIONS

2012 Financing Activities

There were no financing activities during 2012.

During the second quarter of 2012 Kenglo One Limited exercised its right to acquire 20,560,340 common shares of the Company under the terms of warrants held by it. The warrants were exercisable at $0.10 per share. The aggregate consideration from the exercise of the warrants of $ 2,056,034 was used by the Company to extinguish, in its entirety, the principal and interest obligations outstanding under the convertible loan agreement between Kenglo and the Company. As a result, a gain on debt extinguishment of $ 190,624 on the convertible debenture was recorded in profit and loss and a loss on debt extinguishment of $ 8,800 on the equity portion of convertible debenture was recorded in equity.

As a result of this warrant exercise, Kenglo currently holds 66,110,340 common shares representing 25.8% of the outstanding common shares of the Company.

2012 Production Review

Production

Production at the Omagh mine during the year ended December 31, 2012 was significantly below production levels for the year ended December 31, 2011 due primarily to the processing of lower grade ore.

	Year Ended December 31, 2012	Year Ended December 31, 2011
Tonnes Milled	44,112	46,871
Average Grade g/t gold	2.3	4.46
Concentrate Dry Tonnes	1,008	2,265
Gold Grade	100.9	88.9
Gold Produced (oz)	3,271	6,479
Gold Produced (kg)	101.7	201.5
Silver Grade	227.6	234
Silver Produced (oz)	7,379	17,082
Silver Produced (kg)	229.5	531.3
Lead Produced tonnes	61.4	280.1
Gold Equivalent (oz)	3,507	7,308

Tonnes milled during the year ended December 31, 2012 totalled 44,112 tonnes which included low grade ore from stockpile compared to 46,871 tonnes for 2011, a decrease of 6%. However, due to the processing of lower grade ore during the year, the concentrate production for 2012 which amounted to 1,008 dry tonnes was well below the 2,265 dry tonnes produced during of 2011 – a decrease of 55%. Metal content of production for the year ended December 31, 2012 totalled 3,271 ounces of gold (101.7kgs), 7,379 ounces of silver (229.5kgs) and 61.4tonnes of lead. This compares with metal content for the year ended December 31, 2011 of 6,479 ounces of gold (201.5kgs), 17,082 ounces of silver (531.3kgs) and 280.1 tonnes of lead which represents a 50% decrease in gold output, a 57% decrease in silver output and a 78% decrease in lead output. Gold equivalent for the year ended December 31, 2012 was 3,507 ounces which compares to 7,308 ounces for 2011 which represents a 52% decrease. The 2012 production figures and metal contents are provisional and subject to averaging or umpiring provisions under the concentrate off – take agreement detailed in a press release dated October 3, 2007.

Whilst ore milled during 2012, at 44,112 tonnes, was slightly below ore milled in 2011 both concentrate and metal production in 2012 were significantly lower than 2011production levels which was primarily due to the lower grade of the ore milled throughout the year. These lower grades are directly attributable to the processing of low grade material from stockpile. The high level of low grade material processed was due to the increasing lack of available ore from the Kearney open pit during the course of the year.

The year commenced with mining from the Kearney pit being restricted due to limitations in the disposal of surplus rock which had been stockpiled over a period of time from earlier mining at the Kearney pit. This stockpiled surplus rock was reaching capacity levels which impacted negatively on production from the Kearney open pit. Whilst the mine is required under its planning permission to dispose of surplus rock from the site, the consent to transport the surplus rock offsite was not confirmed by the planning services until February 2012. However the granting of this permit did not result in the resumption of mining at Kearney as certain conditions regarding the transportation of surplus rock and the number of passing bays on the local roads would take some months to implement. This resulted in lower production during the first half of 2012 with the restricted mining on the Kearney vein resulting in mining being mainly on the Kerr vein which was blended with low grade material from stockpiled ore. Because of adverse impact on production levels a number of redundancies were effected during the first half of 2012.

The second half of 2012 commenced with production from Kearney becoming totally restricted during the third quarter by the surplus rock stockpile on the site which had reached capacity levels. This surplus rock was due to commence being transported from the site during the third quarter with the Omagh mine having completed construction of public road improvements at its own cost to comply with the conditions of the planning consent. However, following a judicial review brought by a private individual on the grounds of procedural failings by Planning Service, the planning consent was quashed. This resulted in production in the second half of the year being limited to mining from the Kerr vein and the processing of ore from the low grade stockpile. Mining from the Kerr veins during the year was reasonably successful with two of the veins mined being of high grade. For the short term Kerr is expected to produce small quantities of high grade material which will be blended with the lower grade material from stockpile. This ongoing limitation has and will result in low grade material continuing to be processed for the immediate future. To generate cash from its operations going forward, the Company has continued to cut costs. Because of adverse impact on production levels it was deemed unlikely that sufficient ore will be available in the future to maintain current employment on the mine site until the underground mine is permitted. This resulted in the mine commencing a second redundancy programme to further reduce the workforce which was completed by year end.

During the year the mill was mainly fed with lower grade ore. Whilst the modifications that were made to the flotation and crushing circuits in 2011 and in the first quarter of 2012 have proven to be successful, some further changes were required in the second half of 2012 to increase throughput. Production was hampered during the year by both the ongoing variations in the metallurgy due to the inconsistent grade of ore being milled and an increased clay content. Production was also hampered throughout the year by unplanned downtime in the plant which continued to be problematical. Further improvements to the milling circuit were completed in late 2012 will result in decreased labour cost which will contribute towards the Company's objective to achieve positive cash flow from operations in 2013.

Discussions with the Planning Services in Northern Ireland continued throughout 2012. As discussed earlier the planning permit to transport surplus rock offsite to be integrated into the local aggregate industry which was granted during the first quarter was quashed later in the year following a judicial review brought by a private individual on the grounds of procedural failings by Planning Service. During the third quarter permission was granted for the construction of a lower portal structure and truncated tunnel structure for underground mining on the Kearney vein. Construction of a tunnel during the backfilling process of Kearney will keep open the opportunity to efficiently access gold resources that exist at depth below the open pit and speed development of an underground mine. Permission is still awaited on two further applications in connection with proposals to drill boreholes to determine mineralization at depth on the Kearney and Joshua veins.

The Environmental Impact Study in connection with the proposed underground development together with the planning application for an underground mine were submitted to the Planning Services during the second quarter of 2012. Discussions with the regulatory authorities are ongoing with regards to the underground mine plan and accompanying Environmental Statement. Good progress is being made and the Company has been encouraged by the letter of support which the local district council has forwarded to the Minister. The application is at the statutory consultee stage. Several consultees have recommended approval. A number of other consultees have requested additional information which is being provided. The Minister of the Environment, Mr. Alex Attwood, visited the mine subsequent to year end and the Company believes it was a positive visit. This is particularly relevant since determination of the application is within the Minister's remit.

Good progress was achieved during 2012 with regards to the on-going reinstatement process of the mine site with two completed rehabilitation paste cells being capped with a layer of till and peat and covered in grass seed during 2012. The reinstatement of a number of other paste cells is on-going and these are near completion. In addition work commenced in early 2012 on a number of paste cells, already permitted, in preparation for their future utilisation when underground mining at the Omagh mine commences.

Production at the Omagh mine for the three months ended December 31, 2012 is summarized in the table below.

	Three Months to December 31, 2012	Three Months to December 31, 2011
Tonnes Milled	8,364	9,762
Average Grade g/t gold	1.9	5.06
Concentrate Dry Tonnes	164	684
Gold Grade	96.7	69.1
Gold Produced (oz)	511	1,519
Gold Produced (kg)	15.9	47.3
Silver Grade	150.1	216
Silver Produced (oz)	794	4,763
Silver Produced (kg)	24.6	148.1
Lead Produced tonnes	4.5	80.8
Gold Equivalent (oz)	532	1,711

Production during the fourth quarter of 2012 was also below production levels achieved during the corresponding period of 2011 which was agai due primarily to the processing of lower grade ore.

Tonnes milled during the three months ended December 31, 2012 totalled 8,364 tonnes which included low grade ore compared to 9,762 tonnes for the three months ended December 31, 2011– a decrease of 14%. Due to the processing of the lower grade ore during quarter, the concentrate production for the fourth quarter of 2012 which amounted to 164 dry tonnes was well below the 684 dry tonnes produced during the fourth quarter of 2011 – a decrease of 76%. Metal content of production for the three months ended December 31, 2012 totalled 511 ounces of gold (15.9kgs), 794 ounces of silver (24.6kgs) and 4.5 tonnes of lead. This compares with metal content for the three months ended December 31, 2011 of 1,519 ounces of gold (47.3kgs), 4,763 ounces of silver (148.1kgs) and 80.8 tonnes of lead which represents a 66% decrease in gold output, a 83% decrease in silver output and a 94% decrease in lead output. Gold equivalent for the fourth quarter of 2012 was 532 ounces which compares to 1,711 ounces for the fourth quarter of 2011 which represents a 69% decrease. The 2012 production figures and metal contents are provisional and subject to averaging or umpiring provisions under the concentrate off – take agreement detailed in a press release dated October 3, 2007.

Exploration

The major focus of exploration activities in 2012 was the continuation of the successful drilling programme. In total 16,347 metres have been drilled since the programme commenced in March 2011 and significant gold intersects have been reported.

During 2011 the focus of exploration work moved from mining geology to exploration based activities. In 2011, the Company reported that a core drilling contract had been arranged which was later expanded to a 15,000 metre program. This upgraded program, is seeking to extend the depth and extent of the Joshua vein and provide data for a potential underground operation based upon the Joshua and Kearney veins. During 2011, 42 holes were drilled totalling 4,356 metres. Channel sampling was also carried out in 2011 on the Joshua and Kerr vein systems. On Joshua, a total strike length of 213 metres was sampled.

The drilling program expanded considerably at the commencement of 2012 with six drills operational during the first half of the year. The second half of the year saw the number of rigs being progressively reduced. Three rigs remained in operation to the end of the third quarter with one rig, owned by the Company, remaining in operation by the end of the year. The two principal objectives of the drilling programme were to complete the deeper holes on Kearney in order to gain a more accurate picture of the zone of mineralization for the purpose of underground mine plan and to extend the strike of Joshua to the north and the south, and begin to target deeper sections of the vein. During the year 11,991 metres were drilled with 35 holes targeting the Joshua vein, 14 holes on the Kearney veins and 4 holes on the Kerr veins. Drilling on Kearney was mainly at depth from off-site locations. Several cores yielded more than one mineralised section. The vein appears to pinch and swell at depth, similar to what has been seen in the open pit. Vein intersects ranged in width from 0.2 m to 7.6 m. A number of shorter infill holes targeting Kearney were also drilled from west to east with variable success.

Land to the west of the current Joshua vein exposure was purchased early in the first quarter of 2012 and this facilitated continued drilling on Joshua. Drilling on Joshua initially focused on the north and central sections of the veins. The strike length now extends a total of 208 metres beyond the RioFinex limit and the proven depth of mineralisation within this northern section has increased by 40 m to a vertical depth of 115 m. Significant results were also achieved for central and southern Joshua which have improved the understanding of the structure and geometry of the vein in this area. In the central region, the vein was intersected at a vertical depth of 160.6 m, yielding a 4.5 m wide mineralised section grading 8.4 g/t Au. Drilling and field observations strengthened the view of a westerly dipping vein in this region with high grade mineralisation at depth. In the south, six holes revealed two or more vein intersects, some of these were narrow stringers, and others point towards the presence of a more pervasive secondary structure. A particularly wide and high grade zone was intersected and section drawings indicate that the vein steepens in this area, dipping 85^{o} towards the east.

A desk based study was also carried out later in the year in order to prioritise new targets within the mine site. Some exploratory targets were drilled to test IP anomalies and auriferous overburden results previously reported around the current stockpile area. A narrow vein was picked up in one drill hole measuring 3.9 g/t Au. Mapping of the Kerr and McCombs veins showed that they fan out towards the north, indicating that there could be a central source towards the south of the property. Five holes were drilled in the Kerr, eastern lagoon and western lagoon regions during the second half of the year with encouraging results from one hole on the western side of the Kerr pit. This hole intersected mineralisation at a vertical depth of 108 m.

Further phases of channel sampling continued on the Kearney and Kerr veins during the year. Channel sampling was carried out on the northern extension to Kearney in January and September. The Kerr veins were also subject to channel sampling in 2012. Excavations during March revealed that one of the veins channel sampled in 2011 was widening with depth, and becoming more continuous along strike. Subsequent excavations have increased the strike of this vein to 100 m, although it appears to narrow towards the north.

Assay results released to date from both the drilling and channel sampling programme have been encouraging with significant gold intersections being identified (see press releases dated September 15, 2011, September 20, 2011, October 4, 2011, October 20, 2011, November 28, 2011, January 12, 2012, April 5, 2012, June 11, 2012, October 29, 2012 and January 8, 2013). Assay results from this programme will continue to be announced as and when they are received. Results to date have been positive, in particular the assays from the ten drill holes on Joshua released in January 2013 with thirteen significant mineral intersects. Since the beginning of the 15,000 metre program in 2011 a total of 16,347 metres have been drilled to the end of 2012 which completes that phase on target. Drilling has continued into 2013 using the company’s own core drilling rig manned by in-house drillers. Up to a further 1600 metres of drilling are planned in the short term, extending the program to 18,000 metres following up the recently reported gold intersects on the Joshua vein.

In March 2012 the Company appointed ACA Howe International Ltd (Howe UK) to prepare an Interim Resource for the Omagh Gold Project to Canadian National Instrument NI 43-101 standard. During the third quarter Galantas reported that it had received initial data from ACA Howe related to the preparation of an NI 43-101 compliant mineral resource estimate and a Preliminary Economic Assessment (see press release dated July 3, 2012).This report, which was based on drilling results and analyses received to June 8, 2012, identified all resources discovered at that date. The Company subsequently filed a complete Technical Report on SEDAR in August 2012. A further updated report will be prepared during the first half of 2013 when the remaining results of the extended 18,000 metre drilling programme are received. This updated report will incorporate all drilling results and analyses received subsequent to June 2012.

Omagh Minerals has six prospecting licences. The licence area OM1 encompasses the mine site as well as an area to the west of the mine site. With regards to exploration outside the mine licence area, licence OM4 which was granted in 2011 for a two year period covering an area of 252 square kilometres, is an amalgamation of selected parts of old licence areas OM2 and OM3. In addition during the first quarter of 2012, Omagh Minerals was granted four new prospecting licences in the Republic of Ireland. These licences encompass an area of 160 square kilometres and form a westerly extension to the existing OM4 licence. Results accumulated from fieldwork carried out within three areas of the OM4 licence during the fourth quarter of 2011 suggests a broad, multi element, geochemical trend within OM4 which appears to intensify in an area towards the border with the Republic of Ireland. The most encouraging result to date was derived from a dark breccia float sample which was discovered in the Glen Burn region. Considerable field work was carried out during 2012, both within OM1 and more recently, within OM4. During the summer, off-site prospecting work which included mapping and soil sampling was focussed in the Cornavarrow Burn, Unshinugh and Legphressy areas of OM1. The most significant anomalies were clustered around the Cornavarrow Burn with two of the samples collected being from a narrow graphitic vein exposed in the stream bank. Later in the year and during January 2013 offsite prospecting was carried out in the OM4 primary target areas including Crigh Bridge, Magheranageeragh and Leitrim Hill. This work is ongoing and further targets will be explored.

1.5 SUMMARY OF QUARTERLY RESULTS

Revenues and financial results in Canadian dollars for the fourth quarter of 2012 and for the seven preceding quarters are summarized below:

Quarter Ended	Accounting Policies	Total Revenue	Net Income (Loss)	Net Income (Loss) per share & per share diluted
December 31, 2012	IFRS	$ 875,391	$ 1,449	$ 0.00
September 30, 2012	IFRS	$ 855,813	$ (495,660)	$ (0.00)
June 30, 2012	IFRS	$ 1,902,980	$ 543,734	$ 0.00
March 31, 2012	IFRS	$ 1,025,146	$ (643,389)	$ (0.00)
December 31, 2011	IFRS	$ 2,512,459	$ 445,945	$ 0.00
September 30, 2011	IFRS	$ 2,510,985	$ 445,646	$ 0.00
June 30,2011	IFRS	$ 3,266,572	$1,039,384	$ 0.01
March 31,2011	IFRS	$ 1,202,141	$ (319,985)	$ (0.00)

The results for the Quarter ended December 31, 2012 are discussed under Section 1.10 – Review of Fourth Quarter Financial Results. Revenues are primarily from the sales of concentrates. There had been losses in each of the quarters up to December 31, 2009. Subsequent to January 1, 2010, the Company was profitable in the first three quarters of 2010 mainly as a result of higher gold prices. A fall in metal production during the fourth quarter of 2010 and a further fall in production during the first quarter of 2011 resulted in a losses being incurred in both these quarters. The return to profitability during the second, third and fourth quarter of 2011 was due to both the increased production levels achieved and the higher gold prices that prevailed during those quarters. A fall in metal production during the first and third quarters of 2012, at a time of high gold prices, resulted in a loss being incurred in those quarters. The return to profitability in the second quarter of 2012 was primarily due to the higher production during that quarter. The net income of $ 1,449 for the fourth quarter 2012 is attributable to the capitalisation of certain production costs totalling $ 327,000 in the fourth quarter which costs had been included in production costs in the financials for the nine months ended September 30, 2012. The production costs capitalised were in connection with the reinstatement of a number of rehabilitation paste cells in 2012 in preparation for their future utilisation when underground mining at the Omagh mine commences.

1.6 LIQUIDITY

The Company had a cash balance of $ 1,164,868 at December 31, 2012 compared with a cash balance of $ 4,240,081 at December 31, 2011.

As at December 31, 2012, the Company's working capital deficit amounted to $ 2,309,307 which compared with a deficit of $ 536,142 at December 31, 2011.

There were no financing activities during 2012. During 2011, Galantas entered into a convertible unsecured £ 1,250,000 loan agreement with Kenglo One Limited .The convertible loan carried interest of 2% per annum above the base rate of Barclays Bank plc. The Loan was repaid during the second quarter of 2012 following the exercise by Kenglo of the previously issued warrants of the Company to Kenglo.

Galantas had earlier in 2010 completed a private placement with Kenglo grossing $ 2,277,500. The Company has utilised the funds from the convertible loan secured during 2011, the 2010 private placement and the cash generated from operations in 2011 to finance the ongoing expanded exploration drilling program which commenced in 2011, the fixed plant refurbishment completed in 2011, mobile equipment acquisitions in 2011 and the land acquisition earlier in 2012.

Related Party loan repayments during the year ended December 31, 2012 amounted to $ 95,040 (UK£ 60,000).

The Company will be required to raise funds in the near term to meet its current commitments and to fund future developments and operations. There is however, no assurance that the Company will be successful in its efforts, in which case the Company may not be able to meet its obligations. The audited consolidated annual financial statements have been prepared on a going concern basis as discussed in Note 1 of the December 31, 2012 financial statements.

Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the condensed consolidated interim statements of financial position.

1.7 CAPITAL RESOURCES

As at December 31, 2012, the Company had capital requirements to repay, under existing arrangements:

a) Accounts payable and accrued liabilities amounting to $ 1,670,729 incurred in the normal course of business.

b) A UK £ loan facility from G&F Phelps Limited, a company controlled by a director of the Company, in the amount of $ 1,660,756 (£ 1,026,552). This loan bears interest at 2% above base rate, is repayable on demand and is secured by a mortgage debenture over all the Company's assets. Interest accrued on related party loans is included under due to related parties. As at December 31, 2012, the amount of interest accrued totalled $ 86,023 (UK£ 53,173).

c) Amounts due to directors and key management of the Company at December 31, 2012 totalled $ 1,055,970.

Contingent Liability

During 2010, the Company's subsidiary Omagh Minerals Limited received a payment demand from Her Majesty's Revenue and Customs in the amount of $ 538,972 (UK£ 333,151) in connection with an aggregate levy arising from the removal of waste rock from the mine site during 2008 and early 2009. The Company believes this claim is without merit. An appeal has been lodged and the Company's subsidiary Omagh Minerals Limited intends to vigorously defend itself against this claim. No provision has been made for the claim in the condensed consolidated interim financial statements.

It is to be expected that the Company will be required to raise funds in the near term to meet its current commitments and to fund future developments and operations.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet transactions.

1.9 RELATED PARTY TRANSACTIONS

Director fees for the year ended December 31, 2012 amounted to $ 29,600 ($ 39,000 for the year ended December 30, 2011). Stock based compensation for these directors for the year ended December 31, 2012 amounted to $ 46,900 (year ended December 31, 2011 - $ 112,500).

Remuneration accrued for the President and CEO totalled $ 316,800 (UK£ 200,000) for the year ended December 31, 2012 ($ 443,720 (UK£ 280,000) for the year ended December 31, 2011). Stock based compensation for the President and CEO totalled $ 29,702 for the year ended December 31, 2012 ($ 75,000 for the year ended December 31, 2011).

Remuneration of the CFO totalled $ 46,900 for the year ended December 31, 2012 ($ 34,000 for the year ended December 31, 2011). Stock based compensation for the CFO totalled $ 7,425 for the year ended December 31, 2012 ($ 18,750 for the year ended December 31, 2011).

At December 31, 2012 G&F Phelps Limited, a company controlled by director of the Company, had amalgamated loans to Galantas of $ 1,660,756 (UK£ 1,026,552) (December 31, 2011 $ 1,716,643 (UK £ 1,086,552)) bearing interest at 2% above UK base rates, repayable on demand and secured by a mortgage debenture on all the Company's assets. The interest charged on the loan for the year ended December 31, 2012 amounted to $ 41,029 (UK£ 25,902) (year ended December 31, 2011 $ 59,745 (UK£ 37,668)).Interest accrued on related party loans is included under due to related parties. As at December 31, 2012, the interest accrued amounted to $ 86,023 (UK£ 53,173) (December 31, 2011 - $ 43,085 (UK£ 27,271)).

As at December 31, 2012 due to directors for fees totalled $ Nil (December 31, 2011 $ Nil) and due to Directors and key management, mainly for salaries and benefits accrued at December 31, 2012, amounted to $ 1,055,970 (UK£ 652,882) (December 31, 2011 - $ 757,339 (UK£ 479,277)) and are included with due to related parties.

Transactions with related parties were in the normal course of operations and were measured at the exchange amounts.

1.10 FOURTH QUARTER

Quarter Ended December 31, 2012

The Net Income for the quarter ended December 31, 2012 amounted to $ 1,449 compared to a Net Income of $ 445,945 for the quarter ended December 31, 2011 as summarized below.

The results for the fourth quarter were favourably impacted by the capitalisation of certain production costs totalling $ 327,000 in the fourth quarter which had been included in production costs in the financials for the nine months ended September 30, 2012. These capitalised costs were in connection with the reinstatement of a number of rehabilitation tailings paste cells earlier in 2012 in preparation for their future utilisation when underground mining at the Omagh mine commences.

	Quarter ended December 31, 2012	Quarter ended December 31,2011
Revenues	**$ 875,391**	**$ 2,512,459**
Production costs	$ 353,461	$ 1,211,325
Inventory movement	$ 7,468	$ 27,720
Cost of sales	**$ 360,929**	**$ 1,239,045**
Income before the undernoted	**$ 514,462**	**$ 1,273,414**
Amortization and depreciation	$ 222,444	$ 233,129
General administrative expenses	$ 363,124	$ 617,572
Gain on sale of asset	$ (71,223)	$ (1,749)
Foreign exchange loss (gain)	$ (1,332)	$ (21,483)
Net Income for the quarter	**$ 1,449**	**$ 445,945**

Sales revenues primarily consisted of concentrate sales from the mine. Jewellery sales remained low during the quarter. Sales revenues from for the quarter ended December 31, 2012 amounted to $ 875,391 which compared to revenues of $ 2,512,459 for the corresponding period of 2011. The decrease in sales revenues during the fourth quarter of 2012 was primarily due to the lower level of metal produced and shipped during the quarter. The production summary for the fourth quarter of 2012 is included in Section 1.4 of the MD&A – Results of Operations.

Cost of sales includes production costs at the mine and inventory movements. Production costs amounted to $ 353,461 for the fourth quarter of 2012 compared to $ 1,211,325 for the fourth quarter of 2011. Production costs at the mine, the majority of which are incurred in UK£, include production wages, oil and fuel, equipment hire, repairs and servicing, carriage, consumables and royalties. The low production costs in the fourth quarter of 2012 reflect both the capitalisation of certain production costs totalling $ 327,000 in the fourth quarter which had previously been included in production costs in the financials for the nine months ended September 30, 2012 and the lower production levels in the fourth quarter of 2012 when compared with 2011. This reduction in production costs included decreases in Production Wages of $ 262,010 to $ 61,542 reflecting both the capitalisation of production wages totalling $ 120,000 in the fourth quarter and the reduced cost of production personnel following the redundancies that were effected in 2012, Oil and Fuel decreases of $ 250,339 to $ 113,362 reflecting both the capitalisation of oil and fuel in the fourth quarter totalling $ 115,000 and reduced usage arising from lower mining activity during the quarter, Repairs and Servicing cost decreases of $ 105,206 to $ 104,794 due to both the capitalisation of pit repairs and services in the fourth quarter totalling $ 19,000 and a lower number of breakdowns at the mine reflecting the lower level of mobile equipment operating in the mine, Equipment hire decreases of $ 204,916 to $ (26,836) reflecting both the capitalisation of equipment hire charges in the fourth quarter totalling $ 73,000 and the off hire of machinery in the fourth quarter of 2012 as a result of reduced mining activity, Royalty costs decreases of $ 39,074 to $ 14,697 reflecting the lower level of sales revenues during the quarter, and Carriage costs decreases of $ 16,698 to $ 6,211 reflecting the lower level of shipments during the fourth quarter.

The inventory movements for both the quarters ended December 31, 2012 and 2011 of $ 7,468 and $ 27,720 respectively reflect a decrease in inventory at December 31, 2012 and 2011 compared to October 1, 2012 and 2011 inventory levels.

This resulted in a Net Operating Income before amortization and depreciation, general administrative expenses, gain on sale of asset and foreign exchange gain for the quarter ended December 31, 2012 of $ 514,462 compared to Net Operating Income of $ 1,273,414 for corresponding period of 2011.

Amortization of deferred development and exploration costs for the quarter ended December 31, 2012 amounted to $ 15,546 compared to $ 103,568 for the quarter ended December 31, 2011. The amortization charge for the fourth quarter of 2012, which is calculated on the unit of production basis, is lower than that for the corresponding period of 2011 due mainly to the lower production levels in the fourth quarter of 2012. Depreciation of property, plant and equipment during the fourth quarter of 2012 totalled $ 206,898 which compared with $ 129,561 for the corresponding period of 2011. This increase is due mainly to the depreciation on the additional plant and equipment acquired subsequent to December 31, 2011.

General administrative expenses for the three months ended December 31, 2012 amounted to $ 363,124 compared to $ 617,572 for the corresponding period of 2011. General administrative expenses are reviewed in Section 1.15 Other MD&A Requirements.

The gain on sale of assets during the fourth quarter amounted to $ 71,223 in 2012 compared to $ 1,749 for the fourth quarter of 2011.

There was a Foreign exchange gain of $ 1,332 for the fourth quarter of 2012 which compared with a Foreign exchange gain of $ 21,483 for the fourth quarter of 2011.

This has resulted in a Net Income of $ 1,449 for the quarter ended December 31, 2012 compared to a Net Income of $ 445,945 for the corresponding period of 2011. When the Net Income is adjusted for non-cash items before changes in non-cash working capital, the cash from operating activities amounted to $ 214,587 for the three months ended December 31, 2012 compared to cash generated from operating activities of $ 883,946 for the three months ended December 31, 2011 as per the Statement of Cash Flows. The cash loss from operating activities after changes in non-cash working capital amounted to $ 118,763 for the fourth quarter of 2012 compared to cash generated from operating activities $ 561,709 for the corresponding period of 2011.

1.11 PROPOSED TRANSACTIONS

The Company presently has no planned or proposed business or asset acquisitions or dispositions.

1.12 CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reported period. Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of accounts receivable that are included in the consolidated statements of financial position;
- the recoverability of deferred development and exploration costs incurred on the Omagh mine;
- the estimated life of the ore body and the estimated recoverable ounces or pounds mined from proven and probable reserves of deferred development and exploration costs which are included in the consolidated statements of financial position and the related amortization and depreciation included in the consolidated statements of (loss)income;
- the estimated useful lives and residual value of property, plant and equipment which are included in the consolidated interim statements of financial position and the related amortization and depreciation included in the consolidated statements of (loss)income;
- the inputs used in accounting for stock-based compensation transactions in the consolidated statements of (loss)income;
- Management applied judgment in determining the functional currency and presentation currency based on the facts and circumstances that existed during the year;

- Management assumption of amount of material restoration, rehabilitation and environmental, based on the facts and circumstances that existed during the year; and

1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Accounting Standards Board (AcSB) has directed that IFRS replace current Canadian GAAP for publicly accountable enterprises, including the Company, effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company has prepared its audited consolidated annual financial statements for the years ended December 31, 2012 and December 31, 2011 in accordance with IFRS, using accounting policies consistent with IFRS. The accounting policies and methods of computation followed in these consolidated financial statements are set out in detail on Note 4 of the December 31, 2012 audited consolidated annual financial statements. The accounting policies have been applied consistently by the Company and its subsidiaries.

Future accounting changes/New standards not yet adopted

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board or International Financial Reporting Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2013, or later periods. Updates that are not applicable or are not consequential to the Company have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

(i) IFRS 9 – Financial instruments IFRS 9 was issued by the IASB in October 2010 and will replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) IFRS 10 – Consolidated financial statements IFRS 10 was issued by the IASB in May 2011. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity's returns. IFRS 10 is effective for annual period beginning on or after January 1, 2013. Earlier application is permitted.

(iii) IFRS 11 – Joint arrangements IFRS 11 was issued by the IASB in May 2011. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets and obligations for the liabilities of an arrangement, and rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the latter case account for the arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iv) IFRS 12 – Disclosure of interests in other entities IFRS 12 was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles, and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(v) IFRS 13 – Fair value measurement IFRS 13 was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRSs. The key points of IFRS 13 are as follows:

- fair value is measured using the price in a principal market for the asset or liability, or in the absence of a principal market, the most advantageous market;
- financial assets and liabilities with offsetting positions in market risks or counterparty credit risks can be measured on the basis of an entity's net risk exposure;
- disclosures regarding the fair value hierarchy has been moved from IFRS 7 to IFRS 13, and further guidance has been added to the determination of classes of assets and liabilities;
- a quantitative sensitivity analysis must be provided for financial instruments measured at fair value;
- a narrative must be provided discussing the sensitivity of fair value measurements categorised under Level 3 of the fair value hierarchy to significant unobservable inputs; and
- information must be provided on an entity's valuation processes for fair value measurements categorized under Level 3 of the fair value hierarchy.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(vi) IAS 1 – Presentation of financial statements IAS 1 was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

(vii) IAS 27 - Separate Financial Statements IAS 27 was effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new consolidation suite of standards, IAS 27 has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

(viii) IAS 32 - Financial instruments, Presentation IAS 32 was effective for annual periods beginning on or after January 1, 2014. IAS 32 was amended to clarify that the right of offset must be available on the current date and cannot be contingent on a future date.

(ix) IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine. On 19 October 2011, the IASB issued IFRIC 20. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

1.14 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's current financial instruments consist of cash, accounts receivable and advances, long term deposit, inventory, accounts payable and other liabilities and due to related parties. The carrying values approximate the fair values of these financial instruments due to the short-term maturity of these items.

1.15 OTHER MD&A REQUIREMENTS

Additional Disclosure for Venture Issuers without Significant Revenue or Exploration and Disclosure of Outstanding Share Data.

General Administrative Expenses for the Year ended December 31, 2012 and December 31, 2011 are detailed below:

Expense Account	Year Ended December 31, 2012	Year Ended December 31, 2011
Management & administrative wages	$ 608,307	$ 701,205
Other operating expenses	$ 265,338	$ 457,269
Accounting & corporate	$ 65,018	$ 71,340
Legal & audit	$ 139,650	$ 184,855
Stock based compensation	$ 148,831	$ 251,202
Shareholder communication	$ 201,156	$ 255,181
Transfer agent	$ 16,992	$ 21,243
Directors fees	$ 29,600	$ 39,000
General office	$ 8,577	$ 30,353
Accretion expenses	$ 45,529	$ 140,721
Loan interest and charges	$ 75,164	$ 111,857
Total	**$ 1,604,162**	**$ 2,264,226**

General Administrative Expenses for the year ended December 31, 2012 totalled $ 1,604,162 compared to $ 2,264,226 for the year ended December 31, 2011.

Management and administrative wages, the majority of which are incurred in UK£, include payroll costs at both Galantas corporate and the Omagh mine totalled $ 608,307 for the year ended December 31, 2012 compared to $ 701,205 for 2011. The lower level of management and administrative wage costs incurred during 2012, when compared to 2011, was mainly attributable to the lower level of remuneration accrued for the President and CEO in 2012 partially offset by certain administration wage costs being incorrectly categorised as production costs in 2011. Other operating expenses, the majority of which are incurred in UK£, and include amongst others professional fees, insurance costs, travel together with the ongoing expenses of the Company's jewellery business amounted to $ 265,338 for the year ended December 31, 2012 compared to $ 457,269 for 2011. The higher costs for the year ended December 31, 2011, when compared to 2012, were mainly due to both a provision for future restructuring costs at the Omagh mine and one off costs in connection with a local tribunal award to an ex-employee. Accounting and corporate costs for the year ended December 31, 2012 amounted to $ 65,018 compared to $ 71,340 for 2011. The higher level of costs in the year ended December 31, 2011, when compared to 2012, was due to the increased level of external accounting services required in connection with the Company's transition to IFRS in 2011. Legal and audit costs totalled $ 139,650 for the year compared to $ 184,855 for the year ended December 31, 2011. Legal costs in 2012 amounted to $ 55,981 which compared with $ 113,109 for 2011. The main reason for the higher legal costs in 2011 was due to legal costs incurred by Omagh Minerals Limited in connection with the local tribunal award to an ex-employee and increased legal costs at the corporate level in connection with the convertible debenture loan. Audit fees for the year ended December 31, 2012 amounted to $ 83,669 compared to $ 71,746 for 2011. The lower level of costs in the year ended December 31, 2011, when compared to 2012, was due to audit costs amounting to $10,000 being inadvertently included in Other operating expenses in 2011. Stock based compensation costs amounted to $ 148,831 for the year ended December 31, 2012 compared to $ 251,202 for 2011. Stock based compensation costs for 2012 were in connection with options granted in 2011 whereas stock based compensation costs for 2011 costs were in connection with options granted in 2011 and earlier periods. Shareholder communication costs amounted to $ 201,156 for the year ended December 31, 2012 compared to $ 255,181 for 2011.

Shareholder communication costs include investor relations, shareholders information including costs relating to the holding of the Company's AGM, filing fees and listing fees. Shareholder communications costs were lower in the year ended December 31, 2012 due to a number of factors including higher costs incurred during 2011 in connection with investor relations programmes undertaken during 2011 together with lower investor relations fees incurred in 2012 in connection to the Company's listing on the UK AIM market. Transfer agent's fees for the year ended December 31, 2012 amounted to $ 16,992 which compared to $ 21,243 for 2011 reflecting a higher level of corporate activity in 2011. Directors' fees for the year ended December 31, 2012 totalled $ 29,600 compared to $ 39,000 for 2011. General office expenses for 2012 amounted to $ 8,577 compared to $ 30,353 for 2011. The higher level of costs in 2011, when compared to 2012, was mainly in connection with costs incurred in upgrading the Company's website in the second half of 2011.

Accretion expenses on the convertible loan for the year ended December 31, 2012 amounted to $ 45,529 compared to $ 140,721 for 2011. The accretion charge arose as a result of the carrying value of the loan being less than its face value due to it being a convertible loan with the discount being accreted over the term of the loan. The lower accretion charge in 2012 is as a result of the loan being repaid during the second quarter of 2012. Loan interest and charges for the year ended December 31, 2012 amounted to $ 75,164 compared to $ 111,857 for 2011. The lower level of loan interest and fees in 2012 reflects the repayment of the convertible loan during the year.

This resulted in General administrative expenses totalling $ 1,604,162 and $ 2,264,226 for the respective years.

General Administrative Expenses for the Quarter ended December 31, 2012 and December 31, 2011 are detailed below:

Expense Account	**Quarter Ended December 31, 2012**	**Quarter Ended December 31, 2011**
Management & administrative wages	$ 159,613	$ 284,250
Other operating expenses	$ 69,221	$ 87,276
Accounting & corporate	$ 23,363	$ 16,073
Legal & audit	$ 23,961	$ 7,444
Stock based compensation	$ 16,945	$ 57,054
Shareholder communication	$ 47,321	$ 62,120
Transfer agent	$ 1,911	$ 2,847
Directors fees	$ 7,000	$ 7,500
General office	$ 2,179	$ 16,739
Accretion expenses	$ 0	$ 45,065
Loan interest and charges	$ 11,610	$ 31,204
Total	**$ 363,124**	**$ 617,572**

General Administrative Expenses for the quarter ended December 31, 2012 totalled $ 363,124 compared to $ 617,572 for the quarter ended December 31, 2011.

Management and administrative wages, the majority of which are incurred in UK£, include payroll costs in both Galantas corporate and the Omagh mine and totalled $ 159,613 for the fourth quarter ended December 31, 2012 compared to $ 284,250 for the corresponding period of 2011. The lower level of management and administrative wage costs incurred during the fourth quarter of 2012, when compared to 2011, was mainly attributable to the lower level of remuneration accrued for the President and CEO in 2012. Other operating expenses, the majority of which are incurred in UK£, and include amongst others professional fees, insurance costs, travel together with the ongoing expenses of the Company's jewellery business amounted to $ 69,221 for fourth quarter of 2012 compared to $ 87,276 for the fourth quarter of 2011. The lower level of costs in 2012, when compared to 2011, was mainly due the reversal of certain costs in the fourth quarter of 2012 which had been incorrectly charged to Other operating costs in the nine months to September 30, 2012. Accounting and corporate costs for the fourth quarter of 2012 amounted to $ 23,363 compared to $ 16,073 for the corresponding period of 2011. The lower level of costs in the fourth quarter of 2011, when compared to 2012, was due to the reversal of costs in the fourth quarter of 2011 which had been incorrectly charged to accounting and corporate services earlier in 2011. Legal and audit costs, which consist mainly of audit costs, totalled $ 23,961 for the fourth quarter compared to $ 7,444 for the fourth quarter of 2011. The main reason for the low level of costs in the fourth quarter of 2011 was due to an overprovision for legal costs in earlier quarters of 2011.

Stock based compensation costs for the fourth quarter of 2012 amounted to $ 16,945 compared to $ 57,054 for the corresponding period of 2011. The higher level of costs in the fourth quarter of 2011, when compared to 2012, was mainly as a result of the granting of stock options in the second half of 2011.

Shareholder communication costs amounted to $ 47,321 for the fourth quarter of 2012 compared to $ 62,120 for the corresponding period of 2011. Shareholder communication costs include investor relations, shareholders information costs, filing fees and listing fees. Shareholder communications costs were lower in the fourth quarter of 2012 due to a number of factors including higher investor relations costs incurred during the fourth quarter of 2011 as a result of the investor relations programme undertaken during that quarter together with lower investor relations fees during the fourth quarter of 2012 in connection to the Company's listing on the UK AIM market. Transfer agents fees amounted to $ 1,911 for the fourth quarter which compared to $ 2,847 for the fourth quarter of 2011. Directors' fees for the fourth quarter of 2012 totalled $ 7,000 compared to $ 7,500 for the corresponding period of 2011. General office expenses amounted to $ 2,179 compared to $ 16,739 for the fourth quarter of 2011. The higher level of costs in the fourth quarter of 2011, when compared to 2012, were mainly in connection with costs incurred in upgrading the Company's website during that quarter.

Accretion expenses on the convertible loan for the fourth quarter of 2012 amounted to $ Nil compared to $ 45,065 for the corresponding period of 2011.The accretion charge arose as a result of the carrying value of the loan being less than its face value due to it being a convertible loan with the discount being accreted over the term of the loan. There was no accretion charge for the fourth quarter of 2012 as the loan had been repaid earlier in the year. Loan interest and charges for the fourth quarter amounted to $ 11,610 compared to $ 31,204 for the quarter ended December 31, 2011. The lower level of loan interest and fees in the fourth quarter reflects the repayment of the convertible loan in the second quarter of 2012.

This resulted in General administrative expenses totalling $ 363,124 and $ 617,572 for the respective quarters.

Disclosure of Outstanding Share Data

Share Capital

During 2012 the expiry date of the 24,550,000 common share purchase warrants outstanding were extended for one year from July 22, 2012 to July 22, 2013.

The Company is authorized to issue in series an unlimited number of common and preference shares. At April 15, 2013 there were a total of 256,210,395 shares issued, 24,550,000 warrants outstanding expiring in July 2013 and 9,450,000 stock options with expiry dates from October 2013 to September 2016.

TRENDS AFFECTING THE COMPANY'S BUSINESS

Gold Price in US Dollars and UK Sterling

The Gold concentrate output from the Omagh Mine, which also contains silver and lead credits, is sold in US dollars. Most of the value is accrued from the gold content. The following table is composed from data published by the Bank of England of average monthly gold price in US$ and UK £ (Sterling) per troy ounce. The gold price in both US$ and UK£, which was range trading during the first four months of 2012, then weakened during the period of May to July 2012. During the third quarter and fourth quarters of 2012 the gold price again strengthened and averaged US$ 1,669 and UK£ 1,052 for the full year compared to US$ 1,568 and UK£ 979 for 2011- an increase of 6% and 7% respectively .The beginning of 2013 has seen a weakening trend for gold, though the price in UK sterling has been maintained by a weakening UK sterling to US dollar exchange rate.

MONTH	Gold Price US $ per oz	Gold Price UK£ per oz	Quarterly Average US$	Quarterly Average UK£
JANUARY 2012	1,656.12	1,067.76		
FEBRUARY 2012	1,742.60	1,103.55		
MARCH 2012	1,673.77	1,057.94	1,690.83	1,076.41
APRIL 2012	1,650.00	1,030.29		
MAY 2012	1,585.51	996.68		
JUNE 2012	1,596.70	1,025.12	1,610.75	1,017.36
JULY 2012	1,593.91	1,022.19		
AUGUST 2012	1,626.02	1,034.93		
SEPT 2012	1,744.45	1,082.89	1,654.79	1,046.67
OCTOBER 2012	1,747.01	1,086.08		
NOVEMBER 2012	1721.14	1,078.37		
DECEMBER 2012	1,685.87	1,044.09	1,718.00	1,069.51
JANUARY 2013	1,670.96	1,047.34		
FEBRUARY 2013	1,627.59	1,051.35		

Galantas has a policy of being un-hedged in regard to gold production.

<u>The US Dollar / UK Sterling Currency Exchange Rate</u>

The following table is drawn from Bank of England data that gives the monthly average spot exchange rate of US $ to UK£ Sterling. Sales revenues at the Omagh mine are designated in US Dollars and are converted to UK£, as Operating, Exploration and Capital costs are designated in UK£. Thus a stronger US$/ weaker UK£ is to the Company's financial benefit. The average value of the US$ against UK£ for the year 2012 has seen a slight strengthening of US$ with the US$ averaging 1.585 to the UK£ in 2012 compared to US$ 1.60 to the UK£ in 2011. The US$ has continued to strengthen during the early part of 2013.

MONTH	Average US $:£	Quarterly Average US$:£
JANUARY 2012	1.55	
FEBRUARY 2012	1.58	
MARCH 2012	1.58	1.57
APRIL 2012	1.60	
MAY 2012	1.59	
JUNE 2012	1.56	1.58
JULY 2012	1.56	
AUGUST 2012	1.57	
SEPT 2012	1.61	1.58
OCT 2012	1.61	

NOV 2012	1.60	
DEC 2012	1.61	1.61
JANUARY 2013	1.60	
FEBRUARY 2013	1.55	

A currency policy has been adopted of converting incoming payments into the currency required within a short period of when they are received, thus avoiding the taking of a large currency position on either side of the market.

The Canadian Dollar / UK Sterling Currency Exchange Rate.

The accounts of the corporation are expressed in Canadian Dollars. The majority of costs at the mine are incurred in UK£ Sterling and are converted to Canadian Dollars at the average rate for the relevant accounting period. When costs are expressed in Canadian Dollars terms within the Corporation's accounts, there is an increase in costs when there is a fall in value or weakening of the Canadian Dollar against Sterling.
The Canadian Dollar averaged Can$ 1.58 to the UK£ in 2012 compared to Can$ 1.59 to the UK£ in 2011. Since the end of 2012 there has been a strengthening of the Canadian Dollar / weakening of UK $ which is a similar trend to the US $/UK£ Sterling.

MONTH	Average Can$:£	Quarterly Average Can$:£
JANUARY 2012	1.57	
FEBRUARY 2012	1.57	
MARCH 2012	1.57	1.57
APRIL 2012	1.59	
MAY 2012	1.61	
JUNE 2012	1.60	1.60
JULY 2012	1.58	
AUGUST 2012	1.56	
SEPT 2012	1.58	1.57
OCTOBER 2012	1.59	
NOVEMBER 2012	1.59	
DECEMBER 2012	1.60	1.59
JANUARY 2013	1.58	
FEBRUARY 2013	1.56	

Financing Trends

Difficulties in the Western credit markets have impacted on all companies entering into banking credit arrangements. However, the company has entered into scoping discussions with banking lenders as to the availability of suitable finance in regard to underground mine development. Preliminary discussions have been very positive and the company is working towards the objective of funding development principally from this source.

The relative weakness of the Canadian and UK equity markets for junior mining companies has restricted financing opportunities from this area.

Political Trends

In Northern Ireland, the widely acknowledged political agreement has consolidated the positive financial effects of peace and stability in the province, but there continues a low level of activity by those not allied to the peace process.

There appears to be a growing appreciation of the employment opportunities within the Corporation's operations. This has been strengthened by continued dialogue with political representatives at local and senior level.

RISKS AND UNCERTAINTIES

Galantas operates in a sector – mineral production and exploration – which carries inherent risks only some of which are within management's ability to reduce or remove. The main sector risk is always metal price. The Company has assessed the risks surrounding its business. It has concluded that most if not all of the risks are standard to the industry and none of them so profound as to inhibit pursuit of the Company's strategy. The main risks identified and considered are:

Current Global Financial and Economic Conditions

Current global financial and economic conditions have been characterized by extreme volatility. Several financial institutions and other major business have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to financing has been negatively impacted by many factors as a result of the global financial crisis. This may impact the Company's ability to obtain funding in the future and on favourable terms. Additionally, global economic conditions may cause decreases in asset values that are deemed to be other than temporary. If such volatility and market turmoil continue, the Company's business and financial condition could be adversely impacted

Additional Funding Requirements

Further exploration and development of the Corporation's properties will require substantial additional financing. Additional funds, if required, may not be available. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration, development or production at the Omagh mine. The ability of the Company to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on satisfactory terms. If additional financing is raised by the issuance of shares from the Company's treasury, control of the Company may change and existing security holders may suffer additional dilution of their interests.

Uncertainty of Mineral Resource and Mineral Reserve Estimates

The estimates for mineral resources and mineral reserves are determined in accordance with NI 43-101 and CIM Standards. There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral resources and mineral reserves estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of recovery of metals from such resources may not be realized. Differences between management's assumptions, including economic assumptions such as metal prices and market conditions, could have a material adverse effect in the future on the Company's financial position and results of operations. Estimated mineral resources may have to be recalculated based on changes in mineral resource prices, further exploration or development activity, or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence reserve or resource estimates. Market price fluctuations for mineral resources, increased production costs or reduced recovery rates, or other factors can render proven and probable mineral reserves uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated mineral reserves could require material writedowns in investment in the affected mining property and increased amortization, reclamation and closure charges.

Uncertainty of Inferred Mineral Resources

Inferred mineral resources that are not mineral reserves do not have demonstrated economic viability and are considered too speculative geologically to have economic considerations applied to them to enable them to be categorized as mineral reserves. Due to the uncertainty which may attach to inferred mineral resources, there is no assurance that the estimated tonnage and grades as stated will be achieved or that they will be upgraded to measured and indicated mineral resources or proven and probable mineral reserves as a result of continued exploration.

Exploration, Development and Operations Risks

Mining operations generally involve a high degree of risk. The Company's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of gold, other minerals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas, which may result in environmental pollution and consequent liability.

The nature of the Corporation's business is highly speculative due to its proposed involvement in the exploration, development and production of minerals. The exploration for and development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate. No assurance can be given that additional minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis or at all. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Substantial additional expenditures will be required to locate and establish additional mineral reserves, to develop metallurgical processes and to expand mining and processing facilities at the Omagh site. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. The commercial viability of an additional mineral deposit, if one is discovered, depends on a number of factors, including the particular attributes of the deposit (such as size and grade), proximity to infrastructure, metal prices, which are highly cyclical, and regulations imposed by various levels of government, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. Most of these factors are beyond the control of the Corporation. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Mineral exploration and development are highly speculative and few properties that are explored are ultimately placed into commercial production. There is no certainty that the expenditures made by the Corporation on the search and evaluation of additional mineral deposits will result in discoveries of commercial quantities of ore.

Mineral Processing

Generally the plant performs in line with the prior technical guidance. Alterations and modifications to equipment and operating practices have been made and have resulted in improvements in comminution and concentrate quality. However, there is no certainty that the improvements will persist and were these not to do so there would be a risk to cash flow and budget.

Environmental

The project was subject to one of Ireland's lengthiest public enquiries whereat its design and operating fundamentals were challenged and defended to the satisfaction of the independent assessors and industry experts representing regulators and the Company. In operation, the facilities are subject to self monitoring and monitoring by regulators. The Company's activities are subject to laws and regulations controlling not only mining activities but also the possible effects of such activities upon the environment. Environmental legislation may change and make the mining and processing of ore uneconomic or result in significant environmental or reclamation costs. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mineral exploitation activities, such as seepage from tailings disposal areas that could result in environmental pollution. A breach of environmental legislation may result in the imposition of fines and penalties or the suspension or closure of operations and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. In addition, certain types of operations require the submission of environmental impact statements and approval thereof by government authorities.

Environmental legislation is evolving in a manner which may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Permits from a variety of regulatory authorities are required for many aspects of mineral exploitation activities, including closure and reclamation. Future environmental legislation could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the Company's properties, the extent of which cannot be predicted. In the context of environmental permits, including the approval of closure and reclamation plans, the Company must comply with standards and laws and regulations which may entail costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. The Company does not maintain environmental liability insurance.

The Corporation notes the positive results of a recent detailed Compliance Study by the Northern Ireland Environment Agency and continues its policy of best achievable environmental practice.

Permitting

The Company has permission to carry out its activities. Overall consents were granted in 2000 after fulfillment of more than 30 pre-conditions which attached to the provisional consent granted in 1995. In all jurisdictions, regulatory provisions are subject to change and the Company may be faced with additional constraints in the future. The Company has made additional applications for permitting in order to make additional ore available for mining. The Company will require consent for underground operations to ensure the long term continuation of the operations.

Regulations and Permits

While Galantas holds the required permits for current operations at the Omagh Mine there is no guarantee that these permits, if and when required, will be renewed, or renewed on terms acceptable to the Company. Furthermore, the Company will be required to obtain additional licenses and permits from various governmental authorities to continue and expand its development and production activities. The Company's activities are also subject to a wide variety of laws and regulations governing health and worker safety, employment standards, waste disposal, protection of the environment, protection of historic and archaeological sites, mine development and protection of endangered and protected species and other matters. Galantas is required to have a wide variety of permits from governmental and regulatory authorities to carry out its activities. These permits relate to virtually every aspect of the Company's operating and exploration activities. Changes in these laws and regulations or changes in their enforcement or interpretation could result in changes in legal requirements or in the terms of the Company's permits that could have a significant adverse impact on the Company's existing or future operations or projects. Obtaining permits can be a complex, time-consuming process. There can be no assurance that the Company will be able to obtain the necessary permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict Galantas from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities.

Risks Relating to Government Regulation

The Company's operations and properties are subject to laws and regulations governing mineral concession acquisition, mine development and prospecting, mining, production, occupational health and safety, labor standards, employment, waste disposal, toxic substances, land use, environmental protection, use of water, exports, taxes, royalties and other matters. It is possible that the Company may not be able to comply with existing and future laws and regulations. In addition, future changes in applicable laws, regulations, agreements or changes in their enforcement or regulatory interpretation could result in changes to the terms of the Company's permits and agreements, which could have a material adverse impact on the Company's current operations and future development projects. The Company may experience increased costs and delays in production as a result of the need to comply with applicable laws, regulations and permits. Permits are subject to the discretion of government authorities and there is no assurance that Galantas will be able to obtain all required permits on reasonable terms or on a timely basis. Any failure to comply with applicable laws and regulations or permits, even if inadvertent, could result in enforcement actions thereunder including the loss of the Company's mining concessions, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, fines, penalties or other liabilities. The Company may be required to compensate those suffering loss or damage by reason of its mining operations and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits.

Title

The Company owns the land in secure freehold on which the project is located. Precious metal licenses and mining licenses have been granted to the Company by the Crown Estate and renewed as required since the mid – 1990's when initially granted. Licenses and Leases are subject in the usual way to minimum performance requirements which are set at a level so as not to inhibit development. There was dialogue with the Northern Ireland Development of Enterprise Trade and Industry (DETI) concerning a license to extract base metals which occur with the gold and silver in the quartz-sulphide veins and which may be recovered as a by-product of gold and silver. The license if applicable may require a fee payable to owners of surface rights. In the case of the Company's mine, since the owner is the Company itself, it is thought unlikely that there will be a material impact. There has been no final determination by DETI.

Political

Northern Ireland has achieved a stable political status conducive to business as is evidenced by the relatively large amounts of inward investment that the province has enjoyed over the past decade. It is noted that there was recently an increase in activity by parties not allied to the peace process which now appears to have abated, though disturbing incidents continue to occur. The mine is well removed from areas of potential urban disturbance.

Insurance and Uninsurable Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labor disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability. The Company currently has liability insurance in an amount that management considers adequate. However, such insurance may not cover all the potential risks associated with a mining company's operations. In addition, in the future, the costs of such insurance may become prohibitive and, in any event, the nature of the risks for mining companies is such that liabilities might exceed policy limits. Insurance coverage may not continue to be available at all or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards that may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Revenue

The Company has contracted sale of its concentrate to Xstrata. While the payment terms are specific, there is risk that unit income may fall short of forecast. This could be due to a number of factors including failure of the concentrate to be within the specification contracted as regards both value elements and penalty elements and failure to produce concentrate of consistent quantity.

Currency Fluctuations

Currency fluctuations may affect the Company's future operations, financial position and results. The Company's revenues are in US dollars. Most of the costs and expenditures of the Company are incurred in UK Pounds Sterling resulting in dollar revenues being converted to sterling on an ongoing basis. The value of sterling against the US dollar constantly fluctuates which impacts on sterling revenue available to the Company. The appreciation of the UK£ against the U.S. dollar would reduce the UK£ revenues at the Omagh mine which could materially and adversely affect the Corporation's profitability, results of operation and financial condition. Financial results are published in Canadian dollars with the UK£ operating results being converted at average exchange rates for each period. There is also a currency risk arising mainly from the Company's net liabilities being denominated in sterling, which liabilities will fluctuate in Canadian dollar terms giving rise to exchange gains/losses in line with the ongoing fluctuations in the exchange rates.

Gold Price

The price of gold may affect the Company's future operations. The price of gold is beyond the Company's control, can fluctuate drastically and could adversely affect the Company. Gold prices have fluctuated significantly in recent years. Market prices for gold are volatile and are affected by numerous factors beyond the Company's control, including expectations regarding inflation, global and regional demand, speculative activities, political and economic conditions and production costs in major gold-producing regions. The aggregate effect of these factors on gold prices, both in the current financial environment and generally, is impossible for the Company to predict. While Galantas would benefit from an increase in the value of gold, the Company could be adversely affected by a decrease in the value of gold.The Company's policy is to not sell forward its bullion.

Construction and Development

Most construction costs have been incurred and are therefore known and reflected in the accounts. Future development risk is attached to the underground development of the orebody, where quantities are only estimated and subject to adverse variance.

Dependence on Key Employees and Skilled Personnel

The Company's business and operations are dependent on recruiting and retaining the services of a small number of key employees and qualified personnel. To a significant extent, the success of the Company is, and will continue to be, dependent on the expertise and experience of these employees. Continued operations at the Omagh Mine will require the Company to successfully retain its skilled personnel. The number of persons skilled in the development and production of mining properties is limited and competition for this workforce is intense. Although the Corporation believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success. The loss of one or more of the Corporation’s key employees could have a materially adverse effect on the Company. The Company does not maintain insurance on any of its key employees.

Share Price Fluctuations

In recent years, and particularly in the current global financial conditions, the securities markets in Canada and the UK have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly development stage companies, have experienced wide fluctuations in price that have not necessarily been related to the underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company’s share price will not occur.

Dividends

The Corporation has not declared or paid any dividends since the date of its incorporation and does not currently anticipate that dividends will be declared in the short or medium term. Earnings, if any, will be retained to finance further exploration and development of the Corporation’s business.

Potential Dilution

The issue of common shares of the Company upon the exercise of the options and warrants will dilute the ownership interest of the Company’s current shareholders. The Company may also issue additional option and warrants or additional common shares from time to time in the future. If it does so, the ownership interest of the Company’s then current shareholders could also be diluted.