



GALANTAS GOLD CORPORATION

**Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)**

(Unaudited)

Three and Nine Months Ended September 30, 2012

NOTICE TO READER

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of management. The condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

Galantas Gold Corporation

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

| | As at September 30, 2012 | As at December 31, 2011 |
|---|--------------------------------|-------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash (note 4) | \$ 2,021,513 | \$ 4,240,081 |
| Accounts receivable and advances (note 5) | 793,090 | 1,056,573 |
| Inventory (note 6) | 333,717 | 347,016 |
| Total current assets | 3,148,320 | 5,643,670 |
| Non-current assets | | |
| Property, plant and equipment (note 7) | 3,690,731 | 3,547,393 |
| Long-term deposit (note 4) | 420,529 | 371,277 |
| Deferred development and exploration costs (note 8) | 6,908,801 | 4,507,753 |
| Total assets | \$ 14,168,381 | \$ 14,070,093 |
| EQUITY AND LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and other liabilities (note 9) | \$ 2,131,583 | \$ 1,683,142 |
| Due to related parties (note 14) | 2,689,365 | 2,517,067 |
| Convertible debenture (note 10) | - | 1,979,603 |
| Total current liabilities | 4,820,948 | 6,179,812 |
| Non-current liabilities | | |
| Asset retirement obligation | 396,725 | 394,975 |
| Total liabilities | 5,217,673 | 6,574,787 |
| Capital and reserves | | |
| Share capital (note 11) | 29,874,693 | 27,808,316 |
| Reserves | 5,251,170 | 5,258,030 |
| Deficit | (26,175,155) | (25,571,040) |
| Total equity | 8,950,708 | 7,495,306 |
| Total equity and liabilities | \$ 14,168,381 | \$ 14,070,093 |

The notes to the condensed consolidated interim financial statements are an integral part of these statements.

Going concern (note 1)
Contingent liability (note 16)

Approved on behalf of the Board:

"Roland Phelps" , Director

"Lionel J. Gunter" , Director



Galantas Gold Corporation

Condensed Consolidated Interim Statements of (Loss) Income
(Expressed in Canadian Dollars)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------------|------------------------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | | | | |
| Gold sales | \$ 855,813 | \$ 2,510,985 | \$ 3,783,939 | \$ 6,979,698 |
| Cost and expenses of operations | | | | |
| Cost of sales (note 13) | 792,386 | 1,247,229 | 2,806,197 | 3,621,382 |
| Amortization and depreciation | 155,078 | 222,079 | 526,267 | 603,939 |
| | 947,464 | 1,469,308 | 3,332,464 | 4,225,321 |
| (Loss) income before the undernoted | (91,651) | 1,041,677 | 451,475 | 2,754,377 |
| General administrative expenses | | | | |
| Management and administration wages (note 14) | 147,183 | 148,130 | 448,694 | 416,955 |
| Other operating expenses | 61,286 | 133,274 | 196,117 | 369,993 |
| Accounting and corporate | 13,709 | 18,415 | 41,655 | 55,267 |
| Legal and audit | 63,172 | 49,376 | 115,689 | 177,411 |
| Stock-based compensation (note 11(d)) | 38,875 | 140,987 | 131,886 | 194,148 |
| Shareholder communication and investor relations | 27,249 | 69,704 | 153,835 | 193,061 |
| Transfer agent | 1,952 | 3,642 | 15,081 | 18,396 |
| Director fees (note 14) | 6,500 | 11,000 | 22,600 | 31,500 |
| General office | 1,999 | 9,498 | 6,398 | 13,614 |
| Accretion expenses (note 10) | - | 43,507 | 45,529 | 95,656 |
| Loan interest and bank charges | 12,153 | 28,035 | 63,554 | 80,653 |
| | 374,078 | 655,568 | 1,241,038 | 1,646,654 |
| Other expense | | | | |
| (Gain) loss on disposal of property, plant and equipment | (1,147) | - | (15,593) | 1,264 |
| Gain on debt extinguishment (note 10) | - | - | (190,624) | - |
| Foreign exchange loss (gain) | 31,078 | (59,537) | 11,969 | (58,586) |
| | 29,931 | (59,537) | (194,248) | (57,322) |
| Net (loss) income for the period | \$ (495,660) | \$ 445,646 | \$ (595,315) | \$ 1,165,045 |
| Basic net (loss) income per share (note 12) | \$ (0.00) | \$ 0.00 | \$ (0.00) | \$ 0.00 |
| Weighted average number of common shares outstanding - basic | 256,210,395 | 235,650,055 | 244,227,836 | 235,650,055 |
| Diluted net (loss) income per share (note 12) | \$ (0.00) | \$ 0.00 | \$ (0.00) | \$ 0.00 |
| Weighted average number of common shares outstanding - diluted | 256,210,395 | 292,722,582 | 244,227,836 | 292,448,331 |

The notes to the condensed consolidated interim financial statements are an integral part of these statements.



Galantas Gold Corporation

Condensed Consolidated Interim Statements of Comprehensive (Loss) Income
(Expressed in Canadian Dollars)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net (loss) income for the period | \$ (495,660) | \$ 445,646 | \$ (595,315) | \$ 1,165,045 |
| Other comprehensive (loss) income | | | | |
| Foreign currency translation differences | (50,879) | 299,876 | 39,679 | 253,023 |
| Total comprehensive (loss) income | \$ (546,539) | \$ 745,522 | \$ (555,636) | \$ 1,418,068 |

The notes to the condensed consolidated interim financial statements are an integral part of these statements.

Galantas Gold Corporation

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Operating activities | | | | |
| Net (loss) income for the period | \$ (495,660) | \$ 445,646 | \$ (595,315) | \$ 1,165,045 |
| Adjustment for: | | | | |
| Amortization and depreciation | 155,078 | 222,079 | 526,267 | 603,939 |
| Stock-based compensation (note 11(d)) | 38,875 | 140,987 | 131,886 | 194,148 |
| Foreign exchange | 13,001 | (59,537) | 61,000 | (58,586) |
| Loss (gain) on disposal of property, plant and equipment | (1,147) | - | (15,593) | 1,264 |
| Accretion expenses | - | 43,507 | 45,529 | 95,656 |
| Gain on debt extinguishment | - | - | (190,624) | - |
| Non-cash working capital items: | | | | |
| Accounts receivable and advances | 324,193 | 510,899 | 263,483 | (500,683) |
| Inventory | 20,832 | (22,523) | 13,299 | 36,869 |
| Accounts payable and other liabilities | (190,260) | 233,023 | 448,441 | 1,240,256 |
| Net cash (used in) provided by operating activities | (135,088) | 1,514,081 | 688,373 | 2,777,908 |
| Investing activities | | | | |
| Purchase of property, plant and equipment | (28,721) | (181,649) | (568,005) | (1,498,452) |
| Proceeds from sale of property, plant and equipment | - | - | 77,537 | 18,592 |
| Deferred development and exploration costs | (859,958) | (401,250) | (2,532,281) | (828,640) |
| Long-term deposit | (15,639) | - | (47,607) | - |
| Net cash used in investing activities | (904,318) | (582,899) | (3,070,356) | (2,308,500) |
| Financing activities | | | | |
| Warrants exercised | - | - | 2,056,034 | - |
| Net repayments of financing facility | - | - | - | (31,266) |
| Repayment of related party loan | - | (552,685) | - | (552,685) |
| Net advances from related parties | 90,415 | - | 172,298 | - |
| Proceeds from convertible debenture | - | - | - | 1,953,750 |
| Financing charges related to convertible debenture | - | - | - | (14,594) |
| Repayment of convertible debenture | - | - | (2,056,034) | - |
| Net cash provided by (used in) financing activities | 90,415 | (552,685) | 172,298 | 1,355,205 |
| Net change in cash | (948,991) | 378,497 | (2,209,685) | 1,824,613 |
| Effect of exchange rate changes on cash held in foreign currencies | (6,315) | 198,067 | (8,883) | 143,187 |
| Cash, beginning of period | 2,976,819 | 4,053,034 | 4,240,081 | 2,661,798 |
| Cash, end of period | \$ 2,021,513 | \$ 4,629,598 | \$ 2,021,513 | \$ 4,629,598 |

The notes to the condensed consolidated interim financial statements are an integral part of these statements.

Galantas Gold Corporation

Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

| | Reserves | | | | | | Total |
|--|----------------------|---|-------------------|--------------------------------------|---|------------------------|---------------------|
| | Share capital | Equity settled share-based payments reserve | Warrant reserve | Foreign currency translation reserve | Equity portion of convertible debenture | Deficit | |
| Balance, December 31, 2010 | \$ 27,808,316 | \$ 4,069,045 | \$ 976,414 | \$ (264,020) | \$ - | \$ (27,182,030) | \$ 5,407,725 |
| Convertible debenture | - | - | - | - | 168,082 | - | 168,082 |
| Stock-based compensation | - | 194,148 | - | - | - | - | 194,148 |
| Net income and comprehensive income for the period | - | - | - | 253,023 | - | 1,165,045 | 1,418,068 |
| Balance, September 30, 2011 | 27,808,316 | 4,263,193 | 976,414 | (10,997) | 168,082 | (26,016,985) | 7,188,023 |
| Balance, December 31, 2011 | 27,808,316 | 4,320,247 | 976,414 | (206,713) | 168,082 | (25,571,040) | 7,495,306 |
| Stock-based compensation | - | 131,886 | - | - | - | - | 131,886 |
| Shares issued for exercise of warrants | 2,056,034 | - | - | - | - | - | 2,056,034 |
| Fair value of warrants exercised | 403,143 | - | (403,143) | - | - | - | - |
| Warrants expired | - | 8,621 | (8,621) | - | - | - | - |
| Fair value of extension of warrants' expiry date (note 11(b)(i)) | (392,800) | - | 392,800 | - | - | - | - |
| Loss on debt extinguishment (note 10) | - | - | - | - | (168,082) | (8,800) | (176,882) |
| Net loss and comprehensive income for the period | - | - | - | 39,679 | - | (595,315) | (555,636) |
| Balance, September 30, 2012 | \$ 29,874,693 | \$ 4,460,754 | \$ 957,450 | \$ (167,034) | \$ - | \$ (26,175,155) | \$ 8,950,708 |

The notes to the condensed consolidated interim financial statements are an integral part of these statements.



Galantas Gold Corporation

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

1. Going Concern

These condensed consolidated interim financial statements have been prepared on a going concern basis which contemplates that Galantas Gold Corporation (the "Company") will be able to realize assets and discharge liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. The Company's future viability depends on the consolidated results of the Company's wholly-owned subsidiary Cavanacaw Corporation ("Cavanacaw"), the ability of the Company to obtain future financing and to recover its investment in Omagh Minerals Limited ("Omagh"). Cavanacaw has a 100% shareholding in Omagh which is engaged in the acquisition, exploration and development of gold properties, mainly in Omagh, Northern Ireland.

As at December 31, 2001, studies performed on Omagh's mineral property confirmed the existence of economically recoverable reserves. As at July 1, 2007, the mineral property was in the production stage and the directors believe that the capitalized development expenditures will be fully recovered by the future operation of the mine. The recoverability of Omagh's capitalized development costs is thus dependent on the ability to secure financing, future profitable production or proceeds from the disposition of the mineral property. While the Company is expending its best efforts in this regard, the outcome of these matters can not be predicted at this time.

As at September 30, 2012, the Company had a deficit of \$26,175,155 (December 31, 2011 - \$25,571,040). Management is confident that it will be able to secure the required financing to enable the Company to continue as a going concern. However, this is subject to a number of factors including market conditions. These condensed consolidated interim financial statements do not reflect adjustments to the carrying values of assets and liabilities, the reported expenses and financial position classifications used that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

2. Incorporation and Nature of Operations

The Company was formed on September 20, 1996 under the name Montemor Resources Inc. on the amalgamation of 1169479 Ontario Inc. and Consolidated Deer Creek Resources Limited. The name was changed to European Gold Resources Inc. by articles of amendment dated July 25, 1997. On May 5, 2004, the Company changed its name from European Gold Resources Inc. to Galantas Gold Corporation. The Company was incorporated to explore for and develop mineral resource properties, principally in Europe. In 1997, it purchased all of the shares of Omagh which owns a mineral property in Northern Ireland, including a delineated gold deposit. Omagh obtained full planning and environmental consents necessary to bring its property into production.

The Company entered into an agreement on April 17, 2000, approved by shareholders on June 26, 2000, whereby Cavanacaw, a private Ontario corporation, acquired Omagh. Cavanacaw has established an open pit mine to extract the Company's gold deposit near Omagh. Cavanacaw also has developed a premium jewellery business founded on the gold produced under the name Galántas Irish Gold Limited ("Galántas").

As at July 1, 2007, the Company's Omagh mine began production.

The Company's operations include the consolidated results of Cavanacaw and its wholly-owned subsidiaries Omagh and Galántas.

The Company's common shares are listed on the TSX Venture Exchange and London Stock Exchange AIM under the symbol GAL. The primary office is located at 36 Toronto Street, Suite 1000, Toronto, Ontario, Canada, M5C 2C5.



Galantas Gold Corporation

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

3. Basis of Preparation

(a) Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these condensed consolidated interim financial statements are based on IFRSs issued and outstanding as of November 19, 2012, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these condensed consolidated interim financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2012 could result in restatement of these condensed consolidated interim financial statements.

(b) New standards not yet adopted and interpretations issued but not yet effective

There are no relevant changes in accounting standards applicable to future periods other than as disclosed in the most recent annual consolidated statements as at and for the year ended December 31, 2011.

4. Cash Position

| | As at September 30, 2012 | As at December 31, 2011 |
|---------------------|--------------------------------|-------------------------------|
| Cash | \$ 2,021,513 | \$ 4,240,081 |
| Long-term deposit | 420,529 | 371,277 |
| Total cash position | \$ 2,442,042 | \$ 4,611,358 |

5. Accounts Receivable and Advances

| | As at September 30, 2012 | As at December 31, 2011 |
|--------------------------------|--------------------------------|-------------------------------|
| Sales tax receivable - Canada | \$ 19,171 | \$ 24,680 |
| Sales tax receivable - Ireland | 250,698 | 248,348 |
| Accounts receivable | 356,726 | 690,433 |
| Prepaid expenses | 166,495 | 93,112 |
| | \$ 793,090 | \$ 1,056,573 |

Galantas Gold Corporation

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

6. Inventory

| | As at September 30, 2012 | As at December 31, 2011 |
|-----------------------|--------------------------------|-------------------------------|
| Concentrate inventory | \$ 22,216 | \$ 32,159 |
| Finished goods | 311,501 | 314,857 |
| | \$ 333,717 | \$ 347,016 |

7. Property, Plant and Equipment

| | September 30, 2012 | | |
|-----------------------------|---------------------|-----------------------------|---------------------|
| | Cost | Accumulated amortization | Net |
| Freehold land and buildings | \$ 2,655,075 | \$ 1,212,019 | \$ 1,443,056 |
| Plant and machinery | 5,926,654 | 3,771,672 | 2,154,982 |
| Motor vehicles | 82,563 | 50,049 | 32,514 |
| Office equipment | 101,854 | 41,675 | 60,179 |
| Moulds | 57,720 | 57,720 | - |
| | \$ 8,823,866 | \$ 5,133,135 | \$ 3,690,731 |

| | December 31, 2011 | | |
|-----------------------------|---------------------|-----------------------------|---------------------|
| | Cost | Accumulated amortization | Net |
| Freehold land and buildings | \$ 2,246,768 | \$ 1,195,684 | \$ 1,051,084 |
| Plant and machinery | 5,968,298 | 3,549,698 | 2,418,600 |
| Motor vehicles | 63,338 | 45,928 | 17,410 |
| Office equipment | 94,788 | 34,489 | 60,299 |
| Moulds | 57,466 | 57,466 | - |
| | \$ 8,430,658 | \$ 4,883,265 | \$ 3,547,393 |

8. Deferred Development and Exploration Costs

| | September 30, 2012 | | |
|--|--------------------|-----------------------------|--------------|
| | Cost | Accumulated amortization | Net |
| Deferred development and exploration costs | \$ 12,746,138 | \$ 5,837,337 | \$ 6,908,801 |

Galantas Gold Corporation

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

8. Deferred Development and Exploration Costs (Continued)

| | December 31, 2011 | | |
|--|-------------------|-----------------------------|--------------|
| | Cost | Accumulated amortization | Net |
| Deferred development and exploration costs | \$ 10,168,806 | \$ 5,661,053 | \$ 4,507,753 |

9. Accounts Payable and Other Liabilities

| | As at September 30, 2012 | As at December 31, 2011 |
|-----------------------------|--------------------------------|-------------------------------|
| Falling due within the year | | |
| Trade payables | \$ 2,131,583 | \$ 1,683,142 |

10. Convertible Debenture

| | Convertible debenture | Equity portion of convertible debenture |
|---|--------------------------|--|
| Balance, December 31, 2010 | \$ - | \$ - |
| Proceeds from issuance | 1,953,750 | - |
| Fair value of conversion option | (169,347) | 169,347 |
| Financing charges | (13,329) | (1,265) |
| Accretion charges - effective interest rate | 95,653 | - |
| Accretion charges - financing charges | 613 | - |
| Interest expenses | 27,381 | - |
| Foreign exchange | 65,379 | - |
| Balance, September 30, 2011 | \$ 1,960,100 | \$ 168,082 |
| Balance, December 31, 2011 | \$ 1,979,603 | \$ 168,082 |
| Accretion charges - effective interest rate | 45,529 | - |
| Accretion charges - financing charges | 1,924 | - |
| Interest expenses | 6,075 | - |
| Foreign exchange | 22,903 | - |
| Debt extinguishment (i) | (2,056,034) | (168,082) |
| Balance, September 30, 2012 | \$ - | \$ - |

- (i) On June 8, 2012, the Company extinguished, in its entirety, the principal and interest obligations outstanding under the loan agreement using the proceeds from the warrants exercised (see note 11 (b)). As a result of this extinguishment, 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.

Galantas Gold Corporation

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

11. Share Capital and Reserves

a) Authorized share capital

At September 30, 2012, the authorized share capital consisted of unlimited number of common and preference shares issuable in Series. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued

At September 30, 2012, the issued share capital amounted to \$29,874,693. The change in issued share capital for the periods presented:

| | Number of common shares | Amount |
|--|-------------------------------|----------------------|
| Balance, December 31, 2010, September 30, 2011, December 31, 2011 | 235,650,055 | \$ 27,808,316 |
| Shares issued for exercise of warrants | 20,560,340 | 2,056,034 |
| Fair value of warrants exercised | - | 403,143 |
| Fair value of extension of warrants' expiry date (i) | - | (392,800) |
| Balance, September 30, 2012 | 256,210,395 | \$ 29,874,693 |

- (i) On July 9, 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. As a result of this modification, an incremental fair value of these warrants of \$392,800 was recognized.

The fair value of extension of warrants' expiry date was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 133.52%; risk-free interest rate - 0.97% and an expected life of 1 year.

c) Warrant reserve

The following table shows the continuity of warrants for the periods presented:

| | Number of warrants | Weighted average exercise price |
|--|-----------------------|--|
| Balance, December 31, 2010, September 30, 2011, December 31, 2011 | 45,550,000 | \$ 0.10 |
| Exercised | (20,560,340) | 0.10 |
| Expired | (439,660) | 0.10 |
| Balance, September 30, 2012 | 24,550,000 | \$ 0.10 |

As at September 30, 2012, the following warrants were outstanding:

| Expiry date | Number of warrants | Fair value (\$) | Exercise price (\$) |
|-------------------------------|-----------------------|--------------------|------------------------|
| July 22, 2013 (note 11(b)(i)) | 24,550,000 | 957,450 | 0.10 |
| | 24,550,000 | 957,450 | 0.10 |



Galantas Gold Corporation

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

11. Share Capital and Reserves (Continued)

(d) Stock options

The following table shows the continuity of stock options for the periods presented:

| | Number of options | Weighted average exercise price |
|------------------------------------|-------------------|---------------------------------|
| Balance, December 31, 2010 | 10,800,000 | \$ 0.13 |
| Granted (i)(ii)(iii) | 4,950,000 | 0.10 |
| Balance, September 30, 2011 | 15,750,000 | \$ 0.12 |
| Balance, December 31, 2011 | 15,750,000 | \$ 0.12 |
| Cancelled | (1,000,000) | 0.19 |
| Balance, September 30, 2012 | 14,750,000 | \$ 0.11 |

Stock-based compensation includes \$38,875 and \$131,886 (three and nine months ended September 30, 2011 - \$140,987 and \$194,148) relating to stock options granted in previous years that vested during the three and nine months ended September 30, 2012.

(i) On January 28, 2011, 250,000 stock options were granted to a consultant of the Company to purchase common shares at a price of \$0.10 per share until January 28, 2016. The options vest one-third upon grant, one-third on the first anniversary of grant and one-third on the second anniversary of grant. The fair value attributed to these options was \$11,750 and will be expensed in the consolidated statements of income and credited to equity settled share-based payments reserve as the options vest. During the three and nine months ended September 30, 2012, included in stock-based compensation is \$494 and \$1,790 (three and nine months ended September 30, 2011 - \$1,469 and \$7,853) related to the vested portion of these options.

The fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 141.25%; risk-free interest rate - 2.53% and an expected life of 5 years.

(ii) On April 5, 2011, 500,000 stock options were granted to a consultant of the Company to purchase common shares at a price of \$0.10 per share until April 5, 2013. The options vest one quarter equally over 3, 6, 9, and 12 months from the date of the grant. The fair value attributed to these options was \$27,500 and will be expensed in the consolidated statements of income and credited to equity settled share-based payments reserve as the options vest. During the three and nine months ended September 30, 2012, included in stock-based compensation is \$nil and \$1,942 (three and nine months ended September 30, 2011 - \$7,830 and \$21,357) related to the vested portion of these options.

The fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 151.35%; risk-free interest rate - 1.81% and an expected life of 2 years.

Galantas Gold Corporation

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

11. Share Capital and Reserves (Continued)

(d) Stock options (Continued)

(iii) On September 7, 2011, 4,200,000 stock options were granted to certain directors, officers and employees to purchase common shares at a price of \$0.10 per share until September 6, 2016. The options vest one-third upon grant, one-third on the first anniversary of grant and one-third on the second anniversary of grant. The fair value attributed to these options was \$315,000 and will be expensed in the consolidated statements of income and credited to equity settled share-based payments reserve as the options vest. During the three and nine months ended September 30, 2012, included in stock-based compensation is \$32,795 and \$111,514 (three and nine months ended September 30, 2011 - \$115,063 and \$115,063) related to the vested portion of these options.

The fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 142.95%; risk-free interest rate - 1.30% and an expected life of 5 years.

The following table reflects the actual stock options issued and outstanding as of September 30, 2012:

| Expiry date | Exercise price (\$) | Weighted average remaining contractual life (years) | Number of options outstanding | Number of options vested (exercisable) | Number of options unvested |
|-------------------|---------------------|---|-------------------------------|--|----------------------------|
| December 24, 2012 | 0.14 | 0.23 | 4,800,000 | 4,800,000 | - |
| April 5, 2013 | 0.10 | 0.51 | 500,000 | 500,000 | - |
| October 2, 2013 | 0.10 | 1.01 | 1,500,000 | 1,500,000 | - |
| November 23, 2015 | 0.10 | 3.15 | 3,500,000 | 2,333,333 | 1,166,667 |
| January 28, 2016 | 0.10 | 3.33 | 250,000 | 166,667 | 83,333 |
| September 6, 2016 | 0.10 | 3.94 | 4,200,000 | 2,800,000 | 1,400,000 |
| | 0.11 | 2.12 | 14,750,000 | 12,100,000 | 2,650,000 |

12. Net (loss) Income per Common Share

The calculation of basic and diluted (loss) income per share for the nine months ended September 30, 2012 and 2011 was based on the loss attributable to common shareholders of \$595,315 (nine months ended September 30, 2011 income of - \$1,165,045) and the weighted average number of common shares outstanding of 244,227,836 (September 30, 2011 - 235,650,055) for basic (loss) income per share and 244,227,836 (September 30, 2011 - 292,448,331) for diluted (loss) income per share. Diluted loss did not include the effect of warrants and options for the nine months ended September 30, 2012, as they are anti-dilutive.

Galantas Gold Corporation

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

13. Cost of Sales

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Production wages | \$ 261,057 | \$ 425,599 | \$ 947,531 | \$ 1,154,930 |
| Oil and fuel | 258,000 | 364,232 | 947,249 | 1,047,098 |
| Repairs and servicing | 120,920 | 208,949 | 363,132 | 552,800 |
| Equipment hire | 57,236 | 109,995 | 219,905 | 344,448 |
| Consumable | 40,256 | 39,003 | 146,722 | 202,673 |
| Royalties | 15,330 | 54,180 | 75,860 | 143,629 |
| Carriage | 9,298 | 23,393 | 38,025 | 59,316 |
| Other costs | 9,457 | 44,401 | 54,474 | 79,619 |
| Production costs | 771,554 | 1,269,752 | 2,792,898 | 3,584,513 |
| Inventory movement | 20,832 | (22,523) | 13,299 | 36,869 |
| Cost of sales | \$ 792,386 | \$ 1,247,229 | \$ 2,806,197 | \$ 3,621,382 |

14. Related Party Balances and Transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

(a) The Company entered into the following transactions with related parties:

| | Notes | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|-------|-------------------------------------|--------|------------------------------------|--------|
| | | 2012 | 2011 | 2012 | 2011 |
| Interests on related party loans | (i) | 10,060 | 14,328 | 30,355 | 47,351 |

(i) G&F Phelps, a company controlled by a director of the Company, had amalgamated loans to Galantas of \$1,629,036 (GBP 1,026,552) (December 31, 2011 - \$1,716,643 - GBP 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. Interest accrued on related party loans is included with due to related parties. As at September 30, 2012, the amount of interest accrued is \$73,738 (GBP 46,467) (December 31, 2011 - \$43,085 - GBP 27,271).

Galantas Gold Corporation

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2012

(Expressed in Canadian Dollars)

(Unaudited)

14. Related Party Balances and Transactions (Continued)

(b) Remuneration of Directors and key management of the Company was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Salaries and benefits ⁽¹⁾ | \$ 99,635 | \$ 98,815 | \$ 290,490 | \$ 294,055 |
| Stock-based compensation | 23,334 | - | 77,218 | - |
| | \$ 122,969 | \$ 98,815 | \$ 367,708 | \$ 294,055 |

⁽¹⁾ Salaries and benefits include director fees. As at September 30, 2012, due to directors for fees amounted to \$22,600 (December 31, 2011 - \$nil) and due to directors and key management, mainly for salaries and benefits accrued amounted to \$963,991 (GBP 607,468) (December 31, 2011 - \$757,339 - GBP 479,277), and is included with due to related parties.

15. Segment Disclosure

The Company, after reviewing its reporting systems, has determined that it has one reportable segment. The Company's operations are substantially all related to its investment in Cavanacaw and its subsidiaries, Omagh and Galántas. Substantially all of the Company's revenues, costs and assets of the business that support these operations are derived or located in Northern Ireland.

16. Contingent Liability

During the year ended December 31, 2010, the Company's subsidiary Omagh received a payment demand from Her Majesty's Revenue and Customs in the amount of \$528,677 (GBP 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 intends to vigorously defend itself against this claim. No provision has been made for the claim in the condensed consolidated interim financial statements.