GALANTAS GOLD CORPORATION

Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Galantas Gold Corporation were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 3 to the consolidated financial statements.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed)
Roland Phelps
President

(signed)
Brent Routledge
Chief Financial Officer

April 22, 2008
Toronto, Canada

SMITH NIXON

Smith Nixon LLP
Chartered Accountants
Suite 1900, 390 Bay Street
Toronto, Ontario
M5H 2Y2

T: 416.361.1622
F: 416.367.1238
www.smith-nixon.com

AUDITORS' REPORT

To the Shareholders of
Galantas Gold Corporation

We have audited the consolidated balance sheets of Galantas Gold Corporation as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Smith Nixon LLP

Chartered Accountants
Toronto, Ontario
April 22, 2008

GALANTAS GOLD CORPORATION
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)

AS AT DECEMBER 31,	2007	2006
ASSETS		
Current		
Cash	**$ 21,308**	$ 234,909
Accounts receivable and advances	**578,831**	397,953
Inventory (Note 4)	**1,033,596**	100,839
Future income taxes (Note 8(b))	**240,890**	213,366
	1,874,625	947,067
Property, plant and equipment (Note 5)	**17,077,659**	13,653,277
Future income taxes (Note 8(b))	**1,362,027**	958,934
	$ 20,314,311	$ 15,559,278
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 2,124,314**	$ 1,499,678
Current portion of financing facility (Note 6)	**495,217**	253,529
Due to related party (Note 9)	**552,569**	-
Deferred revenue (Note 3)	**201,743**	-
	3,373,843	1,753,207
Due to related party (Note 9)	**971,782**	-
Long-term portion of financing facility (Note 6)	**532,403**	379,773
	4,878,028	2,132,980
SHAREHOLDERS' EQUITY		
Share capital (Note 7(a))	**26,134,279**	22,458,500
Warrants (Note 7(b))	**2,417,700**	1,913,100
Contributed surplus	**844,247**	848,985
	29,396,226	25,220,585
Deficit	**(13,959,943)**	(11,794,287)
	15,436,283	13,426,298
	$ 20,314,311	$ 15,559,278

Going concern (Note 1)

SIGNED ON BEHALF OF THE BOARD:

(Signed) "L.J. Gunter" Director

(Signed) "Roland Phelps" Director

GALANTAS GOLD CORPORATION

See accompanying notes to consolidated financial statements

GALANTAS GOLD CORPORATION
CONSOLIDATED STATEMENTS OF LOSS
(Expressed in Canadian Dollars)

YEARS ENDED DECEMBER 31,	2007	2006
Revenues		
Gold sales	**$ 654,142**	$ 45,928
Costs and expenses of mining operations		
Cost of sales	**972,022**	12,948
Amortization	**736,226**	4,240
	1,708,248	17,188
(Loss) income from mining operations	**(1,054,106)**	28,740
Expenses and other (income)		
Accounting and corporate	**46,579**	39,055
Bank charges and interest	**64,307**	14,293
Consulting fees	**5,490**	6,250
Foreign exchange loss	**42,598**	76,248
Legal and audit	**109,024**	223,749
Operating expenses	**760,027**	124,989
Shareholder communication and public relations	**203,110**	568,121
Stock-based compensation (Note 7(c))	**429,262**	192,327
Transfer agent	**22,892**	25,202
General office	**50,785**	59,954
Loss on disposal of property, plant and equipment	**33,507**	-
Interest income	**(1,180)**	(10,698)
	1,766,401	1,319,490
Loss before income taxes	**(2,820,507)**	(1,290,750)
Future income tax recovery (Note 8(a))	**654,851**	295,500
Net loss for the year	**$ (2,165,656)**	$ (995,250)
Basic and diluted loss per share	**$ (0.01)**	$ (0.01)
Weighted average number of shares outstanding	**168,849,926**	145,930,481

See accompanying notes to consolidated financial statements

GALANTAS GOLD CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

YEARS ENDED DECEMBER 31,	2007	2006
Share capital		
Balance, beginning of year	**$ 22,458,500**	$ 18,400,862
Issued under private placements	**3,342,036**	3,500,000
Warrants issued	**(504,600)**	(1,735,000)
Stock options exercised	**590,000**	-
Stock options exercised - valuation	**434,000**	-
Warrants exercised	**-**	2,627,500
Warrants exercised - valuation	**-**	175,166
Agent's compensation options granted	**-**	(178,100)
Share issue costs	**(185,657)**	(331,928)
Balance, end of year	**$ 26,134,279**	$ 22,458,500
Warrants		
Balance, beginning of year	**$ 1,913,100**	$ 175,166
Issued	**504,600**	1,913,100
Exercised	**-**	(175,166)
Balance, end of year	**$ 2,417,700**	$ 1,913,100
Contributed surplus		
Balance, beginning of year	**$ 848,985**	$ 656,658
Stock options granted	**429,262**	192,327
Stock options exercised	**(434,000)**	-
Balance, end of year	**$ 844,247**	$ 848,985
Deficit		
Balance, beginning of year	**$ (11,794,287)**	$ (10,799,037)
Net loss	**(2,165,656)**	(995,250)
Balance, end of year	**$ (13,959,943)**	$ (11,794,287)

GALANTAS GOLD CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

YEARS ENDED DECEMBER 31,	2007	2006
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss for the year	**$ (2,165,656)**	$ (995,250)
Adjustments for non-cash items:		
Amortization	**736,226**	4,240
Stock-based compensation	**429,262**	192,327
Future income tax recovery	**(654,851)**	(295,500)
Foreign exchange	**224,234**	(107,000)
Loss on disposal of property, plant and equipment	**33,507**	-
Net change in non-cash working capital (Note 10(a))	**(287,256)**	949,191
	(1,684,534)	(251,992)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(4,194,115)**	(6,439,984)
FINANCING ACTIVITIES		
Issue of common shares	**3,932,036**	6,127,500
Share issue costs	**(185,657)**	(331,928)
Advances from financing facility	**880,345**	365,400
Repayments of financing facility	**(486,027)**	(102,969)
Advances from (repayment to) related party	**1,524,351**	(253,103)
	5,665,048	5,804,900
NET CHANGE IN CASH	**(213,601)**	(887,076)
CASH, BEGINNING OF YEAR	**234,909**	1,121,985
CASH, END OF YEAR	**$ 21,308**	$ 234,909

SUPPLEMENTAL CASH FLOW INFORMATION (Note 10)

1. GOING CONCERN

These consolidated 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. The recoverability of these consolidated amounts, which includes the consolidated results of the Company's wholly-owned subsidiary Cavanacaw Corporation (Cavanacaw), is dependent on 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 of 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.

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 consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported expenses and balance sheet 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates and assumptions include the recovery of the deferred development and exploration costs, the valuation of stock-based compensation and other stock-based payments and the ability of the Company to continue as a going concern (note 1). Actual results could differ from those estimates.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances have been eliminated.

Foreign Currency Translation

The Company's operations expose it to significant fluctuations in foreign exchange rates. Cavanacaw, Omagh and Galántas are denominated in British pounds and are, therefore, subject to exchange variations against the reporting currency, the Canadian dollar. They are integrated foreign operations, and as such their financial statements have been translated into Canadian dollars using the temporal method. All assets and liabilities are translated at exchange rates effective at the end of each year and all non-monetary assets and liabilities are translated at their historical rates. Income and expenses are translated at the average exchange rate for the year. The foreign currency translation gains and losses are included in the determination of net loss.

Inventory

Inventories are comprised of finished goods, concentrate inventory, work-in-process amounts and stockpiled ore.

All inventories are recorded at the lower of production costs on a first-in, first-out basis, and net realizable value. Production costs include costs related to mining, crushing, mill processing, as well as depreciation on production assets and certain allocations of mine-site overhead expenses attributable to the manufacturing process.

Property, Plant and Equipment

The cost of property, plant and equipment is their purchase cost, together with any related costs of acquisition. Amortization is calculated at the following rates:

Buildings	4 % straight line
Plant and machinery	20 % declining balance
Motor vehicles	25 % declining balance
Office equipment	15 % declining balance
Moulds	25 % straight line
Freehold land	4 % straight line
Deferred development and exploration costs	units of production

Prior to commencing production, the Company capitalized interest related to financing of equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (Continued)

Deferred development and exploration costs are capitalized until results of the related projects, based on geographic areas, are known. If a project is successful, the related expenditures will be amortized using the units-of-production method over the estimated life of the ore body based on estimated recoverable ounces or pounds mined from proven and probable reserves. Provision for loss is made where a project is abandoned or considered to be of no further interest to the company, or where the directors consider such a provision to be prudent. As of July 1, 2007, the Company started production at the Omagh mine and has begun amortization.

Asset Retirement Obligation

The Company is subject to the provisions of CICA Handbook Section 3110, Asset Retirement Obligations, which require the estimated fair value of any asset retirement obligations to be recognized as a liability in the period in which the related environmental disturbance occurs and the present value of the associated future costs can be reasonably estimated. As of December 31, 2007 and 2006, the Company has capitalized any asset retirement obligations in respect of its mineral exploration property.

Revenue Recognition

Revenue from sales of finished goods is recognized at the time of shipment when significant risks and benefits of ownership are considered to be transferred, the terms are fixed or determinable, and collection is reasonably assured.

Revenue from sales of gold concentrate is recognized at the time of shipment when significant risks and benefits of ownership are considered to be transferred, the terms are fixed or determinable, and collection is reasonably assured. The final revenue figure is subject to adjustments as a result of final assay results and metal prices at the date of ultimate settlement. As the Company is in the early stages of commercial production, appropriate estimates of this final settlement amount is not able to be made. Accordingly, no revenue is recognized until final settlement. Any payments received prior to settlement have been reflected as deferred revenue.

In the future, should management be able to provide reasonable estimates of the final assay results, the Company would record concentrate sale revenues based on current spot prices at the time of shipment. Any differences between the initial recognition and subsequent settlement amounts would be adjusted through revenue at each subsequent financial statement date.

Long-Lived Assets

Long-lived assets, which comprise property, plant and equipment, are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If the sum of the undiscounted future cash flows expected from use and residual value is less than carrying amount, the long-lived asset is considered impaired. An impairment loss is measured as the amount by which the carrying value of the long-lived assets exceeds its fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The asset and liability method is used for determining income taxes. Under this method, future tax assets and liabilities are recognized for the estimated taxes recoverable or payable that would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to be in effect when the tax assets or liabilities are recovered or settled, respectively. Changes to these rates are recognized in income in the year in which the changes occur. Future income tax assets are recognized to the extent that it is more likely than not that the company will realize the benefit from the asset.

Stock-Based Compensation

The fair value of any stock options granted to directors, officers, employees and consultants is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Other Stock-based Payments

The Company accounts for other stock-based payments based on the fair value of the equity instruments issued in exchange for the receipt of goods and services from non-employees or the fair value of the goods and services received, whichever is the more reliable basis, by using the stock price and other measurement assumptions as at the measurement date.

Per Share Information

Per share information is computed using the weighted average number of common shares outstanding during the year. Diluted per share information is calculated using the treasury stock method for options and warrants. The treasury stock method assumes that any proceeds obtained upon exercise of options and warrants would be used to purchase common shares at the average market price during the year. For the purpose of calculating diluted earnings per share, no adjustment to basic earnings per share is made if the result of these calculations is anti-dilutive.

Accounting Changes

In July 2006, The Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments, Comprehensive Income (Loss) and Hedges

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 3855, “Financial Instruments – Recognition and Measurement”, 1530, “Comprehensive Income”, 3861 "Financial Instruments - Disclosure and Presentation" and 3865, “Hedges”. These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 and are adopted retrospectively without restatement; accordingly, comparative amounts for prior periods have not been restated. The Company has adopted these new standards effective January 1, 2007.

(a) Financial Instruments - Recognition and Measurement

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

(b) Comprehensive Income (loss)

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

The Company had no other comprehensive income or loss transactions during the year ended December 31, 2007. Accordingly, a statement of comprehensive income has not been presented.

(c) Financial Statements and Non-Financial Derivatives

Section 3861 establishes standards for presentation of financial statements and identifies the information that should be disclosed about financial instruments. Under the new standards, the change in policy has been retrospectively adopted without restatement of comparative figures.

(d) Impact upon adoption of Sections 1530, 3855, 3861 and 3865

Under adoption of these new standards, the Company designated its cash as held-for-trading, which is measured at fair value. Accounts receivable and advances are classified as loans and receivables, which is measured at amortized cost. Accounts payable and accrued liabilities, financing facility and due to related party are classified as other financial liabilities, which are measured at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policy Choice for Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective September 30, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments- Recognition and Measurement. Transaction costs are expensed as incurred for financial instruments. The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

Future Accounting Changes

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These new standards are effective for interim and annual consolidated financial statements for the Company's reporting period beginning on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventory

Section 3031, Inventory, replaces Section 3030, and establishes standards for the measurement of inventories, allocations of overhead, accounting for write-downs and disclosures.

Going Concern

Section 1400 has been amended for new requirements relating to the assessment of an entity's ability to continue as a going concern.

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

(Expressed in Canadian Dollars)

4. INVENTORY

	2007	2006
Concentrate inventory	$ 703,606	$ -
Finished goods	329,990	100,839
	$ 1,033,596	$ 100,839

5. PROPERTY, PLANT AND EQUIPMENT

	2007		
	Cost	Accumulated Amortization	Net
Deferred development and exploration costs	$ 10,539,905	$ 209,216	$ 10,330,689
Freehold land and buildings	3,019,588	227,324	2,792,264
Plant and machinery	5,264,958	1,364,589	3,900,369
Motor vehicles	62,040	39,420	22,620
Office equipment	79,575	47,858	31,717
Moulds	81,802	81,802	-
	$ 19,047,868	$ 1,970,209	$ 17,077,659

	2006		
	Cost	Accumulated Amortization	Net
Deferred development and exploration costs	$ 7,542,920	$ -	$ 7,542,920
Freehold land and buildings	2,962,629	32,999	2,929,630
Plant and machinery	3,773,982	657,702	3,116,280
Motor vehicles	61,438	31,851	29,587
Office equipment	77,303	42,443	34,860
Moulds	81,802	81,802	-
	$ 14,500,074	$ 846,797	$ 13,653,277

Freehold land and buildings includes an asset retirement obligation of $101,900.

Included in deferred development and exploration costs are $298,584 (2006 - $nil) in stripping costs related to the Omagh mine. These costs have been amortized using the units of production basis. The related amortization is $6,419 (2006 - $nil).

Since June 2005, the Company has held a Crown Mining Lease which grants the Company the right to extract gold and silver from its property at Omagh, County Tyrone, Northern Ireland. The Lease requires the Company to pay $46,000 (GBP 20,000) per year for the first three years with additional rent payable calculated on gold output after the first three years. In July 2007, the Company renewed its prospecting licenses for another two years expiring July 18, 2009 in respect to gold, silver and other metals. The Lease and licenses contain certain rights as to renewal providing that certain rent and royalty payments, exploration expenditure and other terms have been met, including the provision of a restoration bond.

In 2006, the Company purchased an adjoining property at a cost of $781,182 (GBP 377,073). The purchase includes only surface rights as rights to gold and silver are already held by the Company through its Crown Mining Lease.

(Expressed in Canadian Dollars)

6. FINANCING FACILITY

(i) On May 27, 2005, the Company obtained financing from Barclays Mercantile Business Finance Ltd. in the amount of $555,000 (238,700 GBP) for the purchase of mining equipment. The loan is for a period of four years at 3.71% with monthly principal and interest payments of $10,172 (5,071 GBP). The loan is secured by certain plant and machinery.

(ii) On March 17, 2006, the Company obtained financing from Barclays Mercantile Business Finance Ltd. in the amount of $365,400 (180,000 GBP) to assist in the purchase of certain metallurgical equipment having a cost of $728,770 (359,000 GBP). The loan is for a period of three years at 3.97% with monthly principal and interest payments of $11,658 (5,578 GBP).

(iii) In June 2007, the Company obtained financing from Barclays Mercantile Business Finance Ltd. in the amount of $390,345 (199,160 GBP) for the purchase of mining equipment. The loan is for a period of four years at 4.03% with monthly principal and interest payments of $8,812 (4,101 GBP), except for the third payment, which was paid for the amount of $72,549 (33,764 GBP). The loan is secured by certain plant and machinery.

(iv) In June 2007, the Company obtained a loan facility from Allied Irish Bank plc in the amount of $490,000 (250,000 GBP). The term loan is for a period of three years at bank base rate plus 2%.

Borrowings are secured by a legal mortgage charge over the land with a letter of guarantee.

Amounts payable on the long term debt are as follows:

	Interest	2007	2006
Financing facility (238,700 GBP) (i)	3.71%	$ 160,949	$ 319,201
Financing facility (180,000 GBP) (ii)	3.97%	156,448	314,101
Financing facility (199,160 GBP) (iii)	4.03%	290,314	-
Term loan facility (250,000 GBP) (iv)	7.50%	419,909	-
		1,027,620	633,302
Less current portion		495,217	253,529
		$ 532,403	$ 379,773

Principal repayments over the next four years are as follows:

2008	$ 495,217
2009	347,047
2010	145,848
2011	39,508
	$ 1,027,620

(Expressed in Canadian Dollars)

7. SHARE CAPITAL

(a) Authorized and issued

Authorized
Unlimited number of common and preference shares issuable in Series
Issued common shares

	Number of Shares	Stated Value
Balance, December 31, 2005	126,335,189	$ 18,400,862
Issued under private placements (i)	14,000,000	3,500,000
Warrants issued	-	(1,735,000)
Agent's compensation options granted	-	(178,100)
Warrants exercised	17,516,666	2,627,500
Warrants exercised - valuation	-	175,166
Share issue costs	-	(331,928)
Balance, December 31, 2006	157,851,855	22,458,500
Issued under private placements (ii)(iii)	12,924,000	3,342,036
Warrants issued	-	(504,600)
Stock options exercised	4,900,000	590,000
Stock options exercised - valuation	-	434,000
Share issue costs	-	(185,657)
Balance, December 31, 2007	175,675,855	$ 26,134,279

(i) On July 26, 2006, the Company closed a private placement (the "Offering") for gross proceeds of $3,500,000. Pursuant to this offering, the Company issued 14,000,000 units of the Company (each a "Unit") at the price of $0.25 per Unit (including an over-allotment of 1,200,000 Units (the "Over-Allotment") and 2,000,000 Units for subscribers specifically identified by management (the "President's List"). Each Unit consisted of one common share of the Company and one warrant of the Company. Each warrant entitles the purchaser to purchase one common share at a price of $0.32 per share at any time until July 26, 2008.

Union Securities Ltd., acting as agent (the "Agent") was paid a cash fee of $240,000 representing 8% in cash commission based on Units sold under the Offering and the Over-Allotment Option (excluding Units sold pursuant to the President's List) and $20,000 representing 4% in cash for Units sold pursuant to the President's List. In addition, the Company issued to the Agent 1,300,000 compensation options (the "Agent's Compensation Options") equal to 10% of all Units sold pursuant to the Offering and the Over-Allotment Option (excluding Units sold pursuant to the President's List) and 5% of all Units sold pursuant to the President's List. Each Agent's Compensation Option entitles the Agent to purchase one unit of the Company at $0.25 per Unit at any time prior to July 26. 2008. Each Unit consists of one common share of the Company and one warrant of the Company.

Other costs associated directly with the private placement amounted to $71,928.

The fair value of the 14,000,000 warrants and 1,300,000 compensation options (collectively "the warrants") were estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 110%; risk-free interest rate - 4.15% and an expected life of 2 years. The fair value attributed to the warrants was $1,735,000 and $178,100 respectively.

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (Continued)

(a) Authorized and issued (Continued)

(ii) On March 2, 2007, the Company closed a placement of 5,284,000 units for gross proceeds of $1,717,300. Each unit was priced at $0.325 and was comprised of one common share and one warrant. Each warrant entitles the holder to purchase one common share within 18 months from closing at a price of $0.45. An arrangement fee of 5% for $85,865 was paid to the broker.

Other costs associated directly with the placement amounted to $12,737.

The shares were subject to a 4 month hold period which expired on July 3, 2007.

The fair value of the 5,284,000 warrants was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 79%; risk-free interest rate - 3.91% and an expected life of 1.5 years. The fair value attributed to the warrants was $453,420.

(iii) On September 4, 2007, the Company closed a placement of 7,640,000 units for gross proceeds of $1,624,736 (764,000 GBP). Each unit was priced at approximately $0.21 (0.10 GBP) and was comprised of one common share and one half warrant. Each warrant entitles the holder to purchase one common share within 12 months from closing at a price of approximately $0.32 (0.15 GBP). Total arrangement fee of $70,838 (33,000 GBP) was paid to the broker.

Other costs associated directly with the placement amounted to $16,217.

The shares were subject to a 4 month hold period that expired January 4, 2008.

The fair value of the 3,820,000 warrants was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 54%; risk-free interest rate - 4.36% and an expected life of 1 year. The fair value attributed to the warrants was $51,180.

(b) Warrants

The following table shows the continuity of warrants for the years ended December 31, 2007 and 2006:

	Number of Warrants	Weighted Average Price
Balance, December 31, 2005	17,516,666	$ 0.15
Issued (Note 7(a)(i))	15,300,000	0.32
Exercised	(17,516,666)	0.15
Balance, December 31, 2006	15,300,000	0.32
Issued (Notes 7(a)(ii) and 7(a)(iii))	9,104,000	0.40
Balance, December 31, 2007	24,404,000	$ 0.34

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (Continued)

(b) Warrants (Continued)

As at December 31, 2007, the following warrants were outstanding:

Number of Warrants	Fair Value ($)	Exercise Price ($)	Expiry Date
14,000,000	1,735,000	0.32	July 26, 2008
1,300,000	178,100	0.25	July 26, 2008
5,284,000	453,420	0.45	September 2, 2008
3,820,000	51,180	0.32	September 4, 2008
24,404,000	2,417,700		

(c) Stock options

The Company has a stock option plan ("the Plan"), the purpose of which is to attract, retain and compensate qualified persons as directors, senior officers and employees of, and consultants to the Company and its affiliates and subsidiaries by providing such persons with the opportunity, through share options, to acquire an increased proprietary interest in the Company. The number of shares reserved for issuance under the Plan cannot be more than a maximum of 10% of the issued and outstanding shares at the time of any grant of options. The period for exercising an option shall not extend beyond a period of five years following the date the option is granted.

Insiders of the Company are restricted on an individual basis from holding options which when exercised would entitle them to receive more than 5% of the total issued and outstanding shares at the time the option is granted. The exercise price of options granted in accordance with the Plan must not be lower than the closing price of the shares on the TSX Venture Exchange immediately preceding the date on which the option is granted and in no circumstances be less than the permissible discounting in accordance with the Corporate Finance Policies of the Exchange.

The following table shows the continuity of options for the years ended December 31, 2007 and 2006:

	Number of Options	Weighted Average Price
Balance, December 31, 2005	7,900,000	$ 0.11
Granted (i)	1,000,000	0.26
Cancelled/Expired	(1,400,000)	0.15
Balance, December 31, 2006	7,500,000	0.14
Granted (ii)(iii)	8,200,000	0.12
Exercised	(4,900,000)	0.12
Cancelled/Expired	(250,000)	0.26
Balance, December 31, 2007	10,550,000	$ 0.15

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

Stock-based compensation expense includes $49,124 (2006 - $118,542) relating to stock options granted in previous years that vested during the year.

(i) On June 14, 2006, 1,000,000 stock options were granted to employees of the Company to purchase common shares at a price of $0.26 per share until June 14, 2011. 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 $143,000 and will be expensed in the statements of loss and credited to contributed surplus as the options vest. Included in the stock-based compensation for 2007 is $95,867 (2006 - $73,785) related to the vested portion of these stock options. 250,000 of these stock options were cancelled in 2007.

(ii) On June 15, 2007, 500,000 stock options were granted to an employee of the Company to purchase common shares at a price of $0.23 per share until June 15, 2012. 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 $96,000 and will be expensed in the statements of loss and credited to contributed surplus as the options vest. Included in the stock-based compensation for 2007 is $60,000 related to the vested portion of these stock options.

(ii) On December 24, 2007, 7,700,000 stock options were granted to employees, directors and officers of the Company to purchase common shares at a price of $0.14 per share until December 24, 2012. 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 $793,000 and will be expensed in the statements of loss and credited to contributed surplus as the options vest. Included in the stock-based compensation for 2007 is $271,938 related to the vested portion of these stock options.

All granted stock options were valued on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	3.98% - 4.63%	4.26%
Expected life of options	5 years	5 years
Annualized volatility	94% - 107%	110%
Dividend rate	0 %	0 %

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

(c) Stock options (continued)

As at December 31, 2007, the following stock options were outstanding:

Exercisable Options	Number of Options	Exercise Price ($)	Expiry Date
1,400,000	1,400,000	0.15	April 10, 2008
166,667	250,000	0.26	July 31, 2008
200,000	200,000	0.10	May 13, 2010
333,333	500,000	0.26	June 14, 2011
166,667	500,000	0.23	June 15, 2012
2,566,667	7,700,000	0.14	December 24, 2012
4,833,334	10,550,000		

8. INCOME TAXES

(a) Provision for income taxes

A reconciliation of the expected tax recovery to actual is provided as follows:

	2007	2006
Loss before income taxes	$ (2,820,507)	$ (1,290,750)
Expected tax recovery at statutory rate	$ (871,700)	$ (466,200)
Increase (decrease) resulting from:		
Stock-based compensation	133,500	69,500
Share issue costs	(63,400)	(54,100)
Foreign exchange	(682,451)	634,200
Tax amortization in excess of accounting	(581,600)	(877,600)
Non-capital losses not recognized	1,410,800	398,700
	$ (654,851)	$ (295,500)

(Expressed in Canadian Dollars)

8. INCOME TAXES (Continued)

(b) Future tax balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities are as follows:

	2007	2006
Future income tax assets (liabilities)		
Non-capital losses	$ 4,825,700	$ 4,124,600
Share issue costs	131,800	54,100
Property, plant and equipment and deferred development costs	(1,878,500)	(1,663,800)
Valuation allowance	(1,476,083)	(1,342,600)
	1,602,917	1,172,300
Current portion	240,890	213,366
	$ 1,362,027	$ 958,934

(c) Losses carried forward

As at December 31, 2007, the Company had non-capital losses carried forward of $16,203,052 (2006 - $13,170,813) for income tax purposes as follows:

Expires	2008	$ 240,733
	2009	94,158
	2011	249,460
	2014	426,803
	2015	568,540
	2026	1,073,616
	2027	867,807
Indefinite		12,681,935
		$ 16,203,052

A future tax asset for non-capital losses of $1,602,917 has been recognized as at December 31, 2007, as it has been determined that it is more likely than not that the benefit will be realized in the future.

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

The Company was charged $54,463 (2006 - $45,296) for accounting and corporate secretarial services by companies associated to an officer of the Company in the normal course of business at the exchange amount. Accounts payable includes $52,385 (2006 - $5,568) owing to these companies.

Director fees of $28,750 (2006 - $25,250) were paid or accrued during the year ended December 31, 2007.

Included in due to related party is $716,713 (365,670 GBP) (2006 - $nil) owing to companies controlled by a director of the Company. The loan is unsecured and bears interest at base rate plus 2%. $432,572 (220,700 GBP) is due over a period of 3 years. At December 31, 2007, interest of $14,871 (7,587 GBP) was accrued and included in accounts payable and accrued liabilities.

Also included in due to related party, the Company obtained a loan facility from G&F Phelps, a company controlled by a director of the Company, in the amount of $807,638 (412,600 GBP) for the financing of mining equipment. The term loan is for a period of 4.25 years interest bearing at 4.04% flat with monthly payments of $18,949 (8,793 GBP) and is secured by all equipment owned by the Company's wholly-owned subsidiary Omagh.

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

10. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Net change in non-cash working capital

	2007	2006
Accounts receivable and advances	$ (180,878)	$ (253,226)
Inventory	(932,757)	524
Accounts payable and accrued liabilities	624,636	1,201,893
Deferred revenue	201,743	-
	$ (287,256)	$ 949,191

(b) Supplemental information

	2007	2006
Amortization capitalized to deferred development costs	$ 407,839	$ 327,466
Interest paid	$ 65,261	$ 57,848

Interest paid includes $65,261 (2006 - $43,555) of interest paid on the financing facility. Of these amounts, $22,515 (2006 - $43,555) were charged to deferred development costs and $42,746 (2006 - $nil) was expensed to the statements of loss.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit Risk
The Company is exposed to concentration of credit risk with one of its customers representing 50% of the accounts receivable balance. The Company believes that this credit risk is minimized due to the financial worthiness of this company.

Interest Rate Risk
Certain loans within the financing facility bear interest at a fixed rate of interest, and as such is subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates. Certain other loans bear interest at variable rates and are exposed to interest rate cash flow risk.

Liquidity Risk
The Company manages liquidity risk by monitoring maturities of financial commitments and maintaining adequate cash reserves and available borrowing facilities to meet these commitments as they come due.

Market Risk
Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Company. The Company is exposed to fair value fluctuations on their fixed rate financing facilities. The Company's short-term instruments (cash, accounts receivable, accounts payable) are not subject to market risk.

Foreign Currency Risk
Certain of the Company's expenses and revenues are incurred and received in the currencies of Northern Ireland and the United Kingdom and are therefore subject to gains and losses due to fluctuations in these currencies against the Canadian dollar.

Commodity Price Risk
The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

Fair value
The carrying value of cash, accounts receivable and advances, accounts payable and accrued liabilities are considered to be representative of their respective values due to their short-term nature. For the fixed term related party loans, fair value approximates carrying value.

12. 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 Corporation ("Cavanacaw") and its subsidiaries, Omagh and Galantas. Substantially all of Cavanacaw's revenues, costs and assets of the business that support these operations are derived or located in Northern Ireland.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. Net loss previously reported has not been affected by this reclassification.

14. SUBSEQUENT EVENTS

On March 31, 2008, a company controlled by a director, has agreed to expand the existing loan arrangement by £75,000 to permit the purchase of the larger generator and semi-mobile crusher and to include both in its existing equipment security.

The Company has also arranged short term debt finance, up to the sum of £250,000 and on the same interest terms as that already arranged with First Trust Bank (2% over Bank Base Rate). The loan, which is to be used for working capital purposes, is repayable on demand and is from a director of the Company.

15. SALES TO MAJOR CUSTOMER

On January 13, 2007, the Company entered into a contract with Falconbridge Limited ("Falconbridge") related to the sale of gold concentrate from its Omagh mine in Northern Ireland. The agreement may be cancelled without penalty by either party with a minimum of one full calendar year's written notice. Such notice may not be given by either party prior to December 31, 2009.

The Company is required to sell the full production of the mine to Falconbridge, but it may be reduced by up to 10% at the Company's option with prior written notification during the month prior to each calendar month of shipment. During 2007, substantially all of the Company's sales were to Falconbridge.