GALANTAS GOLD CORPORATION

Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years Ended December 31, 2012 and 2011

McCarneyGreenwood

Independent Auditor's Report

To the Shareholders of
Galantas Gold Corporation

We have audited the accompanying consolidated financial statements of Galantas Gold Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of (loss) income, comprehensive (loss) income, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Galantas Gold Corporation as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes that the Company will require additional financing in order to fund its planned activities. This condition, along with other matters set out in note 1, indicates the existence of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

"McCarney Greenwood LLP"

Toronto, Canada
April 15, 2013

McCarney Greenwood LLP
Chartered Accountants
Licensed Public Accountants

Galantas Gold Corporation
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at December 31,	2012	2011
ASSETS		
Current assets		
Cash (note 8)	**$ 1,164,868**	$ 4,240,081
Accounts receivable and advances (note 9)	**673,054**	1,056,573
Inventory (note 10)	**326,249**	347,016
Total current assets	**2,164,171**	5,643,670
Non-current assets		
Property, plant and equipment (note 11)	**3,566,778**	3,547,393
Long-term deposit (note 8)	**428,717**	371,277
Deferred development and exploration costs (note 12)	**7,859,445**	4,507,753
Total assets	**$ 14,019,111**	$ 14,070,093
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and other liabilities (note 13)	**$ 1,670,729**	$ 1,683,142
Due to related parties (note 19)	**2,802,749**	2,517,067
Convertible debenture (note 14)	**-**	1,979,603
Total current liabilities	**4,473,478**	6,179,812
Non-current liabilities		
Asset retirement obligation (note 12)	**404,450**	394,975
Total liabilities	**4,877,928**	6,574,787
Capital and reserves		
Share capital (note 15)	**29,874,693**	27,808,316
Reserves	**5,440,196**	5,258,030
Deficit	**(26,173,706)**	(25,571,040)
Total equity	**9,141,183**	7,495,306
Total equity and liabilities	**$ 14,019,111**	$ 14,070,093

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

Going concern (note 1)
Contingent liability (note 21)

Approved on behalf of the Board:
"Roland Phelps" , Director "Lionel J. Gunter" , Director

GALANTAS GOLD CORPORATION

Galantas Gold Corporation
Consolidated Statements of (Loss) Income
(Expressed in Canadian Dollars)

	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenues		
Gold sales	**$ 4,659,330**	$ 9,492,157
Cost and expenses of operations		
Cost of sales (note 17)	**3,167,126**	4,860,427
Amortization and depreciation	**748,711**	837,068
	3,915,837	5,697,495
Income before the undernoted	**743,493**	3,794,662
General administrative expenses		
Management and administration wages (note 19)	**608,307**	701,205
Other operating expenses	**265,338**	457,269
Accounting and corporate	**65,018**	71,340
Legal and audit	**139,650**	184,855
Stock-based compensation (note 15(d))	**148,831**	251,202
Shareholder communication and investor relations	**201,156**	255,181
Transfer agent	**16,992**	21,243
Director fees (note 19)	**29,600**	39,000
General office	**8,577**	30,353
Accretion expenses (note 14)	**45,529**	140,721
Loan interest and bank charges	**75,164**	111,857
	1,604,162	2,264,226
Other expense		
Gain on disposal of property, plant and equipment	**(86,816)**	(485)
Gain on debt extinguishment (note 14)	**(190,624)**	-
Foreign exchange loss (gain)	**10,637**	(80,069)
	(266,803)	(80,554)
Net (loss) income for the year	**$ (593,866)**	$ 1,610,990
Basic net (loss) income per share (note 16)	**$ (0.00)**	$ 0.01
Weighted average number of common shares outstanding - basic	**247,246,030**	235,650,055
Diluted net (loss) income per share (note 16)	**$ (0.00)**	$ 0.01
Weighted average number of common shares outstanding - diluted	**247,246,030**	235,650,055

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

Galantas Gold Corporation
Consolidated Statements of Comprehensive (Loss) Income
(Expressed in Canadian Dollars)

	Year Ended December 31, 2012	2011
Net (loss) income for the year	**$ (593,866)**	$ 1,610,990
Other comprehensive income		
Foreign currency translation differences	**211,760**	57,307
Total comprehensive (loss) income	**$ (382,106)**	$ 1,668,297

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

Galantas Gold Corporation
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2012	2011
Operating activities		
Net (loss) income for the year	**$ (593,866)**	$ 1,610,990
Adjustment for:		
Amortization and depreciation	**748,711**	837,068
Stock-based compensation (note 15(d))	**148,831**	251,202
Foreign exchange	**105,972**	45,916
Gain on disposal of property, plant and equipment	**(86,816)**	(485)
Accretion expenses (note 14)	**45,529**	140,721
Gain on debt extinguishment (note 14)	**(190,624)**	-
Non-cash working capital items:		
Accounts receivable and advances	**383,519**	(305,340)
Inventory	**20,767**	64,589
Accounts payable and other liabilities	**(12,413)**	694,956
Net cash provided by operating activities	**569,610**	3,339,617
Investing activities		
Purchase of property, plant and equipment	**(596,803)**	(1,675,858)
Proceeds from sale of property, plant and equipment	**155,864**	21,531
Deferred development and exploration costs	**(3,414,404)**	(1,343,713)
Long-term deposit	**(48,534)**	(15,799)
Net cash used in investing activities	**(3,903,877)**	(3,013,839)
Financing activities		
Warrants exercised	**2,056,034**	-
Net repayments of financing facility	**-**	(31,266)
Repayment of related party loan	**(95,040)**	(947,940)
Advances from related parties	**380,722**	367,487
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 financing activities	**285,682**	1,327,437
Net change in cash	**(3,048,585)**	1,653,215
Effect of exchange rate changes on cash held in foreign currencies	**(26,628)**	(74,932)
Cash, beginning of year	**4,240,081**	2,661,798
Cash, end of year	**$ 1,164,868**	$ 4,240,081

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

Galantas Gold Corporation
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

		Reserves					
	Share capital	Equity settled share-based payments reserve	Warrant reserve	Foreign currency translation reserve	Equity portion of convertible debenture	Deficit	Total
Balance, December 31, 2010	**$ 27,808,316**	**$ 4,069,045**	**$ 976,414**	**$ (264,020)**	**$ -**	**$ (27,182,030)**	**$ 5,407,725**
Convertible debenture (note 14)	-	-	-	-	168,082	-	168,082
Stock-based compensation (note 15(d))	-	251,202	-	-	-	-	251,202
Net income and comprehensive income for the year	-	-	-	57,307	-	1,610,990	1,668,297
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 (note 15(d))	-	148,831	-	-	-	-	148,831
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 15(b)(i))	(392,800)	-	392,800	-	-	-	-
Loss on debt extinguishment (note 14)	-	-	-	-	(168,082)	(8,800)	(176,882)
Net loss and comprehensive loss for the year	-	-	-	211,760	-	(593,866)	(382,106)
Balance, December 31, 2012	**$ 29,874,693**	**$ 4,477,699**	**$ 957,450**	**$ 5,047**	**$ -**	**$ (26,173,706)**	**$ 9,141,183**

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

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. 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 December 31, 2012, the Company had a deficit of $26,173,706 (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 consolidated 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 (the "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.

3. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2012. The policies set out below are based on IFRS issued and outstanding as of April 15, 2013, the date the Board of Directors approved the statements.

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis with the exception of certain financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the year. Actual results could differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in note 3(e).

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the years presented are included in the consolidated statement of comprehensive (loss) income from the effective date of acquisition and up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

The following companies have been consolidated within the consolidated financial statements:

Company	Registered	Principal activity
Galantas Gold Corporation	Ontario, Canada	Parent company
Cavanacaw Corporation (1)	Ontario, Canada	Holding company
Omagh Minerals Limited (2)(3)	Northern Ireland, United Kingdom	Operating company
Galántas Irish Gold Limited (2)(4)	Northern Ireland, United Kingdom	Operating company

(1) 100% owned by Galantas Gold Corporation;
(2) 100% owned by Cavanacaw Corporation;
(3) Referred to as Omagh (as defined herein); and
(4) Referred to as Galántas (as defined herein).

3. Basis of Preparation (Continued)

(d) Functional and presentation currency

The consolidated financial statements are presented in Canadian Dollars ("CAD"), which is the Company's presentation currency.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the subsidiaries is the U.K. pound sterling ("GBP").

Assets and liabilities of entities with functional currencies other than CAD are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are recognized as a separate component of equity.

The rates used for the translation were obtained from the official website of the Bank of Canada.

	Year ended December 31,	
	2012	**2011**
Closing rate	1.6178	1.5799
Average for the year	1.5840	1.5861

(e) Use of estimates and judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consoldiated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

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 based 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 consoldiated statement of (loss) income;

3. Basis of Preparation (Continued)

(e) Use of estimates and judgments (continued)

Critical accounting estimates (continued)

- the estimated useful lives and residual value of property, plant and equipment which are included in the consolidated statement of financial position and the related amortization and depreciation included in the consoldiated statement of (loss) income;
- the inputs used in accounting for stock-based compensation transactions in the consoldiated statement 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; and
- management assumption of amount of material restoration, rehabilitation and environmental, based on the facts and circumstances that existed during the year.

Critical accounting judgments

The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

4. Significant Accounting Policies

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the operations at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognized in the consoldiated statement of (loss) income, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

(b) Financial assets

The Company's financial instruments consist of the following:

Financial assets:	Classification:
Cash	Fair value through profit or loss
Accounts receivable and advances	Loans and receivables
Long-term deposit	Fair value through profit or loss
Financial liabilities:	**Classification:**
Accounts payable and other liabilities	Other financial liabilities
Due to related parties	Other financial liabilities
Convertible debenture	Other financial liabilities

4. Significant Accounting Policies (Continued)

(b) Financial assets (continued)

Fair value through profit or loss ("FVTPL"):

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets that are not part of an effective and designated hedging relationship. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of (loss) income.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of (loss) income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of (loss) income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

4. Significant Accounting Policies (Continued)

(b) Financial assets (continued)

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2012 and December 31, 2011, the fair value of all the Company's financial instruments approximates the carrying value, due to their short-term nature.

(c) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets, other than inventory, with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

(d) Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized based on the cost of an item of property, plant and equipment, less its estimated residual value, over its estimated useful life at the following rates:

Detail	Percentage	Method
Buildings	4%	Straight-line
Plant and machinery	20%	Declining balance
Motor vehicles	25%	Declining balance
Office equipment	15%	Declining balance
Moulds	25%	Straight-line
Deferred development and exploration costs		Unit-of-production
Deferred till stripping costs		Unit-of-production

An asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, on an annual basis.

4. Significant Accounting Policies (Continued)

(e) Deferred development and exploration costs

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 unit-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.

(f) Stripping costs

Till stripping costs involving the removal of overburden are capitalized where the underlying ore will be extracted in future periods. The Company defers these till stripping costs and amortizes them on a unit-of-production basis as the underlying ore is extracted.

(g) Inventory

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

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.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Revenue recognition

Revenue from sales of finished goods is recognized at the time of shipment when significant risks and rewards of ownership are considered to be transferred, the terms are fixed or determinable, collection is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement in the goods, and the amount of revenue can be measured reliably.

Revenue from sales of gold concentrate is recognized at the time of shipment when title passes and significant risks and benefits of ownership are considered to be transferred. The final revenue figure at the end of any given period is subject to adjustment at the date of ultimate settlement as a result of final assay agreement and metal prices changes.

(i) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at December 31, 2012 and December 31, 2011.

4. Significant Accounting Policies (Continued)

(j) Share-based payment transactions

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

(k) Income taxes

Income tax on the consolidated statement of (loss) income for the periods presented comprises current and deferred tax. Income tax is recognized in the consolidated statement of (loss) income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

(l) Asset retirement obligation

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against the consoldiated statement of (loss) income over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

As at December 31, 2012, the Company has recorded an asset retirement obligation in the amount of GBP 250,000 (December 31, 2011 - GBP 250,000), equal to the amount of the bond that is required by the Crown in Northern Ireland.

4. Significant Accounting Policies (Continued)

(m) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(n) Future accounting changes

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC 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 ("IAS 39"). 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 adoption 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.

4. Significant Accounting Policies (Continued)

(n) Future accounting changes (continued)

(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 United States Generally Accepted Accounting Principles. 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 ("IFRIC 20"). 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.

5. Capital Risk Management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

5. Capital Risk Management (Continued)

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising share capital, reserves and deficit which at December 31, 2012 totaled $9,141,183 (December 31, 2011 - $7,495,306). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is regularly updated based on its gold production activities. Selected information is frequently provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2012. The Company is not subject to any capital requirements imposed by a regulator or lending institution.

6. Financial Risk Management

Property risk

The Company's significant project is the Omagh mine. Unless the Company acquires or develops additional significant projects, the Company will be solely dependent upon the Omagh mine. If no additional projects are acquired by the Company, any adverse development affecting the Omagh mine would have a material effect on the Company's consolidated financial condition and results of operations.

Financial risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign currency risk and commodity and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, accounts receivable and long-term deposit. Cash and long-term deposit are held with reputable financial institutions and the United Kingdom Crown, respectively, from which management believes the risk of loss to be minimal. Accounts receivable consist mainly of a trade account receivable from one customer, value added tax receivable and sales tax receivable. The Company is exposed to concentration of credit risk with one of its customers. Management believes that the credit risk is minimized due to the financial worthiness of this company. Valued added tax receivable is collectable from the Government of Northern Ireland. Sales tax receivable is collectable from government authorities in Canada. The Company does not have derivative financial instruments. No trade accounts receivable balances are past due or impaired.

6. Financial Risk Management (Continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company’s liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. 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. As at December 31, 2012, the Company had negative working capital. All of the Company's financial liabilities have contractual maturities of less than 30 days other than certain related party loans. The Company is using operating cash flows to manage and seeking additional capital to increase liquidity. As at December 31, 2012, the Company was cash flow negative.

(iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity and equity prices.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and significant interest-bearing debt. The Company is exposed to interest rate risk on certain related party loans which bear interest at variable rates.

(b) Foreign currency risk

Certain of the Company's expenses are incurred in the currencies of Northern Ireland and the United Kingdom and the Company's revenues are received in the currency of United States and are therefore subject to gains and losses due to fluctuations in these currencies against the functional currency.

(c) Commodity and equity price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as it relates to gold to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

(i) Certain related party loans are subject to interest rate risk. As at December 31, 2012, if interest rates had decreased/increased by 1% with all other variables held constant, the net loss for the year ended December 31, 2012, would have been approximately $17,000 lower/higher respectively, as a result of lower/higher interest rates from certain related party loans. Similarly, as at December 31, 2012, shareholders' equity would have been approximately $17,000 higher/lower as a result of a 1% decrease/increase in interest rates from certain related party loans.

6. Financial Risk Management (Continued)

Sensitivity analysis (continued)

(ii) The Company is exposed to foreign currency risk on fluctuations related to cash, accounts receivable and advances, long-term deposit, accounts payable and other liabilities and due to related parties that are denominated in GBP. As at December 31, 2012, had the GBP weakened/strengthened by 5% against the CAD with all other variables held constant, the Company's consolidated comprehensive loss for the year ended December 31, 2012 would have been approximately $72,000 higher/lower as a result of foreign exchange losses/gains on translation of non-CAD denominated financial instruments. Similarly, as at December 31, 2012, shareholders' equity would have been approximately $72,000 lower/higher had the GBP weakened/strengthened by 5% against the CAD as a result of foreign exchange losses/gains on translation of non-CAD denominated financial instruments.

(iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of gold. Gold prices have fluctuated widely in recent years. There is no assurance that, even as commercial quantities of gold may be produced in the future, a profitable market will exist for them. A decline in the market price of gold may also require the Company to reduce production of its mineral resources, which could have a material and adverse effect on the Company's value. Net income would be impacted by changes in average realized gold prices. Sensitivity to a plus or a minus 10% change in average realized gold prices would affect net loss and shareholders' equity by approximately $445,000.

7. Categories of Financial Instruments

As at December 31,	2012	2011
Financial assets:		
FVTPL		
Cash	**$ 1,164,868**	$ 4,240,081
Long-term deposit	**428,717**	371,277
Loans and receivables		
Accounts receivable and advances	**673,054**	1,056,573
Financial liabilities:		
Other financial liabilities		
Accounts payable and other liabilities	**1,670,729**	1,683,142
Due to related parties	**2,802,749**	2,517,067
Convertible debenture	**-**	1,979,603

As of December 31, 2012 and December 31, 2011, the fair value of all the Company's financial instruments approximates the carrying value, due to their short-term nature.

8. Cash Position

As at December 31,	2012	2011
Cash	**$ 1,164,868**	$ 4,240,081
Long-term deposit	**428,717**	371,277
Total cash position	**$ 1,593,585**	$ 4,611,358

(Expressed in Canadian Dollars)

9. Accounts Receivable and Advances

As at December 31,	2012	2011
Sales tax receivable - Canada	**$ 21,705**	$ 24,680
Valued added tax receivable - Northern Ireland	**147,987**	248,348
Accounts receivable	**258,504**	690,433
Prepaid expenses	**244,858**	93,112
	$ 673,054	$ 1,056,573

10. Inventory

As at December 31,	2012	2011
Concentrate inventory	**$ 10,246**	$ 32,159
Finished goods	**316,003**	314,857
	$ 326,249	$ 347,016

11. Property, Plant and Equipment

	December 31, 2012		
	Cost	Accumulated amortization	Net
Freehold land and buildings	$ 2,706,776	$ 1,240,146	**$ 1,466,630**
Plant and machinery	5,996,937	3,987,043	**2,009,894**
Motor vehicles	84,171	54,149	**30,022**
Office equipment	105,396	45,164	**60,232**
Moulds	58,844	58,844	**-**
	$ 8,952,124	$ 5,385,346	**$ 3,566,778**

	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**

(Expressed in Canadian Dollars)

12. Deferred Development and Exploration Costs

	December 31, 2012		
	Cost	**Accumulated amortization**	**Net**
Deferred development and exploration costs	$ 13,825,983	$ 5,966,538	**$ 7,859,445**

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

As at December 31, 2012, the Company has recorded an asset retirement obligation in the amount to $404,450 (GBP 250,000) (December 31, 2011 - $394,975 (GBP 250,000)). This is the amount of the bond that is required by the Crown in Northern Ireland. The Company has paid a deposit against this obligation.

13. Accounts Payable and Other Liabilities

As at December 31,	2012	2011
Falling due within the year		
Trade payables	**$ 1,670,729**	$ 1,683,142

14. Convertible Debenture

On March 10, 2011, the Company entered into a convertible unsecured loan agreement (the “Loan Agreement”) with Kenglo One Limited of Jersey, Channel Islands (“Kenglo”). The loan amount agreed to be advanced under the Loan Agreement is GBP 1,250,000 (the “Loan”).

The Loan carries interest of 2% per annum above the base rate of Barclays Bank. The Loan shall become repayable upon exercise by Kenglo of the previously issued warrants of the Company held by Kenglo (the “Warrants”), subject to the terms of the Warrants and the Loan Agreement. If the Warrants are not exercised by Kenglo by the applicable expiry dates of the Warrants (being June 8, 2012 and July 22, 2012, as applicable), the Company shall issue shares (“Loan Shares”) to Kenglo, in lieu of a cash repayment of the Loan, in accordance with the terms of the Loan Agreement. The number of Loan Shares to be issued upon the Loan conversion shall be determined in accordance with the terms of the Loan Agreement, subject to the minimum conversion price of $0.10 per share. The Loan Shares will be subject to a four month resale restriction period imposed under the policies of the Exchange and applicable securities legislation. There are no finder’s fees or any bonus (whether in the form of cash or securities) payable in connection with the Loan Agreement.

(Expressed in Canadian Dollars)

14. Convertible Debenture (Continued)

The Loan is classified as a liability, with the exception of the portion relating to the conversion features, resulting in the carrying value of the Loan being less than its face value. The fair value of the conversion option associated with the convertible note on the date of issuance was estimated at $169,347. The discount is being accreted over the term of the Loan Agreement, utilizing the effective interest rate method at a 10% discount rate. For the year ended December 31, 2012, accretion of the discount totalled $45,529 (year ended December 31, 2011 - $140,721).

Financing charges associated with the Loan were prorated between the debt and equity component of the Loan. Those allocated to the debt portion of the Loan were deferred and are being accreted over the term of the Loan Agreement. For the year ended December 31, 2012, $1,924 (year ended December 31, 2011 - $8,282 in deferred financing charges were accreted to operations.

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 15 (b)(i)). As a result of this extinguishment, a gain on debt extinguishment of $190,624 on the convertible debenture was recorded in the consoldiated statement of (loss) income and a loss on debt extinguishment of $8,800 on the equity portion of convertible debenture was recorded in equity.

	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	140,721	-
Accretion charges - financing charges	8,282	-
Interest expenses	39,936	-
Foreign exchange	19,590	-
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	36,645	-
(Gain) loss on debt extinguishment	(190,624)	8,800
Debt extinguishment	(1,879,152)	(176,882)
Balance, December 31, 2012	**$ -**	**$ -**

15. Share Capital and Reserves

a) Authorized share capital

At December 31, 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.

(Expressed in Canadian Dollars)

15. Share Capital and Reserves (Continued)

b) Common shares issued

At December 31, 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 and 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, December 31, 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 and December 31, 2011	**45,550,000**	**$ 0.10**
Exercised	(20,560,340)	0.10
Expired	(439,660)	0.10
Balance, December 31, 2012	**24,550,000**	**$ 0.10**

As at December 31, 2012, the following warrants were outstanding:

Expiry date	Number of warrants	Fair value ($)	Exercise price ($)
July 22, 2013 (note 15(b)(i))	24,550,000	957,450	0.10

(Expressed in Canadian Dollars)

15. Share Capital and Reserves (Continued)

(d) 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 Exchange immediately preceding the date on which the option is granted and in no circumstances may it be less than the permissible discounting in accordance with the Corporate Finance Policies of the Exchange.

The Company records a charge to the consolidated statement of comprehensive (loss) income using the Black-Scholes option pricing model. The valuation is dependent on a number of estimates, including the risk-free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture. The level of stock volatility is calculated with reference to the historic traded daily closing share price at the date of issue.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

The following table shows the continuity of stock options for the years ended December 31, 2012 and 2011:

	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, December 31, 2011	**15,750,000**	**0.12**
Cancelled	(1,000,000)	(0.19)
Expired	(4,800,000)	(0.14)
Balance, December 31, 2012	**9,950,000**	**$ 0.10**

Stock-based compensation includes $148,831 (year ended December 31, 2011 - $61,884) relating to stock options granted in previous years that vested during the year ended December 31, 2012 (year ended December 31, 2011).

(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 (loss) income and credited to equity settled share-based payments reserve as the options vest. During the year ended December 31, 2012, included in stock-based compensation is $2,283 (year ended December 31, 2011 - $9,322) related to the vested portion of these options.

(Expressed in Canadian Dollars)

15. Share Capital and Reserves (Continued)

(d) Stock options (continued)

(i) (continued) 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 (loss) income and credited to equity settled share-based payments reserve as the options vest. During the year ended December 31, 2012, included in stock-based compensation is $1,942 (year ended December 31, 2011 - $25,558) 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.

(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 (loss) income and credited to equity settled share-based payments reserve as the options vest. During the year ended December 31, 2012, included in stock-based compensation is $124,747 (year ended December 31, 2011 - $154,438) 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 December 31, 2012:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)	Number of options unvested
April 5, 2013	0.10	0.26	500,000	500,000	-
October 2, 2013	0.10	0.75	1,500,000	1,500,000	-
November 23, 2015	0.10	2.90	3,500,000	3,500,000	-
January 28, 2016	0.10	3.08	250,000	166,667	83,333
September 6, 2016	0.10	3.68	4,200,000	2,800,000	1,400,000
	0.10	2.78	9,950,000	8,466,667	1,483,333

(Expressed in Canadian Dollars)

16. Net (loss) Income per Common Share

The calculation of basic and diluted (loss) income per share for the years ended December 31, 2012 and 2011 was based on the loss attributable to common shareholders of $593,866 (year ended December 31, 2011 - income of $1,610,990) and the weighted average number of common shares outstanding of 247,246,030 (December 31, 2011 - 235,650,055) for basic (loss) income per share and 247,246,030 (December 31, 2011 - 235,650,055) for diluted (loss) income per share. Diluted (loss) income did not include the effect of warrants and options for the years ended December 31, 2012 and 2011, as they are anti-dilutive.

17. Cost of Sales

	Year Ended December 31, 2012	Year Ended December 31, 2011
Production wages	$ **1,009,074**	$ 1,478,482
Oil and fuel	**1,060,611**	1,410,799
Repairs and servicing	**467,926**	762,800
Equipment hire	**193,069**	522,528
Consumable	**202,797**	248,039
Royalties	**90,557**	197,400
Carriage	**44,236**	82,225
Other costs	**78,089**	93,565
Production costs	**3,146,359**	4,795,838
Inventory movement	**20,767**	64,589
Cost of sales	$ **3,167,126**	$ 4,860,427

18. Taxation

(a) Provision for income taxes

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

Year Ended December 31,	2012	2011
Income before income taxes	$ **(593,866)**	$ 1,610,990
Expected tax recovery at statutory rate of 26.5% (2011 - 28.25%)	**(157,400)**	455,000
Difference resulting from:		
Stock-based compensation	**39,400**	71,000
Foreign tax rate differential	**6,900**	52,000
Expiry of warrants	**1,300**	-
Utilization of previously unrecognized losses	**-**	(897,000)
Non-capital losses not recognized	**109,800**	319,000
	$ **-**	$ -

(Expressed in Canadian Dollars)

18. Taxation (Continued)

(b) Deferred tax balances

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities that have not been recognized for financial statement purposes are as follows:

	2012	2011
Deferred income tax assets (liabilities)		
Non-capital losses	**$ 4,653,882**	$ 4,025,900
Share issue costs	**2,500**	4,300
Property, plant and equipment and deferred development costs	**(1,018,199)**	(649,700)
Valuation allowance	**(3,638,183)**	(3,380,500)
	$ -	$ -

(c) Losses carried forward

As at December 31, 2012, the Company had non-capital losses carried forward of $15,110,239 (2011 - $14,164,491) for income tax purposes as follows:

Expires	2014	$ 426,803
	2015	568,540
	2026	1,064,484
	2027	598,595
	2029	373,962
	2030	440,512
	2031	599,070
Indefinite		11,038,273
		$ 15,110,239

The loss carry-forward amounts have not been recognized for accounting purposes.

19. 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	Year Ended December 31, 2012	2011
Interests on related party loans	(i)	**$ 41,029**	$ 59,745

(Expressed in Canadian Dollars)

19. Related Party Balances and Transactions (Continued)

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

(i) G&F Phelps Limited ("G&F Phelps"), a company controlled by a director of the Company, had amalgamated loans to Galantas of $1,660,756 (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 December 31, 2012, the amount of interest accrued is $86,023 (GBP 53,173) (December 31, 2011 - $43,085 - GBP 27,271).

(ii) During 2009, the Company signed an agreement for the rent of mining equipment with G&F Phelps, a company controlled by a director of the Company. In January 2011, Omagh, the operator of the Omagh mine acquired this mining equipment at a cost of GBP 192,500, exclusive of VAT.

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

	Year Ended December 31, 2012	Year Ended December 31, 2011
Salaries and benefits [1]	**$ 393,300**	$ 516,720
Stock-based compensation	**84,027**	206,250
	$ 477,327	$ 722,970

[1] Salaries and benefits include director fees. As at December 31, 2012, due to directors for fees amounted to $nil (December 31, 2011 - $nil) and due to directors and key management, mainly for salaries and benefits accrued amounted to $1,055,970 (GBP 652,720) (December 31, 2011 - $757,339 - GBP 479,277), and is included with due to related parties.

20. 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. Segemented information on a geographic basis is as follow:

December 31, 2012	United Kingdom	Canada	Total
Current assets	$ 1,258,821	$ 903,350	$ 2,162,171
Non-current assets	11,792,853	62,087	11,854,940
Revenues	$ 4,659,330	$ -	$ 4,659,330

21. 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 $538,972 (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 consolidated financial statements.