**GALANTAS GOLD CORPORATION**
MANAGEMENT DISCUSSION AND ANALYSIS
Three Months ending June 30, 2006-08-03

This document presents management's discussion and analysis (MD&A) of the financial and operational results of Galantas Gold Corporation (the company) for the 3 months ending June 30, 2006. This MD&A is to be read in conjunction with the unaudited financial statements for the same period. The MD&A does not form part of these financial statements. The company prepares and files its financial statements in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A is prepared in conformance with National Instrument 51-102 F1 and was approved by the company's audit committee on August 10th, 2006.

This MD&A is dated August 11th, 2006.

## FORWARD LOOKING STATEMENTS

The information in the MD&A contains forward looking statements, including statements regarding anticipated operational and financial performance. Such statements are not guarantees of the company's future performance which is subject to risks and uncertainties only some of which are within the company's control, and any or all of which could cause the company's performance to be materially different from what directors may believe. Given the uncertainties associated with forward looking statements, readers are cautioned not to place undue reliance on them. The company does not undertake to update any forward looking statement that is contained herein.

## OVERVIEW – STRATEGY, DESCRIPTION OF BUSINESS

Galantas Gold Corporation is a development stage mineral resource company and the first to acquire mining rights, prospecting licences and planning consent to mine gold in Ireland. Galantas Gold's wholly owned Ontario holding company, Cavanacaw Corporation, is sole owner of all the shares of two Northern Ireland companies – Omagh Minerals Limited, owner of the core business's prospecting and mining rights, planning consents and other physical assets including land and mining and processing equipment; and Galantas Irish Gold Limited, owner of rights to work, market and sell the company's gold production as certified Irish gold jewellery.

The company's strategy to increase shareholder value is to:

- Develop and operate an initial 150 tonnes per day open pit mine and processing plant on its Kearney deposit, achieving production in 2006,
- Explore and develop on extensions to the Kearney deposit and on nearby known deposits so as to expand production in stages,
- Explore its 189 square kilometre prospecting licence, focusing on the more than 50 targets identified from integration of the company's geological, geochemical and geophysical data, and

- Establish on a commercial basis the Galantas Irish gold jewellery business once certified Irish gold from the mine becomes available.

**Omagh Minerals Limited** continues with the construction of an initial open pit mine on proven reserves on its Omagh property and is exploring with the aim of developing and mining known gold resources in veins close to the initial mine. In parallel, it is exploring identified targets elsewhere on its 189 square kilometre prospecting licence, all with the object of increasing the reserve and resource base with a view to future expansion.

**Reserves and Resources**

Ore reserves and mineral resources are contained within eight veins or lodes in a 5 square kilometre area at the eastern extremity of the company's prospecting licence which encompasses a 20 by 6 kilometre fault-bounded inlier of Precambrian "Dalradian" rocks. The deposits sub-outcrop beneath a few metres of glacial and recent overburden and are open to depth and are mostly open along the strike. The Kearney deposit is the focus of initial open pit mining. This steeply dipping deposit is some 850 metres long and an average of 4.3 metres wide. It has been drilled with 40 diamond drill holes to a depth of 137 metres and was intersected in one hole at a depth of 300 metres. Below the average 3 metres of overburden, a 359 metres long section at the southern end of the deposit had been 88 % exposed and sampled in detail at surface in the late 1980's by Rio Tinto (212 metres) and in 1991 by Omagh Minerals Limited (103 metres). Independent consultants have used the results of this sampling together with drilling information to calculate reserves and resources. It is noted that these calculations have not been updated to include trench or drill results acquired in 2006.

Using a 1.0 gramme gold per tonne cut-off grade, A.C.A.Howe International, ("Howe") reported, *[1] "…a proven and probable reserve of 367,310 tonnes grading 7.52 gAu/t over a width of 4.43 metres was estimated for the main Kearney Deposit within the 850 metres strike length of the proposed Kilborn open pit to a depth of 37 metres. A further indicated reserve of 1,183,680 tonnes grading 7.02 gAu/t over a width of 4.43 metres was estimated from the base of the proposed open pit to a depth of 137 metres".

Howe re-assessed grade and tonnage and concluded that *[1], "increasing the cut-off grade from 1 gAu/t to 3 gAu/t, the minable grade of the Kearney resource increases by 56% to 12.4 gAu/t and the contained gold declines only about 10%. The total tonnage is also reduced by 42%. This relatively minor reduction (in contained gold) illustrates that gold distribution is tightly constrained to the lode structures and is thereby amenable to selective mining techniques, an approach which will optimise grade and minimise dilution…."

Howe re-analysed the data for the 359 metres of strike length that had been sampled in most detail. They concluded that*[1], "Using a 3 gAu/t cut-off grade and a density of 2.93, the measured resource to 20 metres over a strike length of 441 metres is 56,414 tonnes at a grade of 11.03 gAu/t and the indicated resource to 37 metres over the same strike length is 58,363 tonnes at 11.03 gAu/t."

*[1] (references – see www.SEDAR.com – 1. Geological Report on the Omagh Gold Deposits, April 15, 2003; 2. Letter to Galantas Directors dated August 20, 2004),

A mining trial in the southern end of the Kearney Deposit showed that four selectively mined samples aggregating 101.4 tonnes contained an average of 53.41 grammes gold per tonne. The difference between the gold content of these large samples and the grade estimates for the Kearney Deposit is attributed to a) extraordinary selectivity used in the mining trial, b) dilution inbuilt into the original sampling, c) naturally inhomogeneous gold distribution, and d) gold loss during original sampling, The sustainable mining grade will be established through sampling prior to plant commissioning and in the early life of the open pit. Mineralisation is tightly constrained in the irregular sulphide veins and lodes that make up the Kearney and other deposits, making them amenable to selective mining. The processing plant has been designed to accept ore grading 20 grammes gold per tonne.

**Exploration Targets**

The "Technical Report" dated March 29, 2006, authored by Phelps, Lavigne, Higgins and Gunter, and filed on www.SEDAR.com contains an appendix prepared by Howe (Messrs Langlands and Bennett) entitled, "Technical Report of the Gold Mining and Exploration Interests of the Omagh Gold Project of Galantas Gold Corporation in Counties Tyrone and Fermanagh, Northern Ireland". This lists and describes in Appendices 1. and 2., 53 targets selected from integration of geological, geochemical and geophysical data over the approximate 20 kilometre length and 6 kilometre breadth of the Dalradian inlier. The targets were grouped on a priority of 1 to 10. Scores were assigned reflecting technical merit and their likelihood of containing additional resources. Eight gold rich veins of the Kearney Vein Swarm were classified as very high priority resource augmentation targets with scores of 9 and 10. These exhibit high grade channel sample and/or drill intercepts and have calculated resources (1995 and 2004) and/or reserves (1995). Eight other veins not yet drilled, or drilled with lower grades, have target scores of 5 to 8. The remaining 37 targets comprise one scoring 6, 6 scoring 5, 4 scoring 4, 11 scoring 2, and 7 scoring 1.

Howe considered targets scoring 3 to 8 to constitute excellent opportunities for discoveries on or near known veins in the Kearney Vein Swarm and elsewhere in the greater part of the prospecting licence. Howe also considered it likely that aggressive exploration will add to the reserves and resources and that it is possible that structures similar to the Kearney lie undiscovered. Further, Howe considered that the relatively high gold grades and widths and continuity of the deposits hosting known reserves and resources indicate that there is potential for underground production in the future.

**Initial Mining Project**

The project embraces an open pit mine capable of supplying approximately 50,000 tonnes of ore per year, and a crushing-grinding-froth flotation plant with a capacity of 150 tonnes per day. The plant is designed to produce a gold and silver rich sulphide flotation concentrate for sale to a commercial smelter/refiner, two of which have made offers. Based on tests carried out by Lakefield Research in 1992 on samples selected by

Kilborn Inc, the flotation concentrate is expected to be of the composition shown in the table below. (Reference; Howe, 2003 – Ewert and Armstrong, "Geological Report on the Omagh Gold Deposits and Exploration Potential of the Lack Gold Licence, County Tyrone, Northern Ireland".)

| Element/Compound | Analysis | Element/Compound | Analysis |
|---|---|---|---|
| Ag | 424 g/mt | Au | 144 g/mt |
| Pb | 21.8 % | Cu | 0.89 % |
| Ni | 0.04 % | As | 4.59 % |
| Sb | 0.12 % | Zn | 0.05 % |
| MgO | 0.18 % | Al2O3 | 1.02 % |
| CaO | 0.21 % | SiO2 | 9.35 % |
| Fe | 29.4 % | S | 32.8 % |
| Na2O | 0.03 % | Co2 | 0.41 % |
| Cr | 0.05 % | Insoluble | 10.8 % |
| K2O | 0.27 % | | |

The plant also has a gravity section to recover the small amount of native gold – possibly in the order of 4 % - to be certified as Irish gold and used as feedstock for *Galantas®* jewellery. Site infrastructure includes, in addition to access and haul roads and office buildings and shops, a diesel powered electrical generating station, a modified paste tailings storage facility, water containment dam and reticulation and discharge system including a channel diverting run-off water away from site working places. This is described in "Technical Report(s)" filed on www.SEDAR.com on March 29th, 2006.

## Galantas Irish Gold Limited

Galantas Irish Gold has carried out market trials wherein jewellery to the value of $659,892 has been sold through retailers in Ireland, and direct via the company's commerce enabled website www.galantas.com. ($468,438 of these sales have been made since the company entered development stage on January 1, 2003). Manufacturing and distribution systems and an initial retailer network in Ireland are in place and the business awaits production of Irish gold in 2006 to enable regular commercial activity.

## Management and Staff

Executive officers appointed in the middle of 2005 continued unchanged:

L.J. (Jack) Gunter – Executive Chairman
Roland Phelps – President and Chief Executive Officer
M.J. (Moe) Lavigne – Vice President
George Duguay – Secretary

Working under Mr. Lavigne on the Omagh site are; Karl Martin, since April 2006 construction and mining manager; Andrew Warburton , engaged in June 2006 as Mill

Superintendent; and June Kaczmarek as financial administrator. Excluding contractors engaged on plant assembly and site preparation, 8 people were employed on the site as equipment operators and 4 mechanics in plant assembly.

Subsequent to the end of the period, a search has got underway for a geologist, the previous contract geologist having left to take up a post elsewhere.

**Key Performance Driver**

Given that the company is in the midst of developing a mine, there is one key performance driver – the achievement of production and cash flow from the gold deposits at Omagh. The development schedule calls for initial production in 2006 and the plan is that this will be achieved in early autumn.

## OVERALL PERFORMANCE

### Mine Construction

A progress report announced on June 26th that the mill building was completed and concrete floors and equipment foundations were installed and ball mill and flotation cells put in place. Crusher steelwork and tailings thickener have been constructed and conveyors and ore bins remain in final stages of fabrication.

On the site, the first paste tailings cell has been excavated ready for lining and the second and third cells have been partly excavated. The 850 metres long drainage channel around the perimeter of the tailings area to direct surface run-off away from working areas was completed and is operational. Access and haul roads have been built and rock, till and peat storage areas created. Difficulties were encountered in excavating thicker and more widespread peat than had been anticipated as a result of insufficiently detailed overburden testing. The excavation of this material had been delayed awaiting Department of Environment's archaeological section's approval of the company's excavation programme and the appointment to the site of an approved archaeologist. Notwithstanding additional resources applied to making up the lost time, it was not possible to claw back all of the delay and commissioning has been forecast for late summer as announced on June 26th.

Subsequent to the end of the period, the re-circulation or polishing pond is under excavation in preparation for lining. The diesel powered electrical generating station is in final stages of assembly in preparation for shipment to site for installation in August.

The Kearney vein has been exposed for approximately 390 metres of its length and wall rocks stripped back only enough to enable initial mining to take place.

### Exploration

Diamond Drilling

A diamond drilling programme got underway early in the period to confirm certain earlier shallow low core recovery drill holes on the Kearney deposit, to test potentially ore grade intersections in a neighbouring vein, to carry out a limited amount of sterilisation drilling related to future facilities, and to drill one geophysical anomaly.

Subsequent to the end of the period, assay results were received for 2 of the drill holes, both in the Kearney Deposit. Hole OM-DD-06-02 intersected 11.62 grammes gold per tonne over 3.16 metres including 23.14 grammes gold per tonne over 0.74 metres. Hole OM-DD-06-03 intercepted 9.64 grammes gold per tonne over 5.66 metres including 12.52 grammes per tonne gold over 3.17 metres. These weighted average calculations were made at a 3.0 grammes gold per tonne cut-off grade and where required have been diluted to a minimum mining width of 0.35 metres. A third drill hole, OM-DD-06-01, was located a kilometre away from the Kearney Vein to test a geophysical target. The hole cored highly sheared basic rock devoid of sulphide mineralisation. No samples were taken and no further work on the weak anomaly is planned at this time. (Reference: Press Release dated 11th July, 2006 – "Galantas Reports High Grade Gold at Omagh Open Pit Gold Mine").

Trenching and Channel Sampling

A 30 metre extension of the southern end of the Kearney Vein was stripped of overburden and sampled from saw-cut channels at 1 metre intervals, using protocols similar to those used by Rio Tinto in 1988-89. A total of 124 samples was taken from 23 channels at approximate one metre intervals and oriented perpendicular to the vein. Thirty nine of the samples contained gold grades in excess of the 3.0 grammes gold per tonne cut-off grade. These had an average grade of 22.2 grammes gold per tonne over an average width of 0.36 metres. Assays varied from 3.34 grammes gold per tonne over 0.5 metres up to 106.24 grammes gold per tonne over 0.28 metres. (Reference: Press Release dated April 5th, 2006 – "Rich Extension [22.2 grammes gold /tonne] to Kearney Vein")

Subsequent to the end of the period, assays from an additional channel lying between this area and the southernmost Rio Tinto channel were received and reported on July 11th. A 1.63 metres wide mineralised zone contained 43.94 grammes gold per tonne. (Reference: Press Release dated 11th July as above.)

Subsequent to the end of the period, re-sampling of approximately 150 metres of the southern portion of the Kearney deposit was carried out and the work is continuing to detail the entire initial mining area of approximately 400 metres. The re-sampling is to obtain an assay data base in keeping with the selective mining that will be practised. Previous sampling resulted in an average sample width of approximately 1.2 metres which introduced an unwarranted high degree of dilution into the data base, given that the average width of the veins is believed to be less than one half of a metre and that the minimum mining width is planned at 0.35 of a metre.

**Land Acquisition**

An opportunity to purchase outright a strategically located parcel of land adjoining the company's 167 acres of freehold and underlain by two known gold veins earlier scout drilled by Rio Tinto was taken up and announced on May 25th. The purchase price was £378,510 gross ($793,744) for the 15.12 acre parcel which increases the company's freehold land to approximately 182 acres.

**Financing Activities**

In mid-2005, the company initiated the project development phase which required purchasing mining and metallurgical equipment and buildings. This development phase which is ongoing was financed in the following manner:

- Sale of equity as completed March, April and May of 2005, providing cash net of fees of $3,279,283.
- Equipment lease financing from Barclay's Asset Finance, $470,000 in April, 2005 and $359,252 in March, 2006,
- Exercising of warrants in March and April 2006, providing $2 627,500

In addition in 2005, sales of Jewellery provided cash of $52,800, plus $14,892 in the first half of 2006.

Additional funds of $3.5 million, $3,240,000 after payment of financing fees, raised by way of private placement (see Subsequent Event below) provided funding ($793,744) to finance the land purchase noted and will enable an accelerated exploration programme and provide for additional working capital required to fund construction which, as was announced in June, would be extended to late summer beyond the earlier estimate of late spring.

Cash on hand was $1,087,243 at January 1, 2006 and compared with a working capital deficit of $115,635 at year-end, 2004.

Galantas Irish Gold Limited remained dormant pending receipt of a new supply of certified Irish gold jewellery which depends on receipt of new supplies of certified Irish gold from the mine. Occasional sales continue to be made from the limited inventory of products remaining. In the quarter, such sales totalled $11,047, as compared with $3.845 in the preceding quarter.

Subsequent Event

On July 28th, the company announced the closing of a private placement for gross proceeds of $3,500,000. Pursuant to the terms of the offering, Galantas issued 14,000,000 Units at the price of $0.25 per Unit, including 2,000,000 Units for subscribers specifically identified by Galantas, (the "President's List"). Each Unit consisted of one common share of Galantas and one common share purchase warrant. 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. The shares carry a 4 month minimum hold period. An application will be made to admit any new shares issued under the placing to trading on AIM on the same day that they become eligible for trading on the TSX Venture Exchange.

Union Securities Ltd, acting as agent, was paid a cash fee of $260,000 representing 8% commission based on units sold under the offering and 4% in cash for units sold pursuant to the President's List. In addition, Galantas issued to the agent 1,300,000 compensation options equal to 10% of all Units sold 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 Galantas at $0.25 per unit at any time prior to July 26, 2008 at the price of $0.25 per unit.

Use of Funds: The funds will be used to offset the purchase of the land ($793,744), fund ongoing 2006 phase of exploration, mainly diamond drilling ($400,000 / 2006) prior to project cash flow, and provide additional working capital ($2,046,256), which may include additional land purchase and manufacture of jewellery inventory.

Commitments

Two "Leaseback" loans extended by Barclays Asset Finance have time limited repayment provisions in British Pounds Sterling as tabled below. At current exchange rates , the aggregate monthly payment until April, 2009, is approximately $22,363 and thereafter until June, 2010, approximately $10,650. In both cases, the assets can be purchased at the end of the terms for nominal consideration.

| Loan | Date | Repayment Terms |
|---|---|---|
| £470,000<br>Mining Fleet | May 19, 2005 | 48 monthly payments of £5,071<br>from 18 June, 2005 to 18 June, 2010 |
| £359,252<br>Mill Equipment | Mar. 17, 2006 | 36 monthly payments of £5,578<br>from 15 Apr., 2006, to 15 Apr. 2009 |

## LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2006, the company had working capital of $211,762 as compared with $775,946 at the end of the first quarter of 2006. Cash at the end of the period was $321,659, down $765,584 from the $1,087,243 cash at the end of the previous quarter. During the quarter, $1,757,583 was raised through the exercising of warrants. This cash infusion was more than offset by the purchase of property, plant and equipment, deferred development costs and operational losses resulting in the decline in working capital.

Subsequent to the end of the period, in early August, cash and working capital increased by $3,240,000 upon completion of the brokered private placement. Funds are now considered adequate to get the initial mine and plant operational in 2006 and to continue with an exploration drilling programme.

As at June 30th, the company had total assets of $11,479,591. This was an increase of 2,124,183 over assets at year-end 2005. The main net additions to assets were from deferred development costs ($1,304,665), freehold land and buildings ($1,229,487) and plant, machinery and 'other' valued at $294,082, both , both items net of accumulated amortisation.

The company considers that, with the recent financing, it has sufficient funds to meet its planned expenditure requirements as noted in the paragraph "Use of Funds" above.

The company has no hedging, sales forward or financial instruments in place beyond usual cash management measures such as short term bank deposits. The company has no off balance sheet arrangements.

## RESULTS OF OPERATIONS

The company's core business is gold mining. Its only source of revenue is from sales of gold jewellery which have been possible with test market products made from gold from earlier mined "bulk samples" from the Kearney deposit. Sales have dwindled over the past several quarters and amounted to $11,047 in the quarter ending June 30th. This compares with $3,845 in the previous quarter. Low sales are from inventory, now largely depleted, of both certified Irish gold and finished products. This situation will continue until supplies of certified Irish gold become available with the start of mine production later this year followed by accumulation of certified Irish gold, and manufacture of new inventory.

## SUMMARY OF QUARTERLY RESULTS

Revenues and net financial results in Canadian dollars for the second quarter of 2006 and for the seven preceding quarters are summarised:

| Quarter ended | Total Revenue | Net Profit/(loss) | Net Profit/(loss) per share (diluted) |
|---|---|---|---|
| June 30, 2006 | 11,047 | (420,215) | 0.00 |
| March 31, 2006 | 3,845 | (524,704) | 0.00 |
| December 31, 2005 | 8,771 | 498,346 | 0.01 |
| September 30, 2005 | 7,909 | 134,265 | 0.00 |
| June 30, 2005 | 16,623 | (519,016) | (0.01) |
| March 31, 2005 | 20,497 | (152,027) | 0.00 |
| December 31, 2004 | 42,733 | (289,160) | 0.00 |
| September 30,2004 | 20,561 | (364,150) | 0.00 |

The higher sales for the second quarter compared with the first quarter (2006) does not necessarily represent a trend. It denotes sporadic sales from a depleted inventory. This has been the case since the middle of 2005.

## CUMULATIVE RESULTS OF OPERATIONS AND DEFICIT

Since January 1, 2003, the company has had sales of $468,438 resulting in a negative gross margin of $50,770. All the sales were made as part of marketing trials of *Galantas®* jewellery products. Expenses in the same period have amounted to $3,565,175. An overall loss of $3,615,945 reduced to a loss of $2,846,145 after income tax recovery of $769,800. Deficit increased to $11,743,956 at the end of the period, up $2,846,145 from $8,897,811 at the beginning of the period, an increase of $2,846,145 from $8,897,811 at the beginning of the developmental period.

**EXPENSES**

Expenses were $417,785 in the second quarter, as compared with $515,968 in the corresponding period in 2005. This compares with the first quarter 2006, which was $536,126. Specific items are highlighted as follows:

- Foreign exchange losses at $13,035 were down from $33,675 a year ago. This compares with $9,155 in the 1st quarter. This is due to fluctuations in currency rates.
- Legal and audit fees were $123,176 as compared with $36,384 a year ago and $57,258 in the previous quarter, the increase reflecting accruals of expenses related to the AIM listing and increased audit fees in preparation of 2005 accounts
- Management fees were nil as opposed to $25,000 in 2005 (nil 1st quarter 2006) reflecting consulting payments, now expired, with the former president,
- Operating expense at $26,407 compared with $157,914 a year ago and $24,642 in the 1st quarter 2006, prior to the company reporting as a development stage company
- Shareholder communications and public relations cost $172,261 in the quarter as compared with nil in the corresponding period in 2005 and $275,812 in the first quarter 2006, this reflecting residual expenditures with the AIM listing,
- Transfer Agent fees were $11,419 in the quarter, up from $7,496 in the corresponding quarter in 2005 and $5,535 in the first quarter 2006. This reflected shares issued consequent on exercise of warrants in April.
- Travel and general office expenses were a negative cost of $6,325 in the second quarter, compared with a cost of $10,396 a year ago and $37,673 in the first quarter. This reflected an adjustment consequent on certain travel and office expenses being re-allocated to development costs.
- The non-cash item of stock-based compensation added $51,666 to expenses in the quarter, as compared with $214,200 for the same period in 2005 and compared with $112,000 in the first quarter 2006, when the granting of the bulk of employee incentive options was accounted for.

**CAPITAL EXPENDITURE**

Property, plant and equipment were purchased for $1,133,957 in the quarter, as compared with $545,932 in the prior quarter and nothing in the corresponding quarter of 2005. These expenditures were for the mine and processing plant at Omagh.

Deferred development costs capitalised amounted to $5,619,033 on June 30th, up from $4,314,368 at the end of December, 2005. The capital additions were all related to construction of the mine at Omagh and the notable items included wages at $174,385 in the quarter which was up from $190,145 in the previous quarter reflecting intensifying development on the site; construction at $194,510 compared with $51,791 in the previous quarter, all due to work related to construction of the processing plant, tailings facilities and mining preparation. Other items including consultants at $53,809, fuel at $53,147, travelling at $41,699 and repairs & maintenance at $25,750 and general expenses of $22,003 were on aggregate on budget and all related to development of the project.

**SHARE CAPITAL**

The company is authorised to issue in series an unlimited number of common and preference shares. At the end of June, 2006, 143,851,855 shares had been issued. The number issued compared with 132,134,635 issued at the end of March, 2006. The increase was accounted for by shares issued on exercise of all of the warrants attached to the issue of shares 12 months prior in 2005. As at June 30, no warrants remain to be exercised.

Refer to Subsequent Event described under Financing Activities, Page 7, in the foregoing for a disclosure of new shares to be issued under the terms of a private placing in August, 2006.

**RELATED PARTY TRANSACTIONS**

The company was charged $24,926 (2005 - $19,630) for the business purpose of the provision of accounting and corporate secretarial services by companies associated to an officer of the company. Accounts payable includes $12,494 (2005 - $1,738) owing to these companies. The provision of the services continue on a month to month basis.

The Chairman, Chief Executive Office and Vice President have each been compensated $20,240 during the quarter for their services as executives, compensation having been capitalised to deferred development costs and governed by contract.

There were no other related party transactions.

**STOCK BASED COMPENSATION**

The company has 7,500,000 options outstanding to directors, employees, certain consultants and contractors at exercise prices ranging from 10 cents per share up to 26 cents per share. Details of the options outstanding as at June 30th, 2006, are:

| Exercisable Options | Number of Options | Exercise Price ($) | Expiry Date |
|---|---|---|---|
| 1,500,000 | 1,500,000 | 0.12 | May 17, 2007 |
| 2,800,000 | 2,800,000 | 0.15 | April 10, 2008 |

| | | | |
|---|---|---|---|
| 2,000,000 | 2,000,000 | 0.10 | April 1, 2009 |
| 133,334 | 200,000 | 0.10 | May 13,2010 |
| 333,334 | 1,000,000 | 0.26 | June 14, 2011 |

During the period, 1,000,000 stock options were granted to employees of the company to purchase common shares until June 14, 2011. On February 13, 2006, 1,000,000 stock options at an exercise price of $0.15 expired and 400,000 options at an exercise price of $0.15 expiring April 10, 2008, were cancelled.

**TRENDS AFFECTING THE COMPANY'S BUSINESS**

Most metal prices continued strong after the long period of metal price weakness which came to an end starting approximately 2 years ago. The sustained price recovery is thought largely a result of increasing metal consumption in countries of the Far East, most notably China and India, both of which are experiencing rapid growth in manufacturing and exports. Thus, the fundamentals of the metals business are once again favourable for capitalising new mines and investors have returned to the mineral sector, particularly to the large public resource companies.

For junior resource companies like Galantas, there has been selective, perhaps halting, enhancement in market valuation and it has been possible to raise exploration and development money from the public for mining and exploration ventures. However, markets are always uncertain and careful management of the company's cash continues to be the guiding principle for Galantas.

In Northern Ireland, the peace has held for several years and the climate for investment remains positive.

**RISKS AND UNCERTAINTIES**

Galantas operates in a sector – early stage mine development and exploration – which carries inherent risks only some of which are within the abilities of management to reduce or remove. The main sector risk is always metal price. The company's other business, high value Irish Gold jewellery, is dependent upon a mine being developed to provide a reliable supply of certified Irish gold.

The company has made a conscious effort to assess the risks surrounding its businesses. It has concluded that most if not all of the risks are standard to the industry and none of them so profound as to inhibit pursuit of the company's strategy as outlined. The main risks identified and considered are:

1. <u>Ore Reserves</u> The general risk is that tonnage and grade of ore may be lower than anticipated. The persistence of the Kearney deposit along strike and to depth has been proven within the confines of the initial open pit and indicated well beyond. Nevertheless, the ore is variable in detail and it may prove difficult to constantly mine so as to maintain mill head at consistent grade.

2. Mineral Processing The risk is that the plant may not perform to design. Ore from the Kearney deposit has been subjected to metallurgical trials including some pilot plant studies in reputable laboratories by the company and the previous owner, Rio Tinto, did mineralogical and bench scale metallurgical studies. The flow sheet is simple and the equipment in the plant is industry standard. Nevertheless, risks remain that scale-up to commercial production will introduce unforeseen technical problems.
3. Environmental The project was subject to one of Ireland's lengthiest public enquiries whereat its design and operating fundamentals were challenged and defended to the satisfaction of the independent assessors and industry experts representing regulators and the company. In operation, the facilities will be subject to self monitoring and strict independent monitoring. One of management's priorities is to establish and maintain from the outset a culture of environmental care on the site with the object of preventing accidents. Such, however, cannot be ruled out.
4. Permitting The company has comprehensive permission to carry out its activities. Overall consents were granted in 2000 after an exhaustive public inquiry and fulfilment of more than 30 pre-conditions which attached to the provisional consent granted in 1995. Remaining consents required – building regulations, archaeological supervision of excavation which is mandatory throughout Ireland, compliance with IPPC regulations – relate to operating procedures and are being addressed with the relevant authorities as the project develops. Nevertheless, as in all jurisdictions, regulatory provisions are subject to change and there is risk that the company may be faced with additional constraints in future.
5. Title The company owns the land in secure freehold on which the project is located. Precious metals licences and mining leases are owned by the Crown Estate and have been granted to the company and renewed as required since the mid-1990's when they were initially granted. Both licences and leases are subject in the usual way to minimum performance requirements which are set at a level so as not to inhibit development. There is a dialogue ongoing with the Northern Ireland Department of Enterprise Trade and Industry (DETI) concerning a licence to extract base metals which occur with the gold and silver in the quartz-sulphide veins and which may be recovered as a by-product of gold and silver. The licence if applicable may require a fee paid to owners of surface rights. In the case of the company's planned mine, since the owner is the company itself , it is thought unlikely that there will be a material impact on the company.
6. Political Northern Ireland has achieved a stable political status conducive to business as is evidenced by the relatively large amounts of inward investment that the province has enjoyed over the past decade. The mine is well removed from areas of potential urban disturbance.
7. Financial The risk is that additional funds, if required, may not be available. With the recent private placement, the company believes that it has sufficient capital to enable the Kearney mine to be brought to initial production this year as well as pursue the exploration programme already underway.

8. Revenue The company has received initial terms for the sale of its concentrate from two smelter/refiners. There is risk that final terms to be agreed may turn out less favourable than forecast. This could be due to a number of factors including failure of the concentrate when produced to be within the specification contracted as regards both value elements and penalty elements and failure to produce concentrate of consistent quantity, However, close contact with the smelters is maintained and management considers revenue risk to be manageable.
9. Currency Fluctuations/Bullion Price Most of the costs to the company are incurred in British pounds Sterling. Gold price expressed in Sterling is close to or at 5 year highs and may stay such or remain on a rising trend. There is risk that this trend may reverse and reduce Sterling income. Inflation is widely viewed as a threat in the United Kingdom and elsewhere and this is cause for some concern. Results are published in Canadian dollars and there is therefore a currency risk. It is the company policy not to sell forward its bullion.
10. Construction and Development The general risk is that the project will take longer to build than forecast with increased cost and deferment of future revenue. This risk is particularly acute for a new and relatively small project such as Galantas is building in Northern Ireland where there is no mining history. One is mindful that there has already been a slippage of schedule and it cannot be ruled out that further slippage may occur given that there are uncertainties connected with factors such as environmental compliance, geological conditions, contractor performance, materials availability and actual outturn costs.
11. Personnel Notwithstanding the relatively small scale of the Kearney mine, a certain level of expertise is required in the mine, processing plant and ancillary activities including geology and accounting. With the world experiencing a high level of minerals industry activity, the company foresees difficulties in recruiting additional qualified people. This situation may well prevail for some time to come and the risk is that costs, operations, future expansion and indeed excellence may be impacted negatively.