



GALANTAS GOLD CORPORATION

Management's Discussion and Analysis

Year Ended December 31, 2011

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MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2011

This document constitutes management's discussion and analysis (MD&A) of the financial and operational results of Galantas Gold Corporation (the Company) for the year ended December 31, 2011. This MD&A supplements, but does not form part of the consolidated financial statements of the Company, and should be read in conjunction with the audited consolidated annual financial statements and related notes for the year ended December 31, 2011. The currency referred to in this document is the Canadian dollar. The MD&A is prepared in conformance with National Instrument 51-102F1 and was approved by the Company's Audit Committee on April 12, 2012.

As of January 1, 2010, Galantas adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The audited consolidated annual financial statements for the year ended December 31, 2011, have been prepared in accordance with IFRS. Readers of this MD&A should refer to Section 1.13 Changes in Accounting Policies including Initial Adoption and to Section 1.13 Transition to IFRS – Impact on Financial Statements included in this MD&A for a discussion of IFRS and its effect on the Company's financial presentation.

FORWARD LOOKING STATEMENTS

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

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

development activities; operating and exploration costs; the Company's ability to retain and attract skilled staff; timing of the receipt of regulatory and governmental approvals for exploration projects and other operations; market competition; and general business and economic conditions.

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

OVERVIEW - STRATEGY - DESCRIPTION OF BUSINESS

Company Overview

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

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

- Increase the production of the mine and processing plant on its Kearney and Kerr deposits;
- Continue to explore and develop extensions to the Kearney, Kerr, Joshua and nearby known deposits so as to expand minable reserves and increase gold production in stages through the development of an underground mine;
- Explore its 2 prospecting licences which aggregate 435 square kilometres, focusing on more than 50 gold targets identified to date;
- Explore the additional 4 licences granted in the Republic of Ireland subsequent to year end

Reserves and Resources

During 2008, ACA Howe International Ltd prepared an estimate of mineral resources for the Omagh mine. The report, entitled Technical Report on the Omagh Gold Project is dated 28th May 2008 and is published on www.sedar.com and www.galantas.com. Authors are G. White FGS MAusIMM, J. Bennett C.Eng MIMMM and N. Holloway C.Eng MIMMM. Subsequent to year end ACA Howe were engaged to update the mineral resource estimate which they expect to complete in the second quarter of 2012.

Mining Project

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

Galantas Irish Gold Limited

Market conditions in the jewellery trade remain poor. Galantas jewellery sales continue to remain very low. As a consequence, management focus has been entirely on the mine operation and during 2011 Galantas announced that it will review joint venture opportunities related to its gold jewellery business.

Management and Staff

Overall management is exercised by one Executive Director along with a General Manager who is in charge of operations in Omagh where the mine, plant and administration currently employs 48 personnel.

Key Performance Driver

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

Overview of 2011

The audited consolidated annual Financial statements for the year ended December 31, 2011 together with the comparative Financial statements for the year ended December 31, 2010 are being reported under International Reporting Financial Standards ("IFRS") which has replaced Canadian GAAP effective January 1, 2010 for all publicly accountable enterprises in Canada.

Production at the Omagh mine during year ended December 31, 2011 was above production levels achieved during 2010 as set out in Section 1.4 - Results of Operations.

Galantas Gold Corporation had a net income of \$ 1,610,990 for the year ended December 31, 2011 compared with a net income of \$ 750,200 for the year ended December 31, 2010. When the net income is adjusted for non cash items before changes in non-cash working capital the cash generated from operating activities amounted to \$ 2,885,412 for the year December 31, 2011 compared to \$ 1,956,547 for the year ended December 31, 2010 as per the Consolidated Statement of Cash Flows. The cash generated from operating activities after changes in non-cash working capital amounted to \$ 3,339,617 for 2011 compared to \$ 1,183,905 for 2010. The improved financial performance in 2011 is primarily as a result of increased sales revenues arising from the higher gold prices that pertained in 2011 and increased production.

The Company had cash balances at December 31, 2011 of \$ 4,240,481 compared to \$ 2,661,798 at December 31, 2010. The working capital deficit at December 31, 2011 amounted to \$ 536,142 which compared with a deficit of \$ 292,336 at December 31, 2010.

During the first quarter of 2011 Galantas arranged a \$ 1,979,603 (£ 1,250,000) convertible unsecured loan agreement from Kenglo One Limited. This convertible loan carries interest of 2% per annum above the base rate of Barclays Bank plc. The Loan will be repaid in 2012 upon exercise by Kenglo of the previously issued warrants of the Company held by Kenglo, subject to the terms of the warrants and the loan agreement. This loan followed on from a private placement with Kenglo in 2010 which raised \$ 2,277,500.

Following the availability of additional working capital both from the aforementioned funding and cash generated from operations the Omagh mine embarked on an investment program designed to upgrade and refurbish the processing plant in early 2011. The main objective of the refurbishment, which was completed in stages was to increase capacity in the mill.

In addition a diamond drilling program up to 15,000 metres commenced utilising four rigs with a fifth rig being added at the end of 2011. This combined drilling and channel sampling program is seeking to expand the resources on veins close to the existing operating gold mine and has been concentrated mainly on the Joshua and Kearney veins. The program on the Joshua vein is seeking to extend the depth and northern extent of the Joshua vein. The drilling program will provide data for a potential underground operation based

upon both of the Joshua and Kearney veins. The Kerr vein is also permitted for open pit mining, in advance of incorporation into the tailings storage system and is being worked. Assay results released to date from both the drilling and channel sampling programme have been encouraging with significant gold intersections being identified.

1.1 DATE OF THE MD&A

The MD&A was prepared on April 12, 2012.

1.2 REVIEW OF FINANCIAL RESULTS

Year Ended December 31, 2011

The net income for the year ended December 31, 2011 amounted to \$ 1,610,990 compared to a net income of \$ 750,200 for the year ended December 31, 2010 as summarized below.

	Year ended December 31, 2011	Year ended December 31, 2010
Revenues	\$ 9,492,157	\$ 6,831,410
Production costs	\$ 4,795,838	\$ 3,998,696
Inventory movement	\$ 64,589	\$ 34,061
Cost of sales	\$ 4,860,427	\$ 4,032,757
Income before the undernoted	\$ 4,631,730	\$ 2,798,653
Amortization and depreciation	\$ 837,068	\$ 762,422
(Gain) loss on sale of asset	\$ (485)	\$ 6,123
General administrative expenses	\$ 2,264,226	\$ 1,177,927
Foreign exchange (gain) loss	\$ (80,069)	\$ 101,981
Net Income	\$ 1,610,990	\$ 750,200

Sales revenues primarily consisted of concentrate sales from the mine. Jewellery sales remained low during 2011 and a review of that business has taken place. As a result the business activity is now focused on the mine. Sales revenues for the year ended December 31, 2011 amounted to \$ 9,492,157 which compared to revenues of \$ 6,831,410 for the corresponding period of 2010. The increased sales revenue during 2011 was mainly due to the higher gold prices in 2011 when compared to 2010. Gold prices averaged \$ 1,568 per oz in 2011 compared to \$ 1,225 per oz in 2010. The increased level of metal produced and shipped during 2011 also contributed to the increased revenues.

Cost of sales includes production costs at the mine and inventory movements. Production costs for the year ended December 31, 2011, which consist mainly of production costs at the mine, amounted to \$ 4,795,838 compared to \$ 3,998,696 for the year ended December 31, 2010 - an increase of \$ 797,142. Production costs at the mine, the majority of which are incurred in UK£, include production wages, oil and fuel, equipment hire, repairs and servicing, consumables and royalties. The increased production costs for the year ended December 31, 2011 were mainly due to increases in a number of cost categories including increases in Oil and Fuel of \$ 393,000 to \$ 1,411,000 arising mainly from higher fuel prices which increased by 28% during the year in addition to higher usage arising from both the increased production levels and the increased level of machinery on site, Repairs and Servicing cost increases of \$ 254,000 to \$ 763,000 due to a number of factors including repairs and maintenance to crushers, electrical and mechanical equipment and electric motors in the mill together with an increased level of repairs and maintenance on mobile equipment in the mine arising from a combination of ageing machinery and the increased number of equipment in operation, Royalty cost, which are based on sales revenues increased by \$ 61,000 to \$ 197,000, Consumable cost increases of \$ 43,000 to \$ 248,000 arising from both the increased usage of

mill consumables following the installation of the additional crusher and price increases of steel balls in particular, Assaying and laboratory consumables increases of \$ 19,000 to \$ 60,000 due to the increased assaying requirements arising from the higher production levels and carriage costs increases of \$ 34,000 to \$ 82,000 due to the higher level of shipments during the period. These increases were partially offset by decreases in Production Wages of \$ 5,000 to \$ 1,478,000 and Equipment Hire costs of \$ 45,000 to \$ 523,000 mainly arising from savings achieved following the purchase of mobile equipment early in 2011 which had previously been on hire.

The inventory movements of \$ 64,589 and \$ 34,061 for 2011 and 2010 respectively reflect a reduction in inventory at December 31, 2011 and December 31, 2010 when compared to inventory at the beginning of the respective years.

This has resulted in a Net Income before amortization, general administrative expenses and foreign exchange for the year ended December 31, 2011 of \$ 4,631,730 compared to a Net Income of \$ 2,798,653 for 2010.

Amortization of deferred development and exploration costs for the year ended December 31, 2011 amounted to \$ 387,022 compared to \$ 492,772 for 2010. The amortization charge for 2011, which is calculated on the unit of production basis, is lower than that for 2010 due to the higher level of till strip amortization incurred in 2010 which offsets the increased amortisation in 2011 arising from the higher production. Depreciation of property, plant and equipment during the year totalled \$ 450,046 which compared with \$ 269,650 for the year ended December 31, 2010. This increase is due mainly to the depreciation on the additional plant and equipment acquired during the year. The gain on sale of an asset amounted to \$ 485 in 2011 compared to a loss on sale of \$ 6,123 in 2010.

General administrative expenses for the year ended December 31, 2011 amounted to \$ 2,264,226 compared to \$ 1,177,927 for 2010. General administrative expenses are reviewed in Section 1.15 - Other MD&A Requirements.

There was a Foreign exchange gain of \$ 80,069 for the year ended December 31, 2011 which compared with a Foreign exchange loss of \$ 101,981 for 2010.

This has resulted in a Net Income of \$ 1,610,990 for 2011 compared to a Net Income of \$ 750,200 for 2010. When the Net Income is adjusted for non cash items before changes in non-cash working capital, the cash generated from operating activities amounted to \$ 2,885,412 for the year ended December 31, 2011 compared to \$ 1,956,547 for the year ended December 31, 2010 as per the Consolidated Statement of Cash Flows. The cash generated from operating activities after changes in non-cash working capital for 2011 amounted to \$ 3,339,617 compared to \$ 1,183,905 for 2010.

Foreign currency Translation Gain amounted to \$ 57,307 for the year ended December 31, 2011 which compared to a Foreign Currency Translation Loss of \$ 264,020 for the corresponding period of 2010. This resulted in a Total Comprehensive Income of \$ 1,668,297 for the year ended December 31, 2011 compared to \$ 486,180 for the year ended December 31, 2010.

Total assets at December 31, 2011 amounted to \$ 14,070,093 compared to \$ 9,912,522 at December 31, 2010.

Cash at December 31, 2011 was \$ 4,240,081 compared to \$ 2,661,798 at December 31, 2010. Accounts receivable consisting mainly of trade debtors, reclaimable sales taxes and prepayments amounted to \$ 1,056,573 at year end compared to \$ 751,233 at December 31, 2010. The increase in receivables is due mainly to an increase in trade debtors reflecting the higher level of sales during the year. Inventory at December 31, 2011 amounts to \$ 347,016 compared with an inventory of \$ 411,605 at end 2010. Inventory mainly consists of jewellery products and unworked gold belonging to the jewellery business. There was a

low level of concentrate stocks at the end of 2011 and 2010 due to almost all concentrates produced having been shipped at year end.

Property plant and equipment totalled \$ 3,547,393 compared to \$ 2,299,608 at December 31, 2010. The increase in property, plant and equipment assets is mainly due to additional capital expenditure during 2011 net of disposals and offset by depreciation. The additional capital expenditure consists mainly of additional mobile equipment for the mine, capital investment in the refurbishment of the mill designed to increase capacity, the purchase of drill rigs and a back up generator and the construction of new offices. Deferred development and exploration costs totalled \$ 4,507,753 at December 31, 2011 compared to \$ 3,485,774 at the end of 2010. This increase is mainly due to the capitalization of exploration costs related to the exploration drilling programme and costs incurred in connection with the underground mine development during 2011 offset by amortization. Long term deposit at December 31, 2011, representing funds held in trust in connection with the Company's asset retirement obligations, amounted to \$ 371,277 compared to \$ 302,504 in 2010. Following the transition to IFRS property, plant and equipment, deferred development and exploration costs and long term deposit at the Company's Omagh mine, all of which are denominated in UK£ and which were previously translated to Canadian \$ at historical exchange rates under Canadian GAAP, are now translated to Canadian \$ at period end exchange rates. The Canadian \$ has weakened against UK£ at December 31, 2011 compared to January 1, 2011 resulting in a slight increase in the \$ value of these assets at year end when compared to January 1, 2011.

Current liabilities at December 31, 2011 mounted to \$ 6,179,812 compared to \$ 4,116,972 at the end of 2010. The working capital deficit at December 31, 2011 amounted to \$ 536,142 compared to \$ 292,336 at December 31, 2010. Accounts payable and accrued liabilities totalled \$ 1,683,142 compared to \$ 988,186 at December 31, 2010. The current portion of the external financing facilities totalled \$ Nil at December 31, 2011 and compares with \$ 31,266 at the end of 2010 reflecting repayments during the year. Loans from related parties at December 31, 2011 amounted to \$ 2,517,067 compared to \$ 3,097,520 at the end of 2010. This reduction is due to a \$ 947,940 (UK£ 600,000) repayment on the G&F Phelps loan during the year offset by an increase relating to amounts accrued for directors remuneration. The convertible debenture amounted to \$ 1,979,603 at December 31, 2011 compared to \$ Nil at December 31, 2010. The asset retirement obligation at December 31, 2011 amounted to \$ 394,975 compared to \$ 387,825 at December 31, 2010.

1.3 SELECTED ANNUAL INFORMATION

	Year Ended December 31, 2011 IFRS	Year Ended December 31, 2010 IFRS	Year Ended December 31, 2009 Canadian GAAP	Year Ended December 31, 2008 (Restated) Can. GAAP	Year Ended December 31, 2007 Canadian GAAP
Revenue (including interest income)	\$ 9,492,157	\$ 6,831,410	\$ 5,409,913	\$ 4,403,114	\$ 655,322
Net income (loss)	\$ 1,610,990	\$ 750,200	\$ (6,361,697)	\$ (2,452,220)	\$ (2,165,656)
Net income (loss) per share basic	\$ 0.01	\$ 0.00	\$ (0.03)	\$ (0.01)	\$ (0.01)
Net income (loss) per share diluted	\$ 0.01	\$ 0.00	\$ (0.03)	\$ (0.01)	\$ (0.01)
Cash and cash equivalents	\$ 4,240,081	\$ 2,661,798	\$ 485,997	\$ 587,489	\$ 21,308
Working Capital (Deficit)	\$ (536,142)	\$ (292,336)	\$ (3,711,772)	\$ (3,541,359)	\$ (1,499,218)
Total Assets	\$14,070,093	\$ 9,912,522	\$ 11,946,303	\$ 18,426,892	\$ 20,416,211
Long Term Liabilities	\$ 0	\$ 0	\$ 34,102	\$ 618,025	\$ 1,504,185
Shareholders' Equity	\$ 7,495,306	\$ 5,407,725	\$ 6,163,851	\$ 12,249,846	\$ 15,436,283

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

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

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

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

Cash levels at December 31, 2011 are above those of December 31, 2010 reflecting both the receipt of funds from the debenture loan and cash generated from operations during 2011.

Up to 2009 the Company's working capital deficit had been increasing from year to year due to both increases in loans from related parties and long term liabilities being reclassified as current liabilities. However the Company's improved financial performance together with the 2010 private placement has enabled Galantas to substantially reduce its working capital deficit in 2010 and 2011.

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

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

Shareholders equity has increased following both the Company's return to profitability in 2010 and 2011. The reduction in Shareholders Equity in 2009 and 2008 is primarily due to the increased deficits as a result of the net loss incurred in 2009 and 2008.

1.4 RESULTS OF OPERATIONS

2011 Financing Activities

During the first quarter of 2011 Galantas entered into a convertible unsecured £ 1,250,000 loan agreement with Kenglo One Limited (see March 10, 2011 Press Release). This convertible loan carries interest of 2% per annum above the base rate of Barclays Bank plc. The amount of the loan outstanding at December 31, 2011 totalled \$ 1,979,603. The Loan will be repaid upon exercise by Kenglo of the previously issued warrants of the Company held by Kenglo, subject to the terms of the warrants and the loan agreement. If the warrants are not exercised by Kenglo at the applicable expiry dates of the warrants (being June 8, 2012 and July 22, 2012, as applicable), the Company shall issue shares to Kenglo, in lieu of a cash repayment of the loan, in accordance with the terms of the loan agreement, subject to the minimum conversion price of \$ 0.10 per share. There were no finder's fees or bonus payable in connection with the loan.

2011 Production

Production at the Omagh mine during the year ended December 31, 2011 was above production levels of both 2010 and earlier years with record production levels being achieved during the second quarter. Production for 2011 is as summarized in the table below.

Annual	2011	2010
Tonnes Milled	46,871	36,288
Average Grade g/t gold	4.46	4.74
Dry Tonnes Concentrate	2,265	1500.2
Gold Grade (g/t)	88.9	119.2
Gold Produced (oz)	6,479	5,696
Gold Produced (kg)	201.5	177.2
Silver Grade (g/t)	234	338.2
Silver Produced (oz)	17,082	16,267
Silver Produced (kg)	531.3	505.9
Lead Produced (tonnes)	280.1	251.2
Gold Equivalent (oz)	7,308	6,402

Tonnes milled during the year ended December 31, 2011 totalled 46,871 tonnes compared to 36,288 tonnes for the corresponding period in 2010. Concentrate production for 2011 amounted to 2,265 dry tonnes which compares to 1,500.2 dry tonnes for 2010 – an increase of 51%. The metal content of production for 2011 totalled 6,479 ounces of gold (201.5 kg), 17,082 ounces of silver (531.3 kg), and 280.1 tonnes of lead. This compares with metal content for 2010 of 5,696 ounces of gold (177.2kg), 16,267 ounces of silver (505.9kg) and 251.2 tonnes of lead which represents a 14% increase in gold output, a 5% increase in silver output and a 12% increase in lead output. Gold equivalent for the year ended December 31, 2011 was 7,308 oz which compares to 6,402 oz for 2010 representing a 14% increase. The 2011 production figures and metal contents are provisional and subject to averaging or umpiring provisions under the concentrate off – take agreement detailed in a press release dated October 3, 2007.

The main mine production focus during the year has been on the open pit mining of the Kearney and Kerr veins. Production in early 2011 was impeded by very poor weather conditions which resulted in low production levels in the early part of 2011. Production improved in the latter half of the first quarter and this improvement continued into the second quarter with the mining of high grade ore from the Kearney pit. In addition the mill refurbishment, which commenced in the fourth quarter of 2010 was completed in the

second quarter of 2011. The main objective of this refurbishment was to increase capacity in the mill as additional ore became available from the mine. This enabled greater volumes of ore to be processed in the second quarter of 2011 which resulted in some significant weekly and monthly production records being achieved. Mining during the second half of 2011, while above 2010 levels, was below target and was adversely impacted by both the unusually high level of rainfall, a high level of equipment breakdowns in the mine, lower grades and narrower vein widths than expected which led to excessive dilution in the mined ore. In addition mining from the Kearney pit was restricted during the second half of 2011 which resulted in additional ore being mined from other lower grade areas. Production from Kearney was restricted due to limitations in the disposal of surplus rock which had been stockpiled over a period of time. Whilst the mine is required under its planning permission to dispose of the surplus rock from the site the consent to transport the surplus rock offsite from the current stockpile was not received from the relevant local authority. This has resulted in the level of stockpiled surplus rock now being at capacity levels which has and will have a significant adverse impact on production from the Kearney open pit going forward. Because of this risk to current and future production levels, discussions commenced with employees at the Omagh mine during 2011 with regards to a number of redundancies which are expected to be effected in early 2012. Subsequent to December 31, 2011 Omagh Minerals Limited obtained confirmation of planning permits to transport this surplus rock offsite to be integrated into the local aggregates industry. However, due to the conditions attached to the permit it will be some time before the transportation of this rock can commence. This will result in lower grade material being worked in 2012 which will result in both revenues and cash generation being reduced during 2012. Because of this ongoing restriction in mining together with the positive assay results from the drilling programme it is likely that future increases in production from the lower levels being produced subsequent to year end will not be achieved until mining commences from the planned underground mine.

The mill upgrade which commenced in the fourth quarter of 2010 was completed during the second quarter of 2011. The mill upgrade included the installation of a refurbished short head cone crusher in a closed circuit configuration, a larger regrind ball mill, a ball mill gearbox, belt magnets and new pumps. The electrical circuit including the control panels were all upgraded or renewed. The main objective of this refurbishment was to increase capacity in the mill as additional ore became available from the mine. Mill production however was below target during the second half of 2011 due to the high level of unplanned breakdowns, excessive time spent on planned breakdowns and the restrictions on mining of ore from Kearney. In addition to the breakdown interruptions ongoing changes in the metallurgy required constant plant optimisation all of which had a negative effect on the concentrate grades during the period. These breakdown issues have now been addressed and included changing from 24/7 mill production operation to a 24/5.5 operation, holding a larger stock of consumables parts together with the purchase of a new cone crusher with a further two complete sets of spares all of which are expected to alleviate future downtime.

Discussions with the regulatory authorities in Northern Ireland continued during the year with regard to obtaining approval for the closure plan, which approval was granted in the first quarter of 2012. During the fourth quarter four planning applications were submitted to the planning service authorities two of which were in connection with proposals to drill boreholes to determine mineralization at depth on the Kearney and Joshua veins. The remaining two were in connection with the construction and renovation of passing bays for the removal of surplus rock and the construction of a lower portal structure and truncated adit for underground mining on the Kearney vein. Additionally a further permitting application will require to be submitted by the mine in order to make additional ore available for mining and in particular for the proposed potential underground mine on the Kearney/Joshua deposits. Further progress was made on both the underground development plans and the surface infrastructure development plans during the year. The underground mine plan is being finalised with a pre consultation exercise in place and an Environmental Impact Assessment being completed.

Production at the Omagh mine during the three months ended December 31, 2011 is summarized in the table below.

	Three Months to December 31 2011	Three Months to December 31 2010
Tonnes Milled	9,762	6,559
Average Grade g/t gold	5.06	3.78
Concentrate Dry Tonnes	684	274.2
Gold Grade	69.1	109.8
Gold Produced (oz)	1,519	967
Gold Produced (kg)	47.3	30.1
Silver Grade	216	336.6
Silver Produced (oz)	4,763	2,968
Silver Produced (kg)	148.1	92.3
Lead Produced tonnes	80.8	48.8
Gold Equivalent (oz)	1,711	1104

Production levels achieved during the fourth quarter of 2011, while below target, were in line with production levels achieved during the third quarter of 2011 and above production levels for the fourth quarter of 2010. Tonnes milled during the three months ended December 31, 2011 totalled 9,762 tonnes which included low grade ore compared to 6,559 tonnes for the corresponding period of 2010. Concentrate production for the fourth quarter 2011 amounted to 684 dry tonnes which compares to 274.2 dry tonnes for the corresponding period of 2010 – an increase of 149%. Metal content of production for the three months ended December 31, 2011 totalled 1,519 ounces of gold (47.3kg), 4,763 ounces of silver (148.1kg) and 80.8 tonnes of lead. This compares with metal content for the three months ended December 31, 2010 of 967 ounces of gold (30.1kg), 2,968 ounces of silver (92.3 kg) and 48.8 tonnes of lead which represents a 57% increase in gold output, a 60% increase in silver output and a 65% increase in lead output. Gold equivalent for the three months ended December 31, 2011 was 1,711 oz which compares to 1,104 oz for the corresponding period of 2010 representing a 55% increase. The 2011 production figures and metal contents are provisional and subject to averaging or umpiring provisions under the concentrate off – take agreement detailed in a press release dated October 3, 2007.

Exploration

During 2011 the focus of exploration work has moved from mining geology to exploration based activities. In the first quarter of 2011, the Company reported that following the successful channel sampling program carried out earlier at the Omagh mine a core drilling contract had been arranged which includes 2,000 metres of diamond drilling. Galantas subsequently announced that, following the both the receipt of loan funds in the first quarter and the improved financials results in the second quarter, the 2,000 metre diamond drilling program was to be expanded up to a 15,000 metre program utilising four rigs with a fifth rig being added at the end of 2011. This combined drilling and channel sampling program is seeking to expand the resources on veins close to the existing operating gold mine and has been concentrated mainly on the Joshua and Kearney veins. This upgraded program is seeking to extend the depth and northern extent of the Joshua vein. The drilling program on the Kearney vein will provide data for a potential underground operation based upon both of these veins. The geological team at the mine was strengthened earlier in 2011 to cope with this expanded program.

During the year 4,148 metres of exploration drilling was completed with 42 holes being drilled. There were 31 holes drilled on the Joshua vein, 8 holes on the Kearney vein and 3 on the Kerr vein. Drilling on the Kearney vein was carried out at depth with the objective of gaining a more accurate picture of the zone of mineralization for the purpose of underground development. Channel sampling was also carried out on the Joshua and Kerr vein systems with the focus being mainly on Joshua due to higher grades and widths of mineralization. Assay results released to date from both the drilling and channel sampling programme have been encouraging with significant gold intersections being identified (see press releases dated September 15, 2011, September 20, 2011, October 4, 2011 and October 20, 2011, November 28, 2011 and January 12, 2012). Assay results from this programme will continue to be announced in batches as and when they are received. Subsequent to December a sixth rig commenced drilling on the property and as of mid March a total of 6,373 metres (53 holes) had been drilled in the 15,000 drilling program. Subsequent to year end the Company reported that it had engaged ACA Howe International Ltd to provide an interim updated resource estimate for the Omagh mine to be prepared in accordance with Canadian National Instrument (NI) 43-101 standard which will identify all resources discovered to early April in the current drilling programme. This report is expected to be published during the second quarter of 2012 and will also address the underground mining scoping study currently underway at the Omagh mine. The drilling programme will continue beyond April and a second interim report is expected to be prepared during the fourth quarter of 2012.

With regards to exploration outside the mine area licence OM4 covering an area of 252 square kilometres was granted for a two year period in early 2011. This licence area covers most of the previous OM2 license area and the northern section of the OM3 license area both of which had lapsed in 2010. Fieldwork was carried out within three areas of the OM4 license during the fourth quarter of 2011. In addition an application was made for four exploration licenses in the Republic of Ireland covering an area of 160 square kilometres that forms a westerly extension to the existing OM4 license which was subsequently granted in March 2012. A publicly funded geochemical and geophysical program is presently being carried out in these border areas and it is anticipated that the Omagh Minerals will benefit from the additional data.

1.5 SUMMARY OF QUARTERLY RESULT

Revenues and financial results in Canadian dollars for the fourth quarter of 2011 and for the seven preceding quarters are summarized below:

Quarter Ended	Accounting Policies	Total Revenue	Net Profit (Loss)	Net Profit (Loss) per share & per share diluted
December 31, 2011	IFRS	\$ 2,512,459	\$ 445,945	\$ (0.00)
September 30, 2011	IFRS	\$ 2,510,985	\$ 445,646	\$ (0.00)
June 30, 2011	IFRS	\$ 3,266,572	\$ 1,039,384	\$ (0.01)
March 31, 2011	IFRS	\$ 1,202,141	\$ (319,985)	\$ (0.00)
December 31, 2010	IFRS	\$ 1,587,321	\$ (60,734)	\$ (0.00)
September 30, 2010	IFRS	\$ 1,759,978	\$ 206,066	\$ 0.00
June 30, 2010	IFRS	\$ 1,503,296	\$ 118,727	\$ 0.00
March 31, 2010	IFRS	\$ 1,980,815	\$ 486,141	\$ 0.00
December 31, 2009	Canadian GAAP	\$ 1,667,716	\$ (5,672,371)	\$ (0.03)

The results for the Quarter ended December 31, 2011 are discussed under Section 1.10 – Review of Fourth Quarter Financial Results. Revenues are primarily from the sales of concentrates. There had been losses in each of the quarters up to December 31, 2009. Subsequent to January 1, 2010, the Company had been profitable in the first three quarters of 2010 mainly as a result of higher gold prices. A fall in metal production during the fourth quarter of 2010 and a further fall in production during the first quarter of 2011

resulted in a losses being incurred in both these quarters. The return to profitability during the second, third and fourth quarter of 2011 was due to both the increased production levels and the higher gold prices during those quarters.

Revenue and cash generation is expected to be reduced during 2012 as it is anticipated that lower grade material will be worked during 2012.

1.6 LIQUIDITY

The Company had a cash balance of \$ 4,240,081 at December 31, 2011 compared with a cash balance of \$ 2,661,798 at December 31, 2010.

As at December 31, 2011, the Company's working capital deficit amounted to \$ 536,142 which compared with a deficit of \$ 292,336 at December 31, 2010.

During the first quarter of 2011, Galantas announced that it had entered into a convertible unsecured UK£ 1,250,000 loan agreement with Kenglo One Limited (see March 10, 2011 Press Release). The convertible loan carries interest of 2% per annum above the base rate of Barclays Bank plc. The Loan will be repaid upon exercise by Kenglo of the previously issued warrants of the Company held by Kenglo, subject to the terms of the warrants and the loan agreement. During 2010 Galantas completed a private placement with Kenglo. The gross amount raised was \$ 2,277,500.

The Company's is using the funds from both the convertible loan secured during the first quarter of 2011 and the 2010 private placing to finance the fixed plant refurbishment completed in 2011, mobile equipment purchases in 2011 and the ongoing expanded drilling program at the Omagh mine which commenced during the first quarter of 2011.

Related Party loans repayments during the year ended December 31, 2011 amounted to \$ 947,940 (UK £ 600,000). Repayments on the Financing Facility totalled \$ 31,266 during 2011.

Due to the expected production shortfalls in 2012 and 2013 the Company may be required in the future to continue its efforts to raise funds for future developments and operations. There is however, no assurance that the Company will be successful in its efforts, in which case the Company may not be able to meet its obligations. The audited consolidated annual financial statements have been prepared on a going concern basis as discussed in Note 1 of the December 31, 2011 audited consolidated annual financial statements.

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

1.7 CAPITAL RESOURCES

As at December 31, 2011, the Company had capital requirements to repay, under existing arrangements.

- a) Accounts payable and accrued liabilities amounting to \$ 1,683,142 incurred in the normal course of business.
- b) A UK £ loan facility from G&F Phelps Limited, a company controlled by a director of the Company, in the amount of \$ 1,716,643 (UK£ 1,086,552). This loan bears interest at 2% above base rate, is repayable on demand and is secured by a mortgage debenture over all the Company's assets. Interest accrued on related party loans is included under due to related parties. As at December 31, 2011, the amount of interest accrued amounted to \$ 43,085 (UK£ 27,271).

- c) Amounts due to directors of the Company \$ 757,339 (UK£ 479,277).
- d) A UK£ convertible loan from Kenglo One Limited in the amount of \$ 1,979,603 (UK£ 1,250,000) which carries interest at 2% above base rate. The Loan will be repaid upon exercise by Kenglo of the previously issued warrants of the Company held by Kenglo, subject to the terms of the warrants and the loan agreement.

Contingent Liability

During 2010, the Company's subsidiary Omagh Minerals Limited received a payment demand from Her Majesty's Revenue and Customs in the amount of \$ 526,345 (UK£ 333,151) in connection with an aggregate levy arising from the removal of waste rock from the mine site during 2008 and early 2009. The Company believes this claim is without merit. An appeal has been lodged and the Company's subsidiary Omagh Minerals Limited will vigorously defend itself against this claim. No provision has been made for the claim in the audited consolidated annual financial statements.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet transactions.

1.9 RELATED PARTY TRANSACTIONS

Director fees for the year ended December 31, 2011 amounted to \$ 39,000 (\$ 48,427 for the year ended December 30, 2010). Directors share based payments for year ended December 31, 2011 amounted to \$ 225,000 (year ended December 31, 2011 - \$ 5,000).

Remuneration accrued for the President and CEO totalled \$ 443,720 (UK£ 280,000) for the year ended December 31, 2011 (\$ 143,270 (UK£ 90,000) for the year ended December 31, 2010). Remuneration of the CFO totalled \$ 34,000 for the year ended December 31, 2011 (\$ 34,000 for the year ended December 31, 2010).

During 2009, the Company signed an agreement for the rent of mining equipment with G&F Phelps Limited ("G&F Phelps"), a Company controlled by a director of the Company. The rental charged for the rental of this equipment for the year ended December 31, 2011 amounted to \$ Nil (\$ 176,553 for the year ended December 31, 2010). In January 2011 Omagh Minerals Limited, the operator of the Omagh mine, acquired this mining equipment at a cost of £ 192,500 exclusive of VAT. At December 31, 2011 the amount payable to G&F Phelps for the rent of this mining equipment amounted to \$ Nil (December 31, 2010 - \$ 137,741 (UK£ 88,791)).

At December 31, 2011 G&F Phelps Limited, a company controlled by director of the Company, had amalgamated loans to Galantas of \$ 1,716,643 (UK£ 1,086,552) (December 31, 2010 \$ 2,616,349 (UK £ 1,686,552)) bearing interest at 2% above UK base rates, repayable on demand and secured by a mortgage debenture on all the Company's assets.

The interest charged on the loan for the year ended December 31, 2011 amounted to \$ 59,745 (UK £ 37,668) (year ended December 31, 2010 \$ 71,465 (UK£ 44,896)). Interest accrued on related party loans is included under due to related parties. As at December 31, 2011, the interest accrued amounted to \$ 43,085 (UK£ 27,271) (December 31, 2010 - \$ 34,291 (UK£ 22,105)).

Amounts due to the President and CEO totalled \$ 757,339 (UK£ 479,277) at December 31, 2011 (December 31, 2010 \$ 309,139 (UK£ 199,277)).

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

1.10 FOURTH QUARTER

Galantas reported a Net Income of \$ 445,945 for the three months ended December 31, 2011 compared to a Net Loss of \$ 60,734 for the corresponding period of 2010.

	Quarter Ended December 31, 2011	Quarter Ended December 31, 2010
Revenues	\$ 2,512,459	\$ 1,587,321
Production costs	\$ 1,211,325	\$ 890,806
Inventory adjustment	\$ 27,720	\$ 15,977
Cost of sales	\$ 1,239,045	\$ 906,783
Income before undernoted	\$ 1,273,414	\$ 680,538
Amortization and depreciation	\$ 233,129	\$ 182,575
(Gain)loss on sale of asset	\$ (1,749)	\$ 6,123
General administrative	\$ 617,572	\$ 479,537
Foreign exchange (gain)loss	\$ (21,483)	\$ 73,037
Net Income (Loss) for quarter	\$ 445,945	\$ (60,734)

Sales revenues for the three months ended December 31, 2011 amounted to \$ 2,512,459 compared to revenues of \$ 1,587,321 for the corresponding period of 2010. The increase in sales revenues in the fourth quarter of 2011 is due to both the increased level of metal produced and shipped and higher gold prices during the fourth quarter of 2011 when compared to 2010.

Production costs consist mainly of production costs at the mine. Production costs at the mine, the majority of which are incurred in UK£ and which include production wages, oil and fuel, equipment hire, repairs and servicing, consumables and royalties amounted to \$ 1,211,325 for the fourth quarter of 2011 compared to \$ 890,806 for the corresponding period of 2010. The higher level of production costs for the fourth quarter of 2011 was due to a number of factors including Oil and Fuel increases of \$ 91,000 to \$ 360,000 arising mainly from increased fuel prices in addition to higher usage arising from the increased production levels during the quarter, Repairs and Servicing cost increases of \$ 104,000 to \$ 208,000 due to a number of factors including both repairs to crushers and an increased level of repairs and maintenance to equipment in the plant and in the mine arising from a combination of ageing machinery and the increased level of equipment in operation, Equipment hire increases of \$ 63,000 to \$ 177,000 arising from the hire of an additional excavator and dozer during the quarter, carriage costs increases of \$ 10,000 to \$ 23,000 due to the higher level of shipments during the quarter and Royalty cost increases of \$ 56,000, arising from increased sales revenues. There was no Royalty charge in the fourth quarter of 2010 due to a royalty overprovision in earlier quarters of 2010. These increases were partially offset by a decreases in Production Wages of \$ 38,000 to \$ 318,000 The inventory movements of \$ 27,720 and \$ 15,977 for the fourth quarters of 2011 and 2010 respectively reflect a decrease in inventory at December 31, 2011 and 2010 when compared to inventory levels at the beginning of the respective quarters.

This resulted in an Income before the undernoted items of \$ 1,273,414 for the fourth quarter of 2011 compared to \$ 680,538 for the corresponding period of 2010.

Amortization of deferred development and exploration costs for the three months ended December 31, 2011 amounted to \$ 103,568 compared to \$ 100,167 for the corresponding period of 2010. The amortization charge for the fourth quarter of 2011, which is calculated on the unit of production basis, is only slightly higher than that for 2010 due to the higher level of till strip amortization incurred in 2010 which resulted in an increased amortisation in that quarter. Depreciation of property, plant and equipment during the quarter totalled \$ 129,561 which compared with \$ 82,408 for the quarter ended December 31, 2010. This increase is due mainly to the depreciation on the additional plant and equipment acquired during 2011.

The gain on sale of fixed assets amounted to \$ 1,749 for the fourth quarter of 2011 compared to loss of \$ 6,123 for the corresponding period of 2010.

General administrative expenses totalled \$ 617,572 for the fourth quarter of 2011 compared to \$ 479,537 for the fourth quarter of 2010. General administrative expenses for the quarter are reviewed in Section 1.15 Other MD&A Requirements.

There was a Foreign exchange gain of \$ 21,483 in the fourth quarter of 2011 compared to a loss of \$ 73,037 for the corresponding period of 2010.

This resulted in a Net Income of \$ 445,945 for the quarter ended December 31, 2011 compared to a Net Loss \$ 60,734 for the corresponding period of 2010.

1.11 PROPOSED TRANSACTIONS

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

1.12 CRITICAL ACCOUNTING ESTIMATES

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

- the recoverability of accounts receivable that are included in the consolidated statements of financial position;
- the recoverability of deferred development and exploration costs incurred on the Omagh mine;
- the estimated life of the ore body 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 profit or loss;
- the estimated useful lives and residual value of property, plant and equipment which are included in the consolidated statements of financial position and the related amortization and depreciation included in profit or loss;
- the inputs used in accounting for stock-based compensation transactions in the profit or loss;
- Management applied judgment in determining the functional currency and presentation currency based on the facts and circumstances that existed during the period;
- Management assumption of amount of material restoration, rehabilitation and environmental, based on the facts and circumstances that existed during the period;

1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Transition to and Initial Adoption of IFRS

The Accounting Standards Board (AcSB) has directed that IFRS replace current Canadian GAAP for publicly accountable enterprises, including the Company, effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company has prepared its audited consolidated annual financial statements for the year ended December 31, 2011 in accordance with IFRS, using accounting policies consistent with IFRS and which include notes disclosing transitional information and disclosure of new

accounting policies under IFRS. The financial statements for the year ended December 31, 2011 also include 2010 financial statements for the comparative period, adjusted to comply with IFRS, and the Company's transition date IFRS statement of financial position as at January 1, 2010.

The preparation of these audited consolidated annual financial statements has resulted in changes to the accounting policies compared with the most recent annual financial statements prepared under Canadian GAAP.

The accounting policies set out on Note 4 of the audited consolidated annual financial statements and on pages 21 to 27 of this MD&A have been applied consistently to all periods presented in these audited consolidated annual financial statements including all comparative information. They have also been applied in preparing an opening IFRS statement of financial position as of January 1, 2010, for the purposes of transition to IFRS as required by IFRS1, First Time Adoption of International Financial Reporting Standards. The accounting policies have been applied consistently by the Company and its subsidiaries.

Impact of Adopting IFRS on the Company's Business

The adoption of IFRS has not resulted in any material changes to Galantas's accounting systems and business processes as the changes identified to date are minimal and the systems and processes can accommodate the necessary changes. The Company has not identified any contractual arrangements that are significantly impacted by the adoption of IFRS.

The Company's staff and advisers involved in the preparation of financial statements have been appropriately trained on the relevant aspects of IFRS and the changes to accounting policies.

The Board of Directors and the Audit Committee have been regularly updated throughout the Company's transition process and are aware of the key aspects of IFRS affecting the Company.

First-time adoption of IFRS

The adoption of IFRS requires the application of IFRS 1 First-time Adoption of International Financial Reporting Standards, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected to apply the following optional exemptions in its preparation of an opening IFRS statement of financial position as at January 1, 2010, the Company's transition date:

- To apply IFRS 2 - Share-based Payments only to equity instruments issued after November 7, 2002, and that had not vested by the transition date.
- To apply IFRS 3 -Business Combinations prospectively from the transition date, therefore not restating business combinations that took place prior to the transition date.
- To apply IAS 21 -The Effects of Changes in Foreign Exchange Rates, prospectively from the transition date. The Company elected to reset all cumulative transaction gains and losses to zero in the opening deficit at its transition date.
- To apply IAS 23 -Borrowing Costs prospectively from the transition date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS consolidated statement of financial position as at the transition date will be consistent with those made under current Canadian GAAP.

The Company's transition date IFRS consolidated statement of financial position is included as comparative information in the consolidated statements of financial position in these audited consolidated annual financial statements.

Impact of Adopting IFRS on the Company's Accounting Policies

The Company has changed certain accounting policies to be consistent with IFRS effective January 1, 2010, the Company's first annual IFRS reporting date. The changes to its accounting policies have resulted in certain changes to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its financial statements.

The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS. The International Accounting Standards Board has a number of ongoing projects, the outcome of which may have an effect on the changes made to the Company's accounting policies on adoption of IFRS. At the present time however, the Company is not aware of any significant expected changes to its adoption of IFRS that would affect the summary provided below.

1. Exploration and Evaluation Expenditures

IFRS allows an entity to retain its existing accounting policies related to the exploration for and evaluation of mineral properties, subject to some restrictions.

On transition to IFRS Galantas has retained its current accounting policy of deferring exploration and evaluation expenditures until such time as the properties are either put into commercial production, sold, determined not to be economically viable or abandoned. Therefore there is no significant change to the related line items within its financial statements.

2. Impairment of (Non-financial) Assets

IFRS, like Canadian GAAP, requires an assessment at each reporting date as to whether there are indicators of impairment of both property plant and equipment and deferred development and exploration costs. The factors considered under IFRS are quite similar to Canadian GAAP, but there are some differences.

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

Also IFRS requires reversal of impairment losses to assets other than goodwill if certain criteria are met. Canadian GAAP does not permit reversal of impairment.

The Company's accounting policies related to impairment have been changed to reflect these differences. However this change has had no impact to the carrying value of the Company's assets in the audited consolidated annual financial statements.

3. Cumulative Translation Differences

IFRS requires that the functional currency of each entity in the consolidated Group be determined separately in accordance with the indicators as per IAS 21 – Foreign exchange and should be measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The group's functional currency is the GBP/UK£ except for Galantas Gold Corporation (parent company) which has Canadian dollar as the functional currency. The consolidated financial statements are presented in Canadian dollars which is the group's presentation currency.

Under IFRS, the results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

Impact on Consolidated Statements of Financial Position

	As at December 31, 2010	As at January 1, 2010
Adjustment to property, plant and equipment	\$(1,490,326)	\$(1,311,403)
Adjustment to long-term deposit	(41,263)	(34,228)
Adjustment to deferred development and exploration costs	(2,582,542)	(2,244,051)
Adjustment to accounts payable and other liabilities	-	(9,778)
Adjustment to asset retirement obligation	(59,575)	(24,451)
Adjustment to reserves	(264,020)	-
Adjustment to deficit	\$(3,790,536)	\$(3,555,453)

Impact on Consolidated Statements of Income and Comprehensive Income

	Year ended December 31, 2010
Adjustment to amortization and depreciation	\$ 2,702
Adjustment to foreign exchange (gain) loss	(237,785)
Adjustment to foreign currency translation differences	(264,020)
Adjustment to income and comprehensive income	\$ (499,103)

Impact on Consolidated Statements of Cash Flows

	Year ended December 31, 2010
Adjustment to amortization and depreciation	\$ (2,702)
Adjustment to foreign exchange	237,785
Adjustment to net income	\$ (235,083)

4. Reserves

Prior to 2011 under Canadian GAAP the Company recorded the value of warrants issued to warrants and share based payments to contributed surplus. IFRS requires an entity to present for each component of equity, reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. IFRS requires a separate disclosure of the value that relates to "Reserves for Warrants", "Reserves for Share Based Payments" and any other component of equity. There is no impact on the audited consolidated annual financial statements.

5. Asset Retirement Obligations (Decommissioning Liabilities)

IFRS requires the recognition of Asset Retirement Obligations (Decommissioning Liabilities) for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to asset Retirement Obligations (Decommissioning Liabilities) have been changed to reflect these differences. There is no impact on the audited consolidated annual financial statements.

6. Property and Equipment

IFRS contains different guidance related to recognition and measurement of property and equipment than under current Canadian GAAP.

The Company's accounting policies related to property and equipment have been changed to reflect these differences. There is no impact on the audited consolidated annual financial statements.

7. Income Taxes

In certain circumstances, IFRS contains different requirements related to recognition and measurement of future (deferred) income taxes.

The Company's accounting policies related to income taxes have been changed to reflect these differences. There is no impact on the audited consolidated annual financial statements.

Presentation

Certain amounts in the audited consolidated annual statements of financial position, statements of comprehensive (loss) income and statements of cash flows have been reclassified to conform to the presentation adopted under IFRS.

Transition to IFRS – Impact on Financial Statements

Refer to page 41 of this MD&A

Reconciliation between IFRS and Canadian GAAP

Refer to Pages 42 to 45 of this MD&A

December 31, 2011 Financial Statements

Basis of presentation

These audited consolidated annual 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 audited consolidated annual financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these audited consolidated annual 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 financial statements and the reported amounts of expenses during the period. 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) of the December 31, 2011 audited consolidated annual financial statements.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the periods presented are included in the consolidated statement of comprehensive 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 unaudited condensed consolidated interim 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, Europe	Operating company
Galántas Irish Gold Limited ⁽²⁾⁽⁴⁾	Northern Ireland, Europe	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).

Functional and presentation currency

The audited consolidated annual 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/UK£).

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, 2011	Year Ended December 31, 2010	As at January 1, 2010
Closing rate	1.5799	1.5513	1.6918
Average for the year	1.5861	1.5918	-

Use of estimates and judgments

The preparation of these audited consolidated annual 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 financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These audited consolidated annual financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the audited consolidated annual 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 audited consolidated annual 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 audited consolidated annual statements of financial position and the related amortization and depreciation included in profit of loss;

- the estimated useful lives and residual value of property, plant and equipment which are included in the audited consolidated annual statements of financial position and the related amortization and depreciation include in profit or loss;
- the inputs used in accounting for stock-based compensation transactions in profit or loss;
- Management applied judgment in determining the functional currency and presentation currency based on the facts and circumstances that existed during the period;
- Management assumption of amount of material restoration, rehabilitation and environmental, based on the facts and circumstances that existed during the period; and
- Management's position that there is no income tax considerations required within these unaudited condensed consolidated interim financial statements.

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.

Significant Accounting Policies

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 profit and loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognized 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.

Financial assets

The Company's financial instruments consist of the following:

<u>Financial Assets:</u>	<u>Classification:</u>
Cash	Fair value through profit or loss
Accounts receivable and advances	Loans and receivables
Long term deposit	Fair value through profit or loss
<u>Financial Liabilities:</u>	<u>Classification:</u>
Accounts Payable and other liabilities	Other financial liabilities
Financing facility	Other financial liabilities
Due to Related Parties	Other financial liabilities
Convertible debentures	Other financial liabilities

(a) 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 designated as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income (loss).

(b) 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.

(c) 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.

(d) 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 profit or loss.

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 profit or loss 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.

(e) 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 an 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, 2011, December 31, 2010 and January 1, 2010, the fair value of all the Company's financial instruments approximate the carrying value, due to their short-term nature.

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.

Property, plant and equipment

Property, plant and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE 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	-	Units of Production
Deferred till stripping costs	-	Units of Production

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

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 units-of-production method over the estimated life of the ore body based on estimated recoverable ounces or pounds mined from proven and probable reserves. Provision for loss is made where a project is abandoned or considered to be of no further interest to the Company, or where the directors consider such a provision to be prudent. As of July 1, 2007, the Company started production at the Omagh mine and has begun amortization.

Stripping costs

Till stripping costs involves 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.

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.

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.

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, 2011, December 31, 2010 and January 1, 2010

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.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss 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 profits 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.

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 profit or loss 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.

The Company has recorded an asset retirement obligation in the amount of UK£ 250,000 (December 31, 2010 - UK£ 250,000; January 1, 2010 – UK£ 250,000), equal to the amount of the bond that is required by the Crown in Northern Ireland.

Earnings/Loss per share

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

Future accounting changes

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board or International Financial Reporting Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2011, 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, 2013.
- (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.
- (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 IFRS’s. The key points of IFRS 13 are as follows:

- fair value is measured using the price in the principal market for the asset or liability, or 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 categorized under Level 3 of the fair value hierarchy to significant unobservable inputs;
- information must be provided on an entity's valuation processes for fair value measurements categorized 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 (“IAS1”) was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

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

1.14 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

1.15 OTHER MD&A REQUIREMENTS

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

General Administrative Expenses for the Three Months ended December 31, 2011 and December 31, 2010 are detailed below:

Expense Account	Quarter Ended December 31, 2011	Quarter Ended December 31, 2010
Management & administrative wages	\$ 284,250	\$ 204,012
Other operating expenses	\$ 87,276	\$ 51,008
Accounting & corporate	\$ 16,073	\$ 21,195
Legal & audit	\$ 7,444	\$ 76,545
Stock based compensation	\$ 57,054	\$ 51,257
Shareholder communication	\$ 62,120	\$ 32,206
Transfer agent	\$ 2,847	\$ 3,364
Directors fees	\$ 7,500	\$ 19,427
General office	\$ 16,739	\$ 3,749
Accretion expenses	\$ 45,065	\$ 0
Bank interest and charges	\$ 31,204	\$ 16,774
Total	\$ 617,572	\$ 479,537

General Administrative Expenses for the three months ended December 31, 2011 totalled \$ 617,572 compared to \$ 479,537 for the three months ended December 31, 2010.

Management and administrative wages, the majority of which are incurred in UK£, include payroll costs of both Galantas corporate and the Omagh mine which totalled \$ 284,250 for the fourth quarter ended December 31, 2011 compared to \$ 204,012 for the corresponding period of 2010. The increase in management and administrative wage costs during the quarter was mainly attributable to the increased remuneration of the President and CEO accrued in the fourth quarter of 2011. Other operating expenses, the majority of which are also incurred in UK£, and include amongst others professional fees, insurance costs, training, health and safety, travel together with the ongoing expenses of the Company's jewellery business amounted to \$ 87,276 for the three months ended December 30, 2011 compared to \$ 51,008 for the corresponding period of 2010. The increase in costs in the fourth quarter of 2011 compared to 2010 is mainly due to increased insurance and various administration costs at the Omagh mine. Accounting and corporate costs for the quarter amounted to \$ 16,073 compared to \$ 21,195 for the corresponding period of 2010. Legal and audit costs totalled \$ 7,444 for the quarter compared to \$ 76,545 for the fourth quarter of 2010. The lower level of legal fees in the fourth quarter of 2011 is partially due to an overprovision for legal costs in earlier quarters. The high level of legal fees in the fourth quarter of 2010 was due primarily to an under provision for legal fees in earlier quarters of 2010 relating to both legal costs incurred by Omagh Minerals Limited and legal costs incurred at the parent Company level in connection with ongoing corporate matters.

Stock based compensation costs for the fourth quarter of 2011 amounted to \$ 57,054 was slightly above fourth quarter 2010 costs of \$ 51,257. Shareholder communication costs amounted to \$ 62,120 for the fourth quarter of 2011 compared to \$ 32,206 for the corresponding period of 2010. Shareholder communication costs include investor relations, shareholders information, filing fees and listing fees. Shareholder communications costs were higher in the fourth quarter of 2011 due mainly to costs incurred in connection with an investor relations programme undertaken during 2011 and also to increased investor

relations fees in connection with the Company's listing on the AIM market in the UK. Transfer agents fees for the fourth quarter of 2011 amounted to \$ 2,847 which was slightly below the \$ 3,364 incurred in the corresponding period of 2010. Directors' fees for the fourth quarter of 2011 totalled \$ 7,500 compared to \$ 19,427 for the corresponding period of 2010. The increased directors fees in the fourth quarter of 2010 was primarily due to an under provision for directors fees in earlier quarters of 2010. General office expenses for the fourth quarter of 2011 amounted to \$ 16,739 compared to \$ 3,749 for the fourth quarter of 2010 which increase was due mainly to costs incurred on upgrading the Company's website together with increased corporate insurance charges.

Accretion expenses on the convertible loan for the fourth quarter of 2011 amounted to \$ 45,065 compared to \$ Nil for the corresponding period of 2010. The accretion charge arises as the carrying value of the loan is less than its face value due to it being a convertible loan with the discount being accreted over the term of the loan. Bank interest and charges for the fourth quarter of 2011 amounted to \$ 31,204 compared to \$ 16,774 for the quarter ended December 31, 2010. The higher level of bank interest and fees in 2011 mainly reflects the inclusion of interest on the convertible loan in the fourth quarter of 2011 when compared to 2010.

This resulted in General administrative expenses totalling \$ 617,572 and \$ 479,537 for the respective periods.

General Administrative Expenses for the Years ended December 31, 2011 and December 31, 2010 are detailed below:

Expense Account	Year Ended December 31, 2011	Year Ended December 31, 2010
Management & administrative wages	\$ 701,205	\$ 429,436
Other operating expenses	\$ 457,269	\$ 169,078
Accounting & corporate	\$ 71,340	\$ 65,138
Legal & audit	\$ 184,855	\$ 175,986
Stock based compensation	\$ 251,202	\$ 59,204
Shareholder communication	\$ 255,181	\$ 110,765
Transfer agent	\$ 21,243	\$ 27,770
Directors fees	\$ 39,000	\$ 48,427
General office	\$ 30,353	\$ 4,739
Accretion expenses	\$ 140,721	\$ 0
Bank interest and charges	\$ 111,857	\$ 87,384
Total	\$ 2,264,226	\$ 1,177,927

General Administrative Expenses for the year ended December 31, 2011 totalled \$ \$ 2,264,226 compared to \$ 1,177,927 for the year ended December 31, 2010.

Management and administrative wages, the majority of which are incurred in UK£, include payroll costs at both Galantas corporate and the Omagh mine which totalled \$ 701,205 for the year ended December 31, 2011 compared to \$ 429,436 for 2010. The increase in remuneration costs in 2011 is mainly attributable to the increased remuneration of the President and CEO accrued in 2011. Other operating expenses, the majority of which are incurred in UK£, and include amongst others professional fees, insurance costs, travel together with the ongoing expenses of the Company's jewellery business amounted to \$ 457,269 for the year ended December 31, 2011 compared to \$ 169,078 for 2010. The increase in costs in 2011 compared to 2010 is mainly due to one off costs totalling \$ 174,000 in connection with both a local tribunal award to an ex-employee and a provision for restructuring costs at the Omagh mine. Other increases included insurance

costs of \$ 29,000, health and safety training costs of \$ 25,000, travel expenses of \$ 10,000, local authority charges of \$ 17,000 and various administrative costs \$ 17,000.

Accounting and corporate costs for the year amounted to \$ 71,340 compared to \$ 65,138 for 2010. This increase reflects the higher level of external accounting and corporate services required during 2011 and in particular with regards to IFRS transition issues. Legal and audit costs totalled \$ 184,855 for the year 2011 compared to \$ 175,986 for 2010. The high level of legal costs during 2011 was due to both higher legal costs incurred by Omagh Minerals Limited in connection with the tribunal hearing and increased legal costs at the corporate level in connection with ongoing corporate matters and in particular the convertible debenture loan. Legal costs were also at higher levels in 2010 due to both higher legal costs incurred by Omagh Minerals Limited in connection with its ongoing activities and increased legal costs at the corporate level in connection with ongoing corporate matters. Audit costs also increased during 2011 arising from an audit review of the Company's first quarter financials following the transition to IFRS.

Stock based compensation costs in 2011 amounted to \$ 251,202 compared to \$ 59,204 in 2010. The increase in 2011 costs is as a result of the granting of additional stock options during 2011. The low level of Stock based compensation expense for the year ended December 31 2010 was due to most of the outstanding stock options being fully vested at that time. Shareholder communication costs at \$ 255,181 for 2011 compared to \$ 110,765 for 2010. Shareholder communication costs include investor relations, shareholders information, filing fees and listing fees. Shareholder communications costs were higher in 2011 due to a number of factors including costs incurred in connection with an investor relations programme undertaken during the year and increased investor relations fees in relation to the Company's listing on the AIM market in the UK. Transfer agents fees for 2011 amounted to \$ 21,243 which compared to \$ 27,770 for 2010. Transfer agents costs include, amongst others, certain costs in connection with the holding of Company's annual general meeting. The higher costs in 2010 arise from the holding of an additional shareholders meeting during 2010. Directors' fees for 2011 amounted to \$ 39,000 compared to \$ 48,427 for 2010. General office expenses, which consist mainly of corporate administrative costs amounted to \$ 30,353 for year ended December 31, 2011 compared to \$ 4,739 for 2010 with the increase being mainly due to increased costs incurred on upgrading the Company's website together with increased corporate insurance charges.

Accretion expenses on the convertible loan for 2011 amounted to \$ 140,721 compared to \$ Nil for 2010. The accretion charge arises as the carrying value of the loan is less than its face value due to it being a convertible loan with the discount being accreted over the term of the loan. Bank interest and fees amounted to \$ 111,857 for the year ended December 31, 2011 compared to \$ 87,384 for the year ended December 31, 2010. The higher level of bank interest and fees in 2011 when compared to 2010 reflects the inclusion of interest on the convertible loan in 2011.

This resulted in General administrative expenses totalling \$ 2,264,226 and \$ 1,177,927 for the respective periods.

Disclosure of Outstanding Share Data

Share Capital

The Company is authorized to issue in series an unlimited number of common and preference shares. At April 12, 2012 there were a total of 235,650,055 shares issued, 45,550,000 warrants outstanding expiring from June 2012 to July 2012 and 15,750,000 stock options expiring from June 2012 to September 2016.

TRENDS AFFECTING THE COMPANY'S BUSINESS

Gold Price in US Dollars and UK Sterling

The Gold concentrate output from the Omagh Mine, which also contains silver and lead credits, is sold in US dollars. Most of the value is accrued from the gold content. The following table is composed from data published by the Bank of England of average monthly gold price in US\$ and UK £ (Sterling) per troy ounce. The gold price in both US\$ and UK£ strengthened throughout 2011 to average of US\$ 1,568 per oz and UK£ 979 per oz for the year, compared to US \$ 1,225 and UK£ 793 for 2010, an increase of 28% and 24% respectively. The trend for the first part of 2012 appears to one of range trading, between around \$1650 and \$1750 and £1000 and £1130 per troy ounce.

MONTH	Gold Price US \$ per oz	Gold Price UK£ per oz	Quarterly Average US\$	Quarterly Average UK£
JANUARY 2011	1,356.40	859.27		
FEBRUARY 2011	1,372.30	851.52		
MARCH 2011	1,424.01	881.19	1,384.24	863.99
APRIL 2011	1,473.81	901.49		
MAY 2011	1510.44	926.06		
JUNE 2011	1528.66	942.95	1504.30	923.50
JULY 2011	1572.81	974.50		
AUGUST 2011	1755.81	1073.17		
SEPT 2011	1771.85	1121.46	1700.16	1056.38
OCTOBER 2011	1665.21	1057.05		
NOVEMBER 2011	1738.98	1100.30		
DECEMBER 2011	1643.95	1055.00	1682.71	1070.78
JANUARY 2012	1656.12	1067.76		
FEBRUARY 2012	1742.60	1103.55		

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

The US Dollar / UK Sterling Currency Exchange Rate

The following table is drawn from Bank of England data that gives the monthly average spot exchange rate of US \$ into UK£ Sterling. Sales revenues at the Omagh mine are designated in US Dollars and are converted to UK£ as both Operating and Capital costs are designated in UK£. Thus a stronger US\$ is to the Company's financial benefit. The US Dollar averaged \$ 1.60 to the UK£ in 2011 compared to \$ 1.55 in 2010. The trend of the first and second quarters of 2011 was that of a strengthening of the UK£ against the US Dollar. That trend appears to have reversed in September 2011 with US\$ strengthening to reach an average monthly low of \$1.55 in January 2012. Since January 2012, UK sterling has traded in the range \$1.56 to \$1.59, with some daily exceptions.

MONTH	Average US \$:£	Quarterly Average US\$:£
JANUARY 2011	1.58	
FEBRUARY 2011	1.61	
MARCH 2011	1.62	1.60
APRIL 2011	1.63	
MAY 2011	1.63	
JUNE 2011	1.62	1.63
JULY 2011	1.61	
AUGUST 2011	1.63	
SEPT 2011	1.58	1.61
OCTOBER 2011	1.58	
NOVEMBER 2011	1.58	
DECEMBER 2011	1.56	1.57
JANUARY 2012	1.55	
FEBRUARY 2012	1.58	

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

The Canadian Dollar / UK Sterling Currency Exchange Rate.

The accounts of the corporation are expressed in Canadian Dollars. The majority of costs at the mine are incurred in UK£ Sterling and are converted to Can\$ at the average rate for the relevant accounting period. When these are expressed in Canadian Dollars terms within the Corporation's accounts, there is an increase in costs when there is a fall in value or weakening of the Canadian Dollar against Sterling. The Canadian Dollar averaged \$ 1.59 to the UK£ in 2011 which was unchanged from the average rate of \$ 1.59 in 2010. The Can \$ has stayed broadly flat during the first nine months of 2011 and although it weakened during the fourth quarter of 2011, it strengthened during January and February 2012 to the \$1.57 level.

MONTH	Average Can\$:£	Quarterly Average Can\$:£
JANUARY 2011	1.57	
FEBRUARY 2011	1.59	
MARCH 2011	1.58	1.58
APRIL 2011	1.57	
MAY 2011	1.58	
JUNE 2011	1.58	1.58
JULY 2011	1.54	
AUGUST 2011	1.61	
SEPT 2011	1.58	1.58
OCTOBER 2011	1.61	
NOVEMBER 2011	1.62	
DECEMBER 2011	1.60	1.61
JANUARY 2012	1.57	
FEBRUARY 2012	1.57	

Difficulties in the Western credit markets have impacted on all companies entering into banking credit arrangements. However, the company is not seeking bank finance at this time.

Political Trends

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

Recent local and regional elections have appeared to produce a political environment not dissimilar to that previously occurring. There appears to be a growing appreciation of the employment opportunities within the Corporation's operations. This has been strengthened by continued dialogue with political representatives at local and senior level.

RISKS AND UNCERTAINTIES

Galantas operates in a sector – mineral production and exploration – which carries inherent risks only some of which are within management's ability to reduce or remove. The main sector risk is always metal price. The Company's other business, high value Irish gold jewellery, is dependent upon the mine consistently being able to supply reliable certified Irish gold.

The Company has assessed the risks surrounding its business. It has concluded that most if not all of the risks are standard to the industry and none of them so profound as to inhibit pursuit of the Company's strategy. The main risks identified and considered are:

Current Global Financial and Economic Conditions

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

Additional Funding Requirements

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

Uncertainty of Mineral Resource and Mineral Reserve Estimates

The estimates for mineral resources and mineral reserves are determined in accordance with NI 43-101 and CIM Standards. There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond the Company's control. Such estimation is a subjective process,

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

Uncertainty of Inferred Mineral Resources

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

Exploration, Development and Operations Risks

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

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

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

Mineral Processing

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

Environmental

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

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

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

Permitting

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

early restoration activities are permitted and understands that it has the support of Department of Environment Northern Ireland.

Regulations and Permits

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

Risks Relating to Government Regulation

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

Title

The Company owns the land in secure freehold on which the project is located. Precious metal licenses and mining licenses have been granted to the Company by the Crown Estate and renewed as required since the mid – 1990's when initially granted. Licenses and Leases are subject in the usual way to minimum performance requirements which are set at a level so as not to inhibit development. There is a dialogue ongoing with the Northern Ireland Development of Enterprise Trade and Industry (DETI) concerning a license to extract base metals which occur with the gold and silver in the quartz-sulphide veins and which may be recovered as a by-product of gold and silver. The license if applicable may require a fee

payable to owners of surface rights. In the case of the Company's mine, since the owner is the Company itself, it is thought unlikely that there will be a material impact.

Political

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

Insurance and Uninsurable Risks

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

Revenue

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

Currency Fluctuations

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

Gold Price

The price of gold may affect the Company's future operations. The price of gold is beyond the Company's control, can fluctuate drastically and could adversely affect the Company. Gold prices have fluctuated

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

Construction and Development

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

Dependence on Key Employees and Skilled Personnel

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

Share Price Fluctuations

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

Dividends

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

Potential Dilution

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

Transition to IFRS – Impact on Financial Statements

The main impact on the Company's financial statements arising from the transition to IFRS relates to Cumulate Translation Differences as outlined on Note 22 (iii) (c) on the December 31, 2011 audited consolidated annual financial statements. IFRS requires that the functional currency of each entity in the consolidated Group be determined separately in accordance with the indicators as per IAS 21 – Foreign exchange and should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company's operating subsidiaries is the GBP/UK£. Galantas Gold Corporation (parent company) has Canadian dollar as the functional currency. The consolidated financial statements are presented in Canadian dollars which is the group's presentation currency.

Effect on Consolidated Statements of Income and Comprehensive Income

Under Canadian GAAP all Foreign Exchange Gains/Losses were included as one line item in the Consolidated Statements of Income (Loss). Following the transition to IFRS foreign exchange translation adjustments, arising from the translation to Canadian dollars of assets and liabilities of the Company's foreign subsidiaries with UK£ functional currencies, are recognised as a separate component of shareholders equity – Consolidated Statements of Comprehensive Income (Loss). Foreign currency differences arising from transactions in currencies other than functional currencies in each entity are included in the Consolidated Statements of Income (Loss).

The effect of the transition to IFRS on the Consolidated Statements of Income and Comprehensive Income for the year ended December 31, 2010 is set out on the Reconciliation between IFRS and Canadian GAAP on Note 22(v) of the December 31, 2011 Audited Consolidated Annual Financial Statements and on page 42 of this MD&A.

Effect on Consolidated Statements of Financial Position

Under Canadian GAAP Property, Plant and Equipment, Deferred Development and Exploration Costs, Long Term Deposit and Asset Retirement Obligation of the Company's foreign subsidiaries were translated to Canadian Dollars at historical exchange rates. Following the transition to IFRS these subsidiaries are deemed to have UK£ functional currencies and assets and liabilities of entities with functional currencies other than Canadian dollars 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 shareholders equity – Consolidated Statements of Comprehensive Income (Loss). Due to the Canadian dollar historical exchange rates that were in effect to translate UK£ assets to Canadian dollars being at much higher levels than the Canadian\$/UK£ exchange rate that prevailed at transition date the carrying value of these assets under IFRS is materially lower in Canadian dollars at January 1, 2010 than the carrying value under Canadian GAAP at that date. This reduction in carrying value is included in Deficit as set out in the reconciliation of the Canadian GAAP and IFRS Consolidated Balance Sheets at the January 1, 2010 transition date on Note 22(v) of the December 31, 2011 Audited Consolidated Annual Financial Statements and on page 41 of this MD&A.

The reconciliations of the Canadian GAAP and IFRS Consolidated Balance Sheet at transition date January 1, 2010 and subsequent to transition date as at December 31, 2010 is set out on Note 22(v) of the December 31, 2011 Audited Consolidated Annual Financial Statements and on pages 42 and 43 of this MD&A.

The aforementioned foreign exchange translation adjustments arising from the translation to Canadian dollars of assets and liabilities of the Company's foreign subsidiaries with UK£ functional currencies for both the year ended December 31, 2011 and the year ended December 31, 2010 are recognised as a separate component of shareholders equity – Consolidated Statements of Comprehensive Income (Loss)/Reserves in the Financial Statements.

The Reconciliation between IFRS and Canadian GAAP is set out in both Note 22 of the December 31, 2011 Audited Consolidated Annual Financial Statements and pages 42– 45 of this MD&A

Reconciliation between IFRS and Canadian GAAP

The January 1, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

	January 1, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Current assets			
Cash	\$ 485,997	\$ -	\$ 485,997
Accounts receivable and advances	657,515	-	657,515
Inventory	445,666	-	445,666
Total current assets	1,589,178	-	1,589,178
Non-current assets			
Property, plant and equipment (note 22(iii) (c))	3,691,172	(1,311,403)	2,379,769
Long-term deposit (note 22(iii) (c))	118,818	(34,228)	84,590
Deferred development and exploration Costs (note 22(iii) (c))	6,547,135	(2,244,051)	4,303,084
Total assets	\$11,946,303	\$(3,589,682)	\$ 8,356,621
EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (note 22 (iii) (c))	\$ 1,840,788	\$ (9,778)	\$ 1,831,010
Current portion of financing facility	77,830	-	77,830
Due to related party	3,382,332	-	3,382,332
Total current liabilities	5,300,950	(9,778)	5,291,172
Non-current liabilities			
Asset retirement obligation (note 21(iii) (c))	447,400	(24,451)	422,949
Long-term portion of financing facility	34,102	-	34,102
Total liabilities	5,782,452	(34,229)	5,748,223
Capital and reserves			
Share capital	26,530,787	-	26,530,787
Reserves (note 22(iii) (d))	4,009,841	-	4,009,841
Deficit (note 22(iii) (c))	(24,376,777)	(3,555,453)	(27,932,230)
Total equity	6,163,851	(3,555,453)	2,608,398
Total equity and liabilities	\$11,946,303	\$(3,589,682)	\$ 8,356,621

The December 31, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

	December 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Current assets			
Cash	\$ 2,661,798	\$ -	\$ 2,661,798
Accounts receivable and advances	751,233	-	751,233
Inventory	411,605	-	411,605
Total current assets	3,824,636	-	3,824,636
Non-current assets			
Property, plant and equipment (note 22(iii) (c))	3,789,934	(1,490,326)	2,299,608
Long-term deposit (note 22(iii) (c))	343,767	(41,263)	302,504
Deferred development and exploration Costs(note 22(iii) (c))	6,068,316	(2,582,542)	3,485,774
Total assets	\$14,026,653	\$(4,114,131)	\$ 9,912,522
EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (note 22 (iii) (c))	\$ 988,186	\$ -	\$ 988,186
Current portion of financing facility	31,266	-	31,266
Due to related party	3,097,520	-	3,097,520
Total current liabilities	4,116,972	-	4,116,972
Non-current liabilities			
Asset retirement obligation (note 22(iii) (c))	447,400	(59,575)	387,825
Long-term portion of financing facility	-	-	-
Total liabilities	4,564,372	(59,575)	4,504,797
Capital and reserves			
Share capital	27,808,316	-	27,808,316
Reserves (note 22(iii) (c)(d))	5,045,459	(264,020)	4,781,439
Deficit (note 22(iii) (c))	(23,391,494)	(3,790,536)	(27,182,030)
Total equity	9,462,281	(4,054,556)	5,407,725
Total equity and liabilities	\$14,026,653	\$(4,114,131)	\$ 9,912,522

The Canadian GAAP consolidated statement of income and comprehensive income for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Year ended December 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenues			
Gold sales	\$ 6,831,410	\$ -	\$ 6,831,410
Cost of expenses of operations			
Cost of sales	4,032,757	-	4,032,757
Amortization and depreciation (note 22(iii) (c))	765,124	(2,702)	762,422
	4,797,881	(2,702)	4,795,179
Income before the undernoted	2,033,529	2,702	2,036,231
Other expenses			
Loss on disposal of property, plant and equipment	6,123	-	6,123
General and administrative expenses			
Management and administration wages	429,436	-	429,436
Other operating expenses	169,078	-	169,078
Accounting and corporate	65,138	-	65,138
Legal and audit	175,986	-	175,986
Stock-based compensation	59,204	-	59,204
Shareholder communication and investor relations	110,765	-	110,765
Transfer agent	27,770	-	27,770
Director fees	48,427	-	48,427
General office	4,739	-	4,739
Bank interest and fees	87,384	-	87,384
	1,177,927	-	1,177,927
Foreign exchange (gain) loss (note 22(iii) (c))	(135,804)	237,785	101,981
	1,042,123	237,785	1,279,908
Net income for the year	\$ 985,283	\$ (235,083)	\$ 750,200
Other comprehensive loss			
Foreign currency translation differences			
Note 22(iii)(c)	\$ -	\$ (264,020)	\$ (264,020)
Total comprehensive income	\$ 985,283	\$ (499,103)	\$ 486,180

The Canadian GAAP consolidated statement of cash flows for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Year ended December 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Operating activities			
Net income for the year	\$ 985,283	\$ (235,083) ⁽¹⁾	\$ 750,200
Adjustment for:			
Amortization and depreciation	765,124	(2,702)	762,422
Stock-based compensation	59,204	-	59,204
Foreign exchange	140,813	237,785	378,598
Loss on disposal of property, plant and equipment	6,123	-	6,123
Non-cash working capital items:			
Accounts receivable and advances	(93,718)	-	(93,718)
Inventory	34,061	-	34,061
Accounts payable and accrued liabilities	(712,985)	-	(712,985)
Net cash provided by operating activities	1,183,905	-	1,183,905
Investing activities			
Purchases of property, plant and equipment	(429,810)	-	(429,810)
Proceeds from sale of property, plant and equipment	31,026	-	31,026
Deferred development and exploration costs	(16,655)	-	(16,655)
Long-term deposit	(224,949)	-	(224,949)
Net cash used in by investing activities	(640,388)	-	(640,388)
Financing activities			
Issue of common shares and warrants	2,277,500	-	2,277,500
Share issue costs	(23,557)	-	(23,557)
Net repayments of financing facility	(80,666)	-	(80,666)
Repayments from related party	(424,429)	-	(424,429)
Net cash provided by financing activities	1,748,848	-	1,748,848
Net change in cash	2,292,365	-	2,292,365
Effect of exchange rate changes on cash held in foreign currencies	(116,564)	-	(116,564)
Cash, beginning of year	485,997	-	485,997
Cash, end of year	\$ 2,661,798	\$ -	\$ 2,661,798

⁽¹⁾ Refer to Canadian GAAP consolidated statement of income and comprehensive income for the year ended December 31, 2010 reconciled to IFRS in note 22(v) above.