



GALANTAS GOLD CORPORATION

Management's Discussion and Analysis

Three Months Ended

March 31, 2011

GALANTAS GOLD CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
Three Months ended March 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 three months ended March 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 unaudited condensed consolidated interim financial statements and related notes for the three months ended March 31, 2011 and the audited consolidated financial statements and related notes for the year ended December 31, 2010. The Company prepares and files its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). 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 June 14, 2011.

As of January 1, 2010, Galantas adopted International Financial Reporting Standards ("IFRS"). The unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), and using accounting policies consistent with IFRS. Readers of this MD&A should refer to "Change in Accounting Policies" included in this MD&A for a discussion of IFRS and its effect on the Company's financial presentation.

FORWARD LOOKING STATEMENTS

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

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, owner of rights to work, market and sell part of the Company's gold production as certified Irish gold jewellery.

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. Some concentrate is occasionally set aside from that sold to the smelter for separate processing in a specialist facility. The gold produced by the separate facility becomes feed – stock for the Galantas Irish gold jewellery business.

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

- Increase the production of the open pit mine and processing plant on its Kearney and Kerr deposits;

- Continue to explore and develop extensions to the Kearney, Kerr and nearby known deposits so as to expand minable reserves and increase gold production in stages;
- Explore its 2 prospecting licences which aggregate 435 square kilometres, focusing on the more than 50 gold targets identified to date; and
- Promote and expand on a commercial basis the Galantas®Irish gold jewellery business now that certified Irish gold from the mine has become available.

Reserves and Resources

During 2008, ACA Howe International Ltd prepared an updated 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.

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 during 2011.

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 45 people.

Key Performance Driver

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

Overview of First Quarter 2011

The Financial statements for the Three Months ended March 31, 2011 together with the comparative Financial statements for the Three Months ended March 31, 2010 are being reported for the first time under International Reporting Financial Standards ("IFRS") which has replaced Canadian GAAP effective January 1, 2010 for all publicly accountable enterprises in Canada.

Galantas Gold Corporation had a net loss of \$ 319,985 for the three months ended March 31, 2011 compared with a net income of \$ 486,141 for the three months ended March 31, 2010.

The Company had cash balances at March 31, 2011 of \$ 3,732,647 compared to \$ 2,661,798 at December 31, 2010. The working capital deficit at March 31, 2011 amounted to \$ 1,112,738 which compared with a deficit of \$ 292,336 at December 31, 2010.

The investment program designed to upgrade and refurbish the processing plant at the Omagh mine, which commenced during the fourth quarter of 2010, was near completion at the end of the first quarter. The main objective of the refurbishment, which is being completed in stages, is to increase capacity in the mill. This refurbishment will allow greater volumes of ore to be processed in addition to enabling the mine to economically process lower grade ore.

Production at the Omagh mine during the three months ended March 31, 2011 was disappointing being below both the first quarter production target and the production levels achieved during the first quarter of 2010. Downtime during the installation work on the process plant refurbishment was greater than anticipated and this together with very difficult weather conditions impacted negatively on production.

In March 2011, Galantas announced that it had 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 funds from the loan are to be used to expand the Company's exploration drilling program. 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.

A 2,000 metres exploration diamond drilling programme commenced during the first quarter at the Company's Omagh mine. The drilling programme commenced with two drill rigs provided under contract and at quarter end arrangements had been made to purchase a further two rigs to allow the drilling programme to be expanded up to 5,000 metres. The geological team at the mine will also be expanded to cope with the drilling programme. This drilling program will concentrate on targets on the Joshua, Kerr and Kearney veins close to the operating mine site that have already been reported upon by consultants ACA Howe (Press Release 12th June 2008) and will provide data for a potential underground operation based upon both of the Joshua and Kearney veins. Drilling commenced on the mineralised veins within the Kerr deposit which is already permitted for open pit mining and being prepared for full production.

1.1 DATE OF THE MD&A

The MD&A was prepared on June 14, 2011.

1.2 REVIEW OF FINANCIAL RESULTS

Three Months Ended March 31, 2011

The net loss for the three months ended March 31, 2011 amounted to \$ 319,985 compared to a net income of \$ 486,141 for the three months ended March 31, 2010 as summarized below.

	Three Months ended March 31, 2011	Three Months ended March 31, 2010
Revenues	\$ 1,202,141	\$ 1,980,815
Production costs	\$ 1,004,127	\$ 1,019,433
Inventory movement	\$ 24,735	\$ 34,790
Cost of sales	\$ 1,028,862	\$ 1,054,223
Income before the undernoted	\$ 173,279	\$ 926,592
Amortization and depreciation	\$ 140,133	\$ 289,470
Loss on sale of asset	\$ 1,264	\$ 0
General administrative expenses	\$ 346,869	\$ 204,380
Foreign exchange loss (gain)	\$ 4,998	\$ (53,399)
Net Income (Loss) for the quarter	\$ (319,985)	\$ 486,141

Sales revenues primarily consisted of concentrate sales from the mine. Jewellery sales remained low during the quarter. Sales revenues from for the three months ended March 31, 2011 amounted to \$ 1,202,141

which compared to revenues of \$ 1,980,815 for the corresponding period of 2010. The main reason for the reduction in sales revenues during the first quarter of 2011 was the lower level of metal produced and shipped when compared to the first quarter of 2010. The revenue decrease arising from the lower production was partially offset by the favourable movement in gold prices during the first quarter of 2011.

Cost of sales includes production costs at the mine and inventory movements. Production costs for the first quarter of 2011 amounted to \$ 1,004,127 compared to \$ 1,019,433 for the first quarter of 2010. 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. There was a slight decrease in production costs during the first quarter of 2011 when compared with the corresponding period of 2010 including decreases in Production Wages of \$ 24,000 to \$ 335,000, Equipment Hire decreases of \$ 43,000 to \$ 106,000 mainly arising from the from savings achieved following the purchase of mobile equipment early in the first quarter of 2011 which had previously been on hire and reductions in Royalty costs, which are based on sales revenues, which at \$ 25,000 were \$ 41,000 lower than the first quarter of 2010 due mainly to the reduced sales revenues in the first quarter of 2011. These decreases were partially offset by Oil and Fuel increases of \$ 38,000 to \$ 271,000 arising from increased fuel prices during the quarter which more than offset the reduced usage arising from lower production and Repairs and Servicing cost increases of \$ 51,000 to \$ 168,000 due to the increased number of breakdowns during the quarter together with an increased level of ongoing maintenance charges during the first quarter of 2011.

The inventory movement reflects a reduction in inventory at both March 31, 2011 and 2010 when compared to inventories at the beginning of the respective periods.

This resulted in a Net Income before amortization and depreciation, general administrative expenses and foreign exchange loss (gain) for the three months ended March 31, 2011 of \$ 173,279 compared to a Net Income of \$ 926,592 for corresponding period of 2010.

Amortization of deferred development and exploration costs for the quarter ended March 31, 2011 amounted to \$ 48,188 compared to \$ 224,805 for the quarter ended March 31 2010. The amortization charge for the first quarter of 2011, which is calculated on the unit of production basis, is substantially lower than that for the corresponding period of 2010 due to both the lower production in the first quarter of 2011 compared to the corresponding period of 2010 and the higher level of till strip amortization incurred in 2010. Depreciation of property, plant and equipment during the first quarter of 2011 totalled \$ 91,945 which compared with \$ 64,665 for the corresponding period of 2010. This increase is due mainly to the depreciation on additional plant and equipment acquired subsequent to the first quarter of 2010.

The loss on sale of an asset during the first quarter amounted to \$ 1,264 in 2011 compared to \$ Nil for the first quarter of 2010.

General administrative expenses for the three months ended March 31, 2011 amounted to \$ 346,869 compared to \$ 204,380 for the corresponding period of 2010. General administrative expenses are reviewed in Section 1.15 Other MD&A Requirements.

There was a Foreign exchange loss of \$ 4,998 for the first quarter of 2011 which compared with a Foreign exchange gain of \$ 53,399 for the first quarter of 2010.

This has resulted in a Net Loss of \$ 319,985 for the three months ended March 31, 2011 compared to a Net Income of \$ 486,141 for the corresponding period of 2010. When the Net Income/Loss is adjusted for non cash items before changes in non-cash working capital the cash generated from operating activities amounted to \$ (149,810) for the three months ended March 31, 2011 compared to \$ 728,890 for the three months ended March 31, 2010 as per the unaudited condensed consolidated interim Statement of Cash Flows. The cash generated from operating activities after changes in non-cash working capital amounted to \$ (578) for 2011 compared to \$ 24,903 for the corresponding period of 2010.

Foreign Currency Translation Gain, which is included in Other Comprehensive Income (Loss) amounted to \$ 11,496 for the three months ended March 31, 2011 which compared to a Foreign Currency Translation Loss of \$ 284,910 for the corresponding period of 2010.

Total assets at March 31, 2011 amounted to \$ 12,269,551 compared to \$ 9,912,522 at December 31, 2010.

The working capital deficit at March 31, 2011 amounted to \$ 1,112,738 compared to \$ 292,336 at December 31, 2010.

Cash at March 31, 2011 was \$ 3,732,647 compared to \$ 2,661,798 at December 31, 2010. Accounts receivable consisting mainly of trade debtors, reclaimable sales taxes and prepayments amounted to \$ 1,358,563 at March 31, 2011 compared to \$ 751,233 at December 31, 2010. Inventory at March 31, 2011 amounts to \$ 386,870 compared with an inventory of \$ 411,605 at the end of 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 the both periods due to almost all concentrates produced having been shipped at period end.

Property plant and equipment totalled \$ 2,917,702 compared to \$ 2,299,608 at December 31, 2010. The increase of \$ 618,094 in property, plant and equipment assets reflects additional capital expenditure during the first quarter of 2011 net of disposals and offset by depreciation. The expenditure consists mainly of additional mobile equipment for the mine and capital investment in the plant designed to increase the capacity of the mill. Deferred development and exploration costs totalled \$ 3,569,666 at March 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 expanded drilling programme in the first quarter of 2011 offset by amortization. Long term deposit at March 31, 2011, which represents funds held in trust in connection with the Company's asset retirement obligations, amounted to \$ 304,103 compared to \$ 302,504 at December 31, 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 were previously translated to Canadian \$ under Canadian GAAP at historical exchange rates are now translated to Canadian \$ at period end exchange rates.

Current liabilities at \$ 6,590,818 at March 31, 2011 compared to \$ 4,116,972 at the end of 2010. Accounts payable and accrued liabilities totalled \$ 1,859,630 compared to \$ 1,127,803 at December 31, 2010. The current portion of the external financing facilities totalled \$ 12,585 at March 31, 2011 and compares with \$ 31,266 at the end of 2010 reflecting repayments during the quarter. Loans from related parties at March 31, 2011 amounted to \$ 2,937,823 compared to \$ 2,957,903 at the end of 2010. The convertible debenture amounted to \$ 1,780,780 at March 31, 2011 compared to \$ Nil at December 31, 2010. The asset retirement obligation at March 31, 2011 amounted to \$ 389,875 compared to \$ 387,825 at December 31, 2010.

1.3 SELECTED ANNUAL INFORMATION

Not applicable to Quarterly MD&A

1.4 RESULTS OF OPERATIONS

First Quarter 2011 Financing Activities

During the first quarter of 2011 Galantas announced that it had 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 March 31, 2011 totalled \$ 1,780,780. The funds from the loan will be used to further expand the Company's exploration drilling program together which includes the acquisition of two drill rigs. 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 by 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 are no finder's fees or bonus payable in connection with the loan. The Company's intention is to use the funds from the loan for drilling equipment purchases, a further expanded drilling program and working capital.

First Quarter 2011 Production

Production at the Omagh mine during the three months ended March 31, 2011 was below production levels achieved during the corresponding period in 2010 as summarized in the table below.

	Q1 2011	Q1 2010
Tonnes Milled	6,962	6,980
Average Grade	4.0%	8.6%
Est. TPH	7.82	6.15
Concentrate Dry Tonnes	282.5	594.9
Gold Grade	100.3	109.6
Gold Produced (oz)	910	2,096
Gold Produced (kg)	28.3	65.2
Silver Grade	269.4	347.6
Silver Produced (oz)	2,446	6,642
Silver Produced (kg)	76.1	206.6
Lead Grade	18.0	16.0
Lead Produced tonnes	50.1	94.2
Gold Equivalent (oz)	1,063	2,386

Tonnes milled during the three months ended March 31, 2011 totalled 6,962 tonnes which included low grade ore compared to 6,980 tonnes for the same period in 2010. There was a substantial reduction in the average grade of ore milled as a result of the processing of low grade ore during the quarter which contributed to the reduced level of concentrate produced during the first quarter. Concentrate production for the first quarter of 2011 amounted to 282.5 dry tonnes which compares to 594.9 dry tonnes for the corresponding period of 2010 – a decrease of 52.5%. Concentrate production in the first quarter of 2010 had been the highest quarterly production during 2010. This reduction in concentrate production in the first quarter of 2011 was due to a combination of the very difficult weather conditions which impacted negatively on mine production, lower grade ore processed during the mill refurbishment, replacement of white metal bearings to the primary Ball Mill and upgrading of the floatation plant both of which resulted in production interruptions for periods of time. Metal content of production for the first quarter of 2011 totalled 910 ounces of gold (28.3kgs), 2,446 ounces of silver (76.1kgs) and 50.1 tonnes of lead. This compares with metal content for the corresponding period of 2010 of 2,096 ounces of gold (65.2kgs), 6,642 ounces of silver (206.6kgs) and 94.2 tonnes of lead which represents a 56.6% decrease in gold output, a 63.2% decrease in silver output and a 46.8% decrease in lead output. Gold equivalent for the first quarter of 2011 was 1,063 oz which compares to 2,388 oz for the first quarter of 2010. 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.

Overburden stripping continued on the Kearney vein to the North during the first quarter but was again impeded by the very difficult weather conditions. The second half of the quarter saw the mine getting back to normality and the mining of high grade ore from Kearney pit recommenced. Additional overburden stripping of the Kerr vein, continued and this ore was stockpiled. The back filling of Kearney pit, which generates surplus rock, is ongoing and 204 metres have so far been completed. Whilst the mine is required under its planning permission to dispose of the surplus rock from the site the consent to do so for the current stockpile has not yet been confirmed by the relevant local authority. In the event that this consent has not been received by mid year it will impact negatively on production from the Kearney open pit as the level of stockpiled surplus rock is nearing capacity. A third tailings paste cell was also completed and commissioned. The mill upgrading included a refurbished 2ft Symons short head cone crusher in a closed circuit configuration, second cyclone, larger regrind ball mill, new Siemens Flender ball mill gearbox, belt magnets and new pumps, and subsequent to the quarter end has been operating satisfactorily at its increased capacity. New white metal bearings were fabricated and installed to the primary ball mill. The electrical circuit including the control panels have all been upgraded or renewed. Phase one of the external crushing circuit upgrade has been completed and is operating above expectations. As an industry norm, a blended lower grade ore was processed during the commissioning phase of the upgraded plant to minimise potential reduced short term recovery losses. The main objective of the refurbishment was to increase capacity in the mill as additional ore becomes available from the open pits. All of these changes will enable greater volumes of ore to be processed and lower grade ore be economically processed.

Plans have been submitted to planning services for the relocation of the site offices which will allow the mine to further extend the northerly extent of the Kearney pit within the existing planning consents. During the quarter, discussions continued with the regulatory authorities body in Northern Ireland with regard to obtaining approval for the closure plan at the Omagh mine which approval is expected to be obtained in 2011. 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 an underground mine on the Kearney/Joshua deposits. Work has commenced on this application in advance of drilling because of potential time delays in obtaining planning consents.

First Quarter 2011 Exploration

Following an easing of the Company's working capital restrictions in 2010 there was an increase in exploration activity during the second half of 2010. The program initially concentrated on targets within the mine site boundaries that had already been reported upon by consultants ACA Howe (Press Release 12th June 2008). The program commenced with a surface sampling study, a bulk sampling study and a mining dilution study on the Kerr Vein. Results of the surface sampling, bulk sampling and mining dilution studies were released early in the fourth quarter (See Press Release dated 19th October 2010). The results were better than expected compared to the limited data previously available. Additional channel sampling on the mineralised veins within the Kerr deposit was carried out during the first quarter of 2011. The Kerr deposit is already permitted for open pit mining and is in the process of being prepared for full production. Subsequent to March 31, 2011, the Company reported further assay results on the channel sampling for the Kerr vein – see press release dated April 21, 2011.

During the first quarter, the Company announced 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 later announced that following the receipt of loan funds the previously announced 2,000 metre diamond drilling program is to be expanded up to a 5,000 metre program. This combined drilling program will concentrate on the Joshua and Kearney veins. During the quarter the first diamond drill rig arrived on site and commenced drilling on the Joshua vein. To date the Joshua Vein has been sparsely drilled with only 17 holes on vein to a maximum depth of 157 metres. The planned program is looking to extend the depth and northern extent of the Joshua vein with a view to the possibility of working part of it by a shallow open pit. The drilling program on the Kearney vein will provide data for a potential

underground operation based upon both of these veins. A second contract drill rig is due to arrive on site later in the second quarter. In addition the Company announced that as part of the expanded drilling programme two additional drill rigs are to be acquired by the Omagh mine one of which is scheduled for refurbishment. The geological team at the mine will also be strengthened to cope with the expanded program.

1.5 SUMMARY OF QUARTERLY RESULTS

Revenues and financial results in Canadian dollars for the first 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
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)
September 30, 2009	Canadian GAAP	\$ 950,950	\$ (164,988)	\$ (0.00)
June 30, 2009	Canadian GAAP	\$ 1,648,243	\$ (234,325)	\$ (0.00)

The results for the Quarter ended March 31, 2011 are discussed under Section 1.2 – Review of Financial Results. Revenues are primarily from the sales of concentrates. There have been losses in each of the quarters up to December 31, 2009. The increase in the Net Loss in the quarter ended December 31, 2009 to \$ 5,672,371 is due primarily to the impairment of assets which resulted in an additional charge in the fourth quarter of \$ 5,314,412. Subsequent to January 1, 2010, the Company has 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 resulted in a loss being incurred for that quarter. There was a further loss in the first quarter of 2011 which was primarily due to a further fall in production which is discussed in Section 1.4 – Results of Operations.

1.6 LIQUIDITY

The Company had a cash balance of \$ 3,732,647 at March 31, 2011 compared with a cash balance of \$ 2,661,798 at December 31, 2010.

As at March 31, 2011, the Company's working capital deficit amounted to \$ 1,112,738 which compared with a deficit of \$ 292,336 at December 31, 2010. Ore supply continues to be a challenge with management focusing heavily on the ongoing development of the pit which is making progress.

During the first quarter of 2011, Galantas announced that it had entered into a convertible unsecured £ 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.

There were no additional Related Party Loans received during the three months ended March 31, 2011. Repayments on the Financing Facility were \$ 18,681 during the first quarter of 2011.

Earlier in 2010, Galantas announced a private placement (See June 3, 2010 Press Release) which was completed in two tranches during the second and third quarters of 2010. The gross amount raised by the placing was \$ 2,277,500. In total the Company issued 45,550,000 units. Kenglo Limited subscribed for all units issued in the placement. Each unit was priced at \$ 0.05 and comprised of one common share and one warrant. Each warrant entitles the holder to purchase one common share within 24 months from closing at a price of \$ 0.10. This subscription resulted in Kenglo Limited now having a holding in the Company of approximately 19.3% of the issued shares in the Company immediately following the placing. If warrants within the offering are exercised, Kenglo's stake in the Company could rise to approximately 32.4% of the issued shares in the Company.

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 to be completed in 2011, mobile equipment purchases in the first quarter of 2011, the further expanded drilling program at the Omagh mine which commenced during the first quarter of 2011 and which will include the acquisition of two drill rigs.

During 2009, the Company had entered an arrangement with G&F Phelps Limited, a related party, whereby G&F Phelps combined it's UK£ loans to Galantas with loans due by the Company to both Welsh Gold plc and to the President and Chief Executive Officer of the Company. The amalgamated 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.

The Company may 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 unaudited condensed consolidated interim financial statements have been prepared on a going concern basis as discussed in Note 1 of the March 31, 2011 condensed consolidated interim 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 unaudited condensed consolidated interim statements of financial position.

1.7 CAPITAL RESOURCES

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

- a) Accounts payable and accrued liabilities amounting to \$ 1,859,630 incurred in the normal course of business.
- b) A UK£ financing facility with Barclays Lease Finance. The amounts outstanding on this facility at March 31, 2011 amounted to \$ 12,585 (£ 8,070).
- c) A UK £ loan facility from G&F Phelps Limited, a company controlled by a director of the Company, in the amount of \$ 2,630,178 (£1,686,552). 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 March 31, 2011, the amount of interest accrued amounted to \$ 50,685 (UK£ 32,501) (December 31, 2010 - \$ 34,291 (UK£ 22,105)).

- d) Amounts due to G&F Phelps Limited of \$ 86,543 (£ 55,494) for the rental of mining equipment.
- e) Amounts due to directors of the Company \$ 170,417 (£ 109,277).
- f) A UK£ convertible loan from Kenglo One Limited in the amount of \$ 1,780,780 (£ 1,250,000) which carries bears 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 \$ 519,549 (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 intends to vigorously defend itself against this claim. No provision has been made for the claim in the unaudited condensed consolidated interim financial statements.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet transactions.

1.9 RELATED PARTY TRANSACTIONS

Directors fees of \$ 9,750 (2010 - \$ 9,000) were paid or accrued during the three months ended March 31, 2011. Remuneration accrued for the President CEO totalled \$ 78,990 (UK£ 50,000) for the three months ended March 31, 2011 (2010 - \$ 15,422 (UK£ 10,000)).

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. In January 2011 the Omagh Minerals Limited the operator of the Omagh mine acquired this mining equipment at a cost of £ 192,500 exclusive of VAT. At March 31, 2011 the amount payable to G&F Phelps for the rent of this mining equipment amounted to \$ 86,543 (UK£ 55,494) (December 31, 2010 - \$ 137,741 (UK£ 88,791)).

At March 31, 2011 G&F Phelps Limited, a company controlled by director of the Company, had amalgamated loans to Galantas of \$ 2,630,178 (UK£1,686,552) (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.

Interest accrued on related party loans is included under due to related parties. As at March 31, 2011, the amount of interest accrued is \$ 50,685 (UK£ 32,501) (December 31, 2010 - \$ 34,291 (UK£ 22,105)).

Directors current accounts amounted to \$ 170,417 (UK£ 109,277) at March 31, 2011 (December 31, 2010 \$ 169,522 (UK£ 109,277)).

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

1.10 FOURTH QUARTER

Not applicable to Quarterly MD&A

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 consolidated 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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.

1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

During the three months ended March 31, 2011 the Company adopted the following new accounting policies:

Transition to and Initial Adoption of IFRS

The Accounting Standards Board (AcSB) has confirmed that IFRS will 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 first unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011 in accordance with IAS 34, using accounting policies consistent with IFRS and which include notes disclosing transitional information and

disclosure of new accounting policies under IFRS. The interim financial statements for the three months ending March 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 unaudited condensed consolidated interim 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 listed below have been applied consistently to all periods presented in the financial statements. 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.

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 Galantas.

First-time adoption of IFRS

The adoption of IFRS requires the application of IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS, 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 unaudited consolidated statement of financial position is included as comparative information in the unaudited condensed consolidated interim statements of financial position in these unaudited condensed consolidated interim 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, 2011, 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. Current 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.

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.

4. Warrants/Share-based Payments

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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements.

Certain amounts in the unaudited condensed consolidated interim 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 28 of this MD&A

Reconciliation between IFRS and Canadian GAAP

Refer to Pages 29 to 35 of this MD&A

March 31, 2011 Financial Statements

Basis of presentation

These unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these unaudited condensed consolidated interim 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 March 31, 2011 unaudited condensed consolidated interim financial statements.

Basis of consolidation

The unaudited condensed consolidated interim 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 condensed consolidated interim statement of comprehensive (loss) income from the effective date of acquisition and up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

The following companies have been consolidated within the 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⁾	Ireland, Europe	Operating company
Galántas Irish Gold Limited ⁽²⁾⁽⁴⁾	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 unaudited condensed consolidated interim 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.

	Three months ended March 31,	Year ended December 31,	Three months ended March 31,	As at January 1,
	2011	2010	2010	2010
Closing rate	1.5595	1.5513	1.5422	1.6918
Average for the period/year	1.5798	1.5918	1.6215	-

Use of estimates and judgments

The preparation of these unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 unaudited condense consolidated interim 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 unaudited condensed consolidated interim 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 March 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 exploration 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, work-in-process amounts and stockpiled ore. All inventories are recorded at the lower of production costs on a first-in, first-out basis, and net realizable value. Production costs include costs related to mining, crushing, mill processing, as well as depreciation on production assets and certain allocations of mine-site overhead expenses attributable to the manufacturing process. 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 March 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 profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

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

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, 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’ – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- (iii) IFRS 11 Joint arrangements (“IFRS 11”) was issued by the IASB in May 2011 and will replace IAS 31 Interests in Joint ventures and SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual period beginning on or after January 1, 2013.
- (iv) IFRS 12 ‘Disclosure of Interests in Other Entities’ - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

- (v) IFRS 13 'Fair Value Measurement' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

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 and 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 March 31, 2011 and March 31, 2010 are detailed below:

Expense Account	Quarter Ended March 31, 2011	Quarter Ended March 31, 2010
Management & administrative wages	\$ 123,470	\$ 78,233
Other operating expenses	\$ 35,078	\$ 43,409
Accounting & corporate	\$ 17,481	\$ 12,515
Legal & audit	\$ 72,880	\$ 20,545
Stock based compensation	\$ 21,540	\$ 2,947
Shareholder communication	\$ 30,313	\$ 14,785
Transfer agent	\$ 2,779	\$ 2,064
Directors fees	\$ 9,750	\$ 9,000
General office	\$ 2,080	\$ 295
Accretion expenses	\$ 10,151	\$ 0
Bank interest and charges	\$ 21,347	\$ 20,587
Total	\$ 346,869	\$ 204,380

General Administrative Expenses for the quarter ended March 31, 2011 totalled \$ 346,869 compared to \$ 204,380 for the quarter ended March 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 \$ 123,470 for the first quarter ended March 31, 2011 compared to \$ 78,233 for the corresponding period of 2010. The increase in wage costs in the first quarter 2011 was mainly attributable to the increased remuneration of the President and CEO accrued in the first quarter of 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 \$ 35,078 for the first quarter ended March 31, 2011 compared to \$ 43,409 for the corresponding period of 2010. The reduction in costs in the first quarter of 2011 compared to 2010 is mainly due to a decrease in insurance costs, lower costs in the jewellery business and some legal fees included in Other operating expenses in 2010. Accounting and corporate costs for the

quarter amounted to \$ 17,481 compared to \$ 12,515 for the corresponding period of 2010. This increase reflects the higher level of external accounting services required during the first quarter of 2011 and in particular with regards to IFRS transition issues. Legal and audit costs totalled \$ 72,880 for the quarter compared to \$ 20,545 for the first quarter of 2010. The main reason for the 2011 increase was due to both higher legal costs incurred by Omagh Minerals Limited during the quarter in connection with its ongoing activities. Legal fees also include costs at the corporate level in connection with ongoing corporate matters. There were also additional audit fees during the quarter to reflect a provision for an audit review of this quarter's financials following the transition to IFRS.

Stock based compensation costs in 2011 amounted to \$ 21,540 for the first quarter compared to \$ 2,947 for the corresponding period of 2010. The increase in 2011 costs is mainly as a result of the granting of stock options during both the current quarter and the fourth quarter of 2010.

Shareholder communication costs amounted to \$ 30,313 for the first quarter of 2011 compared to \$ 14,785 for the corresponding period of 2010. Shareholder communication costs include investor relations, shareholders information, filing fees, listing fees. Shareholder communications costs were higher in the first quarter of 2011 due mainly increased investor relations fee in relation to its listing on the AIM market in the UK and increased filing fees. Transfer agents fees for the first quarter of 2011 amounted to \$ 2,779 which compared to \$ 2,064 for 2010. Directors fees for the first quarter of 2011 totalled \$ 9,750 compared to \$ 9,000 for the corresponding period of 2010. General office expenses for the first quarter of 2011 amounted to \$ 2,080 compared to \$ 295 for the first quarter of 2010 which was due mainly to increased corporate insurance charges.

Accretion expenses on the convertible loan for the first quarter of 2011 amounted to \$ 10,151 compared to \$ Nil for the corresponding period of 2010. Bank interest and charges for the first quarter of 2011 amounted to \$ 21,347 compared to \$ 20,587 for the quarter ended March 31, 2010. The higher level of bank interest and fees in 2011 reflects the inclusion of interest on the convertible loan partially offset by the positive impact of lower interest rates which prevailed in the first quarter of 2011 when compared to 2010.

This resulted in General administrative expenses totalling \$ 346,869 and \$ 204,380 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 June 14, 2011 there were a total of 235,650,055 shares issued, 45,550,000 warrants outstanding expiring from June 2012 to July 2012 and 11,550,000 stock options expiring from June 2012 to January 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. After a small pull back in January 2011, the gold price in both US\$ and UK£ continued to strengthen in the first quarter of 2011 when it averaged US\$ 1,384.24 and UK£ 863.99 compared to US \$ 1,108.90 and UK£ 711.02 for the first quarter of 2010. At the end of April 2011, the gold price strengthened further and

reached new highs in US dollar and Sterling terms. The majority of costs at the mine are incurred in UK£ Sterling and the Company's US dollar sales revenues are converted to Sterling.

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		

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. The trend of the last quarter of 2010 was that of a strengthening of sterling against the US Dollar, and the trend continued in the first quarter of 2011. The US \$ to UK£ exchange rate averaged \$ 1.60: UK£ for the first quarter of 2011 compared to US\$ 1.56: UK£ for the corresponding period of 2010.

MONTH	Average US \$:£	Quarterly Average US\$:£
JANUARY 2011	1.58	
FEBRUARY 2011	1.61	
MARCH 2011	1.62	1.60
APRIL 2011	1.63	

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 in the financial statements are converted to CAN\$ at the average rate for the relevant accounting period. The CAN\$ weakened slightly against the UK£ during the last quarter of 2010 and the trend continued in the first quarter of 2011. However when compared to the first quarter of 2010 the CAN\$ averaged CAN\$ 1.58: UK£1 during the first quarter of 2011 compared to CAN\$ 1.63: UK£1 during the first quarter of 2010.

MONTH	Average Can\$:£	Quarterly Average Can\$:£
JANUARY 2011	1.57	
FEBRUARY 2011	1.59	
MARCH 2011	1.58	1.58
APRIL 2011	1.57	

The majority of the Company's costs at the Omagh Mine are in UK£ sterling and when these are expressed in Canadian Dollars terms within the Corporation's accounts, there is an increase in costs when expressed in Canadian Dollars generated by a fall in value of the Canadian Dollar against Sterling.

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.

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 and there appears to be a growing appreciation of the employment opportunities within the Corporation's operations.

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

The risk is that additional funds, if required, may not be available. Continued delays and difficulties in bringing the production up to capacity have in the past resulted in cash shortages. Management continues to actively pursue additional working capital and has implemented an aggressive ore extraction program. There is no guarantee that future sources of funding will be available to the Company as and when required in the current volatile markets.

Ore Reserves

Tonnage and grade of ore may be lower than anticipated. The Kearney deposit along strike and to depth has been proven within the confines of the initial open pit and indicated well beyond. Nevertheless, the ore is variable in detail and it has proved difficult to mine at a consistent grade and supply the plant with sufficient ore regularly and although the issue is being addressed, this may persist into the future.

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. 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.

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.

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.

Uninsurable Risks

Mining activities involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could negatively affect the Company's profitability and financial position and the value of the common shares of the Company. The Company does not maintain insurance against environmental risks.

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/Bullion Price

Currency fluctuations and the price of gold may affect the Company's future operations, financial position and results. The Company's revenues are in US dollars. Most of the costs of the company are incurred in British Pounds Sterling resulting in dollar revenues being converted to sterling on an ongoing basis. The value of sterling against the US dollar constantly fluctuate which impacts on sterling revenue available to the Company. Financial results are published in Canadian dollars. There is therefore 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.

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. 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 development of the Kearney orebody, such as till stripping, where quantities are only estimated and subject to adverse variance.

Personnel

Notwithstanding the relatively small scale of the Kearney mine, a level of expertise is required in the mine, plant and ancillary activities including geology and accounting. Albeit that a slow down worldwide in minerals development has eased the shortage of skilled professionals, the Company foresees potential difficulties in recruiting additional qualified people. The risk is that costs, operations, future expansion and indeed excellence may be impacted negatively.

Share Price Fluctuations

In recent years, and particularly in the current global financial conditions, the securities markets in Canada 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.

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 21 (iii) (c) on the March 31 unaudited condensed consolidated 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 Condensed Consolidated Interim Statements of (Loss) Income and Comprehensive (Loss) Income

Under Canadian GAAP all Foreign Exchange Gains/Losses were included as one line item in the Consolidated Statement of (Loss) Income. 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 – Other Comprehensive Income (Loss). Foreign currency differences arising from transactions in currencies other than functional currencies in each entity are included in the Statement of (Loss) Income.

The effect of the transition to IFRS on the Condensed Consolidated Interim Statement of Income and Comprehensive Income for the three months ended March 31, 2010 and the year ended December 31, 2010 are set out on pages 32 and 33 of the MD&A.

Effect on Condensed Consolidated interim 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 – Other 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 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 page 29 of the MD&A.

The reconciliations of the Canadian GAAP and IFRS Consolidated Balance Sheets subsequent to transition date as at March 31, 2010 and December 31, 2010 are set out on pages 30 and 31 of the 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 three months ended March 31, 2010 and the year ended December 31, 2010 are recognised as a separate component of shareholders equity – Other Comprehensive Income (Loss)/Reserves in the Financial Statements.

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	Effect of transition to	
	GAAP	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 21(iii) (c))	3,691,172	(1,311,403)	2,379,769
Long-term deposit (note 21(iii) (c))	118,818	(34,228)	84,590
Deferred development and exploration Costs (note 21(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 21 (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 21(iii) (d))	4,009,841	-	4,009,841
Deficit (note 21(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 March 31, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

	March 31, 2010		
	Canadian	Effect of transition to	
	GAAP	IFRS	IFRS
ASSETS			
Current assets			
Cash	\$ 594,805	\$ -	\$ 594,805
Accounts receivable and advances	868,050	-	868,050
Inventory	410,876	-	410,876
Total current assets	1,873,731	-	1,873,731
Non-current assets			
Property, plant and equipment (note 21(iii) (c))	3,627,794	(1,518,449)	2,109,345
Long-term deposit (note 21(iii) (c))	118,818	(41,708)	77,110
Deferred development and exploration costs (note 21(iii)(c))	6,326,598	(2,608,192)	3,718,406
Total assets	\$11,946,941	\$(4,168,349)	\$ 7,778,592
EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (note 21 (iii) (c))	\$ 1,569,155	\$ 20,141	\$ 1,589,296
Current portion of financing facility	70,947	-	70,947

Due to related party	2,906,390	-	2,906,390
Total current liabilities	4,546,492	20,141	4,566,633
Non-current liabilities			
Asset retirement obligation (note 21(iii) (c))	447,400	(61,850)	385,550
Long-term portion of financing facility	13,833	-	13,833
Total liabilities	5,007,725	(41,709)	4,966,016
Capital and reserves			
Share capital	26,530,787	-	26,530,787
Reserves (note 21(iii) (d))	4,012,788	(284,910)	3,727,878
Deficit (note 21(iii) (c))	(23,604,359)	(3,841,730)	(27,446,089)
Total equity	6,939,216	(4,126,640)	2,812,576
Total equity and liabilities	\$11,946,941	\$(4,168,349)	\$ 7,778,592

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

	December 31, 2010		
	Canadian	Effect of transition to	
	GAAP	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 21(iii) (c))	3,789,934	(1,490,326)	2,299,608
Long-term deposit (note 21(iii) (c))	343,767	(41,263)	302,504
Deferred development and exploration Costs(note 21(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 21 (iii) (c))	\$ 1,127,803	\$ -	\$ 1,127,803
Current portion of financing facility	31,266	-	31,266
Due to related party	2,957,903	-	2,957,903
Total current liabilities	4,116,972	-	4,116,972
Non-current liabilities			
Asset retirement obligation (note 21(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 21(iii) (d))	5,045,459	(264,020)	4,781,439
Deficit (note 21(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 interim statement of income and comprehensive income for the three month period ended March 31, 2010 has been reconciled to IFRS as follows:

	Three months ended March 31, 2010		
	Canadian	Effect of transition to	
	GAAP	IFRS	IFRS
Revenues			
Gold sales	\$ 1,980,815	\$ -	\$ 1,980,815
Cost of expenses of operations			
Cost of sales	1,054,223	-	1,054,223
Amortization and depreciation	289,679	(209)	289,470
	1,343,902	(209)	1,343,693
Income before the undernoted	636,913	209	637,122
General and administrative expenses			
Other operating expenses	121,642	-	121,642
Accounting and corporate	12,515	-	12,515
Legal and audit	20,545	-	20,545
Stock-based compensation	2,947	-	2,947
Shareholder communication and public relations	14,785	-	14,785
Transfer agent	2,064	-	2,064
General office	9,295	-	9,295
Bank interest and fees	20,587	-	20,587
	204,380	-	204,380
Foreign exchange gain	(339,885)	286,486	(53,399)
	(135,505)	286,486	150,981
Net income for the period	\$ 772,418	\$ (286,277)	\$ 486,141
Other comprehensive loss			
Foreign currency translation differences	\$ -	\$ (284,910)	\$ (284,910)
Total comprehensive income	\$ 772,418	\$ (571,187)	\$ 201,231

The Canadian GAAP consolidated interim 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	Effect of transition to	
	GAAP	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	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	(135,804)	237,785	101,981
	1,042,123	237,785	1,279,908
Net income for the period	\$ 985,283	\$ (235,083)	\$ 750,200
Other comprehensive loss			
Foreign currency translation differences	\$ -	\$ (264,020)	\$ (264,020)
Total comprehensive income	\$ 985,283	\$ (499,103)	\$ 486,180

The Canadian GAAP consolidated interim statement of cash flows for the three months ended March 31, 2010 has been reconciled to IFRS as follows:

	Three months ended March 31, 2010		
	Canadian	Effect of transition to	
	GAAP	IFRS	IFRS
Operating activities			
Net income for the period	\$ 772,418	\$ (286,277) ⁽¹⁾	\$ 486,141
Adjustment for:			
Amortization and depreciation	289,679	(209)	289,470
Stock-based compensation	2,947	-	2,947
Foreign exchange	(336,154)	286,486	(49,668)
Non-cash working capital items:			
Accounts receivable and advances	(210,535)	-	(210,535)
Inventory	34,790	-	34,790
Accounts payable and accrued liabilities	(528,242)	-	(528,242)
Net cash provided by operating activities	24,903	-	24,903
Investing activities			
Purchases of property, plant and equipment	(1,496)	-	(1,496)
Deferred development and exploration costs	(4,267)	-	(4,267)
Net cash used in investing activities	(5,763)	-	(5,763)
Financing activities			
Net repayments of financing facility	(27,152)	-	(27,152)
Advances from related party	59,996	-	59,996
Net cash provided by financing activities	32,844	-	32,844
Net change in cash	51,984	-	51,984
Effect of exchange rate changes on cash held in foreign currency	56,824	-	56,824
Cash, beginning of period	485,997	-	485,997
Cash, end of period	\$ 594,805	\$ -	\$ 594,805

⁽¹⁾ Refer to Canadian GAAP consolidated interim statement of income and comprehensive income for the three month period ended March 31, 2010 reconciled to IFRS in note 21(v) above.

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	Effect of transition to	
	GAAP	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 period	485,997	-	485,997
Cash, end of period	\$ 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 21(v) above.