

# **GALANTAS GOLD CORPORATION**

Consolidated Financial Statements  
Years ended December 31, 2005 and 2004



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## AUDITORS' REPORT

### To the Shareholders of Galantas Gold Corporation

We have audited the consolidated balance sheets of Galantas Gold Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Smith, Nixon & Co. LLP*

Chartered Accountants  
Toronto, Ontario  
April 7, 2006

# GALANTAS GOLD CORPORATION

## CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31,

2005

2004

### Assets

#### Current

Cash	\$ 1,121,985	\$ 133,756
Accounts receivable and advances	144,727	104,671
Inventory	101,363	217,554
Future income taxes (Note 9(b))	<u>302,900</u>	<u>-</u>

1,670,975 455,981

Property, plant and equipment (Note 4(a)) 2,903,165 1,900,564

Deferred development costs (Note 4(b)) 4,314,368 3,218,811

Future income taxes (Note 9(b)) 466,900 -

\$ 9,355,408 \$ 5,575,356

### Liabilities

#### Current

Accounts payable and accrued liabilities	\$ 297,785	\$ 134,575
Current portion of financing facility (Note 5)	99,207	7,330
Due to directors (Note 6)	<u>253,103</u>	<u>429,711</u>
	650,095	571,616

Long-term portion of financing facility (Note 5) 271,664 -

921,759 571,616

### Shareholders' Equity

Share capital (Note 7(a)) 18,400,862 15,321,887

Warrants (Note 7(b)) 175,166 71,671

Contributed surplus (Note 8) 656,658 370,787

19,232,686 15,764,345

Deficit (10,799,037) (10,760,605)

8,433,649 5,003,740

\$ 9,355,408 \$ 5,575,356

Going concern (Note 1)

Commitments and contingencies (Note 14)

Subsequent events (Note 15)

SIGNED ON BEHALF OF THE BOARD

(Signed) "L.J. Gunter"  
Director

(Signed) "Roland Phelps"  
Director

See accompanying notes to consolidated financial statements

# GALANTAS GOLD CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

<u>YEARS ENDED DECEMBER 31,</u>	<u>2005</u>	<u>2004</u>
<b>Sales</b>	\$ 52,800	\$ 175,831
<b>Cost of goods sold</b>	<u>98,913</u>	<u>221,526</u>
	<u>(46,113)</u>	<u>(45,695)</u>
<b>Expenses</b>		
Accounting and corporate	28,880	22,524
Bank charges and interest	6,100	5,674
Consulting fees	50,750	-
Foreign exchange gain	(82,495)	(10,860)
Legal and audit	74,728	55,578
Management fees	164,000	83,500
Operating expenses	146,298	458,451
Shareholder communication and public relations	114,028	117,418
Stock-based compensation (Note 7(c))	214,200	287,649
Transfer agent	14,753	15,760
Travel and general office	<u>30,877</u>	<u>105,263</u>
	<u>762,119</u>	<u>1,140,957</u>
<b>Loss before income taxes</b>	(808,232)	(1,186,652)
<b>Future income tax recovery (Note 9(a))</b>	<u>769,800</u>	<u>-</u>
<b>Loss for the year</b>	(38,432)	(1,186,652)
<b>Deficit, beginning of year</b>	<u>(10,760,605)</u>	<u>(9,573,953)</u>
<b>Deficit, end of year</b>	<u><u>\$(10,799,037)</u></u>	<u><u>\$(10,760,605)</u></u>
<hr/>		
<b>Basic and diluted loss per share (Note 10)</b>	\$ 0.00	\$ (0.01)
<b>Weighted average number of shares outstanding</b>	116,992,358	88,586,117

See accompanying notes to consolidated financial statements

**GALANTAS GOLD CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<b>YEARS ENDED DECEMBER 31,</b>	<b>2005</b>	<b>2004</b>
<b>CASH (USED IN) PROVIDED BY</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (38,432)	\$ (1,186,652)
Adjustments for non-cash items -		
Amortization	24,504	69,622
Stock-based compensation	214,200	287,649
Future income tax recovery	(769,800)	-
Net change in non-cash working capital (Note 11(a))	<u>239,345</u>	<u>(240,840)</u>
	<u>(330,183)</u>	<u>(1,070,221)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,161,188)	(6,326)
Deferred development costs	(961,474)	(37,419)
Marketable securities	-	2,096
	<u>(2,122,662)</u>	<u>(41,649)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of common shares	3,503,333	589,113
Share issue costs	(249,192)	(34,706)
Advances from financing facility	555,000	-
Repayments of financing facility	(191,459)	(23,739)
Advances from directors	<u>(176,608)</u>	<u>89,743</u>
	<u>3,441,074</u>	<u>620,411</u>
<b>NET CHANGE IN CASH</b>	<b>988,229</b>	<b>(491,459)</b>
<b>CASH, BEGINNING OF YEAR</b>	<u><b>133,756</b></u>	<u><b>625,215</b></u>
<b>CASH, END OF YEAR</b>	<u><b>\$ 1,121,985</b></u>	<u><b>\$ 133,756</b></u>

See accompanying notes to consolidated financial statements

# **GALANTAS GOLD CORPORATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2005 AND 2004**

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### **1. GOING CONCERN**

These financial statements have been prepared on a going concern basis which contemplates that Galantas Gold Corporation (the "Company") will be able to realize assets and discharge liabilities in the normal course of business. The recoverability of these consolidated amounts, which includes the consolidated results of the Company's wholly-owned subsidiary Cavanacaw Corporation (Cavanacaw), is dependent on the ability of the Company to obtain future financing and to recover its investment in Omagh Minerals Limited (Omagh). Cavanacaw has a 100% shareholding in Omagh which is engaged in the acquisition, exploration and development of gold properties, mainly in Omagh, Northern Ireland.

As at December 31, 2001, studies performed on Omagh's mineral property confirmed the existence of economically recoverable reserves. The mineral property is currently in the development stage of operation and the directors believe that the capitalized development expenditures will be fully recovered by the future operation of the mine. The recoverability of Omagh's capitalized development costs is thus dependent on the ability to secure financing, future profitable production or proceeds from the disposition of the mineral property. These development expenditures will be amortized over the estimated life of the ore body.

Management is confident that it will be able to secure the required financing to enable the Company to continue as a going concern. However, this is subject to a number of factors including market conditions. These consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported expenses and balance sheet classifications used that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

### **2. INCORPORATION AND NATURE OF OPERATIONS**

The Company was formed on September 20, 1996 under the name Montemor Resources Inc. on the amalgamation of 1169479 Ontario Inc. and Consolidated Deer Creek Resources Limited. The name was changed to European Gold Resources Inc. by articles of amendment dated July 25, 1997. On May 5, 2004, the Company changed its name from European Gold Resources Inc. to Galantas Gold Corporation. The Company was incorporated to explore for and develop mineral resource properties, principally in Europe. In 1997, it purchased all of the shares of Omagh which owns a mineral property in Northern Ireland, including a delineated gold deposit. Omagh obtained full planning and environmental consents necessary to bring its property into production.

The Company entered into an agreement on April 17, 2000, approved by shareholders on June 26, 2000, whereby Cavanacaw, a private Ontario corporation, acquired Omagh. Cavanacaw has established an open pit mine to extract the Company's gold deposit near Omagh. Cavanacaw also has developed a premium jewellery business founded on the gold produced under the name Galántas Irish Gold Limited (Galántas).

Cavanacaw operations include the consolidated results of Cavanacaw and its wholly-owned subsidiaries Omagh and Galántas.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# **GALANTAS GOLD CORPORATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **YEARS ENDED DECEMBER 31, 2005 AND 2004**

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#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Principles of Consolidation**

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

##### **Foreign Currency Translation**

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

##### **Inventory**

Inventory is stated at the lower of cost and net realizable value, with cost determined on a specific item basis. Cost comprises materials, direct wages and other direct production costs together with a proportion of production overheads relevant to the stage of completion of work in progress and finished goods.

##### **Property, Plant and Equipment**

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

Buildings	4 % straight line
Plant and machinery	20 % declining balance
Motor vehicles	25 % declining balance
Office equipment	15 % declining balance
Moulds	25 % straight line

Freehold land is not amortized.

##### **Asset Retirement Obligation**

The Company is subject to the provisions of CICA Handbook Section 3110, Asset Retirement Obligations, which require the estimated fair value of any asset retirement obligations to be recognized as a liability in the period in which the related environmental disturbance occurs and the present value of the associated future costs can be reasonably estimated. As of December 31, 2005 the Company has not recognized any asset retirement obligations in respect of its mineral exploration property.

##### **Long-Lived Assets**

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

# GALANTAS GOLD CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Deferred Development Costs

Deferred development costs are capitalized until results of the related projects, based on geographic areas, are known. If a project is successful, the related expenditure 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.

#### Income Taxes

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

#### Stock-Based Compensation

The Company uses the fair value method to account for stock options granted on or after January 1, 2003. Accordingly, compensation cost is measured at fair value at the date of grant and is expensed over the vesting period.

#### Other Stock-based Payments

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

#### Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated in a manner similar to basic loss per share, except the weighted average shares outstanding are increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

### 4. PROPERTY, PLANT AND EQUIPMENT AND DEFERRED DEVELOPMENT COSTS

#### (a) Property, Plant and Equipment

	<u>2005</u>			<u>2004</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Freehold land and buildings	\$ 1,772,673	\$ 28,706	\$ 1,743,967	\$ 1,748,807
Plant and machinery	1,458,487	342,731	1,115,756	106,633
Motor vehicles	34,511	27,297	7,214	9,624
Office equipment	70,783	34,555	36,228	19,835
Moulds	81,802	81,802	-	15,665
	<u>\$ 3,418,256</u>	<u>\$ 515,091</u>	<u>\$ 2,903,165</u>	<u>\$ 1,900,564</u>



# GALANTAS GOLD CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

### 4. PROPERTY, PLANT AND EQUIPMENT AND DEFERRED DEVELOPMENT COSTS (continued)

#### (b) Deferred Development Costs

	2005	2004
Opening balance	\$ 3,218,811	\$ 3,183,777
Additions during the period:		
Minerals and metallurgical	297,238	-
Consultants	60,935	-
Mining lease	19,522	-
Fuel	14,852	-
Wages	119,800	-
Travelling	88,369	-
Repairs and maintenance	47,594	-
Construction	284,402	41,722
General	28,762	-
Depreciation of plant equipment	134,083	-
	1,095,557	41,722
Amortization	-	(6,688)
	1,095,557	35,034
Total deferred development costs	\$ 4,314,368	\$ 3,218,811

### 5. FINANCING FACILITY

On May 27, 2005, the Company obtained financing from Barclays Mercantile Business Finance Ltd. in the amount of \$555,000 (238,700 GBP) for the purchase of mining equipment. The loan is for a period of four years at 3.71% with monthly installments of \$10,172 (5,071 GBP).

Amounts payable on the long term debt are as follows:

	Interest	2005	2004
Financing facility (184,551 GBP)	3.71 %	\$ 370,871	\$ -
Term loan, unsecured, repayable in monthly instalments of \$1,962, including principal and interest, maturing April 2005	7.00 %	-	7,330
Less current portion (49,455 GBP)		<u>99,207</u>	<u>7,330</u>
		<u>\$ 271,664</u>	<u>\$ -</u>

Principal repayments over the next four years are as follows:

	2005	2004
2006	\$ 99,207	\$ 7,330
2007	106,937	-
2008	114,667	-
2009	<u>50,060</u>	<u>-</u>
	<u>\$ 370,871</u>	<u>\$ 7,330</u>

# GALANTAS GOLD CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 6. RELATED PARTY TRANSACTIONS

As at December 31, 2005, the Company was indebted to directors in the amount of \$253,103 (2004 - \$429,711). This amount represents amounts paid by the directors on behalf of the Company along with unpaid management fees. These amounts are interest-free and there are no fixed terms of repayment.

During the year \$47,000 (2004 - \$58,500) was paid to a company controlled by the former president of the Company, \$35,183 (2004 - \$29,193) was paid to a corporate services company in which an officer was a partner and \$164,000 (2004 - \$25,000) was paid or accrued to directors of the Company for management services which were in the normal course of operations and were measured at the exchange amount established and agreed to by the related parties.

#### 7. SHARE CAPITAL

##### (a) Authorized and issued

###### Authorized

Unlimited number of common and preference shares issuable in Series

###### Issued common shares

	Number of Shares	Stated Value
Balance, December 31, 2003	87,489,477	\$ 14,821,581
Issued under private placements	2,866,825	430,024
Warrants exercised	945,554	176,659
Warrants issued	-	(71,671)
Share issue costs	-	(34,706)
Balance, December 31, 2004	91,301,856	15,321,887
Issued under private placement	35,033,333	3,503,333
Warrants issued	-	(175,166)
Share issue costs	-	(249,192)
Balance, December 31, 2005	126,335,189	\$ 18,400,862

On August 25, 2004, the Company completed a private placement financing of 2,866,825 units at a price of \$0.15 per unit for gross proceeds of \$430,024. Each unit is comprised of one common share and one half common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share at a price of \$0.18 per share until August 25, 2005. The warrants were valued on the date of issue at \$71,671. The value was obtained using the Black-Scholes option valuation model with the following assumptions: dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 1.0%; and, an expected average life of 1 year.

On April 4, 2005, the Company closed the first tranche of a private placement, issuing 23,333,333 units at a price of \$0.10 per unit for gross proceeds of \$2,333,333. Each unit consisted of one common share in the capital of the Company and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at an exercise price of \$0.15 until April 4, 2006. Finder's fees in the amount of \$74,320 of the brokered portion of the placement were paid to several parties in connection with this placement.

# GALANTAS GOLD CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 7. SHARE CAPITAL (continued)

##### (a) Authorized and issued (continued)

On April 14, 2005, the Company closed the second tranche of a private placement, issuing 11,700,000 units at a price of \$0.10 per unit for gross proceeds of \$1,170,000. Each unit consisted of one common share in the capital of the Company and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at an exercise price of \$0.15 until April 14, 2006. Finder's fees in the amount of \$57,365 of the brokered portion of the placement were paid to several parties in connection with this placement.

The fair value of the 17,516,666 warrants were estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - 0%; volatility - 68%; risk-free interest rate - 2.0% and an expected life of 1 year. The fair value attributed to the warrants was \$175,166.

##### (b) Warrants

Warrant transactions and the number of warrants outstanding are as follows:

	Number of warrants	Amount (\$)
Balance, December 31, 2003	7,901,664	78,537
Issued under private placement	1,433,412	71,671
Exercised	(945,554)	(17,570)
Expired	(6,956,110)	(60,967)
Balance, December 31, 2004	1,433,412	71,671
Issued under private placements	17,516,666	175,166
Expired	(1,433,412)	(71,671)
Balance, December 31, 2005	17,516,666	175,166

As at December 31, 2005, the following warrants were outstanding:

Number of Warrants	Fair Value (\$)	Exercise Price (\$)	Expiry Date
11,666,666	116,666	0.15	April 4, 2006
5,850,000	58,500	0.15	April 14, 2006
17,516,666	175,166		

1,433,412 warrants issued on August 24, 2004 to acquire common shares at a price of \$0.18 expired on August 25, 2005.

# GALANTAS GOLD CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 7. SHARE CAPITAL (continued)

##### (c) Stock options

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

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

A summary of the status of the Company's stock option plan as at December 31, 2005 and 2004, and changes during the years ended on those dates, is presented below:

	Number of stock options		Weighted average exercise price	
	2005	2004	2005	2004
Opening Balance	8,000,000	6,000,000	\$0.16	\$0.14
Options granted	300,000	2,000,000	0.10	0.22
Options cancelled/expired	(400,000)	-	0.12	-
Ending Balance	7,900,000	8,000,000	\$0.11	\$0.16

Stock-based compensation expense includes \$98,200 (2004 - \$175,649) relating to stock options granted in 2003 that vested during the year.

In 2004, 2,000,000 stock options were granted to acquire common shares of the Company. These options vest as to one-third immediately, one-third on the first anniversary of grant and one-third on the second anniversary of grant. For the purposes of the 2,000,000 stock options, the fair value of the options was estimated to be \$336,000 and will be expensed in the statement of operations and deficit and recorded as contributed surplus as they vest. Accordingly, \$112,000 (2004 - \$112,000) was expensed as stock-based compensation expense relating to 666,667 (2004 - 666,667) of these options that vested during the year.

On May 13, 2005, the Company granted 300,000 stock options to consultants of the Company to purchase common shares at a price of \$0.10 per common share until May 13, 2010. The options vest one-third upon grant, one-third on the first anniversary of grant and one-third on the second anniversary of grant. The fair value attributed to these options was \$12,000 and will be expensed in the statement of operations and deficit and recorded as contributed surplus as the options vest. Included in the stock-based compensation for 2005 is \$4,000 relating to 66,667 vested options. 100,000 of these stock options were cancelled during the year.

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

Risk-free interest rate	<u>2005</u> 2.9%	<u>2004</u> 2.7%
Expected life of options	5 years	5 years
Annualized volatility	68%	100%
Dividend rate	0 %	0 %

# GALANTAS GOLD CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 7. SHARE CAPITAL (continued)

##### (c) Stock options (continued)

Details of the stock options outstanding at December 31, 2005 are as follows:

	Exercisable Options	Number of Options	Exercise Price (\$)	Expiry Date
	1,000,000	1,000,000	0.15	February 13, 2006
	1,500,000	1,500,000	0.12	May 17, 2007
	3,200,000	3,200,000	0.15	April 10, 2008
	1,333,334	2,000,000	0.10	April 01, 2009
	66,667	200,000	0.10	May 13, 2010
	<b>7,100,001</b>	<b>7,900,000</b>		

On April 1, 2005, the Company received exchange approval to re-price 2,000,000 stock options granted in 2004 from \$0.22 to \$0.10. The Company also changed the expiry date of 1,000,000 stock options to correspond with the expiry date of a contract with a consultant of the Company. These 1,000,000 stock options were not exercised and expired February 13, 2006.

#### 8. CONTRIBUTED SURPLUS

The following table reflects the continuity of contributed surplus:

Balance, December 31, 2003	\$ 22,171
Stock-based compensation charged to statement of operations (Note 7(c))	287,649
Value of expired warrants (Note 7(b))	60,967
Balance, December 31, 2004	370,787
Stock-based compensation charged to statement of operations (Note 7(c))	214,200
Value of expired warrants (Note 7(b))	71,671
Balance, December 31, 2005	\$ 656,658

# GALANTAS GOLD CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 9. INCOME TAXES

##### (a) Provision for income taxes

Income taxes differ from the amount that would be computed by applying the Company's Canadian statutory rate of 36.12% (2004 - 36.12%) to loss before provision for, or recovery of, income taxes. The reasons for the differences are as follows:

	2005	2004
Loss before income taxes	\$ (808,232)	\$ (1,186,652)
Expected tax recovery at statutory rate	\$ (291,900)	\$ (428,600)
Increase (decrease) resulting from:		
Stock-based compensation	77,400	103,900
Share issue costs	(32,600)	(9,600)
Foreign exchange	(29,800)	(2,700)
Tax depreciation in excess of accounting	(229,500)	20,900
Change in future tax assets not previously recognized	(539,400)	-
Foreign tax rate differences	68,200	6,100
Non-capital losses not recognized	207,800	310,000
	\$ (769,800)	\$ -

##### (b) Future tax balances

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

	2005	2004
Future income tax assets (liabilities)		
Non-capital losses	\$ 2,726,300	\$ 2,663,300
Share issue costs	34,200	37,300
Property, plant and equipment and deferred development costs	(1,049,600)	(1,240,500)
Valuation allowance	(941,100)	(1,460,100)
	\$ 769,800	\$ -

##### (c) Losses carried forward

As at December 31, 2005, the Company had net operating losses carried forward of \$8,475,747 (\$2004 - \$8,263,108) for income tax purposes as follows:

Expires	2006	\$ 165,060
	2007	32,488
	2008	240,733
	2009	94,158
	2011	249,460
	2014	426,803
	2015	568,540
Indefinite		<u>6,947,965</u>
		\$ <u>8,475,747</u>

A future tax asset for non-capital losses of \$2,565,970 has been recognized at December 31, 2005, as it has been determined that it is more likely than not that the benefit will be realized in the future.

# GALANTAS GOLD CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2005 AND 2004

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#### 10. LOSS PER SHARE

As a result of the net losses for the years ended December 31, 2005 and 2004, diluted loss per share data is not presented as the exercise of options would have been anti-dilutive.

#### 11. SUPPLEMENTAL CASH FLOW INFORMATION

##### (a) Net change in non-cash working capital

	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ (40,056)	\$ 66,392
Inventory	116,191	6,013
Accounts payable	<u>163,210</u>	<u>(313,245)</u>
	<u>\$ 239,345</u>	<u>\$ (240,840)</u>

##### (b) Supplemental information

	<u>2005</u>	<u>2004</u>
Interest paid	<u>\$ 23,549</u>	<u>\$ 5,674</u>

Interest paid includes \$17,449 of interest paid on the financing facility and charged to deferred development costs

#### 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

For cash and short-term deposits, marketable securities, accounts receivable and advances, accounts payable and accrued liabilities and bank loans, the carrying amounts approximate fair values due to the relatively short term to maturity. For the amount due to directors, it is not practicable to determine the fair value with sufficient reliability since there are no fixed terms of repayment.

#### 13. SEGMENT DISCLOSURE

The Company, after reviewing its reporting systems, has determined that it has one reportable segment. The Company's operations are substantially all related to its investment in Cavanacaw Corporation ("Cavanacaw") and its subsidiaries, Omagh and Galantas. Substantially all of Cavanacaw's revenues, costs and assets of the business that support these operations are derived or located in Northern Ireland.

#### 14. COMMITMENTS AND CONTINGENT LIABILITIES

There is a contingent liability in respect of contract bonds totaling \$51,000 given by the bank, should the Company default on the terms of its mining lease.

The Company has entered into a contract for the construction of the steel framing and cladding of a processing plant building. The total cost of construction is approximately \$145,000 (73,000 GBP).

#### 15. SUBSEQUENT EVENTS

On March 17, 2006, the Company received a loan from Barclays Mercantile Business Finance Ltd in the amount of \$359,252 (180,000 GBP) to assist in the purchase of certain metallurgical equipment having a cost of \$716,510 (359,000 GBP).

Effective March 31, 2006 the Company's shares were successfully admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange. As a result, the Company is dual-listed on both AIM and the TSX Venture Exchange in Canada.

Subsequent to the year ended December 31, 2005, 17,516,666 warrants were exercised for gross proceeds of \$2,627,500, representing the total warrants outstanding at December 31, 2005.