



# **GALANTAS GOLD CORPORATION**

## **Management's Discussion and Analysis**

**Three and Nine Months Ended**

**September 30, 2014**

# GALANTAS GOLD CORPORATION

## MANAGEMENT DISCUSSION AND ANALYSIS

Three and Nine Months Ended September 30, 2014

### Introduction

The Management's Discussion and Analysis ("MD&A") of the financial condition and results of the operations of Galantas Gold Corporation ("Galantas" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2014. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the years ended December 31, 2013 and 2012, together with the notes thereto and the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2014 together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's consolidated financial statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). Accordingly, they do not contain all of the information required for full annual financial statements required by IFRS. Information contained herein is presented as November 24, 2014, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Galantas's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity. Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) or at the Company's website [www.galantas.com](http://www.galantas.com).

### Cautionary Note Regarding Forward-Looking Information

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward looking statements.

| Forward-looking information   | Assumptions   | Risk factors  |
|---|---|---|
| <p>Potential of the Company's properties to contain economic deposits of base metals and other metals.</p>  | <p>Financing will be available for future exploration and development of the Company's properties; the actual results of the Company's exploration activities will be favourable; operating and exploration costs will not exceed the Company's expectations; the Company will be able to retain and attract skilled staff; all requisite regulatory and governmental approvals for exploration projects and other operations will be received on a timely basis upon terms acceptable to the Company, and applicable political and economic conditions will be favourable to the Company; the price of applicable metals and applicable interest and exchange rates will be favourable to the Company; no title disputes exist with respect to the Company's properties.</p> | <p>Metal price volatility; uncertainties involved in interpreting geological data and retaining title to acquired properties; the possibility that future exploration results will not be consistent with the Company's expectations; availability of financing for future exploration and development of the Company's properties; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic and political conditions; the Company's ability to retain and attract skilled staff</p> |
| <p>The Company's ability to obtain planning consent from the Planning Services, Northern Ireland to allow it develop the underground mine at its Omagh property</p> | <p>The Company will receive full planning consent acceptable to the Company on a timely basis to allow it bring the underground mine into production; financing will be available for development of the underground mine; development and operating costs will not exceed the Company's expectations; the Company will be able to attract skilled staff; all requisite regulatory and governmental approvals for the underground</p>   | <p>Delays in obtaining planning permission for the development of the underground mine; onerous planning conditions that will negatively impact on the development of the underground mine; availability of financing; metal price, interest rate, exchange rate volatility; uncertainties involved in interpreting geological data and retaining title to acquired properties; the possibility that future exploration results will not</p>  |

|   |  |  |
|---|--|--|
|   | <p>project will be received on a timely basis upon terms acceptable to the Company; applicable political and economic conditions will be favourable to the Company; the price of applicable metals and applicable interest and exchange rates will be favourable to the Company; no title disputes exist with respect to the Company's properties</p>                                    | <p>be consistent with the Company's expectations; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; changes in economic and political conditions; the Company's ability to attract skilled staff</p>   |
| <p>The Company's ability to meet its working capital needs at the current level for the year ending December 31, 2014</p> | <p>The operating and exploration activities of the Company for the year ending December 31, 2014, and the costs associated therewith, will be dependent on raising sufficient additional capital consistent with the Company's current expectations; debt and equity markets, exchange and interest rates and other applicable economic conditions will be favourable to the Company</p> | <p>Adverse changes in debt and equity markets; timing and availability of external financing on acceptable terms; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic conditions</p> |
| <p>The Company's ability to carry out anticipated exploration on its property interests</p>                               | <p>The exploration activities of the Company for the fiscal year ending December 31, 2014, and the costs associated therewith, will be consistent with the Company's current expectations; debt and equity markets, exchange and interest rates and other applicable economic conditions will be favourable to the Company</p>   | <p>Changes in debt and equity markets; timing and availability of external financing on acceptable terms; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; receipt of applicable permits</p>          |

|  |  |   |
|--|--|---|
|  |  |   |
| Management's outlook regarding future trends       | Financing will be available for the Company's exploration, development and operating activities; the price of applicable metals, interest rates and exchange rates will be favourable to the Company   | Metal price volatility; changes in debt and equity markets; interest rate and exchange rate fluctuations; changes in economic and political conditions  |
| Asset values for third quarter of fiscal year 2014 | Management's belief that no write-down is required for its property and equipment resulting from continuing efforts to raise capital (debt or equity, or a combination of both) to implement planned work programs on the Company's projects | If the Company does not obtain equity or debt financing on terms favorable to the Company or at all, a decline in asset values that could be deemed to be other than temporary, may result in impairment losses |
| Sensitivity analysis of financial instruments      | The Company has no significant interest rate risk due to low interest rates on its cash balances.  | Changes in debt and equity markets; interest rate and exchange rate fluctuations  |
| Prices and price volatility for metals             | The price of metals will be favourable; debt and equity markets, interest and exchange rates and other economic factors which may impact the price of metals will be favourable  | Changes in debt and equity markets and the spot prices of metals; interest rate and exchange rate fluctuations; changes in economic and political conditions  |

Inherent in forward-looking statements are risks, uncertainties and other factors beyond Galantas's ability to predict or control. Please also make reference to those risk factors referenced in the "Risks and Uncertainties" section below. Readers are cautioned that the above chart does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

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

## **Date of MD&A**

This MD&A was prepared on November 24, 2014.

## **Overview – Strategy - Description of Business**

### **Company Overview**

Galantas has been a producing mineral resource issuer and the first to acquire planning consent to mine gold in Northern Ireland. During the third quarter of 2014 and following a strategic review of its business the Company established a separate subsidiary, Flintridge Resources Limited, to operate the Northern Ireland businesses with the Republic Of Ireland exploration licenses remaining in Omagh Minerals Limited to enable potential joint venture options on the latter to be pursued. The Company's wholly owned Ontario holding company, Cavanacaw Corporation, owns all of the shares of the Northern Ireland companies—Flintridge Resources Limited, now owner of prospecting and mining rights, planning consent plus land, buildings and equipment; Omagh Minerals Limited owner of the Republic Of Ireland exploration licenses and Galantas Irish Gold Limited a jewellery business which is no longer being pursued.

Mining at the Omagh mine had been conducted by open pit methods up to the suspension of production in 2013. The mine produced a flotation concentrate was shipped to a smelter in Canada under a life of mine off-take agreement. The Company's strategy to increase shareholder value is to:

- Obtain the necessary planning permits for the underground development;
- Obtain additional funding to allow it to continue the expanded exploration programme and the further development of its underground mine plans;
- Recommence production at the mine and processing plant
- Continue to explore and develop extensions to the Kearney, Kerr, Joshua and nearby known deposits so as to expand minable reserves and increase gold production in stages;
- Explore the Company's prospecting licences which, following recent additions, aggregate 766.5 square kilometres, focusing on the more than 60 gold targets identified to date;

### **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 28<sup>th</sup> May 2008 and is published on [www.sedar.com](http://www.sedar.com) and [www.galantas.com](http://www.galantas.com). In June 2012 ACA Howe International Ltd (Howe UK) completed an updated NI 43-101 compliant Mineral Resource Estimate together with a Preliminary Economic Assessment. This report, which was based on drilling results and analyses received to June

2012, identified all resources discovered at that date. The Company subsequently filed the complete Technical Report and Preliminary Economic Assessment on SEDAR in August 2012. An updated resource estimate was prepared by the Company during the second quarter of 2013 based on drilling results received to May 2013. There was a 50% increase in resources classified as measured and indicated and a 28% increase in resources classified as inferred, when compared to the resource estimate prepared in 2012. Subsequently the Company continued work on updating the 2013 resource estimate to incorporate results from later drill holes not previously included and on the finalising of a revised NI 43-101 report. The work included a detailed mining plan, mining schedule and comprehensive cost estimates, based upon underground working of the Joshua and Kearney veins.

During the current quarter Galantas completed this work and reported on the revised updated estimate of gold resources together with a Preliminary Economic Assessment (PEA) update (see press release dated July 28, 2014). The revised estimate of resources is in compliance with the Pan European Reporting Code (PERC), Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and Canadian National Instrument (NI) 43-101. Overall there has been a 19% increase in resources since the Galantas June 2013 Resource Report and a 60% increase in resources since the July 2012 Resource Report by ACA Howe International Ltd. The increases since 2012 largely relate to the Kearney and Joshua veins, since this is where the drilling program has been concentrated. The drilling program was mainly designed to focus on increasing the quantity of Measured and Indicated resources on these two veins, to support potential bank funding opportunities for the financing of production.

### Mining Project

The project currently embraces an open pit mine which supplied ore to a crushing-grinding-froth flotation plant. The plant was commissioned in 2007 and is designed to produce a gold and silver rich sulphide flotation concentrate for sale to a commercial smelter. Since early 2013 year there was a shift in operations from mining and processing ore from open pits to operating from lower grade stock already mined which impacted negatively on production levels. Later in 2013 the processing of low grade ore was suspended as a result of a reduction in the concentrate gold grade coupled with falling gold prices. Subsequently the Company commenced tests with regards to continuing production on a limited scale through the processing of tailing cells filled during the earlier operation of the mine. An investigation of process economics suggests that this proposed operation may best be carried out in conjunction with processing ore from the underground mine.

### Underground Mine Plan

During 2012 the planning application for an underground mine was submitted to the Planning Services of Northern Ireland. Discussions have continued with the planning services with regards to the underground mine plan and a planning determination is now anticipated in the fourth quarter of 2014 though it should be noted that the timeline for delivery of the determination is not within the control of the Company.

### Gold Jewellery Business

Galantas has been reviewing joint venture opportunities related to its gold jewellery business as management focus is now entirely on the mine operation.

### Management and Staff

Overall management is exercised by one Executive Director along with a Deputy General Manager in charge of operations in Omagh where the mine, plant and administration employed 6 personnel as of September 30, 2014.

## Key Performance Driver

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

## Overview of Third Quarter 2014

There was minimal production at, or shipments from, the Omagh mine during the three and nine months ended September 30, 2014 following the suspension of the processing of low grade ore during the fourth quarter of 2013 as a result of a reduction in the concentrate gold grade coupled with lower gold prices. Tests with regards to continuing production on a limited scale through the processing of tailing cells filled during the earlier operation of the mine continued during the third quarter when an investigation of process economics suggested that this proposed operation may best be carried out in conjunction with processing ore from the underground mine.

During the third quarter of 2014, and following a strategic review of its business, the Company established a separate subsidiary, Flintridge Resources Limited, to operate the Northern Ireland businesses with the Republic Of Ireland exploration licenses remaining in Omagh Minerals Limited to enable potential joint venture options on the latter to be pursued. This process involved a revaluation of the Company's assets which has resulted in an impairment loss of \$ 2,921,884 which is reflected in the third quarter results.

Galantas incurred a net loss of \$ 3,510,937 for the three months ended September 30, 2014 compared with a net loss of \$ 363,744 for the three months ended September 30, 2013. When the net loss is adjusted for non cash items before changes in non-cash working capital the cash loss from operating activities amounted to \$ 641,042 for three months ended September 30, 2014 compared with a cash loss from operations of \$ 318,599 for the corresponding period of 2013. The cash loss from operating activities after changes in non-cash working capital items amounted to \$ 263,326 for the three months ended September 30, 2014 compared to a cash loss of \$ 364,158 for 2013.

The Company had cash balances at September 30, 2014 of \$ 54,759 compared to \$ 166,617 at December 31, 2013. The working capital deficit at September 30, 2014 amounted to \$ 3,388,864 which compared with a working capital deficit of \$ 3,904,304 at December 31, 2013.

Work was completed during the third quarter on updating the resource estimate incorporating results from later drill holes not available previously and Galantas reported on the revised updated estimate of gold resources together with a Preliminary Economic Assessment (PEA) update. Overall there has been a 19% increase in resources since the Galantas June 2013 Resource Report and a 60% increase in resources since the July 2012 Resource Report by ACA Howe International Ltd. The increases since 2012 largely relate to the Kearney and Joshua veins, since this is where the drilling program has been concentrated. The drilling program was mainly designed to focus on increasing the quantity of Measured and Indicated resources on these two veins, to support potential bank funding opportunities for the financing of production. The Company also filed the complete Technical Report on SEDAR during the third quarter, as required by NI 43-101.



## Review of Financial Results

### Three Months Ended September 30, 2014

The net loss for the quarter ended September 30, 2014 amounted to \$ 3,510,937 which includes an asset impairment loss of \$ 2,921,884 and compares to a net loss of \$ 363,744 for the quarter ended June 30, 2013 as summarized below.

|  | Quarter Ended<br>September 30, 2014<br>\$ | Quarter Ended<br>September 30, 2013<br>\$ |
|--|---|---|
| <b>Revenues</b>  | <b>8,376</b>                              | <b>473,668</b>                            |
| Production costs   | 84,277                                    | 468,559                                   |
| Inventory movement   | 0   | (30,564)                                  |
| <b>Cost of sales</b>   | <b>84,277</b>                             | <b>437,995</b>                            |
| <b>(Loss) Income before the undernoted</b>                         | <b>(75,901)</b>                           | <b>35,673</b>                             |
| Depreciation   | 57,654                                    | 115,105                                   |
| General administrative expenses                                    | 253,291                                   | 262,189                                   |
| Loss/(Gain) on disposal of property,<br>plant and equipment        | 50  | (592)                                     |
| Unrealized gain on fair value of<br>derivative financial liability | 133,000                                   | 0   |
| Impairment of property, plant and<br>equipment                     | 2,921,884                                 | 0   |
| Foreign exchange loss  | 69,157                                    | 22,715                                    |
| <b>Net (Loss) for the Quarter</b>                                  | <b>\$ (3,510,937)</b>                     | <b>\$ (363,744)</b>                       |

Sales revenues for the quarter ended September 30, 2014 amounted to \$ 8,376 and compared to revenues of \$ 473,668 for the corresponding period of 2013. Following the suspension of production during the fourth quarter of 2013 there were no concentrate sales from the mine during the third quarter of 2014.

Cost of sales include production costs at the mine and inventory movements and totalled \$ 84,277 for the quarter ended September 30, 2014 compared to \$ 437,995 for the third quarter of 2013. A summary of cost of sales is set out on Note 13 of the September 30, 2014 condensed interim consolidated financial statements.

Production costs for the quarter ended September 30, 2014 amounted to \$ 84,277 compared to \$ 468,559 for the third quarter of 2013. 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 no production during the third quarter of 2014 and this is reflected in the lower production costs for the quarter which were partially incurred in connection with ongoing processing testwork. These lower production costs included decreases in Production wages of \$ 103,169 to \$ 42,917 reflecting the reduced cost of production personnel following the redundancies that were effected during 2013, Oil and fuel decreases of \$ 161,090 to \$ 7,587 arising from reduced usage following the suspension of production, Repairs and servicing cost decreases of \$ 45,694 to \$ 2,075 due primarily to the much reduced level of maintenance charges in the mill, Equipment hire decreases of \$ 2,693 to \$ 6,966 arising from the off-hire of machinery following the suspension of production, Consumable cost decreases of \$ 50,909 to \$ Nil due to there being minimal throughput in the mill, Carriage costs decreases of \$ 6,120 to \$ Nil arising from there being no shipments during the third quarter and Royalty costs decreases of \$ 890 to \$ 9,129 for the third

quarter. The royalty charged during the third quarter of 2014 is mainly a fixed minimum charge irrespective of there being no sales revenues during the quarter.

The inventory movement of \$ Nil in the third quarter compared to an inventory movement credit \$ 30,564 for the quarter ended September 30, 2013 which movement reflected an increase in inventory at September 30, 2013 when compared to July 1, 2013 inventory levels.

This has resulted in a net operating loss of \$ 75,901 before depreciation, general administrative expenses, loss on disposal of property, plant and equipment, unrealized gain on fair value of derivative financial liability, impairment of property, plant and equipment and foreign exchange loss for the quarter ended September 30, 2014 compared to a net operating income of \$ 35,673 for corresponding period of 2013.

Depreciation of property, plant and equipment excluding mine development costs during the third quarter totalled \$ 57,654 which compared with \$ 89,921 for the third quarter of 2013. This decrease is due to both the disposal of property, plant and equipment in 2013 together with the depreciation charge being calculated on the reducing balance basis. Depreciation of mine development costs for the three months ended September 30, 2014, which is calculated on the unit of production basis, amounted to \$ Nil compared to \$ 25,184 for the quarter ended September 30, 2013. Following the suspension of production there was no depreciation of mine development costs during the third quarter of 2014.

General administrative expenses for the quarter ended September 30, 2014 amounted to \$ 253,291 compared to \$ 262,189 for the third quarter of 2013. General administrative expenses are reviewed in more detail in Other MD&A Requirements on pages 26 and 27 of the MD&A.

The loss on disposal of property, plant and equipment during the third quarter amounted to \$ 50 compared to a gain of \$ 592 for the third quarter of 2013.

The unrealized gain on fair value of derivative financial liability arose as a result of the exercise price of the warrants issued during the earlier in 2014 being denominated in a currency other than the functional currency, resulting in these warrants being considered a derivative financial liability. The warrants are revalued at each period end with any gain or loss in the fair value being record in the consolidated statements of loss as an unrealized gain or loss on fair value of derivative financial liability. The unrealized loss for the quarter ended September 30, 2014 amounted to \$ 133,000 compared to \$ Nil for the third quarter of 2013.

There was an impairment of assets during the third quarter which amounted to \$ 2,921,884 compared to \$ Nil for the corresponding period of 2013. This impairment followed a strategic review by the Company of its business, which process involved a revaluation of the Company's assets resulting in the aforementioned impairment loss.

There was a Foreign exchange loss of \$ 69,157 for the third quarter of 2014 which compared with a Foreign exchange loss of \$ 22,715 for the third quarter of 2013.

This has resulted in a net loss of \$ 3,510,937 for the quarter ended September 30, 2014 compared to a net loss of \$ 363,744 for the corresponding period of 2013. When the Net Loss is adjusted for non-cash items before changes in non-cash working capital the cash loss from operating activities amounted to \$ 641,042 for the quarter ended September 30, 2014 compared to a cash loss from operating activities \$ 318,599 for the quarter ended September 30, 2013 as per Condensed Interim Consolidated Statements of Cash Flows. The cash loss generated from operating activities after changes in non-cash working capital items amounted to \$ 263,326 for the third quarter of 2014 compared to a cash loss from operating activities of \$ 364,158 for the third quarter of 2013.

Foreign currency translation loss, which is included in Condensed Interim Consolidated Statements of Comprehensive Loss amounted to \$ 245,734 for the quarter ended September 30, 2014 which compared to a foreign currency translation gain of \$ 354,915 for the third quarter of 2013. This resulted in a Total comprehensive loss of \$ 3,756,671 for the quarter ended September 30, 2014 compared to a Total

comprehensive loss of \$ 8,829 for the quarter ended September 30, 2013. The foreign currency translation loss during the third quarter of 2014 quarter arose mainly as a result of exchange differences relating to the assets that were impaired during the quarter. The exchange rate this current period is different from the exchange rate used to record the assets impaired when they were first acquired and the difference in foreign exchange was recorded in foreign exchange gain/loss in comprehensive income. The foreign currency translation gain during the third quarter of 2013 arose as a result of the net assets of the Company's UK subsidiaries, all of which are denominated in UK, being translated to Canadian dollars at period end exchange rates. The Canadian dollar exchange rate had weakened against UK£ at September 30, 2013 when compared to July 1, 2013 which has resulted in an increase in the Canadian dollar value of these net assets at September 30, 2013 when compared to July 1, 2013 resulting in the foreign currency translation gain.

Total assets at September 30, 2014 amounted to \$ 10,281,467 compared to \$ 13,353,812 at December 31, 2013. Cash at September 30, 2014 was \$ 54,759 compared to \$ 166,617 at December 31, 2013. Accounts receivable and advances consisting mainly of trade debtors, reclaimable taxes and prepayments amounted to \$ 98,250 at September 30, 2014 compared to \$ 405,124 at December 31, 2013. The decrease in accounts receivable and advances is mainly due to a reduction concentrate sales receivables and prepaids. Inventories at September 30, 2014 amounted to \$ 111,795 compared with an inventory of \$ 338,865 at December 31, 2013. Inventory mainly consists of jewellery products and unworked gold belonging to the jewellery business. The decrease, which is included in the impairment loss, arose from the revaluation of jewellery products and unworked gold following the Company's decision to no longer pursue the jewellery business.

Property, plant and equipment totalled \$ 7,402,993 compared to \$ 10,100,319 at December 31, 2013. The decrease in Property, plant and equipment was mainly due to a revaluation of the Company's assets which resulted in the impairment loss during the third quarter. This revaluation followed a strategic review of its business by the Company. Exploration and evaluation assets, consisting of development expenditures for the underground mine, totalled \$ 2,068,330 at September 30, 2014 compared to \$ 1,875,771 at the end of 2013. Long term deposit at September 30, 2014, representing funds held in trust in connection with the Company's asset retirement obligations, amounted to \$ 545,340 compared to \$ 467,116 at December 31, 2013. Following the transition to International Financial Reporting Standards (IFRS), property, plant and equipment, exploration and evaluation assets and long term deposit at the Company's Omagh mine, all of which are denominated in UK are now translated to Canadian dollars at period end exchange rates.

Current liabilities at September 30, 2014 amounted to \$ 3,653,668 compared to \$ 4,814,910 at the end of 2013. The working capital deficit at September 30, 2014 amounted to \$ 3,388,864 compared to a working capital deficit of \$ 3,904,304 at December 31, 2013. Accounts payable and other liabilities totalled \$ 808,253 compared to \$ 1,217,360 at December 31, 2013. Amounts due to related parties at September 30, 2014 amounted to \$ 2,845,415 compared to \$ 3,597,550 at the end of 2013. The reduction in related party liability is mainly due to the share for debt exchange that was completed during the second quarter. The decommissioning liability at September 30, 2014 amounted to \$ 553,951 compared to \$ 528,810 at December 31, 2013.

The derivative financial liability at September 30, 2014 amounted to \$ 429,000 compared to \$ Nil at the end of 2013. The derivative financial liability arose as a result of the exercise price of the warrants issued during the second quarter being denominated in a currency other than the functional currency, resulting in these warrants being considered a derivative financial liability.

## Nine Months Ended September 30, 2014

The net loss for the nine months ended September 30, 2014 amounted to \$ 4,309,640 which includes an asset impairment loss of \$ 2,921,884 and compares to a net loss of \$ 1,161,961 for the nine months ended September 30, 2013 as summarized below.

|   | <b>Nine Months Ended<br/>September 30, 2014</b> | <b>Nine Months Ended<br/>September 30, 2013</b> |
|---|---|---|
|   | \$  | \$  |
| <b>Revenues</b>   | <b>8,376</b>                                    | <b>1,362,200</b>                                |
| Production costs  | 260,957   | 1,371,445                                       |
| Inventory movement  | 0   | (24,029)  |
| <b>Cost of sales</b>  | <b>260,957</b>                                  | <b>1,347,416</b>                                |
| <b>(Loss) Income before the undernoted</b>                        | <b>(252,581)</b>                                | <b>14,784</b>                                   |
| Depreciation  | 184,917   | 361,935   |
| General administrative expenses                                   | 873,000   | 853,969   |
| (Gain) on disposal of property, plant and equipment               | (19,810)  | (65,123)  |
| Unrealized (gain) on fair value of derivative financial liability | (77,000)  | 0   |
| Impairment of property, plant and equipment                       | 2,921,884                                       | 0   |
| Foreign exchange loss   | 174,068   | 25,964  |
| <b>Net (Loss) for the period</b>                                  | <b>\$ (4,309,640)</b>                           | <b>\$ (1,161,961)</b>                           |

Sales revenues for the nine months ended September 30, 2014 amounted to \$ 8,376 which compared to sales revenues of \$ 1,362,200 for the corresponding period of 2013. Following the suspension of production during the fourth quarter of 2013 there were no concentrate sales from the mine during the first nine months of 2014.

Cost of sales include production costs at the mine and inventory movements and totalled \$ 260,957 for the nine months ended September 30, 2014 compared to \$ 1,347,416 for the corresponding period of 2013. A summary of cost of sales is set out on Note 13 of the September 30, 2014 condensed interim consolidated financial statements.

Production costs for the nine months ended September 30, 2014 amounted to \$ 260,957 compared to \$ 1,371,445 for the nine months ended September 30, 2013. 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 no production during the first nine months of 2014 and this is reflected in the lower production costs for the period. These lower production costs included decreases in Production wages of \$ 329,087 to \$ 130,281 reflecting the reduced cost of production personnel following the redundancies that were effected during 2013, Oil and fuel decreases of \$ 492,624 to \$ 33,726 arising from reduced usage following the suspension of production, Repairs and servicing cost decreases of \$ 121,220 to \$ 11,927 due primarily to the much reduced level of maintenance charges in the mill, Equipment hire decreases of \$ 12,436 to \$ 15,808 arising from the off-hire of machinery following the suspension of production, Consumable cost decreases of \$ 122,956 to \$ 8,055 due to there being limited throughput in the mill and Carriage costs decreases of \$ 17,474 to \$ Nil arising from there being no shipments during the first nine months of 2014. Royalty costs for the first nine months amounted to \$ 29,791 compared to \$ 32,725 for 2013. The royalty charged during the first nine months of 2014 is mainly a fixed minimum charge irrespective of there being no sales revenues during the period.

The inventory movement of \$ Nil in the first nine months of 2014 compared to an inventory movement credit of \$ 24,029 for the nine months ended September 30, 2013 which movement reflected an increase in inventory at September 30, 2013 when compared to January 1, 2013 inventory levels.

This has resulted in a net operating loss of \$ 252,581 before depreciation, general administrative expenses, gain on disposal of property, plant and equipment, unrealized gain on fair value of derivative financial liability, impairment of property, plant and equipment and foreign exchange loss for the nine months ended September 30, 2014 compared to a net operating income of \$ 14,784 for corresponding period of 2013.

Depreciation of property, plant and equipment excluding mine development costs during the first nine months of 2014 totalled \$ 184,917 which compared with \$ 293,518 for the first nine months of 2013. This decrease is due to both the disposal of property, plant and equipment in 2013 together with the depreciation charge being calculated on the reducing balance basis. Depreciation of mine development costs for the nine months ended September 30, 2014, which is calculated on the unit of production basis, amounted to \$ Nil compared to \$ 68,417 for the nine months ended September 30, 2013. Following the suspension of production there was no depreciation of mine development costs during 2014.

General administrative expenses for the nine months ended September 30, 2014 amounted to \$ 873,000 compared to \$ 853,969 for the first nine months of 2013. General administrative expenses are reviewed in more detail in Other MD&A Requirements on pages 27 and 28 of the MD&A.

The gain on disposal of property, plant and equipment during the first nine months of 2014 amounted to \$ 19,810 compared to a gain of \$ 65,123 for 2013.

The unrealized gain on fair value of derivative financial liability arose as a result of the exercise price of the warrants issued during the second quarter being denominated in a currency other than the functional currency, resulting in these warrants being considered a derivative financial liability. The warrants are revalued at each period end with any gain or loss in the fair value being recorded in the consolidated statements of loss as an unrealized gain or loss on fair value of derivative financial liability. The unrealized gain for the nine months ended September 30, 2014 amounted to \$ 77,000 compared to \$ Nil for the corresponding period of 2013.

There was an impairment of assets during the nine months ended September 30, 2014 which amounted to \$ 2,921,884 compared to \$ Nil for the corresponding period of 2013. This impairment followed a strategic review by the Company of its business, which process involved a revaluation of the Company's assets resulting in the aforementioned impairment loss.

There was a Foreign exchange loss of \$ 174,068 for the first nine months of 2014 which compared with a Foreign exchange loss of \$ 25,964 for 2013.

This has resulted in a net loss of \$ 4,309,640 for the nine months ended September 30, 2014 compared to a net loss of \$ 1,161,961 for the corresponding period of 2013. When the Net Loss is adjusted for non-cash items before changes in non-cash working capital the cash loss from operating activities amounted to \$ 1,610,718 for the nine months ended September 30, 2014 compared to a cash loss from operating activities of \$ 881,526 for the nine months ended September 30, 2013 as per the Condensed Interim Consolidated Statements of Cash Flows. The cash loss from operating activities after changes in non-cash working capital items amounted to \$ 976,658 for the first nine months of 2014 compared to a cash loss of \$ 1,064,744 for 2013.

Foreign currency translation gain, which is included in Condensed Interim Consolidated Statements of Comprehensive Loss amounted to \$ 116,514 for the nine months ended September 30, 2014 which compared to a foreign currency translation gain of \$ 247,612 for 2013. This resulted in a Total comprehensive loss of \$ 4,193,126 for the nine months ended September 30, 2014 compared to a Total comprehensive loss of \$ 914,349 for the nine months ended September 30, 2013. The foreign currency translation gain during both periods arose as a result of the net assets of the Company's UK subsidiaries, all of which are denominated in UK, being translated to Canadian dollars at period end exchange rates. The

Canadian dollar exchange rate had weakened against UK£ at September 30, 2014 when compared to January 1, 2014 which has resulted in an increase in the Canadian dollar value of these net assets at September 30, 2014 when compared to January 1, 2014 resulting in the foreign currency translation gain. However, for the nine months ended September 30, 2014 the foreign currency translation gain was partially offset by a foreign currency translation loss which arose as a result of exchange differences relating to the assets that were impaired during the third quarter. The exchange rate this current period is different from the exchange rate used to record the assets impaired when they were first acquired and the difference in foreign exchange was recorded in foreign exchange gain/loss in comprehensive income.

## **REVIEW OF OPERATIONS**

### **2014 Financing Activities**

There were no financing activities during the third quarter of 2014. During the second quarter Galantas completed a private placement financing for aggregate gross proceeds of approximately UK£ 516,500. Pursuant to the offering, an aggregate of 10,330,000 units were sold at a price of UK£ 0.05/\$ 0.09375 per common share. Each unit comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire a further common share of the Company at a price of UK£ 0.10 per share for a period two years from the date the subscription was closed. Commissions of \$ 8,126 were paid in connection with the placing.

### **2014 Production**

There was minimal production at the Omagh mine during the three and nine months ended September 30, 2014.

Production at the Omagh mine was suspended during the fourth quarter of 2013 following a fall in the concentrate gold grade together with weakening gold prices. The main production focus during 2013 had been on the processing of ore from the low grade stockpile. Earlier in 2013 there had been some limited open pit mining on the Kerr vein which ceased during the first quarter when the pit met its planned design limit. In 2012 mining from the Kearney pit had become totally restricted as a result of the surplus rock stockpile on the site reaching capacity levels. This surplus rock was due to be transported from the site in 2012 with the Omagh mine having completed construction of public road improvements at its own cost to comply with the conditions of the planning consent. However, following a judicial review brought by a private individual on the grounds of procedural failings by Planning Services, the planning consent was quashed with the surplus rock remaining on site. This ongoing limitation resulted in production being from low grade sources up until the suspension of production later in 2013 which resulted in further cost reduction measures being implemented at the Omagh mine including the laying off of the majority of its operatives.

Later in 2013 and during the first half of 2014 the Company commenced pilot tests with regards to the processing of tailing cells filled during the earlier operation of the mine. The results confirmed pre-existing data that indicated the tailings contain between 0.5g/t gold and 1 g/t gold and would meet European Union standards for definition as inert material. A low energy cost processing solution, based upon a Knelson CD12 centrifugal gravity concentrator, which was already utilised in the gold processing plant in a secondary role, was pilot tested as a prime re-treatment component for flotation tailings. The initial testwork was encouraging. The tailings did not require comminution (crushing and grinding) for re-processing by this method. Extended in-house tests with the Knelson concentrator produced a variation in results in terms of grade and recovery. Consequently, alternative gravity oriented test-work was carried out. The results successfully indicate that it is possible to uprate tailings by a low energy consuming, bulk gravity method from 0.5-1.0 g/t to 2-3 g/t gold. The higher feed grade produced in testing has been tested with froth flotation in the Company's in-house laboratory to simulate production flotation in the company's processing plant, followed by an additional gravity scavenging treatment. The results indicate that a finer grind than was previously required may be necessary to enhance the concentrate grade. An investigation of process economics suggests that the operation may best be carried out in conjunction with processing ore from the underground mine.

## Planning

During 2012 the planning application for an underground mine together with the Environmental Impact Study in connection with the proposed underground development were submitted to the Planning Services. Extensive consultations have taken place with statutory, regulatory agencies and third parties. The Company understands a timeline in the fourth quarter of 2014 is possible for a final determination. However it should be noted that the timeline for delivery of the determination is not within the control of the Company.

## Reserves and Resources

During 2012 ACA Howe International Ltd (Howe UK) completed an Interim Resource to Canadian National Instrument NI 43-101 compliant mineral resource estimate and a Preliminary Economic Assessment for the Omagh Gold Project (see press release dated July 3, 2012). This report, which was based on drilling results and analyses received to June 2012, identified all resources discovered at that date. The Company subsequently filed a complete Technical Report on SEDAR in August 2012. An updated resource estimate was prepared by the Company during the second quarter of 2013 based on drilling results received to May 5, 2013 (see press release dated June 12, 2013). The drilling programme, subsequent to June 2012, was targeted to increase the amount of measured and indicated resources related to the potential development of an underground mine. Galantas subsequently filed an updated Technical Report on SEDAR in July 2013.

Work continued during 2014 on updating the resource estimate to incorporate results from later drill holes not available previously. The main veins were re-strung to incorporate the new drill data and accommodate the revised cut-off grade and minimum mining width parameters. Importantly, the Joshua and Kearney drill intersects were strung to individual historic channels, this time consuming process has incorporated all of the available assay data in order to make a more informed assessment of grade continuity and vein geometry. Based upon this updated technical analysis work continued on finalising a revised NI 43-101 report which included the delineation of mining reserves, the completion of a detailed mining plan, mining schedule and comprehensive cost estimates, based upon underground working of the Joshua and Kearney veins.

During the third quarter 2014 Galantas reported a revised updated estimate of gold resources together with a Preliminary Economic Assessment (PEA) update (see press release dated July 28, 2014). The revised estimate of resources is in compliance with the Pan European Reporting Code (PERC), Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and Canadian National Instrument (NI) 43-101 and is summarised below.

|                              | RESOURCE ESTIMATE : GALANTAS 2014 |                           |               | Increase<br>over<br><b>GAL 2013<br/>report</b> |
|------------------------------|-----------------------------------|---------------------------|---------------|--|
|                              | CUT-OFF 2 g/t Au                  |                           |               |  |
| <b>RESOURCE<br/>CATEGORY</b> | <b>TONNES</b>                     | <b>GRADE<br/>(Au g/t)</b> | <b>Au Ozs</b> |  |
| <b>MEASURED</b>              | 138,241                           | 7.24                      | 32,202        | 55%  |
| <b>INDICATED</b>             | 679,992                           | 6.78                      | 147,784       | 21.4%  |
| <b>INFERRED</b>              | 1,373,879                         | 7.71                      | 341,123       | 15.4%  |

*Minerals Resources that are not Mineral Reserves do not have demonstrated economic viability.*

Overall there has been a 19% increase in resources since the Galantas June 2013 Resource Report and a 60% increase in resources since the July 2012 Resource Report by ACA Howe International Ltd. The

increases since 2012 largely relate to the Kearney and Joshua veins, since this is where the drilling program has been concentrated. The drilling program was mainly designed to focus on increasing the quantity of Measured and Indicated resources on these two veins, to support potential bank funding opportunities for the financing of production. The resource estimate for each vein is tabulated below.

| <b>RESOURCE ESTIMATE BY VEIN : GALANTAS 2014</b> |                 |                |                   |                  |                |                   |                  |                |                   |
|--|-----------------|----------------|-------------------|------------------|----------------|-------------------|------------------|----------------|-------------------|
|  | <b>MEASURED</b> |                |                   | <b>INDICATED</b> |                |                   | <b>INFERRED</b>  |                |                   |
|  | TONNES          | GRADE Au (g/t) | Contained Au (oz) | Tonnes           | GRADE Au (g/t) | Contained Au (oz) | Tonnes           | GRADE Au (g/t) | Contained Au (oz) |
| KEARNEY  | 76,936          | 7.48           | 18,490            | 383,220          | 6.66           | 82,055            | 909,277          | 6.61           | 193,330           |
| JOSHUA   | 54,457          | 7.25           | 12,693            | 216,211          | 7.92           | 55,046            | 291,204          | 10.74          | 100,588           |
| KERR   | 6,848           | 4.63           | 1,019             | 12,061           | 4.34           | 1,683             | 23,398           | 3.2            | 2,405             |
| ELKINS   |                 |                |                   | 68,500           | 4.24           | 9,000             | 20,000           | 5.84           | 3,800             |
| GORMLEYS   |                 |                |                   |                  |                |                   | 75,000           | 8.78           | 21,000            |
| PRINCES  |                 |                |                   |                  |                |                   | 10,000           | 38.11          | 13,000            |
| SAMMY'S  |                 |                |                   |                  |                |                   | 27,000           | 6.07           | 5,000             |
| KEARNEY NORTH                                    |                 |                |                   |                  |                |                   | 18,000           | 3.47           | 2,000             |
| <b>TOTAL</b>                                     | <b>138,241</b>  | <b>7.25</b>    | <b>32,202</b>     | <b>679,992</b>   | <b>6.78</b>    | <b>147,784</b>    | <b>1,373,879</b> | <b>7.71</b>    | <b>341,123</b>    |

The resources are calculated at a cut-off grade of 2 g/t gold (Au), numbers are rounded, gold grades are capped at 75 g/t gold and a minimum mining width of 0.9m has been applied.

Measured and Indicated resources on Kearney vein have increased to 100,545 ounces of gold from 69,000 ounces in 2012. Measured and Indicated resources on Joshua vein have increased to 67,739 ounces of gold from 15,800 ounces in 2012. The Kearney and Joshua veins are the early targets of underground mining. Combined Measured and Indicated resource category on these two veins are estimated at 168,284 ounces of gold, with 293,918 ounces of gold in the Inferred resource category. Both vein systems are open at depth.

With regards to the Preliminary Economic Assessment a restricted portion of Inferred resources for two veins - Joshua and Kearney have been included in the mining plan with the Measured and Indicated resources. The Inferred resources (which have lower statistical support than Measured or Indicated Resources) are contiguous with Measured or Indicated resources and / or lie within scheduled mining areas. The use of Inferred resources, in a restricted qualifying manner, is permitted by the PERC code in regard to economic studies but is excluded within NI 43-101, except within a Preliminary Economic Assessment. PERC is an approved code in respect of NI 43-101. As part of PERC requirements, a comparative Feasibility study will be included in the detailed technical report which will not include Inferred resources and will also include studies on sensitivity to gold price.

The total of scheduled Measured and Indicated ounces utilised within the mining study is 104,627 ounces. The Inferred resources scheduled in the economic study are estimated at 60,635 ounces. Total Inferred resource estimated on the Joshua and Kearney orebodies is 293,918 ounces of gold. The amount of Inferred resources included in the PEA amounts to 20.6% of the total Inferred resources estimated on these



veins. Were Inferred resources excluded within the mining plan, approximately 1 year would be removed from the estimate of mine life and annual output would be reduced.

At a gold price of UK£750 / US\$ 1,260 oz, the pre-tax operating surplus after capital expenditure estimates an Internal Rate of Return of 72% and, at an 8% discount rate, a net present value of approximately UK£ 14.5m (CDN\$ 26.6m) and a cash cost of production of UK£394 per ounce (USD\$ 662 at \$1.68/UK£). The study scheduled approximately 36% of the combined resources identified on the Kearney and Joshua veins.

The Company also filed the complete Technical Report on SEDAR during the third quarter, as required by NI 43-101.

## **Exploration**

The Company has not carried out any exploration drilling during 2014. This followed the suspension of drilling in the third quarter of 2013 pending the availability of cash for future exploration. Once additional funding becomes available the programme will continue and up to a further 1,000 metres of drilling are planned following up the recently reported gold intersects on the Joshua vein.

The major focus of exploration activities in 2012 and 2013 had been the continuation of the successful drilling programme. In total, 17,348 metres were drilled following the commencement of the programme in March 2011 with significant gold intersects being reported. Six rigs were operational during the first half of 2012. The second half of the year saw the number of rigs progressively reduce with one rig, owned by the Company, remaining in operation by the end of 2012. The main objectives were to extend the depth and extent of the Joshua vein and provide data for a potential underground operation based upon the Joshua and Kearney veins. During 2011 and 2012 ninety five holes were drilled totalling 16,347 metres. Channel sampling was also carried out, during this period, on the Joshua, Kearney and Kerr vein systems. On Joshua, a total strike length of 213 metres was sampled. On Kerr, an increase in average vein width and gold grade was identified within depth over a 30 metre strike length.

Drilling continued at a reduced rate in 2013 with the completion of four holes— one in North Kearney and three around central Joshua. The drilling locations were defined with the aim of upgrading areas of inferred resource to the indicated category. During the first quarter of 2013, assay results were received showing a grade of 9 g/t gold over a vein width of 1 m for hole OM-DD-12-144. This is a significant result as the location is 100 m south of where the Joshua vein appears to narrow, suggesting that the vein continues south of the property. Drilling was then suspended during the third quarter pending the availability of cash for future exploration. Following the scale back of drilling in 2013, more time was dedicated to logging remaining drill cores, the sealing off of all accessible drill holes, updating databases and progressing towards a resource estimate using the Micromine geological modelling computer program.

Assay results released to date from both the drilling and channel sampling programmes have been encouraging with significant gold intersections being identified. The 2013 Technical Report contains all data related to the programme with the exception of two drill holes detailed in a disclosure subsequent to June 30, 2013. The technical report was recently updated and published on Sedar during this quarter. The Pan European Reporting Code (PERC) and Canadian National Instrument (NI) 43-101 compliant report, detailed a significant increase in the resource (see press release dated 4<sup>th</sup> September 2014). Results have been positive, in particular the assays from the ten drill holes on Joshua released in January 2013 with thirteen significant mineral intersects. Galantas reported positive assay results from the first of two drill holes completed on the Joshua vein during the third quarter of 2013. This drill hole is the second deepest intersect yet drilled on Joshua vein and averaged 12.4 g/t gold, over a true width of vein of 2.8 metres. The top of the mineralised intersect is estimated to be at a vertical depth of 137.2 metres. The hole was terminated at a down-hole length of 171.8 metres (see press release dated August 27, 2013). Once additional funding becomes available this drilling programme will continue.

Three new licence areas in the Republic of Ireland (ROI), covering 121.1 km<sup>2</sup>, were granted in 2013. These join, and extend south-westwards, the existing four ROI licences. Data revealed earlier in 2013 by the

Tellus Border Project, a cross border initiative funded by the EU regional development fund, indicated the continuation of a trend established on licence OM4, into the OML-held ROI licences, with anomalously high concentrations of gold pathfinder elements. This data had assisted in the design of a field programme which was carried out during the third quarter of 2013. Nineteen float, outcrop and stream sediment samples were collected from areas closely associated with major fault systems. Sample results were received during the first quarter. The largest gold anomaly was identified for a stream sediment sample taken from a NE tributary to Lough Derg; watercourses entering the Lough in this area drain much of the OM4 catchment. The results for key pathfinder elements and precious metals were added to layers in GIS for effective spatial display. Further samples collected in the vicinity of those yielding anomalous Au have been sent for analysis along with samples from an adjoining ROI licence.

Further sampling work is planned on the OM4 licence area in Northern Ireland following the discovery of gold and key pathfinder element anomalies in float, outcrop and soil samples collected within the Magheranageeragh target area during 2013.

Confirmation was received during the first quarter of 2014 that Omagh Minerals had been successful in their application for a further two prospecting licences in the ROI. This brings the total number of licences held to eleven and the total area to 766.5 square kilometres. In addition four exploration licences held in the ROI were extended for a further two years. During the second quarter historical exploration reports and publications relating to the geology and known mineralisation of these licences were reviewed. Following this, some reconnaissance fieldwork was carried out in order to identify the areas to be prioritised for exploration over the summer. Four broad exploration targets were established, based on the potential for mineralisation with consideration given to land accessibility and suitable exposure. Three of the target areas are within the ROI licence area with the fourth being in the OM4 licence within Northern Ireland. During the third quarter exploration work, which included detailed mapping and sampling, focused on these target areas.

In addition detailed sampling took place in an area close to the mine site where, thirty years ago, initial exploration carried out by RioFinex uncovered visible vein outcrops ('Discovery' and 'Sharkey') in the banks of a neighbouring burn. Attention and resources were subsequently diverted towards drilling the Kearney vein, following its discovery in the late 1980's. However, recent resource modelling and underground mine planning activities prompted a re-investigation of the burn veins during the third quarter, when water levels were unusually low. Two in-situ quartz veins were identified 18 m west and 35 m west of the Rio 'Discovery' vein, grab samples of quartz containing pyrite and galena measured 13.5 g/t and 0.4 g/t gold, respectively. A completely isolated zone of sulphide rich clay gouge was also uncovered 70 m east of 'Discovery', two samples were collected and analysed, yielding 23.6 and 9 g/t gold. In addition to these outcrops, several high grade boulders (float) were discovered over 40 metres from the Rio 'Sharkey vein', including those analysed at 30.4 g/t, 34.4 g/t, 39.4 and 44.3 g/t gold (see press release dated October 6, 2014). These boulders are comparatively large in size and are likely to be derived from a local source (see press release dated October 6, 2014). The presence of these strong gold anomalies found near to the southern boundary of the recently operating Omagh Gold Mine site has instigated a detailed investigation of new and a re-evaluation of existing targets.

## Summary of Quarterly Results

Revenues and financial results in Canadian dollars for the third quarter of 2014 and for the seven preceding quarters are summarized below. As part of the share consolidation completed in April 2014, the calculation of basic and diluted Net income (loss) per share has been restated to reflect this share consolidation.

| Quarter Ended      | Accounting Policies | Total Revenue | Net Income (Loss) | Net Income (Loss) per share & per share diluted |
|--------------------|---------------------|---------------|-------------------|---|
| September 30,2014  | IFRS                | \$ 8,376      | \$ (3,510,937)    | \$ (0.05)                                       |
| June 30,2014       | IFRS                | \$ 0          | \$ (296,603)      | \$ (0.01)                                       |
| March 31,2014      | IFRS                | \$ 0          | \$ (502,100)      | \$ (0.02)                                       |
| December 31, 2013  | IFRS                | \$ 169,273    | \$ (782,394)      | \$ (0.01)                                       |
| September 30, 2013 | IFRS                | \$ 473,668    | \$ (363,744)      | \$ (0.01)                                       |
| June 30,2013       | IFRS                | \$ 523,856    | \$ (357,663)      | \$ (0.01)                                       |
| March 31,2013      | IFRS                | \$ 364,676    | \$ (440,554)      | \$ (0.01)                                       |
| December 31, 2012  | IFRS                | \$ 875,391    | \$ 1,449          | \$ 0.00   |

The results for the Quarter ended September, 2014 are discussed under Review of Financial Results on pages 8 to 10 of the MD&A. Revenues are primarily from the sales of concentrates. There were no shipments of concentrate nor during the first three quarters of 2014 and the sales during the third quarter consisted of jewellery sales and scrap sales. The net income of \$ 1,449 for the fourth quarter 2012 is attributable to the capitalisation of certain production costs totalling \$ 327,000 in the fourth quarter which costs had been included in production costs in the financials to the nine months ended September 30, 2012. The production costs capitalised were in connection with the creation of a number of paste cells in 2012 in preparation for their future utilisation when underground mining at the Omagh mine commences. Low metal production together with weakening gold prices during the first, second, third and fourth quarters of 2013 resulted in significant losses for those quarters.

## Liquidity and Financial Position

The Company, which is involved in mining and exploration activities, has currently a limited source of operating revenue as a result of the recent suspension of mining activities and does not anticipate receiving substantial additional revenues until such time as the planned underground mine is in operation. Presently the activities of the Company are financed through equity offerings.

Galantas reported a working capital deficit of \$ 3,388,864 at September 30, 2014 which compared with a deficit of \$ 3,904,304 at December 31, 2013. The Company had cash balances of \$ 54,759 at September 30, 2014 compared with a cash balance of \$ 166,617 at December 31, 2013. Accounts receivable and advances consisting mainly of trade debtors, reclaimable taxes and prepayments amounted to \$ 98,250 at September 30, 2014 compared to \$ 405,124 at December 31, 2013. Inventory at September 30, 2014 amounted to \$ 111,795 compared with an inventory of \$ 338,865 at December 31, 2013. Inventory mainly consists of jewellery products and unworked gold belonging to the jewellery business.

Accounts payable and other liabilities amounted to \$ 808,253 at September 30, 2014 compared with \$ 1,217,360 at December 31, 2013. Amounts due to related parties at September 30, 2014 amounted to \$ 2,845,415 compared to \$ 3,597,550 at the end of 2013. In addition Galantas has a contingent liability arising from a payment demand from Her Majesty's Revenue and Customs in the amount of \$ 553,138 (UK£ 304,290) 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.

The Company is reliant on obtaining additional funding to allow it to continue the expanded exploration programme and the further development of its underground mine plans and is actively seeking additional funding. The relative weakness of the Canadian and UK equity markets for junior mining companies continues and has restricted financing opportunities from this area.

During the second quarter of 2014 Galantas completed a private placement financing for aggregate gross proceeds of approximately UK£ 516,500. Pursuant to the offering, an aggregate of 10,330,000 units were sold at a price of UK£ 0.05/\$ 0.09375 per common share. Each unit comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire a further common share of the Company at a price of UK£ 0.10 per share for a period two years from the date the subscription was closed. Commissions of \$ 8,126 were paid in connection with the placing. As a result of the exercise price of the warrants being denominated in a currency other than the functional currency, the warrants are considered a derivative financial liability. The fair value of the 10,330,000 warrants was estimated at \$ 506,000 using a valuation option pricing formula with the following assumptions: expected dividend yield - 0%, expected volatility - 168.92%, risk-free interest rate - 1.07% and an expected average life of 2 years. See Note 11(c) of the September 30, 2014 condensed interim consolidated financial statements.

The funds raised were applied to the following purposes:

- The examination and implementation of a cost effective processing route for re-treatment of low grade tailings sands;
- Continued work on cost reduction within a detailed feasibility study and updating resource / reserve assessment at the Omagh property
- Progression of underground planning permits, on which the Company expects substantive progress during the second half of 2014.
- Ongoing working capital requirements.

In addition a share for debt exchange, as approved by shareholders and the TSX Venture Exchange, of 15,125,140 common shares for UK£ 756,257 / \$ 1,389,150 of the Company's debt, was completed during the second quarter. Roland Phelps (President & Chief Executive) agreed to exchange a loan of UK £ 718,256 for 14,365,120 new ordinary shares. Leo O'Shaughnessy (Chief Financial Officer) has agreed to exchange a loan of UK £ 16,025 for 320,500 new ordinary shares. Amounts due to certain other third party creditors have also agreed to settlement of amounts owed totalling UK £ 21,976, through the issue of 439,520 new ordinary shares.

Arising from its current commitments, the Company will continue in its efforts to raise equity capital in amounts sufficient to fund both exploration and the development of the underground mine, its ongoing operating expenses commitments in addition to its working capital requirements. 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 consolidated financial statements have been prepared on a going concern basis as discussed in Note 1 of the September 30, 2014 consolidated financial statements. The Company's ongoing viability is dependent on obtaining planning consent for the development of an underground mine at Omagh and securing sufficient financing to fund ongoing operational activity and the development of the underground mine.

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 consolidated statements of financial position.

### **Off-Balance Sheet Arrangements**

There is a derivative financial liability at September 30, 2014 amounting to \$ 429,000 which arose as a result of the exercise price of warrants issued during 2014 being denominated in a currency other than the functional currency, resulting in these warrants being considered a derivative financial liability. See Note 11(c) of the September 30, 2014 condensed interim consolidated financial statements.

The Company does not have any other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its financial performance or financial condition, including without limitation, such considerations as liquidity, capital expenditures and capital resources that would be considered material to investors.

### **Related Party Transactions**

Related parties include the board of directors, close family members, other key management individuals, and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the fair value (the amount established and agreed by the related parties) and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

The Company entered into the following transactions with related parties:

Director fees of \$ 6,750 and \$ 21,000 respectively were accrued for the three and nine months ended September 30, 2014 (\$ 7,750 and \$ 21,000 for the three and nine months ended September 30, 2013). Stock-based compensation for these directors totalled \$ Nil for the three and nine months ended September 30, 2014 ( \$ 2,911 and \$ 10,659 for the three and nine months ended September 30, 2013).

Remuneration accrued for the President/CEO totalled \$ 90,840 (UK£ 50,000) and \$ 273,900 (UK£150,000) for the three and nine months ended September 30, 2014 (\$ 80,550 (UK£ 50,000) and \$ 237,330 (UK£ 150,000) for the three and nine months ended September 30, 2013). Stock-based compensation for the President/CEO totalled \$ Nil for the three and nine months ended September 30, 2014 (\$ 2,328 and \$ 8,527 for the three and nine months ended September 30, 2013).

Remuneration of the CFO totalled \$ 18,031 and \$ 54,869 for the three and nine months ended September 30, 2014 (\$ 16,664 and \$ 49,539 for the three months and nine months ended September 30, 2013). Stock based compensation for the CFO totalled \$ Nil for the three and nine months ended September 30, 2014 (\$ 582 and \$ 2,132 for the three and nine months ended September 30, 2013).

At September 30, 2014 G&F Phelps Limited, a company controlled by a director of the Company, had amalgamated loans to Galantas of \$ 2,207,296 (UK£1,214,268) (December 31, 2013 \$ 2,017,000 ( UK £ 1,144,268)) bearing interest at 2% above UK base rates, repayable on demand and secured by a mortgage debenture on all the Company's assets. The interest charged on the loan for the three and nine months ended September 30, 2014 amounted to \$ 13,752 (UK£ 7,569) and \$ 41,237 (UK£ 22,583) respectively (three and nine months ended September 30, 2013 \$ 10,162 (UK£ 6,398) and \$ 29,894 (UK£18,894 respectively). Interest accrued on related party loans is included under due to related parties. As at September 30, 2014, the interest accrued amounted to \$ 205,168 (UK£ 112,866) (December 31, 2013 - \$ 159,144 (UK£ 90,284)). During the year ended December 31, 2013, G&F Phelps acquired a container from the Company for \$ 2,057(UK£ 1,300) which was offset against the G&F Phelps loan.

As at September 30, 2014 due to directors for fees totalled \$ 48,750 (December 31, 2013 \$ 27,750) and due to key management, mainly for salaries and benefits accrued at September 30, 2014, amounted to \$ 384,201 (UK£ 211,355) (December 31, 2013 - \$ 1,393,656 (UK£ 790,637)) and are included under due to related parties.

During the second quarter Galantas completed a private placement financing for aggregate gross proceeds of approximately UK£ 516,500. Pursuant to the offering, an aggregate of 10,330,000 units were sold at a price of UK£ 0.05/\$ 0.09375 per common share. Kenglo, a related party, subscribed for 5,000,000 units for a sum of £250,000. As of September 30, 2014 the Company is advised that Kenglo hold 13,222,068 shares and 5,000,000 warrants in Galantas representing 17.2% of the enlarged Galantas issued share capital, on a diluted basis. These holdings can change at any time at the discretion of the owner.

Also during the second quarter, and following the share consolidation and completion of the private placement, Roland Phelps (President & Chief Executive) exchanged a loan of UK £718,256 for 14,365,120 new common shares and Leo O'Shaughnessy (Chief Financial Officer) exchanged a loan of UK £16,025 for 320,500 new common shares under a shares for debt exchange as approved by shareholders earlier in 2014, and subsequently by the TSX Venture Exchange.

As of September 30, 2014 and subsequent to share consolidation and share for debt exchange Roland Phelps, Chief Executive Officer and director, owned, directly and indirectly, 21,472,925 common shares or approximately 28% of the outstanding common shares. Excluding the Kenglo One Limited shareholdings discussed above, the remaining shares are widely held, which include various small holdings which are owned by the other directors of the Company.

The Company is not aware of any arrangements that may at a subsequent date result in a change in control of the Company.

## Proposed Transactions

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

## 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. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of accounts receivable that are included in the consolidated statements of financial position;
- the recoverability of exploration and evaluation assets incurred on the Omagh underground mine is dependent upon the ability to obtain planning permission and secure sufficient funding for the development of the underground mine. Drilling has now been suspended, pending the availability of cash for future exploration. The Omagh underground mine and the open pit mine are considered as one Cash generating unit ("CGU") and were tested for impairment at December 31, 2013. No

impairment was noted and management is exploring opportunities to secure financing in anticipation of approval of planning permission;

- the estimated life of the ore body based on the estimated recoverable ounces or pounds mined from proven and probable reserves of the mine development costs which impacts the consolidated statements of financial position and the related depreciation included in the consolidated statements of loss;
- the estimated useful lives and residual value of property, plant and equipment which are included in the consolidated statements of financial position and the related depreciation included in the consolidated statements of loss;
- Share-based payments – management is required to make a number of estimates when determining the compensation expense resulting from share-based transactions, including the forfeiture rate and expected life of the instruments;
- Functional currency – the functional currency for the parent entity and each of its subsidiaries, is the currency of the primary economic environment in which the entity operates. The parent entity has determined its functional currency is the Canadian dollar and each subsidiary to be the UK £ Sterling. Determination of functional currency may involve certain judgements to determine the primary economic environment and the parent entity reconsiders the functional currency of its entities if there is a change in events and conditions which determined primary economic environment and
- Decommissioning liabilities has been created based on the estimated settlement amounts. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed quarterly and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to liability on a quarterly basis. Actual decommissioning costs will ultimately depend on actual future settlement amount for the decommissioning costs which will reflect the market condition at the time the decommissioning costs are actually incurred. The final cost of the currently recognized decommissioning provisions may be higher or lower than currently provided for.

### Critical Accounting Judgments

- Income taxes – measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the annual audited consolidated financial statements;
- Going concern assumption – Going concern presentation of the consolidated financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

### Accounting Policies including Initial Adoption

The Company applies International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The accounting policies and methods of computation followed in Cadillac's consolidated financial statements are set out in detail on Note 4 of the December 31, 2013 consolidated financial statements. The relevant changes in accounting policies applicable to the current period are set out below.

## Changes in Accounting Policies

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for accounting periods beginning January 1, 2014. The following new standards have been adopted.

### IAS 32 –Financial Instruments Presentation

IAS 32 - Financial Instruments, Presentation was effective for annual periods beginning on or after January 1, 2014. IAS 32 was amended to clarify that the right of offset must be available on the current date and cannot be contingent on a future date. At January 1, 2014 the Company adopted this pronouncement and there was no impact on the Company's unaudited condensed interim consolidated financial statements.

Warrants with an exercise price denominated in a foreign currency are recorded at fair value and classified as a derivative financial liability. The liability is initially measured at estimated fair value with subsequent changes in fair value recorded as a gain or loss in the unaudited condensed interim consolidated statements of loss. As the warrants are exercised, the value of the recorded liability will be included in share capital along with the proceeds from the exercise. If these warrants expire, the related liability is reversed through the unaudited condensed interim consolidated statements of loss.

## Recent Accounting Pronouncements

### IFRS 9 - Financial instruments - classification and measurement

IFRS 9 – Financial instruments 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. IFRS 9 will be effective for annual periods on or after January 1, 2018. Early adoption is permitted. The Company is currently assessing the impact of this pronouncement.

## Financial Instruments and Related Risks

### Property risk

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

### Financial risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign currency risk and commodity and equity price risk). Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

#### (i) Credit risk and sales concentration

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, accounts receivable and long-term deposit. Cash and long-term deposit are held with financial institutions and the United Kingdom Crown, respectively, from which management believes the risk of loss to be minimal. All the revenues from sales are from one customer and the accounts receivable consist mainly of a trade account receivable from one customer, value added tax receivable and sales tax receivable. The Company is exposed to concentration of credit



and sales risk with one of its customers. Management believes that the credit risk is minimized due to the financial worthiness of this company. Valued added tax receivable is collectable from the Government of Northern Ireland. Sales tax receivable is collectable from government authorities in Canada.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company manages liquidity risk by monitoring maturities of financial commitments and maintaining adequate cash reserves and available borrowing facilities to meet these commitments as they come due. As at September 30, 2014, the Company had a working capital deficit of \$ 3,388,864. All of the Company's financial liabilities have contractual maturities of less than 30 days other than certain related party loans which are due on demand. The Company is seeking additional capital to meet its current and ongoing commitments. As at September 30, 2014, the Company was cash flow negative. The Company's ongoing viability is dependent on obtaining planning consent for the development of an underground mine at Omagh and securing sufficient financing to fund ongoing operational activity and the development of the underground mine.

During the second quarter Galantas completed a private placement financing for aggregate gross proceeds of approximately UK£ 516,500. Pursuant to the offering, an aggregate of 10,330,000 units were sold at a price of UK£ 0.05/\$ 0.09375 per common share.

A special meeting of shareholders took place in January 2014 which approved the implementation of a share consolidation together with an exchange of shares for debt. During the second quarter the share consolidation was effected and a shares for debt exchange of 15,125,140 common shares for \$ 1,389,150 (UK£ 756,257) of the Company's debt was completed.

(iii) Market risk

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

(a) Interest rate risk

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

(b) Foreign currency risk

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

(c) Commodity price risk

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

## **Sensitivity analysis**

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

(i) Certain related party loans are subject to interest rate risk. As at September 30, 2014, if interest rates had decreased/increased by 1% with all other variables held constant, the net loss on an annualized basis would have been approximately \$ 20,000 lower/higher respectively, as a result of lower/higher interest rates from

certain related party loans. Similarly, as at September 30, 2014, shareholders' equity would have been approximately \$ 20,000 higher/lower as a result of a 1% decrease/increase in interest rates from certain related party loans.

(ii) The Company is exposed to foreign currency risk on fluctuations related to cash, accounts receivable and advances, long-term deposit, accounts payable and other liabilities and due to related parties that are denominated in UK£. As at September 30, 2014, had the UK£ weakened/strengthened by 5% against the CAD with all other variables held constant, the Company's other consolidated comprehensive income for the year ended December 31, 2013 would have been approximately \$ 155,000 higher/lower as a result of foreign exchange losses/gains on translation of non-CAD denominated financial instruments. Similarly, as at September 30, 2014, shareholders' equity would have been approximately \$ 155,000 lower/higher had the UK£ weakened/strengthened by 5% against the CAD as a result of foreign exchange losses/gains on translation of non-CAD denominated financial instruments.

(iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of gold. Gold prices have fluctuated widely in recent years. There is no assurance that, even as commercial quantities of gold may be produced in the future, a profitable market will exist for them. A decline in the market price of gold may also require the Company to reduce production of its mineral resources, which could have a material and adverse effect on the Company's value. Net income would be impacted by changes in average realized gold prices. Sensitivity to a plus or a minus 10% change in average realized gold prices on the inventories would affect net loss/income and shareholders' equity by approximately \$ 12,000.

## Capital Management

The Company manages its capital with the following objectives:

□ to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and

□ to maximize shareholder return.

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

The Company considers its capital to be equity, which is comprised of share capital, reserves and accumulated deficit which at September 30, 2014 totalled \$ 5,644,848 (December 31, 2013 - \$ 8,010,092). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on its exploration activities. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the three and nine months ended September 30, 2014. The Company is not subject to any capital requirements imposed by a lending institution.

## Disclosure of Internal Controls

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited

condensed interim consolidated financial statements, and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flow of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate do not make any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS).

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## Disclosure of Other MD&A Requirements

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

General Administrative Expenses for the Quarters ended September 30, 2014 and September 30, 2013 are detailed below:

| Expense Account                                  | Quarter Ended<br>September 30, 2014<br>\$ | Quarter Ended<br>September 30, 2013<br>\$ |
|--|---|---|
| Management & administrative wages                | 134,361                                   | 130,022                                   |
| Other operating expenses                         | 18,416                                    | 37,722                                    |
| Accounting & corporate                           | 15,186                                    | 14,764                                    |
| Legal & audit                                    | 31,152                                    | 27,649                                    |
| Stock-based compensation                         | 0   | 9,781                                     |
| Shareholder communication and investor relations | 26,406                                    | 21,593                                    |
| Transfer agent                                   | 1,700                                     | 2,062                                     |
| Directors fees                                   | 6,750                                     | 7,750                                     |
| General office                                   | 2,254                                     | 2,171                                     |
| Accretion expenses                               | 2,869                                     | 0   |
| Loan interest and bank charges                   | <u>14,197</u>                             | <u>8,675</u>                              |
| <b>Total</b>                                     | <b>\$ <u>253,291</u></b>                  | <b>\$ <u>262,189</u></b>                  |

General administrative expenses for the quarter ended September 30, 2014 totalled \$ 253,291 compared to \$ 262,189 for the quarter ended September 30, 2013.

Management and administrative wages, the majority of which are incurred in UK£, include payroll costs of both Galantas corporate and the Omagh mine which totalled \$ 134,361 for the quarter ended September 30, 2014 compared to \$ 130,022 for the third quarter of 2013. Management and administrative wages in UK£ were lower in the current quarter but a weaker Canadian dollar exchange rate resulted in slightly higher management and administrative wages when expressed in Canadian dollars. Other operating expenses, the majority of which are also incurred in UK£ and include amongst others professional fees, insurance costs, training, health and safety and travel amounted to \$ 18,416 for the quarter ended September 30, 2014 compared to \$ 37,722 for the corresponding period of 2013. Other operating costs at the Omagh mine were lower in the third quarter of 2014 when compared to 2013 following the suspension of production in the fourth quarter of 2013. Accounting and corporate costs for the quarter amounted to \$ 15,186 compared to \$ 14,764 for the corresponding period of 2013. Legal and audit costs totalled \$ 31,152 for the quarter compared to \$ 27,649 for the third quarter of 2013. Legal costs for the third quarter amounted to \$ 18,067 which compared with \$ 10,187 for the third quarter of 2013. The higher level of legal fees in the third quarter of 2014 was due to legal costs incurred in connection with the corporate restructuring. Audit fees for the third quarter amounted to \$ 13,085 compared to \$ 17,462 for the corresponding period of 2013. The lower level of fees in the third quarter of 2014 reflects the expected reduction in audit fees for fiscal year 2014.

Stock-based compensation costs for the third quarter of 2014 amounted to \$ Nil compared to \$ 9,781 for the corresponding period of 2013. Stock based compensation costs were \$ Nil in third quarter of 2014 due to all options being fully vested at the beginning of the current quarter when compared to 2013.

Shareholder communication and investor relations costs amounted to \$ 26,406 for the third quarter of 2014 compared to \$ 21,593 for the corresponding period of 2013. Shareholder communication costs include investor relations, shareholders information, filing fees and listing fees fees. The increase in shareholder communications costs in the third quarter of of 2014 was mainly due to increased investor relations costs. Transfer agents fees for the third quarter of 2014 amounted to \$ 1,700 compared to \$ 2,062 incurred in the corresponding period of 2013. Directors' fees for the third quarter of 2014 totalled \$ 6,750 compared to \$ 7,750 for the third quarter of 2013. General office expenses for the third quarter of 2014 amounted to \$ 2,254 compared to \$ 2,171 for 2013.

Accretion expenses for the third quarter of 2014 amounted to \$ 2,869 which compared to \$ Nil for the corresponding period of 2013. The accretion charge is in connection with the Company's decommissioning liability. Loan interest and bank charges for the third quarter of 2014 amounted to \$ 14,197 compared to \$ 8,675 for the quarter ended September 30, 2013. The higher level of loan interest in the current quarter reflects the increased level of borrowings and marginally higher interest rates in 2014.

**General Administrative Expenses for the Nine Months ended September 30, 2014 and September 30, 2013 are detailed below:**

| <b>Expense Account</b>                           | <b>Nine Months Ended<br/>September 30, 2014<br/>\$</b> | <b>Nine Months Ended<br/>September 30, 2013<br/>\$</b> |
|--|--|--|
| Management & administrative wages                | 403,065  | 382,193  |
| Other operating expenses                         | 82,797   | 142,727  |
| Accounting and corporate                         | 45,682   | 42,735   |
| Legal & audit                                    | 112,505  | 71,202   |
| Stock-based compensation                         | 0  | 35,960   |
| Shareholder communication and investor relations | 119,059  | 105,026  |
| Transfer agent                                   | 29,303   | 15,721   |
| Directors fees                                   | 21,000   | 21,000   |
| General office                                   | 7,038  | 6,062  |
| Accretion expenses                               | 8,650  | Nil  |
| Loan interest and bank charges                   | 43,901   | 31,343   |
| <b>Total</b>                                     | <b>\$ 873,000</b>                                      | <b>\$ 853,969</b>                                      |

General administrative expenses for the nine months ended September 30, 2014 totalled \$ 873,000 compared to \$ 853,969 for the nine months ended September 30, 2013.

Management and administrative wages, the majority of which are incurred in UK£, include payroll costs of both Galantas corporate and the Omagh mine which totalled \$ 403,065 for the nine months ended September 30, 2014 compared to \$ 382,193 for the corresponding period of 2013. Management and administrative wages in UK£ were lower in 2014 but a weaker Canadian dollar exchange rate during the period resulted in slightly higher management and administrative wages when expressed in Canadian dollars. Other operating expenses, the majority of which are also incurred in UK£ and include amongst others professional fees, insurance costs, training, health and safety and travel amounted to \$ 82,797 for the nine months ended September 30, 2014 compared to \$ 142,727 for the corresponding period of 2013. Other operating costs at the Omagh mine were lower in the first nine months of 2014 when compared to 2013 following the suspension of production in the fourth quarter of 2013. Accounting and corporate costs for the first nine months of 2014 amounted to \$ 45,682 compared to \$ 42,735 for the corresponding period of 2013. The higher costs in 2014 were as a result of increased corporate costs. Legal and audit costs totalled \$ 112,505 for the nine months compared to \$ 71,202 for the first nine months of 2013. Legal costs amounted to \$ 68,854 which compared with \$ 21,600 for the first nine months of 2013. The higher level of legal fees in the first nine months of 2014 was due to increased legal costs both at the Galantas Gold Corporation level in connection with the the shares for debt exchange, the share consolidation and the holding of the special shareholders meeting together with increased legal costs in Northern Ireland in connection with the Company's corporate affairs. Audit fees for the nine months amounted to \$ 43,651 compared to \$ 49,602 for the corresponding period of 2013. The lower level of fees in 2014 reflects the expected reduction in audit fees for fiscal year 2014.

Stock-based compensation costs for the first nine months of 2014 amounted to \$ Nil compared to \$ 35,960 for the corresponding period of 2013. Stock based compensation costs were \$ Nil in 2014 due to all options being fully vested at the beginning of the 2014 when compared to 2013.

Shareholder communication and investor relations costs amounted to \$ 119,059 for the first nine months of 2014 compared to \$ 105,026 for 2013. Shareholder communication and investor relations costs include

investor relations, shareholders information, filing fees, listing fees and certain costs in connection with the holding of the Company's AGM. Shareholder communications costs were higher in the first nine months of 2014 mainly due to increased filing and listing fees arising from the private placement, the shares for debt exchange and the Galantas share consolidation. Transfer agents fees for amounted to \$ 29,303 compared to \$ 15,721 incurred in the first nine months of 2013. Transfer agent's costs for both periods include certain costs in connection with the holding of the Company's AGM. The increase in fees in 2014 was mainly due to the Galantas share consolidation which was effected during the second quarter. Directors' fees totalled \$ 21,000 compared to \$ 21,000 for 2013. General office expenses for the first nine months of 2014 amounted to \$ 7,038 compared to \$ 6,062 for 2013.

Accretion expenses on the convertible loan for the first nine months of 2014 amounted to \$ 8,650 which compared to \$ Nil for the corresponding period of 2013. The accretion charge is in connection with the Company's decommissioning liability. Loan interest and bank charges for the first nine months of 2014 amounted to \$ 43,901 compared to \$ 31,343 for the corresponding period of 2013. The higher level of loan interest in the current period reflects the increased level of borrowings and marginally higher interest rates in 2014.

### Disclosure of Outstanding Share Data

The Company is authorized to issue in series an unlimited number of common and preference shares. At November 24, 2014, and following the share consolidation, the shares for debt exchange and the private placement, there were a total of 76,697,155 shares issued, warrants to purchase 10,330,000 common shares with an expiry date of May 2016 and 940,000 stock options with expiry dates from November 2015 to September 2016.

### Trends Affecting the Company's Business

#### Gold Price in US Dollars and UK Sterling

The Gold concentrate output from the Omagh Mine, which also contains silver and lead credits, is sold in US dollars. Most of the value is accrued from the gold content. The following table is composed from data published by the Bank of England of average monthly gold price in US\$ and UK £ (Sterling) per troy ounce. The gold price weakened during the first six months of 2014 when the average monthly gold price traded in a band between US\$ 1,336 / UK£ 804 and US\$ 1,245/ UK£ 756 with both maxima and minima established in the first quarter. The trend continued through the third quarter when the gold price averaged \$ 1,282 and UK£ 768 compared with \$ 1,328 and UK£ 856 for the third quarter of 2013 which trend was broken in early November with sharp movements downwards, somewhat moderated in terms of UK £ (Sterling) by a deterioration in the value of Sterling.

| MONTH         | Gold Price<br>US \$ per oz | Gold Price<br>UK£ per oz | Quarterly<br>Average US\$ | Quarterly<br>Average UK£ |
|---------------|----------------------------|--------------------------|---------------------------|--------------------------|
| JANUARY 2014  | 1244.80                    | 755.98                   |                           |                          |
| FEBRUARY 2014 | 1300.98                    | 785.45                   |                           |                          |
| MARCH 2014    | 1336.08                    | 803.81                   | 1293.95                   | 781.74                   |
| APRIL 2014    | 1299.00                    | 775.79                   |                           |                          |
| MAY 2014      | 1287.53                    | 764.40                   |                           |                          |
| JUNE 2014     | 1279.10                    | 756.69                   | 1288.54                   | 765.63                   |
| JULY 2014     | 1310.97                    | 767.94                   |                           |                          |
| AUGUST 2014   | 1295.99                    | 775.7                    |                           |                          |
| SEPT 2014     | 1238.82                    | 759.37                   | 1281.92                   | 767.67                   |
| OCTOBER 2014  | 1222.49                    | 760.64                   |                           |                          |

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 \$ to UK£ Sterling. Sales revenues at the Omagh mine are designated in US Dollars and are converted to UK£, as Operating, Exploration and Capital costs are designated in UK £ (Sterling). Thus a stronger US\$/weaker UK£ is to the Company's financial benefit. A trend to slightly stronger Sterling exhibited in the first half of the year reversed in the third quarter when the US Dollar averaged US \$ 1.67 to the UK£ compared to US\$ 1.55 to the UK£ for the third quarter of 2013 and this trend to a stronger US Dollar has accelerated into the early part of the fourth quarter.

| MONTH         | Average US \$ :£ | Quarterly Average US\$ :£ |
|---------------|------------------|---------------------------|
| JANUARY 2014  | 1.65             |                           |
| FEBRUARY 2014 | 1.66             |                           |
| MARCH 2014    | 1.66             | 1.66                      |
| APRIL 2014    | 1.67             |                           |
| MAY 2014      | 1.68             |                           |
| JUNE 2014     | 1.69             | 1.68                      |
| JULY 2014     | 1.71             |                           |
| AUGUST 2014   | 1.67             |                           |
| SEPT 2014     | 1.63             | 1.67                      |
| OCTOBER 2014  | 1.61             |                           |

A currency policy has been adopted of converting incoming payments into the currency required within a short period of receipt, 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 Company are expressed in Canadian Dollars. The majority of costs at the mine are incurred in UK£ Sterling and are converted to Canadian Dollars at the average rate for the relevant accounting period. When costs are expressed in Canadian Dollars terms within the Company's financials, there is an increase in costs when there is a fall in value or weakening of the Canadian Dollar against Sterling. A weakening of the Canadian dollar also increases the value of UK£ based net assets, which are converted at period end rates, when expressed in Canadian dollars.

In common with the US dollar, Sterling slightly strengthened against the Canadian Dollar in the first half of 2014, a trend which appears to have reversed during the third quarter with the Canadian Dollar averaging \$ 1.82 to the UK£ compared with \$ 1.61 for the third quarter of 2013.

| MONTH         | Average Can\$:£ | Quarterly Average Can\$:£ |
|---------------|-----------------|---------------------------|
| JANUARY 2014  | 1.80            |                           |
| FEBRUARY 2014 | 1.83            |                           |
| MARCH 2014    | 1.85            | 1.83                      |
| APRIL 2014    | 1.84            |                           |
| MAY 2014      | 1.84            |                           |
| JUNE 2014     | 1.83            | 1.84                      |
| JULY 2014     | 1.83            |                           |
| AUGUST 2014   | 1.83            |                           |
| SEPT 2014     | 1.79            | 1.82                      |
| OCTOBER 2014  | 1.80            |                           |

## Financing Trends

Difficulties in the Western credit markets have impacted on all companies entering into banking credit arrangements. However, the Company has entered into scoping discussions with banking lenders and other institutions as to the availability of suitable finance in regard to underground mine development.

The relative weakness of the Canadian and UK equity markets for junior mining companies continues and the malaise in this market sector has restricted financing opportunities.

## Political Trends

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

There appears to be a growing appreciation of the employment opportunities within the Company's operations. This has been strengthened by continued dialogue with political representatives at local and senior level.

## **Risks and Uncertainties**

Galantas operates in a sector – mineral production and exploration – which carries inherent risks only some of which are within management's ability to reduce or remove. The main sector risk is always metal price. An investment in the securities of the Company is highly speculative and involves numerous and significant risks. It should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Please refer to the section entitled "Risks and Uncertainties" in the Company's MD&A for the fiscal year ended December 31, 2013, available on SEDAR at [www.sedar.com](http://www.sedar.com). There have been no significant changes to such risk factors since the date thereof.