



# **GALANTAS GOLD CORPORATION**

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

**Three and Six Months Ended**

**June 30, 2013**

**GALANTAS GOLD CORPORATION**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**Three and Six Months Ended June 30, 2013**

This document constitutes management's discussion and analysis (MD&A) of the financial and operational results of Galantas Gold Corporation (the Company or Galantas) for the three and six months ended June 30, 2013. This MD&A supplements, but does not form part of the consolidated financial statements of the Company, and should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2013 and the audited consolidated financial statements and related notes for the year ended December 31, 2012. The currency referred to in this document is the Canadian dollar. The MD&A is prepared in conformance with National Instrument 51-102F1 and was approved by the Company's Audit Committee on August 27, 2013.

**FORWARD LOOKING STATEMENTS**

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

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

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

## **OVERVIEW – STRATEGY - DESCRIPTION OF BUSINESS**

### **Company Overview**

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

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

- Seek additional funding to allow it to continue the expanded exploration programme and the further development of its underground mine plans;
- Continue production at the mine and processing plant;
- Obtain the necessary planning permits for an underground development;
- 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 aggregate 675 square kilometres, focusing on the more than 60 gold targets identified to date;

Subsequent to June 30, 2013 the Company announced that the Board of Directors had determined to undertake a strategic review of its business and opportunities, including a possible sale or joint venture of all or part of its Northern Ireland properties.

### **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 5, 2013 (see press release dated June 12, 2013). There has been 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.

## Mining Project

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

## Galantas Irish Gold Limited

During 2011 Galantas announced that it would review 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 and Production Manager in charge of operations in Omagh where the mine, plant and administration employed 24 personnel as of June 30, 2013.

## Key Performance Driver

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

## **Overview of Second Quarter 2013**

Production at the Omagh mine during the second quarter of 2013 was below production levels of the second quarter 2012 and also below production levels of subsequent quarters in 2012. This is due to a shift in operations from mining and processing ore from open pits to operating from lower grade stock already mined.

Galantas incurred a net loss of \$ 357,663 for the quarter ended June 30, 2013 compared with a net income of \$ 543,734 for the quarter ended June 30, 2012. When the net loss is adjusted for non cash items before changes in non-cash working capital the cash loss generated from operating activities amounted to \$ 323,010 for the quarter compared with cash generated from operations of \$ 556,321 for the quarter ended June 30, 2012. The cash loss generated from operating activities after changes in non-cash working capital items amounted to \$ 615,351 for the quarter compared to cash generated from operations of \$ 1,016,388 for the second quarter of 2012.

The Company had cash balances at June 30, 2013 of \$ 476,581 compared to \$ 1,164,868 at December 31, 2012. The working capital deficit at June 30, 2013 amounted to \$ 3,037,837 which compared with a working capital deficit of \$ 2,309,307 at December 31, 2012.

The exploration drilling program continued during the second quarter of 2013 with one additional hole being drilled targeting the central portion of the Joshua orebody. This exploration program is seeking to expand the resources on veins close to the existing operating gold mine. Assay results released to date from both the drilling and channel sampling programmes have been encouraging with significant gold intersections being identified.

An updated resource estimate was prepared by the Company during the second quarter based on drilling results received to May 5, 2013 (see press release dated June 12, 2013). There has been 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.

Subsequent to June 30, 2013 the Company announced that the Board of Directors had determined to undertake a strategic review of its business and opportunities, including a possible sale or joint venture of all or part of its Northern Ireland properties.

## 1.1 DATE OF THE MD&A

The MD&A was prepared on August 27, 2013.

## 1.2 REVIEW OF FINANCIAL RESULTS

### Second Quarter Ended June 30, 2013

The net loss for the quarter ended June 30, 2013 amounted to \$ 357,663 compared to a net income of \$ 543,734 for the quarter ended June 30, 2012 as summarized below. The results for the second quarter of 2012 included costs incurred in the creation of a number of tailings paste cells totalling \$ 138,200 which costs were capitalised in the fourth quarter of 2012. No costs were incurred in the second quarter of 2013 in connection with the creation of tailings paste cells.

	Quarter Ended June 30, 2013 \$	Quarter Ended June 30, 2012 \$
<b>Revenues</b>	<b>523,856</b>	<b>1,902,980</b>
Production costs	478,447	956,228
Inventory movement	33,386	37,076
<b>Cost of sales</b>	<b>511,833</b>	<b>993,304</b>
<b>Income before the undernoted</b>	<b>12,023</b>	<b>909,676</b>
Amortization and depreciation	122,224	186,624
General administrative expenses	294,721	413,004
(Gain) on debt extinguishment	Nil	(190,624)
(Gain) on disposal of property, plant and equipment	(64,531)	(15,952)
Foreign exchange loss (gain)	17,272	(27,110)
<b>Net (Loss) Income for the Quarter</b>	<b>(357,663)</b>	<b>543,734</b>

Sales revenues primarily consisted of concentrate sales from the mine. Jewellery sales remained low during the quarter. Sales revenues from for the quarter ended June 30, 2013 amounted to \$ 523,856 which were below revenues of \$ 1,902,980 for the corresponding period of 2012 due primarily to lower production and shipments in the second quarter of 2013 when compared to 2012. The average gold price in the second quarter of 2013 was below that of the second quarter of 2012 which also adversely impacted sales revenues.

Cost of sales include production costs at the mine and inventory movements and totalled \$ 511,833 for the quarter ended June 30, 2013 compared to \$ 993,304 for the second quarter of 2012. A summary of cost of sales is set out on Note 14 of the June 30, 2013 unaudited condensed interim consolidated financial statements.

Production costs for the quarter ended June 30, 2013 amounted to \$ 478,447 compared to \$ 956,228 for the second quarter of 2012. Production costs at the mine, the majority of which are incurred in UK£, include production wages, oil and fuel, equipment hire, repairs and servicing, consumables and royalties. The lower production costs for the second quarter of 2013 mainly reflect the absence of open pit mining activity during the quarter and also the inclusion in the second quarter of 2012 of costs totalling \$ 138,200 incurred in the creation of tailings paste cells which costs were later capitalised in the fourth quarter of 2012. These lower production costs included decreases in Production wages of \$ 163,880 to \$ 161,696 reflecting the reduced cost of production personnel following the redundancies that were effected during 2012 and 2013 together with the inclusion of tailings paste cell costs totalling \$ 57,000 in the second quarter of 2012 , Oil and fuel decreases of \$ 136,097 to \$ 183,828 due primarily to reduced usage arising from the lower mining activity

and the inclusion of tailings paste cell costs totalling \$ 56,900 in the second quarter of 2012, Repairs and servicing cost decreases of \$ 64,856 to \$ 39,703 due primarily to the much reduced level of maintenance charges in the mine as a result of the lower level of mobile equipment operating in the mine, Equipment hire decreases of \$ 69,473 to \$ 3,553 arising from the off-hire of machinery in 2013 as a result of the reduced mining activity and the inclusion of tailings paste cell costs totalling \$ 24,300 in the second quarter of 2012, Consumable cost decreases of \$ 6,951 to \$ 48,004 arising mainly from the reduced usage of consumables in mine during the second quarter, Royalty costs, which are based on sales revenues, decreased by \$ 25,098 to \$ 14,197 reflecting the lower level of sales revenues during the quarter and Carriage costs decreases of \$ 12,263 to \$ 5,296 arising from the lower level of shipments during the second quarter of 2013.

The inventory movement of \$ 33,386 and \$ 37,076 for the quarters ended June 30, 2013 and 2012 respectively reflect a decrease in inventory at June 30, 2013 and 2012 when compared to April 1, 2013 and 2012 inventory levels.

This has resulted in a net income of \$ 12,023 before amortization and depreciation, general administrative expenses, gain on disposal of property, plant and equipment and foreign exchange loss/gain for the quarter ended June, 2013 compared to a net income of \$ 909,676 for corresponding period of 2012.

Amortization of deferred development and exploration costs for the quarter ended June 30, 2013 amounted to \$ 22,782 compared to \$ 59,646 for the quarter ended June 30, 2012. The 2013 amortization charge, which is calculated on the unit of production basis, is substantially lower than the 2012 charge due to the lower production levels in the second quarter of 2013. Depreciation of property, plant and equipment during the second quarter of 2013 totalled \$ 99,442 which compared with \$ 126,978 for the second quarter of 2012. This decrease is due to both the disposal of property, plant and equipment during the quarter and the depreciation charge being calculated on the reducing balance basis.

General administrative expenses for the quarter ended June 30, 2013 amounted to \$ 294,721 compared to \$ 413,004 for the second quarter of 2012. General administrative expenses are reviewed in more detail in Section 1.15 Other MD&A Requirements.

There was a gain of \$ 190,624 in the second quarter of 2012 following the extinguishment of the convertible debt in 2012 which compared to \$ Nil for the second quarter of 2013.

The gain on disposal of property, plant and equipment during the second quarter amounted to \$ 64,531 compared to a gain of \$ 15,952 for the second quarter of 2012.

There was a Foreign exchange loss of \$ 17,272 for the second quarter of 2013 which compared with a Foreign exchange gain of \$ 27,110 for the second quarter of 2012.

This has resulted in a net loss of \$ 357,663 for the quarter ended June 30, 2013 compared to a net income of \$ 543,734 for the corresponding period of 2012. When the Net Loss is adjusted for non cash items before changes in non-cash working capital the cash loss generated from operating activities amounted to \$ 323,010 for the quarter ended June 30, 2013 compared to cash generated from operating activities of \$ 556,321 for the quarter ended June 30, 2012 as per Statements of Cash Flows. The cash loss generated from operating activities after changes in non-cash working capital items amounted to \$ 615,351 for the second quarter of 2013 compared to a cash generated from operating activities of \$ 1,016,388 for the second quarter of 2012.

Foreign currency translation gain, which is included in Unaudited Condensed Interim Consolidated Statements of Comprehensive Income (Loss) amounted to \$ 323,508 for the quarter ended June 30, 2013 which compared to a foreign currency translation gain of \$ 13,553 for the second quarter of 2012. This resulted in a Total comprehensive loss of \$ 34,155 for the quarter ended June 30, 2013 compared to a Total comprehensive income of \$ 557,287 for the quarter ended June 30, 2012. The foreign currency translation gain during the second 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 dollar at period end

exchange rates. The Canadian dollar exchange rate weakened against UK£ at June 30, 2013 when compared to April 1, 2013 which has resulted in an increase in the Canadian dollar value of these net assets at June 30, 2013 when compared to April 1, 2013 resulting in the foreign currency translation gain.

Total assets at June 30, 2013 amounted to \$ 12,908,663 compared to \$ 14,019,111 at December 31, 2012. Cash at June 30, 2013 was \$ 476,581 compared to \$ 1,164,868 at December 31, 2012. Accounts receivable and advances consisting mainly of trade debtors, reclaimable taxes and prepayments amounted to \$ 413,014 at June 30, 2013 compared to \$ 673,054 at December 31, 2012. The decrease in accounts receivable and advances is mainly due to a reduction in trade debtors and reclaimable taxes. Inventory at June 30, 2013 amounted to \$ 319,714 compared with an inventory of \$ 326,249 at December 31, 2012. Inventory mainly consists of jewellery products and unworked gold belonging to the jewellery business. There was a low level of concentrate stocks at June 30, 2013 and December 31, 2012 due to almost all concentrates produced having been shipped at period end.

Property, plant and equipment totalled \$ 3,174,595 compared to \$ 3,566,778 at December 31, 2012. Deferred development and exploration costs totalled \$ 8,101,103 at June 30, 2013 compared to \$ 7,859,445 at the end of 2012. The increase during the period is mainly due to the capitalization of both exploration costs related to the exploration drilling programme and costs incurred in connection with the underground mine development. Long term deposit at June 30, 2013, representing funds held in trust in connection with the Company's asset retirement obligations, amounted to \$ 423,656 compared to \$ 428,717 at December 31, 2012. Following the transition to IFRS, property, plant and equipment, deferred development and exploration costs and long term deposit at the Company's Omagh mine, all of which are denominated in UK are now translated to Canadian dollars at period end exchange rates. The Canadian dollar exchange rate strengthened against UK£ at June 30, 2013 when compared to January 1, 2013 which has resulted in a decrease in the Canadian dollar value of these assets at June 30, 2013 when compared to January 1, 2013.

Current liabilities at June 30, 2013 amounted to \$ 4,247,146 compared to \$ 4,473,478 at the end of 2012. The working capital deficit at June 30, 2013 amounted to \$ 3,037,837 compared to a working capital deficit of \$ 2,309,307 at December 31, 2012. Accounts payable and other liabilities totalled \$ 1,266,495 compared to \$ 1,670,729 at December 31, 2012. Loans from related parties at June 30, 2013 amounted to \$ 2,980,651 compared to \$ 2,802,749 at the end of 2012. The asset retirement obligation at June 30, 2013 amounted to \$ 399,675 compared to \$ 404,450 at December 31, 2012.

### **Six Months Quarter Ended June 30, 2013**

The net loss for the six months ended June 30, 2013 amounted to \$ 798,217 compared to a net loss of \$ 99,655 for the six months ended June 30, 2012 as summarized below. The results for the first half of 2012 included costs incurred in the creation of a number of tailings paste cells totalling \$ 199,300 which costs were capitalised in the fourth quarter of 2012. Costs incurred in the first half of 2013 in connection with the creation of tailings paste cells have been capitalised.

	<b>Six Months Ended June 30, 2013 \$</b>	<b>Six Months Ended June 30, 2012 \$</b>
<b>Revenues</b>	<b>888,532</b>	<b>2,928,126</b>
Production costs	902,886	2,021,344
Inventory movement	6,535	(7,533)
<b>Cost of sales</b>	<b>\$ 909,421</b>	<b>2,013,811</b>
<b>(Loss) Income before the undernoted</b>	<b>(20,889)</b>	<b>914,315</b>
Amortization and depreciation	246,830	371,189
General administrative expenses	591,780	866,960
(Gain) on debt extinguishment	\$0	(190,624)
(Gain) on disposal of property, plant and equipment	(64,531)	(14,446)
Foreign exchange loss (gain)	3,249	(19,109)
<b>Net (Loss) for the period</b>	<b>(798,217)</b>	<b>(99,655)</b>

Sales revenues primarily consisted of concentrate sales from the mine. Jewellery sales remained low during the six months. Sales revenues for the six months ended June 30, 2013 amounted to \$ 888,532 which were below revenues of \$ 2,928,126 for the corresponding period of 2012 due primarily to lower production and shipments in the first half of 2013 when compared to 2012. The gold price for the first half of 2013 was below that of the first half of 2012 which also adversely impacted sales revenues.

Cost of sales include production costs at the mine and inventory movements and totalled \$ 909,421 for the six months ended June 30, 2013 compared to \$ 2,013,811 for the corresponding period of 2012. A summary of cost of sales is set out on Note 14 of the June 30, 2013 unaudited condensed interim consolidated financial statements.

Production costs for the six months ended June 30, 2013 amounted to \$ 902,886 compared to \$ 2,021,344 for the six months ended June 30, 2012. Production costs at the mine, the majority of which are incurred in UK£, include production wages, oil and fuel, equipment hire, repairs and servicing, consumables and royalties. The lower production costs for the first half of 2013 mainly reflect the reduced level of open pit mining activity during the period and also the inclusion in the first half of 2012 of costs totalling \$ 199,300 incurred in the creation of tailings paste cells which costs were capitalised in the fourth quarter of 2012. These lower production costs included decreases in Production wages of \$ 373,192 to \$ 313,282 reflecting the reduced cost of production personnel following the redundancies that were effected during 2012 and 2013 together with the inclusion of tailings paste cell costs totalling \$ 83,700 in the first half of 2012, Oil and fuel decreases of \$ 331,576 to \$ 357,673 due primarily to reduced usage arising from the lower mining activity and the inclusion of tailings paste cell costs totalling \$ 84,100 in 2012, Repairs and servicing cost decreases of \$ 156,834 to \$ 85,378 due primarily to a much reduced level of maintenance charges in the mine as a result of the lower level of mobile equipment operating in the mine, Equipment hire decreases of \$ 144,084 to \$ 18,585 arising from the off-hire of machinery in 2013 as a result of the reduced mining activity and the inclusion of tailings paste cell costs totalling \$ 31,500 in 2012, Consumable cost decreases of \$ 26,364 to \$ 80,102 arising mainly from the reduced usage of consumables in 2013, Royalty costs, which are based on sales revenues, decreased by \$ 37,824 to \$ 22,706 reflecting the lower level of sales revenues during the period and Carriage costs decreases of \$ 17,373 to \$ 11,354 arising from the lower level of shipments during the first half of 2013.

The inventory movement of \$ 6,535 for the six months ended June 30, 2013 reflects a decrease in inventory at June 30, 2013 when compared to January 1, 2013 inventory levels. There was an inventory movement



credit of \$ 7,533 for the six months ended June 30, 2012 which reflected an increase in inventory at June 30, 2012 when compared to January 1, 2012 inventory levels.

This has resulted in a net loss of \$ 20,889 before amortization and depreciation, general administrative expenses, gain on disposal of property, plant and equipment and foreign exchange loss/gain for the six months ended June 30, 2013 compared to a net income of \$ 914,315 for corresponding period of 2012.

Amortization of deferred development and exploration costs for the six months ended June 30, 2013 amounted to \$ 43,233 compared to \$ 114,982 for the six months ended June 30, 2012. The 2013 amortization charge, which is calculated on the unit of production basis, is substantially lower than the 2012 charge due to the lower production levels in the first half of 2013. Depreciation of property, plant and equipment during the first half of 2013 totalled \$ 203,597 which compared with \$ 256,207 for the first half of 2012. This decrease is due to both the disposal of plant and equipment during the period and the depreciation charge being calculated on the reducing balance basis.

General administrative expenses for the six months ended June 30, 2013 amounted to \$ 591,780 compared to \$ 866,960 for the first half of 2012. General administrative expenses are reviewed in more detail in Section 1.15 Other MD&A Requirements.

There was a gain of \$ 190,624 in the first half of 2012 following the extinguishment of the convertible debt in 2012 which compared to \$ Nil for the first half of 2013.

The gain on disposal of property, plant and equipment during the first half of 2013 amounted to \$ 64,531 compared to a gain of \$ 14,446 for 2012.

There was a Foreign exchange loss of \$ 3,249 for 2013 which compared with a Foreign exchange gain of \$ 19,109 for the first half of 2012.

This has resulted in a net loss of \$ 798,217 for the six months ended June 30, 2013 compared to a net loss of \$ 99,655 for the corresponding period of 2012. When the Net Loss is adjusted for non-cash items before changes in non-cash working capital the cash loss generated from operating activities amounted to \$ 562,927 for the six months ended June 30, 2013 compared to cash generated from operating activities of \$ 253,003 for the six months ended June 30, 2012 as per the Unaudited Condensed Interim Consolidated Statements of Cash Flows. The cash loss generated from operating activities after changes in non-cash working capital items amounted to \$ 700,586 for the first half of 2013 compared to cash generated from operating activities of \$ 823,461 for the first half of 2012.

Foreign currency translation loss, which is included in Condensed Interim Consolidated Statements of Comprehensive Income (Loss) amounted to \$ 107,303 for the six months ended June 30, 2013 which compared to a foreign currency translation gain of \$ 90,558 for the first half of 2012. This resulted in a Total comprehensive loss of \$ 905,520 for the six months ended June 30, 2013 compared to a Total comprehensive loss of \$ 9,097 for the six months ended June 30, 2012. The foreign currency translation loss during the first half 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 strengthened against UK£ at June 30, 2013 when compared to January 1, 2013 which has resulted in a decrease in the Canadian dollar value of these net assets at June 30, 2013 when compared to January 1, 2013 resulting in the foreign currency translation loss.

### **1.3 SELECTED ANNUAL INFORMATION**

**Not applicable to Quarterly MD&A**

## 1.4 RESULTS OF OPERATIONS

### Second Quarter 2012 Financing Activities

There were no financing activities during the first half of 2013. 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 has been actively seeking additional funding in 2013. Subsequent to June 30, 2013 the Company announced that the Board of Directors had determined to undertake a strategic review of its business and opportunities, including a possible sale or joint venture of all or part of its Northern Ireland properties.

### Second Quarter 2013 Production

Concentrate production at the Omagh mine during the quarter ended June 30, 2013 as summarized below, while slightly above production levels achieved in the first quarter, was below production levels of the second quarter 2012 and significantly below production levels of the subsequent quarters in 2012.

	Quarter Ended June 30, 2013	Quarter Ended June 30, 2012
<b>Tonnes Milled</b>	12,018	15,035
<b>Average Grade g/t gold</b>	1.34	2.36
<b>Concentrate Dry Tonnes</b>	145	355
<b>Concentrate Gold Grade g/t</b>	94.4	100
<b>Gold Produced (oz)</b>	441	1,152
<b>Gold Produced (kg)</b>	13.7	35.8
<b>Silver Grade</b>	208.7	294
<b>Silver Produced (oz)</b>	975	3,395
<b>Silver Produced (kg)</b>	30.3	105.5
<b>Lead Produced tonnes</b>	6.9	23.4
<b>Gold Equivalent (oz)</b>	467	1,245

Tonnes milled during the three months ended June 30, 2013 totalled 12,018 tonnes which included low grade ore compared to 15,035 tonnes for the second quarter of 2012. Concentrate production for the second quarter 2013 at 145 dry tonnes was significantly below second quarter 2012 production of 355 dry tonnes – a decrease of 59%. This was primarily due to the processing of low grade ore during the quarter. Metal content of production for the three months ended June 30, 2013 totalled 441 ounces of gold (13.7kg), 975 ounces of silver (30.3kg) and 6.9 tonnes of lead. This compares with metal content for the three months ended June 30, 2012 of 1,152 ounces of gold (35.8kg), 3,395 ounces of silver (105.5 kg) and 23.4 tonnes of lead which represents a 62% decrease in gold output, a 71% decrease in silver output and a 70% decrease in lead output. Gold equivalent for the three months ended June 30, 2013 was 467 ounces which compares to 1,245 ounces for the corresponding period of 2012 representing a 62% decrease. The 2013 production figures and metal contents are provisional and subject to averaging or umpiring provisions under the concentrate off – take agreement as detailed in a press release dated October 3, 2007.

The main production focus during the second quarter has been on the processing of ore from the low grade stockpile. Earlier in the year there had been some limited open pit mining on the Kerr vein which ceased later in the first quarter when the pit met its planned design limit. From the second half of 2012 mining from the Kearney pit became 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 Service, the planning consent was quashed with the surplus rock remaining on site. This ongoing limitation will result in future production continuing to be from the low grade stockpile.

To generate cash from its operations going forward, the Company is continuing to improve efficiencies and cut costs during the second quarter.

During the second quarter the mill was fed with the lower grade ore and production continued to be hampered by both the ongoing variations in the metallurgy due to the inconsistent grade of ore being milled and the clay content of stocked material. Production was also hampered by some unplanned downtime in the plant.

During 2012 the Environmental Impact Study in connection with the proposed underground development together with the planning application for an underground mine were submitted to the Planning Services. Discussions continued with the planning services in Northern Ireland during the second quarter of 2013 with regards to the underground mine plan and accompanying Environmental Statement. Consultations with statutory consultees continues to progress, with final additional information now being prepared for consultation

Good progress had been achieved during 2012 with regards to the on-going reinstatement process of the mine site with two completed rehabilitation paste cells being capped with a layer of till and peat and covered in grass seed during 2012. The reinstatement of the remaining paste cell was completed during the first quarter. Work, which had commenced in early 2012, on the development of a number of paste cells already permitted, in preparation for their future utilisation when underground mining at the Omagh mine commences was also completed earlier in 2013 following the cessation of mining on the Kerr vein.

Production at the Omagh mine during the six months ended June 30, 2013 as summarized below was below production levels of the first half of 2012 and significantly below production levels of the second half of 2012.

	<b>Six Months to June 30, 2013</b>	<b>Six Months to June 30, 2012</b>
<b>Tonnes Milled</b>	23,771	24,456
<b>Average Grade g/t gold</b>	1.3	2.65
<b>Concentrate Dry Tonnes</b>	290	623
<b>Concentrate Gold Grade g/t</b>	90.6	104
<b>Gold Produced (oz)</b>	838.7	2,084
<b>Gold Produced (kg)</b>	26.1	64.8
<b>Silver Grade</b>	160	282
<b>Silver Produced (oz)</b>	1,495	5,642
<b>Silver Produced (kg)</b>	46.5	174.5
<b>Lead Produced tonnes</b>	11	48.3
<b>Gold Equivalent (oz)</b>	880	2,251

Tonnes milled during the six months ended June 30, 2013 totalled 23,771 tonnes which included low grade ore compared to 24,456 tonnes for the first half of 2012. Concentrate production for the first half of 2013 at 290 dry tonnes was significantly below first half 2012 production of 623 dry tonnes – a decrease of 53%. This was primarily due to the processing of low grade ore during the six months. Metal content of production for the six months ended June 30, 2013 totalled 838.7 ounces of gold (26.1kg), 1,495 ounces of silver (46.5kg) and 11 tonnes of lead. This compares with metal content for the six months ended June 30, 2012 of 2,084 ounces of gold (64.8kg), 5,642 ounces of silver (174.5 kg) and 48.3 tonnes of lead which represents a 60% decrease in gold output, a 73% decrease in silver output and a 77% decrease in lead output. Gold equivalent for the six months ended June 30, 2013 was 880 ounces which compares to 2,251 ounces for the corresponding period of 2012 representing a 61% decrease. The 2013 production figures

and metal contents are provisional and subject to averaging or umpiring provisions under the concentrate off – take agreement as detailed in a press release dated October 3, 2007.

## Exploration

The major focus of exploration activities in 2012 and the first half of 2013 has been the continuation of the successful drilling program. In total, 16,879 metres have been drilled since the program commenced in March 2011 with significant gold intersects being reported.

The drilling programme began in 2011 with the objective of extending the depth and extent of the Joshua vein and providing 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.

The exploration programme had expanded considerably in 2012 with six drills operational during the first half of the year. 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 two principal objectives of the drilling programme were to complete the deeper holes on Kearney in order to gain a more accurate picture of the zone of mineralization for the purpose of the underground mine plan and to extend the strike of Joshua to the north and the south, and begin to target deeper sections of the vein. Drilling continued in to the first quarter of 2013 when two further holes targeting north Kearney and central Joshua were completed and a further drill hole commenced in the second quarter. 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 programme have been encouraging with significant gold intersections being identified. The updated resource estimate (Technical Report July 2013) contains all data related to the program with the exception of one drillhole detailed in a disclosure subsequent to June 30, 2013. Results to date have been positive, in particular the assays from the ten drill holes on Joshua released in January 2013 with thirteen significant mineral intersects. Once additional funding becomes available this drilling programme will continue using the company's own core drilling rig manned by in-house drillers. Up to a further 1,000 metres of drilling are planned, following up the recently reported gold intersects on the Joshua vein. Subsequent to June 30, 2013 Galantas reported that the drillhole commenced in the second quarter had now been completed with a positive result (see press release dated August 27, 2013).

During 2012 the Company 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 8, 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 based on drilling results received to May 5, 2013 (see press release dated June 12, 2013). The drilling program, subsequent to June 2012, was targeted to increase the amount of measured and indicated resources related to the potential development of an underground mine. When compared to the resource estimate prepared in 2012 there has been an 50% increase in resources classified as measured and indicated from a total of 95,300 troy ounces gold (2012) to 142,533 troy ounces gold and a 28% increase in Resources classified as inferred, from 231,000 troy ounces gold (2012) to 295,599 troy ounces gold (2013). The overall increase is 34%. Subsequent to June 30, 2013 Galantas filed an updated Technical Report on SEDAR in July 2013.

Limited exploration outside the mine licence area continued during the first half of 2013. Offsite prospecting, which included lithological sampling of float and outcrop, primarily targeted the Crigh Bridge,

Magheranageeragh, Leitrim Hill and Sraghcumber areas. Significant headway has been made in completing this preliminary exploration stage within OM4. Small bedrock exposures were mapped and abundant quartz-rich samples containing pyrite were located within all of the target regions, including some surrounding areas. Additional work, which is taking place over the summer, will focus on exploring the ground in close proximity to two major converging faults. This will include further prospecting and soil sampling in the Magheranageeragh target and preliminary exploration in the area between Crigh Bridge and Magheranageerah. With regards to the four licences held in the Republic of Ireland, geochemical soil sampling and geophysical data generated by the Tellus Border Project, a cross border initiative funded by the EU regional development fund, was released earlier in the year. The data reveals the continuation of a trend established on licence OM4 with anomalously high concentrations of gold pathfinder elements. This data has assisted in the design of a summer field programme. In addition, following a detailed review of this data, application was made for three new prospecting licences in the Republic of Ireland which were granted during the second quarter. These licences join and extend our existing licences to the southwest. During the second quarter Omagh Minerals were awarded a grant to complete a project which will determine the prospectivity potential of the Tellus border zone as a whole. This research is supported by the EU INTERREG IVA-funded Tellus Border initiative funded by the EU regional development fund. It is based around the new Tellus Border data and the associated fieldwork will be carried out over the summer months.

## 1.5 SUMMARY OF QUARTERLY RESULTS

Revenues and financial results in Canadian dollars for the second quarter of 2013 and for the seven preceding quarters are summarized below:

Quarter Ended	Accounting Policies	Total Revenue	Net Income (Loss)	Net Income (Loss) per share & per share diluted
June 30, 2013	IFRS	\$ 523,856	\$ (357,663)	\$ 0.00
March 31, 2013	IFRS	\$ 364,676	\$ (440,554)	\$ (0.00)
December 31, 2012	IFRS	\$ 875,391	\$ 1,449	\$ 0.00
September 30, 2012	IFRS	\$ 855,813	\$ (495,660)	\$ (0.00)
June 30, 2012	IFRS	\$ 1,902,980	\$ 543,734	\$ 0.00
March 31, 2012	IFRS	\$ 1,025,146	\$ ( 643,389)	\$ (0.00)
December 31, 2011	IFRS	\$ 2,512,459	\$ 445,945	\$ 0.00
September 30, 2011	IFRS	\$ 2,510,985	\$ 445,646	\$ 0.00

The results for the Quarter ended June 30, 2013 are discussed under Section 1.2 – Review of Financial Results. Revenues are primarily from the sales of concentrates. There had been losses in each of the quarters up to December 31, 2009. Subsequent to January 1, 2010, the Company was profitable in the first three quarters of 2010 mainly as a result of higher gold prices. A fall in metal production during the fourth quarter of 2010 and a further fall in production during the first quarter of 2011 resulted in a losses being incurred in both these quarters. The return to profitability during the second, third and fourth quarter of 2011 was due to both the increased production levels achieved and the higher gold prices that prevailed during those quarters. A fall in metal production during the first and third quarters of 2012, at a time of high gold prices, resulted in a loss being incurred in those quarters. The return to profitability in the second quarter of 2012 was primarily due to the higher production during that quarter. 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. A further fall in metal production during the first and second quarters of 2013 has resulted in significant losses for those quarters.

## 1.6 LIQUIDITY

The Company had a cash balance of \$ 476,581 at June 30, 2013 compared with a cash balance of \$ 1,164,868 at December 31, 2012.

As at June 30, 2013, the Company's working capital deficit amounted to \$ 3,037,837 which compared with a deficit of \$ 2,309,307 at December 31, 2012.

There were no financing activities during the first half of 2013.

During 2011, Galantas announced that it had entered into a convertible unsecured £ 1,250,000 loan agreement with Kenglo One Limited. The convertible loan carried interest of 2% per annum above the base rate of Barclays Bank plc. The Loan was repaid in 2012 upon exercise of the previously issued warrants of the Company held by Kenglo. During 2010 Galantas had also completed a private placement totalling \$ 2,277,500 with Kenglo.

The Company utilised the funds from both the 2010 private placement and the convertible loan secured during 2011 in conjunction with cash generated from operations in 2011 to finance the exploration drilling program which commenced in 2011, the fixed plant refurbishment completed in 2011, mobile equipment acquisitions in 2011 and has been utilising these funds during 2012 and the first half of 2013 for the ongoing expanded drilling program and the development of the underground mine.

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 has been actively seeking additional funding in 2013 and will be continuing to do so in during the remainder of 2013. 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. Subsequent to June 30, 2013 the Company announced that the Board of Directors had determined to undertake a strategic review of its business and opportunities, including a possible sale or joint venture of all or part of its Northern Ireland properties. The unaudited condensed consolidated interim financial statements have been prepared on a going concern basis as discussed in Note 1 of the June 30, 2013 financial statements.

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

## 1.7 CAPITAL RESOURCES

As at June 30, 2013, the Company had capital requirements to repay, under existing arrangements.

- a) Accounts payable and other liabilities amounting to \$ 1,226,495 incurred in the normal course of business.
- b) A UK £ loan facility from G&F Phelps Limited, a company controlled by a director of the Company, in the amount of \$ 1,641,149 (£ 1,026,552). This loan bears interest at 2% above base rate, is repayable on demand and is secured by a mortgage debenture over all the Company's assets. Interest accrued on related party loans is included under due to related parties. As at June 30, 2013, the amount of interest accrued totalled \$ 105,131 (UK£ 65,760).
- c) Amounts due for directors fees \$ 13,250.
- d) Amounts due to directors mainly for salaries and benefits accrued \$ 1,221,121 (£ 763,821).



## Contingent Liability

During 2010, the Company's subsidiary Omagh Minerals Limited received a payment demand from Her Majesty's Revenue and Customs in the amount of \$ 532,609 (UK£ 333,151) in connection with an aggregate levy arising from the removal of waste rock from the mine site during 2008 and early 2009. The Company believes this claim is without merit. An appeal has been lodged and the Company's subsidiary Omagh Minerals Limited intends to vigorously defend itself against this claim. No provision has been made for the claim in the unaudited condensed interim consolidated financial statements.

The Company also notes recent actions in the European Union General Court in Luxembourg by the British Aggregates Association. In judgement the Court is reported to have decreed that the state aid approval granted to the Levy by the EU Commission in 2002 was illegal and annulled it. The implication is that the UK Aggregates Levy, at the time of removal of waste rock, is unlawful.

## **1.8 OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet transactions.

## **1.9 RELATED PARTY TRANSACTIONS**

Director fees of \$ 8,250 and \$ 13,250 respectively were accrued for the three and six months ended June 30, 2013 (\$ 8,750 and \$ 16,100 for the three months ended June 30, 2012). Stock-based compensation for these directors totalled \$ 3,896 and \$ 7,748 for the three and six months ended June 30, 2013 (\$ 17,370 and \$ 31,433 for the three and six months ended June 30, 2012).

Remuneration accrued for the President/CEO totalled \$ 78,575 (UK£ 50,000) and \$ 156,780 (UK£100,000) for the three and six months ended June 30, 2013 (\$ 79,920 (UK£ 50,000) and \$ 158,580 (UK£ 100,000) for the three and six months ended June 30, 2012). Stock-based compensation for the President/CEO totalled \$ 3,117 and \$ 6,199 for the three and six months ended June 30, 2013 (\$ 8,586 and \$ 17,961 for the three and six months ended June 30, 2012).

Remuneration of the CFO totalled \$ 16,575 and \$32,875 for the three and six months ended June 30, 2013 (\$ 7,365 and \$ 16,175 for the three months ended June 30, 2012). Stock based compensation for the CFO totalled \$ 779 and \$ 1,550 for the three and six months ended June 30, 2013 (\$ 2,147 and \$ 4,490 for the three and six months ended June 30, 2012).

At June 30, 2013 G&F Phelps Limited, a company controlled by director of the Company, had amalgamated loans to Galantas of \$ 1,641,149 (UK£ 1,026,552) (December 31, 2012 \$ 1,660,756 ( UK£ 1,026,552)) bearing interest at 2% above UK base rates, repayable on demand and secured by a mortgage debenture on all the Company's assets. The interest charged on the loan for the three and six months ended June 30, 2013 amounted to \$ 9,944 (UK£ 6,328) and \$ 19,732 (UK£ 12,586) respectively (three and six months ended June 30, 2012 \$ 9,965 (UK£ 6,566) and \$ 20,295 (UK£12,587). Interest accrued is included under due to related parties. As at June 30, 2013, the interest accrued amounted to \$ 105,131 (UK£ 65,760) (December 31, 2012 - \$ 86,023 (UK£ 53,173)).

As at June 30, 2013 due to directors for fees totalled \$ 13,250 (December 31, 2012 - \$ Nil) and due to Directors and key management, mainly for salaries and benefits accrued at June 30, 2013, amounted to \$ 1,221,121 (UK£ 763,821) (December 31, 2012 - \$ 1,055,970 (UK£ 652,720)) and are included with due to related parties.

Transactions with related parties were in the normal course of operations and were measured at fair value.

## **1.10 FOURTH QUARTER**

**Not applicable to Quarterly MD&A**

## **1.11 PROPOSED TRANSACTIONS**

The Company presently has no planned or proposed business or asset acquisitions. Subsequent to June 30, 2013 the Company announced that the Board of Directors had determined to undertake a strategic review of its business and opportunities, including a possible sale or joint venture of all or part of its Northern Ireland properties.

## **1.12 CRITICAL ACCOUNTING ESTIMATES**

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

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

## **1.13 CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

The policies applied in these unaudited condensed interim consolidated financial statements are based on International Financial Reporting Standards (IFRS's) issued and outstanding as of August 27, 2013, the date the Board of Directors approved these statements. The same accounting policies and methods of computation followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2012. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2013 could result in restatement of these unaudited condensed interim consolidated financial statements.

The Company's accounting policies are set out in detail on Note 4 of the December 31, 2012 audited consolidated annual financial statements. The relevant changes in accounting policies applicable to the current period are set out below.



### *IFRS 10 – Consolidation*

IFRS 10 – Consolidated financial statements was issued by the IASB in May 2011. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity's returns. At January 1, 2013 the Company adopted this pronouncement and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

### *IFRS 11 -- Joint Arrangements*

IFRS 11 – Joint arrangements was issued by the IASB in May 2011. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets and obligations for the liabilities of an arrangement, and rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the latter case account for the arrangement using the equity method. At January 1, 2013 the Company adopted this pronouncement and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

### *IFRS 12 -- Disclosure of Interest in Other Entities*

IFRS 12 – Disclosure of interests in other entities was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities including joint arrangements, special purpose vehicles, and off balance sheet vehicles. At January 1, 2013 the Company adopted this pronouncement and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

### *IFRS 13 - Fair Value Measurement*

IFRS 13 – Fair value measurement was issued by the IASB in May 2011 and is effective for the Company beginning on January 1, 2013 and provides the guidance on the measurement on fair value and related disclosures through a fair value hierarchy. At January 1, 2013 the Company adopted this pronouncement and there was no material impact on the Company's unaudited condensed interim consolidated financial statements given the existing asset and liability mix of the Company to which fair value accounting applies.

### *IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine*

In October 2011, the IASB issued IFRIC 20. The interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. At January 1, 2013 the Company adopted this pronouncement and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

### *IAS 1 – Presentation of Financial Statements*

IAS 1 – Presentation of financial statements was amended by the IASB in June 2011 in order to align the presentation of items in Other comprehensive income with United States Generally Accepted Accounting Principles. Items in Other comprehensive income will be required to be presented in two categories: items that might be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and

other comprehensive income remains unchanged. At January 1, 2013 the Company adopted this pronouncement and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

#### *IAS 27 – Separate Financial Statements*

IAS 27 – Separate financial statements was effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new consolidation suite of standards, IAS 27 has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. At January 1, 2013 the Company adopted this pronouncement and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

#### **Future accounting changes/Recent accounting pronouncements**

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board or International Financial Reporting Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2014, or later periods. Updates that are not applicable or are not consequential to the Company have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

#### *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. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Early adoption is permitted. The Company is presently assessing the impact of this pronouncement.

#### *IAS 32 – Financial instruments, Presentation*

IAS 32 – Financial instruments, Presentation is effective for annual periods 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. Earlier adoption is permitted. The Company is presently assessing the impact of this pronouncement

### **1.14 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

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

## 1.15 OTHER MD&A REQUIREMENTS

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

General Administrative Expenses for the Quarters ended June 30, 2013 and June 30, 2012 are detailed below:

Expense Account	Quarter Ended June 30, 2013 \$	Quarter Ended June 30, 2012 \$
Management & administrative wages	126,523	149,280
Other operating expenses	34,627	64,597
Accounting & corporate	17,241	14,779
Legal & audit	16,640	27,886
Stock-based compensation	13,089	45,445
Shareholder communication and investor relations	53,683	67,797
Transfer agent	11,642	10,442
Directors fees	8,250	8,750
General office	1,778	1,952
Loan interest and bank charges	11,248	22,076
<b>Total</b>	<b><u>294,721</u></b>	<b><u>413,004</u></b>

General administrative expenses for the quarter ended June 30, 2013 totalled \$ 294,721 compared \$ 413,004 for the quarter ended June 30, 2012.

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 \$ 126,523 for the quarter ended June 30, 2013 compared to \$ 149,280 for the second quarter of 2013. The lower level of management and administration wages was mainly attributable to lower management remuneration costs at the Omagh mine. Other operating expenses, the majority of which are also incurred in UK£ by Omagh Minerals, and include amongst others professional fees, insurance costs, training, health and safety, travel together with the ongoing expenses of the Company's jewellery business amounted to \$ 34,627 for the quarter ended June 30, 2013 compared to \$ 64,597 for the corresponding period of 2012. Other operating costs at the Omagh mine were lower in the second quarter of 2013 when compared to 2012 reflecting the reduced activity levels at the mine. Accounting and corporate costs for the quarter amounted to \$ 17,241 compared to \$ 14,779 for the corresponding period of 2012. The higher level of costs in the second quarter of 2013 was mainly due to increased corporate services charges which was activity related. Legal and audit costs totalled \$ 16,640 for the quarter compared to \$ 27,886 for the second quarter of 2012. Legal costs for the second quarter amounted to \$ 4,462 which compared with \$ 10,980 for the second quarter of 2012. The higher level of legal fees in the second quarter of 2012 quarter was due to increased legal costs at the corporate level during that quarter. Audit fees for the second quarter amounted to \$ 12,178 compared to \$ 16,906 for the corresponding period of 2012. The lower level of fees in the second quarter of 2013 was due to the correction in the current quarter of a 2012 audit fee overprovision.

Stock-based compensation costs for the second quarter of 2013 amounted to \$ 13,089 compared to \$ 45,445 for the corresponding period of 2012. Stock-based compensation costs were lower in second quarter of 2013 due to an increased number of options being fully vested at the beginning of the current quarter when compared to 2012.

Shareholder communication and investor relations costs amounted to \$ 53,683 for the second quarter of 2013 compared to \$ 67,797 for the corresponding period of 2012. Shareholder communication costs include investor relations, shareholders information, filing fees and listing fees and in the current quarter include certain costs in connection with the holding of the Company's AGM. Shareholder communications costs were higher in the second quarter of 2012 mainly due to costs incurred in connection with an investor relations programme undertaken by Galantas during that quarter. Transfer agents fees for the second quarter of 2013 amounted to \$ 11,642 compared to \$ 10,442 incurred in the corresponding period of 2012. Transfer agent's costs for the second quarter include certain costs in connection with the holding of the Company's AGM. Directors' fees for the second quarter of 2013 totalled \$ 8,250 compared to \$ 8,750 for the second quarter of 2012. General office expenses for the second quarter of 2013 amounted to \$ 1,778 compared to \$ 1,952 for 2012.

Loan interest and bank charges for the second quarter of 2013 amounted to \$ 11,248 compared to \$ 22,076 for the quarter ended June 30, 2012. The higher level of loan interest and fees in 2012 mainly reflects the inclusion of interest on the convertible loan in the second quarter of 2012 which was repaid in June 2012.

This has resulted in General administrative expenses totalling \$ 294,721 and \$ 413,004 for the respective quarters.

**General Administrative Expenses for the Six Months ended June 30, 2013 and June 30, 2012 are detailed below:**

<b>Expense Account</b>	<b>Six Months Ended June 30, 2013 \$</b>	<b>Six Months Ended June 30, 2012 \$</b>
Management & administrative wages	252,171	301,511
Other operating expenses	105,005	134,831
Accounting & corporate	27,971	27,946
Legal & audit	43,553	52,517
Stock-based compensation	26,179	93,011
Shareholder communication and investor relations	83,433	126,586
Transfer agent	13,659	13,129
Directors fees	13,250	16,100
General office	3,891	4,399
Accretion expenses	Nil	45,529
Loan interest and bank charges	<u>22,668</u>	<u>51,401</u>
<b>Total</b>	<b><u>591,780</u></b>	<b><u>866,960</u></b>

General administrative expenses for the six months ended June 30, 2013 totalled \$ 591,780 compared to \$ 866,960 for the six months ended June 30, 2012.

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 \$ 252,171 for the six months ended June 30, 2013 compared to \$ 301,511 for the first half of 2012 which was mainly attributable to lower management remuneration costs at the Omagh mine in 2013. Other operating expenses, the majority of which are also incurred in UK£ by Omagh Minerals, and include amongst others professional fees, insurance costs, training, health and safety, travel together with the ongoing expenses of the Company's jewellery business amounted to \$ 105,005 for the six months ended June 30, 2013 compared to \$ 134,831 for the corresponding period of 2012. Other operating costs were lower in the first half of 2013 when compared to 2012, which savings were offset by once off redundancy costs at the mine during the current period. Accounting and corporate costs for the first half of 2013 amounted to \$ 27,971 compared to \$ 27,946 for the corresponding period of 2012. There were increased corporate costs during 2013 which increase was offset

by lower accounting costs during the current period arising from the reversal in the current period of a prior period accounting cost overprovision. Legal and audit costs totalled \$ 43,553 for the six months compared to \$ 52,517 for the first half of 2012. Legal costs amounted to \$ 11,413 which compared with \$ 13,245 for the first half of 2012. The higher level of legal fees in 2012 was due to increased legal costs at the corporate level. Audit fees for the six months amounted to \$ 32,140 compared to \$ 39,272 for the corresponding period of 2012. The lower level of costs in the first half of 2013 was due to a correction in the current period arising from an audit fee overprovision for the previous year.

Stock-based compensation costs for the first half of 2013 amounted to \$ 26,179 compared to \$ 93,011 for the corresponding period of 2012. Stock-based compensation costs were lower in 2013 due to an increased number of options being fully vested at the beginning of the year when compared to 2012.

Shareholder communication and investor relations costs amounted to \$ 83,433 for the first six months of 2013 compared to \$ 126,586 for 2012. Shareholder communication and investor relations costs include investor relations, shareholders information, filing fees and listing fees and in the current periods include certain costs in connection with the holding of the Company's AGM. Shareholder communications costs were higher in the first half of 2012 mainly due to costs incurred in connection with an investor relations programme undertaken by Galantas in that period. Transfer agents fees for amounted to \$ 13,659 compared to \$ 13,129 incurred in the first six months of 2012. Transfer agent's costs for both periods include certain costs in connection with the holding of the Company's AGM. Directors' fees totalled \$ 13,250 compared to \$ 16,100 for 2012. General office expenses for the first half of 2013 amounted to \$ 3,891 compared to \$ 4,399 for 2012.

Accretion expenses on the convertible loan for the first half of 2013 amounted to \$ Nil which compared to \$ 45,529 for the corresponding period of 2012. The accretion charge arose in 2012 as the carrying value of the convertible loan was less than its face value due to it being a convertible loan with the discount being accreted over the term of the loan. The convertible loan was repaid in June 2012. Loan interest and bank charges for the first half of 2013 amounted to \$ 22,668 compared to \$ 51,401 for the corresponding period of 2012. The higher level of loan interest and fees in 2012 mainly reflects the inclusion of interest on the convertible loan in the first half of 2012 which was repaid in June 2012.

This has resulted in General administrative expenses totalling \$ 591,780 and \$ 866,960 for the respective periods.

### **Disclosure of Outstanding Share Data**

The Company is authorized to issue in series an unlimited number of common and preference shares. At August 27, 2013 there were a total of 256,210,395 shares issued, and 9,450,000 stock options with expiry dates from October 2013 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. During the first quarter of 2013 there was a weakening trend in the gold price which has suffered further declines during the second quarter. The quarterly price expressed in US dollars averaged US\$ 1,414 and UK£ 920 for the second quarter of 2013, compared to US \$ 1,611 and UK£ 1,017 for the second quarter of 2012 respectively. The average price for the first six months of 2013 dollars averaged US\$ 1,522 and UK£ 986 compared to US \$ 1,651 and UK£ 1,047 for the first half of 2012 respectively. Since the end of the second quarter 2013, the gold price has suffered further declines and currently the price trend appears to be towards weakness.

MONTH	Gold Price US \$ per oz	Gold Price UK£ per oz	Quarterly Average US\$	Quarterly Average UK£
JANUARY 2013	1670.96	1047.34		
FEBRUARY 2013	1627.59	1051.35		
MARCH 2013	1592.86	1056.84	1630.47	1051.85
APRIL 2013	1485.08	969.74		
MAY 2013	1413.50	924.22		
JUNE 2013	1342.36	867.00	1413.65	920.32

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£. Thus a stronger US\$/weaker UK£ Sterling is to the Company's financial benefit. The US Dollar averaged \$ 1.55 to the UK£ in the first quarter of 2013 compared to \$ 1.57 in the first quarter of 2012. The quarterly average value of the US\$ against £Sterling had seen a strengthening of Sterling over the first quarter of 2013. That trend reversed slightly (weakened sterling v US dollar) during the second quarter of 2013 and whilst a reversal occurred in the first month of the third quarter 2013, sterling still appears to be weak. The US Dollar averaged \$ 1.54 to the UK£ in the second quarter of 2013 compared to \$ 1.57 in the second quarter of 2012. The US Dollar averaged \$ 1.545 for the first six months of 2013 compared to \$ 1.58 for the first six months of 2012.

MONTH	Average US \$ :£	Quarterly Average US\$ :£
JANUARY 2013	1.60	
FEBRUARY 2013	1.55	
MARCH 2013	1.51	1.55
APRIL 2013	1.53	
MAY 2013	1.53	
JUNE 2013	1.55	1.54

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

#### The Canadian Dollar / UK Sterling Currency Exchange Rate.

The accounts of the 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 accounts, 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 Sterling based assets which are converted at period end rates, when expressed in Canadian dollars.

The Canadian Dollar, which had strengthened against UK Sterling during the first quarter of 2013 weakened during the second quarter and had returned to near 2012 year end levels by the end of June 2013. The Canadian dollar averaged \$ 1.57 to the UK£ during the second quarter of 2013 which compared to the average rate of \$ 1.60 for the second quarter of 2012. The Canadian Dollar averaged \$ 1.565 for the first six months of 2013 compared to \$ 1.59 for the first six months of 2012.

MONTH	Average Can\$ :£	Quarterly Average Can\$:£
JANUARY 2013	1.58	
FEBRUARY 2013	1.56	
MARCH 2013	1.54	1.56
APRIL 2013	1.56	
MAY 2013	1.56	
JUNE 2013	1.60	1.57

### 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 as to the availability of suitable finance in regard to underground mine development. Preliminary discussions have been very positive and the Company is working towards the objective of funding development principally from this source.

The relative weakness of the Canadian and UK equity markets for junior mining companies continues and has restricted financing opportunities from this area.

### 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. The Company's other business, high value Irish gold jewellery, is dependent upon the mine consistently being able to supply reliable certified Irish gold.

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

### **Current Global Financial and Economic Conditions**

Current global financial and economic conditions have been characterized by extreme volatility. Several financial institutions and other major business have either gone into bankruptcy or have had to be rescued

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

### **Additional Funding Requirements**

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

### **Uncertainty of Mineral Resource and Mineral Reserve Estimates**

The estimates for mineral resources and mineral reserves are determined in accordance with NI 43-101 and CIM Standards. There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral resources and mineral reserves estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of recovery of metals from such resources may not be realized. Differences between management's assumptions, including economic assumptions such as metal prices and market conditions, could have a material adverse effect in the future on the Company's financial position and results of operations. Estimated mineral resources may have to be recalculated based on changes in mineral resource prices, further exploration or development activity, or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence reserve or resource estimates. Market price fluctuations for mineral resources, increased production costs or reduced recovery rates, or other factors can render proven and probable mineral reserves uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated mineral reserves could require material writedowns in investment in the affected mining property and increased amortization, reclamation and closure charges.

### **Uncertainty of Inferred Mineral Resources**

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

### **Exploration, Development and Operations Risks**

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



operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas, which may result in environmental pollution and consequent liability.

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

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

### **Mineral Processing**

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

### **Environmental**

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

Environmental legislation is evolving in a manner which may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Permits from a variety of regulatory authorities are required for many aspects of mineral exploitation activities, including closure and reclamation. Future environmental legislation could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the

Company's properties, the extent of which cannot be predicted. In the context of environmental permits, including the approval of closure and reclamation plans, the Company must comply with standards and laws and regulations which may entail costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. The Company does not maintain environmental liability insurance.

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

### **Permitting**

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

### **Regulations and Permits**

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

### **Risks Relating to Government Regulation**

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

requiring operations to cease or be curtailed, fines, penalties or other liabilities. The Company may be required to compensate those suffering loss or damage by reason of its mining operations and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits.

## **Title**

The Company owns the land in secure freehold on which the project is located. Precious metal licenses and mining licenses have been granted to the Company by the Crown Estate and renewed as required since the mid – 1990's when initially granted. Licenses and Leases are subject in the usual way to minimum performance requirements which are set at a level so as not to inhibit development. There was dialogue with the Northern Ireland Development of Enterprise Trade and Industry (DETI) concerning a license to extract base metals which occur with the gold and silver in the quartz-sulphide veins and which may be recovered as a by-product of gold and silver. The license if applicable may require a fee payable to owners of surface rights. In the case of the Company's mine, since the owner is the Company itself, it is thought unlikely that there will be a material impact. There has been no final determination by DETI.

## **Political**

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

## **Insurance and Uninsurable Risks**

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

## **Revenue**

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

## **Currency Fluctuations**

Currency fluctuations may affect the Company's future operations, financial position and results. The Company's revenues are in US dollars. Most of the costs and expenditures of the Company are incurred in UK Pounds Sterling resulting in dollar revenues being converted to sterling on an ongoing basis. The value of sterling against the US dollar constantly fluctuates which impacts on sterling revenue available to the

Company. The appreciation of the UK£ against the U.S. dollar would reduce the UK£ revenues at the Omagh mine which could materially and adversely affect the Company's profitability, results of operation and financial condition. Financial results are published in Canadian dollars with the UK£ operating results being converted at average exchange rates for each period. There is also a currency risk arising mainly from the Company's net liabilities being denominated in sterling, which liabilities will fluctuate in Canadian dollar terms giving rise to exchange gains/losses in line with the ongoing fluctuations in the exchange rates.

### **Gold Price**

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

### **Construction and Development**

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

### **Dependence on Key Employees and Skilled Personnel**

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

### **Share Price Fluctuations**

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

### **Dividends**

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

## **Potential Dilution**

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