

**GALAHAD METALS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Period Ended September 30, 2010**  
**(Information as at November 19, 2010 unless otherwise noted)**

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*This document may contain or refer to certain forward-looking statements relating but not limited to Galahad Metals Inc.'s ("Galahad" or the "Company") expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects, the failure to obtain sufficient funding for operating, capital and exploration requirements and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Galahad undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.*

**INTRODUCTION**

The following provides management's discussion and analysis of the financial position of Galahad Metals Inc ("the Company") and the results of operations of the Company for the period ending September 30, 2010 and 2009. Management's Discussion and Analysis was prepared by Company management and approved by the Board of Directors on November 19, 2010.

The following discussion and analysis should be read in conjunction with the Company's audited financial statements and related notes for the year-ended December 31, 2009 and 2008 and in conjunction with the unaudited interim consolidated financial statements for the three and nine month period ending September 30, 2010. All figures are presented in Canadian dollars (unless otherwise indicated) and are in accordance with Canadian generally accepted accounting principles. These statements together with the following management discussion and analysis dated November 19, 2010, are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to

potential future performance. Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **NATURE OF OPERATIONS**

The Company is a development stage junior mining company engaged in the identification, acquisition, evaluation and exploration of mineral properties in Canada and the United States. The Company has not determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of amounts recorded for mineral exploration properties and deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these reserves and upon attaining future profitable production from the properties or sufficient proceeds from disposition of the properties.

## **GENERAL CONCERNS REGARDING THE MARKET AND JUNIOR EXPLORATION**

The Canadian junior exploration market has been hit for the last two years with very weak commodity prices as well as a general melt down of the capital markets, however over the last half of 2009 the market has seen minor recoveries in the capital markets. The Company continually needs to raise funds to continue exploration, so future exploration may be truncated by the availability of capital. Management has a very good track record over the last twenty-one years for raising funds to continue exploration on an annual basis, but regards the current market conditions as exceptionally poor for funding, rather like 1990-91 and 1999-2001.

As a result, Management is currently looking for a joint venture partner for its Nevada, Bottle Creek property and has been contacted by other junior's with respect to joint venturing Kellyn.

Management is always careful of its operating costs, and a strong but inexpensive back office staff, coupled with a minimal annual rental cost for the office, keeps costs down. The largest operating costs are those related to the legal, audit, stock transfer and TSX-V related activity which as a public entity the Company is compelled to pay.

## **FOCUSED EXPLORATION**

The Company has always had a different approach to gold exploration. Rather than have millions of acres and large budgets, it has instead gone to projects where gold and gold indicator minerals were already present, and then taken only enough claim ground to efficiently explore. In keeping with this method, the Company, in 2010, will focus on its new plays in Northern Quebec, Regcourt and as well as its claim in Ontario, Montrose. The 2010 budget for Regcourt is \$370,000 and \$185,800 for Montrose. The Budget for Bottle Creek is \$575,000 over the remainder of 2010 and 2011.

## THE MARKET FOR GOLD

As noted in the London Bullion Market Association 2010 forecast “given the surge in prices in late 2009, it is not surprising that the 2010 forecast prices are all much higher than last year’s forecast prices. With the gold values hitting a new all-time high in December 2009, the 2010 forecast average for gold at \$1,199, is well above the 2009 forecast level of \$880.”

| Metal    | 2009     | 1st Average Year Week | Forecast Average January 2010 |
|----------|----------|-----------------------|-------------------------------|
| Gold     | \$ 972   | \$ 1,126              | \$ 1,199                      |
| Silver   | \$ 14.67 | \$ 17.68              | \$ 19.02                      |
| Platinum | \$ 1,204 | \$ 1,530              | \$ 1,558                      |

Philip Aubertin of the UBS Investment Bank, London stated that, “during 2009, gold has clearly gone through a paradigm change and will continue to benefit from low interest rates and inflation fears. Gold will continue to shine as portfolio diversifier coupled with continued interest from the Central Bank community. Gold should reach equilibrium around \$1,225 in the coming year. The enormous liquidity waiting for a home will be another important attribute for the yellow metal, where we expect the macro funds and asset managers to become the main investors. Strong physical demand will come into play again sub \$1,000, giving the elasticity gold is famous for.”

Robin Bhar of Calyon Credit Agricole CIB, London stated that “we remain bullish on gold for reasons of declining mine output, weaker recycling, lower central bank sales (European central banks cut the upper limit for their forecast gold sales over the next five years, while the central banks in Asia and Russia want to increase their holdings) and geopolitical tensions. Other factors such as a safe haven, a store of value and investor appetite are seen underpinning gold over the longer term. Low interest rates have slashed the opportunity cost of owning gold; it may yield nothing, yet government bonds offer little more while cash deposit rates are low. Add in concerns about rising government debt, large central bank liquidity injections and credit risk, and the demand for physical gold is understandable. To head off the threat of deflation, monetary policy will stay accommodative in 2010, a necessary prerequisite to influence inflation expectations. The US dollar is expected to remain under pressure early in 2010 but will see some recovery in the second half of the year, reflecting a relatively stronger cyclical recovery in the US, due to the more aggressive stance of the US authorities. Under this scenario, we expect gold to peak around mid-year and to weaken thereafter in line with diminished risk aversion. Recovering industrial demand due to stronger global economic growth anticipated for 2010 should be the key driving factor.”

Jeffrey Christian of CPM Group, New York stated that, “Gold prices are expected to head higher during the first several months of 2010, setting record highs in the process. Despite signs of an economic recovery emerging around the world, conditions should be expected to remain vulnerable. Investors will continue to buy gold, not only as a hedge against another possible financial calamity, but also to safeguard against political problems that have been building up over the past several years. Prices may subside during the second half of 2010 on expectations that economic conditions do improve, but most investors would be expected to hold on to their gold as longer-term investments. The shift from central banks becoming net buyers of gold from net sellers, which occurred in 2009, is expected to remain in place this year, lending additional support to prices”.

## **DIRECTORS AND OFFICERS, CHANGES**

On August 5, 2010 Ms. Wallis announced that she will be resigning from the Board of Directors effective August 31, 2010. Management and the Board deeply appreciate all the effort and good advice rendered to the Company by Ms. Wallis. We all wish her well in her future endeavors.

ON August 31, 2010 the Company announced that it is appointed a new director, Mr. Michael Newman.

Mr. Newman has been the Chief Executive Officer of Caldera Geothermal Inc. since January 2010 and Managing Director of Adevam Investments Inc. since July 1997. Mr. Newman held the position of President and Chief Executive Officer of InterRent REIT, a publicly listed company on the Toronto Stock Exchange, from September 1997 to September 30, 2009 and a trustee from December 2006 to December 2009. Mr. Newman has been a director of SKOR Food Group Inc. (SKF-TSX.V) since August 1997. He also served as director of Lombardi Media Corp. (TSXV) from July 2002 to September 2007, Inspiration Mining Corporation (TSXV) from February 2004 to August 2009, Willowstar Capital Inc. (TSXV) from September 19, 2006 to November 1, 2007, Prime City One Capital Corp. (TSXV) from October 4, 2006 to August 2007, SelectCore Group Inc. (TSXV) from April 2004 to December 2008, Covalon Technologies Ltd. (TSXV) from December 2004 to April 2006, Titan Medical Inc. (TSXV) from April 2008 to May 2009, Pure Energy Visions Corporation (TSXV) from September 2006 to March 2007, Infolink Technologies Ltd. (TSXV) from July 1999 to November 2003, GolfNorth Properties Inc. (TSXV) from February 1998 to July 2002 and RYM Capital Corp. (TSXV) from June 2005 to November 2006.

ON September 20, 2010 the Company announced that it appointed Mr. Larry Hoover as a new director.

Larry Hoover is an analytical chemist, who spent much of his career applying that knowledge in the field of environmental monitoring, exposures, and the toxicology of contaminants. For the past 15 years, Mr. Hoover has provided research and analytical support to major organizations on a contract basis. Over the last half decade, Mr. Hoover has focused primarily on consulting for junior mineral explorers, providing diverse services including research and analysis, report generation, investor relations, and fund-raising assistance.

## **QUALIFIED PERSON**

The Company relies on Paul Pitman, P. GEO, and Martin Bourgoin, P. GEO as the Qualified Persons as defined under National Instruments 43-101. Mr. Pitman and Mr. Bourgoin have read and approved the technical information contained in this MD&A. Disclosure on mineralization on properties has not been verified by Mr. Pitman nor Mr. Bourgoin and is not necessarily indicative of the Company's anticipated results. Where provided, potential quantity and grade is conceptual in nature as the Company has not conducted sufficient exploration to define resources and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

## SELECTED ANNUAL INFORMATION

The following table contains selected interim financial information of the Company for the fiscal years ended September 30, 2010, 2009, 2008, and 2007. This information is derived from the September 31, 2010 unaudited interim financial statements as well as the 2009 and 2008 unaudited interim financial statements of the Company.

|  | <b>Period-ended<br/>September 30,<br/>2010<br/>\$</b> | <b>Period-ended<br/>September 30,<br/>2009<br/>\$</b> | <b>Period-ended<br/>September 30,<br/>2008<br/>\$</b> | <b>Period- ended<br/>September 30,<br/>2007<br/>\$</b> |
|--|---|---|---|--|
| Revenue                                    | Nil   | Nil   | Nil   | Nil  |
| Total expenses                             | (763,169)   | (529,569)   | (998,518)   | (341,226)  |
| Recovery of future<br>income taxes         | 54,500  | NIL   | NIL   | NIL  |
| Net loss for the period                    | (699,454)   | (540,221)   | (975,941)   | (317,482)  |
| Basic and diluted loss<br>per common share | (0.03)  | (0.05)  | (0.01)  | (0.00)   |
|  | <b>As at<br/>September 30,<br/>2010<br/>\$</b>        | <b>As at<br/>December 31,<br/>2009<br/>\$</b>         | <b>As at<br/>December 31,<br/>2008<br/>\$</b>         | <b>As at<br/>December 31,<br/>2007<br/>\$</b>          |
| Total assets                               | 5,550,509   | 5,614,374   | 5,335,008   | 9,759,518  |
| Total long-term<br>financial liability     | NIL   | 140,013   | NIL   | NIL  |
| Cash dividends per<br>common share         | NIL   | NIL   | NIL   | NIL  |

Total expenses were greater by \$233,600 when comparing the period-ended September 30, 2010 to 2009. The increase in expenses is primarily due to an increase in the write-off taken in 2010 (\$160,423) compared to 2009 (\$111,224) for an increase of expenses of \$76,694 from 2009. Promotion and investor conference fees decreased by \$14,247 due to decreased participation in shows and promotion in the third quarter 2010. During the year the Company accrued \$22,350 for Part XII.6 tax, there was no such accrual as at September 30, 2009. There was also an increase of approximately \$19,860 professional fees due mainly to private placements in Q3 2010 as well as restructuring of the Bottle Creek claims, which was partially offset by an decrease of approximately \$5,441 in regulatory fees due to the fact no fees and penalties were incurred since all filings for the Company were done on time 2010. There was a decrease in management fees of approximately \$18,500 in 2010 compared to 2009. The reason for the decrease was due to the fact that in 2009 the Board of Directors approved the payment of prior year's services to Mr. Dow for which the Company had not paid nor accrued in past years. Mr. Dow received compensation in the form of common shares of the Company. There was an increase in general and administrative expenses in Q3 2010 compared to Q3 2009 due to a significant number of stock options granted in 2010 compared to 2009 for an increase of approximately \$160,000. The remaining variance is due to insignificant fluctuations in various general and administrative expenses.

No cash dividends have been paid by the Company. The Company has no present intention of paying cash dividends on its common shares as it anticipates that all available funds will be invested to finance new and existing exploration activities.

## **OVERALL PERFORMANCE AND RESULTS OF OPERATIONS**

### **Mineral Exploration Properties and Deferred Exploration Expenditures**

During the period ended September 30, 2010, the Company incurred costs of \$233,153 on property acquisition, claim renewal and staking costs. Of the total costs incurred of \$233,153 Galahad paid direct costs of \$217,153 as well as issued common shares with a value of \$16,000 for option payments. A total of \$134,812 of this spending related to the Company's Bottle Creek, Nevada project for the annual option payment with respect to the underlying property agreement. Costs of \$17,000 was related to staking and claim renewal costs for the Kellyn project, while there were costs of \$70,965 and \$376 related to staking and claim costs for the Regcourt and Montrose projects respectively. During the Q3 2010, the company returned its claims in Steel River as well as part of the claims in Bottle Creek, resulting in a write-off of deferred mineral properties of \$467,680.

During the period ended September 30, 2010, the Company incurred costs of \$341,686 for exploration. Of the total costs incurred of \$341,686 Galahad paid direct costs of \$329,131 as well as issued stock options with a value of \$12,555 to consultants providing geological services. The most significant component of total spending comprising \$195,959 was focused on the Montrose project including a drilling, geology, assaying, core storage and report preparation. Costs of \$98,045 were incurred for the Bottle Creek project for project management. Costs of \$15,122 were incurred for the Kellyn project for geology and report preparation. Costs of \$28,291 were incurred for the Regcourt project for geology, and report preparation.

### **Regcourt Project**

On September 23, 2009 Galahad completed a term sheet leading to an option to purchase agreement with a local Quebec prospector on 11 claims located in Vauquelin Township.

On November 2, 2009 the Company reported that the Company is continuing its' investment in Quebec's exploration rush for gold through enlargement of its land holdings around the Regcourt property. The Regcourt Property hosts a small gold deposit discovered on surface by trenching in 1944. The original Regcourt Lease consisted of 69.33ha; in October the Company expanded this project to 76 claims or 2,298.75ha.

On November 24, 2009 the Company reported it has recently acquired a previously proprietary, comprehensive dataset, which includes work that has never been submitted to the Quebec Government as assessment work. These data include historic exploration program results that will facilitate accurate targeting of a proposed diamond-drilling program. The Company has begun to ground-truth elements from past exploration campaigns (drill-collars, shaft, trenches, etc.) to allow accurate geo-referencing of the historic datasets into a single, comprehensive geo-database.

A preliminary assessment of these data indicate that the style of deformation and mineralization at the deposit is consistent with other gold deposits in the Val-d'Or gold mining camp, one of the most prolific mining areas in Canada.

The Regcourt Property hosts a small gold deposit discovered on surface by trenching in 1944. Subsequent historic drilling and underground development indicated a resource tonnage of 61,000 tonnes grading 5.49 g/t gold (1983) to a shallow depth of 544 feet. As most gold deposits in the Abitibi extend to great depths it is reasonable to assume that the Regcourt deposit hosts

significant exploration potential. All drill records are currently being assembled into a vector format and into an ArcGIS platform.

On January 13, 2010 the Company reported that it continues to advance its investigation of the Regcourt gold deposit located in the heart of the Val d'Or gold camp, one of the world's most prolific gold mining districts.

MRB & Associates and AS Horvath Engineering Inc., using ArcGIS® and Gemcom®, are compiling all historic data into a 3-D model of the deposit in order to generate targets for an upcoming drilling campaign. A total of 59 surface and 35 underground historic diamond drill holes have been incorporated into the database. It is significant to note that the deposit was only explored to a depth of 165 m, since Abibiti-style lode gold deposits are typically mineralized to much greater depths. The gold mineralization appears to be associated with quartz veins and shear zones in close proximity to a granodiorite intrusion, typical of many of the gold mines in the Val d'Or camp. From an early review of the historic data projected in a 3-D model, the mineralized vein system clearly continues below 165 m.

The Report presents a proposed surface diamond-drilling program comprising nine (9) holes totaling 2,350 metres. The drilling campaign is designed to test the historic intersections as well as potential high-grade gold-mineralized zones along projected fault/vein intersections, delineated using the 3-D Gemcom® model

On February 23, 2010 the Company reported that it has acquired an additional 20 claims at the Regcourt property. The original Regcourt Lease consisted of 69.33ha; in October the Company expanded this project to 76 claims or 2,298.75ha. Following the latest acquisition, Galahad now holds a total of 96 claims or 2,763.22 ha at the Regcourt property.

On April 6, 2010 the Company reported that has received an independent report that recommends surface diamond drilling on the Property located near Val-d'Or, Quebec, one on the most prolific gold mining areas in Canada. According to a 1983 Evaluation Report, the Regcourt deposit, located in the centre of the Property, contains an historic resource, of 61,000 tonnes Au @ 5.49gpt (10,766 oz Au)\*, calculated to a depth of 500 feet.

The Company has planned to use proceeds from a private placement which closed in early September 2010 for a diamond-drilling and down-hole geophysics exploration programme at its Regcourt Property near Val d'Or QC.

The exploration campaign, which will consists of 9 holes and total 2,350 metres, is designed to explore and validate historic drill-intersections, as well as the projected downward extensions of veins and other structures, especially along their interpreted, linear intersection zones.

The Company has commenced it's the drill programme in early-November of this year.

### **Kellyn Project**

On January 21, 2009 the Company announced that it has optioned the Kellyn property (nine claims; 56 claim units) from two local prospectors (the "Optionors") in the Thunder Bay area. The highly prospective Kellyn property is comprised of a gold and base metal vein system that occurs along the contact between ultramafic rocks and a granitoid body. Historic data indicate that up to 2.72 oz/ton gold and 31.4 oz/ton silver were found on the property. One sample

collected by Galahad Metals contains 26.8 g/t (0.84 oz/tonne) gold and two contain from 3 to 13 oz/tonne silver.

Under the terms of the agreement, GAX is required to pay to the Optionors, subject to the approval of the TSX-V, \$6,000 and 100,000 shares of GAX upon signing and on the first, second and third anniversaries. The property is subject to a 2% NSR payable to the Optionors, of which half can be purchased for \$1,000,000.

On June 5, 2009 the Company has announced that it has began a systematic prospecting and soil sampling program on its optioned Kellyn property.

On June 17, 2009 the Company has announced that it has staked and has optioned 2 additional claim blocks for its high-grade gold prospect. Under the terms of the agreement the Company is required to pay consideration to of \$2,500 CDN and the issuance of 75,000 shares of the Company.

On October 26, 2009 the Company announced completion of a summer program of geochemical sampling, prospecting, stripping and channel sampling at its Kellyn Project. Based on an analysis of soil and rock geochemical samples five distinct zones of interest were outlined, some of which require further sampling and two are drill ready.

Initial grab sampling by the Company prior to optioning the claims assayed 26.8 g/t (0.84 oz/tonne) gold from the newly discovered Creek showing. Other known occurrences on the claims occurring along a contact between ultramafic and granitoid rocks included the Elgin Adit Showing ( historical assays of 22g/t gold and 62.5 g/t silver) and Jon's Showing (historical assays of 11 g/t gold and 968 g/t silver).

Additional sampling in 2009 at the Creek Showing confirmed the high grade nature of this narrow quartz vein, assaying 24.7 g/t gold, 40 g/t silver. The silver potential of the Jon's showing was highlighted with assays from 4 - 454 g/t silver and anomalous gold from 0.14 – 1.21 g/t. Both gold and silver are associated with telluride minerals as well as anomalous base metals. These two prospects are drill-ready.

In addition to precious metals, sampling of various rock types at the Adit area were found to be enriched in rare earth elements as previously reported by the Company. Eight rock samples from a stripping area above the adit ranged from 0.23 to 1.92 % total REE; three samples were in excess of 1% total rare earths. Host rocks are varied, and include quartz veins, alkaline gabbro and altered volcanic rocks. In addition most are barium-enriched, a Hemlo-like signature. Geologically the REE-enriched zone occurs in a highly strained zone of gabbroic rocks near the contact with the Terrace Bay batholith. The REE's in the Adit area are light-REE enriched. Additional prospecting is required as the number of samples is relatively small.

On February 10, 2010 the Company announced recent discovery of a very metal-enriched soil anomaly covering a roughly circular area of at least 75,000m<sup>2</sup> on its Kellyn Project as a result of interpretation of summer 2009 field results.

The soils are best represented by copper and REEs (rare earths), but also a close association of elevated gold with copper. The average copper content in the soils is 430ppm, a remarkable average for copper in B-horizon soils. This area probably represents the core of a mineralized system surrounded by exposed, but narrow, gold-copper veins, silver-lead quartz veins, silver-REE quartz veins or REE enriched lamprophyre dykes. The REE-enriched values (from 0.23 to

1.92% total REE) are best exposed in the Adit area in quartz veining and in the lamprohyre but are also highly anomalous throughout the broad soil anomaly (Lanthanum: 50-630ppm). Prospecting did not give further clues to source type as there are no outcrops in or around this large soil anomaly. Historical underground mining has taken place on the silver-lead veins in the Adit area. As previously reported the gold-copper vein is poorly exposed in a creek and has not been drill tested in spite of the high-grade assay grab values taken off the vein (28g/t gold).

Both soil data and rock multi-element values indicate that the Kellyn area has an unusual combination of elements. The element associations with highest gold values (which include barium), are somewhat typical of that at Hemlo and/or a porphyry or epithermal system. The highest REEs correspond to quartz veins hosts as well as lamprophyric rock which likely belong to a later Archean alkaline suite. The soil anomaly is discreet, sharply defined, and topography suggests that it does not appear to have been transported far from source.

On November 4, 2010 the Company announced that it will initiate aggressive exploration for rare earths on its Kellyn claim group located in northwestern Ontario. Previously discovered in 2009 sampling of various rock types above old workings with exposed quartz veining (“the Elgin Adit area”) were found to be enriched in rare earth elements. Historical values of grab sampling from the Adit veins assayed up to 22g/t gold and 62.5g/t silver (PR #09-24, October 26, 2009) but the workings date back to the early 1900s. Eight rock samples from a stripped zone ranged from 0.23 to 1.92% total REE; three of which were in excess of 1% total rare earths. Geologically the REE-enriched zone occurs in a highly strained zone of gabbroic rocks near the contact with the Terrace Bay batholith. The number of samples is presently limited and only a small portion of the claim group was examined by line cutting and a soil geochemical survey in 2009. With available financing a more aggressive program of prospecting will begin over the entire claim holdings to determine the property’s REE potential.

In addition to the Adit trenches soil sampling outlined a large copper-gold-silver-REE soil anomaly that requires additional prospecting prior to stripping or trenching. The soil defined anomaly is very distinct and covers an area of at least 75,000m<sup>2</sup>. This anomaly is best represented by copper and REEs and elevated gold/silver values. Geological consultants believe this area may be the core of a mineralized system. No outcrops were observed in this defined area as the soil results were not available at the time thus the host minerals for the anomalous REE contents is unknown. Prospecting in 2009 was carried out only on widely spaced cut lines due to severe topography and heavy forest cover. The anomaly, however, is discreet and sharply defined and not likely transported from source.

Future work will initially include detailed prospecting in the Elgin Adit and within the soil geochemical anomaly as well as general prospecting over the remainder of the claims. Trenching and/or stripping will follow. If disseminated in character, an I.P. survey may be carried out. At least two diamond drill targets have already been defined on gold-silver occurrences.

## **Montrose**

The Company holds one mining lease in Montrose Township, Ontario. During 2001, the Company acquired the lease for 5,000 (50,000 pre-consolidation) common shares and a 1% net smelter return royalty (“NSR”) on the property subject to the mining lease. During 2008, the Company completed a geological mapping and IP geophysical programme, with a view to drilling the property in the fall of 2009.

On May 26, 2009, the Company announced that positive results from a recent geophysical survey that has increased the potential on its Montrose Gold Project. The recently completed induced

polarization (I.P.) survey, as follow-up to a soil survey in late 2008, outlined several corridors of enhanced conductivity values which may be associated with significant deformation/alteration zones with a high potential for gold-bearing mineralization. A strong linear gold-in-soil anomaly crosses the property prioritizing the I.P. targets.

On July 21, 2009 the Company has announced an increase in gold potential on its Montrose Project located south west of Kirkland Lake. This property consists of one Mining Lease straddling a splay fault off the prolifically mineralized Larder Lake – Cadillac Break. Completed in early July, a crew of geologists surveyed the location of historical drill holes relative to the recently outlined induced polarization survey targets. The majority of the hole collars were located and surveyed, none of which corresponds to the high priority I.P. targets selected for drilling by Galahad.

This work highlights the potential for new discoveries to be made on the property, some of which were previously thought to have been tested. High priorities selected are geophysical targets coincident with gold-in-soil anomalies.

On February 25, 2010 the Company reported that it had signed a drill contract with CABO Drilling Ontario Corp. to test geochemical and geophysical targets on its wholly owned Montrose Lease. All permits were received and drilling commenced March 1, 2010. Eight, highly rated geophysical I.P. targets were selected for an initial Phase 1 program of about 800 meters.

On March 23, 2010 the Company announced completion of a total of seven drill holes for a total of 687 meters on its Montrose Project. Six of the holes tested such targets however one hole was dedicated to testing a high resistivity anomaly within the Main Zone where historical drilling intersected widespread, near-surface gold mineralization.

Best results from the drilling program are shown in the following Table:

| Hole             | from (m)     | to (m)       | Au (g/t)    |             | interval (m) |
|------------------|--------------|--------------|-------------|-------------|--------------|
| <b>M-010-07</b>  | <b>21.00</b> | <b>32.00</b> | <b>1.87</b> | <b>over</b> | <b>11.00</b> |
| <i>including</i> | <i>21.00</i> | <i>25.00</i> | <i>3.62</i> | <i>over</i> | <i>4.00</i>  |
| <i>and</i>       | <i>27.00</i> | <i>32.00</i> | <i>0.95</i> | <i>over</i> | <i>5.00</i>  |
| <b>M-010-04</b>  | <b>14.30</b> | <b>15.50</b> | <b>0.70</b> | <b>over</b> | <b>1.20</b>  |

In hole M-010-06, faulting, sulphide mineralization and associated anomalous gold values were encountered between 92-98 m indicating that gold mineralization may extend along the Galer Fault zone, at least 700 m to the northwest.

Although high-grade values were not encountered in all of the drill holes, the telltale green carbonate alteration typical of the Kirkland Lake – Matachewan area gold deposits and newly recognized komatiite flows are consistent with local gold deposits.

With the Phase I drilling program completed, all of the current and available historical data is being validated, compiled and transcribed by MRB & Associates of Val-d'Or (Québec) into a Gemcom® database in order to create a 3D model of the deposit. The 3D modelling and drill-target generation will be completed in time for an anticipated Q2, 2011 drilling program on the Property.

## **Bottle Creek Property – Nevada**

On March 16, 2005, the Company announced it had entered into an option agreement with Golden Gryphon Explorations Inc., a private company incorporated in British Columbia, whereby the Company had the option to earn 60% of the Bottle Creek epithermal gold-silver property in Humboldt County, Nevada. The Company was required to spend an aggregate of US\$2 million on exploration of GGE's land position over a maximum of three years and was to pay GGE US\$450,000 before the third anniversary of the agreement.

On October 29, 2007, the Company announced that it had completed its earn-in of a 60% interest in the core area claims of the project by having spent an aggregate of US\$2 million on exploration on core area claims and by providing the final option payment of US\$200,000 during October 2007. The Company has also earned a 50% vested interest in all regional claims associated with the Bottle Creek project. Presently, the Company is responsible for funding of 60% of costs on the core claims and 50% of costs on the regional claims. GGE is the operator of the project.

The property is located in the Bottle Creek mercury district of northwestern Nevada, approximately 250 kilometres northeast of Reno. The core of the Bottle Creek system lies beneath past producing, high-grade mercury mines that are interpreted to be the surface manifestation of a mineralizing system capable of depositing gold and silver as well. Gold and silver exploration in the area dates from 1982 when the area was worked for both Carlin-type disseminated gold mineralization and low-sulphidation epithermal mineralization at shallow depths. Results of historical and current work indicate that the region displays widespread anomalous gold, silver, selenium, antimony, arsenic and mercury and lower but anomalous molybdenum, copper lead and zinc content - this coupled with altered rhyolite and basalt host rocks suggests that Bottle Creek fits into a distinct class of epithermal gold mineralization that includes the Ken Snyder (Midas) (2.39 M oz gold), Mule Canyon (1.43M oz gold) and Sleeper (1.68 M oz gold) deposits.

Results of the initial diamond drilling program were announced during August of 2006. In total, 2,161 metres of diamond drilling were completed on five widely spaced holes within a six square kilometre area. All five holes intersected anomalous gold and silver, with four of the holes containing multiple intersections. The results of this drilling program have been followed up by additional geophysical surveys which commenced during the third quarter of 2006 and were ongoing into 2007.

On March 27, 2009 the Company announced that it has increased its number of claims by 582 claims, 4,711 new ha which brings the claim total to 1721 claims and approximately 13,900 ha. The Company is currently reviewing the work completed to date with a view to finding a joint venture partner in 2010.

On August 16, 2010 the Company announced that it has entered into a letter of agreement with Golden Gryphon Explorations Inc. ("GGE"), whereby the parties have agreed to rationalize their various holdings and interests in the 150 sq km. Bottle Creek property in Humboldt County, NV.

The Company had decrease its interests from approximately 1700 claims, where in the majority it owned only 50%, to 935 claims, where it now owns 60%. This will permit the Company to focus exploration on those claims it views as immediately most prospective. The main zone is drill ready and sites are permitted for an immediate drill program.

## Expenses and Net Loss for the Year End

Total expenses for the period ended September 30, 2010 were \$763,169 (2009 - \$529,569).

Interest income earned on short-term investments for the period ended September 30, 2010 was \$ NIL (2009 - \$11,195). Foreign exchange loss on US dollar denominated balances were \$ 861 (2009 - \$1,367) for the period end.

During 2010, the Company recorded a recovery of future income taxes of \$54,500 (December 2009 - \$182,500)

Net loss for the period ended September 30, 2010 was \$699,454 (2009 - \$540,221). Basic and diluted loss per common share for the period ended September 30, 2010 was \$(0.03) (2009 - \$(0.05)).

## Selected Financial Data quarterly

| Quarter  | Net Loss<br>\$ | Loss/share<br>\$ | Total Assets<br>\$ | Shareholder's Equity<br>\$ |
|----------|----------------|------------------|--------------------|----------------------------|
| Q3/2010  | (429,047)      | (0.02)           | 5,550,509          | 5,243,814                  |
| Q2/ 2010 | (152,820)      | (0.01)           | 5,717,645          | 4,845,349                  |
| Q1/ 2010 | (117,584)      | (0.01)           | 5,694,538          | 4,735,675                  |
| Q4/ 2009 | (386,870)      | (0.04)           | 5,614,374          | 4,732,114                  |
| Q3/ 2009 | (193,817)      | (0.02)           | 4,899,596          | 4,625,585                  |
| Q2/ 2009 | (135,845)      | (0.01)           | 5,137,036          | 4,668,747                  |
| Q1/ 2009 | (166,397)      | (0.02)           | 5,229,775          | 3,914,144                  |
| Q4/ 2008 | (4,458,807)    | (0.41)           | 5,335,008          | 4,770,340                  |
| Q3/ 2008 | (80,028)       | (0.01)           | 9,706,253          | 8,459,099                  |

## General and administration expenses

|                                      | September 30, 2010<br>\$ | September 30, 2009<br>\$ |
|--------------------------------------|--------------------------|--------------------------|
| Rent                                 | 7,690                    | 6,753                    |
| Phone, utilities, supplies and other | 12,767                   | 17,415                   |
| Website, internet and printing       | 7,326                    | 6,760                    |
| Contractor fees                      | 23,777                   | 49,100                   |
| Insurance                            | 514                      | 350                      |
| Stock option expenses                | 219,872                  | 34,055                   |
| Other                                | -                        | 11,731                   |
| Bank charges and interest            | 35,287                   | 689                      |
| Total                                | 307,233                  | 126,853                  |

## **LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2010, the Company had cash and cash equivalents totaling at \$211,128 (December 31, 2009 \$24,949). During the period ended September 30, 2010, the Company invested cash of \$ 452,696 in mineral property and exploration costs, received \$ 1,070,514 through financing activities and utilized net cash of \$431,640 for operating activities.

The Company has financed its operations from inception to date through the issuance of equity securities. The Company has budgeted exploration work programs, administrative and other expenses that exceed available cash resources. From inception to date, the Company has incurred losses from operations and has had negative cash flow from operating activities. As at September 30, 2010, the Company had total cash and cash equivalents of \$211,128 of which \$87,574 are flow-through funds. The use of flow-through funds is restricted to direct exploration costs in Canada. The Company requires additional funding to be able to further its existing exploration projects and to meet ongoing requirements for general operations. The ability of the Company to continue as a going concern is dependent on raising additional financing, development of its properties and generation of profitable operations in the future.

While management has been successful in obtaining sufficient funding for its operating, capital and exploration requirements from the inception of the Company to date there is, however, no assurance that additional future funding will be available to the Company, or that, when it is required it will be available on terms which are acceptable to management. Subsequent to quarter end, the Company completed the convertible debenture financing noted above.

### **Contractual Obligations**

The Company does not have any fixed contractual obligations or commitments for capital or operating leases, purchase obligations or other long-term commitments except for those related to property option agreements. Any commitments under exploration property option agreements are cancellable at the Company's option but would result in forfeiture of rights under those agreements. During 2010 and 2009, the Company had prepaid in advance for its operating lease for office premises.

As at September 30, 2010, the Company was obligated to spend \$705,000 in eligible Canadian Exploration Expenditures, of which \$407,000 was to be spent by December 31, 2009 and \$298,000 was to be spent by December 31, 2010.

During the period-ended September 30, 2010, the company incurred Part X11.6 taxes resulting from the amounts renounced in 2008, but unspent in 2009. Furthermore, the Company incurred interest and penalties of \$22,350 relating to the prior year's unpaid Part XII.6 taxes.

To date the Company has not been assess by the CRA for unspent and renounced prior years flow through funds.

## **Financing Transactions**

### 2010 issuances

During the first quarter of 2010, the Company issued a total of 100,000 common shares at a deemed value of \$11,000 for property with respect to various Kellyn Gold agreements.

On April 29, 2010 the Company issued 2,000,000 units of the Company ("Units") at a price of \$0.10 per Unit for gross proceeds of up to \$200,000 as part of a private placement which. Each Unit consists of one common share of the Company and one common share purchase warrant. Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of \$0.15 per common share exercisable on or before March 31, 2012.

On April 30, 2010 the Company announced that it has entered into an agreement with SIDEX s.e.c. to repay the principal of \$150,000 and the interest of \$8,975.34, due on a convertible debenture agreement between SIDEX s.e.c and the Company, in shares in lieu of cash. The interest due has been calculated based on weighted average of means price of shares to equal the issuance of 89,480 shares valued at \$0.10031 each and the principal has been calculated based on the closing price of the common shares of the Company on April 29, 2010 to equal 1,500,000 shares valued at \$0.10 each.

On September 14, 2010 the Company issued 9,880,000 Non-Flow-through units which were sold at \$0.05(\$494,000) and 2,500,000 Flow-Through units which were sold at \$0.07 (\$175,000). Each Non Flow-Through units consists of one commons share and one warrant to purchase a common share at \$0.10 and each Flow-Through unit consists of one Flow-Through common share and one warrant to purchase a non flow-through common share at \$0.10 from the date of issue up to and including August 31, 2012.

The Company paid a Finder's Fee in a combination of cash and the issuance of securities of the Issuer equal to 4% (\$18,600) of the cash and Non Flow-Through Units equal to 6% (558,000 units) of the proceeds in connection with proceeds received by the Corporation from the sale of either Non Flow-Through or Flow-Through Units to subscribers.

### 2009 issuances

During the first quarter of 2009, the Company issued a total of 100,000 common shares at a deemed value of \$12,000 for property with respect to various Kellyn Gold agreements.

During the second quarter of 2009, the Company issued a total of 75,000 common shares at a deemed value of \$7,125 for property with respect to various Kellyn Gold agreements.

During the second quarter of 2009, the Company issued a total of 81,316 common shares with respect to interest expense due to SIDEX convertible debentures in the amount of \$8,967.

In June 2009, the Company issued 740,000 common shares with respect to balances owing to contractors with an approximate value of \$74,000.

During September 2009, the Company announced that it has completed the private placement of 1,662,500 units of the Company ("Units") at a price of \$0.08 per Unit for gross proceeds of up to \$133,000. Each Unit consists of one common share of the Company and one common share

purchase warrant. Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of \$0.12 per common share exercisable on or before August 1, 2014.

On October 28, 2009, the Company issued a total of 100,000 common shares at a deemed value of \$10,000 for property with respect to the Regcourt option agreement.

On November 13, 2009 the Company announced that the issuance of 89,292 common shares with respect to interest to interest expense due to SIDEX convertible debentures in the amount of \$9,025.

On November 23, 2009 the Company announced that it has completed the private placement of 2,600,000 units of the Company ("Units") at a price of \$0.10 per Unit for gross proceeds of \$260,000. Of the 2,600,000 units, 1,800,000 units are comprised of one common share and one common share purchase warrant, and 800,000 units are comprised of one flow-through common share and one non-flow through common share purchase warrant. Each whole warrant is exercisable at a price of \$0.15 per common share from the date of issue up to and including September 30, 2010 and at a price of \$0.20 per common share from October 1, 2010 up to and including September 30, 2011.

On December 31, 2009 the Company announced that it has closed a nonbrokered private placement of 2,000,000 flow-through units ("FT Units") to the MineralFields Group at a price of \$0.11 per FT Unit for total gross proceeds of \$220,000. Each FT Unit will consist of one flow-through common share and one-half non-flow through common share purchase warrant ("Warrant"). Each Warrant will entitle the holder thereof to acquire one common share of the Company for a period of two years at a price of \$0.20 per share exercisable until December 30, 2011.

## **OUTSTANDING SHARE DATA**

Information with respect to outstanding common shares, warrants, compensation options, compensation option warrants and stock options as at November 19, 2010, September 30, 2010 and December 31, 2009 is as follows:

|                                  | <b>November 19, 2010</b> | <b>September 30, 2010</b> | <b>December 31, 2009</b> |
|----------------------------------|--------------------------|---------------------------|--------------------------|
| Common shares                    | 34,844,476               | 34,844,476                | 18,116,976               |
| Warrants                         | 22,565,000               | 22,565,000                | 7,653,538                |
| Compensation options             | 200,000                  | 200,000                   | 244,231                  |
| Stock options                    | 3,435,500                | 3,435,500                 | 903,500                  |
| Fully diluted shares outstanding | 61,044,976               | 61,044,976                | 26,918,265               |

During the period ended September 30, 2010 no warrants were exercised and 26,538 warrants expired unexercised with an exercise price of \$0.20. During the first half of 2010 there were a total of 2,000,000 warrants which were issued with exercise price of \$0.15 and expiring on March 31, 2012. In September 2010 there were a total of 12,938,000 warrants which were issued with exercise price of \$0.10 and expiring on August 31, 2012.

During February, 2010, 814,000 options were granted with an exercise price of \$0.10 expiring in December 2015, as well there were 50,000 options were forfeited. In April 2010, 150,000 options were granted with an exercise price of \$0.10 expiring on March 31, 2015. In September 2010 1,800,000 options were granted with an exercise price of \$0.10 expiring on September 1, 2015.

On June 1, 2010, 32,500 options had expired unexercised with an exercise price of \$1.05. In September 149,500 options had expired unexercised with an exercise price of \$0.10

During the year ended December 31, 2009, no warrants were exercised and 60,000 warrants expired unexercised with an exercise price of \$2.00. During 2009 there were a total of 5,262,500 warrants which were issued with exercise prices ranging from \$0.12 to \$0.20 and expiring between October 2011 and August 2014. During January, 2009, 480,000 options were granted with an exercise price of \$0.10 expiring on January 15, 2019, as well there were 37,500 options expired and 40,000 options were forfeited. In July 2009, 150,000 options were granted with an exercise price of \$0.10 expiring on July 29, 2014. In September 2009, 50,000 options were granted with an exercise price of \$0.10 expiring on September 23, 2014, as well there were 46,500 options expired. In November 2009, 10,000 options expired unexercised and 70,000 options were forfeited.

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

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative instrument obligations, or with respect to any obligations under a variable interest entity arrangement.

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

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and debenture payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments.

#### **TRANSACTIONS WITH RELATED PARTIES**

The Company has a management contract with Cornerstone Capital Corporation, a company controlled by the Chairman and CEO of the Company whereby the Company pays up to \$500 per month for secretarial and accommodation fees and related expenses. The Company has a management contract with the Chairman and CEO of the Company whereby the Company pays up to \$5,000 per month, when available, in cash for management services.

For the period-ended September 30, 2010, the Company paid Cornerstone Capital Corporation cash of \$2,000 (December 2009 - \$6,000) and the Chairman and CEO was provided with cash of \$45,000 (December 2009 - \$31,500 for current services as well as common shares with an approximate value of \$ 42,500 for past services rendered without cash compensation). The Company has a payable to the CEO as at September 30, 2010 of \$NIL (December 2009 – \$ 3,432) and to Cornerstone Capital Corporation of \$2,500 (December 2009 - \$ NIL).

The Company has a common director, CEO and chairman with Diamond International Exploration Inc, and Wedge Energy International Inc.

On July 12, 2010 the CEO, chairman and Director of Wedge Energy International Inc. had resigned. Therefore as of July 12, 2010 Wedge Energy International Inc. and Galahad Metals no longer have any common directors and as a result there is no longer a related party relationship between the company's as Galahad no longer has significant influence over the activities of Wedge.

On October 29, 2010 the Director of Diamond International Exploration Inc. had resigned. Therefore as of October 29, 2010 Diamond International Exploration Inc. and Galahad Metals no longer have any common directors and as a result there is no longer a related party relationship between the company's as Galahad no longer has significant influence over the activities of Diamond International Exploration Inc.

The Company shares office space with Diamond International Exploration Inc. and Wedge Energy International Inc. The Company has signed an agreement in which all shared costs are evenly allocated between the companies. For the period-ended September 30, 2010, the Company incurred shared costs of \$8,106 (Year-end 2009 - \$10,203). At September 30, 2010 the Company has a receivable from Diamond International Exploration Inc. for shared costs of \$21,322 (December 2009 – payable \$8,846) and a payable to Wedge Energy International Inc. of \$46 (December 2009 – receivable of \$2,138).

As at September 15, 2010 Diamond International Exploration Inc had moved its office to Vancouver and as a result no longer share costs with Galahad.

For the period-ended September 30, 2010, the Company paid Sundance Geological Ltd, a company in which a director of Galahad Metals Inc. is vice president, consulting fees of \$1,763 (Year-end 2009 - \$14,745). These transactions have taken place at the exchange amount which is the amount agreed to by the parties. On September 30, 2010 the vice president of Sundance Geological Ltd. resigned from the board of directors of Galahad Metals Inc and as a result the company's are no longer considered related parties.

These transactions have taken place at the exchange amount which is the amount agreed to by the parties.

## **INVESTOR RELATIONS**

On March 1, 2010 the Company renewed its contract with Pearl Communications for an additional year. Pearl Communications is paid a monthly fee of \$2,500 and will be reimbursed reasonable expenses up to \$1,000 per month. The contract expires February 28, 2011 and is renewable for a six month period. To date Pearl Communications has received 150,000 stock options in the Company all with an exercise price of \$0.10, with 50,000 expiring in December 2015 and 100,000 expiring in March 2015.

Pearl Communications will be responsible for all aspects of the Company's Investor Relations program to implement and execute an investor relations strategy to significantly improve shareholder and investor communications. The objective will be to create effective communication between the Company, its shareholders and the investment community. Pearl Communications will also work closely with Bay Street Connect, the Company's external Investor Relations Consultant.

Pearl Communications has enjoyed a 20 plus year career in the public markets dedicated to Investor Relations and Corporate Communications. Pearl Communications has been involved with many exploration projects and development stage projects. The goal is to empower

shareholders to rely on and consult with the Company to ensure that they have the most recent information. Pearl Communications is located in Vancouver.

## **PROPOSED TRANSACTIONS**

As is typical of the mineral exploration and development industry, the Company is continually reviewing potential merger, acquisition, investment and joint venture transactions and opportunities that could enhance shareholder value. Currently, there are no material transactions being pursued or negotiated by the Company that is not otherwise disclosed herein.

## **CRITICAL ACCOUNTING ESTIMATES**

Acquisition costs of mineral exploration properties together with direct exploration and development expenditures are capitalized. When production is attained, these costs will be amortized. If properties are abandoned they are written off at that time. If properties are considered to be impaired in value, the costs of the properties and related deferred expenditures will be written down to their estimated fair value at that time. Management uses its best estimates for determining the fair value of mineral properties based on expenditures incurred, the results of any exploration conducted, prevailing market conditions and future plans for the projects.

The Company is required to record all equity instruments including warrants, compensation options and stock options at fair value in the financial statements. Management utilizes the Black-Scholes model to calculate the fair value of these equity instruments at the time they are issued. Use of the Black-Scholes model requires management to estimate the expected volatility of the Company's stock over the future life of the equity instrument and to estimate the expected life of the equity instrument. Determination of these estimates requires significant judgment and requires management to formulate estimates of future events based on prior history of actual results and by comparison to other companies in the mineral exploration and development industry.

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

In 2010, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

The CICA amended Section 1506, "Accounting Changes". This section was amended to exclude changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The amendment applies to interim and annual financial statements relating to fiscal years beginning on or after July 1, 2009. The Company is currently assessing the implication of the change in accounting policy.

Effective January 1, 2009, the Company adopted the amendments to CICA Handbook Section 1000, Financial Statement Concepts, which focused on the capitalization of costs which truly meet the definition of an asset and de-emphasises the matching principle. The adoption of these changes did not have an impact on the Company's financial statements.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

In February 2008, the Accounting Standards Board of the CICA confirmed that IFRS will replace Canadian GAAP for publicly accountable enterprises for the fiscal years beginning on or after January 1, 2011. As a result, the conversion from Canadian GAAP to IFRS will be applicable to

the Company's reporting for the first quarter of fiscal 2011 for which current comparative information will be prepared on an IFRS basis. In light of these requirements, the Company has developed an IFRS transition project plan.

The Company's plan includes four phases: analysis, design and planning, solution development and implementation. To prepare for the conversion to IFRS, the following plan has been developed:

#### Scope assessment and training

An IFRS conversion team has been established, and the members of the team are receiving technical and project planning training related to IFRS. Management believes that the Company has allocated appropriate resources to the conversion project to develop an effective plan and the Company is continually assessing resource and training requirements as the project progresses.

Amendments and additions to the current standards, carried out by the International Accounting Standards Board, are continually ongoing. As part of the conversion process, the Company monitors the actual and expected changes to the existing standards and attempts to assess the impact on the Company and its reporting requirements.

#### Design

Based on the detailed review of IFRS standards, the Company will choose accounting policies and procedures, quantify the impact on key line items and disclosures, and prepare draft financial statements under IFRS. The Company will start collecting accounting data in mid fiscal 2010 and early fiscal 2011 to satisfy IFRS requirement for the preparation of comparative balances for fiscal 2011 IFRS conversion.

#### Implementation and review

Upon adoption of IFRS in Fiscal 2011, the Company will implement new accounting policies under IFRS and prepare and report consolidated financial statements under IFRS.

#### **Impact of Adopting IFRS on the Company's Business**

As part of its analysis of potential changes to significant accounting policies, the Company is assessing what changes may be required to its accounting systems and business processes. The Company believes that the changes identified to date are minimal and the systems and processes can accommodate the necessary changes.

To date, the Company has not identified any contractual arrangements that may be affected by potential changes to significant accounting policies.

The Board of Directors and Audit Committee have been regularly updated on the progress of the IFRS conversion plan, and made aware of the evaluation to date of the key aspects of IFRS affecting the Company.

#### *First-time adoption of IFRS*

The adoption of IFRS requires the application of IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial

adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has identified the following optional exemptions that it expects apply in its preparation of an opening IFRS statement of financial position as at January 1, 2010, the Company's "Transition Date":

#### Mandatory exceptions to be adopted by Galahad

- Financial assets and liabilities that had been de-recognized before January 1, 2005 under the previous GAAP have not been recognized under IFRS.
- Galahad will use estimates under IFRS that are consistent with those applied under previous GAAP (with adjustments for accounting policy differences) unless there is objective evidence those estimates were in error.

#### Optional exemptions to be applied by Galahad

- Galahad has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the transition date of January 1, 2011.
- Galahad has elected to use facts and circumstances existing at the date of transition to determine whether an arrangement contains a lease. No such assessment was done under the previous GAAP.
- Galahad has elected to maintain the designations of its financial instruments at the date of transition. Galahad has also taken the exemption to designate some financial instruments at fair value through profit or loss.
- Galahad has elected to apply IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by January 1, 2011. Further, Galahad will apply IFRS 2 on all liabilities arising from share-based payment transactions that existed at January 1, 2011.
- Galahad has elected not to retrospectively recognize changes in existing decommissioning, restoration and similar liabilities under IFRIC 1 which may have occurred before the Transition Date.

Prior to reporting interim financial statements in accordance with IFRS for the quarter ended March 31, 2011, the Company may decide to apply other optional exemptions contained in IFRS 1.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date will be consistent with those made under current Canadian GAAP. If necessary, estimates will be adjusted to reflect any difference in accounting policy.

#### Impact of Adopting IFRS on the Company's Financial Statements

The adoption of IFRS will result in some changes to the Company's accounting policies that are applied in the recognition, measurement and disclosure of balances and transactions in its financial statements.

The following provides a summary of the Company's evaluation to date of potential changes to accounting policies in key areas based on the current standards and guidance within IFRS. This is

not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but to highlight the areas the Company has identified as having the most potential for a significant change. The International Accounting Standards Board has a number of ongoing projects, the outcome of which may have an effect on the changes required to the Company's accounting policies on adoption of IFRS. At the present time however, the Company is not aware of any significant expected changes prior to its adoption of IFRS that would affect the summary provided below.

#### *1) Exploration and Evaluation Expenditures*

IFRS currently allows an entity to retain its existing accounting policies related to the exploration for and evaluation of mineral properties, subject to some restrictions. The Company expects to retain its current policy of expensing exploration and evaluation expenditures as incurred. Therefore the Company does not expect that the adoption of IFRS will result in any significant change to the related line items within its financial statements.

#### *2) Impairment of (Non-financial) Assets*

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

The Company's accounting policies related to impairment of assets will be changed to reflect these differences. The Company, however, does not expect this change will have an immediate impact to the carrying value of its assets. The Company will perform impairment assessments as at the Transition Date in accordance with IFRS.

#### *3) Share-based Payments*

In certain circumstances, IFRS requires a different measurement of stock-based compensation related to stock options than current Canadian GAAP.

The Company does not expect any changes to its accounting policies related to share-based payments that would result in a significant change to line items within its financial statements.

#### *4) Asset Retirement Obligations (Decommissioning Liabilities)*

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities will be changed to reflect these differences. The Company, however, does not expect this change will have an immediate impact to the carrying value of its assets.

### 5) *Property and Equipment*

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

The Company does not expect any changes to its accounting policies related to property and equipment that would result in a significant change to line items within its financial statements.

### 6) *Income Taxes*

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

The Company does not expect any changes to its accounting policies related to income taxes that would result in a significant change to line items within its financial statements.

### 7) *Estimates*

IFRS 1 prohibits the use of hindsight to correct estimates made under previous GAAP unless there is objective evidence of error. A company should only adjust estimates made under previous GAAP when the previous estimate calculation does not comply with IFRS standards. If a new estimate is required under IFRS, the Company will need to estimate based on the conditions that exist as at the date of transition to IFRSs. This exception will need to be considered for any significant estimates made as at December 31, 2009.

### *Subsequent Disclosures*

Further disclosures of the IFRS transition process are expected as follows:

- The Company's Management Discussion and Analysis for the 2010 interim periods and the year ended December 31, 2010 will include updates on the progress of the transition plan, and, to the extent known, further information regarding the impact of adopting IFRS on key line items in the annual financial statements.
- The Company's first financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ending March 31, 2011, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim financial statements for the three months ending March 31, 2011 will also include 2010 financial statements for the comparative period, adjusted to comply with IFRS, and the Company's transition date IFRS statement of financial position (as at January 1, 2010).

Other areas that have had an impact on the Company relating to IFRS include:

- Information systems - the Company is evaluating the potential impact of IFRS on its information systems and business processes and does not anticipate any changes or material impacts with our current systems being capable of collecting financial information necessary for IFRS compliance.
- Internal controls over financial reporting - as part of the assessment of IFRS in phase two of the Company's project, internal controls over financial reporting and disclosure controls and

procedures will be considered. For example, any changes in accounting policies could result in additional controls or procedures being required to address the reporting of the Company's first time adoption and on-going reporting requirements. The certifying officers plan to complete the design, and initially evaluate the effectiveness of any key controls implemented as a result of IFRS in the fourth quarter of 2010, to prepare for certification under IFRS in 2011.

- Financial reporting expertise – given the current size of the Company the IFRS project team is comprised only of senior management with the CFO being the lead on the project reporting to the CEO and Audit Committee. Any required training for finance and operational staff will be delivered in the second half of 2010, and will be specific to the impact of IFRS on daily responsibilities of these individuals. The Audit Committee receives quarterly updates on the status of the project.

## **RISKS AND UNCERTAINTIES**

The Company is subject to a number of risks and uncertainties due to the nature of its business and the present stage of development of its business. Investment in the natural resource industry in general, and the exploration and development sector in particular, involves a great deal of risk and uncertainty. Current and potential investors should give special consideration to the risk factors involved.

### Exploration Stage Company

The Company is engaged in the business of acquiring and exploring mineral properties in the hope of locating economic deposits, with the discovery of gold being the Company's focus. The Company's property interests are in the exploration stage only and are without a known economic mineral deposit. Accordingly, there is little likelihood that the Company will realize any profits in the short to medium term. Any profitability in the future from the Company's business will be dependent upon locating an economic mineral deposit, which itself is subject to numerous risk factors. Further, there can be no assurance, even if an economic deposit of minerals is located, that any of the Company's property interests can be commercially mined. The exploration and development of mineral deposits involve a high degree of financial risk over a significant period of time of which even a combination of careful evaluation, experience and knowledge of management may not eliminate. While discovery of additional ore-bearing structures may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs of the Company will result in profitable commercial mining operations. The profitability of the Company's operations will be, in part, directly related to the cost and success of its exploration programs which may be affected by a number of factors. Substantial expenditures are required to establish reserves which are sufficient to commercially mine and to construct, complete and install mining and processing facilities in those properties that are actually mined and developed.

### Economic Risk

The price of gold and other minerals fluctuate. The future direction of the price of any mineral will depend on numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the price of minerals, and therefore on the economic viability of the Company's properties, cannot accurately be predicted. As the Company is only at the exploration stage, it is

not yet possible for it to adopt specific strategies for controlling the impact of fluctuations in the price of gold.

#### Management

Dependence on Key Personnel, Contractors and Service Providers Shareholders of our Company rely on the good faith, experience and judgment of the Company's management and advisors in supervising and providing for the effective management of the business and the operations of the Company and in selecting and developing new investment and expansion opportunities. The Company may need to recruit additional qualified contractors and service providers to supplement existing management. The Company will be dependent on a relatively small number of key persons, the loss of any one of whom could have an adverse effect on the Company.

#### Industry Conditions

The exploration and development of mineral deposits involve significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of a deposit may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves, to develop processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration and development programs planned by the Company will result in a profitable commercial operation.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as mineral prices which are highly cyclical and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. 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.

Mining operations generally involve a high degree of risk. The Company's operations will be subject to all the hazards and risks normally encountered in the exploration and development of minerals, including unusual and unexpected geology formations, 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.

#### Value of Our Common Shares

The value of the Company's common shares could be subject to significant fluctuations in response to variations in quarterly and annual operating results, the success of the Company's business strategy, competition or other applicable regulations which may affect the business of the Company and other factors.

#### Competition

There is aggressive competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other interests, many of which have greater financial resources than it has, for the opportunity to participate in promising projects. Significant capital investment is required to achieve commercial production from successful exploration efforts.

#### Additional Funding and Financing Risk

Additional funds will be required for future exploration and development. The source of future funds available to the Company is through the sale of additional equity capital or borrowing of funds. There is no assurance that such funding will be available to the Company. Furthermore, even if such financing is successfully completed, there can be no assurance that it will be obtained on terms favorable to the Company or will provide the Company with sufficient funds to meet its objectives, which may adversely affect the Company's business and financial position. In addition, any future equity financings by the Company may result in substantial dilution for existing shareholders.

#### Environmental Risk

Environmental legislation is evolving in a manner which will require 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 officers, directors and employees. There can be no assurance that future changes to environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties in which the Company holds interests that have been caused by previous or existing owners or operators.

#### Title to Property

Although the Company has obtained title opinions with respect to certain of its properties and has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impugned. Third parties may have valid claims underlying portions of the Company's interests.

#### Uninsured Hazards

The Company currently carries minimal insurance coverage. The nature of the risks the Company faces in the conduct of its operations are such that liabilities could exceed policy limits in any insurance policy or could be excluded from coverage under an insurance policy. The potential costs that could be associated with any liabilities not covered by insurance or in excess of insurance coverage or compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the Company's financial position.

#### Conflicts of Interest

Certain directors of the Company also serve as directors of other companies involved in natural resource exploration, development and production. Consequently, there exists the possibility that such directors will be in a position of conflict of interest. Any decision made by such directors involving the Company are made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies. In addition, such directors will declare, and refrain from voting on, any matter in which such directors may have a material conflict of interest.

#### Permits, Licenses and Approvals

The operations of the Company may require licenses and permits from various governmental authorities. The Company believes it holds or is in the process of obtaining all necessary licenses and permits to carry on the activities which it is currently conducting under applicable laws and regulations. Such licenses and permits are subject to changes in regulations and in various operating circumstances. There can be no guarantee that the Company will be able to obtain all necessary licenses and permits that may be required to maintain its mining activities, construct mines or other facilities and commence operations of any of their exploration properties. In

addition, if the Company proceeds to production on any exploration property, it must obtain and comply with permits and licenses which may contain specific conditions concerning operating procedures, water use, the discharge of various materials into or on land, air or water, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Company will be able to obtain such permits and licenses or that it will be able to comply with any such conditions.

#### Land Claims

At the present time, none of the properties in which the Company has an interest or an option to acquire an interest is the subject of an aboriginal land claim. However, no assurance can be provided that such will not be the case in the future.

#### Regulatory Matters

The Company's business is subject to various federal, provincial and local laws governing prospecting and development, taxes, labor standards and occupational health, mine safety, toxic substances, environmental protection and other matters. Exploration and development are also subject to various federal, provincial and local laws and regulations relating to the protection of the environment. These laws impose high standards on the mining industry to monitor the discharge of waste water and report the results of such monitoring to regulatory authorities, to reduce or eliminate certain effects on or into land, water or air, to progressively rehabilitate mine properties, to manage hazardous wastes and materials and to reduce the risk of worker accidents. A violation of these laws may result in the imposition of substantial fines and other penalties.

#### Mineral Price Fluctuations

The marketability of any mineral is subject to numerous factors beyond the control of the Company. The price of minerals can experience volatile and significant movements over short periods of time. Factors impacting price include, but are not limited to, demand for the particular mineral, political and economic conditions and production levels and costs of production in other areas or countries.

### **STRATEGY AND OUTLOOK**

Our objective is to maximize the value of the Company for our shareholders and our strategy to obtain this result is to continually develop our mineral properties. To proceed with this strategy, we have, during the period ended September 30, 2010, raised \$850,514 with private placements. These funds were used to advance geological work on the Kellyn, Montrose, Bottle Creek and Regcourt properties.

## **OTHER INFORMATION**

Other information and additional disclosure of the Company's technical reports, material change reports, new releases, and other information may be found on the SEDAR website at [www.SEDAR.com](http://www.SEDAR.com).

## **CORPORATE INFORMATION**

### **Directors and Officers**

Robin Dow, HBA, MBA, FCSI – Chairman, CEO and Director

Sabino Di Paola, CA – CFO

Kevin Rivers – Director

Michael Newman – Director

Larry Hoover - Director

Robert Schellenberg, CPA - Director

### **Corporate Office**

#6-3791 St. Joseph Blvd., Orleans, Ontario, K1C 1T1

1-613-834-7708

### **Web Site**

[www.galahadmetals.ca](http://www.galahadmetals.ca)

### **Trading Symbol**

TSX-V: GAX

### **Independent Auditor**

BDO Canada LLP

### **Corporate Banker**

Royal Bank of Canada, Ottawa

### **Transfer Agent**

Capital Transfer Agency Inc., Toronto