

**GALAHAD METALS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2010**  
**(Information as at April 28, 2011 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 year ended December 31, 2010 and 2009. Management's Discussion and Analysis was prepared by Company management and approved by the Board of Directors on April 28, 2011.

The following discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year-ended December 31, 2010 and 2009. 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 April 28, 2011, 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**

Galahad Metals Inc. (the "Company" or "Galahad") was incorporated under the name "Phoenix Matachewan Mines Inc" under the laws of the Province of Ontario by Articles of Incorporation dated September 1, 2000. During 2000, Patrician Diamonds Inc. (formerly Patrician Consolidated Gold Mines Ltd.), a related party, received shareholder approval to transfer all of its property assets and cash of \$150,284 to the Company in exchange for 183,755 common shares and 57,219 warrants for common shares of the Company. On December 3, 2008, at a Special meeting of the Company, the shareholders approved a ten-for-one consolidation of the shares of the Company, and the change of the name of the Company from Phoenix Matachewan Mines Inc. to Galahad Metals Inc. On December 30, 2008, the Company obtained the required regulatory approvals for the share consolidation and name change.

On August 24, 2010 Bottle Creek Exploration LLC (the "subsidiary" or "BCE") a 60% owned subsidiary of Galahad was registered in the State of Nevada, under the laws governing limited liability companies in the State of Nevada. The principal place of business of BCE is 1 East Liberty Street, Suite 424, Reno, Nevada 89501. Galahad holds a 60% interest in the subsidiary, with Golden Gryphon USA Inc. holding the remaining 40% interest.

On January 13, 2011 Red Ore Gold Inc. a fully owned subsidiary of the Company was incorporated under the British Columbia Corporations Act. Galahad's Board of Directors has approved the transfer of its interest in Bottle Creek Exploration LLC to Red Ore Gold Inc. Red Ore Gold Inc. will be responsible for funding any future exploration performed on this property. The Galahad and Red Ore board have approved to proceed with an initial public offering of Red Ore Gold Inc. In consideration, Galahad will receive 8,838,938 common shares of Red Ore (the "Consideration Shares"), at a deemed price of \$0.50 per Consideration Share, for aggregate consideration of \$4,419,469 representing the amount spent to date by Galahad in exploration and property staking and payment costs at the Property.

Galahad is a development stage junior mining company engaged in the identification, acquisition, evaluation and exploration of precious and base metals with mineral properties in Canada and the United States. At the date of these financial statements 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 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.

The Company's common shares are listed on the TSX Venture Exchange under the symbol GAX. The primary office is located at #6-3791 St Joseph Blvd, Orleans, Ontario, Canada, K1C1T1

## **GENERAL CONCERNS REGARDING JUNIOR EXPLORATION**

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 with respect to joint venturing Kellyn. The Company has also transferred its interest in its Bottle Creek property to a wholly owned subsidiary Red Ore Gold Inc. The Company intends to raise funds through private placements of its subsidiary to finance further exploration and development of the Bottle Creek property.

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 2011, will focus on its new plays in Northern Quebec, Regcourt and as well as its claim in Ontario, Montrose. The 2011 budget for Regcourt is \$620,000 and \$682,500 for Montrose. There has been no Budget for Bottle Creek in 2011 for Galahad as the Board of Directors has approved the transfer of the claims to Red Ore Gold Inc. a wholly owned subsidiary of Galahad. Red Ore Gold Inc. will be responsible for funding any future exploration performed on this property. The Galahad and Red Ore board have approved the initial public offering of Red Ore Gold Inc. of approximately \$2,500,000 to cover IPO costs as well as fund the 2011 exploration program. Currently there is no exploration budget for Kelly for the 2011 season as the Company as well as the optionors are in the process of obtaining a joint venture partner.

## **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.

### **RED ORE GOLD INC.**

On January 13, 2011 Red Ore Gold Inc. a fully owned subsidiary of the Company was incorporated under the British Columbia Corporations Act. Galahad's Board of Directors has approved the transfer of its interest in Bottle Creek Exploration LLC to Red Ore Gold Inc. Red Ore Gold Inc. will be responsible for funding any future exploration performed on this property. The Galahad and Red Ore board have approved the initial public offering of Red Ore Gold Inc. In consideration, Galahad will receive 8,838,938 common shares of Red Ore (the "Consideration Shares"), at a deemed price of \$0.50 per Consideration Share, for aggregate consideration of \$4,419,469 representing the amount spent to date by Galahad in exploration and property staking and payment costs at the Property.

The Company intends to retain the Consideration Shares, rather than to distribute them to its shareholders. The Board of Directors is of the opinion that by Galahad retaining the Consideration Shares rather than distributing them to its shareholders, an orderly and balanced after market will be created for the IPO shares.

At the date of this Management Discussion and Analysis Galahad has completed the transfer of Bottle Creek Exploration LLC to its wholly owned subsidiary Red Ore Gold.

The Board of Directors of Galahad Metals Inc. and Red Ore Gold Inc. have approved to proceed with an initial public offering now that the transfer of Galahad's ownership interest in Bottle Creek Exploration LLC has been completed. In the second and third quarter Red Ore Gold Inc is scheduled to:

- 1) Complete a private placement of up to 2 million Units at a price of \$0.50 per unit, each unit comprised of one Red Ore common share and one whole Red Ore common share purchase warrant exercisable at \$0.75 for two years, for \$1 million for working capital purposes and to fund exploration activities on the Property;
- 2) Complete a National Instrument 43-101 technical report in respect of the Property;
- 3) Complete its initial public offering ("IPO") by filing a prospectus in the provinces of British Columbia, Alberta and Ontario; and
- 4) Concurrent with its IPO, apply for a listing of the Red Ore common shares on the TSX Venture Exchange.

At the date of this Management Discussion and Analysis Galahad has obtained a National Instrument 43-101 on its Bottle Creek property as in the process of finalizing its preliminary prospectus. Red Ore Gold anticipates completion of its IPO and listing on the TSX Venture.

On April 20, 2011, Red Ore Gold Inc. announced that it had signed a letter of intent ("LOI") with Gold Range Company LLC on Ryepatch, a gold and silver property located in Nevada.

The Rye Patch property, comprised of 75 unpatented lode claims and one patented lode claim, covers approximately 1,500 acres and 2.5 miles of prospective strike length over the productive Humboldt Thrust Fault.

The terms of the LOI calls for Red Ore Gold Inc. to enter into a definitive Option Lease Agreement within 60 days to acquire 100% of the mineral exploration and development rights on the property subject to a net smelter royalty (NSR). There are no work commitments in the deal. The terms of the advance production royalty payments start with \$10,000 on signing the LOI plus \$10,000 on signing the Lease Agreement, \$20,000 at the end of year one, \$30,000 at the end of year two, \$50,000 at the end of year three, \$100,000 at the end of year four and \$200,000 at the end of year five and thereafter. Gold Range Company LLC retains a 5% NSR which shall be subject to a buy-down clause in favour of Red Ore Gold Inc. to 1.5% NSR for an amount to be negotiated in the final Lease Agreement. The advance production royalty payments shall be deductible from future production royalties.

### 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 December 31, 2010, 2009, 2008, and 2007. This information is derived from the December 31, 2010 audited consolidated financial statements as well as the 2009 and 2008 audited consolidated financial statements of the Company.

	<b>Year-ended December 31, 2010 \$</b>	<b>Year-ended December 31, 2009 \$</b>	<b>Year-ended December 31, 2008 \$</b>	<b>Year-ended December 31, 2007 \$</b>
Revenue	Nil	Nil	Nil	Nil
Total expenses	(1,018,366)	(790,910)	(5,455,894)	(475,151)
Recovery of future income taxes	193,400	182,500	705,000	44,000
Net loss for the period	(836,183)	(629,005)	(4,729,748)	(403,366)
Basic and diluted loss per common share	(0.03)	(0.05)	(0.44)	(0.05)
	<b>As at December 30, 2010 \$</b>	<b>As at December 31, 2009 \$</b>	<b>As at December 31, 2008 \$</b>	<b>As at December 31, 2007 \$</b>
Total assets	5,812,762	5,614,374	5,335,008	9,759,518
Total long-term financial liability	NIL	NIL	NIL	NIL
Cash dividends per common share	NIL	NIL	NIL	NIL

Total expenses were greater by \$227,456 when comparing the year ended December 31, 2010 to 2009. The increase in expenses is due to a decrease in the write-off taken in 2010 (\$12,681) compared to 2009 (\$115,128) for a decrease of expenses of \$102,447 from 2009. The 2010 write-offs were primarily caused by the minor expenses incurred on the Steel River and Barville properties which were abandoned by management in 2008. Promotion and investor conference fees decreased by \$72,947 due to decreased participation in shows and promotion in the 2010 compared with 2009. During the year the Company accrued \$25,573 for Part XII.6 tax, compared to \$95,027 in 2009. The Part XII.6 tax was significantly greater in 2009 was due to the fact that in 2009 the company accrued both the tax and the interest, where as in 2010 only interest was accrued. In 2010 there were no Part XII.6 taxes accrued for funds raised in 2010 and unspent at year-end. There was also an increase of approximately \$16,120 professional fees due mainly to private placements in 2010 as well as restructuring of the Bottle Creek claims. There was a decrease in management fees of approximately \$14,000 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 of \$276,171 in 2010 compared to 2009 due to a significant number of stock options granted in 2010 compared to 2009 for an increase of approximately \$251,000. The remaining variance is due to insignificant fluctuations in various general and administrative expenses. In 2010 the Company as part of the reduction in claims in its Bottle Creek property realized a loss on settlement in which \$430,000 owing to a third party was forgiven in return for the transfer of Galahad's interest in non-core claims in the Bottle Creek properties. This resulted in a loss on transfer of \$205,604 in 2010 for which there was no similar activity in 2009.

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 year ended December 31, 2010, the Company incurred costs of \$223,428 on property acquisition, claim renewal and staking costs. 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 \$71,240 and \$376 related to staking and claim costs for the Regcourt and Montrose projects respectively. During 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 \$7,221 and a reduction of mineral properties on transfer of claims of \$476,534.

During the year ended December 31, 2010, the Company incurred costs of \$667,856 for exploration. The most significant component of total spending comprising \$312,462 was focused on the Regcourt project including a drilling, geology, assaying, and report preparation. Costs of \$117,761 were incurred for the Bottle Creek project for project management. Costs of \$20,286 were incurred for the Kellyn project for geology and report preparation. Costs of \$211,886 were incurred for the Montrose project for geology, drilling, assaying and report preparation. Costs of \$5,460 were incurred on the Company's Steel River property. These costs have been written off as the Company has returned the claims to the optionors in 2010. The Company returned its non-

core claims in Bottle Creek, resulting in a reduction of deferred exploration expenditure on transfer of claims of \$159,135.

### **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 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.

On November 9, 2010 the Company announced that it had commenced its drilling campaign included nine (9) holes between 200 m and 350 m long, totaling 2,342 meters.

On December 2, 2010 the Company announced that the drilling campaign included nine (9) holes between 200 m and 350 m long, totaling 2,342 meters had been completed.

On January 18, 2011 the Company reported that it had received final assay results from its recent drilling campaign at Galahad's Regcourt gold Property, 30 km east of Val d'Or, QC. The drilling successfully intersected numerous sulphide-bearing, gold-mineralized quartz veins from 13 m to 325 m below surface, corroborating that the mineralized-vein system continues below the historic Regcourt Gold Mine workings.

Selected highlights of the analytical results are listed in Table 1, and include:

- 79.37 g Au/t over 3.6 m (Hole RG10-02, from 142.0-145.6m)
- 131.00 g Au/t over 0.9 m (Hole RG10-03, from 288.0-288.9 m);
- 4.05 g Au/t over 4.0 m (Hole RG10-04, from 168.0-172.0 m); and
- 16.71 g Au/t over 1.5 m (Hole RG10-08, from 106.8-108.3 m).

The 4.05 g/t Gold over 4 m in hole RG10-04 and 2.15 g/t Gold over 3.9 m in RG10-05, indicate that significant grades are present over minable widths at Regcourt, while the 326 m deep intersection of 10.75 g/t Gold over 0.3 m from hole RG 10-05 shows that the mineralization continues to the deepest extent drilled to date.

The 9 hole, Phase I drill program produced notable gold bearing intersections in 6 of 9 holes. The diamond-drilling program was designed to target the projected downward extensions of veins and other planar mineralized structures, especially along their interpreted, linear intersection zones.

A total of 513 core samples were collected from the recently completed drilling campaign, which comprised nine (9) holes, between 200 m and 350 m long, for a total of 2,342 metres. ALS Chemex Laboratories in Val-d'Or, QC carried out the analytical procedures.

Hole	From	To	Interval	Au-1 <sup>1</sup> (Au-gpt)	Au-2 <sup>2</sup> (Au-gpt)	Au-MS <sup>3</sup> (Au-gpt)	Au Final <sup>4</sup> (Au-gpt)	Intersection (Au-gpt/m)
<b>RG10-02</b>	142.0	143.0	1.0	5.17	5.33		5.25	<b>79.37 / 3.6</b>
	143.0	143.5	0.5	52.30		456.00	456.00	
	143.5	144.6	1.1	57.20		47.20	47.20	
	144.6	145.6	1.0	0.50	0.62		0.56	
	210.0	210.5	0.5	2.88	3.38		3.13	<b>3.13 / 0.5</b>
	216.0	217.0	1.0	3.42	3.56		3.49	<b>3.49 / 1.0</b>
	163.5	164.0	0.5	2.58	2.74		2.66	<b>1.59 / 1.5</b>
164.0	165.0	1.0	0.64	0.40		0.52		
<b>RG10-03</b>	225.0	226.0	1.0	9.21	0.19		4.70	<b>4.31 / 2.2</b>
	226.0	227.2	1.2	0.22			0.22	
	288.0	288.9	0.9	82.80		131.00	131.00	<b>131.00 / 0.9</b>
	295.8	297.0	1.2	2.39	2.00		2.20	<b>2.20 / 1.2</b>
	237.4	238.4	1.0	0.57	6.01		3.29	<b>3.29 / 1.0</b>
<b>RG10-04</b>	168.00	169.0	1.0	1.92	2.65		2.29	<b>4.05 / 4.0</b>
	169.00	170.0	1.0	1.03	0.85		0.94	
	170.00	171.0	1.0	11.70	12.30		12.00	
	171.00	172.0	1.0	1.17	0.79		0.98	

<b>RG10-05</b>	13.6	14.2	0.6	1.51			1.51	<b>2.15 / 3.9</b>
	14.2	14.9	0.7	0.15	0.16		0.16	
	14.9	15.8	0.9	0.69	0.42		0.56	
	15.8	16.3	0.5	0.08	0.09		0.09	
	16.3	17.5	1.2	6.08			6.08	
	326.5	326.8	0.3	10.75			10.75	<b>10.75 / 0.3</b>
<b>RG10-06</b>	285.9	286.2	0.3	17.75	8.33		13.04	<b>13.04 / 0.3</b>
	288.8	289.5	0.7	14.45			14.45	<b>6.28 / 1.7</b>
	289.5	290.5	1.0	0.56			0.56	
<b>RG10-08</b>	106.8	107.8	1.0	0.11			0.11	<b>15.14 / 1.5</b>
	107.8	108.3	0.5	49.90	45.20		45.20	
	181.3	182.2	0.9	1.38			1.38	<b>1.38 / 0.9</b>
	196.0	197.0	1.0	4.16			4.16	<b>4.16 / 1.0</b>

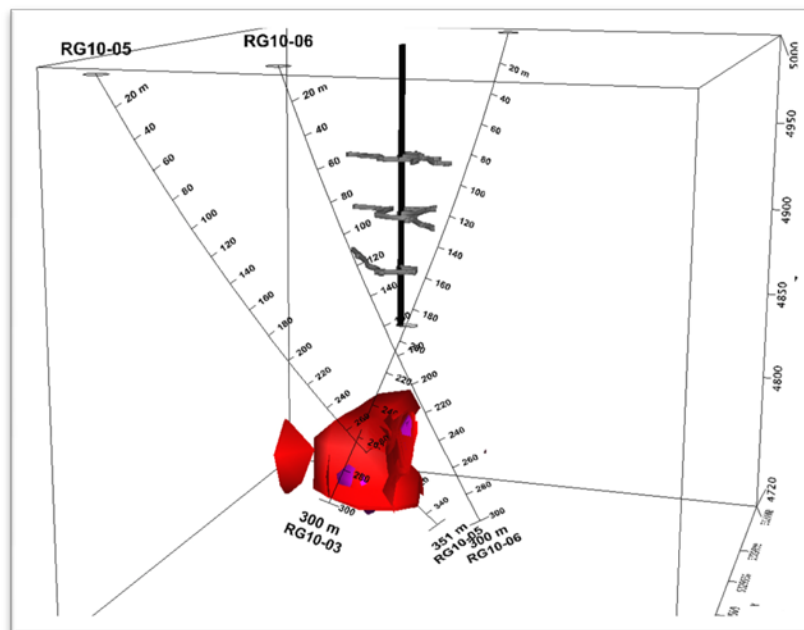
<sup>a</sup>All holes are inclined, therefore "From" and "To" distances tabulated are metres down-hole, not vertical metres. Furthermore, calculated intersection "Intervals" are down-hole lengths and not true widths.

All assays are reported uncut.

<sup>1</sup>Initial fire assay; <sup>2</sup>Check fire assay; <sup>3</sup>Total metallic-sieve fire assay of coarse crush reject; <sup>4</sup>Average of fire assays or, if carried out, the metallic-sieve result.

On February 14, 2011 the Company reported has received the results of the Hole-to-Hole 3D IP-survey (the "Survey") carried out from December 6-9, 2010. The Hole-to-Hole 3D IP method also penetrates below the lower limit of the drill holes, and the data is processed to deliver an integrated 3D image of potential target anomalies.

A Logistics and Interpretation Report from Abitibi Geophysics details the interpretation of thirteen (13) IP anomalies (C-1 to C-13) from the 3D survey, which have been incorporated into the 3D Gemcom® model of the Property. Six (6) priority targets have been selected for Phase II drilling based on a geological interpretation of the updated 3D model by MRB & Associates of Val-d'Or, QC, who continue to evaluate the data for additional drill targets.



On April 20, 2011 the Company announced that all permits have been secured, and the 13 hole, 3,130 metre Phase II diamond-drilling programme at the Regcourt Property is underway. The holes are designed to: 1) test geophysical anomalies outlined by a recently completed down-hole IP survey; 2) target untested parts of mineralized shear zones, and; 3) test the down-dip extensions of gold-bearing structures intersected by 2010 drilling.

The Company plans to complete the phase two diamond drill program within the second quarter of 2011. The Company has budgeted this drill program at approximately \$650,000 for which the funding has already been raised in the first quarter of 2011.

## **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.

On March 14, 2011 the Company reported receipt of a Technical Report on Galahad's Montrose Project, compliant with National Instrument 43-101 standards.

The Technical Report details all known historical data, and Galahad's Metals Inc. exploration efforts since 2008. This work culminated in a seven-hole, diamond drilling program carried out during the winter/spring months of 2010. Drilling tested a series of geophysical induced polarization targets including one on the gold mineralized Main Zone, a package of carbonate rocks in the order of 100 m thick. The Main Zone sits north of a splay fault off the regionally important Cadillac-Larder Lake Break.

Recommendations include testing of the on-strike extension and depth potential of the Main Zone. To date, the Main Zone has been explored only to shallow depths of up to 50 meters. A staged program of 31 drill holes has been recommended (4875 m) to test continuing exploration priorities and further explore the Main Zone carbonate package.

The geological setting of rocks outcropping on the mining lease consists of carbonate-altered ultramafic rocks of the Lower Tisdale assemblage. These units lie along the Galer Lake fault, a splay fault zone off the Cadillac-Larder Lake Break. The altered rocks intersected to date are analogous to the host rocks of some of the historic gold ores occurring in the Kirkland Lake District. Past trenching in the mid-1940s and mid-1970s on the fault has demonstrated that this structure is strongly deformed and characterized by green carbonate with anomalous assay values from chip samples of up to 3.8g/t Au over 13.6 meters and 6.2 g/t over 6 meters. The above highlights indicate that further drilling by Galahad is highly warranted, particularly in light of the recent interpretation of data made by the Company and described in the Technical Report.

## **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.

On September 30, 2010 the Company transferred its claims in the Bottle Creek property into Bottle Creek Exploration LLC, a Nevada limited liability corporation in which Galahad Metals Inc. owns 60% interest and Golden Griffon USA Inc. holds the remaining 40% interest. Prior to the transfer of the claims into the new company Galahad's ownership in the Bottle Creek property remained unchanged.

On March 28, 2011 the Company announced that it has signed the Transfer Agreement (the "Agreement") to complete the transfer of its 60% interest in Bottle Creek Exploration, LLC ("Bottle Creek") into a new BC incorporated company called Red Ore Gold Inc. ("Red Ore"). In consideration, Galahad will receive 8,838,938 common shares of Red Ore (the "Consideration Shares"), at a deemed price of \$0.50 per Consideration Share, for aggregate consideration of \$4,419,469, representing the amount spent to date by Galahad in exploration and property staking and payment costs at the Property.

There has been a \$600,000 drilling program for Bottle Creek in 2011 which will be funded in total by Red Ore Gold Inc. a wholly owned subsidiary of Galahad, once it completes its IPO. Red Ore Gold Inc. will be responsible for funding any future exploration performed on this property. The Galahad and Red Ore board have approved to proceed with an initial public offering of Red Ore Gold Inc. of approximately \$2,500,000 to cover IPO costs as well as fund the 2011 exploration program.

### **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/ton) gold and two contain from 3 to 13 oz/ton 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 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/ton) 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 lamprophyre 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.

On December 8, 2010 the option agreement was amended in which Galahad's second and third anniversary payments would be suspended while the optionors pursued option or joint venture agreement with a third party regarding the Kellyn property until June 30, 2011. As part of the prospective option or joint venture agreement the optionors are required to receive collectively at least 300,000 shares of the target company with whom the optionors have entered into such an agreement. Should a third party agreement be entered into the optionors shall transfer the target company shares up to a maximum of 300,000 to Galahad Metals Inc. immediately.

Should the optionors be unable to reach a third party agreement by June 30, 2011 then Galahad has the right to carry on whatever exploration is deemed appropriate for the remainder of the 2011 season and;

1. On July 5, 2011, one of either \$6,000 & 100,000 shares in Galahad; or \$12,000; or 200,000 shares in Galahad; and
2. On the third anniversary, at the option of the Company one of either \$6,000 & 100,000 shares in Galahad; or \$12,000; or 200,000 shares in Galahad.

Following the final anniversary payment the optionors covenant, to convey to Galahad their aggregate 100% interest in the Kellyn property.

No further exploration program has been budgeted for the Kellyn property for 2011. The Company remains in pursuit of a joint venture partner to carry on further exploration on this project.

#### **Expenses and Net Loss for the Year End**

Total expenses for the year ended December 31, 2010 were \$1,018,366 (2009 - \$790,910).

Interest and other income earned for the year ended December 31, 2010 was \$ 310 (2009 - \$16,851). Foreign exchange gain on US dollar denominated balances were \$ 326 (2009 - loss \$3,222) for the year end. Interest expense for the year ended December 31, 2010 was \$ 11,853 (2009 - \$34,224).

During 2010, the Company recorded a recovery of future income taxes of \$193,400 (2009 - \$182,500)

Net loss for the year ended December 31, 2010 was \$836,183 (2009 - \$629,006). Basic and diluted loss per common share for the year ended December 31, 2010 was \$(0.04) (2009 - \$(0.05)).

#### **Selected Financial Data quarterly**

<b>Quarter</b>	<b>Net Loss \$</b>	<b>Loss/share \$</b>	<b>Total Assets \$</b>	<b>Shareholder's Equity \$</b>
Q4/2010	(136,732)	(0.01)	5,812,762	5,471,799
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

### General and administration expenses

	December 31, 2010	December 31, 2009
	\$	\$
Rent	8,953	8,199
Phone, utilities, supplies and other	18,134	21,114
Website, internet and printing	8,209	9,137
Contractor fees	40,806	59,890
Stock option expenses	293,710	37,581
General exploration	-	7,925
Bad debt expense	21,322	-
Ontario transition tax	29,374	-
Bank charges and interest	558	1,050
Total	421,066	144,896

### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2010, the Company had cash and cash equivalents totaling at \$222,345 (2009 \$24,949). During the year ended December 31, 2010, the Company invested cash of \$ 799,052 in mineral property and exploration costs, received \$ 1,492,731 through financing activities and utilized net cash of \$496,283 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 December 31, 2010, the Company had total cash and cash equivalents of \$222,345 of which \$192,429 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 the year end, the Company completed the private placements and investors exercised warrants for cash proceeds of \$1,051,500. Of the total raised in 2011, \$1,427,000 relates to funds raised through the issuance of flow through shares.

## **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.

Included in cash is \$192,429 which represents restricted cash from the issuance of flow-through common shares which is required to be spent on eligible Canadian Exploration Expenditures. As at December 31, 2010, the Company was obligated to spend \$730,200 in eligible Canadian Exploration Expenditures by December 31, 2011.

During the year ended December 31, 2010, the Company incurred Part XII.6 tax resulting from the amounts renounced in 2008, but unspent in 2009. Furthermore, the Company incurred interest and penalties of \$25,573 relating to unpaid Part XII.6 tax. Total Part XII.6 taxes payable including penalties and interest as at December 31, 2010 are \$217,017 (2009 - \$191,444).

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

## **Contingencies**

The Company's operations are governed by governmental laws and regulations regarding environmental protection. Environmental consequences are hardly identifiable, in term of level, impact or deadline. At the present time and to the best knowledge of its management, the Company is in conformity with the laws and regulations in effect. Restoration costs will be accrued in the financial statements only when they will be reasonably estimated and will be charged to the earnings at the time.

The Company is partly financed by the issuance of flow-through shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian exploration expenses, even if the Company has committed to take all the necessary measures for this purpose.

Subsequent to the year end, in order to minimize the Company's Part XII.6 tax obligation, management reviewed the allocation of eligible Canadian exploration expenditures to the respective taxations years. As a result of this review, management determined that the Company would change certain allocations related to the March 2007 flow-through funding creating a shortfall of approximately \$466,000. Consequently, the Company would be late filing certain prescribed forms and the Company will be subject to a 25% penalty on the shortfall.

Additionally, the Company has indemnified investors for any potential income tax assessments that may be incurred as a result of this decision and shortfall. The amount of the indemnification cannot be reasonably estimated at this time. The amounts are dependent on the tax rates of the various investors that participated in the March 2007 flow-through funding.

## **Financing Transactions**

### 2011 issuances

On March 24, 2011 the Company announced that it has completed the private placement of 4,030,000 units of the Company ("Units") at a price of \$0.15 per Unit for gross proceeds of \$604,500. The 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 \$0.25 per common share from the date of issue up to and including March 31, 2013.

The Company paid a finder's fee payable in the issuance of securities of the Issuer equal to 214,286 non-flow through Units with a value of \$0.14 per unit.

### 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.

During the first quarter of 2010, the Company renounced the flow-through share tax benefits relating to these flow-through shares. The tax effect of \$54,500 was recorded as a reduction of capital stock in the first quarter 2010.

On March 31, 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 closed April 29, 2010. 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 28, 2010 the Company announced that it had repaid the convertible debenture with SIDEX s.e.c. (the principal of \$150,000) and the interest of \$11,853 (including accretion), in common shares of the Company in lieu of cash. The interest due has been calculated based on weighted average of means price of shares and the principal has been calculated based on the closing price of the common shares of the "Company" on April 29, 2010 the issuance of 1,589,480 shares valued at \$0.10 each.

On September 13, 2010 the Company issued 9,880,000 units of the Company at a price of \$0.05 per unit for gross proceeds of up to \$494,000 as part of a private placement which closed September 13, 2010. 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 \$0.10 per common share exercisable on or before August 31, 2012. As part of the same placement the Company issued 2,500,000 flow through units of the Company at a price of \$0.07 per unit for gross proceeds of up to \$175,000 as part of a private placement which closed September 13, 2010. Each flow through unit consists of one flow through common share of the Company and one non flow through common share purchase warrant. Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of \$0.10 per common share exercisable on or before August 31, 2012.

On September 16, 2010 the Company issued 558,000 units as finders fees relating to the September 13, 2010 private placement issue.

On September 16, the Company issued a total of 100,000 common shares at a deemed value of \$5,000 for property with respect to its Regcourt option agreement.

On November 24, 2010 the Company issued 550,000 units of the Company at a price of \$0.09 per unit for gross proceeds of up to \$49,500 as part of a private placement which closed November 24, 2010. 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 November 30, 2012. As part of the same placement the Company issued 3,460,000 flow through units of the Company at a price of \$0.11 per unit for gross proceeds of up to \$380,600 as part of a private placement which closed November 24, 2010. Each flow through unit consists of one flow through common share of the Company and one non flow through 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 November 30, 2012.

On November 24, 2010 the Company issued 103,304 units as finders fees relating to the September 24, 2010 private placement issue.

During the fourth quarter of 2010, the Company renounced the flow-through share tax benefits relating to these flow-through shares. The tax effect of \$138,900 was recorded as a reduction of capital stock in the fourth quarter 2010.

#### 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 April 28, 2011, December 31, 2010 and December 31, 2009 is as follows:

	<b>April 28, 2011</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Common shares	51,222,860	38,957,760	18,116,976
Warrants	33,901,404	26,678,304	7,653,538
Compensation options	200,000	200,000	244,231
Stock options	4,553,500	3,700,500	903,500
Fully diluted shares outstanding	89,877,764	69,536,564	26,918,245

### 2011

In the first quarter of 2011 there were a total of 2,290,000 common share warrants exercised by investors in the Company. All of the warrants had an exercise price of \$0.10 and maturity dates ranging from August 2012 to October 2012.

In February 2011, 25,000 options had been forfeited with an exercise price of \$0.15

On February 28, 2011, 204,000 of the Company's warrants had expired unexercised. The warrants had an exercise price of \$0.10 and a maturity date of October 1, 2012, however per the forced exercise provision the holders of the warrants had until February 28, 2011 to exercise their warrants.

On March 24, 2011 the Company announced that it has completed the private placement of 4,030,000 units of the Company ("Units") at a price of \$0.15 per Unit. The 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 \$0.25 per common share from the date of issue up to and including March 31, 2013.

## 2010

During the year ended December 31, 2010 no warrants were exercised and 26,538 warrants expired unexercised with an exercise price of \$0.20. During the first 2 quarters in 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. In November 2010 there were a total of 4,113,304 warrants which were issued with exercise price of \$0.15 and expiring on November 30, 2012.

During February, 2010, 814,000 options were granted with an exercise price of \$0.10 expiring in March 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. In November 2010 265,000 options were granted with an exercise price of \$0.11 expiring on November 30, 2015.

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

## 2009

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, and accounts 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 year ended December 31, 2010, the Company incurred costs of \$6,000 (December 2009 - \$6,000) from Cornerstone Capital Corporation of which it paid cash of \$2,000 and the Chairman and CEO was compensated with annual fees of \$60,000 (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 December 31, 2010 of \$NIL (December 2009 – \$ 3,432) and to Cornerstone Capital Corporation of \$4,000 (December 2009 - \$ NIL).

As at December 31, 2010 the Company had a director and CEO in common with Desiree Resources Inc. and therefore this company has been identified by management as related parties due to a significant influence relationship.

As at July 12, 2010 Robin Dow, CEO and Director of Wedge Energy International Inc. (“Wedge”) had resigned effective immediately from Wedge. Without him as the CEO and Director on Wedge there is no longer a significant influence relationship and therefore as of July 12, 2010 Wedge is no longer related to Galahad Metals Inc.

As at August 1, 2010 Diamond International Exploration Inc. had moved out of the office and no longer share common costs.

As of October 29, 2010 Robin Dow resigned from his position as, CEO and Director of Diamond International Exploration Inc. Without him as the CEO and Director on Diamond International Exploration Inc. there is no longer a significant influence relationship and therefore as of October 29, 2010 Diamond is no longer related to Galahad Metals Inc.

As of November 15, 2010 Robin Dow became the CEO and Director of Desiree Resources Inc. Desiree shares a common office with Galahad and per the share cost agreement between Galahad, Desiree and Wedge all common operating costs are divided equally among the three companies. Given that Robin Dow is the CEO and Director of both Galahad and Desiree, both companies are considered related.

The Company shared office space with Diamond International Exploration Inc. and Wedge Energy International Inc. for part of 2010. The Company has signed an agreement in which all shared costs are evenly allocated between the companies. For the year ended December 31, 2010, the Company incurred total annual shared costs of \$12,415 (2009 - \$10,203) with Diamond International Exploration Inc., Wedge Energy International Inc., and Desiree Resources Inc. At December 31, 2010 the Company has a receivable from Diamond International Exploration Inc. for shared costs of \$21,322 (December 2009 – payable \$8,846), a receivable from Wedge Energy International Inc. of \$2,654 (2009 – \$2,138) and a receivable from Desiree Resources Inc. of \$1,460 (2009 – \$NIL). As at December 31, 2010 the Company has taken a complete allowance on the receivable from Diamond International Exploration Inc. as it has been assessed by management that collection is uncertain.

For the year ended December 31, 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 (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 companies 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. As at April 28, 2011 Pearl Communications has received 200,000 stock options in the Company. Of these 150,000 stock options have an exercise price of \$0.10, with 25,000 expiring in December 2015, 25,000 options expiring January 2019 and 100,000 expiring in March 2015. The remaining 50,000 stock options have an exercise price of \$0.15 and expire on February 2, 2016

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

During the year ended December 31, 2010, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

Financial instruments — recognition and measurement, Section 3855

This Section has been amended to clarify the application of the effective interest method after a debt instrument has been impaired. This amendment is effective for fiscal years beginning on or after July 1, 2009.

This Section has also been amended to clarify when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted.

The third amendment provides guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held for trading category. This amendment was made in August 2009 with prospective application.

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.

In January 2009, the CICA issued Sections 1582, "Business Combinations", 1601 "Consolidated Financial Statements", and 1602 "Non-controlling Interests", which replaces CICA Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (IFRS). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. The Company early adopted these Sections, the other two Sections were also adopted at the same time.

#### 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 consolidated financial statements under IFRS. The Company has started collecting accounting data in 2010 and continuing in 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 Company's staff and advisers involved in the preparation of consolidated financial statements are being trained on the relevant aspects of IFRS and the anticipated changes to accounting policies. Employees of the Company that will be affected by a change to business processes as a result of the conversion to IFRS will also be trained as necessary.

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 consolidated statement of financial position as at January 1, 2011, 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 as 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 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 consolidated 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 consolidated 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 Consolidated 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 consolidated 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. Management will continue to monitor these ongoing projects for any potential impact.

#### 1) Exploration and Evaluation Expenditures

The Company will be expensing all exploration and evaluation expenditures incurred on exploration projects until it is able to conclude that a future economic benefit is more likely to be realized than not by the establishment of ore resources. Exploration and evaluation expenditures incurred subsequent to the establishment of ore resources on a project are capitalized as an asset. Exploration and evaluation expenditures are not depreciated until the properties are in commercial production.

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or whether activities have not yet reached a stage which permits a reasonable assessment of the existence of reserves. The determination of an ore reserve is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditures.

The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions may change if new information becomes available.

##### A) Pre-license costs:

Costs incurred prior to obtaining the legal right to explore an area were capitalized under Canadian GAAP. Under IFRS these costs can no longer be capitalized. As such approximately \$3,000 pre-license costs incurred prior to the transition date capitalized to Galahad's various projects will be expensed on transition through opening deficit.

##### B) License and acquisition costs:

Galahad has reviewed its projects as at January 1, 2010 and out of \$1,971,622 of license and acquisition costs which have been assessed for compliance with its new IFRS policies on conversion a total of \$1,971,623 will be expensed to deficit on transition in the opening consolidated balance sheet.

C) Exploration costs:

Costs associated with geological and geophysical expenditures and unproven exploration and evaluation were capitalized as deferred mineral assets in accordance with Canadian GAAP. Under Galahad's newly adopted IFRS accounting policies, early stage prospecting costs will be expensed as incurred. As a result Galahad will expense \$3,319,703 exploration costs.

2) Impairment of long-lived assets

In review of Galahad's newly adopted IFRS policy to expense exploration and evaluation expenditures no assessment for impairment will be required upon transition to IFRS.

However, the Company will continue to annually reviews for any indicators of impairment on intangible assets and capitalized exploration and evaluation expenditures that meet the criteria for capitalization in the future.

Recoverability of the carrying value of the Company's long-lived assets is reviewed whenever events or changes in circumstances indicate that such carrying value may not be recoverable. To determine whether a long-lived mining asset may be impaired, the recoverable amount is compared to the carrying value of the asset. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash generating units ("CGUs") for impairment purposes. A CGU represents the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. If the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down and the impairment loss is recognized in the income statement.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

In review of Galahad's opening consolidated balance sheet as at January 1, 2010 it was noted that the Company does not have any property and equipment capitalized on its consolidated statement of financial position. Therefore an assessment for impairment is not required.

In review of other intangible assets on Galahad's opening consolidated balance sheet it was noted that the Company has computer software's capitalized on its consolidated statement of financial position. The software is mainly for project management of the Company's exploration and evaluation properties as well as general office administration. Per discussion with key management this software is currently in use by the Company and the expected useful life has not been shortened to under 3 years, which the Company uses for its amortization policy. The impact of this change on transition will be immaterial.

The adoption of IAS 38 is not expected to have any impact on the consolidated financial statements of Galahad Metals Inc.

3) Share-based Payments (IFRS 2 Share based payments)

The stock option plan provides for the granting of stock options to directors, officers and contractors. The exercise price of each stock option is determined at the closing market price of the common shares on the day prior to the day of grant. Each stock option granted permits the holder to purchase one common share at the stated exercise price. The Company records a charge to the profit and loss account using the Black-Scholes fair valuation option pricing model. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture. The level of stock volatility is calculated with reference to the historic traded daily closing share price at the date of issue.

Galahad has elected to apply IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by January 1, 2011.

During the above mentioned period it was noted that Galahad had two stock options plans. For all stock options granted prior to July 24, 2009 options granted to directors, officers, contractors and investor relations all vested under the same terms. Options granted prior to July 24, 2009 vested as follows: 10% vested immediately on the date of the grant, 22% vested four and one-half months after the date of grant, 22% vested nine months after the date of the grant, 22% vested thirteen and one-half months after the date of grant, and the balance of 24% vested after eighteen months after the date of grant.

Under the current stock option plan there are no mandated vesting provisions for stock options granted to directors, officers and contractors. Stock options granted to investor relations are subject to a twelve month vesting schedule whereby no more than 25% of the options granted may be vested in any three month period.

Under IFRS Galahad must treat each of the vesting periods as a separate grant, and therefore recomputed the fair value of the newly vested options each time previously granted options vest. Furthermore IFRS differs from Canadian GAAP in which under IFRS Galahad must estimate the percentage of stock options which will expire unexercised as well as forfeited and include this percentage as a reduction in the determination of the stock option expense.

Based on the review of stock options granted prior to January 1, 2010 which had not vesting as at the transition date a total of approximately \$18,000 will be recognized as an opening adjustment on transition in the consolidated statement of financial position at January 1, 2010.

#### 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 has no asset retirement on transition and does not expect this change on transition. There are no assets in production nor any exploration and evaluation properties with verifiable ore reserves as at January 1, 2010.

#### 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 consolidated financial statements.

As at January 1, 2010, the Company did not have any property or equipment therefore there is no adjustment on the opening consolidated balance sheet in the conversion to IFRS.

#### 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.

The Company does not expect any significant changes to its estimates applied in the January 1, 2010 opening consolidated balance sheet conversion to IFRS.

#### 8) Financial Instruments

IFRS allows a company to apply a onetime change in the designation of its financial instruments on the transition date.

The Company has elected not to change the classification of any of its financial instruments from its previous Canadian GAAP financial statements. Therefore no adjustment is required on the January 1, 2010 opening consolidated balance sheet upon conversion to IFRS.

#### 9) Flow-through shares

On transition to IFRS, the Company has elected to follow US GAAP whereby flow-through proceeds should be allocated between the offering of the common shares and the sale of tax benefit when common shares are offered. The allocation is made between based on the difference between the quoted market price of the common shares and the amount the investor pays for the flow through shares. A future tax liability is recognized for the premium paid by investors and is then recognized as a future income tax recovery in the period of renunciation. If flow through shares is sold at a discount, this policy does not apply and the flow through share issuance follows applicable IFRS guidance.

Previously, Galahad Canadian GAAP policy was to adopt the recommendations of EIC 146 with respect to the accounting for flow-through shares. This resulted in the company reducing net proceeds of the flow-through share issuance by the future tax liability of the Company resulting

from the renunciation of the exploration and development expenditures in favor of the flow-through subscribers. The future income tax liability was calculated net of any benefit resulting from unrecorded income tax loss carry forwards and income tax pools in excess of the accounting value available for deduction.

Preliminary estimates of the impact on the consolidated statement of financial position of reversing the renouncement:

	<b>January 1, 2010</b>
Increase to share capital	\$ 1,600,000
Increase to deficit	(\$ 1,600,000)

Preliminary estimate of the impact on the consolidated statement of financial position of applying US GAAP for future income tax liability is currently being assessed by management.

#### 10) Intangible assets

According to IAS 38.8, an intangible asset is an identifiable non-monetary asset without physical substance.

Galahad has reviewed all expenditures since 2004 to determine if any previously expensed acquisitions should be capitalized as property or equipment under IFRS.

During the review of the office expenditures for the period from 2004 to 2009 it was noted that Galahad had made purchases of computer software exceeding the \$500 threshold as noted below.

Under Canadian GAAP Galahad had expensed all computer software in the year the expenditure was incurred.

Preliminary estimate of the impact on the consolidated statement of financial position of capitalizing the software and recording the corresponding accumulated amortization would be:

	<b>January 1, 2010</b>
Increase in intangible assets	\$ 2,900
Decrease in deficit	(\$ 2,900)

#### **Subsequent Disclosures**

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

The Company's first consolidated financial statements prepared in accordance with IFRS will be the interim consolidated 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 consolidated financial statements for the three months ending March 31, 2011 will also include 2010 consolidated financial statements for the comparative period, adjusted to comply with IFRS, and the Company's transition date IFRS consolidated statement of financial position (as at January 1, 2010).

## Schedule of completion of IFRS transition

Task	Completed by management
Exemptions from IFRS 1	Completed
Differences between IFRS and Canadian generally accepted accounting principles	Completed
Revised accounting policies based on IFRS	Completed
Opening consolidated balance sheet as at January 1, 2010	Draft complete with on going revisions
Skeleton version of consolidated financial statements in accordance with IFRS	Draft completed
Transition note required by IFRS 1 (preliminary version)	Draft completed
Prepare consolidated financial statement in accordance with IFRS for comparative year and for each comparative quarter	To be completed in Q2 2011
Present and communicate impact of transition in Management's Discussion & Analysis (to be filed with 2010 year end financial statements)	Completed
Quarterly consolidated financial statements in compliance with IFRS – (to be filed June 2011)	Draft currently underway
First annual consolidated financial statements published in accordance with IFRS	April 2012

## 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, subsequent to year end, raised \$1,659,000 with private placements and the exercise of warrants. These funds were used to advance geological work on the Montrose and Regcourt properties.

Red Ore will complete a private placement of up to 2 million Units at a price of \$0.50 per unit, each unit comprised of one Red Ore common share and one whole Red Ore common share purchase warrant exercisable at \$0.75 for two years, for \$1 million for working capital purposes and to fund exploration activities on the Bottle Creek Property.

## **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