

Galahad Metals Inc.

(a Development Stage Company)

Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Galahad Metals Inc. (A Development Stage Company) are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years ended December 31, 2010 and 2009 have been audited by BDO Canada LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

signed "Robin Dow"

Robin Dow

Chief Executive Officer

Ottawa, Ontario

April 28, 2011



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Independent Auditor's Report

To the Shareholders of Galahad Metals Inc.

We have audited the accompanying consolidated financial statements of Galahad Metals Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive loss and deficit and cash flows for each of the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Galahad Metals Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the Basis of presentation and going concern paragraph in the Summary of Significant Accounting Policies in the consolidated financial statements which indicates that the Company's ability to recover amounts shown for capital assets and mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain financing and future profitable production. These conditions, along with other matters as set forth in the Nature of operations and going concern paragraph, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
April 28, 2011

Galahad Metals Inc.
(a Development Stage Company)
Consolidated Balance Sheets

(expressed in Canadian dollars)

	December 31, 2010 \$	December 31, 2009 \$
Assets		
Current assets:		
Cash and cash equivalents (note 13)	222,345	24,949
Amounts receivable	51,556	16,331
Share subscription receivable	-	220,000
Prepaid expenses	1,500	1,375
	275,401	262,655
Exploration advances	-	57,292
Mineral exploration properties (note 3)	1,711,295	1,971,622
Deferred exploration expenditures (note 3)	3,826,066	3,322,805
	5,537,361	5,351,719
	5,812,762	5,614,374
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 3)	123,946	550,803
Part XII.6 tax payable (note 12)	217,017	191,444
Convertible debenture (note 4)	-	140,013
	340,963	882,260
Shareholders' equity		
Capital stock (note 5)	13,154,084	11,903,887
Contributed surplus (note 5)	1,181,685	856,014
Deficit	(8,863,970)	(8,027,787)
	5,471,799	4,732,114
	5,812,762	5,614,374

Contingencies (note 10)
Going concern (note 1)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors:

signed "Robin Dow"

Director

signed "Robert Schellenberg"

Director

Galahad Metals Inc.

(a Development Stage Company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

(expressed in Canadian dollars)

	Twelve months ended December 31,	
	2010	2009
	\$	\$
Expenses		
Management fees (note 7)	66,000	80,000
Promotion & investor conference	121,947	194,894
Regulatory, exchange, AGM, press release and transfer agent fees	43,247	54,838
Professional fees	122,248	106,127
General and administrative	421,066	144,896
Part XII.6 tax (note 12)	25,573	95,027
Loss on transfer of mineral property	205,604	-
Write-off of deferred exploration expenditures and mineral properties (note 3)	12,681	115,128
	<u>(1,018,366)</u>	<u>(790,910)</u>
Other income	300	14,871
Interest income	10	1,980
Interest expense (note 4)	(11,853)	(34,224)
Foreign exchange loss	326	(3,222)
	<u>(11,217)</u>	<u>(20,595)</u>
Net loss before tax for the year	(1,029,583)	(811,505)
Recovery of future income taxes (note 6)	193,400	182,500
Net loss and comprehensive loss for the year	(836,183)	(629,005)
Deficit - Beginning of year	(8,027,787)	(7,398,782)
Deficit - End of year	<u>(8,863,970)</u>	<u>(8,027,787)</u>
Loss per common share:		
Basic and diluted	<u>(0.03)</u>	<u>(0.05)</u>
Weighted average number of common shares outstanding:		
Basic and diluted	<u>24,757,478</u>	<u>11,993,910</u>

The accompanying notes are an integral part of these consolidated financial statements.

Galahad Metals Inc.

(a Development Stage Company)

Consolidated Statements of Cash Flow

(expressed in Canadian dollars)

	<u>Twelve months ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(836,183)	(629,005)
Items not affecting cash:		
Shares for interest (note 5)	6,000	17,992
Accreted interest on receivable from Agnico Eagle Limited		(14,068)
Accretion on convertible debenture	5,853	16,232
Stock based compensation expenses	306,731	55,708
Recovery of future income taxes (note 6)	(193,400)	(182,500)
Loss on transfer of mineral properties	205,604	-
Bad debt expense	21,321	-
Write-off of deferred exploration expenditures (note 3)	12,681	115,128
Change in non-cash working capital items:		
Amounts receivable	(56,546)	(6,942)
Prepaid expenses	(125)	1,105
Part XII.6 tax payable (note 12)	25,573	95,027
Accounts payable and accrued liabilities	6,208	280,332
	<u>(496,283)</u>	<u>(250,991)</u>
Investing activities		
Exploration advances	57,292	65,123
Proceeds from the sale of Swanson Property	-	125,000
Mineral exploration property costs	(207,428)	(270,102)
Deferred exploration expenditures	(648,916)	(771,256)
	<u>(799,052)</u>	<u>(851,235)</u>
Financing activities		
Issuance of common shares and warrants for cash	1,519,451	393,000
Share issue costs	(26,720)	(28,000)
	<u>1,492,731</u>	<u>365,000</u>
Net change in cash and cash equivalents	197,396	(737,226)
Cash and cash equivalents - Beginning of period	<u>24,949</u>	<u>762,175</u>
Cash and cash equivalents - End of period	<u>222,345</u>	<u>24,949</u>

Supplemental cash flow information (note 13)

The accompanying notes are an integral part of these consolidated financial statements.

Galahad Metals Inc.

(a Development Stage Company)

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

1. Nature of operations and going concern

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 joint venture subsidiary of Galahad was incorporated 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 joint venture subsidiary, with Golden Gryphon USA Inc. holding the remaining 40% interest.

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 consolidated 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, 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

Going concern

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will be able to continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

Several conditions cast substantial doubt on the validity of this assumption. 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 (2009 - \$24,949) of which \$192,429 (2009 - \$558) is restricted (see note 12) 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 recovery of costs incurred to date on mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development of its properties and generation of profitable operations in the future, or proceeds from disposition of the properties and deferred exploration expenditures.

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 funding will be available to the Company, or that, when it is required it will be available on terms which are acceptable to management.

These consolidated financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classification that would be necessary if the going concern assumption were not appropriate and such adjustments could be material.

Galahad Metals Inc.

(a Development Stage Company)

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

2. Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian GAAP for year-end financial information. Because a precise determination of many assets and liabilities is dependent on future events, the preparation of the financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimated. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies listed below.

Adoption of new accounting pronouncements

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.

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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company together with its subsidiary. All significant inter-Company balances and transactions have been eliminated on consolidation.

The Company's consolidated subsidiary is Bottle Creek Exploration LLC a company of which Galahad Metals Inc. owns a 60% interest.

Foreign Currency Translation

The functional currency of the Company is the Canadian dollar. Monetary assets and liabilities denominated in currencies other than the Canadian dollar are translated using the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Expenses are translated at exchange rates in effect at the date the transaction is entered into. Translation gains or losses are included in the determination of income or loss in the statement of operations in the period in which they arise.

The integrated foreign subsidiary, Bottle Creek Exploration LLC is accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical rates. Revenue and expenses are translated at average rates for the year. Exchange gains or losses are reflected in the statement of operations.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates used in the preparation of these financial statements include, but are not limited to the estimated net realizable value of the mineral exploration properties and deferred exploration expenditures, the provision for income taxes and composition of future income tax assets and liabilities and the determination of fair value for stock based transactions. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Cash and cash equivalents

Cash and cash equivalents include investments which have a term to maturity at the time of purchase of ninety days or less and which are readily convertible into cash.

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(a Development Stage Company)
Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

2. Significant accounting policies – (continued)

Mining Properties Options Agreements

From time to time, the Company may acquire or dispose of mining properties pursuant to the terms of options agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mining properties costs or recoveries when the payments are made or received.

Mineral exploration property and deferred exploration expenditures

Acquisition costs of mineral exploration properties together with direct exploration expenditures are capitalized.

When production is attained, these costs will be amortized against income using the unit-of-production method based on estimated recoverable reserves if the properties are brought into commercial production, or written off if the properties are abandoned or sold. If properties are considered to be impaired in value, the costs of the properties and related exploration expenditures will be written down to their estimated fair value at that time. Expenditure of a general reconnaissance nature is expensed to general exploration in the statement of operations, comprehensive loss and deficit.

Impairment of Long-lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Flow-through shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. Recognition of the foregone tax benefit is recorded at the time of the renouncement provided there is reasonable assurance that the expenditures will be incurred.

Share issue costs

Costs incurred on the issue of the Company's shares are charged directly to share capital and are net of applicable future income tax benefits.

Warrants

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated entirely to the common shares.

Stock-based compensation

The Company uses the fair value based method of accounting for stock-based compensation arrangements granted to employees and non-employees. The fair value of each option granted is accounted for in operations or in deferred exploration expenditures over the vesting period of the option using the Black-Scholes options pricing model at the date of grant, with the related increase to contributed surplus.

Compensation expense on stock-based compensation granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received. Any consideration received by the Company on exercise of stock options is credited to share capital.

Mining Duties and Refundable Tax Credit relating to Resources

The Company is entitled to a mining duties for mining exploration in Quebec. Furthermore, the Company is entitled to a refundable tax credit relating to resources for mining exploration companies on eligible expenses incurred in Quebec. These tax credits are recorded in other revenues provided that the Company is reasonably certain that these credits will be received.

Galahad Metals Inc.
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Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

2. Significant accounting policies – (continued)

Income taxes

The Company accounts for income taxes under the asset and liability method that requires the recognition of future income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company provides a valuation allowance on net future tax assets when it is more likely than not that such assets will not be realized. The future tax assets and liabilities are measured using substantially enacted rates that are expected to apply when the tax assets or liabilities are realized or settled.

Loss per common share

Basic loss per common share is calculated based upon the weighted average number of common shares outstanding during the period. The diluted loss per common share, which is calculated using the treasury stock method, is equal to the basic loss per common share due to the anti-dilutive effect of stock options and share purchase warrants outstanding.

Financial Instruments – recognition and measurement

Financial instruments are measured at fair value on initial recognition of the instrument into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

- Cash and cash equivalents as held-for-trading
- Amounts receivable, share subscription receivable as loans and receivables
- Accounts payable and accrued liabilities, Part XII.6 tax payable and convertible debenture as other liabilities

Hedges

The Company adopted CICA Handbook Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company has elected not to apply hedge accounting to its financial instruments as it has not designated any of its financial instruments as hedge instruments.

Future accounting pronouncements

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.

Convergence with International Financial Reporting Standards in 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP.

The date applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010. The Company has not yet determined the impact the transition to IFRS will have on the Company's financial statements.

Galahad Metals Inc.
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Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

3. Mineral exploration properties and deferred exploration expenditures

	Regcourt	Montrose	Kellyn Gold	Bottle Creek	Barville/ Swanson	Steel River	Total
	\$	\$	\$	\$	\$	\$	\$
<i>Mineral exploration properties:</i>							
Balance, December 31, 2008	-	367	-	1,672,028	-	-	1,672,395
Property acquisition and staking	25,036	377	8,500	228,968	-	7,221	270,102
Shares issued for property	10,000	-	19,125	-	-	-	29,125
Balance, December 31, 2009	35,036	744	27,625	1,900,996	-	7,221	1,971,622
Property acquisition and staking	66,240	376	6,000	134,812	-	-	207,428
Shares issued for property	5,000	-	11,000	-	-	-	16,000
Transfer of mineral property	-	-	-	(476,534)	-	-	(476,534)
Write-off of mineral properties	-	-	-	-	-	(7,221)	(7,221)
Balance, December 31, 2010	106,276	1,120	44,625	1,559,274	-	-	1,711,294
<i>Deferred exploration expenditures:</i>							
Balance, December 31, 2008	-	42,881	944	2,611,398	-	-	2,655,223
Geology	19,583	52,446	235,864	175,670	14,237	56,290	554,090
Geophysical	-	41,429	-	-	-	-	41,429
Drilling	-	-	7,742	-	31,003	-	38,745
Sampling	-	-	25,836	-	-	-	25,836
Assaying	-	5,717	44,404	-	2,547	-	52,668
Report preparation	14,931	960	-	11,145	-	9,326	36,362
Data	31,855	-	-	-	-	1,725	33,580
Write-off of deferred exploration	-	-	-	-	(47,787)	(67,341)	(115,128)
Balance, December 31, 2009	66,369	143,433	314,790	2,798,213	-	-	3,322,805
Geology	11,752	42,796	9,952	117,761	-	3,060	185,321
Geophysical	31,595	-	-	-	-	-	31,595
Drilling	241,676	142,645	-	-	-	-	384,321
Sampling	-	-	2,759	-	-	-	2,759
Assaying	11,473	20,826	-	-	-	-	32,299
Report preparation	15,966	375	7,575	-	-	-	23,916
Core storage	-	5,245	-	-	-	2,400	7,645
Transfer of exploration property	-	-	-	(159,135)	-	-	(159,135)
Write-off of deferred exploration	-	-	-	-	-	(5,460)	(5,460)
Balance, December 31, 2010	378,831	355,320	335,076	2,756,839	-	-	3,826,066

Regcourt

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 February 23, 2010 the Company announced that it had acquired an additional 20 claims expanding the property held by the Company by 464.47ha.

Under the terms of the agreement signed on February 25, 2010 the Company is required to pay \$100,000 and issue 300,000 common shares on or before:

- \$5,000 on completion of the compilation report,
- \$5,000 and 100,000 common shares on the date of the approval by the Toronto Stock Exchange of the transaction,
- \$25,000 on the six month anniversary of the payment in (b),
- \$30,000 and 100,000 common shares on the one year anniversary of the payment in (b)
- \$30,000 and 100,000 common shares on the two year anniversary of the payment in (b)

The property is subject to a 2% NSR payable to the optionors, half of which can be purchased for \$1,000,000. To date the Company has satisfied the above obligations from (a) through (d). The final obligation is expected to be settled in October 2011.

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3. Mineral exploration properties and deferred exploration expenditures – (continued)

Montrose

The Company holds one mining lease in Montrose Township, Ontario. During 2001, the Company acquired the lease for 5,000 common shares and a 1% net smelter return royalty ("NSR") on the property subject to the mining lease.

Kellyn Gold

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.

Under the terms of the agreement, the Company is required to pay to the Optionors, subject to the approval of the TSX-V, \$6,000 and 100,000 shares of the Company 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 of \$2,500 and the issuance of 75,000 shares of the Company.

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 Kelly Gold property.

Bottle Creek

During March of 2005, the Company entered into an option agreement with Golden Gryphon Explorations Inc. ("GGE") a private company incorporated in British Columbia. Under the terms of the option agreement, the Company was able to earn a 60% interest in 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 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 the earn-in requirements with respect to the option agreement with GGE by reaching the cumulative US\$2 million exploration spending requirement and by providing the final option payment of US\$200,000 during October 2007. GGE is the operator of the project.

On August 16, 2010 the Company announced that it had decreased its interests from approximately 1700 claims, where in the majority it owned only 50% interest, to 935 claims, where the Company now owns a 60% interest. As part of the reduction in claims the Company settled old outstanding payables with its joint venture partner. As part of the settlement the Company paid a total of \$200,850 USD of which \$51,050 USD related to old outstanding payables and \$149,800 USD related to the August 2010 BLM fees. In exchange the joint venture partner agreed to forgo \$400,000 USD in amounts owing to it by the Company.

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. After the consolidation of Bottle Creek Exploration LLC, the 40% non-controlling interest was \$ Nil.

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4. Convertible debenture

During April 2008, the Company completed a private placement with SIDEX Limited Partnership of an unsecured convertible debenture in the principal amount of \$150,000. The debenture bears interest at 12% per annum and matures on April 29, 2010. The debenture is convertible at the holder's option at \$1.00 per unit into 150,000 units of the Company. If converted, each unit would consist of one common share and one common share purchase warrant.

Each warrant would entitle the holder to purchase one additional common share at a price of \$1.50 per share until April 29, 2010. Interest on the debenture is payable in cash or common shares under certain circumstances, at the option of the Company, subject to TSX Venture approval at the time of any share payment.

The Company has recorded the equity component of this convertible debenture at a value of \$36,000. This amount has been recorded as contributed surplus and was estimated using the Black-Scholes option pricing model with the following assumptions: expected volatility of 80%; risk free interest rate of 2.78%; dividend yield of nil; and an expected life of the convertible debenture of two years.

The debt component of this convertible debenture has initially been recorded at a value of \$114,000. Interest charges sufficient to accrete the discounted value of the debt to its face value at maturity will be charged over the period to maturity in addition to periodic interest payable under the terms of the convertible debenture agreement. Total interest for the year-ended December 31, 2010 was \$11,853 (2009 – \$34,334) of which \$5,853 (2009 – 16,232) was accreted interest charges.

On April 28, 2010 the outstanding principal and interest on the convertible debenture was settled by the Company through the issuance of 1,589,480 common shares of the Company. Refer to Note 5 for more details.

5. Capital stock

Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares with the rights, privileges and restrictions determined by the Board of Directors at the time of issuance.

Issued

	Year ended December 31, 2010		Year ended December 31, 2009	
	Common Shares	Amount	Common Shares	Amount
Balance, beginning of period	18,116,976	\$11,903,887	10,668,868	\$11,392,330
Common shares issued for cash	19,051,304	1,272,731	4,262,500	387,000
Common shares issued for properties	200,000	16,000	275,000	29,125
Common shares issued for settlement of debt	1,589,480	154,866	1,010,608	91,992
Common shares held in escrow	-	-	2,000,000	185,940
Tax effect of flow-through shares	-	(193,400)	-	(182,500)
Balance, end of period	38,957,760	\$13,154,084	18,116,976	\$11,903,887

Note: The dollar value of common shares issued for cash in 2010 has been reduced by share issue costs incurred in 2010 – \$66,500 (2009 – \$40,060).

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.

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5. Capital stock – (continued)

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 \$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 with a deemed value of 11,880 based on a value of \$0.115 per common share.

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 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.

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5. Capital stock – (continued)

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 arranged 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.

Warrants

As at December 31, 2010, the Company had a total of 26,678,304 (2009 – 7,653,538) common share warrants outstanding. Warrant activity is summarized as follows:

	Number	Weighted-Average exercise price	Expiry
Outstanding, December 31, 2008	2,451,038	1.77	December 2009 to March 2013
Issued	1,662,500	0.12	August 2014
Issued	2,600,000	0.15/0.20	October 2011
Issued	1,000,000	0.20	December 2011
Expired	<u>(60,000)</u>	2.00	December 2009
Outstanding, December 31, 2009	7,653,538	0.17	October 2011 to August 2014
Issued	2,000,000	0.15	March 31, 2012
Issued	12,938,000	0.10	August 31, 2012
Issued	4,113,304	0.15	November 30, 2012
Expired	<u>(26,538)</u>	0.20	March 6, 2010
Outstanding, December 31, 2010	<u>26,678,304</u>	0.13	October 2011 to August 2014

As at December 31, 2010, outstanding warrants are as follows:

Number	Exercise price	Expiry
524,000	0.10	October 1, 2012
86,500	0.15	March 1, 2013
254,000	0.20	March 1, 2013
1,000,000	0.20	December 31, 2011
500,000	0.20	March 9, 2013
1,000,000	0.20	December 21, 2012
1,662,500	0.12	August 1, 2014
2,600,000	0.15/0.20	October 1, 2011
2,000,000	0.15	March 31, 2012
12,938,000	0.10	August 31, 2012
<u>4,113,304</u>	0.15	November 30, 2012
<u>26,678,304</u>		

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5. Capital stock – (continued)

During 2010 there were no warrants which were exercised. During 2010, a total of 26,538 warrants expired unexercised. These warrants had an exercise price of \$0.20. During 2009, a total of 60,000 warrants expired unexercised. These warrants had exercise prices ranging from \$2.00.

In January 2009 all the outstanding warrants were re-priced at one tenth of the previous exercise price and the warrant terms extended by 3 years except for the 60,000 warrants which expired unexercised.

Compensation options

The Company provides compensation options to agents who refer investors to the Company. Compensation options are exercisable into equity instruments generally having the same attributes as those purchased by the referred investor. Activity with respect to compensation options is as follows:

	Number	Weighted- Average exercise price	Expiry
Outstanding, December 31, 2008	144,231	1.16	December 2009 to March 2010
Issued	200,000	0.11	December 2011
Expired unexercised	(100,000)	1.10	December 2009
Outstanding, December 31, 2009	244,231	0.33	March 2010 to December 2011
Expired unexercised	(44,231)	1.30	December 2009 to March 2010
Outstanding, December 31, 2010	200,000	0.11	December 30, 2011

As at December 31, 2010, outstanding compensation options are as follows: 200,000 exercisable at \$0.11 expiring December 20, 2011. Compensation options are exercisable for units comprised of a common share and warrant. Potential warrants issuable upon exercise of compensation options above are as follows: 100,000 warrants exercisable at \$0.20 expiring December 30, 2011.

The fair value of compensation options issued have been estimated using the Black-Scholes option pricing model and these values have been recorded as contributed surplus in shareholders' equity and recorded as share issue costs.

The assumptions used for the valuation of compensation options are as follows: dividend yield of nil, expected volatility of 95% to 117%, risk free interest rates ranging from 1.88% to 4.55% and an expected life of the options of one to three years.

Stock options

Under the terms of the Company's stock option plan (the "Plan") all options are granted with an exercise price equal to the closing market price on the day immediately preceding the date of grant. The term of options is determined by the Board of Directors and is typically three or five years with a maximum term of 10 years. Option issued to consultants who perform investor relations activities will be subject to a vesting schedule whereby no more than 25% of the options granted may vest in any three month period. The maximum number of options authorized for issue shall be 10% of the outstanding shares in issue at the date of the option grant.

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5. Capital stock – (continued)

Stock option activity is as follows:

	Number	Weighted- Average exercise price	Expiry
Outstanding, December 31, 2008	427,500	1.15	January 2009 to June 2013
Granted	680,000	0.10	July 2014 to September 2019
Expired	(94,000)	1.00	January 2009 to November 2009
Forfeited	(110,000)	0.50	September 2009 to June 2013
Outstanding, December 31, 2009	903,500	0.45	June 2013 to September 2019
Granted	2,764,000	0.10	March 2015 to December 2015
Granted	265,000	0.11	November 30, 2015
Expired	(32,500)	1.05	June 1, 2010
Forfeited	(199,500)	0.44	Dec. 2012 to Dec. 2015
Outstanding, December 31, 2010	3,700,500	0.17	June 2013 to September 2019

As at December 31, 2010 outstanding stock options were as follows:

Exercise Price \$	Options outstanding		Options exercisable		
	Number of options	Weighted-average remaining contractual life (years)	Number of options	Weighted-average remaining contractual life (years)	Expiry
1.50	97,500	0.4	97,500	0.4	June 2011
1.00	10,000	1.7	10,000	1.7	September 2012
1.00	10,000	1.9	10,000	1.9	December 2012
1.00	106,000	2.4	106,000	2.4	June 2013
0.10	325,000	8.0	325,000	8.0	January 2019
0.10	125,000	3.5	125,000	3.5	July 2014
0.10	50,000	3.7	50,000	3.7	September 2014
0.10	762,000	4.9	762,000	4.9	December 2015
0.10	150,000	4.2	150,000	4.2	March 2015
0.10	1,800,000	4.7	1,800,000	4.7	September 2015
0.11	265,000	4.9	265,000	4.9	November 2015
	<u>3,700,500</u>	4.8	<u>3,700,500</u>	4.8	

During February 2010 the Company granted 814,000 stock options having an exercise price of \$0.10 and expiring on March 1, 2015. On March 31, 2010, 35,000 and 15,000 stock options were forfeited with exercise prices of \$0.10 and \$1.00 respectively.

On April 8, 2010 the Company granted 150,000 stock options having an exercise price of \$0.10 and expiring on March 31, 2015. On June 1, 2010 32,500 stock options expired unexercised with a exercise price of \$1.05.

On September 14, 2010 the Company granted 1,800,000 stock options having an exercise price of \$0.10 and expiring on September 1, 2015.

On December 2, 2010 the Company granted 265,000 stock options having an exercise price of \$0.11 and expiring on November 30, 2015.

During January 2009 the Company granted 480,000 stock options having an exercise price of \$0.10 and expiring on January 15, 2019. The Company granted an additional 150,000 stock options on July 30, 2009, expiring July 14, 2014 as well as 50,000 stock options on September 24, 2009, expiring September 23, 2014, both with an exercise price of \$0.10.

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5. Capital stock – (continued)

Stock-based compensation

During the year ended December 31, 2010, the Company recognized a total of \$325,671 (2009 - \$67,162) relating to stock-based compensation for stock options. That total is recorded in contributed surplus with \$306,731 (December 2009 - \$55,708) recorded in expense and \$18,940 (December 2009 - \$11,454) capitalized to deferred exploration costs. These values were determined using the Black-Scholes option pricing model with the following assumptions:

	<u>2010</u>	<u>2009</u>
Expected volatility	170% - 171%	80% - 117%
Expected option life (in years)	5.0	5.0 – 10.0
Risk-free interest rate	2.01% - 2.90%	2.66% - 3.31%
Expected dividend yield	0%	0%

Fair values computed using the Black-Scholes model are estimates of the potential value of the individual stock options. The Company does not make any cash payments in connection with stock option transactions.

Contributed Surplus

Amounts recorded in contributed surplus in shareholders' equity relate primarily to the fair value of stock options and compensation options. Activity with respect to contributed surplus is summarized as follows:

	<u>\$</u>
Balance, December 31, 2008	776,792
Issuance of compensation options	12,060
Stock option charges	67,162
Balance, December 31, 2009	856,014
Stock option charges	325,671
Balance, December 31, 2010	1,181,685

6. Income taxes

A reconciliation of the combined Canadian federal and provincial income tax rate with the Company's effective tax rate is as follows.

	<u>Year ended December 31, 2010 \$</u>	<u>Year ended December 31, 2009 \$</u>
Loss before income taxes	(1,029,583)	(811,505)
Statutory rate	29.0%	31.0%
Expected recovery of income tax	(299,000)	(252,000)
Non-deductible amounts	93,000	26,000
Effect of change in enacted future tax rates	(10,700)	102,500
Effect of expired tax losses	151,300	89,000
Change in valuation allowance	(128,000)	(148,000)
Recovery of future income taxes	(193,400)	(182,500)

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6. Income taxes – (continued)

Significant components of the Company's future income tax assets and liabilities are as follows:

	December 31, 2010 \$	December 31, 2009 \$
Future income tax assets		
Net operating loss carry forwards	642,000	671,000
Tax effect of flow through shares	-	-
Valuation allowance	(501,000)	(629,000)
Future income tax liabilities	141,000	42,000
Accrued basis differences and tax effect of flow-through shares flow-through shares	(141,000)	(42,000)
Net future income tax liability	-	-

As at December 31, 2010, the Company has loss carry forward balances which are available to offset future years' taxable income.

These carry forward balances expire as follows:

Year of Expiry	Amount \$
2014	238,000
2015	210,000
2026	283,000
2027	299,000
2028	434,000
2029	613,000
2030	490,000
	2,567,000

The potential tax benefit in relation with those losses is not recorded.

7. Related party transactions

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.

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7. Related party transactions – (continued)

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.

8. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable and accounts payable and convertible debenture approximating fair value due to the short term nature.

The Company's activities potentially expose it to a variety of financial risks, including credit risk, foreign currency risk, liquidity risk and market risk.

Credit risk

Credit risk arises due to the potential for one party to a financial instrument to fail to discharge its obligations and cause the other party to suffer a loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, accounts receivable and exploration advances. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company holds its cash and cash equivalents and marketable securities with financial institutions that are believed to be creditworthy.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as all amounts are held at a single major Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows: Bank accounts as at December 31, 2010, \$ 222,345 (2009 - \$ 24,949).

Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting. The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company as at December 31, 2010 had \$ 9,506 payables and accruals in US dollars.

Liquidity risk

Liquidity risk arises when adequate funds cannot be raised to settle liabilities and commitments when they become payable. The Company manages its liquidity by maintaining adequate cash and cash equivalents and marketable securities to meet anticipated cash needs. The Company maintains sufficient cash and cash equivalents at December 31, 2010 in the amount of \$222,345 and amounts receivable of \$51,556 in order to meet short-term liabilities. At December 31, 2010, the Company had accounts payable and accrued liabilities of \$340,963, which will be settled in fiscal 2011. The Company will require significant cash requirements to meet its administrative overhead costs and flow through obligations and maintain its mineral interests in 2011. This will require the Company to obtain additional financing in 2011 to continue exploration work on the mineral properties.

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8. Financial instruments – (continued)

Commodity and Market risk

Market risk is the risk of loss that arises from unfavorable changes in the quoted market price of market-traded financial instruments. The Company's marketable securities are subject to market risk. Commodity price risk is defined as the potential adverse impact on economic value due to commodity price movements and volatilities.

Sensitivity analysis

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

- Cash and cash equivalents. If interest rates were to change by 1%, the increase or decrease in the net loss would not be significant to the Company's results.
- The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.
- Price risk is remote since the Company is not a producing entity.

Fair value of financial instruments

The fair value of the financial assets and financial liabilities and cash are close to their book value because of their short expiring period.

9. Segmented information

The Company's operations comprise one reportable segment being the exploration of mineral resource properties. The Company's corporate and administrative offices are in Canada. The Company's exploration projects are in Canada and in the United States. Capital assets segmented by geographic area are as follows:

	December 31, 2010			December 31, 2009		
	Exploration advances \$	Mineral exploration Properties \$	Deferred exploration expenditures \$	Exploration advances \$	Mineral exploration properties \$	Deferred exploration expenditures \$
Canada	-	152,021	1,069,227	36,725	70,626	524,592
United States	-	1,559,274	2,756,839	20,567	1,900,996	2,798,213
	-	1,711,295	3,826,066	57,292	1,971,622	3,322,805

10. Contingencies

- A) 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.
- B) 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.
- C) 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.

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10. Contingencies (continued)

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.

11. Capital management

The Company's capital structure has been defined by management as being comprised of shareholders' equity which totals \$5,471,799 (2009 - \$4,732,114). The Company's objectives when managing its capital structure are to preserve the Company's access to capital markets and its ability to meet its financial obligations and to finance its exploration activities and general corporate costs.

The Company monitors its capital structure using annual forecasted cash flows, exploration budgets and targets for the year as well as corporate capitalization schedules.

The Company currently has no source of revenues; as such the Company is dependent upon external financing to fund its activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, to maintain flexibility while achieving the objectives stated above as well as support future business opportunities. To manage the capital structure, the Company may adjust its exploration programs, operating expenditure plans, or issue new common shares and warrants.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

There were no changes in the Company's approach to capital management for the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements. However funds raised under flow-through agreements which were renounced by the Company to the CRA are restricted in use and must be spent on eligible exploration expenses.

12. Flow through common shares and commitments

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).

13. Supplemental cash flow information

	December 31, 2010	December 31, 2009
	\$	\$
Non-cash transactions		
Shares issued for properties	16,000	29,125
Share issuance costs	39,780	12,060
Stock based compensation capitalized to mineral properties	18,940	11,454
Settlement of accounts payable on transfer of mineral property	430,065	-
Gain on settlement of debt with shares	-	1,980
Shares issued for debt and interest	154,866	91,942
Shares in escrow	-	220,000

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14. Subsequent events

On January 12, 2011 the Board of Directors of the Company agreed to transfer Galahad Metals Inc.'s interest in its Bottle Creek project into a wholly owned subsidiary Red Ore Gold Inc. for consideration of \$0.50 per share for every dollar Galahad invested in the project.

On January 13, 2011 the Company incorporated a wholly owned subsidiary Red Ore Gold Inc. under the British Columbia Business Corporations Act.

On January 31, 2011 the Company announced that the completion of a private placement. The Company raised a total of \$822,500 through the sale of 5,483,000 non flow through units at a price of \$0.15 per unit. Each unit consists of one warrant to purchase a common share at \$0.25 expiring on January 31, 2013. The Company paid a finders fee in the combination of cash and the issuance of non flow through units equal to \$6,900 and 117,814 respectively.

On January 20, 2011 investors in the Company exercised 200,000 warrants at a price of \$0.10 per warrant for cash proceeds of \$20,000. The warrants had a maturity date of August 31, 2012.

On January 25, 2011 investors in the Company exercised 100,000 warrants at a price of \$0.10 per warrant for cash proceeds of \$10,000. The warrants had a maturity date of August 31, 2012.

On February 2, 2011, the Board of Directors approved the grant of 878,000 stock options at a price of \$0.15 expiring January 31, 2016 to directors, officers and consultants of the Company.

On February 3, 2011, one of the consultants of the Company resigned and forfeited 25,000 stock options with an exercise price of \$0.15 expiring January 31, 2016.

On February 4, 2011 investors in the Company exercised 1,730,000 warrants at a price of \$0.10 per warrant for cash proceeds of \$173,000. The warrants had a maturity date of August 31, 2012.

On February 16, 2011 investors in the Company exercised 227,500 warrants at a price of \$0.10 per warrant for cash proceeds of \$22,750. The warrants had a maturity date of August 31, 2012.

On February 24, 2011 investors in the Company exercised 20,000 warrants at a price of \$0.10 per warrant for cash proceeds of \$2,000. The warrants had a maturity date of October 1, 2012.

On February 28, 2011 investors in the Company exercised 42,500 warrants at a price of \$0.10 per warrant for cash proceeds of \$4,250. The warrants had a maturity date of October 1, 2012.

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 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.

On March 28, 2011, the Company announced that it had 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.

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.

Upon completion of the transfer of the Bottle Creek interest, it is anticipated that Red Ore will:

- 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;

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14. Subsequent events (continued)

- 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.

On April 2011, Red Ore Gold Inc. a wholly owned subsidiary of Galahad Metals 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.
