

Galahad Metals Inc.

(a Development Stage Company)

Unaudited Financial Statements

March 31, 2011 and 2010

(expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The unaudited consolidated interim financial statements of Galahad Metals Inc. (A Development Stage Company) are the responsibility of the Board of Directors.

The unaudited interim consolidation financial statements have been prepared by management, on behalf of the Board of directors, in accordance with the accounting policies disclosed in the notes to these financial statements. Where necessary management has made informed judgements and estimates in accounting for transactions which were not complete at the financial position date. In the opinion of management, the unaudited interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standard 1.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (I) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited interim consolidated financial statements and (II) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as at the date of and for the periods presented by the unaudited interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

signed "Robin Dow"
Robin Dow
Chief Executive Officer
Ottawa, Ontario
June 29, 2011

signed "Sabino Di Paola"
Sabino Di Paola
Chief Financial Officer

Galahad Metals Inc.

(a Development Stage Company)

Unaudited Interim Consolidated Statement of Financial Position

(expressed in Canadian dollars)

	Notes	As at March 31, 2011	As at March 31, 2010	As at December 31, 2010 (note 25)	As at January 1, 2010 (note 25)
Assets					
Current assets:					
Cash and cash equivalents	3	1,828,689	115,434	223,441	24,949
Amounts receivable	4	76,499	21,656	52,521	236,331
Prepaid expenses		45,769	1,342	1,500	1,375
Total current assets		1,950,957	138,432	277,462	262,655
Non-current assets:					
Reclamation bond	6	17,950	-	-	-
Exploration advances	5	-	20,566	-	57,292
Total non-current assets		17,950	20,566	-	57,292
Total assets		1,968,907	158,998	277,462	319,947
Liabilities and shareholders' equity					
Current liabilities:					
Accounts payable and accrued liabilities	8	378,139	606,962	144,614	550,803
Provisions	9	223,576	207,521	217,017	191,444
Borrowings		-	144,381	-	140,013
Total current liabilities		601,715	958,864	361,631	882,260
Deferred tax liability	10	39,091	-	-	-
Total Liabilities		640,806	958,864	361,631	882,260
Shareholders' equity					
Share capital	11	15,943,786	12,989,229	14,321,789	12,878,229
Contributed surplus	11	1,289,319	902,119	1,160,480	838,172
Other reserves		181	-	531	-
Deficit		(17,209,417)	(14,691,214)	(16,506,363)	(14,278,714)
		23,869	(799,867)	(1,023,564)	(562,313)
Shares of wholly owned subsidiary to be issued	19	347,499	-	-	-
Non-controlling interest	19	956,734	-	939,394	-
Total non-controlling interest		1,304,233	-	939,394	-
Total shareholders' equity		1,328,102	(799,867)	(84,169)	(562,313)
Total liabilities and shareholders' equity		1,968,907	158,998	277,462	319,947
Contingencies					
Nature of operations and going concern	1				

The notes to the unaudited interim consolidated financial statements are an integral part of these statements

Approved by the Board of Directors:

signed "Robin Dow"
Director

signed "Robert W. Schellenberg, Jr."
Director

Galahad Metals Inc.

(a Development Stage Company)

Unaudited Interim Consolidated Statement of Comprehensive Loss

(expressed in Canadian dollars)

	Notes	March 31 2011	March 31 2010 (Note 25)
Expenses			
Management and Director fees	16	96,250	12,000
Promotion & investor conference		79,309	19,338
Regulatory, exchange, AGM, press release and transfer agent fees		19,666	13,133
Professional fees		119,011	19,295
General and administrative	14	52,364	31,114
Stock option expense	13	128,839	51,392
Exploration and evaluation expenditures	7	151,790	241,283
Compensation shares	19	72,500	-
Part XII.6 tax	9	6,559	16,077
		<u>(726,289)</u>	<u>(403,632)</u>
Other expenses			
Finance costs		(600)	(8,868)
Foreign exchange loss		(762)	-
		<u>(1,362)</u>	<u>(8,868)</u>
Net loss before tax for the year		(727,651)	(412,500)
Recovery of future income taxes	10	1,209	-
Net loss for the year		<u>(726,442)</u>	<u>(412,500)</u>
Other comprehensive loss for the period			
Foreign currency translation adjustment		582	-
Total Comprehensive loss for the period		<u>(727,024)</u>	<u>(412,500)</u>
Net loss attributable to:			
Owners of the parent		(703,054)	(412,500)
Non-controlling interest		(23,388)	-
Net loss for the period		<u>(726,442)</u>	<u>(412,500)</u>
Total Comprehensive loss attributable to:			
Owners of the parent		(703,636)	-
Non-controlling interest		(23,388)	-
Total Comprehensive loss		<u>(727,024)</u>	<u>-</u>
Earnings per share			
Loss per common share:			
Basic and diluted	15	<u>(0.02)</u>	<u>(0.02)</u>
Weighted average number of common shares outstanding:			
Basic and diluted		<u>44,378,923</u>	<u>18,296,976</u>
Nature of operations and going concern	1		

The notes to the unaudited interim consolidated financial statements are an integral part of these statements

Galahad Metals Inc.

(a Development Stage Company)

Unaudited Consolidated Statement of Changes in Equity

(expressed in Canadian dollars)

	Reserves					Non controlling interest	Total
	Share Capital	Accumulated other comprehensive income	Contributed surplus	Deficit	Attributable to owners of the parent		
Balance at 1 January 2010	12,878,229	-	838,172	(14,278,714)	(562,313)	-	(562,313)
Net loss for the year	-	-	-	(2,853,653)	(2,227,649)	(626,004)	(2,853,653)
Cumulative translation adjustment	-	885	-	-	531	354	885
Issuance of common shares for cash	783,594	-	-	-	783,594	-	783,594
Issuance of flow-through common shares	555,600	-	-	-	555,600	-	555,600
Common shares issued for mineral properties	16,000	-	-	-	16,000	-	16,000
Common shares issued on settlement of debt	154,866	-	-	-	154,866	-	154,866
Stock options granted	-	-	322,308	-	322,308	-	322,308
Incorporation of subsidiary	-	-	-	-	-	1,565,045	1,565,045
Cost of issuance of common shares	(66,500)	-	-	-	(66,500)	-	(66,500)
Balance at 31 December 2010	14,321,789	885	1,160,480	(17,132,367)	(1,023,564)	939,394	(84,169)
Net loss for the period	-	-	-	(726,442)	(703,054)	(23,388)	(726,442)
Cumulative translation adjustment	-	(582)	-	-	(350)	(232)	(582)
Issuance of common shares for cash	1,064,697	-	-	-	1,064,697	-	1,064,697
Issuance of flow-through common shares	564,200	-	-	-	564,200	-	564,200
Common shares to be issued by a subsidiary	-	-	-	-	-	347,499	347,499
Additional contribution by non-controlling interest	-	-	-	-	-	40,960	40,960
Stock options granted	-	-	128,839	-	128,839	-	128,839
Cost of issuance of common shares	(6,900)	-	-	-	(6,900)	-	(6,900)
Balance at 31 March 2011	15,943,786	303	1,289,319	(17,858,809)	23,869	1,304,233	1,328,102

The notes to the unaudited interim consolidated financial statements are an integral part of these statements

Galahad Metals Inc.

(a Development Stage Company)

Unaudited Consolidated Statement of Changes in Equity

(expressed in Canadian dollars)

	Share Capital	Reserves		Deficit	Total
		Other reserves	Contributed surplus		
Balance at 1 January 2010	12,878,229	-	838,172	(14,278,714)	(562,313)
Net loss and comprehensive loss for the period	-	-	-	(412,500)	(412,500)
Issuance of common shares for cash	100,000	-	-	-	100,000
Issuance of flow-through common shares	-	-	-	-	-
Common shares issued for mineral properties	11,000	-	-	-	11,000
Common shares issued on exercise of stock options	-	-	-	-	-
Common shares issued on settlement of debt	-	-	-	-	-
Stock options granted	-	-	63,947	-	63,947
Cost of issuance of common shares	-	-	-	-	-
Balance at 31 March 2010	12,989,229	-	902,119	(14,691,214)	(799,867)

Nature of operations and going concern

The notes to the unaudited interim consolidated financial statements are an integral part of these statements

Galahad Metals Inc.

(a Development Stage Company)

Unaudited Interim Consolidated Statements of Cash Flow

(expressed in Canadian dollars)

	Three month period Ending March 31 2011 \$	Three month period Ending March 31 2010 \$
Cash flow from operating activities		
Net loss for the period before tax	(726,442)	(412,500)
Adjustments to reconcile loss to net cash used in operating activities:		
Unrealized foreign exchange gain	1,449	-
Finance costs	600	8,868
Common shares issued as compensation	72,500	-
Recovery of future income taxes	(1,209)	-
Stock based compensation expenses	128,839	51,392
Accretion on convertible debt	-	4,368
Change in non-cash working capital items:		
Amounts receivable	(23,978)	(5,325)
Prepaid expenses	(44,269)	33
Exploration advances	-	36,726
Reclamation bond	(17,950)	-
Part XII.6 tax payable	6,559	16,077
Deferred tax liability	39,091	-
Accounts payable and accrued liabilities	233,362	56,159
Cash generated from operations	(331,449)	(244,202)
Income tax paid	-	-
Total cash (outflows) from operating activities	(331,449)	(244,202)
Cash flows from investing activities		
Net cash acquired on acquisition of subsidiary	-	23,555
Total cash (outflows) from investing activities	-	23,555
Cash flows from financing activities		
Finance costs	(600)	(8,868)
Issuance of common shares and warrants for cash	1,669,197	320,000
Shares to be issued by a subsidiary	275,000	-
Share issue costs	(6,900)	-
Total cash inflows from financing activities	1,936,696	311,132
Total increase (decrease) in cash during the period	1,605,248	90,485
Cash and cash equivalents - Beginning of period	223,441	24,949
Cash and cash equivalents - End of period	1,828,689	115,434
	1,828,689	115,434

The notes to the unaudited interim consolidated financial statements are an integral part of these statements

Galahad Metals Inc.

Notes to the Consolidated Financial Statements

March 31, 2011 and 2010

(Expressed in Canadian Dollars)

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 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.

The Group are development stage junior mining companies 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 Group 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 Group to obtain the necessary financing to complete the development of economically recoverable reserves, the ability of the Group 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.

Galahad's common shares are listed on the TSX Venture Exchange under the symbol GAX. As at March 31, 2011 Red Ore Gold Inc. and Bottle Creek Exploration LLC's common shares were not listed on any exchange. The primary office of the Group is located at 2746 St Joseph Blvd Suite 100, Orleans, Ontario, Canada, K1C1G5

The unaudited consolidated interim financial statements were approved by the Board of Directors on July **XX, 2011**.

Going concern

These interim consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern which assumes that the Group 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 Group has incurred losses from operations and has had negative cash flow from operating activities. As at March 31, 2011, the Group had total cash and cash equivalents of **\$1,828,689** (December 2010 - **\$223,441**) of which **\$1,334,050** (December 2010 - **\$192,429**) is restricted (see note 3) to direct exploration costs in Canada and **\$352,758** (December 2010 - **\$1,102**) reserved for exploration in Nevada. The Group 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 Group 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 Group to date there is, however, no assurance that additional funding will be available to the Group, or that, when it is required it will be available on terms which are acceptable to management.

Galahad Metals Inc.
Notes to the Consolidated Financial Statements
March 31, 2011 and 2010
(Expressed in Canadian Dollars)

1. Nature of operations and going concern – (continued)

These interim 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.

2. Significant accounting policies

Basis of accounting

Galahad Metals Inc. and its subsidiary are presenting unaudited interim consolidated financial statements as of and for the three month period ended March 31, 2011.

The unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), IAS 34 *Interim financial reporting* as issued by the International Accounting Standards Board ("IASB"). The financial information is prepared under the historical cost convention and in accordance with the recognition and measurement principles contained within IFRSs. IFRS 1 First-Time Adoption of IFRS has been applied and the impact of the transition from Canadian GAAP to IFRS is explained in note 25.

Overall consideration and first time adoption of IFRS

The Group's unaudited interim consolidated financial statements have been prepared using accounting policies specified by those International Financial Reporting Standards (IFRS) that are in effect for the three month period ended March 31, 2011 (reporting period).

The significant accounting policies that have been applied in the preparation of these unaudited interim consolidated financial statements are summarized below.

First time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Group will apply the mandatory exemptions. The exemptions to be adopted by the Group are set out below:

Mandatory exceptions to be adopted by the Group

- Financial assets and liabilities that had been de-recognized before January 1, 2005 under the previous GAAP have not been recognized under IFRS.
- The Group 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 the Group

- The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the transition date of January 1, 2011.
- The Group 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.
- The Group has elected to maintain the designations of its financial instruments at the date of transition. The Group has also taken the exemption to designate some financial instruments at fair value through profit or loss.
- The Group has elected to apply IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by January 1, 2011. Further, the Group will apply IFRS 2 on all liabilities arising from share-based payment transactions that existed at January 1, 2011.
- The Group 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.

The accounting policies have been used throughout all periods presented in these unaudited interim consolidated financial statements, except where the Group has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Group and the effects of the transition to IFRS are presented in note 24.

Presentation of consolidated financial statements in accordance with IAS 1

Galahad Metals Inc.
Notes to the Consolidated Financial Statements
March 31, 2011 and 2010
(Expressed in Canadian Dollars)

2. Significant accounting policies – (continued)

The unaudited interim consolidated financial statements are presented in accordance with IAS 1 *Presentation of Financial Statements*. The Group has elected to present the Statement of Comprehensive loss in one statement.

Statement of Compliance and Conversion to International Financial Reporting Standards (“IFRS”)

These are the Group's first IFRS interim unaudited consolidated financial statements to be presented in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) for the period ending March 31, 2011. IFRS 1 First-Time Adoption of IFRS has been applied. Given that this is the Group's first set of interim consolidated financial statements since adoption of IFRS the Group has applied IFRS and the impact of the transition from Canadian GAAP to IFRS is explained in Note 24.

Basis of presentation

These interim unaudited consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. In addition these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of Consolidation

The Group's financial statements consolidate those of the parent company and its subsidiaries as at March 31, 2011. Red Ore Gold Inc. and Bottle Creek Exploration LLC have reporting dates of March 31, 2011.

The financial statements of the subsidiaries are prepared using consistent accounting policies as the parent. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

The subsidiaries are fully consolidated from the date of acquisition, being the date on which Galahad obtains control, and continues to be consolidated until the date that such control ceases.

Red Ore Gold Inc., subsidiary Bottle Creek Exploration LLC, has a 40% minority interest owned by a company at arm's length with Galahad and its subsidiary. The Minority interest represents the portion of the subsidiary's profit or loss and net assets which is not held by the group. If losses in the subsidiary applicable to a minority interest exceed the minority interest in the subsidiaries equity, the excess is allocated to the majority interest except to the extent that the minority has a binding legal obligation and is able to cover the losses.

Use of estimates

The preparation of the interim consolidated financial statements in conformity with International Financial Reporting Standards 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 interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

Significant estimates about the future that management has used in the preparation of these interim consolidated financial statements that could result in a material adjustment to the carrying amount of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The recoverability of accounts receivable that are included in the interim consolidated statement of financial position;
- The provision for income tax and the composition of future income tax assets and liabilities in the consolidated statement of financial position;
- Management assumption of no material restoration, rehabilitation and environmental obligations, based on the facts and circumstances that existed during this reporting period;

Galahad Metals Inc.
Notes to the Consolidated Financial Statements
March 31, 2011 and 2010
(Expressed in Canadian Dollars)

2. Significant accounting policies – (continued)

- Managements assumption that activities relating to its exploration and evaluation properties have not yet reached a stage where the Group's activities permits a reasonable assessment of reserves, and therefore all exploration and evaluation expenditures incurred during this reporting period are reflected in consolidated statement of loss;
- The impairment of assets that are included in the interim consolidated statement of financial position;
- Contingencies listed in the notes to the interim unaudited consolidated financial statements will only be resolved when one or more future events occur or fail to occur. Management's assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Cash

Cash in the statement of consolidated financial position comprise cash at banks. The Group's cash is invested with major financial institutions in business accounts. The Group does not invest in any asset-backed deposits/investments.

Exploration and evaluation expenditures

Exploration and evaluation expenditure relates to costs incurred on the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration and evaluation expenditures for each area of interest are expensed in the year in which they are incurred.

Purchased exploration and evaluation assets are expensed at their cost of acquisition or at fair value if purchased as part of a business combination.

Impairment

Mining property assets are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the Group measures, presents and discloses any resulting impairment loss in the consolidated statement of comprehensive loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognized as income immediately.

Mining properties options agreements

From time to time, the Group 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 in the consolidated statement of financial position. Option payments are recorded as mining properties costs or recoveries when the payments are made or received.

Tax credits and mining rights receivable

For tax credits and mining rights receivable relating to eligible exploration expenditures, the Group has elected the policy of including them in "other income" in the period in which it is more likely than not that the Group will be receiving the tax credit or mining rights receivable.

Galahad Metals Inc.
Notes to the Consolidated Financial Statements
March 31, 2011 and 2010
(Expressed in Canadian Dollars)

2. Significant accounting policies – (continued)

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars (“\$” or “C\$”), which is the functional and presentation currency for Red Ore. The functional for Bottle Creek Exploration LLC is the United States dollar (“US\$”).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated.

In the Group’s consolidated financial statements, all assets and liabilities of its subsidiary are translated at the yearend exchange rate into Canadian dollars upon consolidation. Income and expenditure amounts are translated into Canadian dollars at the average exchange rate for the year. All exchange differences arising from the translation into the reporting currency are recorded in the cumulative translation account as part of other comprehensive income in the statement of comprehensive loss.

Segment reporting

In identifying its operating segments, management generally follows the geographical location of the Group’s projects, which represents the main zones in which the Company has operations.

The activities undertaken by all of the operating segments are exploration and evaluation of mineral resources. Each of these operating segments is managed separately as each of these segments requires resources allocated specifically to the projects as well as different marketing approaches for potential joint ventures and financings.

Corporate assets, liabilities as well as profit and loss, which are not directly attributable to the business activities of any operating segment, are not allocated to a segment. In the financial periods under review, this primarily applies to the Group’s head office in Ottawa.

Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Timing or the amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Any reimbursement that the group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However the asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are not recognized for future operating losses.

Galahad Metals Inc.
Notes to the Consolidated Financial Statements
March 31, 2011 and 2010
(Expressed in Canadian Dollars)

2. Significant accounting policies – (continued)

Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development and ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of each asset, as soon as the obligations to incur such costs arise. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. The costs are charged against the profit and loss over the economic life of the related asset through amortization, using either a unit-of-production or the straight line method as appropriate.

The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount of timing of the underlying cash flows needed to settle the obligation.

Costs of restoration of subsequent site damage that is created by the ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses

The Group had provisions for Part XII.6 taxes payable of \$223,576 as at March 31, 2011 and \$217,017 as at December 31, 2010.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Equity reserves

Share capital represents the nominal value of the shares issued.

Contributed Surplus includes any stock option credits and other share based remuneration issued to directors, officers and contractors.

Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefit.

Accumulated comprehensive income includes all transactions recorded in other comprehensive income/loss on an accumulated basis.

Non controlling interest includes the portion of the consolidated loss belonging to the non controlling interest of the Company's subsidiary, Bottle Creek Exploration LLC.

Deficit includes all current and prior period losses.

Warrants

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

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

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2. Significant accounting policies – (continued)

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in the statement of comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value of the equity instruments issued is measured by the use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share-based options are reflected in contributed surplus until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Group immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Flow through shares

Flow-through shares are a unique Canadian tax incentive. They are the subject of specific guidance under US GAAP, but there is no equivalent IFRS guidance. Therefore, the Group has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted 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 the investors and is then recognized as a future income tax recovery in the period of renunciation if the Group has sufficient unrealized tax losses and deductions.

Income taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in the statement of comprehensive loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income/loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Group reassesses unrecognized deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Loss per share

Basic earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

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2. Significant accounting policies – (continued)

Financial instruments

Financial Assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity, available for sale or held for trading, as appropriate. The Group determines the classification of its financial asset at the initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs.

Purchases or sales of financial assets that require the delivery of assets within a time frame established by regulation or convention in the marketplace are recognized on the trade date.

The Group's financial assets include cash and amounts receivables.

Subsequent measurement

a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss includes financial assets held for trading, and financial assets designated upon initial recognition at fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of comprehensive income.

The Group has designated cash upon initial recognition as at fair value through profit or loss.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is accounted by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in finance costs.

The Group has designated amounts receivable as loans and receivables.

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

The rights to receive cash flows from the asset have expired; and

The Group has transferred its rights to receive cash flows from the asset or has assumed the obligation to pay the received cash flows in full without material delay to a third party under "pass-through" arrangement; and either, a) the company has transferred substantially all of the risks and rewards of the asset, or b) the company has neither transferred nor retained substantially all of the risks are rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred not retained substantially all of the risks or rewards of the asset, nor is transferred control of the asset, the asset recognized to the extent of the Group's continuing involvement with the asset.

In that case, the Group will also recognize an associated financial liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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2. Significant accounting policies – (continued)

Impairment of financial assets

The Group assess at the reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indicators that the debtor is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganizations and where observable data indicates that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, The Group first assess individually whether objective evidence of impairment exists individually for financial assets which are individually significant, or collectively for financial assets which are not individually significant. Assets which are individually assessed for impairment for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of the estimated cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive loss.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or as loans and borrowings. The Group determines the classification of its financial liabilities at the initial recognition, as appropriate.

All financial liabilities are measured at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities includes, accounts payable and accrued liabilities, provisions, deferred tax liability and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

a) **Loans and borrowings**

After initial recognition loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when a financial liability is derecognized, as well as through the amortization process. Amortization process is calculated by taking into account any discount or premium paid on acquisition and fees or costs that are an integral part of the effective interest rate. The amortization is included in finance costs in the statement of comprehensive income.

The Group has designated accounts payable and accrued liabilities and amounts due to the parent company as loans and borrowings.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

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2. Significant accounting policies – (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deductions for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arms length market transactions, reference to the current fair value of a similar instrument, discounted cash flow analysis or other valuation model.

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted market prices in active markets for identical assets and liabilities.
- Level 2 – valuation techniques based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data.

Cash, recognized in the consolidated statement of financial position at fair value, is classified following level 1.

Standards, Amendments and Interpretations Not Yet Effective

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning January 1, 2011 and have not been early adopted:

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning January 1, 2011 and have not been early adopted:

1) IFRS 7, Financial Instruments: Disclosures, amendments regarding Disclosures — Transfers of Financial Assets:

The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

The amendments are effective for annual periods beginning on or after 1 July 2011. The Group is currently evaluating the impact that the application of the new standard may have on the presentation of its financial position and results of operations.

2) IFRS 9, Financial Instruments:

This amendment addresses the classification and measurement of financial assets. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Application of IFRS 9 is mandatory for annual periods beginning on or after January 1, 2013. The Group is currently evaluating the impact that the application of the new standard may have on the presentation of its financial position and results of operations.

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3. Cash position

	As at March 31, 2011 (CAD \$)	As at December 31, 2010 (CAD \$)	As at January 1, 2010 (CAD \$)
Cash and cash equivalents	776,881	29,910	24,391
Restricted cash (a)	699,050	192,429	558
Reserved cash (b)	352,758	1,102	-
Total Cash	1,828,689	223,441	24,949

- (a) Restricted cash is funds which have been raised in private placements through the issuance of flow through shares. All funds raised by the Group through the issuance of flow through shares are restricted in use for exploration and evaluation activities in Canada.
- (b) Reserved cash is funds which have been raised in private placements of Red Ore Gold Inc. ("RXX") as well as contributions made by RXX and Golden Gryphon Exploration USA into Bottle Creek Exploration LLC. All funds reserved are to be used in the exploration and evaluation of mineral properties located in the USA.

Cash earns interest at floating rates based on the daily bank deposit rates.

As at March 31, 2011, US\$96,295 was included in the cash of the Group. This amount has been translated into C\$ at using the closing exchange rate on March 31, 2011.

4. Amounts receivable

	As at March 31, 2011 (CAD \$)	As at December 31, 2010 (CAD \$)	As at January 1, 2010 (CAD \$)
Sales tax receivable	62,869	47,442	14,193
Subscription receivable	-	-	220,000
Other receivables	2,101	965	-
Shared costs receivable	11,529	4,114	2,138
Total amounts receivable	76,499	52,521	236,331

Amounts receivable are non-interest bearing and are generally on 30-90 day terms.

5. Exploration advances

Exploration advances represent deposits paid for future exploration activities. The Group has exploration advances, as at March 31, 2011, of \$ **NIL** (March 2010 – **20,566**).

6. Reclamation Bond

On February 4, 2011 Bottle Creek Exploration LLC, a subsidiary of Galahad Metals Inc. remitted a bond in the amount of US\$ 18,794 to the Bureau of Land Management ("BLM") in the United States. The bond was required in order to obtain the right for disturbance of public land in Nevada at seventeen drill locations identified by the Company. The bond does not relieve the Company of the potential environmental liabilities for improper disposal of hazardous waste, unauthorized disposal of debris, the spilling of oil, noxious fluids and chemicals on the ground. Once the drill program is completed and the status of the site reviewed by the BLM, the Company is eligible to recover all or part of the bond remitted dependant on the existing condition of the drill site.

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7. Deferred exploration and evaluation expenditures

a) Mineral acquisition costs

	Regcourt	Montrose	Kellyn Gold	Bottle Creek	Total
	\$	\$	\$	\$	\$
<i>Mineral acquisition costs by property:</i>					
Balance, January 1, 2010	-	-	-	-	-
Property acquisition and staking	66,240	376	6,000	134,812	207,428
Shares issued for property	5,000	-	11,000	-	16,000
Cumulative mineral exploration property costs expensed	(71,240)	(376)	(17,000)	(134,812)	(223,428)
Balance, December 31, 2010	-	-	-	-	-
Property acquisition and staking	5,957	376	-	58,242	64,575
Shares issued for property	-	-	-	-	-
Cumulative mineral exploration property costs expensed	(5,957)	(376)	-	(58,242)	(64,575)
Balance, March 31, 2011	-	-	-	-	-

b) Exploration expenditures

	Regcourt	Montrose	Kelly Gold	Bottle Creek	Total
Balance, January 1, 2010	-	-	-	-	-
Geology	11,752	42,796	9,952	117,761	182,262
Geophysical	31,595	-	-	-	31,595
Drilling	241,676	142,645	-	-	384,321
Sampling	-	-	2,759	-	2,759
Assaying	11,473	20,826	-	-	32,298
Report Preparation	15,966	375	7,575	-	23,916
Core storage	-	5,245	-	-	5,245
Cumulative deferred exploration expensed	(312,462)	(211,886)	(20,286)	(117,761)	(662,396)
Balance, December 31, 2010	-	-	-	-	-
Geology	27,986	10,041	100	2,496	40,622
Geophysical	20,803	-	-	-	20,803
Drilling	11,168	-	-	-	11,168
Sampling	-	-	-	-	-
Assaying	3,763	-	-	-	3,763
Report Preparation	6,250	1,375	-	-	7,625
Core storage	900	2,333	-	-	3,233
Cumulative deferred exploration expensed	(70,870)	(13,749)	(100)	(2,496)	(87,215)
Balance, March 31, 2011	-	-	-	-	-

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7. Deferred exploration and evaluation expenditures – (continued)

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 Group announced that it had acquired an additional 20 claims expanding the property held by the Group by 464.47ha.

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

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

At March 31, 2011 the Group has incurred cumulative exploration and evaluation expenditures of \$ 76,827 on this project. As at March 31, 2011 no commercially viable mineral reserve has been found on this project and as a result the Group has expensed the exploration and evaluation expenditures. The Group plans to sign a lease agreement in the summer of 2011 and commence initial exploration shortly afterwards.

Montrose

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

At March 31, 2011 the Group has incurred cumulative exploration and evaluation expenditures of \$ 14,125 on this project. As at March 31, 2011 no commercially viable mineral reserve has been found on this project and as a result the Group has expensed the exploration and evaluation expenditures. The Group plans to sign a lease agreement in the summer of 2011 and commence initial exploration shortly afterwards.

Kellyn Gold

On January 21, 2009, the Group 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 Group is required to pay to the Optionors, subject to the approval of the TSX-V, \$6,000 and 100,000 shares of the Group 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 Group 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 Group is required to pay consideration of \$2,500 and the issuance of 75,000 shares of the Galahad Metals Inc.

At March 31, 2011 the Group has incurred cumulative exploration and evaluation expenditures of \$100 on this project. As at March 31, 2011 no commercially viable mineral reserve has been found on this project and as a result the Group has expensed the exploration and evaluation expenditures. The Group plans to sign a lease agreement in the summer of 2011 and commence initial exploration shortly afterwards.

Bottle Creek (held in Bottle Creek Exploration LLC.)

During March of 2005, the Galahad Metals Inc. (parent 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 Group was able to earn a 60% interest in the Bottle Creek epithermal gold-silver property in Humboldt County, Nevada. Galahad was required to spend an aggregate of \$2 million US on exploration of GGE's land position over three years and was to pay GGE \$450,000 US before the third anniversary of the agreement.

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7. Deferred exploration and evaluation expenditures – (continued)

On October 29, 2007, the Galahad Metals Inc. had completed the earn-in requirements with respect to the option agreement with GGE by reaching the cumulative \$2 million US exploration spending requirement and by providing the final option payment of \$200,000 US during October 2007.

On August 16, 2010, Galahad Metals Inc. had decreased its interests from approximately 1700 claims, with the majority it owned at 50% interest, to 935 claims, where Galahad now owns a 60% interest.

On September 30, 2010, Galahad transferred its claims in the Bottle Creek property into Bottle Creek Exploration LLC, a Nevada limited liability corporation. Galahad Metals Inc. owns 60% interest in the main zone and Golden Griffon USA Inc. holds the remaining 40% interest in the main zone. Galahad owns 50% interest in claims held outside the main zone and the remaining 50% are held by Golden Griffon USA Inc.

On February 22, 2011, Galahad Metals Inc.'s Board of Directors and Red Ore Gold Inc.'s Board of Directors approved the transfer of Galahad's interest in the Bottle Creek Exploration LLC into Red Ore Gold Inc. in exchange for 8,838,938 common shares of Red Ore Gold Inc.

At March 31, 2011, the Group has incurred cumulative exploration and evaluation expenditures of \$ 60,738 on this project. As at March 31, 2011, no commercially viable mineral reserve has been found on this project and as a result the Company has expensed the exploration and evaluation expenditures. The Company plans to sign a lease agreement in the summer of 2011 and commence initial exploration shortly afterwards.

8. Accounts payable and other liabilities

Accounts payable and other liabilities aged analysis:

	Accounts payable and other liabilities as at March 31, 2011	Accounts payable and other liabilities as at December 31, 2010	Accounts payable and other liabilities as at January 1, 2010
Not more than 3 months	\$ 316,243	\$ 144,614	\$ 112,736
More than 3 months but not more than 6 months	61,896	-	14,205
More than 6 months but not more than 1 year	-	-	423,862
More than 1 year	-	-	-
Total	\$ 378,139	\$ 144,614	\$ 550,803

Terms and conditions of the above financial liabilities:

- 1) Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms.
- 2) Accrued liabilities are non-interest bearing and are normally settled on 30 to 60 day terms.

9. Provisions

The Change in provision balance is comprised of the following for the three month period ending March 31, 2011:

Part XII.6 tax provision

Balance, December 31, 2010	\$ 217,017
Additional provision on unsettled penalty	<u>6,559</u>
Balance, March 31, 2011	\$ 223,576

During the period ended March 31, 2011, the Group incurred Part XII.6 tax resulting from the amounts renounced in 2008, but unspent in 2009. Furthermore, the Group incurred interest and penalties of \$ **6,559** relating to unpaid Part XII.6 tax.

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10. Deferred tax liability

Flow-through liabilities include the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through issues:

Balance on January 1, 2011	\$	-
Liability incurred on flow-through shares issued		
March 24, 2011		40,300
Settlement of liability through renouncement in 2011		(1,209)
Balance on March 31, 2011	\$	39,091

On March 24, 2011, the Group completed a non-brokered private placement financing of 4,030,000 flow-through shares at a price of \$0.15 per share for gross proceeds of \$604,500. A flow-through share premium of \$40,300 was recorded on this financing. As of March 31, 2011, \$18,135 of the flow through proceeds raised had been spent on eligible expenditures.

11. Share capital

a) Common shares

Galahad Metals Inc. ("the Company") is authorized to issue an unlimited number of common shares.

The following is a summary of changes in common share capital from January 1, 2010 to March 31, 2011:

Issued

	Period ended March 31, 2011		Year ended December 31, 2010	
	Common Shares	Amount	Common Shares	Amount
Balance, beginning of period	38,957,760	\$ 14,321,789	18,116,976	\$ 12,878,229
Common shares issued for cash	12,265,100	1,621,997	19,051,304	1,272,694
Common shares issued for properties	-	-	200,000	16,000
Common shares issued for settlement of debt	-	-	1,589,480	154,886
Balance, end of period	51,222,860	\$15,943,786	38,957,760	\$ 14,321,789

The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at Galahad's meetings. All shares are ranked equally with regards to the Company's residual assets.

2011 issuances

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 January 31, 2011 the Company issued 5,845,000 units of the Company ("Units") at a price of \$0.15 per Unit for gross proceeds of up to \$822,500 as part of a private placement which closed January 31, 2011. Each Unit consists of one regular 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 \$0.25 per common share exercisable on or before January 31, 2013. The amount recorded to the share capital in the amount of \$797,878 represents gross proceeds of \$822,500 less share issue costs of \$24,622. Share issue costs include cash share issue costs and the certain share issue costs that were settled by the issuance of 117,814 compensation units. Each compensation unit consists of one regular common share of the Company and one common share purchase warrant to purchase an additional non flow through common share at a price of \$0.25 per common share exercisable on or before January 31, 2013.

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11. Share capital – (continued)

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 142,500 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 March 24, 2011, the Company issued 4,030,000 units of the Company ("Units") at a price of \$0.15 per Unit for gross proceeds of up to \$604,500 as part of a private placement which closed March 24, 2011. Each 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 \$0.25 per common share exercisable on or before March 31, 2013. The amount recorded to the share capital in the amount of \$532,057 represents gross proceeds of \$604,500 less share issue costs of \$32,143 and flow through premium liability in the amount of \$40,300. Share issue costs are comprised of issue costs which were settled by the issuance of 214,286 compensation units. Each compensation unit consists of one non flow through common share of the Company and one non flow through common share purchase warrant to purchase an additional non flow through common share at a price of \$0.25 per common share exercisable on or before March 31, 2013.

2010 issuances

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

On 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.

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11. Share capital – (continued)

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. 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.

b) Preferred shares

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

There were no issuances of preference shares in the three month period ending March 31, 2011.

As at March 31, 2011, the Group has no preferred shares outstanding.

c) Contributed surplus

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

	As at March 31, 2011 (CAD \$)	As at December 31, 2010 (CAD \$)	As at January 1, 2010 (CAD \$)
Balance, beginning of period	\$ 1,160,480	\$ 838,172	\$ 776,792
Stock-based compensation	128,839	322,308	61,380
Balance, end of period	\$ 1,289,319	\$ 1,160,480	\$ 838,172

d) Warrants

	Number	Weighted- Average exercise price	Expiry
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
Issued	9,845,100	0.25	January 13, 2013 to March 31, 2013
Exercised	(2,420,000)	0.10	August 31, 2012
Expired	<u>(202,000)</u>	0.10	February 28, 2011
Outstanding, March 31, 2011	<u>33,901,404</u>	0.17	

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11. Share capital – (continued)

As at March 31, 2011, the Company had a total of **33,901,404** (December 31, 2010 – **26,678,304**) common share warrants outstanding. As at March 31, 2011, outstanding warrants are as follows:

Number	Exercise price	Expiry
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
10,838,000	0.10	August 31, 2012
4,113,304	0.15	November 30, 2012
5,602,814	0.25	January 31, 2013
<u>4,244,286</u>	<u>0.25</u>	<u>March 31, 2013</u>
<u>33,901,404</u>		

During 2011:

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 finders' 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.

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11. Share capital – (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.

12. Compensation options

Galahad Metals Inc. 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, 2009	244,231	0.33	March 2010 to December 2011
Expired unexercised	(44,231)	1.16	December 2009 to March 2010
Outstanding, December 31, 2010	200,000	0.11	December 30, 2011
Expired unexercised	-	-	-
Outstanding, March 31, 2011	200,000	0.11	December 30, 2011

As at March 31, 2011, 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.

13. Stock options

Under the terms of the Group'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.

The Group records a charge to the statement of loss and comprehensive loss 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 historic traded daily closing share prices at the date of issuance.

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13. Stock options – (continued)

	2011	2010
Expected volatility	179%	121%
Expected option life (in years)	5	5
Risk-free interest rate	2.61%	2.90%
Expected dividend yield	-%	0%

Option pricing models require the inputs of highly subjective assumptions including the expected price volatility. Changes to the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

Stock option activity is as follows:

Expiry Date	Exercise Price	Options Outstanding	Weighted Average Remaining contractual Life (years)	Options Vested	Options unvested
June 19, 2011	\$ 1.50	97,500	0.2	97,500	-
September 19, 2012	\$ 1.00	10,000	1.4	10,000	-
December 1, 2012	\$ 1.00	10,000	1.7	10,000	-
June 13, 2012	\$ 1.00	106,000	2.2	106,000	-
January 15, 2019	\$ 0.10	325,000	7.8	325,000	-
July 29, 2014	\$ 0.10	125,000	3.3	125,000	-
September 23, 2014	\$ 0.10	50,000	3.4	50,000	-
December 31, 2015	\$ 0.10	762,000	4.7	762,000	-
March 31, 2015	\$ 0.10	150,000	3.9	150,000	-
September 1, 2015	\$ 0.10	1,800,000	4.4	1,800,000	-
January 1, 2016	\$ 0.15	853,000	4.6	803,000	50,000
Total		4,553,500	-	4,553,500	50,000

	Number	Weighted- Average exercise price	Expiry
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 Jan. 2014
Outstanding, December 31, 2010	3,700,500	0.25	Dec. 2012 to September 2019
Granted	878,000	0.15	January 1, 2016
Forfeited	(25,000)	0.15	January 1, 2016
Outstanding, March 31, 2011	4,553,500	0.16	Dec. 2012 to September 2019

During February 2010 Galahad Metals Inc. granted 814,000 stock options having an exercise price of \$0.10 and expiring on December 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.

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13. Stock options – (continued)

On April 8, 2010, Galahad Metals Inc. 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.

Stock-based compensation

During the three month period ended March 31, 2011, the Company recognized a total of **\$128,839** (December 2010 - **\$303,331**) relating to stock-based compensation for stock options.

As at March 31, 2011, neither Red Ore Gold Inc. or Bottle Creek Exploration LLC have any share options outstanding.

14. General and administrative

	March 31, 2011	March 31, 2010
	\$	\$
Rent	5,052	1,796
Phone, utilities, supplies and other	25,646	17,075
Website, internet and printing	5,248	2,809
Contractor fees	15,324	9,087
Insurance	1,093	347
Total	52,364	31,114

15. Net loss per share

The calculation of the basic and diluted loss per share for the three months ended March 31, 2011, and March 31, 2010, was based on the loss attributable to common shareholders of \$ **726,442** (2010 - \$ 412,500) and the weighted average number of common shares outstanding of **44,378,923** (2010 - **18,296,976**). Dilutive loss per share do not include the effect of the **4,553,500** share purchase options and **33,901,404** warrants as they are anti dilutive.

16. Related party transactions

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Transactions with key management personnel

Key management of the Group are members of the Board of Directors, the Chief Executive Officer, and the Chief Financial Officer. Key management remuneration includes the following:

	March 31, 2011 (CAD)
<u>Short-term employee benefits</u>	
Galahad compensation including bonuses (1)(2)(3) (4)(5)	\$ 67,793
Red Ore compensation including bonuses (1)(2)(3) (4)(5)	<u>71,540</u>
	\$ 139,333
<u>Long-term employee benefits</u>	
Galahad share based payments (1)	\$ 115,125
Red Ore share based payments (6)	<u>62,500</u>
	\$ 177,625
Total remuneration	\$ 316,958

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16. Related party transactions – (continued)

During the year key management was granted share options with an exercise price of \$0.15 and expiring January 2016. During 2011 key management did not exercise any shares options which were granted to them as part of the company's stock option plan.

- (1) The Company and its subsidiaries have no employees. Compensation includes the Chief Executive and Chief Financial Officers fees and the Board of Directors. The Board of Directors for Galahad Metals Inc. and Red Ore Gold Inc. receives annual retainers of \$6,000 per director and \$3,000 per Committee Chairman. Directors are compensated with \$250 per meeting from the Company. Key management are entitled to stock options for their services. Total retainers accrued to the Board of Directors for Galahad and Red Ore Gold Inc. for the three month period ending March 31, 2011, was **\$45,250**. Total Stock option compensation granted to key management for the three month period ending March 31, 2011, was **\$115,125**.
- (2) The Company and its subsidiary Red Ore Gold Inc. have a management contract with Robin Dow, the Chairman and CEO of Galahad Metals Inc. and Red Ore Gold Inc., whereby the companies pay \$5,000 a month for management fees. The amounts billed were based on normal market rates and amounted to **\$55,000**.
- (3) The Company and its subsidiary Red Ore Gold Inc. have a consulting contract with Sabino Di Paola, the CFO of Galahad Metals Inc. and Red Ore Gold Inc., whereby the company pays hourly compensation of \$100/hour for services rendered as well related expenses. The amounts billed were based on normal market rates and amounted to **\$ 24,618**.
- (4) Red Ore Gold Inc. has a consulting contract with Paul Pitman, the President of Red Ore Gold Inc., whereby the company pays hourly compensation of \$100/hour for services rendered as well related expenses. The amounts billed were based on normal market rates and amounted to **\$7,465**.
- (5) Red Ore Gold Inc. has a consulting contract with Garry Smith, the VP of Exploration of Red Ore Gold Inc., whereby the company pays daily compensation of \$700/day for services rendered as well related expenses. The amounts billed were based on normal market rates and amounted to **\$ 7,000**.
- (6) As of March 31, 2011 the Board of Directors of Red Ore Gold Inc. approved compensation common shares be issued to the Chief Executive Office, and the Chief Financial Officer. The Red Ore Gold Inc. will issue 125,000 common shares with an estimated value of \$0.50 per common share. There were no warrants associated with the common shares. Total value of the compensation shares was **\$62,500**.

Transactions with related companies

In 2011 Galahad shared office space Wedge Energy International Inc., Desiree Resources and Red Ore Gold Inc. All shared costs between Galahad Metals Inc. and Red Ore Gold Inc. have been eliminated upon consolidation. The Group has signed an agreement in which all shared costs are evenly allocated between the companies. For the period ended March 31, 2011, the Group incurred shared costs of **\$ 4,400** (December 31, 2010 - **\$12,415**) with Diamond International Exploration Inc., Wedge Energy International Inc., and Desiree Resources Inc. At March 31, 2011, the Group has a receivable from Wedge Energy International Inc. of **\$4,417** (December 31, 2010 - **\$2,654**) and a receivable from Desiree Resources Inc. of **\$7,113** (December 31, 2010 - **\$1,460**).

As of September 1, 2010, Diamond International Exploration Inc. has moved its office out of Ottawa and into Vancouver as part of its continuation into British Columbia. As of September 1, 2010, Diamond International Exploration Inc. no longer shares costs with the Group. At March 31, 2011, the Group has a payable to Diamond International Exploration Inc. for shared costs of **\$ NIL** (2010 - payable **\$ NIL**).

17. Financial instruments

The Group'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.

Per financial instrument:

	Financial Instrument Classification	Carrying amount (CAD \$)	Fair value (CAD \$)
Financial assets			
Cash	Financial assets through profit and loss – held for trading	1,828,689	1,828,689
Amounts receivable	Loans and receivables	76,499	76,499
Financial liabilities			
Accounts payable and accrued liabilities	Loans and borrowings	378,139	-
Provisions	Loans and borrowings	223,576	-

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17. Financial instruments – (continued)

A) Cash in the bank

The cash owned by the Group is held in a reputable national bank, where funds are held in Canadian and US currencies. Fair value has been taken for Canadian denominated funds by reference to the bank balance per the monthly bank statement at the end of the reporting period. Fair value has been taken for United States denominated funds by reference to the bank balance per the monthly bank statements at the end of the reporting period translated using the end of the day foreign exchange rate posted on the Bank of Canada website.

Financial risk management and objectives

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, and market risk (including interest rate risk, foreign currency risk, and commodity price risk).

The Group thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by the Board of Directors.

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group currently does not have any outstanding interest bearing assets or liabilities nor does it have any outstanding loans receivable. As a result the Group does not have any exposure to fluctuations in the interest rate. The Group's current policy is to invest excess cash in certificates of deposit issued by a Canadian chartered bank with which it keeps its bank accounts.

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 Group's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Exposure to currency exchange rates arises from the company's project in the United States and as a result expenditures are in US dollars. The Group also holds a bank account in US dollars.

To mitigate the exposure to foreign currency risk the Group typically holds funds in US dollars for short term expenditures. When vendors require significant payment in USD the Group will usually purchase the required US currency the same day it makes the payment to the vendor.

The Group does not enter into any forward exchange contracts to mitigate the exposure to foreign currency risk.

Foreign currency denominated financial assets and liabilities which expose the company to currency risk are disclosed below. The amount shown are those reported to key management translated into Canadian dollars at the closing rates.

	Short-term exposure
March 31, 2011	United states dollars
Financial Assets	96,295
Financial Liabilities	(81,777)
Total exposure	14,518

The following table illustrates the sensitivity of profit or loss and equity in regards to the Group's financial assets and financial liabilities and the USD/CAD exchange rate, with all other things being equal.

It assumes a +/- 10% change in the USD/CAD exchange rate for the three month period ending March 31, 2011. The percentage has been based on the average market volatility in exchange rates in the previous 12 months (i.e March 2010 to March 2011). The sensitivity analysis is based on the company's financial instruments held as at March 31, 2011.

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17. Financial instruments – (continued)

If the Canadian dollar had strengthened against the US dollar by 10% then this would have the following impact:

	USD financial exposure in USD	Bank of Canada average exchange rate from March 2010 to 2011	Strengthening of CAD by 10%	Effect of profit or loss for the year end March 31, 2011
March 31, 2011	\$ 14,518	1.0172	0.9154	\$ (1,478)

If the Canadian dollar had weakened against the US dollar by 10% then this would have the following impact:

	USD financial exposure in USD	Bank of Canada average exchange rate from March 2010 to 2011	weakening of CAD by 10%	Effect of profit or loss for the year end December 31, 2011
March 31, 2011	\$ 14,518	1.0172	1.1189	\$ 1,478

Exposures to foreign exchange rates vary over the year depending on the volume of expenditures on the Nevada properties located in the United States. None the less the analysis above is considered to be representative of the company's exposure to currency risk.

Commodity and price risk

The Company is exposed to a price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Group closely monitors commodity prices as they relate to precious and base metals and other minerals, to determine the appropriate course of action to be taken by the Group.

Commodity price can adversely affect the Group. In particular, the Group's future profitability and viability of development depend upon the world market price of precious and base metals and other minerals. Precious and base metals and other mineral prices have fluctuated widely in recent years. There is no assurance that, even if commercial quantities of precious and base metals and other minerals are produced in the future, a profitable market will exist for them. A decline in the market price of precious and base metals and other minerals may require the Group to reduce mineral resources, which could have a material and adverse effect on its value.

As at March 31, 2011, the Group was not a precious metal, base metals, and other minerals producer. Even so, commodity prices may affect the completion of future equity offerings and the exercise of stock options and warrants. This may also affect the Group's liquidity and its ability to meet ongoing obligations.

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 Group to credit risk consist of cash and cash equivalents, and receivables. The maximum credit risk represented by the Group's financial assets is represented by their carrying amounts. The Group holds its cash and cash equivalents with financial institutions that are believed to be creditworthy.

The Group's maximum exposure to credit risk is limited to the carrying amount of the financial assets recognized at the reporting period, as summarized below.

	March 31, 2011
Classes of financial assets – carrying amounts	
Cash	\$ 1,828,689
Amounts receivable	76,499
Carrying Amount	\$ 1,905,188

The Group continues to monitor default of amounts receivable and other counterparties and incorporates this information into its credit risk control. The Group policy is to deal only with creditworthy counterparties.

Key management of the Group considers all of the above financial assets not to be impaired or past due for the above mentioned reporting date and are of good credit quality. None of the financial assets are secured by collateral or other credit enhancements.

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17. Financial instruments – (continued)

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Amounts receivable aged analysis:

	Accounts Receivable at March 31, 2011
	<u>\$ 76,499</u>
Not more than 3 months	-
More than 3 months but not more than 6 months	-
More than 6 months but not more than 1 year	-
More than 1 year	-
Total	<u>\$ 76,499</u>

In respect of accounts receivable, the Group is not exposed to a significant credit risk as the principal amounts of the receivable are from sales tax credits with the Federal government. Risk of default with the various levels of Canadian Government is considered low due to the economic stability of the country.

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient cash resources to meet its financial obligations as they come due. The Group's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Group. The Group generates cash flows primarily from its financing activities.

The Group manages its liquidity needs by carefully monitoring scheduled exploration and evaluation activity as well as forecasted cash inflows and outflows due in day to day business. Liquidity is measured in various time bands, on day-to-day and week-to-week basis, as well as on long term liquidity needs over 180 day to 360 day look out periods.

The Group maintains cash to meet its liquidity requirements for a 30 day period at a minimum. Funding for long term liquidity needs is based on the ability of the Group to successfully complete private placements as well as, in certain cases, to pay the outstanding balances owed in shares of the Group rather than in cash.

As at March 31, 2011, the Group had cash of \$ **1,828,689** to settle current liabilities of \$ **601,715**. As at March 31, 2011, the Group's financial liabilities have contractual maturities as summarized below:

April 30, 2011	Current		Non-current	
	Within 6 months	6 – 12 months	1 – 5 years	Later than 5 years
Accounts payable and accrued liabilities	\$ 378,139	-	-	-
Provisions	223,576			
Total	\$ 601,715	-	-	-

The Group considers expected cash flow from financial assets in managing liquidity risk, in particular its cash resources and amounts receivable. The Group's existing cash resources and amounts receivable currently do not meet the current cash outflow requirements. As a result the Group is not currently at a risk of not being a going concern; however, if management is unable to raise the appropriate funds prior to the maturity of the financial liabilities from planned future exploration, the Group may be at a risk of not being a going concern. Appropriate going concern disclosure will be made available in the consolidated financial statements.

Fair value of financial instruments

Financial instruments consist of cash, amounts receivable, accounts payable and accrued liabilities and provisions. At March 31, 2011, there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

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18. Segmented information

The Company and its subsidiaries are engaged in the acquisition, exploration and evaluation for gold and other precious mineral properties.

Management monitors the operating results of its individual exploration and evaluation project for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the results of the exploration and evaluation to date and the amount of additional exploration which would be required to obtain a high degree of confidence in the project's viability. Hence, there would be the likely probability that future economic benefits will flow to the company. The Group's financing (including private placements, financing costs and finance income) and income taxes are managed on a corporate basis and are not allocated to exploration and evaluation segments.

Information presented to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance is focused on the properties geographic location. The reportable segments under IFRS 8 are as follows:

- Canada
- United States of America
- Corporate operations

No operating segments have been aggregated to form the above reportable operating segment.

Segment information can be analyzed as follows for the period ended March 31, 2011:

	Exploration and evaluation in Canada (CAD)	Exploration and evaluation in United States (CAD)	Corporate Operations	Total (CAD)
Expenses				
Operating expenses	-	-	574,499	574,499
Exploration expenditures	91,052	60,738	-	151,790
Loss before income tax	91,052	60,738	575,861	727,651
Income tax recovery	-	-	(1,209)	(1,209)
Net loss for the year	91,052	60,738	574,652	726,442
Operating assets	699,050	370,708	881,199	1,968,907
Operating liabilities	42,077	100,639	458,999	601,715

Segmented liabilities include accounts payable and accrued liabilities, all of which are current.

19. Group entities

The following entities are included in the consolidated financial statements:

	Country of incorporation	Ownership Interest March 31, 2011
Red Ore Gold Inc.	Canada	100%
Bottle Creek Exploration LLC.	USA	60%

Non-controlling interest represents the interest of Bottle Creek Exploration LLC, based on investment amounts adjusted for its proportionate share of income or losses since the date of the acquisition. The Group has recorded a non controlling interest for the private placement commenced by Red Ore Gold Inc. prior to March 21, 2011, for which the shares were issued by the company in May 2011 (Note 23).

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19. Group entities – (continued)

	March 31, 2011
Non-controlling interest, beginning of period	\$ 939,394
Capital contributions made by the non controlling interest during the period	40,960
Common shares to be issued by Red Ore Gold to non-controlling interests	347,499
Share of cumulative translation adjustment	(232)
Share of losses in Bottle Creek Exploration LLC	(23,388)
Non-controlling interest, end of period	<u><u>\$ 1,304,233</u></u>

On January 13, 2011 the Board of Directors of Red Ore Gold approved compensation common shares be issued to the Chief Executive Officer, the Chief Financial Officer, and the Comptroller. The Company will issue the 145,000 common shares with an estimated value of \$0.50 per common share once it has completed its IPO. There were no warrants associated with the common shares.

On April 15, 2011 the Board of Directors of Red Ore Gold approved compensation common shares be issued to the President. The Company will issue the 25,000 common shares with an estimated value of \$0.50 per common share once it has completed its IPO. There were no warrants associated with the common shares.

The Group has recorded the expense for the compensation shares in the current period.

20. Contingencies

- A) The Group is partly financed by the issuance of flow-through shares. However, there are no guarantees that the funds spent by the Group will qualify as Canadian exploration expenses, even if the Group has committed to take all the necessary measures for this purpose.
- B) The Group'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 Group 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.
- C) The Company's subsidiary, Red Ore Gold Inc., has a commitment to pay Pi Financial a total of \$50,000 for their acceptance to act as the Company's advisor.
- D) The Company and its subsidiary, Red Ore Gold Inc., have a commitment with its Chief Financial Officer in which the Company guarantees a minimum of 500 billable hours at an hourly rate of \$100 per hour over a 3 year term ending December 31, 2013.

21. Capital management

The Group's capital structure has been defined by management as being comprised of shareholders' equity, which comprises share capital and other components of equity, and accumulated deficit, which at March 31, 2011, totals \$ **23,868** (December 2010 - \$ **(1,023,564)**). The Group's objectives when managing its capital structure are to preserve the Group's access to capital markets and its ability to meet its financial obligations and to finance its exploration activities and general corporate costs. This is achieved by the Board of Directors review and acceptance of exploration budgets that are achievable within existing resources and the timely matching and release of the next stage of expenditures with the resources made available from private placements or other funding.

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

The Group currently has no source of revenues; as such the Group is dependent upon external financing to fund its activities. In order to carry future projects and pay for administrative costs, the Group 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 Group, is reasonable.

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

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21. Capital management – (continued)

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

There were no changes in the Group's approach to capital management for the period-ending March 31, 2011. The Group is not subject to externally imposed capital requirements or covenants. However; funds raised under flow-through agreements which were renounced by the Group to the CRA are restricted in use and must be spent on eligible exploration expenses.

22. Supplemental cash flow information

	March 31, 2011	December 31, 2010
	\$	\$
Non-cash transactions		
Shares issued for properties	-	16,000
Share issuance costs	49,815	39,780
Settlement of accounts payable on transfer of mineral property	-	430,065
Shares issued for debt and interest	-	154,866

23. Subsequent events

On April 20, 2011, Red Ore Gold Inc. announced that it has signed a letter of intent ("LOI") with Gold Range Company LLC (GRC) to explore and develop their Ryepatch gold-silver-tungsten-antimony property in Pershing County, 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 ROG 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 US\$10,000 on signing the LOI plus US\$10,000 on signing the Lease Agreement, US\$20,000 at the end of year one, US\$30,000 at the end of year two, US\$50,000 at the end of year three, US\$100,000 at the end of year four and US\$200,000 at the end of year five and thereafter for a total of 20 years renewable in 20 year increments. GRC retains a 5% NSR which shall be subject to a buy-down clause in favour of ROG to 3% NSR for US\$3,000,000 and to an additional buy-down to 1.5% NSR for an additional amount of US\$3,000,000. The advance production royalty payments shall be deductible from future production royalties.

On May 5, 2011, Red Ore Gold Inc. issued the 935,000 units to investors at a price of \$0.50 per unit for gross proceeds of up to \$457,500 as part of a private placement (as described in note 10).

On May 16, 2011 the Board of Directors of Red Ore Gold Inc. approved a letter of intent with Gold Range Company ("GRC") for exploration and development rights to the Pogonip Ridge mineral property in the State of Nevada. The Pogonip Ridge is comprised of 17 patented lode claims and 58 unpatented mining claims covering approximately 1,800 acres of Nevada's prolific Battle Mountain-Eureka Trend.

The terms of the letter of intent are as follows:

The Company has the exclusive right for 60 days to enter into an Option Lease Agreement with GRC for a 100% interest in the Pogonip Ridge property. The advance royalty payments subject to the applicable NSR are as follows:

- 1) The Company will make a US\$ 5,000 payment upon signing the letter of intent (non-refundable);
- 2) The Company will make a US\$ 15,000 payment upon signing an option lease agreement;
- 3) The Company will make a US\$ 20,000 payment on the 1st anniversary of signing the lease option agreement;
- 4) The Company will make a US\$ 30,000 payment on the 2nd anniversary of signing the lease option agreement;
- 5) The Company will make a US\$ 50,000 payment on the 3rd anniversary of signing the lease option agreement;
- 6) The Company will make a US\$ 100,000 payment on the 4th anniversary of signing the lease option agreement;
- 7) The Company will make a US\$ 200,000 payment on the 5th anniversary of signing the lease option agreement and thereafter;

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23. Subsequent events – (continued)

The advance royalty payments shall be deductible from future production royalties.

Gold Range Company has reserved a 4% NSR on all materials produced or sold from the property. The Company has a right to “buy-down” the NSR for US\$1,000,000 per point or pro-rata portion thereof to a minimum NSR of 1.5%.

On June 3, 2011, Red Ore Gold Inc. signed an agreement with PI Financial to act as its exclusive agent with respect to the Company’s proposed initial public offering. As part of the initial public offering the Company will be looking to raise a maximum of \$3,000,000 and a minimum of \$1,200,000 through the issuance of Units in the Company. Each unit will consist of one common share and one transferable common share purchase warrant. Each unit will be issued at a price of \$0.30 per unit with a common share purchase warrant exercisable into one additional common share of the Company for two years following the closing date of the initial public offering at an exercise price of \$0.40 per share.

The Company has granted PI Financial an option to cover over-allotments, which will allow PI to offer up to 2,500,000 additional units. The over-allotment option may be exercised in whole or in part at any time prior to the closing date of the offering.

The Company will pay a commission of 10% of the gross proceeds of the offering on the closing of the offering to PI. The Company will also pay the agent a corporate financing fee of \$25,000. PI may elect to receive the commission in cash or, in whole or part, in units at a deemed price of \$0.30 per unit. The Company will also issue to PI on closing of the offering, compensation options equal in number to 10% of the aggregate number of units sold under the offering. Each compensation option will entitle PI to purchase one common share, at any time and from time to time for a period of 24 months following the closing date, at an exercise price equal to \$0.30 per common share.

On June 13, 2011, Red Ore Gold Inc., after consultation with PI with respect to pricing of the IPO, and the conclusion that the IPO unit price must be \$0.30 and not \$0.60 as originally suggested, the Board of Directors passed a resolution to reduce the price of the April private placement from \$0.50 per Unit to \$0.25 per unit, and to set the warrant exercise price at \$0.40, down from \$0.75. The Board also passed a resolution to reduce the price of the compensation shares from \$0.50 to \$0.25 and to double the number of shares thereby issued.

The closing date of the IPO is expected to occur on or about June 30, 2011.

As of June 30, 2011, the Board of Directors of Red Ore Gold Inc. has approved to issue rights to the investors who participated in the Company’s previous private placement which closed on May 5, 2011. The rights offering allow investors to subscribe for an additional 935,000 units at a price of \$0.01 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant. Each Warrant entitled the holder thereof to acquire one common share of the Company at a price of \$0.40 per common share exercisable on or before January 31, 2013.

24. Conversion to IFRS

For all periods up to and including the year ended December 31, 2010, the Group prepared its financial statements in accordance with Canadian generally accepted accounting practice (GAAP). These financial statements for the year ended December 31, 2011, are the first the Group has prepared under International Financial Reporting Standards (IFRS).

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for all periods beginning on or after January 1, 2011, as described in the accounting policies. In preparing these financial statements, the Group’s opening statement of financial position was prepared as at January 1, 2010, the Group’s date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its previous GAAP financial statements for the year-ending December 31, 2010.

The Group has applied IFRS 1 *First-time Adoption of International Financial reporting standards* in preparing these first IFRS consolidated financial statements. The effects of the transition to IFRS on equity, total comprehensive income, and reported cash flows are presented in this section and are further explained below.

First time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. Galahad will apply the mandatory exemptions and certain optional exemptions. The exemptions to be adopted by Galahad are set out below:

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24. Conversion to IFRS – (continued)

Mandatory exceptions to be adopted by the Group

- Financial assets and liabilities that had been de-recognized before January 1, 2005, under the previous GAAP have not been recognized under IFRS.
- The Group 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 the Group

- The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the transition date of January 1, 2011.
- The Group 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.
- The Group has elected to maintain the designations of its financial instruments at the date of transition. The Group has also taken the exemption to designate some financial instruments at fair value through profit or loss.
- The Group has elected to apply IFRS 2 for all equity instruments granted after November 7, 2002, that had not vested by January 1, 2011. Further, the Group will apply IFRS 2 on all liabilities arising from share-based payment transactions that existed at January 1, 2011.
- The Group 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.

IFRS 1 does not permit changes in estimates that have been made previously. Accordingly, estimates used in preparation of the Group's opening IFRS statement of financial position as at the Transition Date are consistent with those made under Canadian GAAP.

The Group's audited Transition Date IFRS consolidated statement of financial position is included as comparative information in the audited consolidated statement of financial position in these consolidated financial statements.

Presentation differences

Certain presentation differences between GAAP and IFRS have no impact on reported loss or total equity.

Some line items are described differently (renamed) under IFRS compared to previous GAAP, although the assets and liabilities included in these line items are unaffected. These line items are as follows (with GAAP description in brackets):

- Equity settled share based payments (contributed capital)

Changes to accounting policies

The Group has changed certain accounting policies to be consistent with IFRS. These changes to its accounting policies have resulted in certain changes to the recognition and measurement of assets, liabilities, equity, revenue and expenses with its consolidated financial statements. The summary of changes, as well as the quantification of the changes on the statement of financial position as at the transition date and as at December 31, 2010, are summarized in the reconciliation of equity below.

Restatement of statement of cash flows from previous GAAP to IFRS

The transition from Canadian GAAP to IFRS has had no effect on the reported cash flows generated by the Group. The reconciling items between Canadian GAAP presentation and IFRS presentation have no net impact on the cash flows generated.

Reconciliation of equity

A first time adopter must present a reconciliation of its equity at the transition date and also at the end of the latest period presented in the most recent annual financial statements under the previous GAAP.

The standard does not specify the form and content of the reconciliation and is silent on what constitutes "sufficient detail" in relation to the reconciliation. Judgment will therefore need to be applied. The reconciliation presented in this note is based on IG example 11 (from the implementation guidance under IFRS 1), and presents movement in each line item of financial position from previous GAAP to IFRS, with accompanying narrative explanations. There are of course alternative ways of satisfying IFRS 1's requirements.

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24. Conversion to IFRS – (continued)

Equity at the date of transition and at December 31, 2010 can be reconciled to the amounts reported under the previous GAAP as follows:

Assets	Notes	January 1, 2010		IFRS CAD
		Previous GAAP CAD	Effect on transition to IFRS CAD	
Current assets				
Cash and cash equivalents		\$ 24,949	\$ -	\$ 24,949
Amounts receivable		236,331	-	236,331
Prepaid expenses		1,375	-	1,375
Total Current assets		262,655		262,655
Non current assets				
Exploration advances		57,292	-	57,292
Exploration and evaluation assets	A	5,294,427	(5,294,427)	-
Total non current assets		5,351,719	(5,294,427)	57,292
Total Assets		\$ 5,614,374	\$ (5,294,427)	\$ 319,947
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		\$ 550,803	\$ -	\$ 550,803
Provisions		191,444	-	191,444
Borrowings		140,013	-	140,013
Total current liabilities		\$ 882,260	\$ -	\$ 882,260
Shareholders' Equity				
Share capital	B	\$ 11,903,887	\$ 974,342	\$ 12,878,229
Contributed surplus	C	856,014	(17,842)	838,172
Deficit		(8,027,787)	(6,250,927)	(14,278,714)
Total Liability and shareholders' equity		\$ 5,614,374	\$ (5,294,427)	\$ 319,947

A) Exploration for and evaluation of mineral resources

The application of the Group'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.

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24. Conversion to IFRS – (continued)

Exploration and evaluation costs

Costs associated with property acquisition as well as geological and geophysical expenditures and unproven exploration and evaluation were capitalized as deferred mineral assets and deferred exploration expenditures in accordance with Canadian GAAP. Under the Group's accounting policies, certain early stage prospecting costs are expensed as incurred, while exploration costs are initially capitalized as an asset and, if subsequently determined not to show economic viability, are charged to the statement of comprehensive income. As a result the Group as written off \$5,294,427 exploration costs which were either not permitted to be capitalized under the Group's application of IFRS 6 due to unsuccessful exploration and evaluation costs.

B) Flow through shares

On transition to IFRS, the Group 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 are sold at a discount, this policy does not apply and the flow through share issuance follows applicable IFRS guidance.

Previously, Galahad's 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 Group 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.

Impact on the statement of financial position of reversing the renouncement:

	January 1, 2010
Adjustment to share capital	\$ 1,633,100
Adjustment to deficit	(\$ 1,633,100)

Impact on the statement of financial position of applying US GAAP for FIT liability:

	January 1, 2010
Adjustment to share capital	(\$ 658,758)
Adjustment to deficit	\$ 658,758

C) Share based payments

Under IFRS the Group 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 the Group 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 vesting period of stock options granted prior to January 1, 2010, and not vesting as at the transition date, a total of **\$17,842** has been recognized as a restatement in the opening statement of financial position as at January 1, 2010.

D) Other accounting policy changes with no impact on the recognition and measurement of assets, liabilities, equity, revenue and expenses with its consolidated financial statements.

Accounting for government assistance

The Group's policy regarding the treatment of mining credits will be to treat the credit as a form of government grant. This will allow the Group to follow IAS 20 and to issue financial statements which are IFRS compliant. As at January 1, 2010, the Group did not have any outstanding mining credits and as a result the adoption of IAS 20 for mining credits has no impact on the opening balance sheet.

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24. Conversion to IFRS – (continued)

Assets	Notes	December 31, 2010		
		Previous GAAP CAD	Effect on transition to IFRS CAD	IFRS CAD
Current assets				
Cash and cash equivalents		\$ 223,441	\$ -	\$ 223,441
Amounts receivable		52,521	-	52,521
Prepaid expenses		1,500	-	1,500
Total Current assets		277,462	-	277,462
Exploration and evaluation assets	A	6,287,865	(6,287,865)	-
Total Assets		\$ 6,565,327	\$ (6,287,865)	\$ 277,462
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		144,615	-	144,615
Provisions		217,017	-	217,017
Total current liabilities		361,632	-	361,632
Shareholders' Equity				
Share capital	B	13,154,084	1,167,705	14,321,789
Contributed surplus	C	1,181,685	(21,205)	1,160,480
Other reserves		531		531
Deficit		(8,863,970)	(7,642,394)	(16,506,364)
		5,472,330	(6,495,894)	(1,023,564)
Non controlling interest	D	731,365	208,029	939,394
		6,203,695	(6,287,865)	(84,170)
Total Liability and Shareholders' Equity		\$ 6,565,327	\$ (6,287,865)	\$ 277,462

A) Exploration for and evaluation of mineral resources

The application of the Group'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.

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24. Conversion to IFRS – (continued)

Exploration and evaluation costs

Costs associated with property acquisition as well as geological and geophysical expenditures and unproven exploration and evaluation were capitalized as deferred mineral assets and deferred exploration expenditures in accordance with Canadian GAAP. Under the Group's accounting policies, certain early stage prospecting costs are expensed as incurred, while exploration costs are initially capitalized as an asset and, if subsequently determined not to show economic viability, are charged to the statement of comprehensive income. As a result the Group as written off \$6,287,865 exploration costs which were either not permitted to be capitalized under the Group's application of IFRS 6 due to unsuccessful exploration and evaluation costs.

B) Flow through shares

On transition to IFRS, the Group 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 are sold at a discount this policy does not apply and the flow through share issuance follows applicable IFRS guidance.

Previously, Galahad's 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.

Impact on the statement of financial position of reversing the renouncement:

	December 31, 2010
Adjustment to share capital	\$ 1,826,463
Adjustment to deficit	(\$ 1,826,463)

Impact on the statement of financial position of applying US GAAP for FIT liability:

	December 31, 2010
Adjustment to share capital	(\$ 658,758)
Adjustment to deficit	\$ 658,758

C) Share based payments

Under IFRS the Group 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 the Group 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 vesting period of stock options granted prior to January 1, 2010, and not vesting as at the transition date a total of **\$21,205** has been recognized as a restatement in the opening statement of financial position as at January 1, 2010.

D) Non controlling interest

The adjustment to the non controlling interest relates to the mineral exploration expenditures which were capitalized under Canadian GAAP; however, under IFRS the Group has elected to expense these costs. Refer to note A for details of the change in accounting policy.

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24. Conversion to IFRS – (continued)

Assets	Notes	March 31, 2010		IFRS CAD
		Previous GAAP CAD	Effect on transition to IFRS CAD	
Current assets				
Cash and cash equivalents		\$ 115,434	\$ -	\$ 115,434
Amounts receivable		21,656	-	21,656
Prepaid expenses		1,342	-	1,342
Total Current assets		138,432		138,432
Non current assets				
Exploration advances		20,566	-	20,566
Exploration and evaluation assets	A	5,535,539	(5,535,539)	-
Total non current assets		5,556,105	(5,535,539)	20,566
Total Assets		\$ 5,694,537	\$ (5,535,539)	\$ 158,998
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		\$ 606,961	\$ -	\$ 606,961
Provisions		207,521	-	207,521
Borrowings		144,381	-	144,381
Total current liabilities		958,863	-	958,863
Shareholders' Equity				
Share capital	B	11,960,387	1,028,843	12,989,230
Contributed surplus	C	920,658	(18,539)	902,119
Deficit		(8,145,371)	(6,545,843)	(14,691,214)
		\$ 4,735,674	\$ (5,535,539)	\$ (799,865)
Total Liability and shareholders' equity		\$ 5,694,537	\$ (5,535,539)	\$ 158,998

a) **Exploration for and evaluation of mineral resources**

Exploration and evaluation costs

Costs associated with property acquisition as well as geological and geophysical expenditures and unproven exploration and evaluation were capitalized as deferred mineral assets and deferred exploration expenditures in accordance with Canadian GAAP. Under the Group's accounting policies, certain early stage prospecting costs are expensed as incurred, while exploration costs are initially capitalized as an asset and, if subsequently determined not to show economic viability, are charged to the statement of comprehensive income. As a result the Group has written off \$5,535,539 exploration costs which were either not permitted to be capitalized under the Group's application of IFRS 6 due to unsuccessful exploration and evaluation costs.

b) **Flow through shares**

Impact on the statement of financial position of reversing the renouncement:

	March 31, 2010
Adjustment to share capital	\$ 1,826,463
Adjustment to deficit	(\$ 1,826,463)

Galahad Metals Inc.
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24. Conversion to IFRS – (continued)

Impact on the statement of financial position of applying US GAAP for FIT liability:

	December 31, 2010
Adjustment to share capital	(\$ 797,620)
Adjustment to deficit	\$ 797,620

c) Share based payments

Based on the vesting period of stock options granted prior to January 1, 2010, and not vesting as at the transition date a total of **\$18,539** has been recognized as a restatement in the opening statement of financial position as at January 1, 2010.

Reconciliation of total comprehensive income

A first time adopter must present a reconciliation of total comprehensive income under IFRS for the latest period in the entity's most recent annual financial statements under previous GAAP. The concept of total comprehensive income was introduced in IAS 1. IFRS 1 acknowledges that previous GAAP might not include a concept such as total comprehensive income, and therefore allows profit or loss to be used as a starting point. The standard explains that it is helpful to users to have information about all items of income and expense, not only those recognized in profit or loss. The starting point therefore depends on previous GAAP such that profit or loss cannot be used as a starting point if a statement of comprehensive income was presented under previous GAAP.

Total comprehensive income for the reporting period ended March 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Notes	March 31, 2010		
		Previous GAAP	Effect of transition to	
		CAD	IFRS	IFRS
		CAD	CAD	CAD
Expenses				
Management fees		\$ 12,000	\$ -	\$ 12,000
Promotion & Investor Conference	1	20,035	(698)	19,338
Regulatory, exchange, AGM, press release and transfer agent fees		13,133	-	13,133
Professional fees		19,295	-	19,295
General and administrative	2	82,506	(51,392)	31,114
Stock options	2	-	51,392	51,392
Part XI.6 tax		16,077	-	16,077
Exploration and evaluation expenditures	3	170	241,113	241,283
		<u>(163,216)</u>	<u>-</u>	<u>(403,632)</u>
Finance costs		(8,868)	-	(8,868)
Foreign exchange loss		-	-	-
		<u>(8,868)</u>	<u>-</u>	<u>(8,868)</u>
Net loss before tax for the year		(172,084)	-	(412,500)
Recovery of future income taxes	4	54,500	(54,500)	-
Total comprehensive loss for the period		<u>\$ (117,584)</u>	<u>\$ (54,500)</u>	<u>\$ (412,500)</u>

- 1) The adjustment is due to stock option expense recognized under Canadian GAAP for options granted to investor relations consultants which had not vested as at March 31, 2010. Under Canadian GAAP the Group recorded an expense for these stock options were under IFRS the Group can only recognize an expense for stock options granted once the options vest.
- 2) The adjustment is a reclassification of stock option expenses for presentation purposes and not an effect of the Group's transition to IFRS.
- 3) The adjustment is due to exploration and evaluation expenditures which were capitalized under Canadian GAAP and subsequently expensed under IFRS.
- 4) The adjustment is due to the change in accounting policy for flow through financing under Canadian GAAP and US GAAP. Refer to the section on "reconciliation of equity" above for further details.

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24. Conversion to IFRS – (continued)

Total comprehensive income for the reporting year ended December 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Notes	December 31, 2010		
		Effect of transition to		
		Previous GAAP CAD	IFRS CAD	IFRS CAD
Expenses				
Management fees		\$ 66,000	\$ -	\$ 66,000
Promotion & Investor Conference	1	121,947	(13,021)	108,926
Regulatory, exchange, AGM, press release and transfer agent fees		43,247	-	43,247
Professional fees		129,951	-	129,951
General and administrative	2	421,668	(293,710)	127,958
Stock options	2	-	303,331	303,331
Loss on transfer of mineral property		205,604	-	205,604
Part XII.6 tax		25,573	-	25,573
Exploration and evaluation expenditures	3	12,681	1,819,062	1,831,743
		(1,026,671)	(1,815,662)	(2,842,333)
Finance costs		(11,646)	-	(11,646)
Foreign exchange loss		326	-	326
		(11,320)	-	(11,320)
Net loss before tax for the year		(1,037,991)	(1,815,662)	(2,853,653)
Recovery of future income taxes (note 7)	4	193,400	(193,400)	-
Net loss for the year		(844,591)	(2,009,062)	(2,853,653)
Other comprehensive income		885	-	885
Total other comprehensive income for the year		\$ (843,706)	\$ (2,009,062)	\$ (2,852,768)

For notes 1 through 4 refer to the reconciliation of the March 31, 2010 comprehensive income statement.