GALAHAD
METALS INC

AMENDED FORM 2A
LISTING STATEMENT

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2. Corporate Structure

2.1 The full corporate name of the Issuer is **GALAHAD METALS INC. with its head and registered office at PO Box 915, 716 Pelton Road, Kemptville, ON K0G 1J0.**

2.2 The Issuer was incorporated as PHOENIX MATATCHEWAN MINES INC. on September 1, 2000 under the ***Business Corporations Act of Ontario***. It changed its name to GALAHAD METALS INC. on January 1, 2009.

2.3 The Issuer has no subsidiaries.

3. General Development of the Business

3.1 The general development of the Issuer's business over its three most recently completed financial years and any subsequent period are as follows:

The main business of the Company, since 2001, has been the exploration for gold and silver, mainly in Quebec, Ontario and Nevada.

In 2011 the Company created a wholly owned subsidiary, Red Ore Gold, to hold the Company's interest in the Bottle Creek property in Nevada. Since that time, the Company has spun out 2.2 million shares as a dividend to the Company's shareholders. The remaining 6.6 million shares are held as an investment, carried at $1.00, and recorded on an equity basis.

In 2013, the Company sold its Regcourt and Bargold properties in a planned divestment from the Province of Quebec. The proceeds of the disposition were approximately $50,000 in cash and $10,000 in vendor shares. There are no remaining obligations. While material, the amounts are not deemed significant.

The Company has one qualifying property of merit remaining. The Montrose mining lease near Matachewan, Ontario. A 43-101 report was filed on SEDAR in 2010.

In April 2014 Galahad entered into an agreement with Arax Energy Inc..

3.2 The transactions are not with a Related Party of the Issuer. Both these transactions were at arm's length.

S. 3.2 is not applicable. The information quoted below from news releases quoted for clarification only.

On June 20, 2013, the Company reported that it had disposed of 100 per cent of its Regcourt gold property for of $43,500 to Monarques Resources Inc.

On September 24, 2013, the Company reported that it sold its interest in 23 claims in ranges V and VI in Barraute township, Abitibi, to Abcourt Mines Inc.

Consideration for the acquisition is $5,500 cash and 150,000 Class B common shares of Abcourt.

3.3 As a junior exploration and development company, the energy market and commodities trends and prices will always have a material effect on the Company. The Company directs the reader to Section 17, Risk Factors for a more detailed discussion.

4 Narrative Description of the Business

4.1 General

(1) the Company is a junior resource exploration and development company.

(2) The Company is concentrating on the ARAX acquisition at this time.

(a) On April 9, 2014, the Company has acquired approximately 60% of Arax Energy Inc. ("Arax), from Firebird Fund Holdings Inc. ("Firebird") for $1.00.

(b) On 22 April 2014, the Company agreed to subscribe to 60,000,000 Arax shares at US$0.005 per share. The Company to date has invested $231,000 USD back into Arax to acquire a further 48,200,000 common shares in the capital of Arax to bring its total to 100,000,000 out of 129,000,000 common shares outstanding in Arax. The funds invested in Arax are to be used for general working capital including payment of applicable Russian taxes and fees on the ST1 property. The balance of the subscription is still open, with no obligation on the Company's part to complete it, and therefore the complete subscription has not yet closed.

(c) In April the Company made an offer to all minority shareholders to either subscribe to the same $1 opportunity as Firebird, or to swap their Arax shares for one Unit of the Company, for each 20 Arax shares held. Each Unit comprises one post-consolidation common share and one post consolidated share

purchase warrant, exercisable at 20c for two years from closing. Under the offer, in April, May and June, the company has further acquired 7,268,000 common shares in Arax under an offer to certain shareholders on the same terms and conditions as the $1.00 offer to Firebird.

(d) In April, May and June, the Company has further acquired 16,805,631 common shares from minority shareholders in Arax by way of an offer to swap one unit of post consolidated Galahad shares and warrants in exchange for each 20 Arax shares held.

(e) As of June 5, 2014, 24,073,631 shares representing 82% of the minority sharheolders' issued and outstanding shares in Arax have been tendered to the Company under the acquisitions detailed in sections (c) and (d) above. The offer stands open and is till being accepted by minority shareholders on a weekly basis.

(f) The Company now controls approximately 96% of Arax. The offer for the remaining 4% will stand open until July 1st, 2014, at which time it will be closed and legal means will be sought to force the remaining shareholders.

(g) Arax currently holds a 47% interest in Techniton, which in turns holds a 100% interest in the South Temryuk Field in Russia. Please see the attached agreement. A 51-101 report has been received and filed with the CSE. As the acquisition is for only $1.00, it is not material at this time, but may become so in the next two months.

(h) The Company must conclude the Arax acquisition and undertake a proposed financing. The Company also needs to re-enter and re-complete the South Temryuk well sometime in Q4, 2014. The Company has requested a formal, 51-101 compliant budget from Tracs, who completed the current 51-101, but has yet to

receive it. Once the budget is received, the Company plans to do a share issuance to fund it, but as yet cannot price they issue or have a complete understanding of how much is required.

(i) The total funds available to the Issuer and breakdown are as follows:

(i) The Company payables of $25,000.
(ii) The Company completed its $500,000 funding through a Convertible Note. (see the attached Note for terms and conditions).

(j) as of June 1, 2014, the Company had $65,000 cash on hand, subscription receivables of $15,000 and general receivables of $15,460. With payables of $25,000, the current working capital surplus is approximately $70,000.

4.1 (3) For principal products or services describe: This section is not applicable.

4. 2 Companies with Asset-backed Securities outstanding This section is not applicable

4.3 The Company under IFRS writes off its exploration expenses annually so the Montrose property is carried at NIL value. Therefore by definition it is not material. There are no current plans to carry out any exploration on the property in 2014. The Company has a 43-101 report filed on SEDAR.

4.4 For Issuers with Oil and Gas Operations disclose and insert here the information required by Appendix B.

As previously noted, the Company has yet to receive a formal engineering budget to recomplete the South Temryuk well. It is hoped that the budget will be received in Q3 and recompilation in Q4, 2014.

5. Selected Consolidated Financial Information

5.1 Please see the attached Audited Financial Statements as of December 31, 2013, and as of December 31, 2012 and 2011 and Management Discussion and Analysis as of December 31, 2013.

5.2 Selected Financial Data quarterly

Quarter	Net Income (Loss) ($)	Income (Loss) / Share ($)	Total assets ($)	Shareholders' Equity ($)
Q4/2013	*(22,887)*	0.00	33,892	(137,945)
Q3/2013	(131,966)	0.00	82,898	(120,304)
Q2/2013	135,248	0.00	156,929	11,661
Q1/2013	109,901	0.00	185,345	(118,340)
Q4/2012	(22,104)	(0.00)	158,248	(228,242)
Q3/2012	(375,574)	(0.01)	468,637	(84,288)
Q2/2012	(73,193)	(0.00)	641,011	255,025
Q1/2012	1,082,830	(0.01)	836,153	325,967

5.3 Dividends –

(a) There are no restrictions that could prevent the Issuer from paying dividends; and

(b) the Issuer's dividend policy is not to pay dividends

5.4 Foreign GAAP does not apply.

6. Management's Discussion and Analysis

Annual MD&A

6.1 Please see the annual Management Discussion and Analysis as of December 31, 2013 attached as Appendix "D" to this Listing Statement.

Selected Annual Financial Information

6.3 Please see the attached Management Discussion and Analysis as of December 31, 2013.

6.4 Variations –.**Results of Operations, for the Year ended December 31, 2013, compared with the year ended December 31, 2012.**

For the year ended December 31, 2013, Galahad reported net income of $90,296 compared to a net income of $606,959 for the year ended December 31, 2012, a reduction of $516,663. The December 31, 2013 year saw a continuation of the difficult equity market for securities in the mining sector, which contributed to a significant decline in the Company's overall level of activity.

Details of the major favorable/(unfavorable) variances are:

- ($1,407,189) arising from the 2012 gain on deconsolidation. For the year ended 31 December 2012, the Company accounted for its investments in Red Ore and Bottle Creek using the equity method rather than on a consolidated basis as the Company did not exercise control over its investments in Red Ore and Bottle Creek effective January 1, 2012. As a result, the Company recognized a gain of $1,407,189 as a result of the deconsolidation of Red Ore and Bottle Creek.
- $88,202 reduction in promotion and investor conference expenditures, due to minimal activity in this area.
- $93,480 decrease in professional fees during the year ended December 31, 2013, compared to 2012, due mainly to the decrease in legal fees for Red Ore listing application in 2012.
- $288,409 decrease in exploration and evaluation expenditures during the year ended December 31, 2013, compared to 2012. The decrease is due to decline in activity, limited to small scale work in 2013 on the Regcourt project. The Regcourt and Montrose projects both had work in 2012.
- $186,418 arising from the 2012 loss on valuation of the advances to Red Ore.
- $208,164 arising from settlement of debts and a voluntary rescission of $22,000 in amounts owing related to directors compensation.
- ($59,936) arising from 2012 flow through share income.

6.5 Results of Operations – This section is not applicable.

6.6 Summary of Quarterly Results – see Section 5.2.

6.7 Liquidity - Provide an analysis of the Issuer's liquidity, including:

(a) The Company has recently raised $500,000 to fund operations. As with all junior exploration companies without cash flow, future growth depends on the ability to fund the operations in the market place.

(b) not applicable.

(a) The Company has sufficient working capital to fulfill its listing requirements;

(b) Contractual obligations: the Company has no long term debt, no lease obligations, no operating leases, and no purchase obligations.

6.8 Capital Resources – Apart from the current Convertible Note issue, there are no commitments for capital expenditures

6.9 Off-Balance Sheet Arrangements – This section is not applicable.

6.10 Transactions with Related Parties

Related party expenses

There were no related party expenses during the year ended 31 December 2013 (December 31, 2013 - $Nil).

Related party expense recoveries related to shared office and operating costs (year ended December 31, 2013 $Nil)

are summarized as follows: :

Year ended 31 December 2012	$
Desiree Resources Inc.	10,218
Pueblo Potash Inc.*	7,404
Red Ore Gold Inc.	10,680
Under Tolgoi Minerals Inc.	9,554
TOTAL RELATED PARTY RECOVERIES	37,856

*Pueblo Potash Inc. was formerly Pueblo Lithium Inc. . The Company changed its name on April 18, 2012.

Due from/to related parties

The assets of the Company include the following amounts due from related parties:

Year ended 31 December	2012	2013
	$	$
Red Ore Gold Inc.	-	6
Desiree Resources Inc.	4,461	4,461
Pueblo Potash Inc.	8,683	8,683
TOTAL AMOUNT DUE FROM RELATED PARTIES	13,144	13,150

6.11 Fourth Quarter – The Company was essentially dormant in the fourth Quarter.

6.12 Proposed Transactions – The effects of the acquisition of Arax are uncertain at this time. At $1.00, the acquisition is not material at this time. Should that change, a press release and material change report will be filed outlining all such concerns.

6.13 Changes in Accounting Policies including Initial Adoption – There are no such changes contemplated at this time.

6.14 Financial Instruments and Other Instruments – This section is not applicable at this time.

Interim MD&A

6.15 Date – the latest MD & A is the Annual, December 31, 2013, which is attached.

6.17 Additional Disclosure for Issuers without Significant Revenue:

(a) All necessary disclosure has been made in the MD & A.

(b) IFRS does not require this if the exploration expenditures are expensed annually.

(c) the disclosure in the annual MD&A is as required.

6.18 Description of Securities:

(a) disclose the designation and number or principal amount of:

(i) one class of common shares,

(ii) this section does not apply, except as to the Convertible Notes to be issued but not yet issued, as attached.

(iii) Not applicable.

(b) Not applicable at this time.

6.19 Provide Breakdown:
Please see the attached Audited Financial statements.

6.20 Negative cash-flow

The Company is a typical junior resource enterprise with no revenue. See discussion in sections in section 4(1)(c) and (d) on proposed financing.

6.21 This section does not apply.

7. Market for Securities

7.1 The common shares are listed and trade on NEX.

8. Consolidated Capitalization

8.1 The Company held an Annual and Special meeting of shareholders on May 28, 2014.

The shareholders have by special resolution authorized and approved a continuation of the Company from Ontario to British Columbia, the consolidation of the Common shares on a 10:1 basis, and a name change, and subject to the approval of the Exchange, the Company will alter its

share structure by consolidating all of the issued and outstanding shares and warrants of the Company, on the basis of ten (10) old common shares for one (1) new common share.

The Company will also make application to continue from Ontario to British Columbia, and make application to change its name from Galahad Metals Inc. to Rosehearty Energy Inc."

9. Options to Purchase Securities

9.1 All incentive stock options granted by the Company have been cancelled as at May 28, 2014.

10. Description of the Securities

10.1 A description or the designation of each class of equity securities and all material attributes and characteristics are as follows:

COMMON SHARES		PREFERRED SHARES	
Dividend Rights	Yes	Dividend Rights	
Voting Rights	Yes	Voting Rights	No
Rights upon dissolution or Winding Up	No	Rights upon dissolution or Winding Up	
Pre-emptive Rights	No	Pre-emptive Rights	
Conversion or Exchange Rights	No	Conversion or Exchange Rights	
Redemption, Retraction, purchase for cancellation or surrender provisions	No	Redemption, Retraction, purchase for cancellation or surrender provisions	
Sinking or purchase fund Provisions	No	Sinking or purchase fund Provisions	No
Provisions permitting or restricting the issuance of additional securities and any other material restrictions	No	Provisions permitting or restricting the issuance of additional securities and any other material restrictions	No
Provisions requiring a security-holder to contribute additional capital	No	Provisions requiring a security-holder to contribute additional capital	No

10.2 Debt securities – This section does not apply.

10.4 Other securities – This section does not apply.

10.5 Modification of terms: This section does not apply.

10.7 Prior Sales – There have been no such sales.

10.8 Stock Exchange Price:

a) The Company is currently traded on NEX. The range for the last two years is $0.005 to $0.02. The volumes have been negligible and the stock was halted from May to November 2013.

b) The shares trade only on NEX; and

c) The price range has been $0.005 to $0.02 and the volume has not been material.

11. Escrowed Securities

11.1 There are no escrowed securities.

12. Principal Shareholders

12.1 (1) Each principal shareholder of the Issuer as of April 1, 2014 together with their holdings are as follows:

(a) Name; Robin Dow

(b) The number or amount of securities owned of the class to be listed;

Robin Dow: 930,983 Common Shares (1.656%) Beneficial and O Record

(2) The Company is planning a one new for ten old consolidation which will be voted on at the Annual and Special Meeting of the Shareholders of the Company on May 28, 2014.

(3) The Company has no such knowledge.

(4) The Company has no such knowledge.

(5) Fully Diluted holdings of Principal Shareholders is as follows:

Robin Dow 1,480,000 Common Shares, Warrants and Options (2.63%)

13 Directors and Officers

13.1 The name and municipality of residence of each director and executive officer of the Issuer and their respective positions and offices held with the Issuer and their respective principal occupations within the five preceding years are as follows.

Name, and Municipality of Residence, and Position with Company	Principal Occupation during the last five years	Date of Appointment as Director and Expiry of Term	Common Shares Beneficially Owned or controlled Directly or Indirectly and % of Issued & Outstanding shares
ROBIN DOW, West Vancouver, BC, Canada Chairman of the Board of Directors, Chief Executive Officer	Chief Executive Officer of the Dow Group of Companies (Pueblo Potash Inc., Desiree Resources Inc., and Galahad Metals Inc. (TSXV "GAX"))	Since September 2000 CEO at the pleasure of the Board of Directors Re-elected at AGM	930,983
ROBERT SCHELLENBERG*, ** Grand Rapids Michigan Director	Independent lawyer and CPA	Since January 31, 2014 Elected at AGM	0
DON PADGETT*, ** Vancouver, BC Director	Independent financial executive	May 1, 2014 Elected at AGM	0
PATRICIA PURDY Whonnock, BC Corporate Secretary and Director	Independent Corporate Consultant and Paralegal, President of PLP Paralegal Group Ltd. Corporate Secretary of Northaven Resources Corp. (2012 to present) Corporate Secretary of Prophecy Coal Corp. (from April 2013 to March 2014) Corporate Secretary of Pueblo Potash Inc., Desiree Resources Inc., Agr-O Phosphate Inc. from 2012 to present. (Private Affiliates of the Issuer) Director of Red Ore Gold Inc. since 2013	Appointed Corporate Secretary of the Issuer January 20, 2012 At the pleasure of the Board of Directors As a director, elected at AGM	0
DOUGLAS WALLIS Vancouver, BC Chief Financial Officer	Independent Chartered Accountant	Since November 6, 2013 At the pleasure of the Board of Directors	0
ANTHONY MILEWSKI*, ** New York, NY Director	Independent financial executive	May 28, 2014	0

Notes: * Member of Audit Committee
** Member of Compensation Committee

13.6 There is no such person.

13.7 This section does not apply.

13.8 this section is not applicable

13.9 this section is not applicable

13.10 .this section is not applicable

13.11 Management — In addition to the above provide the following information for each member of management:

(a) state the individual's name, age, position and responsibilities with the Issuer and relevant educational background;

Robin Dow, 63 years of age has over 35 years of experience in consulting and in funding private and public corporations. Mr. Dow has held various positions, including senior executive management, in the brokerage industry in Calgary from 1976 to 1988, when he founded his first public company. He is, or has been, a director and/or officer of 12 public and five private companies since 1988. He is currently CEO of Galahad Metals Inc., Desirée Resources Inc. and Agr-O Phosphate Inc. and is Chair of Red Ore Gold Inc. Mr. Dow graduated with a Honors in Business Administration and Masters in Business Administration from the University of Western Ontario in London, Ontario and in 1979, he was granted the FCSI designation by the CSI. Mr. Dow devotes 40 % of his time to the management of Galahad Metals Inc. Mr. Dow is an independent contractor and for the last five years has acted as such to various exploration companies. No non-competition or non-disclosure agreement has been entered into with the Issuer

Patricia Purdy, 67 years of age, has over 40 years of experience in the legal services sector, acting as senior legal assistant in real estate, corporate, commercial and securities law, as well as office manager for a number of Vancouver law firms. She now acts as a corporate and securities consultant to private and public companies providing paralegal services through her company PLP Paralegal Group Ltd. as well as doing SEDAR, SEDI, SEC Edgar, TSX, TSXV, CSE filings, BCSC, OSC filings, and Provincial Corporate jurisdictional filings. Ms. Purdy has also served as corporate secretary since 2005 for Northaven Resources Corp., (NTV-TSXV) 2012 for Galahad Metals Inc., (GAX-NEX) and the other members of the Dow Group of Companies as set out in Section 13.1 above, and was Corporate Secretary of Prophecy Coal Corp. (PCY-TSX) from April 2013 to March 2014. Ms. Purdy dedicates approximately 50% of her time to the management and corporate/securities documentation and jurisdictional filings of Galahad Metals Inc. as an independent contractor. No non-competition or non-disclosure agreement has been entered into with the Issuer

Douglas Wallis,

Doug Wallis, Age 65 has 10 years of experience in accounting with public companies, and prior to retirement was an audit partner in a large local firm of Chartered Accountants in Vancouver, BC. His area of focus was audits of public companies. He was previously the Director of Professional Advisory Services with the Chartered Accountants of BC. Mr. Wallis is an independent contractor, who dedicates approximately 15% of his professional time to the accounting requirements of the Issuer. No non-competition or non-disclosure agreement has been entered into with the Issuer

14. Capitalization

14.1 Prepare and file the following chart for each class of securities to be listed:

Issued Capital

	Number of Securities (non-diluted)	**Number of Securities (fully-diluted)**	**%of Issued (non-diluted)**	**% of Issued (fully diluted)**
Public Float				
Total outstanding (A)	55,291,897	67,954,380	100%	84%
Held by Related Persons or employees of the Issuer or Related Person of the Issuer, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer upon exercise or conversion of other securities held) (B)	930,9830-			
Total Public Float (A-B)	56,222,880			
Freely-Tradeable Float	56,222,880			
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C)	-0-			
Total Tradeable Float (A-C)	56,222,880			

Public Securityholders (Registered & Beneficial)

Please see below the shareholder range provided by Capital Transfer and referencing both Canadian and US shareholders. .

		SECURITIES HELD		
FROM	**TO**	**ACCOUNTS**	**SECURITIES**	**PERCENTAGE**
1	4,999	999	887,731	1.704%
5,000	24,999	384	4,189,573	8.041%
25,000	99,999	205	9,745,927	18.704%
100,000	999,999	88	21,506,011	41.275%
1,000,000	+	9	15,775,500	30.277%
		1,685	52,104,742	100.000%

14.2 this section is not applicable

14.3 this section is not applicable

15. Executive Compensation

Name and Principal Position	Year	Annual Compensation			Long Term Compensation			All Other Compensation ($)
					Awards		Payouts	
		Salary ($)	Bonus ($)	Other Annual Compensation (1) ($)	Securities Under Options/ SARs Granted (#)	Restricted Shares or Restricted Share Units ($)	LTIP Payouts ($)	
ROBIN DOW CEO(5)	2013	$0	Nil	Nil	1,050,000	0	0	0
	2012	$24,500	Nil	Nil	1,050,000	0	0	0
SABINO DI PAOLA (2)	2012	$47,880	Nil	Nil	350,000	0	0	0
LARRY HOOVER (3)	2013, 2012	Nil Nil	Nil Nil	Nil Nil	640,000 640,000	0 0	0 0	0 0
DOUGLAS WALLIS CFO (4)	2013	$3,000	Nil	Nil	Nil	0	0	0

(1) Perquisites and other personal benefits does not exceed the lesser of $50,000 and 10% of the total of the annual salary and bonus of any of the named executive officers.
(2) Mr. Di Paola resigned as CFO on July 31, 2012 and his options expired after 90 days.
(3) Mr. Larry Hoover was appointed as Interim CFO on November 29, 2012, replacing Mr. Di Paola. He received no compensation as Interim CFO of the Company and resigned on November 6, 2013.
(4) Mr. Douglas Wallis was appointed as permanent CFO on November 6, 2013. His compensation is $1,000 per month.
(5) Robin Dow receives compensation as CEO of $7,500 per month, if as and when funds are available.

No options were granted to any Named Executive officer in the year ending December 31, 2013.

16. Indebtedness of Directors and Executive Officers

16.1 There is no material Indebtedness at this time.

16.2 this section is not applicable

17. Risk Factors

The following risk factors relate to the risks associated with business, exploration, and production activities on the South Temryuk property (ST-1) located in the Krasnodar Region of Southern Russia (the "Temryuk Property").

Russian Specific Risks

Social risks, such as crime, corruption, and social instability, could disrupt the Company's ability to conduct business in Russia and thus could materially affect the Company's business, exploration, and production activities in Russia. The Company is very much aware of such problems and has taken steps internally to guard against any such difficulties.

Political risks in Russia may also adversely affect the Company's business, exploration, and production activities. The Crimean peninsula, the site of recent civil unrest and military intervention, is approximately 100 kilometers away from Temryuk. As a result, the Company is at risk of expropriation or nationalization of substantial assets, without adequate compensation.

The unpredictability of the Russian legal system also creates risks that may adversely affect the Company's business, exploration, and production activities. The independence of the judicial system and its immunity from political, economic and nationalistic influences in Russia remains largely untested. Judicial precedents generally have no binding effect on subsequent decisions. Not all legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The judicial systems can be slow. Enforcement of court orders can be difficult. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Court orders are not always enforced or followed by law enforcement agencies. Non-compliance with real estate laws could also materially affect the Company's Russian assets and therefore its business.

Economic risks in Russia may also adversely affect the Company's business. Russia is potentially at risk of engaging in a trade and economic sanction exchange other countries. These actions could also affect the Company's assets in Russia, and thus the Company's business, and include expropriation and/or nationalization of assets, restrictions on and government intervention in international trade, confiscatory taxation, further political stability, including authoritarian and/or military involvement in governmental decision making, armed conflict, the impact on the economy as a result of civil war, and social instability as a result of religious, ethnic and/or socioeconomic interest. Furthermore, the Russian government may restrict or control the ability of foreign investors to invest in Russia or in foreign businesses operating in Russia.

Russia also has relatively underdeveloped infrastructure, such as rail and road networks, electric power generation, transmission and distribution, district heating systems and water utilities, and communication systems, which could frustrate the Company's exploration and production activities and thus the Company's business.

Stage of Development

An investment in Galahad is subject to certain risks related to the nature of Galahad's exploration and production business and its early stage of development. There are numerous factors which may affect the success of Galahad's business which are beyond Galahad's control such as local, national and international economic and political conditions that affect the South Temryuk property (ST-1) located in Russia, including but not limited to unusually high development or operating costs, a need to build infrastructure or a major facility, such as a pipeline, before production could begin, or contractual obligations to produce and sell a significant portion of production at prices substantially below those which could be realized but for those contractual obligations.

Galahad's exploration and production business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. Galahad's operations in Russia have exposed Galahad to risks which may not exist for domestic operations such as political and currency risks. Galahad has a limited history of operations and no material earnings to date and there can be no assurance that Galahad's business will be successful or profitable or that commercial quantities of crude oil will be discovered by Galahad.

Acquisition of Galahad's Property

Galahad has purchased approximately a 96% + interest in Arax Energy Inc., a Canadian corporation which has a 47% direct interest in OAO Techniton ("Techniton"), which in turn owns a 100% interest in the South Temryuk license in Russia. It is the Company's intent to negotiate an agreement with the balance of the other interest holders, in Q3 2014, to obtain the opportunity to own up to a 70% interest in Techniton.

Operating Hazards

There are risks associated with the drilling of oil wells, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, craterings, sour gas releases, gas leaks, fires and spills. Reduced revenues or losses resulting from the occurrence of any of the risks noted could have a material adverse effect on Galahad and its future results of operations. Galahad may become subject to liability for pollution, blow-outs or other hazards. Galahad may obtain insurance with respect to these hazards as required in due course; however, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. The payment of such liabilities could reduce the funds available to Galahad or could, in an extreme case, result in a total loss of its properties and assets. Moreover, there can be no assurance that Galahad will be able to maintain adequate insurance in the future at rates that are considered reasonable. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations. Galahad may become responsible for costs associated with complying with environmental regulations, and abandoning and reclaiming wells, facilities and pipelines which it uses for production of its oil and gas reserves. Abandonment and reclamation of its

current facilities and the costs associated therewith is often referred to as "decommissioning". There are no immediate plans to establish a reserve account for these potential costs in respect of any of its future properties or facilities; rather, the costs of decommissioning are expected to be paid from the proceeds of production in accordance with the practice generally employed in onshore oilfield operations. Should decommissioning be required prior to economic depletion of the current properties of Galahad or should the estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time to cover such decommissioning costs, Galahad may have to draw on funds from other sources to satisfy such expenses. The use of other funds to satisfy such decommissioning expenses could have a material adverse effect on the financial position and future results of the operations of Galahad.

Political Investment Risk

Galahad may hold mineral interests in countries that may be affected by varying degrees of political instability, including but not limited to Russia. These risks and uncertainties include military repression, political and labour unrest, military coups, extreme fluctuations in currency exchange rates, high rates of inflation, terrorism, hostage taking and expropriation. Any changes in regulations or shifts in political conditions are beyond the control of Galahad and may adversely affect its business and/or its holdings. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation, safety factors and other risk factors common to developing countries. In addition, in the event that Galahad is successful in negotiating the acquisition of an interest in the Temryuk Property, the status of Russia as a developing country may make it more difficult for Galahad to obtain required financing because of the investment risks associated with such a country.

Development of Reserves

Techniton does have the right to potentially produce commercial reserves on its license until 2032.

The future value of Galahad is dependent on the success or otherwise of Galahad's activities which are principally directed toward the establishment and development of a reserve base, and further exploration of any acquired assets. Exploration, appraisal and development of reserves, including but not limited to crude oil reserves, are speculative and involve a significant degree of risk. There is no guarantee that Galahad will be able to acquire any future property interests, establish any reserves or realize any future reserves as intended. Few properties that are explored are ultimately developed into new reserves. If at any stage Galahad is precluded from pursuing its exploration or development programmes, or such programmes are otherwise not continued, Galahad's business, financial condition and/or results of operations and, accordingly, the trading price of the shares, is likely to be materially adversely affected. Exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by Galahad will result in discoveries of reserves that are commercially or economically possible. It is difficult to project the

costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Economic Uncertainty in Developing Countries

Galahad's potential future operations in the Republic of Russia or in such other developing country may be adversely affected by the economic and political uncertainty which is characteristic of developing countries. For example, some countries have experienced high rates of inflation for many years. There can be no assurance that any governmental action to control inflationary or deflationary situations will be effective in ensuring economic stability, or that future governmental actions will not trigger inflationary or deflationary cycles. In addition, changes in inflation rates or deflation and governmental actions taken in response to such changes can also affect currency values in such countries. Any such changes could have a material adverse effect on Galahad's results of operations and financial condition.

Economic Recovery of Reserves

All evaluations of future net revenues are calculated before consideration of indirect costs such as administrative overhead not related to direct field operations, other miscellaneous expenses and income taxes. The future net revenues may not be representative of the fair market value of the reserves. There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves, including many factors beyond the control of Galahad. In general, estimates of economically recoverable reserves and the future net revenues obtained therefrom are based on a number of variable factors and assumptions such as commodity prices, the assumed effects of regulation by governmental agencies and future operating costs, each of which may vary considerably from actual results. Estimates of certain economically recoverable reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially.

Fluctuation of Commodity Prices

The price of certain commodities, such as oil and gas, are determined based on world demand, supply and other factors, all of which are beyond the control of Galahad. Fore example, crude oil is influenced by the world economy and OPEC's ability to adjust supply to world demand. Recently, crude oil prices have been kept high by political events causing disruptions in the supply of oil, and concern over potential supply disruptions triggered by unrest in the Middle East. Political events trigger large fluctuations in oil price levels. World prices for oil have fluctuated widely in recent years.

Future price fluctuations in world prices are expected and will have a significant

impact upon any future projected revenue of Galahad, any future projected return from any future reserves and the general financial viability of Galahad.

The oil prices realized by Galahad are affected by factors such as supply and demand, oil quality and transportation adjustments. There is no assurance that the price paid for any oil which may be produced by Galahad in the future, if at all, will remain at current levels. A decrease in the price obtained for oil may have a material adverse effect on the financial condition of Galahad and its future results of operations.

Risks of Foreign Operations

All of Galahad's properties and operations are located in foreign jurisdictions. As such, Galahad is subject to political, economic, and other uncertainties, including, but not limited to, expropriation of property without fair compensation, changes in energy policies or the personnel administering them, nationalization, currency fluctuations and devaluations, exchange controls and royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which Galahad's operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections. Galahad's operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with Galahad's operations in Russia, Galahad may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. Galahad may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, Galahad's exploration, development and production activities in Russia could be substantially affected by factors beyond Galahad's control, any of which could have a material adverse effect on Galahad.

Galahad's operations may be adversely affected by changes in government policies and legislation or social instability and other factors which are not within the control of Galahad including, among other things, a change in crude oil pricing policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, the imposition of specific drilling obligations and the development and abandonment of fields.

Additional Financing

Galahad will require significant additional financing. The ability of Galahad to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of Galahad. Periodic fluctuations in energy prices may affect lending policies of future bankers of Galahad for new borrowings, if available. This in turn could limit growth prospects in the short run or may even require Galahad to dedicate cash flow, dispose of any future properties acquired or raise new equity to continue operations under circumstances of declining energy prices, disappointing drilling results, or

economic or political dislocation in foreign countries. There can be no assurance that Galahad will be successful in its efforts to arrange additional financing on terms satisfactory to Galahad. This may be further complicated by the limited market liquidity for shares of smaller companies, restricting access to some institutional investors. If additional financing is raised by the issuance of shares from treasury of Galahad, control of Galahad may change and shareholders may suffer additional dilution.
From time to time Galahad may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may temporarily increase Galahad's debt levels above industry standards.

Market Price for Galahad Shares

If an active public market does not develop, the liquidity of the Galahad shares and Galahad warrants may be limited, and the price of the Galahad shares and warrants may decline.

Industry Conditions

The resource industry is intensely competitive and Galahad competes with other companies which possess greater technical and financial resources. For example, many of these competitors not only explore for and produce crude oil but, also carry on refining operations and market petroleum and other products on an international basis. Crude oil production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and invasion of water into producing formations. The marketability and price of crude oil, which may be acquired or discovered by Galahad will be affected by numerous factors beyond the control of Galahad. The ability of Galahad to market any natural gas discovered may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Galahad is also subject to market fluctuations in the prices of crude oil (including price controls in Russia), uncertainties related to the delivery and proximity of its reserves to pipelines and processing facilities and extensive government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of crude oil and many other aspects of the crude oil and natural gas business. Galahad is also subject to a variety of waste disposal, pollution control and similar environmental laws. The crude oil industry is subject to varying environmental regulations in each of the jurisdictions in which Galahad may operate. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently with crude oil and can impact on the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures. Galahad may be responsible for abandonment and site restoration costs. As of the date hereof, Galahad has not reserved any funds for future site restoration costs.

Foreign Subsidiaries

Galahad may conducts its operations through a Russian partner or subsidiary, who may be subject to certain Russian laws that a foreign entity is not subject to. For example, a Russian subsidiary may be forced into liquidation on the basis of formal

non-compliance with certain requirements of Russian law, which could materially adversely affect the Company's business, financial condition, results of operations or prospects. Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or during its operation. For example, in Russian corporate law, if the net assets of a company calculated on the basis of an unconsolidated balance sheet prepared in accordance with Russian accounting standards as at the end of the second or any subsequent financial year of a company's operation are lower than the statutory minimum amount of charter capital (RUR10,000), this can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities. The creditors of such company may also demand acceleration of performance of any obligations owed to them, which could lead to bankruptcy or insolvency proceedings being initiated for non-fulfillment of creditors' claims. Any such liquidation of the Company's Russian subsidiaries could lead to additional costs, which could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Galahad will conduct the majority of its operations through Centrix Energy Inc. ("Centrix"), a Russian corporation, in which it holds a 100% interest. Therefore, to the extent of this holding, Galahad will be dependent on the cash flows of Centrix a to meet its obligations. The ability of Centrix to make payments to Galahad may be constrained by the following factors:

(i) the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which it operates; and
(ii) the introduction of exchange controls or repatriation restrictions or the availability of hard currency to be repatriated.

Need to Add Reserves

Any future cash flows and earnings of Galahad are highly dependent upon Galahad discovering or acquiring reserves. Without the addition of reserves through exploration, acquisition or development activities, Galahad will not be able to establish any cash flow from operations, and in the event that external sources of capital become limited or unavailable, Galahad's ability to continue operations will be impaired. There can be no assurance that Galahad will be able to find and develop or acquire reserves upon terms acceptable to Galahad or at all.

Environmental Regulation and Risks

Extensive national, state and local environmental laws and regulations in foreign jurisdictions affect nearly all of the operations of Galahad. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. There can be no assurance that Galahad will not incur substantial financial obligations in connection with environmental compliance. Significant liability could be imposed on Galahad for damages, cleanup costs or

penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased by the Galahad Group or noncompliance with environmental laws or regulations. Such liability could have a material adverse effect on Galahad. Moreover, Galahad cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by Galahad for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on Galahad.

Volatility of Crude Oil and Gas Prices and Markets

Galahad's financial condition, operating results and future growth are dependent on the prevailing prices for its resource production. For example, historically, the markets for crude oil have been volatile and such markets are likely to continue to be volatile in the future. Prices for crude oil are subject to large fluctuations in response to relatively minor changes to the demand for crude oil, whether the result of uncertainty or a variety of additional factors beyond the control of Galahad. Any substantial decline in the prices of crude oil could have a material adverse effect on Galahad. Additionally, the economics of producing from any future reserves of Galahad, if any, may change as a result of lower prices, which could result in a suspension of any future production by Galahad. No assurance can be given that crude oil prices will be sustained at levels which would enable Galahad to operate profitably in the future. From time to time Galahad may avail itself of forward sales or other forms of hedging activities with a view to mitigating its exposure to the risk of price volatility.

Reserve and Resource Estimates

There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves and resources and cash flows to be derived there from, including many factors beyond the control of Galahad. There are currently no 2P reserve or 2P resource estimates attributable to any property interest of Galahad. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves and resources, timing and amount of capital expenditures, marketability of production, future prices of crude oil, operating costs, abandonment and salvage values, royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions are based on price forecasts in use at the date the relevant evaluations are prepared and many of these assumptions are subject to change and are beyond the control of Galahad. Actual production and cash flows derived there from will vary from such evaluations, and such variations could be material. The estimated discounted future cash flow from reserves are based upon price and cost estimates which may vary from actual prices and costs and such variance could be material. Actual future net cash flows will also be affected by factors such as the amount and timing of actual production, supply and demand for crude oil, curtailments or increases in consumption by purchasers and changes in governmental regulations or taxation.

Requirement for Permits and Licenses

The operations of Galahad require Galahad to obtain licenses for operating,permits, and in some cases, renewals of existing licenses and permits from the authorities in Russia and possibly governmental agencies in other foreign jurisdictions.
Galahad believes that it currently holds or has applied for all necessary licenses and permits currently applicable to it, to carry on the activities which it is currently conducting under applicable laws and regulations in respect of its property interests, and also believes that it is complying in all material respects with the terms of such licenses and permits. However, the ability of Galahad to obtain, sustain or renew such licenses and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions.

Attraction and Retention of Key Personnel Including Directors

Galahad has a small management team and the loss of a key individual or inability to attract suitably qualified staff could have a material adverse impact on the business of Galahad. Galahad may also encounter difficulties in obtaining and maintaining suitably qualified staff in certain of the jurisdictions in which Galahad conducts business. The success of Galahad depends on the ability of management to interpret market and geological data correctly and to interpret and respond to economic, market and other conditions in order to locate and adopt appropriate investment opportunities, monitor such investments and ultimately, if required, successfully divest such investments. Further, no assurance can be given that the investment strategies of Galahad will be successfully implemented in the future, that individuals with the required skills will continue their association or employment with Galahad or that replacement personnel with comparable skills can be found. Galahad has sought to and will continue to ensure that directors and any key employees are provided with appropriate incentives; however, their services cannot be guaranteed.

Potential Conflicts of Interest

There are potential conflicts of interest to which some of the directors and officers of Galahad will be subject in connection with the operations of Galahad. Some of the directors and officers are or will be engaged in the search of crude oil interests on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with Galahad. Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by the OBCA which require a director or officer of a corporation who is a party to or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with Galahad, to disclose his interest and to refrain from voting on any matter in respect of such contract unless otherwise permitted under the OBCA.

Galahad's Operations in Russia

Galahad acquired its direct interest in Arax in April, 2014.
Accordingly, due to the recent nature of this acquisition, the board of directors of Galahad (the "**Galahad Board**") has had a limited opportunity to develop the knowledge and experience necessary to oversee the foreign operating environment in which the Temryuk Property exists. The Galahad Board is committed to best corporate governance practices, and accordingly it has exercised additional diligence
with respect to its acquisition of the Temryuk Property and ongoing operations in Russia in order to close any knowledge gap that might exist in this regard, including as further described below.

Centrix will manage the relationship with the local governmental authorities in Russia. Centrix has extensive experience in the cultural, political and business practices of Russia, including specifically with respect to the regulatory and legal framework governing oil and gas operations in Russia. Accordingly, Centrix is an invaluable resource available to the Galahad Board in understanding local customs, politics and business practices in Russia.

Galahad has also established processes to actively monitor and analyze the political landscape in Russia in order to better manage the political risks of operating in Russia. Galahad's strategic, operational and investment plans will be adjusted accordingly where required. On a going forward basis, the Galahad Board may also arrange for site visits to the Temryuk Property to enhance the understanding by the Galahad Board of business operations in Russia. In addition, Galahad may consider appointing one or more additional board members who have an in depth understanding of business operations in Russia. However, notwithstanding the foregoing, Galahad will seek to maintain the overall small size of the Galahad Board in order to facilitate effective communication between Galahad and Centrix with respect to key operating decisions made at the Centrix level.

As an Ontario company, all of the financial and other books and records of Galahad will be maintained in Ontario in the English language. The books and records of Centrix are expected to be maintained by Galahad and will be principally in the English language. As Galahad and Centrix are not currently conducting any active exploration activities in Russia, there are limited financial transactions between the two companies. The Galahad Board and the accountant of Galahad will also review the financial activities and financial data in respect of Galahad's foreign operations on a regular basis. The Galahad Board and the accountant of Galahad will have signing authority over Centrix' bank accounts in order to ensure that the appropriate controls are in place to safeguard funds.

Exploration, Development and Operating Risks

Resource exploration and production operations generally involve a high degree of risk. Centrix' operations are subject to all the hazards and risks normally encountered in the exploration, development and production of oil and gas, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and

other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

The exploration for and development of energy deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate.
Major expenses may be required to locate and establish oil and gas reserves, to develop processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by Centrix will result in a profitable commercial oil and gas operation. Whether an oil and gas deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as quantity and quality of oil and gas and proximity to infrastructure; energy prices which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of oil or gas and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Centrix not receiving an adequate return on invested capital. There is no certainty that the expenditures made by Galahad towards the search and evaluation of energy resources will result in discoveries of commercial quantities of any oil or gas.

Insurance and Uninsured Risks

Galahad's business is subject to a number of risks and hazards generally, includingadverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to Galahad's properties or the properties of others, delays in production, monetary losses and possible legal liability.
Although Galahad maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with a production company's operations. Galahad may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Galahad or to other companies in the production industry on acceptable terms. Galahad might also become subject to liability for pollution or other hazards which may not be insured against or which Galahad may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Galahad to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Environmental Risks and Hazards

All phases of Galahad's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Galahad's' operations. Environmental hazards may exist on the properties on which Galahad holds interests which are unknown to Galahad at present and which have been caused by previous or existing owners or operators of the properties. Government approvals, approval of aboriginal people and permits are currently, and may in the future be required in connection with Galahad's operations. To the extent such approvals are required and not obtained, Galahad may be curtailed or prohibited from continuing its operations or from proceeding with planned exploration or development of mineral properties.
Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in production operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the production activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of production and exploration companies, or more stringent implementation thereof, could have a material adverse impact on Galahad and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new properties.

Infrastructure

Production, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect Galahad's operations, financial condition and results of operations.

Land Title

No assurances can be given that there are no title defects affecting any properties of Galahad. Title insurance generally is not available, and Galahad's ability to ensure that it has obtained secure claim to individual energy properties or energy

concessions may be severely constrained. Furthermore, Galahad has not conducted surveys of the claims in which it currently holds direct or indirect interests and, therefore, the precise area and location of such claims may be in doubt. Accordingly, Galahad's energy properties may be subject to prior unregistered liens, agreements, transfers or claims, including native / tribal land claims, and title may be affected by, among other things, undetected defects. In addition, Galahad may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

Competition

The resource and energy industries are competitive in all of their phases. Galahad faces strong competition from other energy companies in connection with the acquisition of properties producing, or capable of producing, oil and gas. Many of these companies have greater financial resources, operational experience and technical capabilities than Galahad. As a result of this competition, Galahad may be unable to maintain or acquire attractive energy resource properties on terms it considers acceptable or at all. Consequently, Galahad's revenues, operations and financial condition could be materially adversely affected.

Additional Capital

The development and exploration of Galahad's properties will require substantial additional financing. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration, development or production on any or all of Galahad's properties or even a loss of property interest. The primary source of funding available to Galahad consists of equity financing. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to Galahad.

Commodity Prices

The price of the Galahad shares, Galahad's financial results and exploration, development and energy activities may in the future be significantly adversely affected by declines in the price of petroleum or natural gas. The price of oil and gas fluctuates widely and is affected by numerous factors beyond Galahad's control such as the sale or purchase of commodities by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, the political and economic conditions of major energy-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges.

Future serious price declines in the market value of oil and gas could cause continued development of and commercial production from Galahad's properties to be impracticable. Depending on the price of oil and gas, Galahad could be forced to discontinue operations and may lose its interest in, or may be forced to sell, some of its properties. Future production from Galahad's energy properties, if any, is dependent upon the prices of oil and gas being adequate to make these

properties economic.

In addition to adversely affecting Galahad's financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Exchange Rate Fluctuations

Exchange rate fluctuations may affect the costs that Galahad incurs in its operations.

Commodities are generally sold in U.S. dollars and Galahad's costs are incurred principally in Canadian dollars. The appreciation of non-U.S. dollar currencies against the U.S. dollar can increase the cost of oil and gas and other energy exploration and production in U.S. dollar terms.

Government Regulation

The development, processing, production, and energy exploration activities of Galahad are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. Although Galahad's exploration and development activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of production and milling or more stringent implementation thereof could have a substantial adverse impact on Galahad.

Market Price of Common Shares

Securities of micro-cap and small-cap
companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. The price of the Galahad shares is also likely to be significantly affected by short-term changes in precious metal or other mineral prices or in its financial condition or results of operations as reflected in its quarterly earnings reports. Other factors unrelated to Galahad's performance that may have an effect on the price of the Galahad shares include the following: the extent of analytical coverage available to investors concerning Galahad's business may be limited if investment banks with research capabilities do not follow Galahad's securities; lessening in trading volume and general market interest in Galahad's securities may affect an investor's ability to trade significant numbers of Galahad shares; the size of

Galahad's public float may limit the ability of some institutions to invest in Galahad's securities; and a substantial decline in the price of the Galahad shares that persists for a significant period of time could cause Galahad's securities, if listed on an exchange, to be delisted from such exchange, further reducing market liquidity.

As a result of any of these factors, the market price of the Galahad shares at any given point in time may not accurately reflect Galahad's long-term value. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. Galahad may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Dividend Policy

No dividends on the Galahad shares have been paid to date. Payment of any future dividends will be at the discretion of Galahad's Board after taking into account many factors, including Galahad's operating results, financial condition and current and anticipated cash needs.

Future Sales of Galahad Shares by Existing Shareholders

Sales of a large number of Galahad shares in the public markets, or the potential for such sales, could decrease the trading price of the Galahad shares and could impair Galahad's ability to raise capital through future sales of Galahad shares.

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Key Executives

Galahad is dependent on the services of key executives, including the directors of Centrix and a small number of highly skilled and experienced executives and personnel. Due to the relatively small size of Galahad, the loss of these persons or Galahad's inability to attract and retain additional highly skilled employees may adversely affect its business and future operations.

Conflicts of Interest

Certain of the directors and officers of Galahad also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving Galahad should be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of Galahad and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the OBCA and other applicable laws.

17.2 There is no such risk.

17.3 This section does not apply.

18 Promoters

18.1 For a person or company that is, or has been within the two years immediately preceding the date of the Listing Statement, a promoter of the Issuer or of a subsidiary of the Issuer, state:

Name of Promoter (a)	Number and % of voting securities & equity securities (b)	Nature of Compensation (c)	(d)
Robin Dow	930,983 Common Shares (1.65%) 1,050,000 Stock Options	$7,500 per month*	n/a
Wayne Meredith	0 Common Shares 200,000 Stock Options	N/A	n/a

* payable if and when funds are available.

18.2 (1) (2) **Orders**

Robin Dow ("**Mr. Dow**") was the Chief Executive Officer of Wedge Energy International Inc. ("**Wedge**") on May 31, 2007, when the Ontario Securities Commission issued a temporary cease trade order against Wedge. On June 12, 2007 the temporary cease trade order became a cease trade order. The cease trade order was imposed due to the failure of Wedge to file interim financial statements for the three-month period ended March 31, 2007 and management's discussion and analysis relating to the interim financial statements for the three-month period ended March 31, 2007 within the prescribed time for filing. On August 14, 2007, the ceased trade order was lifted by the Ontario Securities Commission.

On May 15, 2009, the Ontario Securities Commission issued a management cease trade order against Mr. Dow in its capacity as Chief Executive Officer of Wedge. The management cease trade order was imposed due to the failure of Wedge to file its annual audited financial statements, management's discussion and analysis and related certifications for the year ended December 31, 2008 within the prescribed time for filing. Wedge filed its year end financials for the year ending December 31, 2008 on August 18, 2009. On August 21, 2009 Wedge filed its interim financials for the quarter ending March 31, 2009 and on August 28, 2009 Wedge filed its interim financials for the quarter ending June 30, 2009. On August 31, 2009, the management ceased trade order was lifted by the Ontario Securities Commission.

On May 14, 2010, the Ontario Securities Commission issued a temporary management cease trade order against Mr. Dow in his capacities of Chief Executive Officer of Diamond International Exploration Inc. ("DIX"). The temporary management cease trade order was imposed due to the failure of DIX to file its annual audited financial statements, management's discussion and analysis and related certifications for the year ended December 31, 2009 within the prescribed time for filing. The required filings were completed and filed on SEDAR on June 30, 2010 and the temporary management cease trade order was subsequently lifted.

Mr. Dow was the Chief Executive Officer of Galahad Metals Inc. ("Galahad") when the Ontario Securities Commission, the *Autorité des marchés financiers* and the British Columbia Securities Commission issued temporary cease trade orders and/or cease trade orders against Galahad. On May 3, 2013, the Ontario Securities Commission issued a temporary cease trade order against Galahad, which was extended by a cease trade order on May 15, 2013. On May 6, 2013, the *Autorité des marchés financiers* issued a temporary cease trade order against Galahad, which was extended by a cease trade order on May 21, 2013. On May 8, 2013, the British Columbia Securities Commission issued a cease trade order against Galahad. The cease trade orders were imposed due to the failure of Galahad to file its annual audited financial statements, it's management's discussion and analysis and related certifications for the year ended December 31, 2012 within the prescribed time (collectively, the "2012 Annual Filings"). On August 2, 2013, Galahad filed its 2012 Annual Filings and its interim financial statements, it's management's discussion and analysis and related certifications for the 3 month period ending March 31, 2013. On October 31, 2013, each of the Ontario Securities Commission, the *Autorité des marchés financiers* and the British Columbia Securities Commission revoked their cease trade orders.

19. Legal Proceedings

This Section is not applicable.

20. Interest of Management and Others in Material Transactions

20.1 there are no such material interests.

21. Auditors, Transfer Agents and Registrars

21.1 **AUDITOR:**
James Stafford, Chartered Accountants, Suite 350 - 1111 Melville StreetVancouver, British Columbia Canada V6E 3V6 appointed May 21, 2013

21.2 **TRANSFER AGENT**:
Capital Transfer Agency, Inc., 121 Richmond Street West, Suite 401, Toronto, ON M5H 2K1

22. Material Contracts

22.1 this section is not applicable

23 Interest of Experts

There are no such interests.

24. Other Material Facts

24.1 There are no such material facts.

25. Financial Statements

25.1 Provide the following audited financial statement for the Issuer:

(a) Please see attached, the audited financial statements for the financial years ending December 31, 2012 (Appendix “B”)and December 31, 2013 (Appendix “C”).

(b) The first quarter statements have been completed and filed on SEDAR. There is no material change from the year ended 2013.

25.2 This section is not applicable.

The first certificate below must be signed by the CEO, CFO, any person or company who is a promoter of the Issuer and two directors of the Issuer. In the case of an Issuer re-qualifying following a fundamental change, the second certificate must also be signed by the CEO, CFO, any person or company who is a promoter of the target and two directors of the target.

CERTIFICATE OF THE ISSUER

Pursuant to a resolution duly passed by its Board of Directors, GALAHAD METALS INC., hereby applies for the listing of the above mentioned securities on CNSX. The foregoing contains full, true and plain disclosure of all material information relating to GALAHAD METALS INC.. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Vancouver, British Columbia, this 19th day of June, 2014.

Robin Dow, Chief Executive Officer	Douglas Wallis, Chief Financial Officer
Robin Dow, Promoter	Patricia Purdy, Director
Robin Dow, Director	

APPENDIX A:

MINERAL PROJECTS

This section does not apply.

APPENDIX B: OIL AND GAS PROJECTS

1. Drilling Activity — the Company has no previous drilling activity.
2. Location of Production — There is no production.
3. LOCATION OF WELLS: Arax Energy Inc. owns 47% of the South Temryuk License. The South Temryuk license is located within the western portion of the Krasnodar Krai in the southwestern Russia. The license itself is sandwiched between 2 mature old oilfields, Kurchanskoye and Strelchanskoye, which have produced 80 million barrels of oil and 30 million barrels respectively from the shallow Sarmat sand reservoirs. The main surface feature is the river running through the middle of the license area, with the low hills on either side where the oilfields are located. The license was initially awarded as a five (5) year exploration license in 2004; the original term of this license was prolonged in 2009 until December 2012. For the purpose of estimating reserves and resources, it has been assumed that the license can readily be extended once production has commenced. There are no financial commitments on this license to which Techniton is tied currently. The original commitments - recording 60 km of 2D seismic and drilling one well - have been completely fulfilled. After payment of all Russian tax- es, Techniton retains a 100% interest of all petroleum sales for this license.
4. Interest in Material Properties — The license covers approximately 1.5 sq.km.
5. Reserve Estimates :

CONTINGENT RESOURCES

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially re- coverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies or where evaluation of the accumulation is insufficient to clearly assess commerciality.

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub- classified based on project maturity and/or characterized by their economic status.

Summary of Oil and Natural Gas Gross Contingent Resources Attributable to Techniton fromSouth Temryuk License Assets in Krasnodar Krai, Russian Federation

As of 30th September, 2013
Forecast Resources (1)(2)(3))(4))(5)

	Low Estimate	Mid Estimate	High Estimate
South Temryuk License			
Crude Oil Resources (MMstb)	0.00	0.00	0.00
Gas Condensate Resources (MMstb)	0.84	1.75	3.63
Natural Gas Resources (Bcf)	23.86	30.13	35.78
Oil Equivalent Reserves (MMboe)	3.98	5.02	5.96

(1) Columns may not add up due to rounding
(2) Resources are based primarily on the results of historical down-hole formation tests, in which significant hydrocarbons were encountered, in wells which were drilled on geological structures
(3) Oil resources have been interpreted in the following formations:
(4) Gas resources have been interpreted in the following formations: Chokrak CH12 (Middle Miocene)
(5) Gas resources have been converted from Bcf to BOE using: 6000cf = 1.0 BOE

Summary of Oil and Natural Gas Net Entitlement Contingent Resources Attributable to Techniton from South Temryuk License Asset in Krasnodar Krai, Russian Federation

As of 30th September, 2013

	Low Estimate	Mid Estimate	High Estimate
South Temryuk License			
Crude Oil Resources (MMstb)	0.00	0.00	0.00
Gas Condensate Resources (MMstb)	0.84	1.75	3.63
Natural Gas Resources (Bcf)	23.86	30.13	35.78
Oil Equivalent Reserves (MMboe)	3.98	5.02	5.96

Total Oil and Natural Gas Net Entitlement Contingent Resources Attributable to Techniton from South Temryuk License Asset in Krasnodar Krai, Russian Federation

As of 30th September, 2013

	Low Estimate	Mid Estimate	High Estimate
South Temryuk License			
Crude Oil Resources (MMstb)	0.00	0.00	0.00
Gas Condensate Resources (MMstb)	0.84	1.75	3.63
Natural Gas Resources (Bcf)	23.86	30.13	35.78
Oil Equivalent Reserves (MMboe)	3.98	5.02	5.96

PROSPECTIVE RESOURCES

Prospective resources are those quantities of natural gas and oil that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. As a result of the lack of

sufficient exploration drilling, the prospective resources estimated and included in the Resource Report cannot be classified as reserves pursuant to NI 51-101.

The Resource Report includes an evaluation of both prospects and leads, with the distinction between these subcategories of prospects being the current stage of technical evaluation. The different stages of technical evaluation relate to the amount of geologic, geophysical, engineering and petrophysical data, as well as the quality of available data. A prospect is a potential accumulation that is sufficiently well defined to represent a viable drilling target. For a prospect, sufficient data and analyses exist to identify and quantify the technical uncertainties, determine reasonable ranges of geologic chance factors, engineering and petrophysical parameters, and estimate prospective resources. A lead is a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be considered a prospect. A lead may or may not be elevated to prospect status depending on the results of additional technical work.

Summary of Oil and Natural Gas Gross Prospective Resources Attributable to Techniton fromSouth Temryuk License Assets in Krasnodar Krai, Russian Federation

As of 30th September 2013
Forecast Resources (1)(2)(3) (4) (5) (6)

	Low Estimate	Mid Estimate	High Estimate
South Temryuk License			
Crude Oil Resources (MMstb)	0.91	2.23	5.67
Gas Condensate Resources (MMstb)	4.55	10.25	23.14
Associated Gas Resources (Bcf)	1.29	3.29	9.06
Natural Gas Resources (Bcf)	128.36	280.66	615.60
Oil Equivalent Reserves (MMboe)	21.39	46.78	102.6

(1) Columns may not add up due to rounding
(2) Resources are based primarily on the results of historical down-hole formation tests, in which significant hydrocarbons were encountered, in wells which were drilled on geological structures
(3) Oil resources have been interpreted in the following formations: Sarmat (Upper Miocene).
(4) Associated Gas resources have been interpreted in the following formations: Sarmat (Upper Miocene).
(5) Gas resources have been interpreted in the following formations: Chokrak (Middle Miocene)
(6) Gas resources have been converted from Bcf to BOE using: 6000cf = 1.0 BOE

Summary of Oil and Natural Gas Net Entitlement Prospective Resources Attributable to Techniton from South Temryuk License Asset in Krasnodar Krai, Russian Federation

As of 30th September, 2013

	Low Estimate	Mid Estimate	High Estimat
South Temryuk License			
Crude Oil Resources (MMstb)	0.91	2.23	5.67
Gas Condensate Resources (MMstb)	4.55	10.25	23.14

Associated Gas Resources (Bcf)	1.29	3.29	9.06
Natural Gas Resources (Bcf)	128.36	280.66	615.60
Oil Equivalent Reserves (MMboe)	21.39	46.78	102.6

Total Oil and Natural Gas Net Entitlement Prospective Resources Attributable to Techniton from South Temryuk License Asset in Krasnodar Krai, Russian Federation

As of 30th September 2013

	Low Estimate	Mid Estimate	High Estimate
South Temryuk License			
Crude Oil Resources (MMstb)	0.91	2.23	5.67
Gas Condensate Resources (MMstb)	4.55	10.25	23.14

Associated Gas Resources (Bcf)	1.29	3.29	9.06
Natural Gas Resources (Bcf)	128.36	280.66	615.60
Oil Equivalent Reserves (MMboe)	21.39	46.78	102.6

PART 3: PRICING ASSUMPTIONS

OIL
A constant oil price of $100/bbl in money of the day for Brent blend has been employed for the entire project history. Urals price was assumed to be lower by $3/bbl, being $97/bbl.

CONDENSATE
A premium for condensate was used of 10%, which is applied to Urals price, resulting in $106.7/bbl

GAS
A constant gas price of $1.84/1000 Scf (which corresponds to $65/1000 cm) has been applied

6.Source of Reserve Estimates —

The 51-101 has been prepared by TRACS international Consultancy Ltd. In Moscow, Russia.

7. Reconciliation of Reserves — No prior reserves filing in an NI 51-101 compatible format has been made for the South Temryuk asset.

8. Production History — There is no production.
9. If your company is engaged in oil and gas activities as defined in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities, disclose the following information: This section does not apply.
10. Future Commitments: this section does not apply
11. Exploration and Development: The Company plans at some future date to re-enter and re-test the ST-1 well, subject to financing and an engineering estimate of the cost.

Galahad Metals Inc.
(An Exploration Stage Company)

Financial Statements
(Expressed in Canadian Dollars)
31 December 2012

JAMES STAFFORD

James Stafford, Inc.
Chartered Accountants
Suite 350 – 1111 Melville Street
Vancouver, British Columbia
Canada V6E 3V6
Telephone +1 604 669 0711
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Independent Auditor's Report

To the Shareholders of Galahad Metals Inc.
(An Exploration Stage Company)

We have audited the accompanying financial statements of **Galahad Metals Inc.** which comprise the statements of financial position as at 31 December 2012 and the statements of loss and comprehensive loss, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Galahad Metals Inc. as at 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Galahad Metals Inc. to continue as going concern.

Other Matter

The consolidated financial statements of the Galahad Metals Inc. for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those statements on 27 April 2012.

James Stafford

Chartered Accountants
Vancouver, Canada
31 July 2013

Galahad Metals Inc.
(An Exploration Stage Company)
Statements of Financial Position
(Expressed in Canadian Dollars)

	As at 31 December 2012	As at 31 December 2011
Assets	$	$
Current		
Cash and cash equivalents (Note 4)	**24,432**	716,091
Amounts receivable (Notes 5 and 17)	**130,287**	171,560
Prepaid expenses and other	**3,530**	9,457
	158,249	897,108
Non-current assets		
Investments in associate (Note 6)	**-**	-
Investments (Note 7)	**-**	40,000
Reclamation bond (Note 8)	**-**	19,113
Total assets	**158,249**	956,221
Liabilities		
Current		
Trade payables and accrued liabilities (Note 10)	**386,490**	484,897
Provisions (Note 11)	**-**	174,330
	386,490	659,227
Flow through liability	**-**	55,076
	386,490	714,303
Equity		
Share capital (Note 12)	**15,628,447**	15,429,680
Contributed surplus (Note 12)	**1,342,321**	1,323,389
Other reserves (Note 12)	**-**	1,161,633
Deficit	**(17,199,009)**	(17,805,968)
Shareholders' equity attributable to owners of the parent	**(228,241)**	108,734
Non-controlling interest	**-**	133,184
Total shareholders' equity	**(228,241)**	241,918
Total liabilities and shareholders' equity	**158,249**	956,221

Corporate Information and Going Concern Comments (Note 1), **Contingency** (Note 22) **and Subsequent Events** (Note 23)

Approved and authorized for issue by the board on 31 July 2013

On behalf of the Board:

"Robin Dow" Director *"Larry Hoover"* Director

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

Galahad Metals Inc.
(An Exploration Stage Company)
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	For the year ended 31 December 2012	For the year ended 31 December 2011
	$	$
Expenses		
Management and director fees (Note 17)	**33,000**	226,750
Promotion and investor conference	**97,256**	240,444
Regulatory, exchange, AGM, and transfer agent	**18,264**	56,869
Professional fees	**164,232**	730,506
Other expenses (Note 14)	**130,706**	343,611
Exploration and evaluation expenditures (Note 9)	**316,691**	1,267,612
Compensation shares	**-**	115,000
Part XII.6 tax	**-**	(38,765)
	(760,149)	(2,942,027)
Other income and expenses		
Other income	**106,584**	107,495
Flow-through share income	**59,936**	135,762
Finance costs	**(6,314)**	(4,723)
Foreign exchange gain (loss)	**(86)**	6,817
Loss on settlement of note receivable (Note 5)	**(37,774)**	-
Loss on valuation of note receivable (Note 5)	**(186,418)**	-
Gain on investment securities (Note 7)	**23,991**	-
Gain on deconsolidation (Note 2)	**1,407,189**	-
	1,367,108	245,351
Net income (loss) for the year	**606,959**	(2,696,676)
Other comprehensive income (loss) for the year		
Gain (loss) on revaluation of marketable securities	**-**	(5,000)
Foreign currency translation adjustment	**-**	(1,131)
Reclassification of unrealized gain	**5,000**	-
	5,000	(6,131)
Total Comprehensive income (loss) for the year	**611,959**	(2,702,807)
Net loss attributable to:		
Owners of the parent	**611,959**	(2,377,248)
Non-controlling interest	**-**	(319,428)
Net loss for the period	**611,959**	(2,696,676)
Total Comprehensive income (loss) attributable to:		
Owners of the parent	**611,959**	(2,382,927)
Non-controlling interest	**-**	(319,880)
	611,959	(2,702,807)
Earnings per share		
Income (loss) per common share (Note 16)		
Basic and diluted	0.01	(0.05)
Weighted average number of common shares outstanding		
Basic and diluted	**55,349,363**	**49,568,432**

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

Galahad Metals Inc.
(An Exploration Stage Company)
Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the year ended 31 December 2012 $	For the year ended 31 December 2011 $
Cash flows used in operating activities		
Net income (loss) for the year	606,959	(2,696,674)
Adjustments to reconcile loss to net cash used in operating activities		
Finance costs	-	4,723
Shares issued for property	-	8,000
Gain on sale of sale of investment securities	(18,991)	(45,000)
Gain on deconsolidation (Note 2)	(1,407,189)	-
Common shares to be issued as compensation	-	115,000
Flow-through share income	(59,936)	(120,900)
Share-based compensation expenses	18,932	170,387
Change in non-cash working capital items:		
Amounts receivable	(10,582)	(119,039)
Prepaid expenses	928	(7,957)
Deferred tax liabilities	(31,140)	
Provisions	(174,330)	(42,687)
Accounts payable and accrued liabilities	402,423	325,593
	(672,926)	(2,408,554)
Cash flows from investing activities		
Proceeds from sale of investment securities	63,991	-
Derecognition of cash (Notes 2 and 7)	(317,491)	-
Reclamation bond	-	(19,113)
	(253,500)	(19,113)
Cash flows from financing activities		
Finance costs	-	(4,723)
Issuance of common shares and warrants for cash	240,000	1,564,197
Issuance of subsidiary common shares and warrants for cash	-	1,170,226
Contributions by non-controlling interest	-	250,991
Cash paid in return of capital	-	(34,090)
Share issue costs	(5,233)	(23,986)
	234,767	2,922,615
Effect of foreign exchange on cash	-	(1,149)
Total increase (decrease) in cash during the year	(691,659)	493,799
Cash - Beginning of year	716,091	223,441
Cash - End of year	24,432	716,091

Galahad Metals Inc.
(An Exploration Stage Company)
Statements of Changes in Equity
(Expressed in Canadian Dollars)

			Reserves						
		Share Capital	Accumulated other comprehensive income	Other reserve	Contributed surplus	Deficit attributable to owners of the parent	Attributable to owners of the parent	Non controlling interest	Total
Balance at 31 December 2010	38,957,760	$ 14,144,010		$ (2,914)	$ 1,153,002	$ (15,428,720)	$ (134,622)	$ (19,483)	$ (154,105)
Net loss for the year						(2,377,248)	(2,377,248)	(319,428)	(2,696,676)
Cumulative translation adjustment				(679)			(679)	(452)	(1,131)
Revaluation of financial instruments measured at market value			(5,000)				(5,000)		(5,000)
Issuance of common shares for cash	8,335,120	1,074,697					1,074,697		1,074,697
Issuance of flow-through common shares	4,030,000	604,500					604,500		604,500
Issuance of common shares for property	100,000	8,000					8,000		8,000
Minority interest share of capital				1,170,226			1,170,226		1,170,226
Share-based compensation expenses					170,387		170,387		170,387
Additional contributions from non controlling interest							-	250,991	250,991
Return of capital		(256,641)					(256,641)	221,556	(35,085)
Renouncement of flow through expenditures		(120,900)					(120,900)		(120,900)
Cost of issuance of common shares		(23,986)					(23,986)		(23,986)
Balance at 31 December 2011	51,422,880	$ 15,429,680	$ (5,000)	$ 1,166,633	$ 1,323,389	$ (17,805,968)	$ 108,734	$ 133,184	$ 241,918
Net loss for the year						606,959	606,959		606,959
Derecognition of reserve from deconsolidation				(1,166,633)			(1,166,633)		(1,166,633)
Derecognition of NCI from deconsolidation							-	(133,184)	(133,184)
Cumulative translation adjustment							-		-
Issuance of common shares for cash	1,200,000	60,000					60,000		60,000
Issuance of flow-through common shares	3,600,000	180,000					180,000		180,000
Minority interest share of capital							-		-
Reclassification of unrealized gain			5,000				5,000		5,000
Share-based compensation expenses					18,932		18,932		18,932
Additional contributions from non controlling interest							-		-
Renouncement of flow through expenditures		(36,000)					(36,000)		(36,000)
Cost of issuance of common shares		(5,233)					(5,233)		(5,233)
Balance at 31 December 2012	56,222,880	15,628,447	-	-	1,342,321	(17,199,009)	(228,241)	-	(228,241)

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

1. CORPORATE INFORMATION AND GOING CONCERN COMMENTS

Galahad Metals Inc. (the "Company") was incorporated under the name Phoenix Matachewan Mines Inc. under the laws of the Province of Ontario by Articles of Incorporation dated 1 September 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 3 December 2008, at a special meeting of the Company, the shareholders approved a ten-for-one consolidation of the shares of the Company and approved a change the name of the Company from Phoenix Matachewan Mines Inc. to Galahad Metals Inc. On 30 December 2008, the Company obtained the required regulatory approvals for the share consolidation and name change.

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

The primary office of the Company is located at P.O. Box 915, Kemptville, Ontario K0G 1J0.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

The Company had cash and cash equivalents of $24,432 as at 31 December 2012 (31 December 2011: $716,091) and a working capital deficiency of $228,241 as at 31 December 2012 (31 December 2011: working capital of $237,881), but management cannot provide assurance that the Company will ultimately achieve profitable operations, become cash flow positive, or raise additional debt and/or equity capital. The Company's solvency, ability to meet its liabilities as they become due and to continue its operations, is essentially solely dependent on funding provided by potential and as yet unidentified investors. If such potential and unidentified investors are unwilling to provide ongoing funding to the Company and/or if the Company is unable to raise additional capital in the immediate future, the Company will need to curtail operations, liquidate assets, seek additional capital on less favourable terms and/or pursue other remedial measures or cease operations. This material uncertainty may cast significant doubt about the ability of the Company to continue as a going concern. These financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern including adjustments related to employee severance pay and other costs related to ceasing operations.

2. BASIS OF PREPARATION

2.1 Basis of consolidation and equity method

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control is obtained to the date control ceases. All inter-company transactions, balances, income and expenses are eliminated in full upon consolidation.

An associate is an entity in which the Company or any of its subsidiaries has significant influence, and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies and is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounting for by using the equity method.

The subsidiaries and associate of the Company as at 31 December 2012 and 2011 are described below:

		% equity interest as at	
Name	**Country of incorporation**	**2012**	2011
Subsidiaries			
Red Ore Gold Inc.	Canada	**-**	39%
Red Ore Gold NV Inc.	United States	**-**	39%
Bottle Creek Exploration LLC	United States	**-**	23%
Associates			
Red Ore Gold Inc.	Canada	**34%**	**-**
Red Ore Gold NV Inc.	United States	**34%**	**-**
Bottle Creek Exploration LLC	United States	**20%**	**-**

On 24 August 2010, Bottle Creek Exploration LLC ("Bottle Creek") 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. The Company held 60% interest in Bottle Creek with Golden Gryphon USA Inc. holding the remaining 40% interest.

On 13 January 2011, Red Ore Gold Inc. ("Red Ore") was incorporated under the British Columbia Corporations Act. The Company's Board of Directors has approved the transfer of its interest in Bottle Creek to Red Ore. Red Ore was responsible for funding any future exploration performed on this property.

On 16 November 2011, Red Ore incorporated a wholly owned subsidiary, Red Ore Gold NV Inc. ("Red Ore NV"), to hold the exploration claims previously held in Red Ore. Red Ore NV was incorporated under the laws of the State of Nevada with share capital of 1,000 at a value of $0.01 per share.

During the year ended 31 December 2012, Red Ore NV was inactive.

For the year ended 31 December 2012, the Company accounted for its investments in Red Ore and Bottle Creek using the equity method rather than on a consolidated basis as the Company did not exercise control over its investments in Red Ore and Bottle Creek during the year ended 31 December 2012. As a result, the Company's financial statements at 31 December 2012 do not include the assets and liabilities of Red Ore and Bottle Creek. During the year ended 31 December 2012, the Company recorded a gain of $1,407,189 as a result of the derecognition of the assets and liabilities of Red Ore and Bottle Creek at their carrying amounts (Note 3).

The consolidated financial statements for the year ended 31 December 2011 are prepared on a consolidated basis and include the accounts of the Company, Red Ore and Bottle Creek on the basis that the Company controlled Red Ore and Bottle Creek through its representation on the Board despite not holding the majority of Red Ore and Bottle Creek's outstanding common shares.

2.2 Basis of presentation

These financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in Note 18, and are presented in Canadian dollars, except where otherwise indicated.

The method of accounting for its investment in Red Ore by the Company using the equity method at 31 December 2012 and for the year then ended resulted in a gain on derecognition of assets and liabilities of $1,407,188 for the year ended 31 December 2012 summarized as follows:

Cash and cash equivalents	$	317,491
Amounts receivable		51,855
Prepaids		5,000
Reclamation bond		19,113
Accounts payable & accrued liabilities		(500,830)
Non-controlling interest and other		(1,299,817)
Total	**$**	**(1,407,188)**

2.3 Statement of compliance

The financial statements of the Company, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

2.4 Adoption of new and revised standards and interpretations not yet adopted

At the date of authorization of these financial statements, the IASB and IFRIC have issued the following new and revised standards, amendments and interpretations which are not yet effective during the year ended 31 December 2012:

- IFRS 9 '*Financial Instruments'* is a new financial instruments standard effective for annual periods beginning on or after 1 January 2015 that replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities.

- IFRS 10 '*Consolidated Financial Statements*' is a new standard effective for annual periods beginning on or after 1 January 2013 that replaces consolidation requirements in IAS 27 (as amended in 2008) and SIC-12.

- IFRS 11 '*Joint Arrangements*' is a new standard effective for annual periods beginning on or after 1 January 2013 that replaces IAS 31 and SIC-13.

- IFRS 12 '*Disclosure of Interests in Other Entities*' is a new standard effective for annual periods beginning on or after 1 January 2013 that replaces disclosure requirements in IAS 27 (as amended in 2008), IAS 28 (as revised in 2003) and IAS 31.

- IFRS 13 '*Fair Value Measurement'* is a new standard effective for annual periods beginning on or after 1 January 2013 that replaces fair value measurement guidance in other IFRSs.

- IAS 1 (Amendment) '*Presentation of Financial Statements*' is effective for annual periods beginning on or after 1 July 2012 and 1 January 2013, and includes amendments regarding presentation of items of other comprehensive income and clarification of the requirements for comparative information, respectively.

- IAS 19 (Amendment) '*Employee Benefits*' is effective for annual periods beginning on or after 1 January 2013 and revises recognition and measurement of post-employment benefits.

- IAS 27 (Amendment) '*Separate Financial Statements*' is effective for annual periods beginning on or after 1 January 2013 that prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

- IAS 28 (Amendment) '*Investments in Associates and Joint Ventures*' is effective for annual periods beginning on or after 1 January 2013 that prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

- IAS 32 *'Financial Instruments: Presentation'* is effective for annual periods beginning on or after 1 January 2014 and 1 January 2013 that includes amendments that clarify the application of offsetting requirements and presentation of interest, dividends, losses and gains.

- IFRIC 20 '*Stripping Costs in the Production Phase of a Surface Mine*' is a new interpretation effective for annual periods beginning on or after 1 January 2013 that prescribes the accounting for stripping costs in the production phase of a surface mine.

The Company has not early adopted these standards, amendments and interpretations and anticipates that the application of these standards, amendments and interpretations will not have a material impact on the financial position and financial performance of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to fair value measurements for financial instruments and share-based payments, the recognition and valuation of provisions for decommissioning liabilities, the recoverability and measurement of

deferred tax assets and liabilities, and the ability to continue as a going concern. Actual results may differ from those estimates and judgments.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and short term money market instruments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

3.3 Investment in associate

The Company's investment in its associate is accounted for using the equity method of accounting. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company's share of an associate's losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings and losses of associates are recognized in profit or loss during the period.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on the Company's investment in its associates. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If there is objective evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in profit or loss. When a group entity transacts with an associate of the Company, profit and losses are eliminated to the extent of the Company's interest in the relevant associate.

3.4 Foreign currencies

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which it operates.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive

income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

3.5 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.

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

3.6 Impairment

The carrying amount of the Company’s assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset’s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. Recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

3.7 Decommissioning, restoration and similar liabilities

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the reclamation of mineral properties and retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future cost estimates arising from the decommissioning of plant, site restoration work and other similar retirement activities is added to the carrying amount of the related asset, and depreciated on the same basis as the related asset, along with a corresponding increase in the provision in the period incurred. Discount rates using a pre-tax

rate that reflect the current market assessments of the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the provision.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period. The net present value of reclamation costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred. The costs of reclamation projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation properties.

3.8 Flow through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow through share into (i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and (ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's reporting year is disclosed separately as flow-through share proceeds in Note 12.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

3.9 Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payments reserve.

The fair value of options is determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest

is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest.

3.10 Income taxes

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the reporting date.

3.11 Earnings 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 year.

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.

3.12 Financial assets

Financial assets are classified as loans and receivables, held-to-maturity, available-for-sale financial assets, financial assets at fair value through profit or loss (“FVTPL”), or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial assets are

recognized initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables and held-to-maturity

Loans and receivables and held-to-maturity are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in net income (loss) when the loans and receivables are derecognized or impaired, as well as through the amortization process. Transaction costs are included in the initial carrying amount of the asset. Amounts receivable are included in this category of financial assets.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognized or impaired. Transaction costs are included in the initial carrying amount of the asset.

The fair value is determined by reference to bid prices at the close of business on the reporting date. Where there is no active market, fair value is determined using valuation techniques.

Financial assets at FVTPL

Financial assets are classified as held for trading and are included in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives, other than those designated as effective hedging instruments, are also categorized as held for trading. Transaction costs associated with financial assets at FVTPL are expensed as incurred. These assets are carried at fair value with gains or losses recognized in net income (loss). Cash and cash equivalents are included in this category of financial assets.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

3.13 Impairment of financial assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at each period end.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in net income (loss).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available-for-sale

If an available-for-sale financial asset is impaired, the cumulative loss previously recognized in equity is transferred to net income (loss). Any subsequent recovery in the fair value of the asset is recognized within other comprehensive income.

3.14 Financial liabilities

Financial liabilities are classified as financial liabilities at FVTPL, derivatives designated as hedging instruments in an effective hedge, or as financial liabilities measured at amortized cost, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at FVTPL

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated by management on initial recognition. Transaction costs on financial liabilities at FVTPL are expensed as incurred. These liabilities are carried at fair value with gains or losses recognized in net income (loss).

Derivatives designated as hedging instruments in an effective hedge
The Company does not hold or have any exposure to derivative instruments.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest, other revenues and finance costs. Trade payables, due to shareholders and due to related parties are included in this category of financial liabilities.

3.15 Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3.16 Segment reporting

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities.

3.17 Comparative figures

Certain comparative figures have been adjusted to conform to the current year's presentation.

4. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents are denominated in the following currencies:

	As at 31 December 2012	As at 31 December 2011
	$	$
Denominated in Canadian dollars	**15,945**	716,070
Denominated in U.S. dollars	**8,487**	21
Total cash and cash equivalents	**24,432**	716,091

During the year ended 31 December 2012, the Company issued a total of 3,600,000 flow-through shares (31 December 2011: 4,030,000 flow-through shares) for a total of $180,000 (31 December 2011: $604,500) (Notes 12). As at 31 December 2012, the Company has $Nil (31 December 2011: $102,615) remaining to be spent on qualifying Canadian exploration expenditures under the terms of the flow-through share agreements.

5. AMOUNTS RECEIVABLE

The Company's amounts receivables are as follows:

	As at 31 December 2012	As at 31 December 2011
	$	$
GST/HST and QST receivable	**631**	150,995
Shared costs receivable (Note 17)	**13,150**	17,765
Red Ore convertible note receivable	**1**	-
Other receivable	**-**	2,800
Quebec tax credit receivable	**116,505**	-
Total trade and other receivables	**130,287**	171,560

Included in amounts receivable of the Company are amounts due from related parties which are disclosed in Note 17. The amounts are unsecured, interest-free and repayable upon written notice given from the Company.

Amounts receivable includes a convertible note receivable from Red Ore with a principal amount of $186,419 bearing interest at 10%, per annum, unsecured and due on 30 May 2017. Related interest is due and payable annually on 30 May of each year.
The Company has the option to convert any unpaid principal anytime or from time to time on 30 May 2014 into fully paid and non-assessable common shares of Red Ore at a conversion price of $0.50 per common share. Red Ore has the option to repay the interest portion in cash or in shares at a conversion price equal to the market price of the common shares if the shares are publicly listed. If the shares are not publicly listed, the conversion price is to be determined by the board of Red Ore, acting reasonably, representing the then fair market value of the shares.

During the year ended 31 December 2012, the Company recognized a write down of the convertible note receivable of $186,418 (2011 - $Nil), and a write-down of interest receivable of $10,981 (2011 - $Nil) related to the above convertible note.

6. INVESTMENT IN ASSOCIATE

The Company's investment in its associate is as follows:

	As at 31 December 2012	
	Net Book Value	**Fair Value**
	$	**$**
Red Ore Gold Inc.	**Nil**	**1**

The Company accounts for its investment in Red Ore under the equity method of accounting effective on 1 January 2012. Red Ore has 60% ownership interest in Bottle

Creek and, as a result, Red Ore prepares consolidated financial statements with Bottle Creek (Note 2).

As at 31 December 2012	**Number of shares**	**Company's interest**	**Quoted market price/share**
Red Ore Gold Inc.	6,609,089	34%	N/A

The Company accounted for its investment in Red Ore Gold Inc. using the equity method of accounting on 1 January 2012 (Notes 7 and 2).

	Date of commencement of equity accounting method	Number of shares	Fair value	Company's interest at the date of transaction
Red Ore Gold Inc.	1 January 2012	6,609,089	$1	39%
As at 31 December 2012		**6,609,089**	**$1**	**39%**

Movements on equity investments for the years ended 31 December 2012 and 2011 are as follows:

	Red Ore Gold Inc.
	$
Balance, 31 December 2011	-
Additions (Note 2)	1
Company's share of net loss	(1)
Balance, 31 December 2012	-

Summary of financial information as at and for year ended 31 December 2012 for the equity accounted investment, not adjusted for percentage of ownership held by the Company, is as follows:

	Current Assets	Non-current Assets	Total Assets	Total Liabilities	Net Loss
	$	$	$	$	$
Red Ore Gold Inc.	65,335	-	65,335	637,142	(755,155)

7. INVESTMENTS

In November 2011 the Company sold part of its Bargold claims and received 500,000 Class B Abcourt common shares, valued at $40,000, for a portion of the sale price. In April 2012, the Company sold the Class B Abcourt common shares for $63,991 in cash.

For the year ended 31 December 2012, the Company accounted for its investment in Red Ore using the equity method as the Company did not exercise control, but had significant influence, over its investment in Red Ore during the year ended 31 December 2012 (Note 2).

For the year ended 31 December 2011, the Company accounted for its investment in Red Ore on a consolidated basis.

8. RECLAMATION BOND

On February 4, 2011, Bottle Creek 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 Bottle Creek. The bond does not relieve the Bottle Creek 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 Bottle Creek is eligible to recover all or part of the bond remitted dependent on the existing condition of the drill site.

9. EXPLORATION AND EVALUATION EXPENDITURES

The Company's exploration and evaluation properties expenditures for the year ended 31 December 2012 were as follows:

	Regcourt	Montrose	Bargold	Kellyn Gold	Others	Total
	$	**$**	**$**	**$**	**$**	**$**
EXPLORATION AND EVALUATION COSTS						
Data	21,624	-	-	-	-	21,624
Drilling	162,530	-	-	-	-	162,530
Assaying	41,561	-	-	-	-	41,561
Geological and field expenses	20,625	-	1,800	-	-	22,425
Geophysics and environment	1,020	-	-	-	-	1,020
Core cutting, logging and storage	-	31,191	-	-	-	31,191
Project administration	20,571	-	6,075	-	9,694	36,340
Balance, 31 December 2012	**267,931**	**31,191**	**7,875**	**-**	**9,694**	**316,691**

The Company's exploration and evaluation properties expenditures for the year ended 31 December 2011 were as follows:

Property	As at 31 December 2011 $
Regcourt	655,317
Montrose	20,736
Kellyn Gold	6,100
Bottle Creek	327,157
Ryepatch	128,508
Pogonip	100,300
Bargold	23,067
General exploration	6,427
Total	1,267,612

Project overview:

Regcourt, Quebec

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

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

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

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

The property is subject to a 2% net smelter return royalty ("NSR") payable to the optionors, half of which can be purchased for $1,000,000.

The Company disposed of the Regcourt property subsequent to 31 December 2012 (Note 23).

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

Kellyn Gold, Ontario
On 21 January 2009, the Company announced that it has optioned the Kellyn property (nine claims; 56 claim units) from two local prospectors (the "Optionors") in the Thunder Bay area.

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

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

For the year ended 31 December 2012, the Company has incurred exploration and evaluation expenditures of $Nil (2011 - $6,100) on this project. As at 31 December 2012, no commercially viable mineral reserve has been found on this project and as a result the Company has expensed the exploration and evaluation expenditures.

During the years ended 31 December 2011 and 2012, the Company did not make the payment of $6,000 nor issued 100,000 shares of the Company to the Optionees under the terms of the agreement and the option is in default (Note 22).

The Company terminated its option related to the Kellyn Gold property subsequent to 31 December 2012 (Note 23).

Bargold, Quebec
In prior year, the Company acquired claims, covering approximately 1,265 hectares, adjacent to the Abcourt Barvue Zinc-Silver mine located 65 kilometers north of Val d'Or, Quebec. These claims form part of the Company's Bargold project which now totals 124 claims covering approximately 5,078 hectares in Barraute and Landrienne Townships.

On 13 June 2011, the Company received notification from Abcourt Mines Inc. ("Abcourt") that they were interested in acquiring 104 mining claims located in range 4, 5, 6, 7, and 8 of the Barraute Township, Province of Quebec, representing 4,378.30 hectares from Galahad. Upon executing the sales agreement and receiving approval of this agreement

from TSX Venture Exchange, Abcourt shall pay to Galahad a cash amount of $25,000 and issue to Galahad a total of five hundred thousand (500,000) Class B shares of Abcourt.

On 17 November 2011, Galahad Metals Inc. signed an agreement to transfer a total of 104 mining claims located in Barraute Township, Province of Quebec, to Abcourt Mines Inc. ("Abcourt") in return for a cash payment of $25,000 and 500,000 class B common shares of Abcourt.

10. TRADE PAYABLES AND ACCRUED LIABILITIES

The Company's trade and other payables are broken down as follows:

	As at 31 December 2012	As at 31 December 2011
	$	$
Trade payables	**359,490**	329,973
Accrued liabilities	**27,000**	154,924
Flow-through liabilities	**-**	55,076
Total trade payables and accrued liabilities	**386,490**	539,973

During the year ended 31 December 2012, the Company issued 3,600,000 flow-through shares (31 December 2011: 4,030,000 flow-through shares) for total proceeds of $180,000 (31 December 2011: $604,500) (Note 12). This issuance of flow-through shares resulted in a flow-through share premium liability of $Nil (31 December 2011: $55,076) (Note 12).

Included in trade payables and accrued liabilities was $Nil due to related parties which are disclosed in Notes 16 and 17.

11. PROVISIONS

During the year ended 31 December 2011, the Company incurred Part XII.6 tax resulting from the amounts renounced in 2008, but unspent in 2009. On 2 February 2012, the Company received an assessment for $178,214 from Canada Revenue Agency which was paid on 22 May 2012.

12. SHARE CAPITAL

12.1 Common shares

The Company is authorized to issue an unlimited number of common shares.

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.

On 20 March 2012, the Company issued 200,000 Non-Flow-Through Units ("NFT Units") at $0.05 per unit for gross proceeds of $10,000. Each NFT Unit consists of one common share and one Common Share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014.

On 20 March 2012, the Company issued 1,900,000 Flow-Through Units ("FT Units") at $0.05 per unit for gross proceeds of $65,000. Each FT Unit consists of one Flow-Through common share and one Non-Flow-Through Common Share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014.

On 28 February 2012, the Company issued 1,000,000 NFT Units at $0.05 per unit for gross proceeds of $50,000. Each NFT Unit consists of one common share and one Common Share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014.

On 28 February 2012, the Company issued 1,300,000 FT Units at $0.05 per unit for gross proceeds of $65,000. Each FT Unit consists of one Flow-Through common share and one Non-Flow-Through Common Share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014.

On 21 February 2012, the Company issued 400,000 FT Units at $0.05 per unit for gross proceeds of $20,000. Each FT Unit consists of one Flow-Through common share and one Non-Flow-Through Common Share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014

On 22 September 2011, the Company issued a total of 100,000 common shares at the fair market value of $8,000 for property with respect to its Regcourt option agreement.

On 12 September 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 31 August 2012.

On 24 March 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 24 March 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 31 March 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 31 March 2013. Compensation units were valued based on the fair value of the services received.

On 28 February 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 1 October 2012.

On 24 February 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 1 October 2012.

On 16 February 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 31 August 2012.

On 4 February 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 31 August 2012.

On 31 January 2011, the Company issued 5,843,000 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 31 January 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 31 January 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 31 January 2013. Compensation units were valued based on the fair value of the services received.

On 25 January 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 31 August 2012.

On 20 January 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 31 August 2012.

During the prior year the Company issued a return of capital totaling $257,075 to its shareholders. The return of capital consisted of a cash payment of $34,090 and the distribution of 2,229,850 common shares in its subsidiary Red Ore Gold Inc. The Red Ore common shares had a deemed value of $0.10 per share.

12.2 Preferred shares

As at 31 December 2012, the Company has no preferred shares outstanding.

The Company is authorized to issue an unlimited number of preferred shares with the rights, privileges and restrictions determined by the Board of Directors at the time of issuance. There were no issuances of preferred shares during the years ended 31 December 2012 and 2011.

12.3 Share purchase warrants

The following is a summary of the changes in the Company's share purchase warrants for the year ended 31 December 2012 and year ended 31 December 2011:

	31 December 2012		31 December 2011	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
		$		$
Outstanding, beginning	**30,201,404**	**0.17**	26,678,304	0.13
Granted	**4,800,000**	**0.12**	9,847,100	0.25
Exercised	**-**	**-**	(2,520,000)	0.10
Forfeited	**(18,105,304)**	**0.15**	(3,804,000)	0.20
Outstanding, end of year	**16,896,100**	**0.20**	30,201,404	0.17

The following table summarizes information regarding share purchase warrants outstanding as at 31 December 2012:

Number of warrants	**Exercise price**	**Expiry date**
5,602,814	0.25	31 January 2013
86,500	0.15	1 March 2013
500,000	0.20	9 March 2013
4,244,286	0.25	31 March 2013
1,662,500	0.12	1 August 2014
4,800,000	0.12	14 February 2014
16,896,100		

During the year ended 31 December 2011, a total of 3,802,000 warrants expired unexercised. These warrants had an average exercise price of $0.194687.

12.5 Nature and purpose of equity and reserves

The reserves recorded in equity on the Company's Statement of Financial Position include 'Contributed Surplus', 'Accumulated Other Comprehensive Loss/Income' and 'Accumulated Deficit' and Other Reserves.

Contributed Surplus is used to recognize the value of stock option grants prior to exercise.

Accumulated Other Comprehensive Loss/Income includes an available-for-sale reserve. This reserve is used to recognize fair value changes on available-for-sale investments and the cumulative foreign currency adjustment on conversion from the functional currency of the subsidiary to the presentation currency.

Accumulated Deficit is used to record the Company's change in deficit from earnings from year to year.

Other Reserve is used to record the fair value adjustment allocated of share issuances by the partially-owned affiliates allocated to the owners of the parent company.

13. 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:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Number of options	**Weighted-average exercise price**	Number of options	Weighted-average exercise price
		$		$
Outstanding, beginning	**200,000**	**0.11**	200,000	0.11
Expired	**(200,000)**	**0.11**	-	-
Outstanding, end of year	**-**	**-**	200,000	0.11

As at 31 December 2012, there were no outstanding compensation options.

14. STOCK OPTIONS

Under the terms of the Company's stock option plan (the "Plan") all options are granted with an exercise price equal to the closing market price on the day immediately preceding the date of grant. The term of options is determined by the Board of Directors and is typically three or five years with a maximum term of 10 years.

Options 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.

Options Issued to employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The Company 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.

Options Issued to non-employees

Options issued to non-employees, are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

The following is a summary of the changes in the Company's stock option plan for the years ended 31 December 2012 and 2011:

Year ended 31 March	**2012**		2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of year	**5,125,000**	**0.11**	3,700,500	0.25
Granted	**-**	**-**	1,653,000	0.14
Exercised	**-**	**-**	-	-
Forfeited	**(1,150,000)**	**0.11**	(228,500)	0.19
Outstanding, end of year	**3,975,000**	**0.11**	5,125,000	0.11

The weighted average fair value of the options granted during the year ended 31 December 2012 was estimated at $Nil per option at the grant date using the Black-Scholes Option Pricing Model. The weighted average assumptions used for the calculation were:

	31 December 2012	31 December 2011
Risk free interest rate	**-**	1.28-2.61%
Expected life	**-**	5
Expected volatility	**-**	151-234%
Expected dividend per share	**-**	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.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The following table summarizes information regarding stock options outstanding and exercisable as at 31 December 2012:

Exercise price	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted average exercise price
			$
Options outstanding			
$0.10 - $0.15	3,975,000	3.05	0.11
Total options outstanding	**3,975,000**	**3.05**	**0.24**
Options exercisable			
$0.10 - $0.15	3,975,000	3.05	0.11
Total options exercisable	**3,975,000**	**3.26**	**0.11**

On 30 April 2012, the contract with Trident Financial was terminated by Mr. Robin Dow and cancelled 400,000 stock options with an exercise price of $0.14 expiring 31 August 2013.

On 3 July 2012, Mr. Michael Zamora resigned as the President of the Company and cancelled 400,000 stock options with an exercise price of $0.10 expiring 31 August 2016.

On 31 August 2012, Mr. Sabino Di Paola resigned as CFO of the Company and cancelled 100,000 stock options with an exercise price of $0.10 expiring 29 July 2014, 100,000 stock options with an exercise price of $0.10 expiring 31 December 2015, 100,000 stock options with an exercise price of $0.10 expiring 1 September 2015 and 50,000 stock options with an exercise price of $0.15 expiring 1 January 2016.

On 2 February 2011, the Board of Directors approved the grant of 853,000 stock options at a price of $0.15 expiring 31 January 2016 to Directors, Officers and Consultants of the Company. The value to the stock-based compensation was $128,839, which was based on the Black-Scholes pricing model with the assumptions of risk free interest rate of 2.61%, volatility of 179% and expected life of 5 years.

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

On 19 June 2011, 97,500 stock options expired unexercised with an exercise price of $1.50.

On 11 September 2011, the Board of Directors approved the grant of 400,000 stock options at a price of $0.14 expiring 31 August 2013 to an investor relations company. The value to the stock-based compensation was $11,250, which was based on the valuation of $30,000 of services

which were remunerated by the Company with these stock options, prior to the cancelation of the contract in April 2012.

On 19 September 2011, a total of 126,000 stock options with an exercise price of $1.00 with expiry dates from 1 September 2012 to 1 June 2013 were forfeited. On 19 September 2011, a total of 5,000 stock options with an exercise price of $0.10 with expiry date 1 January 2019 were forfeited.

On 19 September 2011, the Board of Directors approved the grant of 400,000 stock options at a price of $0.10 expiring 31 August 2016 to officers of the Company. The value to the stock-based compensation was $28,920, which was based on the Black-Scholes pricing model with the assumptions of risk-free interest rate of 2.44%, volatility of 151.90% and expected life of 5 years.

Share-based payments

During year ended 31 December 2012, the Company recognized a total of $18,932 (2011 - $170,387) relating to share-based payments for stock options.

15. OTHER EXPENSES

	As at 31 December 2012 $	**As at 31 December 2011 $**
Rent	-	14,316
Phone, utilities, supplies and other	46,155	49,443
Website, internet and printing	3,125	21,624
Contractor fees	32,729	81,183
Ontario transitional tax	9,682	(3,805)
Share-based payments (Note 14)	18,932	170,387
Insurance	20,083	10,463
Total	130,706	343,611

16. INCOME (LOSS) PER SHARE

The calculation of basic and diluted income (loss) per share is based on the following data:

	2012	2011
	$	$
Net income (loss) for the year	**606,959**	(2,377,248)
Weighted average number of shares – basic and diluted	**55,349,363**	49,568,432
Income (loss) per share, basic and diluted	**0.01**	(0.05)

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, performance shares and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. All of the stock options, performance shares and the share purchase warrants were anti-dilutive for the years ended 31 December 2012 and 2011.

17. RELATED PARTY TRANSACTIONS

For the year ended 31 December 2012, the Company had related party transactions with the following companies related by way of directors or shareholders in common:

- Red Ore Gold Inc., a company with management and certain directors in common with the Company. The Company also has a significant influence of Red Ore. Red Ore pays shared office costs to the Company on a month-to-month basis.

- Desiree Resources Inc., a company with management and certain directors in common with the Company. Desiree Resources Inc. pays shared office costs to the Company on a month-to-month basis.

- Undur Tolgoi Minerals Inc., a company controlled by a former executive of the Company. Undur Tolgoi Minerals Inc. pays shared office costs to the Company on a month-to-month basis.

- Pueblo Lithium Inc., a company with management and certain directors in common with the Company. Pueblo Lithium Inc. pays shared office costs to the Company on a month-to-month basis.

17.1 Related party expenses

There were no related party expenses during the year ended 31 December 2012 (2011 - $Nil).

Related party expense recoveries related to shared office and operating costs are summarized as follows:

Year ended 31 December	**2012**
	$
Desiree Resources Inc.	**10,218**
Pueblo Lithium Inc.	**7,404**
Red Ore Gold Inc.	**10,680**
Undur Tolgoi Minerals Inc.	**9,554**
Total related party recoveries	**37,856**

In 2012, Galahad shared office space with Undur Tolgoi Minerals Inc., Desiree Resources, Pueblo Lithium Inc. and Red Ore Gold Inc. The Company has signed an agreement in which all shared costs are allocated between the companies. For the year ended 31 December 2012, the Company incurred shared costs of $39,162 (2011 - $51,683) with Pueblo Lithium Inc., Undur Tolgoi Minerals Inc., and Desiree Resources Inc.

For the year ended December 31, 2011, the Company incurred shared costs of $51,683 with Pueblo Lithium Inc., Undur Tolgoi Minerals Inc., and Desiree Resources Inc. which was evenly allocated between the companies.

17.2 Due from/to related parties

The assets of the Company include the following amounts due from related parties:

Year ended 31 December	**2012**	2011
	$	$
Red Ore Gold Inc.	**6**	-
Desiree Resources Inc.	**4,461**	9,757
Undur Tolgoi Minerals Inc.	**-**	3,878
Pueblo Lithium Inc.	**8,683**	4,129
Total amount due from related parties (Note 5)	**13,150**	17,764

17.3 Key management personnel compensation

The remuneration of directors and other members of key management for the years ended 31 December 2012 and 2011 were as follows:

Year ended 31 December	**2012**	2011
	$	$
Short-term benefits - management fees, consulting fees and salaries	**106,229**	423,930
Short-term benefits – directors fees	**6,000**	85,750
Share-based payments	**-**	244,045
Total key management personnel compensation	**112,229**	753,725

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the financial statements approximates their fair value due to the demand nature or short term maturity of these instruments.

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data. As at 31 December 2012, the Company does not have any Level 3 financial instruments.

As at 31 December 2012	**Level 1**	**Level 2**	**Total**
	$	$	$
Financial assets at fair value			
Cash and cash equivalents	24,432	-	24,432
Total financial assets at fair value	**24,432**	**-**	**24,432**

As at 31 December 2011	**Level 1**	**Level 2**	**Total**
	$	$	$
Financial assets at fair value			
Cash and cash equivalents	716,091	-	716,091
Total financial assets at fair value	716,091	-	716,091

There were no transfers between Level 1 and 2 in the years ended 31 December 2012 and 31 December 2011.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and amounts receivable. The Company deposits cash and cash equivalents with high credit quality financial institutions as determined by rating agencies. The Company is not subject to significant credit risk.

Currency risk

For the year ended 31 December 2012, a portion of the Company's operations occurred in the USA. As a result, a portion of the Company's trade payables and accruals were denominated in

the US dollar and were therefore subject to fluctuation in exchange rates. The Company does not use derivatives or other techniques to manage the currency risk, which it considers to be insignificant.

Liquidity risk

The Company manages liquidity risk by maintaining an adequate level of cash and cash equivalents to meet its ongoing obligations. The Company has been successful in raising equity financing in the past; however, there is no assurance that it will be able to do so in the future. As at 31 December 2012, the Company had working capital (deficit) of ($228,241) (2011 – $237,881).

Other risks

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate risk and commodity price risk arising from financial instruments.

19. CONTINGENCIES

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

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

20. SUPPLEMENTAL CASH FLOW INFORMATION

The Company made the following cash payments for interest and income taxes:

Year ended 31 December	**2012**	2011
	$	$
Non-cash transactions		
Shares issued for properties	**-**	8,000
Shares issuance costs	**5,233**	23,986
Total cash payments	**5,233**	31,986

21. TAXES

Provision for income taxes

Year ended 31 December	2012	2011
	$	$
Income (loss) before tax	606,957	(2,696,676)
Statutory tax rate	25.00%	26.50%
Expected tax (recovery)	151,739	(714,619)
Difference in foreign tax rates	-	(47,046)
Non-deductible items	(363,735)	31,840
Change in future tax rates	-	34,322
Change from estimates to actual	(1,255,433)	-
Other	45,000	454,211
Change in valuation allowance	1,422,429	241,292
Tax recovery for the year	-	-

Deferred tax balances

The tax effects of temporary differences that give rise to future income tax assets and liabilities are as follows:

As at 31 December	2012	2011
	$	$
Tax loss carry-forwards	2,496,630	966,736
Exploration and evaluation properties	1,529,833	1,631,359
Share issue costs	16,799	22,788
	4,043,312	2,620,883
Valuation allowance	(4,043,312)	(2,620,883)
Deferred tax assets (liabilities)	-	-

Expiry dates

The Company's recognized and unrecognized deferred tax assets related to unused tax losses have the following expiry dates:

As at 31 December	2012
	$
Non-capital losses	
2014	238,354

2015	210,092
2026	283,054
2027	298,883
2028	5,315,628
2029	534,188
2030	684,598
2031	1,866,473
2032	555,249
Total non-capital losses	**9,988,519**
Total resource-related deduction, no expiry	**6,119,532**

22. COMMITMENTS

On 25 July 2011, the Company commenced a claim against the optionors of the Kellyn Gold property (the "Kellyn Gold property Optionors") counterclaiming an unsubstantiated claim by the Kellyn Gold property Optionors that the option agreement related to the Kellyn Gold property has been terminated (Note 9). On 23 August 2011, the Kellyn Gold property Optionors filed a counterclaim claiming that the option related to the Kellyn Gold property had been terminated and seeking $20,000 for lost profits. On a basis that a loss is unlikely, no provision has been recorded in the financial statements of the Company for the year ended 31 December 2012. This was resolved subsequent to the year end (Note 23).

23. SUBSEQUENT EVENTS

In March 2013 the Company negotiated settlements with some of its creditors and paid $10,396 to settle debts outstanding in the amount of $56,181.

On 30 April 2013, the Company sold the Regcourt property to Monarques Resource Inc. (Note 9).

In May 2013 the Company negotiated settlements with some of its creditors and paid $89,965 to settle debts outstanding in the amount of $226,957.

On February 2013, the Kellyn Gold option officially terminated. The Company intends to focus its resources elsewhere.

On 17 July 2013, the Company and the Kellyn Gold property Optionors agreed to a mutual release in consideration of payment by the Kellyn Gold property Optionors of $22,500 to the Company. All claims and counterclaims between the two parties have been released and the parties also agreed to make no further claims against each other.

On 17 July 2013, the Company terminated its options on the Kellyn Gold property (Note 9).

APPENDIX "C"
Financial Statements for the year ending December 31, 2013

GALAHAD METALS INC

(An Exploration Stage Company)

Financial Statements
(Expressed in Canadian Dollars)
31 December 2013

Independent Auditor's Report

To the Shareholders of Galahad Metals Inc.
(An Exploration Stage Company)

We have audited the accompanying financial statements of **Galahad Metals Inc.** which comprise the statements of financial position as at 31 December 2013 and 2012 and the statements of income and comprehensive income, cash flows and changes in equity (deficiency) for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Galahad Metals Inc. as at 31 December 2013 and 2012 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Galahad Metals Inc. to continue as a going concern.

Chartered Accountants
Vancouver, Canada
7 March 2014

Galahad Metals Inc.
(An Exploration Stage Company)
Statements of Financial Position
(Expressed in Canadian Dollars)

	As at 31 December 2013	As at 31 December 2012
Assets	**$**	**$**
Current		
Cash and cash equivalents	**1,172**	24,432
Short term investments (Note 4)	**10,500**	-
Amounts receivable (Notes 5 and 13)	**19,820**	130,287
Prepaid expenses and other	**2,400**	3,530
Total assets	**33,892**	158,249
Liabilities		
Current		
Trade payables and accrued liabilities (Note 8)	**170,306**	386,490
Income tax payable	**1,531**	-
	171,837	386,490
Deficiency		
Share capital (Note 9)	**15,628,447**	15,628,447
Contributed surplus (Note 9)	**1,342,321**	1,342,321
Deficit	**(17,108,713)**	(17,199,009)
Total shareholders' deficiency	**(137,945)**	(228,241)
Total liabilities and shareholders' deficiency	**33,892**	158,249

Corporate Information and Going Concern Comments (Note 1) **and Subsequent Events** (Note 17)

Approved and authorized for issue by the Board on 7 March 2014

On behalf of the Board:

"Robin Dow" Director *"Bob Schellenberg"* Director

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

Galahad Metals Inc.
(An Exploration Stage Company)
Statements of Income and Comprehensive Income
(Expressed in Canadian Dollars)

	For the year ended 31 December 2013 $	For the year ended 31 December 2012 $
Expenses		
Management and director fees (Note 13)	**-**	33,000
Promotion and investor conference	**9,054**	97,256
Regulatory, exchange, AGM, and transfer agent	**32,764**	18,264
Professional fees	**70,752**	164,232
Other expenses (Note 11)	**66,452**	130,706
Exploration and evaluation expenditures (Note 7)	**28,282**	316,691
	(207,304)	(760,149)
Other income and expenses		
Other income	**559**	106,584
Finance costs	**(4,717)**	(6,314)
Foreign exchange gain (loss)	**103**	(86)
Gain on sale of mining claims (Note 7)	**59,500**	-
Mining tax credits recovered	**33,991**	-
Gain on settlement of debts (Note 8)	**208,164**	-
Flow-through share income	**-**	59,936
Loss on settlement of note receivable (Note 5)	**-**	(37,774)
Loss on valuation of note receivable (Note 5)	**-**	(186,418)
Gain on sale of investment securities (Note 4)	**-**	23,991
Gain on deconsolidation (Note 2)	**-**	1,407,189
	297,600	1,367,108
Net income for the year	**90,296**	606,959
Other comprehensive income for the year		
Reclassification of unrealized gain	**-**	5,000
Total comprehensive income for the year	**90,296**	611,959
Earnings per share		
Income per common share (Note 12)		
Basic and diluted	0.002	0.011
Weighted average number of common shares outstanding		
Basic and diluted	**56,222,880**	55,349,363

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

Galahad Metals Inc.
(An Exploration Stage Company)
Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the year ended 31 December 2013 $	For the year ended 31 December 2012 $
Cash flows used in operating activities		
Net income for the year	90,296	606,959
Adjustments to reconcile income to net cash used in operating activities		
Gain on settlement of debts	(208,164)	-
Gain on sale of mining claims	(59,500)	-
Gain on sale of investment securities	-	(18,991)
Gain on deconsolidation	-	(1,407,189)
Flow-through share income	-	(59,936)
Share-based compensation expenses	-	18,932
Change in non-cash working capital items:		
Amounts receivable	110,467	(10,582)
Prepaid expenses	1,130	928
Deferred tax liabilities	-	(31,140)
Provisions	-	(174,330)
Income tax payable	1,531	-
Trade payables and accrued liabilities	(8,020)	402,423
	(72,260)	(672,926)
Cash flows from (used in) investing activities		
Proceeds from sale of investment securities	-	63,991
Derecognition of cash	-	(317,491)
Proceeds received from sale of mining claims	49,000	-
	49,000	(253,500)
Cash flows from financing activities		
Issuance of common shares and warrants for cash	-	240,000
Share issue costs	-	(5,233)
	-	234,767
Total decrease in cash during the year	(23,260)	(691,659)
Cash - beginning of year	24,432	716,091
Cash - end of year	1,172	24,432

Supplemental cash flow information (Note 15)

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

Galahad Metals Inc.
(An Exploration Stage Company)
Statements of Changes in Equity (Deficiency)
(Expressed in Canadian Dollars)

			Reserves						
		Share capital	Accumulated other comprehensive income	Other reserve	Contributed surplus	Deficit	Total before non-controlling interest	Non-controlling interest	Total
		$	$	$	$	$	$	$	$
Balance at 31 December 2011	51,422,880	15,429,680	(5,000)	1,166,633	1,323,389	(17,805,968)	108,734	133,184	241,918
Net income for the year						606,959	606,959		606,959
Derecognition of reserve from deconsolidation				(1,166,633)			(1,166,633)		(1,166,633)
Derecognition of NCI from deconsolidation							-	(133,184)	(133,184)
Issuance of common shares for cash	1,200,000	60,000					60,000		60,000
Issuance of flow-through common shares	3,600,000	144,000					144,000		144,000
Reclassification of unrealized gain			5,000				5,000		5,000
Share-based compensation expenses					18,932		18,932		18,932
Cost of issuance of common shares		(5,233)					(5,233)		(5,233)
Balance at 31 December 2012	56,222,880	15,628,447	-	-	1,342,321	(17,199,009)	(228,241)	-	(228,241)
Net income for the year						90,296	90,296		90,296
Balance at 31 December 2013	56,222,880	15,628,447	-	-	1,342,321	(17,108,713)	(137,945)	-	(137,945)

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

24. CORPORATE INFORMATION AND GOING CONCERN COMMENTS

Galahad Metals Inc. (the "Company") was incorporated under the name Phoenix Matachewan Mines Inc. under the laws of the Province of Ontario by Articles of Incorporation dated 1 September 2000. Effective 30 December 2008, the Company changed its name to Galahad Metals Inc. The Company is the ultimate parent. The primary office of the Company is located at P.O. Box 915, Kemptville, Ontario K0G 1J0.

The Company is a development stage junior mining company that engages in the identification, acquisition, evaluation and exploration of precious and base metals with mineral properties in Canada. At the date of these financial statements the Company has not determined whether the properties contain mineral reserves that are economically recoverable. Should the Company determine that the properties contain mineral reserves that warrant continued exploration and development efforts, such efforts are dependent on the ability of the Company to obtain the necessary financing to complete the exploration and definition of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these reserves and upon attaining future profitable production from the properties or sufficient proceeds from disposition of the properties.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

The Company had cash and cash equivalents of $1,172 as at 31 December 2013 (31 December 2012 - $24,432) and a working capital deficiency of $137,945 as at 31 December 2013 (31 December 2012 - $228,241), but management cannot provide assurance that the Company will ultimately achieve profitable operations, become cash flow positive, or raise additional debt and/or equity capital. The Company's solvency, ability to meet its liabilities as they become due and to continue its operations, is essentially solely dependent on funding provided by potential and as yet unidentified investors. If such potential and unidentified investors are unwilling to provide ongoing funding to the Company and/or if the Company is unable to raise additional capital in the immediate future, the Company will need to curtail operations, liquidate assets, seek additional capital on less favourable terms and/or pursue other remedial measures or cease operations. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern including adjustments related to employee severance pay and other costs related to ceasing operations.

25. BASIS OF PREPARATION

2.1 Basis of consolidation

At 31 December 2013 and 2012, the Company owned 34% of the voting shares of Red Ore Gold Inc. ("Red Ore"), a public company traded on the Toronto Stock Exchange Venture (the "TSXV"). Effective 1 January 2012, the Company determined that it no longer exercised control of Red Ore and ceased consolidating that Company which resulted in the recognition of a gain on de-consolidation of $1,407,189.

The Company considers Red Ore to be an associate and effective 1 January 2012, commenced accounting for its investment in Red Ore using the equity method.

2.2 Basis of presentation

These financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in Note 14, and are presented in Canadian dollars, except where otherwise indicated.

The method of accounting for its investment in Red Ore by the Company using the equity method at 31 December 2012 and for the year then ended resulted in a gain on derecognition of assets and liabilities of $1,407,188 for the year ended 31 December 2012 summarized as follows:

Cash and cash equivalents	$	317,491
Amounts receivable		51,855
Prepaids		5,000
Reclamation bond		19,113
Accounts payable and accrued liabilities		(500,830)
Non-controlling interest and other		(1,299,817)
Total	**$**	**(1,407,188)**

2.3 Statement of compliance

The financial statements of the Company, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

2.4 Adoption of new and revised standards and interpretations not yet adopted

At the date of authorization of these financial statements, the IASB and IFRIC have issued the following new and revised standards, amendments and interpretations which are not yet effective during the year ended 31 December 2013:

- IFRS 9 '*Financial Instruments'* is a new financial instruments standard effective for annual periods beginning on or after 1 January 2015 that replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities.
- IFRS 13 *'Fair Value Measurement'* defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.
- IAS 12 *'Income Taxes'* removes subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through sale of the asset.
- IAS 32 (Amendment) *'Financial Instruments: Presentation'* is effective for annual periods beginning on or after 1 January 2014 and revises certain aspects of the requirements on offsetting.

The Company has not early adopted these standards, amendments and interpretations and anticipates that the application of these standards, amendments and interpretations will not have a material impact on the financial position and financial performance of the Company.

26. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to fair value measurements for financial instruments and share-based payments, the recognition and valuation of provisions for decommissioning liabilities, the recoverability and measurement of deferred tax assets and liabilities, and the ability to continue as a going concern. Actual results may differ from those estimates and judgments.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and short term money market instruments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

3.3 Investment in associate

An associate is an entity in which the Company has significant influence, and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies and is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for by using the equity method of accounting.

Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company's share of an associate's losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings and losses of associates are recognized in profit or loss during the period.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on the Company's investment in its associates. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If there is objective evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in profit or loss. When a group entity transacts with an associate of the Company, profit and losses are eliminated to the extent of the Company's interest in the relevant associate.

3.4 Foreign currencies

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which it operates.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue

to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

3.5 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.

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

3.6 Impairment

The carrying amount of the Company’s assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset’s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. Recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

3.7 Decommissioning, restoration and similar liabilities

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the reclamation of exploration and evaluation properties and retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future cost estimates arising from the decommissioning of plant, site restoration work and other similar retirement activities is added to the carrying amount of the related asset, and depreciated on the same basis as the related asset, along with a corresponding increase in the provision in the period incurred. Discount rates using a pre-tax rate that reflect the current market assessments of the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the provision.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period. The net present value of reclamation costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred. The costs of reclamation projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are accounted for in accordance with the Company's accounting policy for exploration and evaluation properties.

3.8 Flow-through shares

The Company will, from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into (i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and (ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's reporting year is disclosed separately as flow-through share proceeds.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-Back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

3.9 Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payments reserve.

The fair value of options is determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest.

3.10 Income taxes

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the reporting date.

3.11 Earnings/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 year.

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.

3.12 Financial assets

Financial assets are classified as loans and receivables, held-to-maturity, available-for-sale financial assets, financial assets at fair value through profit or loss ("FVTPL"), or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables and held-to-maturity

Loans and receivables and held-to-maturity are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in net income (loss) when the loans and receivables are derecognized or impaired, as well as through the amortization process. Transaction costs are included in the initial carrying amount of the asset. Amounts receivable are included in this category of financial assets.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognized or impaired. Transaction costs are included in the initial carrying amount of the asset.

The fair value is determined by reference to bid prices at the close of business on the reporting date. Where there is no active market, fair value is determined using valuation techniques.

Financial assets at FVTPL

Financial assets are classified as held for trading and are included in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives, other than those designated as effective hedging instruments, are also categorized as held for trading. Transaction costs associated with financial assets at FVTPL are expensed as incurred. These assets are carried at fair value with gains or losses recognized in net income (loss). Cash and cash equivalents are included in this category of financial assets.

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

3.13 Impairment of financial assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at each period end.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in net income (loss).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available-for-sale

If an available-for-sale financial asset is impaired, the cumulative loss previously recognized in equity is transferred to net income (loss). Any subsequent recovery in the fair value of the asset is recognized within other comprehensive income.

3.14 Financial liabilities

Financial liabilities are classified as financial liabilities at FVTPL, derivatives designated as hedging instruments in an effective hedge, or as financial liabilities measured at amortized cost, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at FVTPL

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated by management on initial recognition. Transaction costs on financial liabilities at FVTPL are expensed as incurred. These liabilities are carried at fair value with gains or losses recognized in net income (loss).

Derivatives designated as hedging instruments in an effective hedge

The Company does not hold or have any exposure to derivative instruments.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest, other revenues and finance costs. Trade payables, due to shareholders and due to related parties are included in this category of financial liabilities.

3.15 Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3.16 Fair value measurement

The Company provides information about the valuation methodology for financial instruments measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data. As at 31 December 2013, the Company does not have any Level 3 financial instruments.

3.17 Segment reporting

The Company is organized into business units based on exploration and evaluation properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities.

3.18 Changes in accounting policies

The Company adopted IAS 1 (Amendment) *'Presentation of Financial Statements'* effective 1 January 2013, which includes amendments of items and other comprehensive income. The adoption of IAS 1 did not result in a significant impact on the Company's financial statements.

The Company adopted IFRS 12, *'Disclosure of Interests in Other Entities'* effective 1 January 2013, replaces disclosure requirements in IAS 27 (as amended in 2008), IAS 28 (as revised in 2003) and IAS 31. The adoption of IFRS 12 did not result in a significant impact on the Company's financial statements.

The Company adopted IFRS 13, *'Fair Value Measurement'* effective 1 January 2013 that replaces fair value measurement guidance in other IFRSs. The adoption of IFRS 13 did not result in a significant impact on the Company's financial statements.

The Company adopted IAS 28 (Amendment), *'Investments in Associates and Joint Ventures'* effective 1 January 2013, which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The adoption of IAS 28 did not result in a significant impact on the Company's financial statements.

The Company adopted IAS 32 (Amendment), *'Financial Instruments: Presentation'* is effective 1 January 2013, which revises certain aspects of the requirements on offsetting. The adoption of IAS 32 did not result in a significant impact on the Company's financial statements.

27. SHORT TERM INVESTMENTS

The Company's short term investments are as follows:

	As at 31 December 2013		As at 31 December 2012	
	Cost	**Fair Value**	Cost	Fair Value
	$	**$**	$	$
Abcourt Mines Inc. ("Abcourt")	**10,500**	**10,500**	-	-
Total short term investments	**10,500**	**10,500**	-	-

On 2 October 2013, the Company received 150,000 Class B common shares from Abcourt Mines Inc. valued at $10,500 for the sale of the Company's Bargold claims (Notes 7 and 15).

During the year ended 31 December 2012, the Company sold 500,000 Class B Abcourt common shares, valued at $40,000, for $63,991 in cash, resulting in a gain of $23,991.

28. AMOUNTS RECEIVABLE

The Company's amounts receivables are as follows:

	As at 31 December 2013	As at 31 December 2012
	$	$
GST/HST and QST receivable	**6,675**	631
Shared costs receivable (Note 13)	**13,144**	13,150
Red Ore convertible note receivable	**1**	1
Quebec tax credit receivable	**-**	116,505
Total trade and other receivables	**19,820**	130,287

Included in amounts receivable of the Company are amounts due from related parties which are disclosed in Note 13. The amounts are unsecured, interest-free and repayable upon written notice given from the Company.

Amounts receivable include a convertible note receivable (the "Convertible Note") from Red Ore with a principal amount of $186,419 bearing interest at 10%, per annum, unsecured and due on 30 May 2017. Related interest is due and payable annually on 30 May of each year. During the year ended 31 December 2012, the Company recognized a write down of the convertible note receivable of $ $186,418 to reduce the carrying value to $1, and a write-down of interest receivable of $10,981 related to the above convertible note (Note 6).
The Company has the option to convert any unpaid principal anytime or from time to time on 30 May 2014 into fully paid and non-assessable common shares of Red Ore at a conversion price of $0.50 per common share. Red Ore has the option to repay the interest portion in cash or in shares at a conversion price equal to the market price of the common shares if the shares are publicly listed. If the shares are not publicly listed, the conversion price is to be determined by the board of Red Ore, acting reasonably, representing the then fair market value of the shares.

29. INVESTMENT IN ASSOCIATE

The Company's investment in an associate is as follows:

As at 31 December 2013 and 2012	Number of shares	Company's interest	Quoted market price/share
Red Ore	**6,609,089**	**34%**	**N/A**

The carrying value of the investment in Red Ore is $1 (31 December 2012 - $1).

On 9 September 2013, the Company entered into an agreement with Red Ore whereby Red Ore would re-acquire the Company's 6,609,089 shares of Red Ore for proceeds of $135,000. The agreement will be completed concurrent with payment of the proceeds, which had not occurred at 31 December 2013. The agreement also provides for the cancellation of the Convertible Note for no proceeds. It is anticipated that Red Ore will cancel the acquired shares on completion of the agreement.

Summary of the audited financial information as at and for year ended 30 April 2013 for the equity accounted investment, not adjusted for percentage of ownership held by the Company, is as follows:

Current Assets	Non-current Assets	Total Assets	Total Liabilities	Net Loss

	$	$	$	$	$
Red Ore	16,683	5,062	21,745	612,683	(429,051)

30. EXPLORATION AND EVALUATION EXPENDITURES

The Company's exploration and evaluation properties expenditures for the years ended 31 December 2013 and 2012 are as follows:

	Regcourt	Montrose	Kellyn Gold	Bargold	Others	Total
	$	$	$	$	$	$
EXPLORATION AND EVALUATION COSTS						
Data	20,825	-	-	-	-	20,825
Geological and field expenses	1,025	-	-	500	-	1,525
Report preparation	2,000	-	-	1,000	-	3,000
Renewal fees	1,060	773	-	1,099	-	2,932
Balance, 31 December 2013	**24,910**	**773**	**-**	**2,599**	**-**	**28,282**
EXPLORATION AND EVALUATION COSTS						
Data	21,624	-	-	-	-	21,624
Drilling	162,530	-	-	-	-	162,530
Assaying	41,561	-	-	-	-	41,561
Geological and field expenses	20,625	-	1,800	-	-	22,425
Geophysics and environment	1,020	-	-	-	-	1,020
Core cutting, logging and storage	-	31,191	-	-	-	31,191
Project administration	20,571	-	6,075	-	9,694	36,340
Balance, 31 December 2012	267,931	31,191	7,875	-	9,694	316,691

Project overview:

Regcourt, Quebec

At 1 January 2012, the Company had interests in 20 claims located in Vauquelin Township.

The property was subject to a 2% net smelter return royalty ("NSR"), half of which could be purchased for $1,000,000.

The Company disposed of the Regcourt property in May 2013 for proceeds of $43,500 resulting in a gain of $43,500.

Montrose, Ontario

The Company holds one mining lease in Montrose Township, Ontario that had a 1% NSR on the property subject to the mining lease.

Kellyn Gold, Ontario

At 1 January 2012, the Company held options on nine claims (56 claim units) in the Thunder Bay area. The Company had additionally staked and optioned 2 additional claim blocks.

At 31 December 2012, the Company had remaining obligations to pay $12,000 and issue 200,000 common shares to maintain its options. The Company chose not meet those obligations. The property was subject to a 2% NSR, of which half could be purchased for $1,000,000.

During the year ended 31 December 2013, the Company terminated the options.

Bargold, Quebec

During the year ended 31 December 2013, the Company received 150,000 Class B common shares of Abcourt, valued at $10,500, and cash proceeds of $5,500 as a result of the sale of the Bargold claims, resulting in a gain of $16,000 (Notes 4 and 15).

Environmental and reclamation obligations

At the present time and to the best knowledge of its Management, the Company is in conformity with the laws and regulations in effect respecting environment protection and the requirements respecting reclamation of mineral properties and retirement of long-term assets. In managements view, there is no material liability respecting such requirements.

31. TRADE PAYABLES AND ACCRUED LIABILITIES

The Company's trade and other payables are broken down as follows:

	As at 31 December 2013	As at 31 December 2012
	$	$
Trade payables (Note 13)	**170,306**	359,490
Accrued liabilities	**-**	27,000
Total trade payables and accrued liabilities	**170,306**	386,490

During the year ended 31 December 2013, the Company reached formal settlements with various creditors that resulted in a gain on settlement of debts in the amount of $208,164 (31 December 2012 - $Nil) (Note 15).

32. SHARE CAPITAL

9.1 Common shares

The Company is authorized to issue an unlimited number of common shares.

On 20 March 2012, the Company issued 200,000 Non-Flow-Through Units ("NFT Units") at $0.05 per unit for gross proceeds of $10,000. Each NFT Unit consists of one common share and one common share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014.

On 20 March 2012, the Company issued 1,900,000 Flow-Through Units ("FT Units") at $0.05 per unit for gross proceeds of $65,000. Each FT Unit consists of one flow-through common share and one non-flow-through common share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014.

On 28 February 2012, the Company issued 1,000,000 NFT Units at $0.05 per unit for gross proceeds of $50,000. Each NFT Unit consists of one common share and one common share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014.

On 28 February 2012, the Company issued 1,300,000 FT Units at $0.05 per unit for gross proceeds of $65,000. Each FT Unit consists of one flow-through common share and one non-flow-through common share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014.

On 21 February 2012, the Company issued 400,000 FT Units at $0.05 per unit for gross proceeds of $20,000. Each FT Unit consists of one flow-through common share and one non-flow-through common share purchase warrant exercisable at $0.12 each from the date of issue up to and including 28 February 2014

9.2 Preferred shares

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

As at 31 December 2013 and 2012, the Company has no preferred shares outstanding.

9.3 Share purchase warrants

The following is a summary of the changes in the Company's share purchase warrants for the years ended 31 December 2013 and 2012:

	31 December 2013		31 December 2012	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
		$		$
Outstanding, beginning	**16,896,100**	**0.20**	30,201,404	0.17
Issued	**-**	**-**	4,800,000	0.12
Expired	**(10,433,600)**	**(0.25)**	(18,105,304)	0.15
Outstanding, end of year	**6,462,500**	**0.12**	16,896,100	0.20

The following table summarizes information regarding share purchase warrants outstanding as at 31 December 2013:

Number of warrants	**Exercise price**	**Expiry date**
1,662,500	0.12	1 August 2014
4,800,000	0.12	28 February 2014 (Note 17
6,462,500		

9.4 Nature and purpose of equity and reserves

The reserves recorded in equity on the Company's Statement of Financial Position include 'Contributed Surplus', 'Accumulated Other Comprehensive Loss/Income' and 'Accumulated Deficit' and 'Other Reserves.'

Contributed Surplus is used to recognize the value of stock option grants prior to exercise.

Accumulated Other Comprehensive Loss/Income includes an available-for-sale reserve. This reserve is used to recognize fair value changes on available-for-sale investments and the cumulative foreign currency adjustment on conversion from the functional currency of the subsidiary to the presentation currency.

Accumulated Deficit is used to record the Company's change in deficit from earnings from year to year.

Other Reserve was used to record the fair value adjustment allocated of share issuances by the partially-owned affiliates allocated to the owners of the parent company.

33. STOCK OPTIONS

Under the terms of the Company's stock option plan (the "Plan") all options are granted with an exercise price equal to the closing market price on the day immediately preceding the date of grant. The term of options is determined by the

Board of Directors and is typically three or five years with a maximum term of 10 years.

Options 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 following is a summary of the changes in the Company's stock option plan for the years ended 31 December 2013 and 2012:

Year ended 31 December	**2013**		2012	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Outstanding, beginning of year	**3,975,000**	**0.11**	5,125,000	0.11
Expired	**-**	**0.11**	(1,150,000)	0.11
Outstanding, end of year	**3,975,000**	**0.11**	3,975,000	0.11

On 30 April 2012, a contract with Trident Financial was terminated which resulted in the accelerated expiry of 400,000 stock options with an exercise price of $0.14 expiring 31 August 2013. Certain officers resigned from the Company which resulted in the accelerated expiry of 750,000 stock options with exercise prices of $0.10.

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.

The following table summarizes information regarding stock options outstanding and exercisable as at 31 December 2013:

Exercise price	**Number of options outstanding**	**Weighted-average remaining contractual life (years)**	**Weighted average exercise price**
			$
$0.10 - $0.15	3,975,000	2.05	0.11
Total options outstanding and exercisable	**3,975,000**	**2.05**	**0.11**

Share-based payments

During year ended 31 December 2013, the Company recognized a total of $Nil (31 December 2012 - $18,932) relating to share-based payments for stock options granted in earlier years (Note 11).

34. OTHER EXPENSES

	As at 31 December 2013	As at 31 December 2012
	$	$
Rent, phone, utilities, supplies and other	**15,298**	46,155
Website, internet and printing	**804**	3,125
Contractor fees	**30,592**	32,729
Ontario transitional tax	**3,902**	9,682
Share-based payments (Note 10)	**-**	18,932
Insurance	**15,856**	20,083
Total	**66,452**	130,706

35. INCOME PER SHARE

The calculation of basic and diluted income per share is based on the following data:

	2013	2012
	$	$
Net income for the year	**90,296**	606,959
Weighted average number of shares – basic and diluted	**56,222,880**	55,349,363
Income per share, basic and diluted	**0.002**	0.011

The basic income per share is computed by dividing the net income by the weighted average number of common shares outstanding during the year. The diluted income per share reflects the potential dilution of common share equivalents, such as outstanding stock options, performance shares and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. All of the stock options, performance shares and the share purchase warrants were anti-dilutive for the years ended 31 December 2013 and 2012.

36. RELATED PARTY TRANSACTIONS

The Company's related parties are:

- Desiree Resources Inc., a company with management and certain directors in common with the Company.
- Pueblo Lithium Inc., a company with management and certain directors in common with the Company.
- D & J Wallis Enterprises Ltd., a company controlled by an officer of the Company.
- Red Ore, a company with management and certain directors in common with the Company. The Company also has a significant influence of Red Ore.

13.1 Related party expenses

In 2012, the Company shared office space with Undur Tolgoi Minerals Inc., Desiree Resources Inc., Pueblo Lithium Inc. and Red Ore. The Company had an agreement under which all shared costs were allocated between the companies. The agreement was terminated effective 1 January 2013.

Related party expense recoveries related to shared office and operating costs are summarized as follows:

Year ended 31 December	**2013**	**2012**
	$	**$**
Desiree Resources Inc.	**-**	10,218
Pueblo Lithium Inc.	**-**	7,404
Red Ore	**-**	10,680
Undor Tolgoi Minerals Inc.	**-**	9,554
Total related party recoveries	**-**	37,856

13.2 Due from/to related parties

The assets of the Company include the following amounts due from related parties:

Year ended 31 December	**2013**	2012
	$	$
Desiree Resources Inc.	**4,461**	4,461
Pueblo Lithium Inc.	**8,683**	8,683
Red Ore	**-**	6
Total amount due from related parties (Note 5)	**13,144**	13,150

The amounts due to related parties as at 31 December 2013 and 2012 are as follows:

Year ended 31 December	**2013**	2012
	$	$
Chief Executive Officer	**1,410**	5,250
D & J Wallis Enterprises Ltd.	**1,575**	-
Due to related parties (Note 8)	**2,985**	5,250

13.3 Key management personnel compensation

The remuneration of directors and other members of key management for the years ended 31 December 2013 and 2012 were as follows:

Year ended 31 December	**2013**	2012
	$	$
Short-term benefits - management fees, consulting fees and salaries	**-**	106,229
Short-term benefits – directors fees	**-**	6,000

Total key management personnel compensation	**-**	112,229

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

The Company's financial instruments are cash and short term investments. The Company considers that the carrying amount of its financial instruments, except for short term investments, approximates their fair value due to the demand nature or short term maturity of these instruments. Short term investments are carried at their trading value on the TSXV.

The following table provides information about the valuation methodology for financial instruments that are carried at fair value.

As at 31 December 2013	**Level 1**	**Level 2**	**Total**
	$	$	$
Financial assets at fair value			
Cash and cash equivalents	1,172	-	1,172
Short term investments	10,500	-	10,500
Total financial assets at fair value	**11,672**	**-**	**11,672**

As at 31 December 2012	**Level 1**	**Level 2**	**Total**
	$	$	$
Financial assets at fair value			
Cash and cash equivalents	24,432	-	24,432
Total financial assets at fair value	24,432	-	24,432

There were no transfers between Level 1 and 2 in the years ended 31 December 2013 and 2012.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and amounts receivable. The Company deposits cash and cash equivalents with high credit quality financial institutions as determined by rating agencies. The Company is not subject to significant credit risk.

Currency risk

The Company is not exposed to significant currency risk.

Liquidity risk

The Company manages liquidity risk by maintaining an adequate level of cash and cash equivalents to meet its ongoing obligations. The Company has been successful in raising equity financing in the past; however, there is no assurance that it will be able to do so in the future. As at 31 December 2013, the Company has a working capital deficit of $137,945 (31 December 2012 – $228,241).

Other risks

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate risk and commodity price risk arising from financial instruments. The Company is exposed to market risk with respect to its short-term investments. A 10% change in trading prices would have changed net income by approximately $1,000 for the year ended 31 December 2013.

38. SUPPLEMENTAL CASH FLOW INFORMATION

The Company made the following cash payments for interest and income taxes:

Year ended 31 December	**2013**	2012
	$	$
Interest	**-**	-
Income taxes	**-**	-
Non-cash transactions:		
Shares issuance costs	**-**	5,233
Sale of Bargold to Abcourt for 150,000 Class B common shares (Notes 4 and 7)	**10,500**	-

During the year ended 31 December 2013, the Company reached formal settlements with various creditors that resulted in a gain on settlement of debts in the amount of $208,164 (31 December 2012 - $Nil) (Note 8).

39. TAXES

Provision for income taxes

Year ended 31 December	**2013**	2012
	$	$
Income (loss) before tax	**90,296**	606,957
Statutory tax rate	**26.50%**	25.00%
Expected tax	**23,928**	151,739
Non-deductible items	**64**	(363,735)
Change in future tax rates	**(236,894)**	-
Change from estimates to actual	**95,056**	(1,255,433)
Other	**-**	45,000
Change in valuation allowance	**117,846**	1,422,429
Tax recovery for the year	**-**	-

Deferred tax balances

The tax effects of temporary differences that give rise to future income tax assets and liabilities are as follows:

As at 31 December	**2013**	2012

	$	$
Tax loss carry-forwards	**2,597,320**	2,496,630
Exploration and evaluation properties	**1,553,767**	1,529,883
Share issue costs	**10,071**	16,799
	4,161,158	4,043,312
Valuation allowance	**(4,161,158)**	(4,043,312)
Deferred tax assets (liabilities)	**-**	-

Expiry dates

The Company's recognized and unrecognized deferred tax assets related to unused tax losses have the following expiry dates:

As at 31 December	**2013**
	$
Non-capital losses	
2014	208,224
2015	210,092
2026	283,054
2027	298,883
2028	5,315,628
2029	534,188
2030	684,598
2031	1,866,473
2032	400,069
2033	-
Total non-capital losses	**9,801,209**
Total resource-related deduction, no expiry	**5,863,270**

40. SUBSEQUENT EVENTS

On 30 January 2014, the Company announced that, subject to approval of the TSXV and approval by the Company's shareholders, it will alter its share structure by consolidating all of the outstanding shares and warrants of the Company, on the basis of ten old common shares for one new common share. The Company will also cancel all outstanding stock options and has applied to change its name from Galahad Metals Inc. to Rosehearty Energy Inc.

On 28 February 2014, 4,800,000 share purchase warrants with an exercise price of $0.12 expired unexercised (Note 9).

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013
(Information as at March 10, 2014 unless otherwise noted)

Cautionary Statements

Forward - Looking Information

Except for statements of historical fact relating to Galahad Metals Inc. ("Galahad"), certain statements contained in this MD&A constitute forward - looking information, future oriented financial information, or financial outlooks (collectively "forward - looking information") within the meaning of Canadian securities laws.

Forward - looking information may relate to this document and other matters identified in Galahad's public filings, Galahad's future outlook and anticipated events or results and, in some cases, can be identified by terminology such as "may", "will", "could", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "projects", "predict", "potential", "targeted", "possible", "continue", "objective" or other similar expressions concerning matters that are not historical facts and include, commodity prices, access to sufficient capital resources, mineral resources, mineral reserves, realization of mineral reserves, existence or realization of mineral resource estimates, results of exploration activities, the timing and amount of future production, the timing of construction of the proposed mine and process facilities, the timing of cash flows, capital and operating expenditures, the timing of receipt of permits, rights and authorizations, communications with local stakeholders and community relations, employee relations, settlement of disputes, status of negotiations of joint ventures, availability of financing and any and all other timing, development, operational, financial, economic, legal, regulatory and political factors that may influence future events or conditions.

Such forward - looking statements are based on a number of material factors and assumptions, including, but not limited in any manner, those disclosed in any other of Galahad's public filings, and include the ultimate determination of mineral reserves, availability and final receipt of required approvals, licenses and permits, ability to acquire necessary surface rights, sufficient working capital to develop and operate the proposed mine, access to adequate services and supplies, economic conditions, commodity prices, foreign currency exchange rates, interest rates, access to capital and debt markets and associated cost of funds, availability of a qualified work force, positive employee relations, lack of social opposition and legal challenges, ability to settle disputes, and the ultimate ability to mine, process and sell mineral products on economically favorable terms. While Galahad considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Actual results may vary from such forward-looking information for a variety of reasons, including but not limited to risks and uncertainties disclosed in other Galahad's filings.

Forward-looking statements are based upon management's beliefs, estimate and opinions on the date the statements are made and, other than as required by law, Galahad does not intend, and undertakes no obligation to update any forward-looking information to reflect, among other things, new information or future events.

INTRODUCTION

The following provides management's discussion and analysis of the financial position of Galahad Metals Inc. ("the Company") and the results of operations of the Company for the year ended December 31, 2013. Management's Discussion and Analysis was prepared by Company management and approved by the Board of Directors on March 10, 2014.
This MD&A complements and supplements the consolidated financial statements for the year ended December 31, 2013, and should be read in conjunction with the consolidated financial statements. All figures are presented in Canadian dollars (unless otherwise indicated) and are in accordance with International Financial Reporting Standards ("IFRS"). These statements together with the following management discussion and analysis, are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to potential future performance. Galahad's consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are expressed in Canadian dollars ("CAD"), unless otherwise noted. Additional information relating to the Company may be found on SEDAR at www.sedar.com.

NATURE OF

OPERATIONS

Corporate summary

Galahad Metals Inc. ("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 "former subsidiary" or "BCE") a 60% owned former 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 was 1 East Liberty Street, Suite 424, Reno, Nevada 89501. Galahad held a 60% interest in the subsidiary, with Golden Gryphon USA Inc. holding the remaining 40% interest.

On January 13, 2011 Red Ore Gold Inc. was incorporated as a fully owned subsidiary of the Company under the British Columbia Corporations Act. Galahad's Board of Directors approved the transfer of its interest in Bottle Creek Exploration LLC to Red Ore Gold Inc. Red Ore Gold Inc. is responsible for funding any future exploration performed on this property. The Galahad and Red Ore board approved an initial public offering of Red Ore Gold Inc. In consideration, Galahad received 8,838,938 common shares of Red Ore (the "Consideration Shares"), valued at $0.50 per Consideration Share, for aggregate consideration of $4,419,469 representing the amount spent to date by Galahad in exploration and property staking and payment costs at the Property. On December 16, 2011, Galahad, through a return of capital issued 2,225,509 Red Ore shares to its shareholders, leaving Galahad holding 6,613,430 common shares, or 36% of Red Ore Gold. As a result of the return of capital, Galahad ceased to control Red Ore effective January 1, 2012.

On August 10, 2012, the Bottle Creek Exploration LLC filed for dissolution under the Secretary of State, Carson City, Nevada.

On 9 September 2013, the Company entered into an agreement with Red Ore whereby Red Ore would re-acquire the Company's 6,609,089 shares of Red Ore for proceeds of $135,000. The agreement will be completed concurrent with

payment of the proceeds, which had not occurred at 31 December 2013. The agreement also provides for the cancellation of the Convertible Note for no proceeds. It is anticipated that Red Ore will cancel the acquired shares on completion of the agreement.

Galahad is a development stage junior mining company engaged in the identification, acquisition, evaluation and exploration of precious and base metals with mineral properties in Canada. At the date of these consolidated financial statements Galahad has not determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of amounts expended for exploration and evaluation expenditures is dependent upon the discovery of economically recoverable reserves, the ability of Galahad to obtain the necessary financing to complete the development of economically recoverable reserves, the ability of Galahad 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 NEX Exchange under the symbol GAX.H. The primary office of Galahad is located at PO Box 915 Kemptville, ON, Canada, K0G 1J0.

STRATEGY AND OUTLOOK

Our objective is to maximize the value of Galahad for our shareholders and our strategy to obtain this result is to continually develop our mineral properties.

ON-GOING PROJECTS

Listed below is a summary of the main projects and their status:

Country	Project	Commodity	Status at December 31, 2013	Future Plans	Galahad Ownership	Company held in
Canada	Montrose	Gold	Project review	No planned activity	100%	Galahad Metals Inc.

Mineral resources and mineral reserves

Galahad has no known mineral reserves as defined by and compliant with the requirements of National Instrument 43-101.

FOCUSED EXPLORATION

Galahad has always had a different approach to gold exploration. Rather than have millions of acres and large budgets, it has instead gone to projects where gold and gold indicator minerals were already present, and then taken only enough claim ground to efficiently explore.

Exploration and evaluation expenditures

Bargold Project

The Company disposed of the Bargold property in October, 2013.

Regcourt Project

During the year ended December 31, 2013, the Company incurred costs of $27,509 in exploration on its Regcourt project. On April 30, 2013, Galahad sold the property to Monarques Resources Inc. The change in the gold market was determined by management to no longer be favorable to the Regcourt narrow vein system opportunities.

Montrose Project

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

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

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

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

Kellyn Project

The Company held options on nine claims (56 claim units) and had staked and optioned 3 further claim blocks in the Thunder Bay area. On July 17, 2013, the Kellyn option officially terminated. Galahad intends to focus its resources elsewhere.

SELECTED ANNUAL AND INTERIM INFORMATION

The following table contains selected financial information of Galahad for the year ended December 31, 2013 as well as the years ending December 31, 2012 and 2011. This information is derived from the December 31, 2013 audited financial statements as well as the December 31, 2011 audited consolidated financial statements of Galahad.

	Year ended December 31, 2013 $	**Year ended December 31, 2012 $**	**Year-ended December 31, 2011 $**
Revenue	Nil	Nil	Nil
Total expenses	(207,304)	(760,149)	(2,942,027)
Net income/(loss) for the year	90,296	606,959	(2,696,676)
Comprehensive income/(loss) attributed to owners of the parent	90,296	611,959	(2,382,927)
Basic and diluted loss per common share	0.002	(0.011)	(0.05)

	As at December 31, 2013 $	**As at December 31, 2012 $**	**As at December 31, 2011 $**
Total assets	33,892	158,249	956,221
Total long-term financial liability	-	-	55,076

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

Cash dividends per common share	NIL	NIL	NIL

Comprehensive Income/(Loss)

Galahad reported Comprehensive income for the year ended December 31, 2013 of $90,296 (2012 $611,959). Galahad deconsolidated its investment in Red Ore Gold Inc. ("RXX") when it lost control effective January 1, 2012. Previously, Galahad accounted for its investment in RXX on a consolidated basis.

Results of Operations, for the Year ended December 31, 2013, compared with the year ended December 31, 2012.

For the year ended December 31, 2013, Galahad reported net income of $90,296 compared to a net income of $606,959 for the year ended December 31, 2012, a reduction of $516,663. The December 31, 2013 year saw a continuation of the difficult equity market for securities in the mining sector, which contributed to a significant decline in the Company's overall level of activity.

Details of the major favorable/(unfavorable) variances are:

- ($1,407,189) arising from the 2012 gain on deconsolidation. For the year ended 31 December 2012, the Company accounted for its investments in Red Ore and Bottle Creek using the equity method rather than on a consolidated basis as the Company did not exercise control over its investments in Red Ore and Bottle Creek effective January 1, 2012. As a result, the Company recognized a gain of $1,407,189 as a result of the deconsolidation of Red Ore and Bottle Creek.
- $88,202 reduction in promotion and investor conference expenditures, due to minimal activity in this area.
- $93,480 decrease in professional fees during the year ended December 31, 2013, compared to 2012, due mainly to the decrease in legal fees for Red Ore listing application in 2012.
- $288,409 decrease in exploration and evaluation expenditures during the year ended December 31, 2013, compared to 2012. The decrease is due to decline in activity, limited to small scale work in 2013 on the Regcourt project. The Regcourt and Montrose projects both had work in 2012.
- $186,418 arising from the 2012 loss on valuation of the advances to Red Ore.
- $208,164 arising from settlement of debts and a voluntary rescission of $22,000 in amounts owing related to directors compensation.
- ($59,936) arising from 2012 flow through share income.

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

Selected Financial Data quarterly

Quarter	Net Income (Loss) ($)	Income (Loss) / Share ($)	Total assets ($)	Shareholders' Equity ($)
Q4/2013	(22,887)	0.00	33,892	(137,945)
Q3/2013	(131,966)	0.00	82,898	(120,304)
Q2/2013	135,248	0.00	156,929	11,661
Q1/2013	109,901	0.00	185,345	(118,340)
Q4/2012	(22,104)	(0.00)	158,248	(228,242)
Q3/2012	(375,574)	(0.01)	468,637	(84,288)
Q2/2012	(73,193)	(0.00)	641,011	255,025
Q1/2012	1,082,830	(0.01)	836,153	325,967

LIQUIDITY AND CAPITAL RESOURCES

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

At December 31, 2013, Galahad had cash totaling at $1,172 (December 2012 - $24,432). During the year ended December 31, 2013, Galahad had no financing activities and utilized net cash of $72,260 for operating and received cash of $49,000 from investing activities.

Galahad has financed its operations from inception to date through the issuance of equity securities, or through the disposition of assets. Galahad has administrative and other expenses that exceed available cash resources. From inception to date, Galahad has incurred losses from operations and has had negative cash flow from operating activities. Galahad requires additional funding to be able to further consider new opportunities and to meet ongoing requirements for general operations. The ability of Galahad to continue as a going concern is dependent on raising additional financing and generation of profitable operations in the future.

Galahad Metals Inc. Financing

Transactions

2013 issuances

There were no equity issuances in

2013.

2012 issuances

On March 22, 2012 The Company announced that it raised a total of $180,000 through the sale of Flow-Through Units ("FT Units"). The Company issued 3,600,000 FT Units which were sold at $0.05 per FT Unit. Each FT Unit consists of one Flow-Through common share and one Non-Flow-Through Common Share purchase warrant exercisable at $0.12 each from the date of issue up to and including February 28, 2014. The Company also raised a total of $60,000 through the sale of Non-Flow-Through Units ("Units"). The Company issued 1,200,000 Non-Flow-Through Units which were sold at $0.05 per Unit. Each Unit consists of one Non-Flow-Through common share and one Non-Flow-Through Common Share purchase warrant exercisable at $0.12 each from the date of issue up to and including February 28, 2014.

GALAHAD OUTSTANDING SHARE DATA

Information with respect to outstanding common shares, warrants, compensation options, compensation option warrants and stock options as at December 31, 2013, and December 31, 2012 is as follows:

	December 31, 2013	**December 31, 2012**
Common shares	56,222,880	56,222,880
Warrants	6,462,500	16,896,100
Stock options	3,975,000	3,975,000
Total fully diluted shares	66,660,380	77,093,980

On May 3, 2013, The Ontario Securities Commission issued a temporary cease trade order due to the failure of the Company to file its annual audited financial statements, management discussion and analysis and related certifications for the year ended December 31, 2012. Cease trade orders were also issued by the Autorite des marches financiers (Quebec) on May 6, 2013 and by the British Columbia Securities Commission on May 8, 2013. Mr. Dow was CEO and a director, and Mr. Hoover was a director of the Company at that time. All outstanding deficiencies were dealt with and an Order of Rescission was issued on October 31, 2013.

2013 Warrant and Stock option info

In 2013 there was no issue of common share warrants. A total of 10,433,600 common share warrants with exercise prices between $.015 and $0.25 expired unexercised.

In 2013, there were no grants of options to purchase common shares. There was no expiry of options to purchase commons shares at $0.11 per common share.

2012 Warrant and Stock Option info

In 2012 a total of 4,800,000 common share warrants were issued by the Company. All of the warrants had an exercise price of $0.12 and a maturity date of February 14, 2014. A total of 18,105,304 common share warrants with exercise prices between $.010 and $0.20 expired unexercised.

In 2012, there were no grants of options to purchase common shares. A total of 1,150,000 options to purchase commons shares at $0.11 per share expired unexercised.

CRITICAL ACCOUNTING ESTIMATES

Preparing financial statements in conformity with IFRS requires the Corporation to select from possible alternative accounting principles. Estimates also affect classification and reported amounts for various assets, liabilities, equity balances, revenues and expenses. Prior estimates are revised as new information is obtained and are subject to change in future periods. Management believes the accounting policies and estimates used in preparing the consolidated financial statements are considered appropriate in the circumstances, but are subject to numerous judgments and uncertainties inherent in the financial reporting process.

Exploration and evaluation costs – Exploration and evaluation costs of mineral exploration properties together with direct exploration and development expenditures are only capitalized when the Board of Directors is convinced that the Company has an economically feasible mineral reserve located on one of its exploration properties. Until that point all exploration and evaluation costs are expensed until an economically feasible reserve is identified.

Income taxes - The Corporation is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities based on the Corporation's current understanding of tax laws as applied to the Corporation's circumstances. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Stock option valuation - Issuances and grants of share options are valued using the fair value method. Management uses the Black-Scholes valuation model to estimate the fair value of options determined at grant date. Grants of options result in non-cash charges to expense or development property and a corresponding credit to share-based payment reserves. Charges associated with granted options are recorded over the vesting period. Significant assumptions affecting valuation of options include the trading value of the Corporation's shares at the date of grant, the exercise price, the term allowed for exercise, a volatility factor relating to the Corporation's historical share price, forfeiture rates, dividend yield and the risk-free interest rate.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Galahad's financial instruments consist of cash, amounts receivable, marketable securities and accounts payable and accrued liabilities and provisions. It is management's opinion that Galahad is not exposed to significant interest, currency or credit risk arising from these financial instruments.

TRANSACTIONS WITH RELATED PARTIES

Related party expenses

There were no related party expenses during the year ended 31 December 2013 (December 31, 2012 - $Nil).

Related party expense recoveries related to shared office and operating costs (year ended December 31, 2013 $Nil)

are summarized as follows: :

Year ended 31 December	2012 $
Desiree Resources Inc.	10,218
Pueblo Potash Inc.*	7,404
Red Ore Gold Inc.	10,680
Under Tolgoi Minerals Inc.	9,554
TOTAL RELATED PARTY RECOVERIES	37,856

*Pueblo Potash Inc. was formerly Pueblo Lithium Inc. . The Company changed its name on April 18, 2012.

Due from/to related parties

The assets of the Company include the following amounts due from related parties:

Year ended 31 December	2012 $	2013 $
Red Ore Gold Inc.	-	6
Desiree Resources Inc.	4,461	4,461
Pueblo Potash Inc.	8,683	8,683
TOTAL AMOUNT DUE FROM RELATED PARTIES	13,144	13,150

Key management personnel compensation

The remuneration of directors and other members of key management for the years ended 31 December 2013 and 2012 were as follows:

Year ended 31 December	2013 $	2012 $
Short-term benefits, management fees,	-	106,229

consulting fees and salaries		
Short-term benefits and directors fees	-	6,000
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	-	112,229

CONTRACTUAL OBLIGATIONS

Galahad does not have any fixed contractual obligations or commitments for capital or operating leases, purchase obligations or other long-term commitments except for those related to property option agreements. Any commitments under exploration property option agreements are cancellable at Galahad's option but would result in forfeiture of rights under those agreements. During 2013 and 2012, Galahad had prepaid in advance for its operating lease for office premises.

OFF-BALANCE SHEET ARRANGEMENTS

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

BOARD PURPOSE AND FUNCTION

The Directors and management of the parent company have extensive experience operating in the Canada and taking projects through to various stages of exploration and development. There is a balanced representation of directors with operational, corporate and financial backgrounds.

The board's purpose is to ensure corporate governance, risk, strategy and shareholder interests are priorities at all times. At the end of the financial year under review, the board consisted of four members.

Except as disclosed below Galahad is not aware of any director, or of the families of any directors, having any interest, direct or indirect, in any transaction during the last financial year or in any proposed transaction with any company in Galahad which has affected or will materially affect Group.

DIRECTORS AND OFFICERS, CHANGES

Effective October 3, 2013, Mr. Kevin Rivers resigned from the Board of Directors of the Company. Mr. Rivers agreed to continue to be available to the Company from time to time as part of an ad hoc advisory committee. He will not be paid by the Company for this advisory role. The Company would like to thank Mr. Rivers for his contribution to the Company while a member of the Board.

Effective October 3, 2013 Ms. Patricia Purdy accepted an appointment to the Board of Directors.

Effective November 1, 2013 Mr. Larry Hoover resigned as Interim Chief Financial Officer of the Company. Effective that same date, Mr. Douglas Wallis, CPA, CA accepted an appointment as Chief Financial Officer of the Company.

Effective February 25, 2014 Ms. Patricia Purdy resigned as a member of the Board of Directors of the Company. The Company would like to thank Ms. Purdy for her contribution to the Company while a member of the Board.

Effective February 25, 2014 Mr. Robert Schellenberg accepted an appointment as an interim director of the Company until the next Annual Meeting of the Shareholders.

QUALIFIED PERSON

Galahad relies on Paul Pitman, P. GEO, as the Qualified Person as defined under National Instruments 43-101. Mr. Pitman has read and approved the technical information contained in this MD&A. Disclosure on mineralization on properties has not been verified by Mr. Pitman and is not necessarily indicative of Galahad's anticipated resulted. Where provided, potential quantity and grade is conceptual in nature as the Company has not conducted sufficient exploration to define resources and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

SUBSEQUENT EVENTS

On 30 January 2014, the Company announced that, subject to approval of the TSXV and approval by the Company's shareholders, it will alter its share structure by consolidating all of the outstanding shares and warrants of the Company, on the basis of ten old common shares for one new common share. The Company will also cancel all outstanding stock options and has applied to change its name from Galahad Metals Inc. to Rosehearty Energy Inc.

On 28 February 2014, 4,800,000 share purchase warrants with an exercise price of $0.12 expired unexercised.

RISKS AND UNCERTAINTIES

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

Exploration Stage Company

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

Economic Risk

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

Management

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

Industry Conditions

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

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as mineral prices which are highly cyclical and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

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

Value of Our Common Shares

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

Competition

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

Additional Funding and Financing Risk

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

Environmental Risk

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes to environmental regulation, if any, will not adversely affect the Company’s operations. Environmental hazards may exist on the properties in which the Company holds interests that have been caused by previous or existing owners or operators.

Title to Property

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

Uninsured Hazards

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

Conflicts of Interest

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

Permits, Licenses and Approvals

The operations of the Company may require licenses and permits from various governmental authorities. The Company believes it holds or is in the process of obtaining all necessary licenses and permits to carry on the activities which it is currently conducting under applicable laws and regulations. Such licenses and permits are subject to changes in regulations and in various operating circumstances. There can be no guarantee that the Company will be able to obtain all necessary licenses and permits that may be required to maintain its mining activities, construct mines or other facilities and commence operations of any of their exploration properties. In addition, if the Company proceeds to production on any exploration property, it must obtain and comply with permits and licenses which may contain specific conditions concerning operating procedures, water use, the discharge of various materials into or on land, air or water, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Company will be able to obtain such permits and licenses or that it will be able to comply with any such conditions.

Land Claims

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

Regulatory Matters

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

Mineral Price Fluctuations

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

OTHER INFORMATION

Other information and additional disclosure of Galahad's technical reports, material change reports, new releases, and other information may be found on the SEDAR website at www.SEDAR.com.

CORPORATE INFORMATION

Galahad Directors and Officers
Robin Dow, HBA, MBA, FCSI – Chairman, CEO and Director
Larry Hoover – Director
Robert Schellenberg, Interim Director
Douglas Wallis – CFO
Patricia Purdy – Corporate Secretary

Galahad Metals Inc. Corporate Office
PO Box 915 Kemptville, ON, Canada, K0G 1J0 1-888-834-7708

Company Web Sites
www.galahadmetals.ca

Trading Symbol NEX: GAX.H

Independent Auditor
James Stafford Chartered Accountants

Corporate Banker
Royal Bank of Canada, Ottawa

Transfer Agent
Capital Transfer Agency Inc., Toronto

Appendix "E"
Section 5. Reserve Estimates

Section 5 Reserve Estimates: