

**Galway Metals Inc.**

**Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

**(Expressed in United States Dollars)**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Galway Metals Inc. (the "Company") were prepared by management in accordance with International Financial Reporting Standards. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB").

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

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

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

(signed)  
*Robert Hinchcliffe*  
President and Chief Executive Officer

(signed)  
*Robert D.B. Suttie*  
Chief Financial Officer

April 29, 2016  
Toronto, Canada



April 25, 2016

## **Independent Auditor's Report**

### **To the Shareholders of Galway Metals Inc.**

We have audited the accompanying consolidated financial statements of Galway Metals Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders equity, and consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

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

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

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Galway Metals Inc. and its subsidiaries as at December 31, 2015 and December 31 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

**Galway Metals Inc.**  
**Consolidated Statements of Financial Position**  
**(Expressed in United States Dollars)**

<b>As at December 31,</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets		
Cash	\$ 10,037,068	\$ 11,112,093
Prepays and deposits	18,721	42,206
	<b>10,055,789</b>	11,154,299
Non-current asset		
Restricted cash	125,270	125,270
	<b>\$ 10,181,059</b>	<b>\$ 11,279,569</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 124,616	\$ 75,825
Due to Galway Gold Inc. (Note 10)	-	106,210
	<b>124,616</b>	182,035
Deferred tax liability (Note 13)	<b>164,040</b>	-
	<b>288,656</b>	182,035
<b>Shareholders' Equity</b>		
Common shares (Note 6)	14,126,982	14,126,982
Contributed surplus	577,905	575,235
Accumulated other comprehensive loss	(3,505,595)	(1,684,616)
Deficit	(1,306,889)	(1,920,067)
	<b>9,892,403</b>	11,097,534
	<b>\$ 10,181,059</b>	<b>\$ 11,279,569</b>

**Contingency (Note 12)**

Approved by the Board "Robert Hinchcliffe" Director  
"Robb Doub" Director

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

**Galway Metals Inc.**  
**Consolidated Statements of Income and Comprehensive Loss**  
**(Expressed in United States Dollars)**

<b>For the year ended December 31,</b>	<b>2015</b>	<b>2014</b>
<b>Expenses</b>		
Administrative expenses (Note 9)	\$ 974,647	\$ 661,085
Stock-based compensation (Note 7)	2,670	36,035
Loss (Gain) on foreign exchange	(1,824,183)	(952,244)
Write-down of resource property costs (Note 5)	88,774	89,547
	<b>(758,092)</b>	<b>(165,577)</b>
<b>Other Income</b>		
Interest income	(19,126)	(20,637)
<b>Net income before taxes</b>	<b>777,218</b>	<b>186,214</b>
Deferred income tax	(164,040)	-
<b>Net income</b>	<b>\$ 613,178</b>	<b>\$ 186,214</b>
<b>Other Comprehensive Loss</b>		
Items that will be reclassified subsequently into income:		
Cumulative translation adjustment	\$ (1,820,979)	\$ (1,027,686)
<b>Net Comprehensive Loss</b>	<b>\$ (1,207,801)</b>	<b>\$ (841,472)</b>
<b>Loss per share - basic and diluted</b>	<b>\$ 0.01</b>	<b>\$ nil</b>
<b>Weighted average number of common shares outstanding</b>	<b>57,195,248</b>	<b>55,206,344</b>

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

**Galway Metals Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**(Expressed in United States Dollars)**

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
Balance, December 31, 2013	\$ 13,554,998	\$ 446,624	\$ (656,930)	\$ (2,106,281)	\$ 11,238,411
Cumulative translation adjustment	-	-	(1,027,686)	-	(1,027,686)
Private placement	599,016	-	-	-	599,016
Issuance of warrants	(158,197)	158,197	-	-	-
Shares issued for property	7,330	-	-	-	7,330
Exercise of stock options	123,835	(65,621)	-	-	58,214
Stock-based compensation	-	36,035	-	-	36,035
Net income for the year	-	-	-	186,214	186,214
<b>Balance, December 31, 2014</b>	<b>\$ 14,126,982</b>	<b>\$ 575,235</b>	<b>\$ (1,684,616)</b>	<b>\$ (1,920,067)</b>	<b>\$ 11,097,534</b>
Cumulative translation adjustment	-	-	(1,820,979)	-	(1,820,979)
Stock-based compensation	-	2,670	-	-	2,670
Net income for the year	-	-	-	613,178	613,178
<b>Balance, December 31, 2015</b>	<b>\$ 14,126,982</b>	<b>\$ 577,905</b>	<b>\$ (3,505,595)</b>	<b>\$ (1,306,889)</b>	<b>\$ 9,892,403</b>

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

**Galway Metals Inc.**  
**Consolidated Statements of Cash Flows**  
**(Expressed in United States Dollars)**

For the year ended December 31,	2015	2014
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net income (loss) for the year	\$ 613,178	\$ 186,214
Share-based compensation (Note 7)	2,670	36,035
Write-down of resource property costs	88,774	89,547
Deferred income tax	164,040	-
Changes in current assets and liabilities:		
Prepays and deposits	23,485	(6,577)
Accounts payable and accrued liabilities	48,791	(19,494)
Due from Galway Gold Inc.	(106,210)	214,999
	<b>834,728</b>	<b>500,724</b>
<b>Investing activities</b>		
Resource property acquisition costs	(88,774)	(82,217)
<b>Financing activities</b>		
Net proceeds from issuance of shares	-	657,230
Effect of foreign exchange rate changes on cash balances	(1,820,979)	(1,027,686)
<b>Net change in cash</b>	<b>(1,075,025)</b>	<b>48,051</b>
Cash, beginning of year	11,112,093	11,064,042
<b>Cash, end of year</b>	<b>\$ 10,037,068</b>	<b>\$ 11,112,093</b>
<b>Supplementary Cash Flow Information</b>		
Shares issued for property	\$ -	\$ 7,330

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



**Galway Metals Inc.**  
**Notes to Consolidated Financial Statements**  
**(Expressed in United States Dollars)**  
**December 31, 2015 and 2014**

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**1. Nature of Operations**

Galway Metals Inc. ("the Company") was incorporated pursuant to the Business Corporations Act (New Brunswick) on May 9, 2012, and continued to the Province of Ontario on July 21, 2015. The Company's head office is located at 36 Toronto Street, Suite 1000, Toronto, Ontario, Canada, M5C 2C5.

The Company is in the process of exploring the Victorio Project, a molybdenum-tungsten exploration project located in New Mexico ("the Victorio Project") and has not yet determined whether its mineral properties contain mineral reserves that are economically recoverable. The continuing operations of the Company and the underlying value and recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability to obtain the necessary financing to complete the exploration and development of the mineral property interests and on future profitable production or proceeds from the disposition of the mineral property interests.

The Company's common shares commenced trading on the TSX Venture Exchange under the symbol "GWM" on January 4, 2013.

**2. Significant Accounting Policies**

**Basis of Preparation**

These consolidated financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Handbook of the Canadian Institute of Chartered Accountants, as issued and effective for the year ended December 31, 2015.

These consolidated financial statements were approved by the Board of Directors on April 29, 2016.

**Basis of Measurement**

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

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

**Basis of Consolidation**

These consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries, Galway Resources US Inc, and Nyak Resources Inc. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

**Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer of the Company.

The Company has determined that it has one operating segment, the acquisition, exploration and development of mineral resource properties, currently located in New Mexico. The Company's corporate head office expenditures are considered incidental to the activities of the Company and therefore do not meet the definition of an operating segment.

**2. Significant Accounting Policies (Continued)**

**Financial Instruments**

Financial Assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified as 'loans and receivables'; non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Loans and receivables are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest, when applicable, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or to the net carrying amount on initial recognition.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

Financial Liabilities

Financial liabilities are classified as 'other financial liabilities'.

Other Financial Liabilities

Other financial liabilities including borrowings are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or to the net carrying amount on initial recognition.

De-Recognition of Financial Liabilities

The Company de-recognizes financial liabilities when the obligations are discharged, cancelled or expire.

The Company's financial instruments consist of the following:

Financial Assets:	Classification:
Cash and restricted cash	Loans and receivables
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Financial Liabilities:	Classification:
Accounts payable and other liabilities	Other financial liabilities
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**2. Significant Accounting Policies (Continued)**

**Financial Instruments (Continued)**

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts or loans receivable, where the carrying amount is reduced through the use of an allowance account. When an accounts or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or 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 through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial Instruments Recorded at Fair Value

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). As of December 31, 2015 and December 31, 2014 cash was classified as Level 1 on the consolidated statements of financial position.

**Cash**

Cash in the consolidated statements of financial position comprise cash at banks and on hand. The Company's cash is invested with major financial institutions in business accounts and higher yield investment and savings accounts that are available on demand by the Company for its programs.

**Resource Property Costs**

The Company is in the exploration stage with respect to its investment in resource property costs and accordingly follows the practice of capitalizing significant acquisition costs on active exploration properties. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. The Company recognizes, in income, costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount of the mineral properties.

**Restricted Cash**

Restricted cash consists of remediation bonds pertaining to the Company's Victorio Project.

**2. Significant Accounting Policies (Continued)**

**Resource Property Costs (Continued)**

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to the results of operations. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned. For the year ended December 31, 2015, the Company recorded a \$88,774 (2014 - \$89,547) impairment charge on the Victorio Project (Note 5).

**Impairment of Non-Financial Assets**

When circumstances or events indicate that impairment may exist, resource property costs are tested for impairment the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Company has identified the following cash-generating unit: the Victorio Project.

Management reviews the following industry-specific indicators for an impairment review when evaluating resource property costs:

- Exploration activities have ceased;
- Exploration results are not promising such that exploration will not be planned for the foreseeable future;
- Lease ownership rights expire;
- Sufficient funding is not expected to be available to complete the mineral exploration program; or
- An exploration property has no material economic value to the Company's business plan.

Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future mineral prices, and reports and opinions of outside geologists, mine engineers and consultants.

**Provisions**

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

The Company had no material provisions at December 31, 2015, or 2014.

**2. Significant Accounting Policies (Continued)**

**Income Taxes**

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

**Loss Per Share**

The Company presents basic and diluted loss per share data for its common shares outstanding, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding to include potential common shares for the assumed conversion of all dilutive securities under the treasury stock method.

**Restoration, Rehabilitation and Environmental Obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

**2. Significant Accounting Policies (Continued)**

**Share-Based Payments**

The Company grants share options to acquire common shares of the Company to directors, officers, consultants and employees.

The fair value of the instruments granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the instruments are granted. The fair value of the awards is adjusted by the estimate of the number of awards that are expected to vest as a result of non-market conditions and is expensed over the vesting period using the graded vesting method of amortization. At each balance sheet date, the Company reviews its estimates of the number of options that are expected to vest based on the non-market vesting conditions including the impact of the revision to original estimates, if any, with corresponding adjustments to equity.

**Foreign Currencies**

The functional currency of the parent company is the Canadian dollar and the US Dollar for its subsidiaries, as determined by management. The United States dollar is the currency in which it presents these consolidated financial statements. The Company recognizes transactions in currencies other than the United States dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the end of reporting period exchange rates are recognized in the consolidated statements of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The results and financial position of all of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- a) assets and liabilities for each statement of financial position date presented are translated at the closing rate at the date of that statement of financial position;
- b) income and expenses for each income statement are translated at average exchange rates; and
- c) all resulting exchange differences are recognised in other comprehensive income (loss).

**Significant Accounting Judgements and Estimates**

**Critical Accounting Estimates**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**2. Significant Accounting Policies (Continued)**

**Critical Accounting Estimates (Continued)**

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Restoration, Rehabilitation and Environmental Obligations

Management's assumption of no material restoration, rehabilitation and environmental exposure, is based on the facts and circumstances that existed in the current and prior years.

Impairment of Resource Property Costs

Management reviews the carrying values of exploration and evaluation assets whenever events or changes in circumstances indicate that their carrying values may not be recoverable. The recoverable amount of cash-generating units for an exploration stage company requires various subjective assumptions. These assumptions may change significantly over time when new information becomes available and may cause original estimates to change. For the year ended December 31, 2015, the Company recorded a \$88,774 (2014 - \$89,547) impairment charge on the Victorio Project (Note 5).

Stock-Based Compensation

Management is required to make certain estimates when determining the fair value of stock options awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as stock-based compensation in the statements of income (loss) and comprehensive loss based on estimates of forfeiture, risk free interest rates, volatility of the Company's stock, and expected lives of the underlying stock options (Note 7).

**Critical Accounting Judgments**

Income Taxes and Recovery of Deferred Tax Assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements. Deferred tax assets require management to assess the likelihood that the Company will generate taxable income in future periods in order to utilize recognized deferred tax assets. As at December 31, 2015 and 2014, no deferred tax assets were recognized, as the Company is still in the exploration stage, and management is uncertain when sufficient taxable income will be available to realize the deferred tax assets.

**2. Significant Accounting Policies (Continued)**

**Future Accounting Pronouncements**

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, will be effective for annual periods beginning on or after January 1, 2018.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The Company is in the process of assessing the impact of this announcement.

In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments are effective from 1 January 2016. The Company is in the process of assessing the impact of this announcement.

**Leases** In January 2016, the IASB issued IFRS 16, Leases (IFRS 16). IFRS 16 is effective for periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The extent of the impact of adoption of IFRS 16 has not yet been determined.

There are no other relevant IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**3. Capital Management**

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising share capital, contributed surplus, accumulated other comprehensive income (loss), and deficit, which at December 31, 2015 totaled \$9,892,443 (2014 - \$11,097,534). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2015.



**4. Property and Financial Risk Factors**

**(a) Property Risk**

The Company's significant mineral property is the Victorio Project. Unless the Company acquires or develops additional significant properties, the Company will be solely dependent upon the Victorio Project. If no additional mineral properties are acquired by the Company, any adverse development affecting the Victorio Project would have a material adverse effect on the Company's financial condition and results of operations.

**(b) Financial Risk**

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

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash. The Company has no significant concentration of credit risk arising from operations. Cash consists of cash at banks and on hand. The cash has been invested and held with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity Risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations as they become due, or can only do so at excessive cost. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or as a result of conditions specific to the Company. As at December 31, 2015, the Company had a cash balance of \$10,037,068 (December 31, 2014 - \$11,112,093) to settle current liabilities of \$124,616 (December 31, 2014 - \$182,035). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity. As the Company does not generate revenue, managing liquidity risk is dependent upon the ability to secure additional financing, controlling costs, and preserving cash.

Most of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

#### **4. Property and Financial Risk Factors (Continued)**

##### **(b) Financial Risk (Continued)**

###### Market Risks

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

###### (i) Interest Rate Risk

The Company has cash balances and regularly monitors its cash management policy. As a result, the Company is not subject to significant interest rate risk.

###### (ii) Foreign Exchange Risk

The Company's functional currency is the Canadian dollar and it transacts major purchases in United States dollars, and Canadian dollars. To fund exploration expenses, it maintains United States dollar and Canadian dollar denominated bank accounts containing sufficient funds to support monthly forecasted cash outflows. Management believes the foreign exchange risk derived from currency conversions is minimal, and therefore does not hedge its foreign exchange risk.

###### (iii) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

##### **Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over the next twelve months:

- (i) Cash is subject to floating interest rates. Sensitivity to a plus or minus one percentage point change in interest rates would not have a material impact on the reported net loss for the year ended December 31, 2015.
- (ii) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, prepaids and deposits and accounts payable denominated in Canadian dollars. Sensitivity to a plus or minus one percentage point change in exchange rates would impact the reported net income (loss) by approximately \$100,000 for the year ended December 31, 2015.
- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of precious and base metals. These metal prices have fluctuated significantly in recent years. There is no assurance that, even if commercial quantities of these metals may be produced in the future, a profitable market will exist for them.

As of December 31, 2015, the Company was not a producing entity. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

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**5. Resource Property Costs**

Cumulative acquisition costs:

<b>Victorio Mountain</b>	<b>2015</b>		<b>2014</b>	
Balance, beginning of year	\$	-	\$	-
Additions	\$	88,774	\$	89,547
Write-downs	\$	(88,774)	\$	(89,547)
<b>Balance, end of year</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>

The Company holds a 100% interest in the Victorio Project in New Mexico. The Company has assessed the carrying value of the Victorio Project and has determined there were indicators of impairment, recording an \$1,629,599 impairment charge in the fourth quarter of 2013 and a further \$89,547 and \$88,774 during the years ended December 31, 2014 and 2015, respectively. The Company has estimated the recoverable amount based on a number of factors, including with reference to the Company's market capitalization and management's models and plans relating to the Victorio Project. The aggregate impairment charge has been recorded as impairment of non-current assets on the consolidated statement of income and comprehensive (loss).

On April 23, 2015, the Company renegotiated the option payments associated with the Victorio Project. The revised terms are as follows:

- payment of \$75,000 on June 1, 2014 (paid) and 50,000 common shares (issued May 21, 2014, and ascribed a fair value of \$7,330);
- payment of \$75,000 on June 1, 2015; (paid)
- payment of \$75,000 on June 1, 2016;
- payment of \$75,000 on June 1, 2017;
- payment of \$900,000 on June 1, 2018;

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**5. Resource Property Costs (Continued)**

The property is subject to a net smelter royalty of 2%. In addition, Donegan Resources Inc. is entitled to receive a 1% net smelter royalty ("NSR") on any additional properties acquired within the vicinity of the Victorio Project. This NSR will be reduced to 0.5% royalty on any properties that are subject to an existing royalty in excess of 0.5%.

Additionally, the Company is obligated under the terms of an agreement with Hallelujah Resources LLC, South Branch Resources LLC and MRP Geo Company LLC, collectively the "sellers" to acquire an undivided 100% right, title and interest in and to 51 additional mining claims of the Victorio Project. For purposes of the agreement, nine of the acquired claims were deemed to be primary claims, and forty two were deemed to be secondary claims.

Pursuant to the agreement, the Company is committed to make the following payments:

- issuing 200,000 shares upon the commencement of commercial production.

On completion of these payments, the Company will own an undivided 100% right, interest and title in these Victorio Project claims, subject to a NSR of 1% on all primary mining claims excluding the primary mining claim VIC 41 (the "Primary Royalty"). The Company is entitled to purchase 100% of the Primary Royalty for \$500,000, payable as to 50% on completion of a bankable feasibility study and 50% no later than the end of the first full year of commercial production from the primary mining claims.

In addition, there is an NSR of 3% on all secondary mining claims including primary mining claim VIC 41 (the "Secondary Royalty"). The Company is entitled to buy the Secondary Royalty down to 2% for \$1,500,000, payable as to 50% on completion of a bankable feasibility study and 50% no later than the end of the first full year of commercial production from the secondary mining claims.

**6. Share Capital**

Authorized:                            Unlimited number of common shares  
     Unlimited number of preferred shares issuable in series, the terms of which  
     may be fixed by the Board of Directors before the issuance thereof

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Common shares issued:

	Number of Shares	Amount
Balance, December 31, 2013	49,895,248	\$ 13,554,998
Shares issued on exercise of stock options	650,000	123,835
Shares issued for property	50,000	7,330
Private placement	6,600,000	599,016
Issuance of warrants	-	(158,197)
<b>Balance, December 31, 2014 and December 31, 2015</b>	<b>57,195,248</b>	<b>\$ 14,126,982</b>

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**6. Share Capital (Continued)**

- i) On April 16, 2014, the Company closed a non-brokered private placement financing (the "Financing"). The Financing consisted of the sale of 6,600,000 units (each, a "Unit") at a price of \$0.10 per Unit, with each Unit consisting of one common share of the Company (each, a "Share") and one-half of one Share purchase warrant (each whole such warrant, a "Warrant"), each Warrant entitling the holder to acquire one additional Share until April 16, 2017 at a price of \$0.15 per Share. 4,150,000 of the 6,600,000 Units were acquired by the CEO of the Company and 250,000 units were acquired by a director of the Company. The financing was approved by all of the non-interested directors of the Company and was exempt from the valuation and minority approval requirements in Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions on the basis of certain exemptions available thereunder. The Financing was also approved by the TSX Venture Exchange. All securities issued pursuant to the Financing are subject to a statutory hold period of four months.

The 3,300,000 warrants issued in conjunction with the Financing were issued with an exercise price of \$0.15, expiring in three years and vesting immediately upon grant. A fair value of \$158,197 was estimated using the relative fair values method and the Black-Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 124.06%, a risk free interest rate of 1.18%, and an expected maturity of 3 years.

On May 20, 2014, the Company announced that it had been notified that a shareholder of the Company submitted a request for a hearing review by the British Columbia Securities Commission (the "BCSC") of the decision (the "Decision") of the TSX Venture Exchange to approve the Financing. The shareholder requested that the BCSC issue an order (i) setting aside the Decision and (ii) issuing a cease trade order in respect of the Units (and underlying securities) issued in the Financing until the Financing has effectively been unwound. All subscribers to the Financing have been informed of the appeal. On August 21, 2014 the BCSC concluded its hearing and review of the matters noted above, and the shareholder's Application to reverse the Exchange's Decision approving the Financing was dismissed.

**7. Stock Options**

The following table reflects the continuity of stock options for the year ended December 31, 2015 and 2014

	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price (CDN)</b>
Balance, December 31, 2013	4,825,000	\$0.10
Exercised	(650,000)	\$0.10
<b>Balance, December 31, 2014 and December 31, 2015</b>	<b>4,175,000</b>	<b>\$0.10</b>

The following table reflects the stock options outstanding as at December 31, 2015:

<b>Expiry Date</b>	<b>Exercise Price(CDN)</b>	<b>Weighted Average Life Remaining</b>	<b>Options Outstanding</b>	<b>Black-Scholes Value</b>
December 4, 2023	\$ 0.10	7.92 years	4,175,000	\$ 421,485

Of the 4,175,000 options outstanding as at December 31, 2015, all were exercisable.

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**8. Warrants**

The following table reflects the continuity of warrants for the year ended December 31, 2015 and 2014

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price (CDN)</b>
Balance, December 31, 2013	-	\$ -
Issued	<b>3,300,000</b>	<b>\$ 0.15</b>
<b>Balance, December 31, 2014 and December 31, 2015</b>	<b>3,300,000</b>	<b>\$ 0.15</b>

The following table reflects the warrants outstanding as at December 31, 2015 :

<b>Expiry Date</b>	<b>Exercise Price(CDN)</b>	<b>Weighted Average Life Remaining</b>	<b>Warrants Outstanding</b>	<b>Black-Scholes Value</b>
April 16, 2017	\$ 0.15	1.29 years	3,300,000	\$ 158,197

**9. Administrative Expenses**

	<b>2015</b>	<b>2014</b>
Salaries and benefits	\$ 270,349	\$ 224,777
Office and general	102,146	88,464
Public company costs	203,555	58,200
Insurance	21,810	36,371
Professional fees	318,216	213,528
Travel expense	58,571	39,745
<b>Total</b>	<b>\$ 974,647</b>	<b>\$ 661,085</b>

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**10. Related Party Transactions**

During the year ended December 31, 2015, the Company received \$nil (year ended December 31, 2014 - \$334,303) from Galway Gold Inc., a company sharing common officers and directors, for the purposes of funding certain administrative and operational activities paid by the Company on the Galway Gold Inc.'s behalf. As at December 31, 2015 a payable of \$nil (December 31, 2014 - \$106,210) remained, representing net expenses incurred on Galway Gold Inc.'s behalf and the difference between reimbursements received.

Remuneration of directors and officers included in administrative expenses are as follows:

	2015	2014
Remuneration paid for CEO and CFO services	\$ 214,078	\$ 216,292
Management fees paid to a director	\$ 128,420	\$ -
Stock-based compensation - directors and officers	\$ -	\$ -

During the year ended Decdmber 31, 2015, the Company expensed \$58,666 (2014 -\$68,292) to Marrelli Support Services Inc. ("Marrelli Support") and DSA Corporate Services Inc. ("DSA"), together known as the "Marrelli Group" for:

- (i) Robert D.B. Suttie, Vice President of Marrelli Support, to act as Chief Financial Officer ("CFO") of the Company;
- (ii) Bookkeeping and office support services;
- (iii) Regulatory filing services
- (iv) Corporate secretarial services

The Marrelli Group is also reimbursed for out of pocket expenses.

As of December 31, 2015, the Marrelli Group was owed \$13,887 (2014 - \$3,225). These amounts are included in accounts payable and accrued liabilities.

**11. Segment Reporting**

The Company's only operating segment is the acquisition, exploration and development of mineral resource properties in the United States. The Company's non-current assets are all located in the United States.

**12. Contingency**

On July 27, 2015 the Company announced that it has been named as a defendant in a legal proceeding commenced by Vic Alboini in the Ontario Superior Court of Justice, Court File No.: CV-15-532630 (the "Alboini Claim"). The Alboini Claim seeks general damages for defamation in the amount of \$2,000,000, punitive, aggravated and exemplary damages in the amount of \$400,000, as well as certain other relief, regarding alleged libel in an amended management information circular dated May 12, 2015 and a press release issued on May 14, 2015. The statements in question were subsequently clarified in a press release issued on June 26, 2015 and a notice to shareholders mailed to shareholders on or about June 26, 2015, after receiving a libel notice from Mr. Alboini. Galway intends to vigorously defend this action. The Company believes the claim is without merit.

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**13. Income Taxes**

The statutory tax rate is 27% (2014 - 27%). The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the periods ended December 31, 2015 and 2014 are as follows:

	<b>2015</b>	2014
Income (loss) before recovery of income taxes	\$ (777,218)	\$ (186,214)
Expected income tax recovery	\$ 209,850	\$ 50,278
Difference in foreign tax rates	(41,530)	(31,406)
Change in tax rates and other adjustments	(169,830)	15,837
Non-deductible expenses	18,990	-
Stock-based compensation	720	9,729
Change in tax benefits not recognized	145,840	(44,438)
Income tax expense reflected in the consolidated statements of loss and comprehensive loss	\$ 164,040	\$ -

**Unrecognized Deferred Tax Assets**

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized with respect to the following deductible temporary differences:

<b>Deferred Income Tax Assets</b>	<b>2015</b>	2014
Mineral interests	\$ 5,396,940	\$ 7,121,940
Non-capital losses carried forward - US	16,120,780	14,079,100
Other deductible temporary differences	32,779	39,229

The US tax losses expire as noted in the table below. The remaining losses carryforward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

2026	\$ 294,580
2027	1,032,740
2028	1,784,210
2029	1,618,880
2030	741,640
2031	2,724,140
2032	1,891,030
2033	2,006,710
2034	1,972,080
2035	2,054,770
	<b>\$ 16,120,780</b>