

Galway Metals Inc.

**Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015**

(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 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

May 1, 2017
Toronto, Canada



May 1, 2017

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, 2016 and December 31, 2015 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, 2016 and December 31 2015 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)

As at December 31,	2016	2015
Assets		
Current assets		
Cash	\$ 6,487,429	\$ 10,037,068
Prepays and deposits	119,460	18,721
	6,606,889	10,055,789
Non-current asset		
Restricted cash	41,991	125,270
Resource property costs (Note 5)	1,995,537	-
	\$ 8,644,417	\$ 10,181,059
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$ 160,191	\$ 124,616
Deferred tax liability	-	164,040
	160,191	288,656
Shareholders' Equity		
Common shares (Note 6)	14,234,417	14,126,982
Contributed surplus	980,473	577,905
Accumulated other comprehensive loss	(3,175,152)	(3,505,595)
Deficit	(3,555,512)	(1,306,889)
	8,484,226	9,892,403
	\$ 8,644,417	\$ 10,181,059

Contingency (Note 10)

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 (Loss) and Comprehensive Loss
(Expressed in United States Dollars)

For the year ended December 31,	2016	2015
Expenses		
Administrative expenses (Note 9)	\$ 911,606	\$ 974,647
Stock-based compensation (Note 7)	351,558	2,670
Loss (Gain) on foreign exchange	503,320	(1,824,183)
Exploration expenses	663,836	-
Write-down of resource property costs	-	88,774
	2,430,320	(758,092)
Other Income		
Interest income	(17,657)	(19,126)
Net (Loss) Income before taxes	(2,412,663)	777,218
Deferred income tax	164,040	(164,040)
Net (Loss) Income	\$ (2,248,623)	\$ 613,178
Other Comprehensive Income (Loss)		
Items that will be reclassified subsequently into income:		
Cumulative translation adjustment	\$ 330,443	\$ (1,820,979)
Net Comprehensive loss	\$ (1,918,180)	\$ (1,207,801)
(Loss) income per share - basic and diluted	\$ (0.04)	\$ 0.01
Weighted average number of common shares outstanding	57,501,275	57,195,248

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, 2014	\$ 14,126,982	\$ 575,235	\$ (1,684,616)	\$ (1,920,067)	\$ 11,097,534
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
Balance, December 31, 2015	\$ 14,126,982	\$ 577,905	\$ (3,505,595)	\$ (1,306,889)	\$ 9,892,403
Issuance of warrants (Note 5(ii))	-	58,627	-	-	58,627
Shares issued for property (Note 6)	92,273	-	-	-	92,273
Cumulative translation adjustment	-	-	330,443	-	330,443
Stock-based compensation	-	351,558	-	-	351,558
Exercise of options	15,162	(7,617)	-	-	7,545
Net loss for the year	-	-	-	(2,248,623)	(2,248,623)
Balance, December 31, 2016	\$ 14,234,417	\$ 980,473	\$ (3,175,152)	\$ (3,555,512)	\$ 8,484,226

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,	2016	2015
Cash provided by (used in):		
Operating activities		
Net (loss) income for the period	\$ (2,248,623)	\$ 613,178
Share-based compensation (Note 7)	351,558	2,670
Write-down of resource property costs	-	88,774
Deferred income tax	(164,040)	164,040
Changes in current assets and liabilities:		
Prepays and deposits	(100,739)	23,485
Accounts payable and accrued liabilities	35,575	48,791
Due from Galway Gold Inc.	-	(106,210)
	(2,126,269)	834,728
Investing activities		
Resource property acquisition costs	(1,844,637)	(88,774)
Restricted cash	83,279	-
	(1,761,358)	(88,774)
Financing activities		
Net proceeds from issuance of shares	7,545	-
Effect of foreign exchange rate changes on cash balances	330,443	(1,820,979)
Net change in cash	(3,549,639)	(1,075,025)
Cash, beginning of year	10,037,068	11,112,093
Cash, end of year	\$ 6,487,429	\$ 10,037,068

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, 2016 and 2015

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 82 Richmond Street East, Toronto, Ontario, M5C 1P1.

The Company is in the process of exploring the Clarence Stream and Estrades gold projects, located in New Brunswick and Quebec, respectively, 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") as issued 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, 2016.

These consolidated financial statements were approved by the Board of Directors on May 1, 2017.

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis.

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.

Galway Metals Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016

2. Significant Accounting Policies (Continued)

Financial Instruments

Financial Assets

Financial assets are comprised of cash and restricted cash and are classified as loans and receivables.

Financial assets are classified as 'loans and receivables'. Loans and receivables are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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' and are comprised of accounts payable and accrued liabilities.

Other financial liabilities are initially measured at fair value.

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.

Galway Metals Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016

2. Significant Accounting Policies (Continued)

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. Restricted cash related to a property reclamation bonds as at December 31, 2016 of \$41,991 (December 31, 2015 - \$125,270 - a bond for Victorio Project remediation).

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 an 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.

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. For the year ended December 31, 2016, the Company recorded a \$nil (2015 - \$88,774) 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. 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 units: the Clarence Stream Project, The Estrades Project, and 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.

2. Significant Accounting Policies (Continued)

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 rehabilitation, environmental, or other provisions at December 31, 2016, or 2015.

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.

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.

Galway Metals Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016

2. Significant Accounting Policies (Continued)

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

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.

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:

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, 2016, the Company recorded a \$nil (2015 - \$88,774) 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).

2. Significant Accounting Policies (Continued)

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, 2016 and 2015, 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.

Adoption of New Accounting Pronouncements

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 were adopted on January 2016, resulting in no impact on its consolidated financial statements.

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 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 IFRSs 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.

Galway Metals Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
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3. Capital Management (Continued)

The Company considers its capital to be equity, comprising share capital, contributed surplus, accumulated other comprehensive income (loss), and deficit, which at December 31, 2016 totaled \$8,484,226 (2015 - \$9,892,403). 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, exploration and administration expenditures. 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, 2016.

4. Property and Financial Risk Factors

(a) Property Risk

The Company's significant mineral properties are the Clarence Stream Project and the Estrades Project. Unless the Company acquires or develops additional significant properties, the Company will be solely dependent upon these Projects. If no additional mineral properties are acquired by the Company, any adverse development affecting these projects 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 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, 2016, the Company had a cash balance of \$6,487,429 (2015 - \$10,037,068) to settle current liabilities of \$160,191 (2015 - \$124,616). 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 expenses, 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, 2016.
- (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 \$75,000 for the year ended December 31, 2016.
- (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, 2016, 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

	2016	2015
<u>Clarence Stream Project, New Brunswick, Canada</u>		
Balance, beginning of year	\$ -	\$ -
Additions	810,873	-
Balance, end of year	\$ 810,873	\$ -
<u>Estrades Project, Quebec, Canada</u>		
Balance, beginning of year	\$ -	\$ -
Additions	1,184,664	-
Balance, end of year	\$ 1,184,664	\$ -
<u>Victorio Mountain Project, New Mexico, USA</u>		
Balance, beginning of year	\$ -	\$ -
Additions	-	88,774
Write-downs	-	(88,774)
Balance, end of year	\$ -	\$ -
Total Resource Property Costs, end of year	\$ 1,995,537	\$ -

i) Clarence Stream Project, New Brunswick, Canada

On August 3, 2016 Galway entered into an Option Agreement to acquire a 100% undivided interest in Wolfden Resources Corporation's Clarence Stream property in south-western New Brunswick, Canada. In conjunction with this acquisition, Galway acquired Jubilee Gold Exploration Ltd.'s Birneys Lake property, which is adjacent on the south side of Wolfden's Clarence Stream property, and the Company staked a significant number of additional claims both to the east and west of Clarence Stream.

Cash payments for all of the Clarence Stream properties will be CDN\$3.5 million (USD\$2.67 million) over three years plus 1% Net Smelter Return (NSR) royalties on portions of the project, with Galway retaining rights to acquire most of the NSR's. Galway's cash payments in the first year will be CDN\$1.0 million (USD\$0.76) and there will not be any shares issued for any of the deals. Subsequent to the original acquisition on August 3, 2016, Galway Acquired 100% of the Lower Tower Hill Property from Globex Mining Enterprises for 260,000 shares plus a 2.5% Gross Metal Royalty on those claims.

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5. Resource Property Costs (Continued)

i) Clarence Stream Project, New Brunswick, Canada (Continued)

Jubilee: Galway acquired the Birneys Lake project at Clarence Stream for CDN\$200,000 (USD\$152,480) (paid) plus a 1% NSR royalty with a buyback option for half (0.5%) at any time for CDN\$500,000.

Staking: Galway staked 1,893 claims, along the Sawyer Brook Fault System and associated intrusives for CDN\$113,580 (USD\$86,593).

Wolfden: Galway has the option to acquire 100% of Wolfden's interest in the Clarence Stream property by making the following payments:

- CDN\$750,000 (USD\$571,800) upon closing (paid)
- CDN\$750,000 (USD\$571,800) upon the first anniversary of closing
- CDN\$1.0 million (USD\$0.76 million) upon the second anniversary of closing
- CDN\$750,000 (USD\$571,800) upon the third anniversary of closing
- 1% NSR royalty with a full buyback option at any time for CDN\$2.0 million (USD\$1.52 million).

ii) Estrades Project, Quebec, Canada

On , August 18, 2016, Galway acquired an undivided 100% ownership interest in the former producing, high grade Estrades mine, related Newiska concessions, and adjacent Casa Berardi claims in western Quebec, Canada.

In order to consolidate the Estrades, Newiska and Casa Berardi claim blocks, Galway completed deals with Mistango River Resources Inc., CR Capital Corporation, First Quantum Minerals Ltd., Globex Mining Enterprises Inc. and a private company, plus the Company staked additional claims. Galway Staked 2,902 claims along the Estrades and Newiska felsic rhyolite horizons. Subsequent to the original acquisition on August 18, 2016, Galway acquired 34 claims adjacent to its Estrades, Newiska and Casa Berardi concessions from GREG Exploration, Inc. for CDN\$34,000.

Cash payment for all the properties Galway acquired, including the Estrades, Newiska and Casa Berardi claims, was CDN\$1.35 million (USD\$1.03 million). In addition, Galway issued 800,000 units, valued at CDN\$0.25, with each unit comprised of a share and a three-year warrant exercisable at CDN\$0.52. The 800,000 common share component was valued at \$92,273 and the warrant component was valued at \$58,627 using the Black-Scholes pricing model and applying the relative fair value allocation to the share and warrant components. The following assumptions were used in the Black-Scholes model for initial warrant valuation: a risk-free rate of 0.57%, an expected life of 3 years, an expected volatility of 102.46% and an expected dividend yield of 0%. The Company has also agreed to issue three royalties on portions of the properties.

Mistango River Resources: Cash payment of CDN\$700,000 (USD\$533,941), plus a 1% NSR royalty on portions of three claims. This royalty has a buyout option at any time for CDN\$1.0 mm.

CR Capital: Cash payment of CDN\$150,000 (USD\$114,416) on CR Capital's property in which it held an approximate 64.6% interest.

First Quantum Minerals: No cash or share payment. First Quantum exchanged its approximate 35.4% minority interest in CR Capital's property for a 2% NSR royalty. There is no buyout option on this royalty. First Quantum's share of the CR Capital property hosts a portion of the East Zone and the Newiska Block.

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5. Resource Property Costs (Continued)

ii) Estrades Project (Continued)

Private Company: CDN\$300,000 (USD\$228,832) cash and 800,000 units as described above, subject to regulatory approval. The private company held rights to all historic data on the Estrades property.

Globex Mining Enterprises: CDN\$200,000 (USD\$152,555) cash and a 1% Gross Metal Royalty (similar to an NSR royalty). There is no buyout option on this royalty.

Claim Staking: Galway staked 2,902 claims for USD\$2,367 (CAD\$3,140) along the Estrades and Newiska felsic rhyolite horizons.

There are pre-existing NSR royalties of 2.0% on Mistango's and Globex's Casa Berardi claims. On Globex's claims, 1.5% of the 2.0% royalty can be purchased at any time for CDN\$1.5 mm.

iii) On May 3, 2016, the Company announced that it had terminated the contract for the Victorio project due to unfavourable market conditions and depressed molybdenum and tungsten prices. As such, Galway Metals did not make the US\$75,000 payment due June 1, 2016, and will not make subsequent payments of US\$75,000 and US\$900,000 that were scheduled in 2017 and 2018, respectively.

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

Common shares issued:

	Number of Shares	Amount
Balance, December 31, 2014 and December 31, 2015	57,195,248	\$ 14,126,982
Shares issued on property acquisition (Note 5(ii))	800,000	92,273
Exercise of options - cash	100,000	7,545
Exercise of options - valuation	-	7,617
Balance, December 31, 2016	58,095,248	\$ 14,234,417

7. Stock Options

The following table reflects the continuity of stock options for the year ended December 31, 2016:

	Number of Stock Options	Weighted Average Exercise Price (CDN)
Balance, December 31, 2014 and December 31, 2015	4,175,000	\$0.10
Granted	1,435,000	\$0.51
Exercised	(100,000)	\$0.10
Balance, December 31, 2016	5,510,000	\$0.21

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7. Stock Options (Continued)

On September 21, 2016, the Company granted an aggregate of 1,435,000 stock options to officers, directors, employees and consultants of the Company for a period of 10 years, at an exercise price of CDN\$0.51 per share. The stock options were valued at the grant date at \$517,736, using the Black-Scholes option pricing model, based on a risk-free rate of 1.19%, an expected life of 10 years, an expected volatility of 110.04% and an expected dividend yield of 0%. 735,000 of the 1,435,000 options granted, comprising \$257,675 of the \$517,736 total value of the grant are subject to vesting at a rate of 50% after 6 months and 25% every 6 months thereafter. The remaining 700,000 options, granted to directors and an employee, vest immediately upon grant.

The following table reflects the stock options outstanding as at December 31, 2016:

Expiry Date	Exercise Price(CDN)	Weighted Average Life Remaining	Options Outstanding	Black-Scholes Value
December 4, 2023	\$ 0.10	6.93 years	4,075,000	\$ 413,868
September 21, 2026	\$ 0.51	9.73 years	1,435,000	\$ 517,736
	\$ 0.21	7.66 years	5,510,000	\$ 931,604

Of the 5,510,000 options outstanding as at December 31, 2016, 4,775,000 were exercisable.

8. Warrants

The following table reflects the continuity of warrants for the years ended December 31, 2016 and 2015:

	Number of Warrants	Weighted Average Exercise Price (CDN)
Balance, December 31, 2014 and December 31, 2015	3,300,000	\$ 0.15
Issued (Note 5(ii))	800,000	\$ 0.52
Balance, December 31, 2016	4,100,000	\$ 0.22

The following table reflects the warrants outstanding as at December 31, 2016 :

Expiry Date	Exercise Price(CDN)	Weighted Average Life Remaining	Warrants Outstanding	Black-Scholes Value
April 16, 2017	\$ 0.15	0.29 years	3,300,000	\$ 158,197
August 24, 2019	\$ 0.52	2.65 years	800,000	\$ 58,627
	\$ 0.22	0.75 years	4,100,000	\$ 216,824

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9. Administrative Expenses

	2016	2015
Salaries and benefits	\$ 281,067	\$ 270,349
Office and general	148,120	102,146
Public company costs	58,225	203,555
Insurance	20,144	21,810
Professional fees	327,567	318,216
Travel expense	76,483	58,571
Total	\$ 911,606	\$ 974,647

10. 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.

11. Related Party Transactions

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

	2016	2015
Remuneration paid for CEO and CFO services	\$ 213,942	\$ 214,078
Management fees paid to two directors	\$ 211,427	\$ 128,420
Stock-based compensation - directors and officers	\$ 198,435	\$ -

During the year ended December 31, 2016, the Company expensed \$50,595, (2015 - \$58,666) 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

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11. Related Party Transactions (Continued)

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

As of December 31, 2016, the Marrelli Group was owed \$12,796 (2015 - \$13,887). These amounts are included in accounts payable and accrued liabilities.

During the year ended December 31, 2016, the Company incurred \$211,427 (2015 - \$nil) pertaining to consulting services provided by two directors. As at December 31, 2016, \$4,572 (2015 - \$nil) was included in accounts payable and accrued liabilities pertaining to these fees.

12. Segment Reporting

The Company's only operating segment is the acquisition, exploration and development of mineral resource properties. The Company's non-current assets are located in Canada. (2015 - the United States)

13. Income Taxes

The statutory tax rate is 26.5% (2015 - 26.5%). The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the periods ended December 31, 2016 and 2015 are as follows:

	2016	2015
Income (loss) before recovery of income taxes	\$ (2,412,663)	\$ (777,218)
Expected income tax (recovery) expense	\$ (639,356)	\$ 209,850
Difference in foreign tax rates	(37,550)	(41,530)
Change in tax rates and other adjustments	-	(169,830)
Non-deductible expenses	-	18,990
Stock-based compensation	100,190	720
Change in tax benefits not recognized	412,676	145,840
Income tax expense reflected in the consolidated statements of loss and comprehensive loss	\$ (164,040)	\$ 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:

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13. Income Taxes (Continued)

Deferred Income Tax Assets	2016	2015
Mineral interests	\$ 4,311,210	\$ 5,396,940
Non-capital losses carried forward - US	18,215,590	16,120,780
Other deductible temporary differences	26,329	32,779

The US tax losses expire as noted in the table below. The Canadian non-capital loss carryforwards will expire in 2035. The remaining deductible temporary differences may be carried forward 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
2036	2,094,810
	\$ 18,215,590

14. Subsequent Events

- i) Subsequent to December 31, 2016, 3,300,000 warrants, expiring April 16, 2017, with an exercise price of \$0.15 were exercised.
- ii) On April 24, 2017, the Company announced that it had awarded 415,000 incentive stock options exercisable at C\$0.28 per common share, expiring on April 24, 2027, to officers, directors, employees and consultants of the Company. This grant of options is in compliance with terms of the Company's Stock Option Plan.
- iii) In January 2017, Galway Acquired 100% of the Lower Tower Hill Property from Globex Mining Enterprises for 260,000 shares plus a 2.5% Gross Metal Royalty on those claims.