

Galway Resources Ltd.
(A Development Stage Company)

Financial Statements
December 31, 2005 and 2004

AUDITORS' REPORT

To the Directors of Galway Resources Ltd.:

We have audited the balance sheets of Galway Resources Ltd. (the "Company") (a Development Stage Company) as at December 31, 2005 and 2004 and the statements of loss and deficit and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

"Staley, Okada & Partners"

Vancouver, BC
March 2, 2006

STALEY, OKADA & PARTNERS
CHARTERED ACCOUNTANTS

GALWAY RESOURCES LTD.
(A Development Stage Company)

Balance Sheets

As at December 31

ASSETS	2005	2004
Current		
Cash and cash equivalents	\$ 167,130	\$ --
Accounts receivable	414	10
Prepaid expenses	7,723	--
	<u>175,267</u>	<u>10</u>
Equipment <i>(Note 4)</i>	2,878	--
Resource Property Costs <i>(Note 5)</i>	50,000	--
	<u>\$ 228,145</u>	<u>\$ 10</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 130,334	\$ --
Due to related parties <i>(Note 8)</i>	12,871	461
	<u>143,205</u>	<u>461</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share Capital <i>(Note 6)</i>		
Authorized:		
Unlimited common shares without par value		
Issued and fully paid:		
3,069,000 (2004 – 100 common shares)	376,789	10
Deficit	(291,849)	(461)
	<u>84,940</u>	<u>(451)</u>
	<u>\$ 228,145</u>	<u>\$ 10</u>

ON BEHALF OF THE BOARD:

“Robert Hinchcliffe” , Director

“David De Witt” , Director

GALWAY RESOURCES LTD.
(A Development Stage Company)

Statements of Loss and Deficit

For the Periods Ended December 31

	12 Months 2005	4 Months 2004
Expenses		
Amortization	\$ 508	\$ --
Bank charges	982	--
Geological and mining consulting fees	100,524	--
Listing and filing fees	6,616	--
Office expenses	5,770	--
Professional fees	46,016	461
Rent	11,014	--
Reports, maps and data	41,993	--
Stock-based compensation	42,769	--
Telephone	5,182	--
Travel	28,390	--
Total Expenses	289,764	461
Other Items		
Foreign exchange loss	1,624	--
Net Loss	\$ 291,388	\$ 461
Loss for the Period		
	(291,388)	(461)
Deficit - Beginning of period	(461)	--
Deficit - End of Period	\$ (291,849)	\$ (461)
Loss per Share - Basic and Diluted		
	\$ (0.19)	\$ (4.61)
Weighted Average Number of Common Shares		
	1,520,593	100

- See Accompanying Notes -

GALWAY RESOURCES LTD.*(A Development Stage Company)***Statements of Cash Flows**

For the Periods Ended December 31

	12 Months 2005	4 Months 2004
Cash Provided By (Used In):		
Operating Activities		
Loss for the period	\$ (291,388)	\$ (461)
Items not affecting cash:		
Stock-based compensation	42,769	--
Amortization	508	--
	(248,111)	(461)
Changes in current assets and liabilities:		
Accounts receivable	(404)	(10)
Accounts payable and accrued liabilities	105,334	--
Prepaid expenses	(7,723)	--
	(150,904)	(471)
Investing Activities		
Purchase of equipment	(3,386)	--
Resource property costs	(25,000)	--
	(28,386)	--
Financing Activities		
Share issue proceeds	406,890	10
Financing costs	(72,880)	--
Due to related parties	12,410	461
	346,420	471
Net Increase in Cash and Cash Equivalents		
Cash and cash equivalents - Beginning of Period	167,130	--
	--	--
Cash and Cash Equivalents - End of Period	\$ 167,130	\$ --

Notes to Financial Statements

December 31, 2005 and 2004

1. Nature of Operations

Galway Resources Ltd. ("the Company") was incorporated under the Business Corporations Act of British Columbia on August 31, 2004. The Company is classified as a Capital Pool Company as defined in the TSX Venture Exchange ("TSX-V") Policy 2.4 and was listed on the TSX-V on October 19, 2005. The principle business of the Company is to identify and evaluate opportunities for the acquisition of an interest in resource based assets or businesses and, once identified, to negotiate an acquisition or participation.

2. Significant Accounting Policies

a) Cash and Cash Equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments that mature at point of purchase of 90 days or less. The Company places its cash and cash equivalents with institutions of high-credit worthiness.

b) Equipment

Equipment is recorded at cost. The Company provides for amortization on office equipment using the 30% declining balance method, with half the rate applied in the year of acquisition.

c) Resource Property Costs

Mineral exploration and development costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for the prospects abandoned are written off.

The recoverability of the amounts capitalized for the undeveloped resource properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

The Company assesses its capitalized resource property costs on a regular basis. A property is written-down or written-off when the Company determines that a permanent impairment of value has occurred or when exploration results indicate that no further work is warranted. The company will also reduce its capitalized resource property costs if no active exploration has been conducted on the property for a period of three or more years.

Notes to Financial Statements

December 31, 2005 and 2004

2. Significant Accounting Policies - Continued

d) Asset Retirement Obligations

Effective December 1, 2005, the Company adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. This new section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

There is no material impact on the financial statements resulting from the adoption of Section 3110 either in the current or prior periods presented.

e) Income Taxes

The asset and liability method is used for determining future income taxes. Under the asset and liability method, the change in the net future income tax asset or liability is included in income. The income tax effects of differences in the periods when revenue and expenses are recognized, in accordance with Company accounting practices, and the periods they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using the statutory income tax rates which are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

f) Share Capital

- i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.
- ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

g) Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

Notes to Financial Statements

December 31, 2005 and 2004

2. Significant Accounting Policies - Continued

h) Stock-Based Compensation

The Company adopted the recommendations of CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. This established standards for the recognition, measurement and disclosure of stock-based compensation and other stock based payments made in exchange for goods and services.

The standard requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair value based method.

i) Management's Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

j) Foreign Currency Translation

The accounts of the Company's foreign activities have been translated into Canadian dollars as follows:

- Monetary assets and liabilities at year-end rates,
- All other assets and liabilities at historical rates, and
- Revenue and expense and exploration and development items at the average rate of exchange prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in income or expense in the year.

k) Derivative Financial Instruments

The Company was not a party to any derivative financial instruments during any of the reported fiscal years.

3. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

GALWAY RESOURCES LTD.
(A Development Stage Company)

Notes to Financial Statements

December 31, 2005 and 2004

4. Equipment

Details are as follows:

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
Office equipment	\$ 3,386	\$ 508	\$ 2,878	\$ --

5. Resource Property Costs

All resource property costs are related to the Indian Springs tungsten property. The Company entered into a letter of intent with Geological Services Inc. on January 10, 2006 to obtain an option to acquire 100% interest in the property (*Note 11*).

6. Share Capital

a) **Details of share capital are as follows:**

	Shares	Amount	Contributed Surplus	Total
Authorized:				
Unlimited common shares without par value				
Issued and fully paid:				
Shares issued on incorporation	100	\$ 10	\$ --	\$ 10
Balance – December 31, 2004	100	\$ 10	\$ --	\$ 10
Shares issued for seed capital	2,068,900	206,890	--	206,890
Shares issued for initial public offering	1,000,000	200,000	--	200,000
Share issuance costs	--	(72,880)	--	(72,880)
Stock-based compensation	--	--	42,769	42,769
Balance – December 31, 2005	3,069,000	\$ 334,020	\$ 42,769	\$ 376,789

Notes to Financial Statements

December 31, 2005 and 2004

6. Share Capital – Continued

b) Shares Issued

During the year ended December 31, 2005, the Company issued 3,068,900 common shares, of which, 2,068,900 shares were issued at a price of \$0.10 per common share and 1,000,000 shares were issued at a price of \$0.20 per common share during the Company's initial public offering.

During the fiscal period ended December 31, 2004, the Company issued 100 common shares at a price of \$0.10 per common share.

c) Share Purchase Options

The Company has established a share purchase option plan (the "Plan") whereby the board of directors may, from time to time, grant options to directors, officers, employees, consultants or management company employees. Options granted must be exercised not later than five years from the date of grant or such lesser or greater period as may be determined by the Company's board of directors and in accordance with the policies of the TSX-V. The exercise price of an option must be determined by the board of directors and in accordance with the Plan and the policies of the TSX-V. Subject to the policies of the TSX-V, the board of directors may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist.

d) Escrow Shares

As at December 31, 2005, 2,069,000 shares are held in escrow. These common shares will be held in escrow and will be released pro-rata to the shareholders, 10% of the escrow shares upon issuance of notice of final acceptance of a Qualifying Transaction by the TSX-V and the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months. These escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

7. Stock-Based Compensation

The Company has adopted the recommendations of CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments (*Note 2h*). The standard requires stock-based awards made to employees and non-employees be measured and recognized using a fair value based method.

On October 19, 2005, the Company granted directors and officers of the Company stock options to purchase up to 200,000 common shares of the Company at an exercise price of \$0.20 per share, with an estimated value of \$31,193 on the grant date. In addition the Company granted 100,000 agent's options on October 19, 2005 at an exercise price of \$0.20 per share, with an estimated value of \$11,576 on the grant date. As all options were immediately exercisable on the grant date a total fair value of \$42,769 has been recorded as an expense during the year and a credit to contributed surplus.

GALWAY RESOURCES LTD.
(A Development Stage Company)

Notes to Financial Statements

December 31, 2005 and 2004

7. Stock-Based Compensation – Continued

The fair value of options granted on October 19, 2005 are estimated on their grant date using the Black-Scholes option-pricing model with the following assumptions:

	Director's and Officer's Options Granted on October 19, 2005	Agent's Options Granted on October 19, 2005
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	110%	110%
Risk-free interest rate	3.60%	3.31%
Expected life of options	5 years	2 years

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

8. Related Party Transactions

Except as noted elsewhere in these financial statements, related party transactions are as follows:

As at December 31, 2005, \$12,199 was owing to a director of the Company. The amount relates to office and travel expenses which were incurred in the normal course of business.

As at December 31, 2005, \$672 was owing to a shareholder of the Company. The amount owing relates to funds deposited with the Company in excess of share capital issued and was repaid subsequent to year end.

As at December 31, 2004, \$461 was owing to Pathway Capital Ltd., a related company with a director in common with the Company, for incorporation expenses paid on behalf of the Company. The expenses were incurred in the normal course of business. The amount was repaid upon the completion of the Company's IPO.

9. Income Taxes

The Company has a non-capital loss for tax purposes of approximately \$263,200 that is available to offset future taxable income. This loss may be carried forward and expires in 2015.

In addition, the Company has certain Canadian resource property costs of approximately \$50,000 which may be carried forward indefinitely.

GALWAY RESOURCES LTD.
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Notes to Financial Statements

December 31, 2005 and 2004

9. Income Taxes – Continued

Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purpose (Note 2e). The significant components of the Company's Canadian future income tax assets as at December 31, 2005 are as follows.

	2005		2004
Future income tax assets:			
Non-capital loss carry forwards	\$ 263,200	\$	-
Resource property costs	50,000		-
Share issue costs	58,304		-
	371,504		-
Expected tax rate	34.86%		35.6%
Future income tax asset	129,506		-
Less: Valuation allowance	(129,506)		-
Net future income tax assets	\$ -	\$	-

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized in the foreseeable future.

The income tax benefits, if any, of these losses and expenditures have not been recorded in the accounts of the Company.

10. Segmented Information

Details are as follows:

December 31, 2005	Canada	USA	South America	Total
Segmented operating loss	\$ 75,521	\$ 106,920	\$ 108,947	\$ 291,388
Identifiable assets	175,267	50,000	2,878	228,145
December 31, 2004				
Segmented operating loss	\$ 461	\$ -	\$ -	\$ 461
Identifiable assets	10	-	-	10

Notes to Financial Statements

December 31, 2005 and 2004

11. Subsequent Event

On January 10, 2006 the Company entered into a letter of intent with Geological Services Inc., pursuant to which the Company has obtained the option to acquire a 100% interest in the Indian Springs Tungsten Property, Elko County, Nevada, USA (the "Acquisition").

Galway expects the Acquisition will constitute its Qualifying Transaction under the policies of the TSX-V, subject to approval. The Acquisition is an arm's length transaction.

Galway may exercise its right to acquire a 100% interest in the Indian Springs Property by paying an aggregate of US\$300,000 and issuing a total of 1,000,000 common shares of Galway ("Shares") as follows:

- payment of US\$12,500 on or before February 15, 2006 (paid subsequent to year end);
- issuance of 200,000 Shares upon the closing of the Qualifying Transaction (the "Closing Date");
- payment of US\$40,000 and issuance of 200,000 Shares on the 1st anniversary of the Closing Date;
- payment of US\$60,000 and issuance of 200,000 Shares on the 2nd anniversary of the Closing Date;
- payment of US\$75,000 and issuance of 200,000 Shares on the 3rd anniversary of the Closing Date; and
- payment of US\$112,500 and issuance of 200,000 Shares on the 4th anniversary of the Closing Date.

Galway intends to explore and, if successful, develop, and produce tungsten from the Indian Springs Property.