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NOTICE

**RE: INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH
PERIOD ENDED SEPTEMBER 30, 2006**

The third quarter financial statements for the nine month period ended September 30, 2006 have not been reviewed by the auditors of Galway Resources Ltd.

GALWAY RESOURCES LTD.

“Christopher Park”

CHRISTOPHER PARK

Chief Financial Officer

Galway Resources Ltd.

(A Development Stage Company)

Interim Consolidated Financial Statements
September 30, 2006

US Dollars
Unaudited

GALWAY RESOURCES LTD.
(A Development Stage Company)
Interim Consolidated Balance Sheets
US Dollars
Unaudited

| | September 30 2006 | December 31 2005 (audited) |
|--|----------------------|----------------------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 658,100 | \$ 143,397 |
| Accounts receivable | 6,857 | 355 |
| Prepaid expenses | 53,977 | 6,627 |
| | <u>718,934</u> | <u>150,379</u> |
| Equipment (Note 4) | 76,889 | 2,469 |
| Resource Property Costs (Notes 2b and 5) | 226,101 | - |
| | <u>\$ 1,021,924</u> | <u>\$ 152,848</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 152,809 | \$ 111,828 |
| Due to related parties (Note 8) | 7,216 | 11,043 |
| | <u>160,025</u> | <u>122,871</u> |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (Note 6) | | |
| Authorized: | | |
| Unlimited common shares without par value | | |
| Issued and outstanding: | | |
| 19,969,109 (2005 - 6,138,000 common shares) | 3,134,720 | 286,589 |
| Contributed Surplus (Note 6) | 164,825 | 36,696 |
| Cumulative Translation Adjustment (Note 2c) | (11,270) | (10,891) |
| Deficit (Note 2b) | (2,426,376) | (282,417) |
| | <u>861,899</u> | <u>29,977</u> |
| | <u>\$ 1,021,924</u> | <u>\$ 152,848</u> |

ON BEHALF OF THE BOARD:

"David De Witt", Director

"Robert Hinchcliffe", Director

GALWAY RESOURCES LTD.*(A Development Stage Company)***Interim Consolidated Statements of Loss and Deficit***US Dollars**Unaudited*

| | Three Months Ended September 30 2006 | Three Months Ended September 30 2005 | Nine Months Ended September 30 2006 | Nine Months Ended September 30 2005 |
|---|--|--|---|---|
| Expenses | | | | |
| Amortization | \$ 6,034 | \$ 217 | \$ 8,335 | \$ 217 |
| Exploration costs - <i>Schedule</i> | 788,341 | 25,483 | 1,414,564 | 42,626 |
| General and administrative expenses | 242,769 | 4,862 | 343,829 | 4,999 |
| Listing and filing fees | 12,355 | 4,019 | 46,101 | 4,019 |
| Professional fees | 65,152 | 6,123 | 197,155 | 12,037 |
| Stock-based compensation | 31,702 | - | 72,107 | - |
| Travel | 30,576 | 12,358 | 50,573 | 13,152 |
| Total Expenses | 1,176,929 | 53,062 | 2,132,664 | 77,050 |
| Other Items | | | | |
| Foreign exchange (gain) loss | 2,983 | 423 | 11,295 | 423 |
| Loss for the Period | (1,179,912) | (53,485) | (2,143,959) | (77,473) |
| Deficit - beginning of period | (1,246,464) | (24,343) | (239,106) | (355) |
| Restatement - <i>(Notes 2b and 5)</i> | - | - | (43,311) | - |
| Deficit - End of Period | \$ (2,426,376) | \$ (77,828) | \$ (2,426,376) | \$ (77,828) |
| Loss per Share - Basic and Diluted | \$ (0.08) | \$ (0.05) | \$ (0.21) | \$ (0.14) |
| Weighted Average Number of Common Shares | 14,652,505 | 1,102,323 | 10,418,773 | 554,256 |

- See Accompanying Notes -

GALWAY RESOURCES LTD.*(A Development Stage Company)***Interim Consolidated Statements of Cash Flows***US Dollars**Unaudited*

| | Three Months Ended September 30 2006 | Three Months Ended September 30 2005 | Nine Months Ended September 30 2006 | Nine Months Ended September 30 2005 |
|--|--|--|---|---|
| Cash Resources Provided By (Used In): | | | | |
| Operating Activities | | | | |
| Loss for the period | \$ (1,179,912) | \$ (53,485) | \$ (2,143,959) | \$ (77,473) |
| Items not affecting cash: | | | | |
| Amortization | 6,034 | 217 | 8,335 | 217 |
| Stock-based compensation | 31,702 | - | 72,107 | - |
| | (1,142,176) | (53,268) | (2,063,517) | (77,256) |
| Changes in current assets and liabilities: | | | | |
| Accounts receivable | 1,395 | (1,119) | (6,502) | (1,111) |
| Prepaid expenses | 8,379 | 5,691 | (47,350) | (5,395) |
| Accounts payable and accrued liabilities | (63,988) | 27,419 | 36,632 | 41,913 |
| | (1,196,390) | (21,277) | (2,080,737) | (41,849) |
| Investing Activities | | | | |
| Purchase of equipment | (61,371) | (2,892) | (82,755) | (2,892) |
| Resource property acquisition costs | (45,173) | - | (127,620) | - |
| | (106,544) | (2,892) | (210,375) | (2,892) |
| Financing Activities | | | | |
| Shares issued, net | 1,389,606 | - | 2,805,672 | 168,450 |
| Deferred costs | - | (25,221) | - | (30,920) |
| Due to related parties | (4,053) | 3,552 | 522 | 4,091 |
| | 1,385,553 | (21,669) | 2,806,194 | 141,621 |
| Effect of foreign exchange rate changes on cash balances | (12,153) | 4,895 | (379) | 4,787 |
| Net Increase (Decrease) in Cash and Cash Equivalents | | | | |
| Cash and cash equivalents - beginning of period | 587,634 | 142,610 | 143,397 | - |
| Cash and Cash Equivalents - End of Period | \$ 658,100 | \$ 101,667 | \$ 658,100 | \$ 101,667 |
| Schedule of Non-Cash Investing and Financing Activities | | | | |
| Fair value of warrants exercised | \$ 876 | \$ - | \$ 2,081 | \$ - |
| Shares issued for property acquisition | \$ 44,895 | \$ - | \$ 98,481 | \$ - |
| Financing costs | \$ 58,103 | \$ - | \$ 58,103 | \$ - |

- See Accompanying Notes -

GALWAY RESOURCES LTD.*(A Development Stage Company)***Interim Consolidated Schedule of Exploration Costs***US Dollars**Unaudited*

| | Three Months Ended September 30 2006 | Three Months Ended September 30 2005 | Nine Months Ended September 30 2006 | Nine Months Ended September 30 2005 |
|--------------------------------------|--|--|---|---|
| Indian Springs, Nevada, USA | | | | |
| Assaying and sampling | \$ 85,117 | \$ - | \$ 91,207 | \$ - |
| Drilling | 244,248 | - | 250,455 | - |
| Environmental consulting | 14,615 | - | 18,918 | - |
| General | 37,667 | - | 40,470 | - |
| Geological and field expenses | 109,944 | - | 224,888 | - |
| Maps, reports and data | 6,529 | - | 80,505 | - |
| Mineral property fees | 64,991 | - | 125,295 | - |
| Supplies | 64 | - | 12,105 | - |
| Travel | 3,725 | - | 48,162 | - |
| Wages and salaries | 36,589 | - | 61,776 | - |
| | <u>603,489</u> | <u>-</u> | <u>953,781</u> | <u>-</u> |
| Lone Mountain, Nevada, USA | | | | |
| General | 1,624 | - | 1,624 | - |
| Geological and field expenses | 5,430 | - | 32,108 | - |
| Maps, reports and data | 27,888 | - | 37,176 | - |
| Mineral property fees | 19,515 | - | 19,515 | - |
| Supplies | 248 | - | 248 | - |
| Travel | 6,096 | - | 8,143 | - |
| Wages and salaries | 64 | - | 64 | - |
| | <u>60,865</u> | <u>-</u> | <u>98,878</u> | <u>-</u> |
| Victorio Mountain, New Mexico | | | | |
| Assaying and sampling | 1,013 | - | 1,013 | - |
| Drilling | - | - | - | - |
| Environmental consulting | 1,581 | - | 1,581 | - |
| General | 11,433 | - | 11,433 | - |
| Geological and field expenses | 23,371 | - | 45,597 | - |
| Maps, reports and data | 3,541 | - | 68,558 | - |
| Mineral property fees | 12,401 | - | 20,085 | - |
| Supplies | 3 | - | 553 | - |
| Travel | 4,247 | - | 12,971 | - |
| Wages and salaries | 3,025 | - | 5,015 | - |
| | <u>60,615</u> | <u>-</u> | <u>166,806</u> | <u>-</u> |

- See Accompanying Notes -

GALWAY RESOURCES LTD.*(A Development Stage Company)***Interim Consolidated Schedule of Exploration Costs, Cont'd***US Dollars**Unaudited*

| | Three Months Ended September 30 2006 | Three Months Ended September 30 2005 | Nine Months Ended September 30 2006 | Nine Months Ended September 30 2005 |
|-------------------------------|--|--|---|---|
| General Exploration | | | | |
| Assaying and sampling | 635 | - | 635 | - |
| Geological and field expenses | 29,820 | 22,451 | 127,787 | 39,594 |
| General | 5,425 | - | 7,706 | - |
| Maps, reports and data | 5,024 | 3,032 | 7,490 | 3,032 |
| Mineral property fees | 2,011 | - | 9,318 | - |
| Supplies | 965 | - | 965 | - |
| Travel | 13,394 | - | 28,970 | - |
| Wages and salaries | 6,098 | - | 12,228 | - |
| | <u>63,372</u> | <u>25,483</u> | <u>195,099</u> | <u>42,626</u> |
| Costs for the Period | \$ 788,341 | \$ 25,483 | \$ 1,414,564 | \$ 42,626 |

- See Accompanying Notes -

GALWAY RESOURCES LTD.

(A Development Stage Company)

Notes to Interim Consolidated Financial Statements

September 30, 2006

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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 completed its qualifying transaction on April 25, 2006 through the incorporation of its wholly owned subsidiary, Galway Resources (US) Inc. and the acquisition of 100% interest in the Indian Springs Tungsten Project. The Company is a mining exploration company focused on developing its two recently acquired advanced exploration projects.

The Company has changed its fiscal year end from May 31 to December 31 commencing December 31, 2005.

2. Significant Accounting Policies

These interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements, with the following exceptions:

a) Basis of presentation:

These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Galway Resources US Inc., Nyak Resources Inc., Galway Resources Holdco Ltd., and Galway Resources (Cayman) Ltd. All significant inter-company transactions and balances have been eliminated.

These interim consolidated financial statements should be read in conjunction with the audited financial statements as at December 31, 2005.

b) Change in accounting policy:

Effective January 1, 2006 the Company has adopted the following accounting policy with respect to exploration expenditures and acquisition payments:

All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no economically feasible ore body is discovered, previously capitalized costs are expensed in the period the property is abandoned. Capitalized costs will be amortized using the units-of-production method over the estimated life of the probable reserve.

This change in accounting policy requires the Company to restate the comparative figures presented in these interim consolidated financial statements as in the period prior to January 1, 2006 the Company's policy was to capitalize all mineral acquisition and exploration costs.

GALWAY RESOURCES LTD.*(A Development Stage Company)***Notes to Interim Consolidated Financial Statements**

September 30, 2006

*US Dollars**Unaudited*

The following is a summary of the accounts which have been affected as a result of the restatement for the change in accounting policy as at December 31, 2005:

| | | |
|--|----|------------------|
| Deficit, end of period – as previously reported | \$ | (239,106) |
| Restatement for change in accounting policy – exploration expenditures | | <u>(43,311)</u> |
| Deficit, end of period – as restated | \$ | <u>(282,417)</u> |
| | | |
| Resource Property Costs, end of period – as previously reported | \$ | 43,311 |
| Restatement for change in accounting policy – exploration expenditures | | <u>(43,311)</u> |
| Resource Property Costs, end of period – as restated | \$ | <u>--</u> |

c) Change in reporting currency:

Effective April 1, 2006 the Company has changed its reporting currency from the Canadian Dollar to the US Dollar. The change is the result of an increase in the volume of transactions denominated in US Dollars.

The financial statements for all years and periods presented have been translated into the reporting currency using the current rate method. Under this method, the statement of operations and the cash flow statement items for each year end period have been translated into the reporting currency using the rates in effect at the date of the transactions, and assets and liabilities have been translated using the exchange rate at the end of the year or period. All resulting exchange differences are reported as a separate component of shareholders' equity entitled cumulative translation adjustment.

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 Interim Consolidated Financial Statements**

September 30, 2006

*US Dollars**Unaudited***4. Equipment**

Details are as follows:

| | Cost | Accumulated Amortization | September 30 2006 | December 31 2005 |
|-------------------|------------------|-----------------------------|----------------------|---------------------|
| Office equipment | \$ 14,193 | \$ 2,226 | \$ 11,967 | \$ 2,469 |
| Computer software | 1,726 | 577 | 1,149 | - |
| Equipment | 69,741 | 5,968 | 63,773 | - |
| | <u>\$ 85,660</u> | <u>\$ 8,771</u> | <u>\$ 76,889</u> | <u>\$ 2,469</u> |

5. Resource Property Costs

Cumulative acquisition costs per project under active exploration:

| | September 30 2006 | December 31 2005 |
|-------------------|----------------------|---------------------|
| Indian Springs | \$ 66,533 | \$ - |
| Lone Mountain | 45,173 | - |
| Victorio Mountain | 114,395 | - |
| | <u>\$ 226,101</u> | <u>\$ -</u> |

Indian Springs, Nevada, USA

The Company entered into an agreement with Geological Services Inc. ("GSI") on February 27, 2006 to obtain an option to acquire 100% interest in the Indian Springs Project. Pursuant to the agreement, the Company may exercise its right to acquire an undivided 100% right, title and interest in and to the Indian Springs Project by paying an aggregate of \$300,000 and issuing a total of 2,000,000 Shares to GSI as follows:

- payment of \$12,500 on or before February 15, 2006 (paid);
- issuance of 400,000 Shares on or before April 25, 2006 (issued);
- payment of \$40,000 and issuance of 400,000 Shares on April 25, 2007;
- payment of \$60,000 and issuance of 400,000 Shares on April 25, 2008;
- payment of \$75,000 and issuance of 400,000 Shares on April 25, 2009; and
- payment of \$112,500 and issuance of 400,000 Shares on April 25, 2010.

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The property will be subject to a 2.0% net smelter royalty (NSR) due to GSI on future production from Indian Springs. The Company has the option to buy 1.0% of the NSR royalty for \$1,000,000 and has the right of first offer to purchase the remaining 1.0% NSR royalty.

The Company shall have the right, on payment of \$150,000 to the owner of the net smelter royalty within 60 days from the date that construction begins for commercial production on the mineral claims comprising the Indian Springs Project, to elect to establish a floor price of \$100 per metric ton unit for the price of APT Tungsten as quoted by Metal Bulletin; no net smelter royalty payments shall be owing by the Company for any and each calendar month during which the average 30-day price of APT Tungsten as quoted by Metal Bulletin is below the floor price.

The Company will assume responsibility for all continuing property maintenance payments (which presently total approximately \$15,000 per annum) until such time as the Company acquires a 100% interest in the Indian Springs Project.

During the nine months ended September 30, 2006, the Company staked 92 additional claims. This brings the total number of claims at Indian Springs to 155 unpatented lode mining claims, covering approximately 3200 acres or five square miles.

Victorio Mountain, New Mexico, USA

The Company has entered into two agreements with regard to the Victorio Mountain Molybdenum-Tungsten Project in New Mexico.

On April 6, 2006, the Company, through its wholly owned subsidiary Nyak Resources, Inc., entered into an instalment sale agreement with Donegan Resources, Inc., to acquire an undivided 100% right, title and interest in and to the mining claims of the Victorio Mountain Project. Pursuant to the agreement, the Company will acquire its interest in the Victorio Mountain Project by paying an aggregate of \$2,000,000 as follows:

- payment of \$50,000 on the closing date, not later than June 1, 2006 (paid);
- payment of \$100,000 on June 1, 2007;
- payment of \$200,000 on June 1, 2008;
- payment of \$300,000 on June 1, 2009;
- payment of \$350,000 on June 1, 2010; and
- payment of \$1,000,000 on June 1, 2011.

The property will be subject to a net smelter royalty of 2%. In addition, Donegan Resources will be entitled to receive a 1% NSR on any additional properties acquired within the vicinity of the Victorio Mountain 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%.

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(A Development Stage Company)

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On June 1, 2006, the Company entered into an option 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 additional mining claims of the Victorio Mountain Project. Pursuant to the agreement, the Company will acquire its interest in these mining claims by paying an aggregate of \$130,000 and issuing 400,000 shares as follows:

- payment of \$15,000 and issuing 50,000 shares on the closing date (paid and issued);
- payment of \$25,000 and issuing 50,000 shares on July 15, 2007;
- payment of \$40,000 and issuing 50,000 shares on July 15, 2008;
- payment of \$50,000 and issuing 50,000 shares on July 15, 2009; and
- 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 Mountain Project claims, subject to a net smelter royalty (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 purchase 100% of the Secondary Royalty 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 primary mining claims.

Lone Mountain, New Mexico, USA

The Company has entered into an option agreement with Hallelujah Resources LLC, South Branch Resources LLC and MRP GEO Company LLC, collectively, the "sellers", to acquire a 100% interest in the Lone Mountain Copper-Zinc Project in Grant County, New Mexico. Pursuant to the agreement, the Company may exercise its right to acquire an undivided 100% legal and beneficial interest in and to the Lone Mountain property by paying an aggregate of \$1,150,000 and issuing a total of 1,380,000 shares to the sellers, as well as committing to incur \$7,000,000 in direct exploration expenditures as follows:

- payment of \$100,000 and issuance of 300,000 shares upon signing (\$30,000 was paid during the period, payment of the remaining \$70,000 and issuance of the shares occurred subsequent to the end of the quarter) (Note 10d);
- payment of \$240,000, issuance of 300,000 shares and incurring expenditures of \$750,000 on October 11, 2007;
- payment of \$360,000, issuance of 360,000 shares and incurring expenditures of a further \$1,250,000 on October 11, 2008;
- payment of \$450,000 and issuance of 420,000 shares on October 11, 2009; and
- incurring expenditures of a further \$5,000,000 during years three through five.

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Upon completion of these payments, the Company will own an undivided 100% legal and beneficial interest in and to the Lone Mountain property, subject to a floating net smelter royalty (NSR) due to the sellers on future production from Lone Mountain. The NSR varies from 0% to 2%, dependant upon the combined price of copper and zinc. The Company has the option to buy the NSR royalty for \$1,500,000, which can be paid, at the seller's election, in cash, shares or a combination of cash and shares.

Following exercise of the option, the Company will pay \$300,000 annually to the sellers as an advance on the Net Smelter Royalty. The payments will commence on or before the day that is the fourth anniversary of signing the agreement and will continue on each anniversary until the commencement of commercial production.

Restatement

Comparative period numbers have been restated for the change in accounting policy with respect to exploration expenditures as described in Note 2. A restatement of \$43,311 was required as the Company had capitalized exploration expenditures as of the year ended December 31, 2005.

GALWAY RESOURCES LTD.*(A Development Stage Company)***Notes to Interim Consolidated Financial Statements**

September 30, 2006

*US Dollars**Unaudited***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: | | | | |
| Balance – December 31, 2004 | 200 | \$ 8 | \$ -- | \$ 8 |
| Shares issued for seed capital | 4,137,800 | 177,512 | -- | 177,512 |
| Shares issued for initial public offering | 2,000,000 | 171,600 | -- | 171,600 |
| Share issuance costs | -- | (62,531) | -- | (62,531) |
| Stock-based compensation | -- | -- | 36,696 | 36,696 |
| Balance – December 31, 2005 | 6,138,000 | 286,589 | 36,696 | 323,285 |
| Shares issued for private placement | 13,357,009 | 2,948,973 | -- | 2,948,973 |
| Shares issued for property acquisition | 450,000 | 98,481 | -- | 98,481 |
| Shares issued for agent's warrant exercise | 18,000 | 3,218 | -- | 3,218 |
| Shares issued for agent's option exercise | 6,100 | 548 | -- | 548 |
| Share issuance costs | -- | (205,170) | 58,103 | (147,067) |
| Stock-based compensation | -- | -- | 72,107 | 72,107 |
| Fair value of warrants exercised | -- | 2,081 | (2,081) | -- |
| Balance – September 30, 2006 | 19,969,109 | \$ 3,134,720 | \$ 164,825 | \$ 3,299,545 |

b) Stock Split

The Company received shareholder and TSX-V approval to complete a two-for-one stock split. The record date for the stock split was March 24, 2006 and was completed by way of push-out without any corresponding change of name of the Company. All share information prior to March 24, 2006 has been restated to reflect the effects of the share split.

c) Share Purchase Options

i) 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.

GALWAY RESOURCES LTD.*(A Development Stage Company)***Notes to Interim Consolidated Financial Statements**

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- ii) A summary of the Company's options, which includes options issued under the Company's stock option plan and agent's options, at September 30, 2006 and the changes for the period are as follows:

| Exercise Price | Outstanding December 31, 2005 | Granted | Exercised | Expired or Cancelled | Outstanding September 30, 2006 | Expiry date |
|---------------------------------|-------------------------------|-----------|-----------|----------------------|--------------------------------|------------------|
| Cdn\$0.10 | 200,000 | - | 6,100 | - | 193,900 | October 27, 2007 |
| Cdn\$0.10 | 400,000 | - | - | - | 400,000 | October 19, 2010 |
| Cdn\$0.175 | - | 1,300,000 | - | 25,000 | 1,275,000 | April 25, 2011 |
| Cdn\$0.84 | - | 110,000 | - | - | 110,000 | May 19, 2011 |
| Cdn\$0.81 | - | 200,000 | - | - | 200,000 | August 16, 2011 |
| | 600,000 | 1,610,000 | 6,100 | 25,000 | 2,178,900 | |
| Weighted average exercise price | Cdn\$0.10 | - | - | - | Cdn\$0.25 | |

d) Share Purchase Warrants

| Exercise Price | Outstanding December 31, 2005 | Granted | Exercised | Expired or Cancelled | Outstanding September 30, 2006 | Expiry date |
|--|-------------------------------|------------|-----------|----------------------|--------------------------------|-------------------|
| Cdn\$0.20 | - | 200,000 | 18,000 | - | 182,000 | April 25, 2007 |
| Cdn\$0.80 | - | 107,625 | - | - | 107,625 | February 15, 2008 |
| Cdn\$1.25 | - | 1,011,838 | - | - | 1,011,838 | February 15, 2008 |
| Cdn\$0.20 if exercised in the first year / Cdn\$0.25 if exercised in the second year | - | 11,333,333 | - | - | 11,333,333 | April 25, 2008 |
| | - | 12,652,796 | 18,000 | - | 12,634,796 | |

e) Escrow Shares

As at September 30, 2006, 3,724,200 shares are held in escrow. 413,800 shares were released on April 25, 2006 upon issuance of notice of final acceptance of the Company's Qualifying Transaction by the TSX-V. The remainder will be released in six equal tranches of 15% every six months thereafter for a period of 36 months (*Note 10c*). These escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

GALWAY RESOURCES LTD.*(A Development Stage Company)***Notes to Interim Consolidated Financial Statements**

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*US Dollars**Unaudited***7. Stock-Based Compensation**

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

On April 25, 2006, the Company granted directors and officers of the Company stock options to purchase up to 1,300,000 common shares of the Company at an exercise price of Cdn\$0.175 per share, with an estimated value of \$160,066 on the grant date. The Company cancelled 25,000 of the options on April 26, 2006. Since the options were granted under a graded vesting schedule, \$46,295 of the fair value has been recorded in the Company's accounts as stock compensation expense, with the offsetting entry to contributed surplus.

On April 25, 2006, the Company granted Agent's Warrants, pursuant to the closing of the Company's private placement, to purchase up to 200,000 common shares of the Company at an exercise price of Cdn\$0.20 per share, with an estimated value of \$16,075 on the grant date. The full amount was recorded as financing costs. 18,000 of the Warrants were converted to shares during the period.

On May 19, 2006, the Company granted an officer of the Company stock options to purchase up to 110,000 common shares of the Company at an exercise price of Cdn\$0.84 per share, with an estimated value of \$66,286 on the grant date. Since the options were granted under a graded vesting schedule, \$16,239 of the fair value has been recorded in the Company's accounts as stock compensation expense, with the offsetting entry to contributed surplus.

On August 16, 2006, the Company granted Agent's Warrants, pursuant to the closing of the Company's private placement, to purchase 107,625 common shares of the Company at an exercise price of Cdn\$0.80 per share, with an estimated value of \$42,028 on the grant date. The full amount was recorded as financing costs.

On August 16, 2006, the Company granted a director of the Company stock options to purchase up to 200,000 common shares of the Company at an exercise price of Cdn\$0.81 per share, with an estimated value of \$116,797 on the grant date. Since the options were granted under a graded vesting schedule, \$9,573 of the fair value has been recorded in the Company's accounts as stock compensation expense, with the offsetting entry to contributed surplus.

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

| | Options/Warrants Granted on During the Period |
|---------------------------------|--|
| Expected dividend yield | 0.00% |
| Expected stock price volatility | 110% |
| Risk-free interest rate | 4.00% to 4.20% |
| Expected life of options | 1 to 5 years |

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*US Dollars**Unaudited*

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 September 30, 2006, \$7,216 was owing to Pathway Capital Ltd., a related company with a director in common with the Company, for expenses paid on behalf of the Company. The expenses were incurred in the normal course of business.

During the nine month period, \$51,458 was paid to a company with a director and officer in common for administrative services.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Segmented Information

Details are as follows:

| | Canada | USA | South America | Other | Total |
|-----------------------------------|------------|--------------|---------------|----------|--------------|
| September 30, 2006 | | | | | |
| Segmented operating loss | \$ 244,390 | \$ 1,690,895 | \$ 203,123 | \$ 5,551 | \$ 2,143,959 |
| Identifiable assets | \$ 712,228 | \$ 286,845 | \$ 22,851 | \$ -- | \$ 1,021,924 |
| December 31, 2005 | | | | | |
| Segmented operating loss (Note 2) | \$ 62,204 | \$ 129,764 | \$ 90,094 | \$ -- | \$ 282,062 |
| Identifiable assets (Note 2) | \$ 149,777 | \$ -- | \$ 3,071 | \$ -- | \$ 152,848 |

10. Subsequent Events**a) Commitments**

On October 4, 2006, the Company engaged Scott F. Gibson & Company Inc. ("Gibson & Company") to assist in the design and implementation of a comprehensive marketing and investor communications program. Gibson & Company will receive a fee of Cdn\$5,000 per month for a period of twelve months.

b) Exercise of Warrants

Subsequent to September 30, 2006 a total of 2,342,533 warrants were exercised at a price of Cdn\$0.20 for total proceeds to the Company of \$420,671 (Cdn\$468,506).

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On November 15, 2006 20,000 shares were issued on partial exercise of agent's warrants at a price of Cdn\$0.20 for total proceeds to the Company of \$3,592 (Cdn\$4,000).

c) Release of Escrow Shares

On October 25, 2006, a further 620,700 shares were released from escrow. The total number of shares released to date is 1,034,500. A total of 3,103,500 escrow shares remain and will be released in five equal tranches of 620,700 every six months for a period of 30 months (*Note 6e*).

d) Property Transaction

Subsequent to September 30, 2006, \$70,000 was paid and 300,000 shares were issued in connection with the acquisition of the Lone Mountain property (*Note 5*).