

**GALWAY GOLD INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED MARCH 31, 2014**

## **Introduction**

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Galway Gold Inc. ("Galway" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2014. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2013 as well as the unaudited interim consolidated financial statements for the three months ended March 31, 2014, together with the notes thereto. Results are reported in United States dollars, unless otherwise noted. Information contained herein is presented as at May 30, 2014, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Galway common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) if it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

## **Description of Business**

Galway's goal is to deliver superior returns to shareholders by concentrating on the acquisition of properties that have the potential to contain economically recoverable precious and/or base metals reserves.

Galway Gold Inc. was incorporated pursuant to the Business Corporations Act (New Brunswick) on May 9, 2012. Galway Gold's head office is located at 36 Toronto Street, Suite 1000, Toronto, Ontario, Canada, M5C 2C5. Galway Gold was incorporated for the sole purpose of participating in the Plan of Arrangement (the "Arrangement") announced October 19, 2012 involving Galway Gold, Galway Metals Inc., Galway Resources Ltd., AUX Acquisition 2 S.à.r.l ("AUX") and AUX Canada Acquisition 2, formerly 2346407 Ontario Inc. ("AUX Canada"), a wholly owned subsidiary of AUX. Prior to the close of the Arrangement Agreement, Galway Gold did not carry on any active business.

Under the Arrangement, AUX Canada acquired all of the common shares of Galway Resources not already owned by AUX Canada and its affiliates and pursuant to the Arrangement, Galway Resources shareholders received for each Galway Resources common share: cash consideration of Cdn\$2.05 per share, one Galway Gold common share and one common share in a new exploration and development company, Galway Metals Inc. Under the Arrangement, Galway Resources transferred to Galway Gold, and Galway Gold now indirectly holds as assets, the option to acquire 100% interest in Galway Resources' Vetás Gold Project, being an interest in Reina de Oro concession located in the Vetás Mining District in Colombia (the "Vetás Project") and approximately US\$12.8 million in net working capital (US\$18 million when the transaction closed). Upon completion of the Arrangement, Galway Resources' then existing securityholders including AUX Canada and its affiliates owned 90% of Galway Gold's shares outstanding, proportionate to their ownership of Galway at the time the Arrangement was completed, and AUX Canada indirectly owned an additional 10% of Galway Gold's shares via its acquisition of Galway Resources Ltd.

The Arrangement was completed by way of statutory Plan of Arrangement under the Business Corporations Act (Ontario). The Arrangement was approved by Galway Resources' shareholders and warrant holders at a special meeting held on December 17, 2012. On January 21, 2013, the Company's common shares commenced trading on the TSX Venture Exchange under the symbol "GLW".

On January 31, 2014, the Company announced the approval and adoption by its board of directors (the "Board") of amendments to its by-laws to include advance notice provisions (the "Advance Notice Provision"), the purpose of which is to require advance notice to be provided to the Company in circumstances where nominations of persons for election to the Board are made by shareholders of the Company (the "Shareholders") other than pursuant to: (i) a requisition of a meeting of Shareholders made pursuant to the provisions of the Business Corporations Act (New Brunswick) (the "Act"); or (ii) a Shareholder proposal made pursuant to the provisions the Act.

The purpose of the Advance Notice Provision is to provide Shareholders, directors and management of the Company with a clear framework for nominating directors. Among other things, the Advance Notice Provision fixes a deadline by which Shareholders must submit nominations to the Company prior to any annual or special meeting of the Shareholders and sets forth the minimum information that a Shareholder must include in the notice to the Company for the notice to be in proper written form.

In the case of an annual meeting of Shareholders, notice to the Company must be made not less than 30 days and no more than 65 days prior to the date of the annual meeting, provided, however, in the event that the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the 10th day following such public announcement.

In the case of a special meeting of Shareholders (which is not also an annual meeting), notice to the Company must be made not later than the close of business on the 15th day following the day on which the first public announcement of the date of the special meeting was made.

The Advance Notice Provision was approved by Shareholders at the annual meeting held on March 17, 2014.

Further information about the Company and its operations can be obtained from [www.galwaygoldinc.com](http://www.galwaygoldinc.com) and [www.sedar.com](http://www.sedar.com).

### **Discussion of Operations and Mineral Property Interests**

Galway Gold has the option to earn 100% of the Reina de Oro concession, home of the El Volcan Mine (Santander, Colombia), by paying 1.5% of the gold and silver value of measured and indicated gold and silver resources and will not be encumbered by further royalty commitments, except the effective 3.2% Net Smelter Return Royalty as a tax (80% of 4% NSR Royalty) to the Colombian government. The Company reported its maiden resource estimate for Vetás on November 27, 2013. Details are provided below. Other than moving forward through the first resource estimate, management has been extremely diligent in conserving capital until market conditions materially improve.

The Company has completed the Phase 1 drill program at El Volcan which comprised 91 drill holes and over 46,000 meters. The Company is analyzing all relevant data in an effort to maximize efficiency for the Phase 2 drill program. Additional drilling will commence once the review is completed and findings are interpreted and incorporated into a revised model of the zones. Future drilling will focus on further delineating and expanding the mineralized envelope beyond defined limits.

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The El Volcan mine is a high grade, narrow vein mine with 7,345 meters of underground drifts mapped and 3,769 chip and channel samples taken from vein, wall rock and stockwork mineralization between vein sets. El Volcan, which has been in operation for over 400 years and is still operating today, is the largest mine in the Vetás-California-Surata region of Colombia. Phase 1 geological data, assay results and the maiden NI 43-101 resource estimate enhances the company's belief that there exists potential for a high grade commercial discovery.

On November 27, 2013, Galway released a mineral resource estimate on Vetás, prepared in accordance with NI 43-101 criteria by Roscoe Postle Associates Inc. (RPA), of Toronto, Ontario, which incorporated 68 diamond drill holes of HQ size, reduced to NQ, drilled from underground (for a total of 33,238 meters).

Measured, indicated and inferred mineral resources have been determined from 13 wireframes representing vertically dipping gold-bearing, mineralized zones that extend for up to 550 meters along strike, covering 250 meters in width, and to a depth of up to 600 meters below the bottom level of the El Volcán mine. The zones remain open along strike to the northeast and southwest, and vertically to depth in El Volcán's steeply dipping vein system. In addition, none of the resource is as yet located within the area of the mine (above the bottom level of the mine, the Reina de Oro level).

The Mineral Resource estimate for the Vetás Gold Project dated November 6, 2013, is summarized in Table 1 below.

**TABLE 1: MINERAL RESOURCE ESTIMATE SUMMARY – NOVEMBER 6, 2013**  
**Galway Gold Inc. - Vetás Project**

Category	Tonnes	Grade		Contained Ounces	
		(g/t Au)	(g/t Ag)	(oz Au)	(oz Ag)
Measured	23,900	7.79	12.4	6,100	9,400
Indicated	641,000	10.62	14.9	218,800	307,700
<b>Measured &amp; Indicated</b>	<b>664,900</b>	<b>10.52</b>	<b>14.8</b>	<b>224,900</b>	<b>317,100</b>
Inferred	1,146,000	10.30	15.3	377,000	563,000

- (1) *Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues.*
- (2) *The quantity and grade of reported Inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred resources as an Indicated or Measured mineral resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured mineral resource category.*
- (3) *The mineral resources in this press release were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council.*
- (4) *Grade capping of 50 g/t Au was utilized on raw assays.*
- (5) *A bulk density of 2.74 t/m<sup>3</sup> was used for all tonnage estimates.*
- (6) *A gold price of US\$1,500/oz and an exchange rate of US\$0.95US=C\$1.00 was utilized in the Au cut-off grade calculations of 3.0 g/t Au. Underground mining costs were assumed at US\$75/t, with process costs of US\$25/t and G&A of US\$20/t. Process recovery was assumed at 90%. The government royalty was taken as the 4% NSR.*
- (7) *Values in the table may differ due to rounding.*

- (8) *The measured area of influence was 12.5m, indicated was 25m, and the inferred was 50m*
- (9) *A minimum 1.52m (5') horizontal mining width was used.*

RPA has carried out an initial Mineral Resource estimate for the un-mined area below the bottom level of the El Volcán mine using the polygonal method. The estimate is based primarily on information from underground diamond drilling and development chip sampling. Thirteen wireframes representing eight vein zones were constructed based on drill hole intercepts provided by Galway, assay grades, and the position of those assay grades relative to existing mine workings.

Highlights of underground drilling results released from El Volcan:

- 1,082.6 g/t Au and 718.0 g/t silver (Ag) over 1.21 m, plus 77.1 g/t Au and 51.3 g/t Ag over 1.13 m, plus 95.6 g/t Au over 1.26 m, plus 17.8 g/t Au and 77.7 g/t Ag over 2.34 m from GWY-V021
- 1,034.3 g/t Au and 300.0 g/t Ag over 0.91 m, plus 27.4 g/t Au over 3.38 m, including 49.4 g/t Au over 1.16 m from GWY-V027
- 679.6 g/t Au and 164.0 g/t Ag over 1.16 m from GWY-V026
- 203.4 g/t Au and 1,311.0 g/t Ag over 1.25 m from GWY-V029
- 157.4 g/t Au over 4.15 m, including 470.2 g/t Au over 1.33 m from GWY-V036
- 143.7 g/t Au over 1.17 m from GWY-V059
- 82.5 g/t Au and 39.1 g/t Ag over 2.66 m, including 202.0 g/t Au and 53.5 g/t Ag over 1.07 m, plus 21.9 g/t Au and 63.0 g/t Ag over 6.7 m, including 69.1 g/t Au and 81.6 g/t Ag over 1.5 m from GWY-V003
- 78.2 g/t Au over 3.16 m, including 248.3 g/t Au and 38.0 g/t Ag over 0.96 m from GWY-V016
- 34.3 g/t Au and 83.0 g/t Ag over 6.44 m, including 98.8 g/t Au and 154.0 g/t Ag over 1.30 m, plus 18.9 g/t Au over 11.81 m, including 52.9 g/t Au over 1.32 m in GWY-V049
- 15.3 g/t Au and 36.5 g/t Ag over 11.44 m, including 112.3 g/t Au and 34.2 g/t Ag over 0.92 m from GWY-V012
- 8.9 g/t Au and 17.3 g/t Ag over 17.00 m, including 19.7 g/t Au and 22.0 g/t Ag over 1.18 m, 17.7 g/t Au and 49.9 g/t Ag over 4.81 m, and 27.2 g/t Au over 1.05 m from GWY-V056
- 40.4 g/t Au over 3.47 m, including 84.9 g/t Au over 1.16 m, plus 104.4 g/t Au over 1.20 m, plus 41.9 g/t Au over 1.04 m from GWY-V015
- 27.2 g/t Au and 10.8 g/t Ag over 4.36m, including 92.4 g/t Au and 22.0 g/t Ag over 0.94m from GWY-V078

Highlights from the 16 surface drill holes that targeted the stockwork intrusive along its western border with CB Gold include:

- 26.0 g/t Au and 26.9 g/t Ag over 4.19 m, including 105.0 g/t Au and 76.6 g/t Ag over 1.00 m, plus 29.2 g/t Au over 1.34 m in GWY-VS061
- 45.9 g/t Au over 1.04 m in GWY-VS054
- 38.1 g/t Au over 1.52 m and 21.0 g/t over 1.5 m in GWY-VS087
- 17.4 g/t Au over 1.38 m, including 45.2 g/t Au over 0.51 m, plus 4.0 g/t Au over 12.38 m, including 7.8 g/t Au over 1.58 m, 12.0 g/t Au over 0.97 m, and 8.32 g/t Au over 2.30 m in GWY-VS028

Notes: a 2.0 g/t Au lower cutoff grade was applied to all underground drill holes reported (3.0 g/t Au was used in the resource); a 0.5 g/t Au lower cutoff grade was applied to all surface drill holes; no upper cutoff grade was applied; true widths for assays reported to date for underground holes at Vetás are 18% to 98% of downhole widths; true widths for assays reported to date for surface holes at Vetás are unknown. A complete list of results can be found on the Galway Gold website.

Gold mineralization at the El Volcán mine contains favorable steeply dipping lode-style quartz veins in competent host rocks that could be successfully mined using modern bulk-tonnage longhole mining methods. The known vein system comprises numerous different epithermal veins and numerous subordinate splay veins trending NNE and dipping sub-vertically to the NW. The main quartz veins, together with splay veins, are spatially associated with shear zones hosted in porphyry and metamorphic gneiss, much like the California gold district. Grey chalcedonic quartz, colloform banded texture, vugs and drussy quartz, with fine pyrite crystals are typical. Classic low sulfidation vein textures are common.

In the El Volcán mine, over 10,000 meters of tunnels exist, 7,345 meters of drifts were mapped and 3,769 chip and channel samples were taken from vein, wall rock and stockwork mineralization between vein sets. The mine covers an area of approximately 500 meters x 300 meters with a vertical extent of 300 meters. The dimensions of the estimated vein zones that form the resource below the mine is 550m x 250m.

On July 19 of 2013, the Company terminated the option agreement on the Coloro property within the Vetás group of properties. The Company conducted extensive surface sampling and geophysical programs and drilled 1,232 meters with insufficient results to warrant further exploration activity. On January 22, 2013, the Company reported that 45% of the Coloro concession would be affected by Colombia's new Santurban Natural Park.

As a result of terminating the Coloro option, the Company did not have to make a cash payment of \$715,000 and issue 300,000 shares due in January, 2014, along with other obligations with respect to the contract with Sociedad Ordinaria de Minas Coloro S.O.M. Galway's directors believed that with the limited exploration potential and the loss of almost half of the concession to the Natural Park that fulfilling these obligations and continuing with the Coloro option would not benefit the Company nor its shareholders.

On January 10, 2014, the Company announced that it has exercised its right to acquire the Vetás gold-silver project in the Vetás-California-Surata gold region of Colombia. The total option exercise price was approximately US \$4.3 million (cash balance as of December 31, 2013 was US \$12.8 million). Galway Gold was then advised that the counterparty to the Reina de Oro Option Contract rejected the exercise of the option. Galway Gold is seeking arbitration of this matter pursuant to the terms of the Option Contract. Management feels confident of a positive outcome from the arbitration hearing based on the following facts.

- According to contractual provisions, exercise of the Option required a sole autonomous decision by Galway only and did not require a justification.
- Cash payments in excess of US\$800,000 plus 500,000 shares of Galway Resources were paid to the owners on a timely basis.
- A total of US \$13.5 million was spent on exploration of the Vetás project, which was performed according to internationally recognized standards. Galway conducted extensive surface geochemical sampling, underground channel sampling, a geophysical survey and surface and underground drilling programs (46,838 meters in 91 diamond drill holes) over a 4 year period.
- Galway used internationally recognized drilling companies and assay labs as well as internationally experienced, well-respected geologists and staff to carry out the exploration program at Vetás.
- The Company regularly provided presentations to the owners who had the ability to review the exploration program on a regular basis and were entitled to conduct a third-party audit. No complaints were ever received by Galway over the course of the exploration program that was conducted on the property.

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- Galway contracted Roscoe Postle Associates, Inc. (RPA), a well respected and internationally recognized independent consulting firm, to prepare the gold and silver resource estimates in accordance with National Instrument 43-101, which formed the basis of the \$4.3 million exercise price.
- The Reina de Oro option contract cites immediate and automatic transfer upon exercise, as well as technical and administrative autonomy in the management of the exploration project.

**Selected Quarterly Information**

A summary of selected information for each of the quarters presented below is as follows:

For the Period Ended	Revenue (\$)	Net Loss		Total assets (\$)
		Total (\$)	Basic and diluted loss per share (\$)	
2014 – March 31	Nil	(759,314)	(0.00)	13,249,690
2013 – December 31	Nil	(1,085,327)	(0.01)	13,771,167
2013 – September 30	Nil	(957,747)	(0.01)	14,653,270
2013 – June 30	Nil	(3,870,543)	(0.02)	15,908,768
2013 – March 31	Nil	(1,279,565)	(0.01)	18,797,291
2012 – December 31	Nil	(65,741)	(0.00)	19,692,629

**Three Months Ended March 31, 2014 vs Three Months Ended March 31, 2013**

The Company reported a net loss of \$759,314 for the three months ended March 31, 2014 (2013 – \$1,279,565).

Administrative Expenses

The three months ended March 31, 2014 saw administrative expenses of \$221,605 (three months ended March 31, 2013 - \$298,526), consisting primarily of:

- salaries and benefits of \$145,743 (three months ended March 31, 2013 - \$93,421), comprised of senior management personnel and administrative staff.
- general office and consumable expenses of \$15,465 (three months ended March 31, 2013 - \$32,442), with the comparative decline driven primarily by reduced costs of administering the Company's subsidiaries.
- professional fees of \$1,327 (three months ended March 31, 2013 - \$32,781), consisting of general legal expenses, and accounting and financial reporting costs. During the three months ended March 31, 2014, the Company benefitted from a recovery of legal fees of approximately

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\$3,000. The three months ended March 31, 2013 saw costs associated with start-up of operations and the ensuing legal administrative costs.

- public company costs of \$39,375 (three months ended March 31, 2013 - \$67,411), consisting of filing fees, transfer agent fees, investor relations costs, and shareholder information expenses.
- insurance expense of \$5,428 (three months ended March 31, 2013 - \$4,765), representing the quarterly portion of the Company's directors and officers insurance.
- Travel of \$14,267 (three months ended March 31, 2013 - \$28,729), consisting primarily of corporate administrative travel.
- Directors fees of \$nil (three months ended March 31, 2013 - \$38,977)

Expenditures during the first quarter of fiscal 2013, primarily relate to the set-up of corporate infrastructure and the meeting initial statutory reporting requirements, subsequent to the Company's commencement of operations on December 20, 2012. During the three months ended March 31, 2013, the Company experienced administrative and general expenses in conjunction with the close of the Arrangement described on page 2, and initial costs of administering a new reporting issuer.

#### Exploration Expenses

The three months ended March 31, 2014, saw exploration expenses of \$222,103 vs the period ended March 31, 2013 of \$1,344,352, consisting primarily of:

- Drilling expenses of \$nil (three months ended March 31, 2013 - \$632,627), reflective of a drilling program substantially concluding in the comparative three months ended March 31, 2013.
- Support costs of \$148,572 (three months ended March 31, 2013 - \$261,428), including camp costs, administrative support and ancillary consumable items.
- Assaying costs of \$nil (three months ended March 31, 2013 - \$244,917),
- Professional fees of \$12,076 (three months ended March 31, 2013 - \$89,174)
- Geological expenses of \$56,506 (three months ended March 31, 2013 - \$82,191)
- Utilities of \$4,949 (three months ended March 31, 2013 - \$20,737)
- Environmental costs of \$nil (three months ended March 31, 2013 - \$13,278),

#### **Liquidity and Capital Resources**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. 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 March 31, 2014, the Company had a cash balance of \$12,330,939 (December 31, 2013 - \$12,836,634) to settle current liabilities of \$191,090 (December 31, 2013 - \$277,027). 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.

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

### **Off-Balance Sheet Arrangements**

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

### **Proposed Transactions**

There are no proposed transactions as at the date of this document.

### **Related Party Transactions**

During the three months ended March 31, 2014, the Company advanced \$150,000 (three months ended March 31, 2013 – \$200,000) to Galway Metals Inc., a company sharing common officers and directors, for the purposes of funding certain administrative and executive salaries paid by Galway Metals on the Company's behalf. As at March 31, 2014, a balance payable of \$38,601 (December 31, 2013 - \$36,601) remained, representing an excess of costs paid by Galway Metals Inc. on behalf of the Company, over reimbursements made. Subsequent to period end, the balance was repaid.

Remuneration of directors and officers are as follows:

	<b>Three Months Ended March 31, 2014 \$</b>	<b>Three Months Ended March 31, 2013 \$</b>
Remuneration paid for CEO services	72,500	45,833
Remuneration paid for CFO services	4,070	4,500
Stock-based compensation – directors and officers	261,017	911,062

During the three months ended March 31, 2014, the Company expensed \$13,434 (three months ended March 31, 2013 - \$4,500) to Marrelli Support Services Inc. ("Marrelli Support") and DSA Corporate Services Inc. (the "DSA"), together known as the "Marrelli Group" for:

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

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

As of March 31, 2014, the Marrelli Group was owed \$15,958 (December 31, 2013 - \$17,556). These amounts are included in accounts payable and accrued liabilities.

The above noted transactions are in the normal course of business and are measured at the exchange amount, as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

To the Company's knowledge, significant shareholders of the Company (defined as those holding greater than 10%) include Mr. Eike Batista, holding 17.4% of the Company's issued and outstanding common shares. The remaining 82.6% of the shares are widely held.

### **Risk Factors**

(a) Property Risk

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

(b) Financial Risk

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

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

#### Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill 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 March 31, 2014, the Company had a cash balance of \$12,330,939 (December 31, 2013 - \$12,836,634) to settle current liabilities of \$191,090 (December 31, 2013 - \$277,027). 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.

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

### 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 no interest-bearing debt. The Company regularly monitors its cash management policy. As a result, Galway Gold is not subject to significant interest rate risk.

(ii) Foreign Exchange Risk

The Company's functional currency is the United States dollar and it transacts major purchases in United States dollars, Colombian Pesos, and Canadian dollars. To fund exploration expenses, it maintains United States dollar, Colombian Peso 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 for the three months ended March 31, 2014:

- (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 period ended March 31, 2014.
- (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 not have a material impact on the reported comprehensive loss for the three months ended March 31, 2014.

- (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 from the Company's properties in the future, a profitable market will exist for them.

As of March 31, 2014, the Company was in the exploration and development stage and did not have any production at any of its mineral properties. 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.

#### Litigation Risk

Litigation risk refers to the risk that the Company may become involved in litigation or administrative proceedings from time to time, the outcomes of which may be uncertain. An unfavorable judgement, ruling or order may adversely affect the Company's business and financial condition, see also "Discussion of Operations and Mineral Property Interests".

#### Current Global Financial Conditions and Trends

Securities of mining and mineral exploration companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments globally, and market perceptions of the attractiveness of particular industries. The price of the securities of companies is also significantly affected by short-term changes in commodity prices, base and precious metal prices or other mineral prices, currency exchange fluctuation and the political environment in the countries in which the Company does business. As of March 31, 2014, the global economy continues to be in a period of significant economic volatility, in large part due to US and European economic concerns which have impacted global economic growth.

#### Dependence on Key Employees

The Company's business and operations are dependent on retaining the services of a small number of key employees. The success of the Company is, and will continue to be, to a significant extent, dependent on the expertise and experience of these employees. The loss of one or more of these employees could have a materially adverse effect on the Company. The Company does not maintain insurance on any of its key employees.

#### **New Accounting Standards and Interpretations**

IFRIC 21 Levies sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Company has not yet assessed the impact on its financial statements. On January 1, 2014, the Company adopted this pronouncement and there was no material impact upon the Company's unaudited condensed interim 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.

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.

### **Financial Instruments**

#### Financial Assets

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

Financial assets are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Loans and receivables are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

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

Impairment of financial assets:

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

#### Financial Liabilities

Financial liabilities are classified as 'other financial liabilities'.

#### Other Financial Liabilities

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

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

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

#### De-recognition of Financial Liabilities

The Company de-recognizes financial liabilities when the obligations are discharged, cancelled or expire. The Company's financial instruments consist of the following:

Financial Assets:	Classification:
Cash	Loans and receivables
Prepays and deposits	Loans and receivables
Financial Liabilities:	Classification:
Accounts payable and other liabilities	Other financial liabilities

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts or loans receivable, where the carrying amount is reduced through the use of an allowance account. When an accounts or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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

#### Financial Instruments Recorded at Fair Value

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly [i.e. as prices] or indirectly [i.e. derived from prices]; and Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data [unobservable inputs]. As of December 31, 2013 and March 31, 2014 cash was classified as Level 1 on the consolidated statements of financial position.

### **Critical Accounting Estimates**

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:

#### 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 loss based on estimates of forfeiture and expected lives of the underlying stock options.

### **Critical Accounting Judgments**

#### Income Taxes and Recovery of Deferred Tax Assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements. Deferred tax assets require management to assess the likelihood that Galway Gold will generate taxable income in future periods in order to utilize recognized deferred tax assets.

#### Restoration, Rehabilitation and Environmental Obligations

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

#### Impairment of Resource Property Costs

Management reviews the carrying values of exploration and evaluation assets whenever events or changes in circumstances indicate that their carrying values may not be recoverable. This analysis is performed by CGU which is defined as the Company resource properties. 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.

### **Subsequent Events**

As at the date of the document, there were no reportable subsequent events.

### **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.

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

The Company considers its capital to be equity, comprising share capital, accumulated other comprehensive income, and deficit, which at March 31, 2014 totaled \$13,070,194 (December 31, 2013 - \$13,494,140). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the three months ended March 31, 2014. The Company is not subject to externally imposed capital requirements.

**Additional Disclosure for Venture Issuers without Significant Revenue**

Administrative expenses for the three months ended March 31, 2014 and 2013 are comprised of the following:

<b>Three Months Ended March 31,</b>	<b>2014</b>	<b>2013</b>
	<b>(\$)</b>	<b>(\$)</b>
Professional fees	1,327	32,781
Public company costs	39,375	67,411
Salaries and benefits	145,743	93,421
Office and general	15,465	32,442
Insurance	5,428	4,765
Directors fees	nil	38,977
Travel	14,267	28,729
	<b>221,605</b>	<b>298,526</b>

**Disclosure of Outstanding Share Data**

As at the date of this document, the Company had 166,511,932 issued and outstanding shares, and 11,750,000 stock options exercisable between \$0.09 and \$0.20, expiring between June 4, 2023 and January 31, 2024.

**Cautionary Note Regarding Forward-Looking Statements**

Certain statements contained in this MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

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Selected forward looking statements, assumptions, and risk factors are as follows:

Forward-looking statements	Assumptions	Risk factors
Potential of the Company's properties to contain economic gold deposits	The actual results of the Company's exploration and development activities will be favourable; operating, exploration and development costs will not exceed the Company's expectations; the Company will be able to retain and attract skilled staff; all requisite regulatory and governmental approvals for exploration projects and other operations will be received on a timely basis upon terms acceptable to the Company, and applicable political and economic conditions are favourable to the Company; the price of mineral and applicable interest and exchange rates will be favourable to the Company; no title disputes exist with respect to the Company's properties	Gold price volatility; uncertainties involved in interpreting geological data and confirming title to acquired properties; the possibility that future exploration results will not be consistent with the Company's expectations; actual results of the Company's exploration and development activities; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic and political conditions; the Company's ability to retain and attract skilled staff
The Company's ability to meet its working capital needs at the current level for the twelve-month period ending December 31, 2014  The Company expects to incur further losses in the development of its business	The operating and exploration activities of the Company for the twelve-month period ending December 31, 2014, and the costs associated therewith, will be consistent with the Company's current expectations; debt and equity markets, exchange and interest rates and other applicable economic conditions are favourable to the Company	Changes in debt and equity markets; timing and availability of external financing on acceptable terms; increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic conditions
Plans, costs, timing and capital for future exploration and development of the Company's property interests, including the costs and potential impact of complying with existing and proposed laws and regulations	Financing will be available for the Company's exploration and development activities and the results thereof will be favourable; actual operating and exploration costs will be consistent with the Company's current expectations; the Company will be able to retain and attract skilled staff; all applicable regulatory and governmental approvals for	Gold price volatility; changes in debt and equity markets; timing and availability of external financing on acceptable terms; the uncertainties involved in interpreting geological data and confirming title to acquired properties; the possibility that future exploration results will not be consistent with the Company's expectations;

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	<p>exploration projects and other operations will be received on a timely basis upon terms acceptable to the Company; the Company will not be adversely affected by market competition; debt and equity markets, exchange and interest rates and other applicable economic and political conditions are favourable to the Company; the price of gold or silver and/or other applicable metals will be favourable to the Company; no title disputes exist with respect to the Company's properties</p>	<p>increases in costs; environmental compliance and changes in environmental and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic and political conditions; the Company's ability to retain and attract skilled staff</p>
<p>Management's outlook regarding future trends</p>	<p>Financing will be available for the Company's exploration and operating activities; the price of gold will be favourable to the Company</p>	<p>Gold price volatility; changes in debt and equity markets; interest rate and exchange rate fluctuations; changes in economic and political conditions</p>
<p>Sensitivity analysis of financial instruments</p>	<p>Interest rates will not be subject to change in excess of plus or minus 1%</p> <p>The Company's investment portfolio will not be subject to change in excess of plus or minus 100%</p> <p>There could be material changes to its results for the year ended December 31, 2014, as a result of changes to the Company's foreign exchange rates</p>	<p>Changes in debt and equity markets; interest rate and exchange rate fluctuations</p>
<p>A favourable outcome is expected with respect to arbitration concerning the Reina de Oro Option Contract</p>	<p>Management has correctly anticipated and considered the relevant factors that could influence the outcome of an arbitration hearing; arbitrators will agree with Galway Gold's position and arguments; Galway Gold is not in default of the Option Contract</p>	<p>Uncertainty regarding the timing and outcome of arbitration proceedings; the nature of international commercial arbitration; potential for further appeals from or challenges against any arbitral ruling</p>

The Company undertakes no obligation to update or revise the forward looking statements contained herein except as may be required by applicable securities laws.