MORRO BAY CAPITAL LTD.

Financial Statements of

MORRO BAY CAPITAL LTD.

For the year ended September 30, 2013 and for the period
from incorporation on August 21, 2012 to September 30, 2012

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Morro Bay Capital Limited:

We have audited the accompanying financial statements of Morro Bay Capital Limited, which comprise the statements of financial position as at September 30, 2013 and September 30, 2012, and the statements of comprehensive loss, statements of changes in equity and statements of cash flow for the year ended September 30, 2013 and for the period from incorporation on August 21, 2012 to September 30, 2012, and a summary of significant accounting policies and other explanatory notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Morro Bay Capital Limited as at September 30, 2013 and September 30, 2012, and its financial performance and its cash flows for the year ended September 30, 2013, and for the period from incorporation on August 21, 2012 to September 30, 2012, in accordance with International Financial Reporting Standards.

Signed "Deloitte LLP"

Chartered Accountants

December 12, 2013
Calgary, Alberta

MORRO BAY CAPITAL LTD.
Statements of Financial Position
(stated in Canadian dollars)

As at	**September 30, 2013 $**	September 30, 2012 $
ASSETS		
Current		
Cash and cash equivalents (Note 5)	**2,509,271**	200,938
Deferred financing fees	**-**	14,062
Total assets	**2,509,271**	215,000
LIABILITIES		
Current		
Accounts payable and accruals	**17,944**	11,565
SHAREHOLDERS' EQUITY		
Equity instruments (Note 7)	**2,583,131**	215,000
Share based payment reserve	**24,091**	-
Deficit	**(115,895)**	(11,565)
Total equity	**2,491,327**	203,435
Total liabilities and equity	**2,509,271**	215,000

Signed "Ken Younger"
Ken Younger, Director

Signed "John Zang"
John Zang, Director

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

MORRO BAY CAPITAL LTD.
Statements of Comprehensive Loss
(stated in Canadian dollars)

	For the year ended September 30, 2013 $	For the period from incorporation on August 21, 2012 to September 30, 2012 $
EXPENSES		
General and administrative	**80,248**	**11,565**
Stock-based compensation	**24,091**	**-**
	104,339	**11,565**
OTHER INCOME		
Interest income	**9**	**-**
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(104,330)**	**(11,565)**
LOSS PER SHARE (Note 7)		
Basic and diluted	**(0.006)**	**(0.005)**

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

MORRO BAY CAPITAL LTD.
Statements of Changes in Equity
(stated in Canadian dollars)

	Equity instruments $	Share based payment reserve $	Deficit $	Total shareholders' equity $
Balance at August 21, 2012 (date of incorporation)	-	-	-	-
Total comprehensive loss for the period				
Net loss for the period	-	-	(11,565)	(11,565)
Transactions with owners, recorded directly in equity				
Issuance of common shares, net of share issuance costs	215,000	-	-	215,000
Balance at September 30, 2012	215,000	-	(11,565)	203,435
Total comprehensive loss for the year				
Net loss for the year	**-**	**-**	**(104,330)**	**(104,330)**
Transactions with owners, recorded directly in equity				
Issuance of common shares, net of share issuance costs	**2,226,708**	**-**	**-**	**2,226,708**
Issuance of agents' options	**141,423**	**-**	**-**	**141,423**
Stock-based compensation	**-**	**24,091**	**-**	**24,091**
Balance at September 30, 2013	**2,583,131**	**24,091**	**(115,895)**	**2,491,327**

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

MORRO BAY CAPITAL LTD.
Statements of Cash Flow
(stated in Canadian dollars)

	For the year ended September 30, 2013 $	For the period from incorporation on August 21, 2012 to September 30, 2012 $
CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss for the period	**(104,330)**	**(11,565)**
Adjustment for:		
Stock-based compensation	**24,091**	**-**
	(80,239)	**(11,565)**
Changes in non-cash working capital		
Accounts payable and accruals	**6,379**	**11,565**
	(73,860)	**-**
FINANCING		
Issuance of equity instruments	**2,667,995**	**215,000**
Share issuance costs	**(285,802)**	
Payment of deferred financing fee	**-**	**(14,062)**
	2,382,193	**200,938**
INCREASE IN CASH	**2,308,333**	**200,938**
CASH, BEGINNING OF PERIOD	**200,938**	**-**
CASH AND CASH EQUIVALENTS, END OF PERIOD	**2,509,271**	**200,938**

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

1. GENERAL INFORMATION

Morro Bay Capital Ltd. ("the Company") was incorporated under the Business Corporations Act (Alberta) on August 21, 2012. The common shares of the Company trade on the TSX Venture Exchange (symbol MRW.P). The Company is classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "TSXV" or "Exchange") Corporate Finance Manual ("CPC Policy"). The principal business of the Company is to identify and evaluate assets or businesses with a view to potentially acquiring them or an interest therein by completing a purchase transaction, by exercising of an option or by any concomitant transaction. The purpose of such an acquisition is to satisfy the related conditions of a qualifying transaction under the CPC Policy. The address of the registered office of the Company is 2248 - 9th Avenue SE, Calgary, Alberta, T2G 5P7.

The Company's continuing operations, as intended, are dependent upon its ability to identify, evaluate and negotiate an acquisition of assets or businesses, or an interest therein. Such an acquisition will be subject to the approval of the regulatory authorities concerned, and, in the case of a non-arm's length transaction, by a majority of the minority shareholders. Where an acquisition is warranted, additional funding may be required. The ability of the Company to fund its potential future operations and commitments could be dependent upon the ability of the Company to obtain additional financing. There is also no assurance that the Company will identify a business or asset that warrants acquisition within the time limitations permissible under the policies of the Exchange. The Exchange may suspend from trading or delist the common shares of the Company should it not carry out a qualifying transaction within 24 months of the date of listing on the Exchange. The Company has identified a potential Qualifying Transaction as detailed in Note 11.

The financial statements were authorized for issue by the Board of Directors on December 12, 2013.

2. BASIS OF PRESENTATION

Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a historical cost basis.

Basis of measurement
These audited financial statements are stated in Canadian dollars, which is the Company's functional currency, and were prepared on a going concern basis.

Use of estimates and judgments
The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

2. BASIS OF PRESENTATION (Continued)

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have, in management's opinion, been prepared within the framework of the significant accounting policies summarized below:

Cash and cash equivalents
Cash and cash equivalents consists of short-term investments and funds on deposit having a maturity of three months or less with a Canadian Chartered bank.

Deferred financing fees
Deferred financing fees consist of expenses incurred in connection with the then planned public offering. These expenses were applied against the share capital upon the closing of the public offering.

Financial assets
Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Financial asset classifications are fair value through profit or loss ("FVTPL"), available-for-sale, held-to-maturity or loans and receivables. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

The Company has classified all financial assets, as FVTPL using Level 1 fair value hierarchy assessments. Financial assets at FVTPL include financial assets held for trading, derivatives of financial assets or are designated as FVTPL. Transaction costs directly attributable to the acquisition of a financial asset of FVTPL are expensed in the statement of comprehensive loss.

Financial assets at FVTPL are subsequently measured at fair value, with any resultant gain or loss recognized in the statement of comprehensive loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Assets in this category include cash and cash equivalents.

Financial Liabilities
Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. Financial liabilities are classified as either FVTPL or other financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment
Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Income taxes
Tax expense comprises current and deferred tax. Tax is recognized in the income statement except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Deferred tax
Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Share based compensation plan
The Company operates an equity-settled compensation plan under which it receives services from employees, directors, officers, and consultants as consideration for equity instruments of the Company.

For equity-settled plans, expense is based on the fair value of the awards granted. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company re-assesses the estimated number of awards that are expected to vest and recognizes the impact of the revisions in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent accounting pronouncements

At the date of these financial statements, the IASB has issued the following new and revised standards, amendments and interpretations which are not yet effective during the relevant periods:

IFRS 9 Financial Instruments[3]
IFRS 10 Consolidated Financial Statements[1]
IFRS 11 Joint Arrangements[1]
IFRS 12 Disclosure of Interests in Other Entities[1]
IFRS 13 Fair Value Measurements[1]
IAS 19 (amendments) Employee Benefits[1]
IAS 27 (revised 2011) Separate Financial Statements[1]
IAS 28 (revised 2011) Investments in Associates and Joint Ventures[1]
IAS 32 Offsetting financial assets and financial liabilities [2]

[1] Effective for annual periods beginning on or after January 1, 2013
[2] Effective for annual periods beginning on or after January 1, 2014
[3] A mandatory effective date will be added as an amendment to IFRS 9 when all the different phases of IFRS 9 are complete

Management anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on the financial statements of the Company for the period commencing October 1, 2013.

4. CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Stock based compensation

Compensation expense associated with stock options granted is based on various assumptions, using the Black-Scholes option-pricing model, to produce an estimate of compensation. This estimate may vary due to changes in the variables used in the model including interest rates, expected life, expected volatility, expected dividends, expected forfeitures and share prices. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully transferable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

4. CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES (Continued)

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2013	2012
Cash on hand	**309,271**	-
Cash in trust	**-**	200,938
Guaranteed investment certificate, daily rolling bearing interest at 0.83% per annum	**2,200,000**	-
	2,509,271	200,938

6. INCOME TAXES

The effective rate of income tax varies from the statutory rate as follows:

	2013	2012
Combined tax rate	**25.0%**	26.5%
	$	$
Net loss for the year	**(104,330)**	(11,565)
Expected income tax recovery at statutory rates	**(26,000)**	(3,000)
Stock based compensation	**6,000**	-
Share issue costs	**(75,000)**	-
Net change in unrecognized deferred tax asset	**95,000**	3,000
Actual income tax provision	**-**	-

At September 30, 2013, subject to assessment by income tax authorities, the Company has the following undeducted tax pools:

	2013	2012
	$	$
Undeducted share issue costs	**240,000**	-
Non-capital losses carried forward for tax purposes with expiration dates between 2032 and 2033	**152,000**	12,000
	392,000	12,000

These pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

The components of the Company's deferred income tax asset are a result of the origination and reversal of temporary differences and are comprised of the following:

	2013	2012
	$	$
Share issue costs	**60,000**	-
Unused tax losses carry forward	**38,000**	3,000
Unrecognized deferred tax asset	**(98,000)**	(3,000)
Deferred income tax asset	-	-

7. EQUITY INSTRUMENTS

Authorized
Unlimited number of common voting shares
Unlimited number of preferred shares, without nominal or par value

Issued

	Shares	Amount $
Common shares		
Balance at August 21, 2012	-	-
Issued for cash to officers, directors and other founding shareholders	4,300,000	215,000
Balance at September 30, 2012	4,300,000	215,000
Issued for cash pursuant to offering	**26,679,950**	**2,667,995**
Share issuance costs	**-**	**(441,287)**
Balance at September 30, 2013	**30,979,950**	**2,441,708**
Agents' options		
Balance at September 30, 2012	-	-
Issued pursuant to offering	**2,667,995**	**141,423**
Balance at September 30, 2013	**2,667,995**	**141,423**
Total equity instruments, September 30, 2013		**2,583,131**
Total equity instruments, September 30, 2012		215,000

Offering
Pursuant to an agency agreement dated August 29, 2012, the Company issued a prospectus that was filed with the securities commissions in Alberta, British Columbia and Ontario offering a minimum of 30,000,000 and a maximum of 40,000,000 common shares at $0.10 per share. The Company amended the Final Prospectus such that the minimum offering thereunder was reduced to $2,000,000 (20,000,000 common shares). The Company completed this offering on March 22, 2013 whereby it issued 26,679,650 common shares at gross proceeds of $2,667,995. The agent and sub-agents to the offering have received a commission of $0.01 per share resulting in a total commission of $266,799. In addition, the agent and sub-agents were paid a corporate finance fee of $32,500 and were reimbursed for their disbursements in the total amount of $565. As a result the total cash amount paid to the agents and sub-agents was $299,864. In addition, the agent and sub-agents were granted 2,667,995 agents options, at a price of $0.10 per common share, which may be exercised for a period of 24 months from the date of listing of the common shares on the TSXV.

Stock options
The Company has established a stock option plan for its directors, officers, employees, consultants and other personnel. The total number of common shares issuable under the Plan may not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the plan have a term of five years and vest 1/3 on the first anniversary from the date of grant and 1/3 each of the two anniversaries thereafter. The exercise price of each option equals or exceeds the market price of the Company's common shares on the date of grant.

7. EQUITY INSTRUMENTS (Continued)

An amount of $24,091 was recorded during the year ended September 30, 2013 for amortization of the value of the options granted. The fair value of the options were estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield of $nil, expected volatility of 100%, risk-free interest rate of 2.0%, forfeiture rate of 0% and weighted average life of 5 years.

The Company has granted stock options to various officers, directors, and employees of the Company as follows:

	Number of shares	Option price per share	Weighted average exercise price	Weighted average grant date fair value
		$	$	$
Options outstanding, September 30, 2012	-	-	-	-
Granted	**1,000,000**	**0.10**	**0.10**	**0.075**
Options outstanding, September 30, 2013	**1,000,000**	**0.10**	**0.10**	**-**

The following table summarizes information about the stock options outstanding at September 30, 2013

Options outstanding	Option price	Weighted average exercise price	Weighted average remaining contractual life	Number of options exercisable	Weighted average exercise price of options exercisable
	$	$			$
1,000,000	0.10	0.10	4.48 years	-	-

Agents' Options
In conjunction with the Company's offering, the Company issued agents' options to purchase 2,667,995 common shares at an exercise price of $0.10 per common share, exercisable for a period of 24 months from the date of listing of the common shares on TSX-V to the agent.

An amount of $141,423 was recorded as share issuance costs for the year ended September 30, 2013 for the estimated fair value of the agents' options granted during the period. The fair value of the agents' options were estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield of $nil, expected volatility of 100%, risk-free interest rate of 2.0%, forfeiture rate of 0% and weighted average life of 2 years.

7. EQUITY INSTRUMENTS (Continued)

The Company has granted agents' options as follows:

	Number of shares	Option price per share	Weighted average exercise price	Weighted average grant date fair value
		$	$	$
Agent's optins outstanding, September 30, 2012	-	-	-	-
Granted	**2,667,995**	**0.10**	**0.10**	**0.053**
Agent's options outstanding, September 30, 2013	**2,667,995**	**0.10**	**0.10**	**-**

The following table summarizes information about the agents' options outstanding at September 30, 2013:

Options outstanding	Option price	Weighted average exercise price	Weighted average remaining contractual life	Number of options exercisable	Weighted average exercise price of options exercisable
	$	$			$
2,667,995	0.10	0.10	1.48 years	2,667,995	0.10
2,667,995	0.10	0.10	1.48 years	2,667,995	0.10

The weighted average number of shares used in calculating net loss per share is as follows.

	For the year ended September 30, 2013	**For the period from incorporation on August 21, 2012 to September 30, 2012**
Weighted average common shares outstanding - basic and diluted	**18,334,385**	**2,150,000**

As the Company is in a loss position, basic weighted average common shares outstanding equals diluted weighted average common shares outstanding. Diluted loss per share has not been disclosed as the effect would be anti-dilutive and as such, 1,000,000 options and 2,667,995 agents' options have been excluded from the diluted weighted average common shares.

8. CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity. The Company's objective for managing capital is to maintain sufficient capital to identify, evaluate and complete a purchase of assets or a business. To meet this objective, the Company intends to offer common shares to the public.

The Company sets the amount of capital in relation to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets.

The Company's objectives when managing capital are:

i. to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and
ii. to maintain investor, creditor and market confidence in order to sustain the future development of the business.

The Company is not subject to any externally or internally imposed capital requirements at the period end. Subsequent to listing the common shares of the Company on the TSXV, a maximum of 30% of the gross proceeds from the sale of securities to a maximum of $210,000 may be used for purposes other than evaluating businesses or assets.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The fair values of financial assets and financial liabilities approximate carrying value due to the short-term nature of these instruments.

Liquidity Risk
Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

· The Company will not have sufficient funds to settle a transaction on the due date;
· The Company will be forced to sell financial assets at a value which is less than what they are worth;
or
· The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements are continuously monitored and adjusted as input variables change. As variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain other forms of financing. Management has assessed this risk as minimal.

Credit Risk
Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. The majority of the Company's cash is held at one financial institution and as such, has a concentration of credit risk on its cash.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Interest rate risk
The Company is exposed to interest rates with respect to its investment certificates. Management believes the risk related to these certificates to be minor as these carry fixed rates of interest and have maturity of three months or less.

10. RELATED PARTY TRANSACTION

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Except as disclosed elsewhere in these financial statements, the Company had the following related party transaction:

a) For the year ended September 30, 2013, an officer of the Company paid $1,077 (September 30, 2012 - $565) of general and administrative expenses on behalf of the Company.

b) Executive officers only participate in the Company's share option program and there is no other compensation paid to them. Compensation paid during the year under this program is disclosed in statement of comprehensive loss as stock based compensation.

11. SUBSEQUENT EVENT

On November 28, 2013, the Company and Sierra Madre Developments Inc. ("Sierra Madre") entered into an asset purchase agreement pursuant to which the Company will acquire a drilling rig from Sierra Madre and an option agreement (the "Option Agreement") between Sierra Madre and Riverside Resources Inc. ("Riverside") (collectively the "Assets"). The Option Agreement includes an option granted to Sierra Madre by Riverside wherein Sierra Madre can earn an initial 51% (up to 65%) interest in the Peñoles project, which include concessions staked by Riverside located in the Peñoles Mining District in Durango Mexico. The Company will acquire all the Assets in exchange for 16 million Morro Bay common shares (the "Morro Bay Shares") at a value of $0.10 per common share and share purchase warrants entitling the holders thereof to acquire up to 8 million of the Company common shares (the "Morro Bay Warrants") (collectively the "Transaction"). The Morro Bay Warrants are exercisable into common shares of the Company at $0.15 per warrant prior to June 15, 2014 and $0.25 per warrant after June 15, 2014. The Morro Bay warrants will expire one year after issuance. The Transaction will be accounted for as an asset acquisition, not a business combination.

To earn the 51% interest in the Peñoles project, the Company will be required to spend $750,000 of exploration expenditures by March 31, 2014 and pay Riverside $1,350,000 cash and give Riverside $1,500,000 worth of common shares of the Company by June 30, 2014 (or the cash at the Company's option provided that if the market value of the Company's shares is less than $0.05 based on a 30 day volume-weighted average price, such payment must be made in cash).

The Transaction is subject to a number of conditions, including the approval of the shareholders of the Company and Sierra Madre as well as TSXV approval. The Transaction is intended to constitute the Qualifying Transaction of the Company as such term is defined in Policy 2.4 of the TSXV. In the event the Transaction is completed the Company will cease to be a capital pool company and will be a Mining Issuer as defined by TSXV Rules.

MORRO BAY CAPITAL LTD.

THE ATTACHED AUDITED FINANCIAL STATEMENTS FORM AN INTEGRAL PART OF THIS MANAGEMENT DISCUSSION AND ANALYSIS AND ARE HEREBY INCLUDED BY REFERENCE

Management Discussion and Analysis as of December 12, 2013

Certain statements in this report may constitute forward-looking statements that are subject to risks and uncertainties. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. Consequently, readers should not place any undue reliance on such forward- looking statements. In addition, these forward-looking statements relate to the date on which they were made. See notes to the financial statements regarding going concern, commitments, contingencies, legal matters, and other matters, which could materially affect the Company's future business, results of operations, financial position and liquidity.

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements for the year ended September 30, 2013 and the audited financial statements for the period from incorporation to September 30, 2012 and the notes contained therein, of Morro Bay Capital Ltd. (the "Company"). This MD&A covers the year ended September 30, 2013 and 2012 and the subsequent period up to the date of filing.

The audited financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars unless otherwise noted. Readers are encouraged to read the Company's public information filings on SEDAR at www.sedar.com.

Corporate Overview

Morro Bay Capital Ltd. was incorporated under the *Business Corporations Act* (Alberta) on August 21, 2012 and is classified as a Capital Pool Company ("CPC") as defined in the TSX Venture Exchange ("TSX-V") Policy 2.4. The principal business of the Company is the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business, subject to receipt of shareholder approval and acceptance by regulatory authorities that will meet the definition of a "Qualifying Transaction" ("QT") as defined in Policy 2.4 of the TSX-V. The head office and registered office of the Company is located at 2248 -9th Avenue SE, Calgary, Alberta T2G 5P7.

Pursuant to an agency agreement dated August 29, 2012, the Company issued a prospectus that was filed with the securities commissions in Alberta, British Columbia and Ontario offering a minimum of 30,000,000 and a maximum of 40,000,000 common shares at $0.10 per share. The Company amended the Final Prospectus such that the minimum offering thereunder was reduced to $2,000,000 (20,000,000 common shares). The Company completed this offering on March 22, 2013 whereby it issued 26,679,650 common shares at gross proceeds of $2,667,995. The agent and sub-agents to the offering have received a commission of $0.01 per share resulting in a total commission of $266,799. In addition, the agent and sub-agents were paid a corporate finance fee of $32,500 and were reimbursed for their disbursements in the total amount of $565. As a result the total cash amount paid to the agents and sub-agents was $299,864. In addition, the agent and sub-agents were granted 2,667,995 agents options, at a price of $0.10 per common share, which may be exercised for a period of 24 months from the date of listing of the common shares on the TSXV.

On March 22, 2013, the Company granted to the directors and officers of the Company, 1,000,000 non-transferable options to purchase common shares of the Company at a price of $0.10 per common share, which may be exercised for a period of five years from the date of grant.

Overall Performance

The Company has no active business at this time. The ability of the Company to continue to operate as a going concern is dependent on its ability to ultimately operate its business at a profit. To date, the Company has not generated any revenues from operations and may require additional funds to meet its obligations and the costs of its operations. As a result, further losses are anticipated prior to the generation of any profits. As at September 30, 2013, the Company had a deficit of $115,895 since inception.

Trend Analysis

The business of the Company entails significant risks. Until the completion of a Qualifying Transaction (a "QT"), operations of the Company will be limited to the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business. The completion of any such transaction will be subject to compliance with applicable TSX-V Rules.

The Company's future capital requirements will depend on many factors, including its ability to complete a QT, competition and global market conditions. The Company's potential recurring operating losses and working capital needs may require that it obtain additional capital to operate its business. Such outside capital will include the sale of additional common shares.

There can be no assurance that capital will be available as necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to the Company. The issuances of additional equity securities by the Company may result in a significant dilution in the equity interests of its current shareholders.

Selected Financial Data

	For the year ended September 30, 2013	Period from incorporation to September 30, 2012
Net loss	**$ (104,330)**	$ (11,565)
Total assets	**$ 2,509,271**	$ 215,000
Common shares issued	**30,979,950**	4,300,000
Weighted average shares outstanding		
Basic	**18,334,385**	2,150,000
Diluted	**18,334,385**	2,150,000

Results of Operations

The Company was only recently incorporated and therefore, has no historical, comparative reference points for operating losses. The initial losses cover the period of formation and the regulatory process relating to the Initial Public Offering ("IPO").

Fluctuations in Results

Year ended September 30, 2013

For the year ended September 30,2013, the Company expended $80,247 on corporate activities. The majority of the expenditures were related to the preparation of the IPO Prospectus, audit fees, and the associated costs required in becoming a Reporting Issuer.

During the period the most significant expenses were the TSX Venture fees of $15,500 and filing fees in the amount of $14,745. The Company also paid advanced audit fees totaling $28,542.

Period from incorporation to September 30, 2012

During the period the Company proceeded to revise its structure so as to allow for it to proceed with the IPO. The most significant expenses were the corporate finance fee of $6,250 to the IPO Agent, and the advance payment of $7,500 to the Agent for anticipated reimbursement of its expenses, including the Agent's legal fees.

Liquidity and Capital Resources

As at September 30, 2013, the Company had a deficit totaling $115,895. The Company had working capital of $2,491,327 at September 30, 2013 compared with $189,373 as at September 30, 2012. The continuation of the Company is dependent upon the continued financial support of shareholders, its ability to raise capital through the issuance of its securities, as well as obtaining long-term financing. As at September 30, 2013 the Company had cash and cash equivalents of $2,509,271. Upon completion of the IPO the cash position of the Company increased significantly as a result of the IPO financing.

The Company completed the IPO within the quarter ended March 31, 2013 and netted proceeds of $2.2 million.

SUBSEQUENT EVENT

On November 28, 2013, the Company and Sierra Madre Developments Inc. ("Sierra Madre") entered into an asset purchase agreement pursuant to which the Company will acquire a drilling rig from Sierra Madre and an option agreement (the "Option Agreement") between Sierra Madre and Riverside Resources Inc. ("Riverside") (collectively the "Assets"). The Option Agreement includes an option granted to Sierra Madre by Riverside wherein Sierra Madre can earn an initial 51% (up to 65%) interest in the Peñoles project, which include concessions staked by Riverside located in the Peñoles Mining District in Durango Mexico. The Company will acquire all the Assets in exchange for 16 million Morro Bay common shares (the "Morro Bay Shares") at a value of $0.10 per common share and share purchase warrants entitling the holders thereof to acquire up to 8 million of the Company common shares (the "Morro Bay Warrants") (collectively the "Transaction"). The Morro Bay Warrants are exercisable into common shares of the Company at $0.15 per warrant prior to June 15, 2014 and $0.25 per warrant after June 15, 2014. The Morro Bay warrants will expire one year after issuance. The Transaction will be accounted for as an asset acquisition, not a business combination.

To earn the 51% interest in the Peñoles project, the Company will be required to spend $750,000 of exploration expenditures by March 31, 2014 and pay Riverside $1,350,000 cash and give Riverside $1,500,000 worth of common shares of the Company by June 30, 2014 (or the cash at the Company's option provided that if the market value of the Company's shares is less than $0.05 based on a 30 day volume-weighted average price, such payment must be made in cash).

The Transaction is subject to a number of conditions, including the approval of the shareholders of the Company and Sierra Madre as well as TSXV approval. The Transaction is intended to constitute the Qualifying Transaction of the Company as such term is defined in Policy 2.4 of the TSXV. In the event the Transaction is completed the Company will cease to be a capital pool company and will be a Mining Issuer as defined by TSXV Rules.

The Company has no significant revenues. The Company has limited funds.

There is no assurance that the Company can access additional capital.

There is no assurance that the Company will be successful in locating a QT, and once located completing a QT.

Certain of the Company's directors and officers serve as directors and/or officers of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest.

The Company has a history of operating losses and may have operating losses and a negative cash flow in the future.

Off-Balance Sheet Arrangements
There are no off-balance sheet arrangements.

Related Party Transactions
During the year ended September 30, 2013, an officer of the Company paid $1,077 (September 30, 2012 - $565) of general administrative expenses on behalf of the Company.

Critical Accounting Estimates
The preparation of the financial statements is in conformity with IFRS that requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Fair value of financial instruments
The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Taxes
Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Significant Accounting Policies

Cash and cash equivalents
Cash and cash equivalents consists of a $2,200,000 one day rolling Guarantee Investment Certificate bearing interest of 0.83% at term, and funds on deposit with a Canadian Chartered bank.

Deferred financing fees
Deferred financing fees consist of expenses incurred in connection with the then planned public offering. These expenses were applied against the share capital upon the closing of the public offering..

Financial assets
Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Financial asset classifications are “fair value through profit or loss (“FVTPL”), available-for-sale, held-to-maturity or loans and receivables. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

The Company has classified all financial assets, as FVTPL using Level 1 fair value hierarchy assessments. Financial assets at FVTPL include financial assets held for trading, derivatives of financial assets or are designated as FVTPL. Transaction costs directly attributable to the acquisition of a financial asset of FVTPL are expensed in the statement of comprehensive loss.

Financial assets at FVTPL are subsequently measured at fair value, with any resultant gain or loss recognized in the statement of comprehensive loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Assets in this category include cash and cash equivalents.

Financial Liabilities
Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire. Financial liabilities are classified as either FVTPL or other financial liabilities.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment
Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Income taxes
Tax expense comprises current and deferred tax. Tax is recognized in the income statement except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Share based compensation plan

The Company operates an equity-settled compensation plan under which it receives services from employees, directors, officers, and consultants as consideration for equity instruments of the Company.

For equity-settled plans, expense is based on the fair value of the awards granted. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company re-assesses the estimated number of awards that are expected to vest and recognizes the impact of the revisions in the statement of comprehensive income.

Recent accounting pronouncements

At the date of this report, the IASB has issued the following new and revised standards, amendments and interpretations which are not yet effective during the relevant periods:

IFRS 9 Financial Instruments[3]
IFRS 10 Consolidated Financial Statements[1]
IFRS 11 Joint Arrangements[1]
IFRS 12 Disclosure of Interests in Other Entities[1]
IFRS 13 Fair Value Measurements[1]
IAS 19 (amendments) Employee Benefits[1]
IAS 27 (revised 2011) Separate Financial Statements[1]
IAS 28 (revised 2011) Investments in Associates and Joint Ventures[1]
IAS 32 Offsetting financial assets and financial liabilities [2]

[1] Effective for annual periods beginning on or after January 1, 2013
[2] Effective for annual periods beginning on or after January 1, 2014
[3] A mandatory effective date will be added as an amendment to IFRS 9 when all the different phases of IFRS 9 are complete

Management anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on the financial statements of the Company for the period commencing October 1, 2013.

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

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing Venture Issuer Basic Certificate are not making any representations relating to the establishment and maintenance of controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's general accepted accounting principles.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of the Company to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Share Capital Data
The following table sets forth the Company's share capital data as at December 12, 2013.

Common shares, issued and outstanding	**30,979,950**
Stock options outstanding	**1,000,000**
Warrants outstanding	**2,667,995**

Further Information
Additional information about the Company is available at the Canadian disclosure website www.sedar.com.