MORRO BAY CAPITAL LTD.

Condensed Interim Financial Statements

(Unaudited – Prepared by Management)

December 31, 2013

NOTICE OF NO AUDIT OR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

As at	December 31, 2013 $	September 30, 2013 $
ASSETS		
Current		
Cash and cash equivalents (Note 5)	**2,366,282**	2,509,271
Deferred acquistion fees	**169,970**	-
Deferred financing fees	**42,500**	-
Total assets	**2,578,753**	2,509,271
LIABILITIES		
Current		
Accounts payable and accruals	**104,442**	17,944
SHAREHOLDERS' EQUITY		
Equity instruments (Note 6)	**2,583,131**	2,583,131
Share based payment reserve	**35,635**	24,091
Deficit	**(144,455)**	(115,895)
Total equity	**2,474,311**	2,491,327
Total liabilities and equity	**2,578,753**	2,509,271

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 3 months ended December 31, 2013 $	For the 3 months ended December 31, 2012 $
EXPENSES		
General and administrative	**21,791**	31,869
Stock-based compensation	**11,544**	-
	33,335	31,869
OTHER INCOME		
Interest income	**4,775**	-
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(28,560)**	(31,869)
DEFICIT, BEGINNING OF PERIOD	**(115,895)**	(11,565)
DEFICIT, END OF PERIOD	**(144,455)**	(43,434)
LOSS PER SHARE (Note 6)		
Basic and diluted	**(0.001)**	(0.015)

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 September 30, 2012	215,000	-	(11,565)	203,435
Total comprehensive loss for the period				
Net loss for the period	-	-	(31,869)	(31,869)
Balance at December 31, 2012	215,000	-	(43,434)	171,566
Total comprehensive loss for the period				
Net loss for the period	-	-	(72,461)	(72,461)
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**
Total comprehensive loss for the year				
Net loss for the year	**-**	**-**	**(28,560)**	**(28,560)**
Transactions with owners, recorded directly in equity				
Stock-based compensation	**-**	**11,544**	**-**	**11,544**
Balance at December 31, 2013	**2,583,131**	**35,635**	**(144,455)**	**2,474,311**

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 3 months ended December 31, 2013 $	For the 3 months ended December 31, 2012 $
CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss for the period	**(28,560)**	(31,869)
Adjustment for:		
Stock-based compensation	**11,544**	-
	(17,016)	(31,869)
Changes in non-cash working capital		
Accounts receivable and accruals	**(33,303)**	-
Accounts payable and accruals	**86,497**	(7,078)
	36,178	(38,947)
INVESTING		
Payment of deferred acquistion expenditures	**(136,667)**	-
FINANCING		
Payment of deferred financing fee	**(42,500)**	-
INCREASE IN CASH	**(142,989)**	(38,947)
CASH, BEGINNING OF PERIOD	**2,509,271**	200,938
CASH AND CASH EQUIVALENTS, END OF PERIOD	**2,366,282**	161,991

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 10.

The financial statements were authorized for issue by the Board of Directors on February 27, 2014.

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 condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended September 30, 2013 prepared in accordance with IFRS applicable to these annual financial statements, except for the following:

Deferred acquisition fees
Deferred acquisitions fees consist of expenses incurred in connection with the planned Qualifying Transaction. These expenses will be applied against the statement of comprehensive loss once the Qualifying Transaction has closed.

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:

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.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	December 31, 2013	September 30, 2013
Cash on hand	**262,327**	309,271
Guaranteed investment certificate, daily rolling bearing interest at 0.83% per annum	**2,103,956**	2,200,000
	2,366,282	2,509,271

6. EQUITY INSTRUMENTS

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

Issued

Common shares		
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
No transactions	**-**	**-**
Balance at December 31, 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**
No transactions	**-**	**-**
Balance at December 31, 2013	**2,667,995**	**141,423**
Total equity instruments, December 31, 2013		**2,583,131**
Total equity instruments, September 30, 2013		2,583,131

6. EQUITY INSTRUMENTS (Continued)

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.

An amount of $11,544 was recorded during the period ended December 31, 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, 2013	1,000,000	0.10	0.100	0.075
No transactions	-	-	-	-
Options outstanding, December 31, 2013	**1,000,000**	**0.10**	**0.10**	**-**

6. EQUITY INSTRUMENTS (Continued)

The following table summarizes information about the stock options outstanding at December 31, 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	4.25 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 $nil was recorded as share issuance costs for the 3 months ended December 31, 2013 (September 30, 2013 - $141,423) 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.

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, 2013	2,667,995	0.10	0.100	0.053
No transactions	-	-	-	-
Agent's options outstanding, December 31, 2013	**2,667,995**	**0.10**	**0.10**	**-**

6. EQUITY INSTRUMENTS (Continued)

The following table summarizes information about the agents' options outstanding at December 31, 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	1.23 years	2,667,995	0.10
2,667,995	0.10	0.10	1.23 years	2,667,995	0.10

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

	For the 3 months ended December 31, 2013	For the year ended September 30, 2013
Weighted average common shares outstanding - basic and diluted	**30,979,950**	18,334,385

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.

7. 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.

8. 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.

8. 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.

9. 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) 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.

10. SUBSEQUENT EVENT

On January 22, 2014, the Company and Sierra Madre Developments Inc. ("Sierra Madre") closed an asset purchase agreement to which the Company acquired 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 acquired 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 US$1,250,000 and CDN$100,000 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).

On January 22, 2014, the Company closed a private placement which raised gross proceeds of $633,000 by issuing 6,330,000 Common Shares at a price of $0.10 per Common Share. All of the Common Shares issued under the Private Placement are subject to a four month and one day hold period expiring on May 23, 2014. Four directors of the Company subscribed for 510,000 Common Shares under the Private Placement representing an aggregate amount of $51,000.

10. SUBSEQUENT EVENT (continued)

Richardson GMP Limited (the "Agent") acted as agent for the Private Placement pursuant to an agency agreement between the Company and the Agent dated effective December 12, 2013 (the "Agency Agreement"). Pursuant to the Agency Agreement, the Company paid the Agent certain corporate finance fees and a commission of 10% of the gross proceeds raised under the Private Placement. As additional compensation, Morro Bay issued the Agent warrants ("Agent Warrants") to purchase 633,000 Common Shares. Each Agent Warrant is exercisable at a price of $0.10 per Common Share until January 22, 2016.

On January 6, 2014, the Company changed its name to Morro Bay Resources Ltd. in order to reflect the change in the Corporation's business resulting from its qualifying transaction.

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 February 27, 2014

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 unaudited financial statements for the 3 months ended December 31, 2013 and the notes contained therein, of Morro Bay Resource Ltd. (the "Company"). This MD&A covers the 3 months ended December 31, 2013 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.

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 December 31, 2013, the Company had a deficit of $144,455 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 3 months ended December 31, 2013	For the 3 months ended December 31, 2012	For the year ended September 30, 2013
Net loss	**$ (28,560)**	$ (31,869)	$ (104,330)
Total assets	**$ 2,578,753**	$ 2,509,271	$ 2,509,271
Common shares issued	**30,979,950**	4,300,000	30,979,950
Weighted average shares outstanding			
Basic	**30,979,950**	2,150,000	18,334,385
Diluted	**30,979,950**	2,150,000	18,334,385

Fluctuations in Results

Three months ended December 31, 2013

For the 3 months ended December 31, 2013, the Company expended $21,791 on corporate activities. The majority of the expenditures was related to corporate filing fees and accrued audit fees.

During the period the most significant expenses were the TSX Venture fees of $10,000 and filing fees in the amount of $6,000. The Company also accrued audit fees totaling $5,000.

Three months ended December 31, 2012

During the period ended December 31, 2012 the Company expended $31,869 on corporate activities. The expenditures were related to the preparation of the IPO Prospectus, and the associated costs required in becoming a Reporting Issuer.

During the period the most significant expenses were the TSX Venture fees of $15,000 and filing fees in the amount of $9,770. The Company also paid audit fees totaling $12,305.

Liquidity and Capital Resources

As at December 31, 2013, the Company had a deficit totaling $144,455 (September 30, 2013 - $115,895). The Company had working capital of $2,295,144 at December 31, 2013 (September 30, 2013 - $2,491,327). 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 December 31, 2013 the Company had cash and cash equivalents of $2,366,282 (September 30, 2013 - $2,509,271).

SUBSEQUENT EVENT

On January 22, 2014, the Company and Sierra Madre Developments Inc. ("Sierra Madre") closed an asset purchase agreement to which the Company acquired 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 acquired 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 US$1,250,000 and CDN$100,000 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).

On January 22, 2014, the Company closed a private placement which raised gross proceeds of $633,000 by issuing 6,330,000 Common Shares at a price of $0.10 per Common Share. All of the Common Shares issued under the Private Placement are subject to a four month and one day hold period expiring on May 23, 2014. Four directors of the Company subscribed for 510,000 Common Shares under the Private Placement representing an aggregate amount of $51,000.

Richardson GMP Limited (the "Agent") acted as agent for the Private Placement pursuant to an agency agreement between the Company and the Agent dated effective December 12, 2013 (the "Agency Agreement"). Pursuant to the Agency Agreement, the Company paid the Agent certain corporate finance fees and a commission of 10% of the gross proceeds raised under the Private Placement. As additional compensation, Morro Bay issued the Agent warrants ("Agent Warrants") to purchase 633,000 Common Shares. Each Agent Warrant is exercisable at a price of $0.10 per Common Share until January 22, 2016.

On January 6, 2014, the Company changed its name to Morro Bay Resources Ltd. in order to reflect the change in the Corporation's business resulting from qualifying transaction.

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

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

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.

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

The condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended September 30, 2013 prepared in accordance with IFRS applicable to these annual financial statements, except for the following:

Deferred acquisition fees
Deferred acquisitions fees consist of expenses incurred in connection with the planned Qualifying Transaction. These expenses will be applied against the statement of comprehensive loss once the Qualifying Transaction has closed.

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 February 27, 2014.

Common shares, issued and outstanding	**53,309,950**
Stock options outstanding [(1)]	**3,900,000**
Warrants outstanding [(2)]	**11,300,995**

1) Consists of 1,000,000 options exercisable at $0.10/share expiring on March 22, 2018 and 2,900,000 options exercisable at $0.10/share expiring on January 22, 2019.
2) Consists of 2,667,995 warrants exercisable at 0.10/share expiring on March 22, 2015, 633,000 options exercisable at $0.10/share expiring on January 22, 2016, and 8,000,000 warrants exercisable at $0.15/share until June 15, 2014 and $0.25/option from June 16, 2014 until January 22, 2015.

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