MORRO BAY
RESOURCES LTD.



Condensed Consolidated Interim Financial Statements

(Unaudited – Prepared by Management)

June 30, 2014

NOTICE OF NO AUDIT OR REVIEW OF CONDENSED CONSOLIDATED 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 consolidated financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated 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 consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Condensed Consolidated Interim Statements of Financial Position
(unaudited - prepared by management, stated in Canadian dollars)

	June 30, 2014 $	September 30, 2013 $
ASSETS		
Current		
Cash and cash equivalents (Note 5)	**1,210,723**	2,509,271
Accounts receivable	**88,314**	-
Prepaids	**7,500**	-
	1,306,537	2,509,271
Equipment (Note 6)	**196,117**	-
Exploration and evaluation expenditures (Note 7)	**2,266,069**	-
Total assets	**3,768,723**	2,509,271
LIABILITIES		
Current		
Accounts payable and accruals	**5,959**	17,944
SHAREHOLDERS' EQUITY		
Equity instruments (Note 8)	**4,684,564**	2,583,131
Share based payment reserve	**109,360**	24,091
Foreign currency translation reserve	**(22,663)**	-
Deficit	**(1,008,497)**	(115,895)
Total equity	**3,762,764**	2,491,327
Total liabilities and equity	**3,768,723**	2,509,271

Signed "Ken Younger"
Ken Younger, Director

Signed "John Zang"
John Zang, Director

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

MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Condensed Consolidated Interim Statements of Operations
(unaudited - prepared by management - stated in Canadian dollars)

	For the 3 months ended June 30, 2014 $	For the 3 months ended June 30, 2013 $	**For the 9 months ended June 30, 2014 $**	For the 9 months ended June 30, 2013 $
EXPENSES				
General and administrative	**227,894**	261	**421,812**	54,048
Transaction costs	**385**	-	**385,335**	-
Depreciation	**5,161**	-	**10,322**	-
Stock-based compensation	**13,786**	11,418	**85,269**	12,547
	247,226	11,679	**902,738**	66,595
OTHER INCOME				
Interest income	**2,649**	-	**10,136**	-
NET LOSS FOR THE PERIOD	**(244,577)**	(11,679)	**(892,602)**	(66,595)
DEFICIT, BEGINNING OF PERIOD	**(763,920)**	(66,481)	**(115,895)**	(11,565)
DEFICIT, END OF PERIOD	**(1,008,497)**	(78,160)	**(1,008,497)**	(78,160)
LOSS PER SHARE (Note 8)				
Basic and diluted	**(0.005)**	-	**(0.018)**	(0.005)

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MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Condensed Consolidated Interim Statements of Comprehensive Loss
(unaudited - prepared by management - stated in Canadian dollars)

	For the 3 months ended June 30, 2014 $	For the 3 months ended June 30, 2013 $	**For the 9 months ended June 30, 2014 $**	For the 9 months ended June 30, 2013 $
NET LOSS FOR THE PERIOD	**(244,577)**	(11,679)	**(892,602)**	(66,595)
Other comprehensive loss				
Foreign currency translation adjustment	**(18,269)**	-	**(22,663)**	-
COMPREHENSIVE LOSS FOR THE PERIOD	**(262,845)**	(11,679)	**(915,264)**	(66,595)

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MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Condensed Consolidated Interim Statements of Changes in Equity
(unaudited - prepard by management, stated in Canadian dollars)

	Equity instruments $	Share based payment reserve $	Foreign currency translation reserve	Deficit $	Total shareholders' equity $
Balance at September 30, 2012	215,000	-	-	(11,565)	203,435
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	-	12,547	-	-	12,547
Total comprehensive loss for the period					
Net loss for the period	-	-	-	(66,595)	(66,595)
Balance at June 30, 2013	2,583,131	12,547	-	(78,160)	2,517,518
Total comprehensive loss for the period					
Net loss for the period	-	-	-	(37,735)	(37,735)
Transactions with owners, recorded directly in equity					
Stock-based compensation	-	11,544	-	-	11,544
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 period	**-**	**-**	**-**	**(892,602)**	**(892,602)**
Foriegn currently translation adjustment	**-**	**-**	**(22,663)**	**-**	**(22,663)**
Transactions with owners, recorded directly in equity					
Issuance of common shares, net of share issuance costs	**1,950,513**	**-**	**-**	**-**	**1,950,513**
Issuance of warrants	**150,920**	**-**	**-**	**-**	**150,920**
Stock-based compensation	**-**	**85,269**	**-**	**-**	**85,269**
Balance at June 30, 2014	**4,684,564**	**109,360**	**(22,663)**	**(1,008,497)**	**3,762,764**

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

MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Condensed Consolidated Interim Statements of Cash Flow
(unaudited - prepared by management, stated in Canadian dollars)

	For the 3 months ended June 30, 2014 $	For the 3 months ended June 30, 2013 $	**For the 9 months ended June 30, 2014 $**	For the 9 months ended June 30, 2013 $
CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net loss for the period	**(244,577)**	(11,679)	**(892,602)**	(66,595)
Adjustment for:				
Depreciation	**5,161**	-	**10,322**	-
Stock-based compensation	**13,786**	11,418	**85,269**	12,547
	(225,630)	(261)	**(797,011)**	(54,048)
Changes in non-cash working capital				
Accounts receivable and accruals	**(39,831)**	-	**(88,314)**	-
Prepaid expenses	**3,750**	-	**(7,500)**	
Accounts payable and accruals	**(360,447)**	(6,622)	**(34,648)**	(8,117)
	(622,158)	(6,883)	**(927,473)**	(62,165)
INVESTING				
Exploration and evaluation expenditures	**(386,001)**	-	**(755,160)**	-
	(386,001)	-	**(755,160)**	-
FINANCING				
Issuance of equity instruments	**-**	-	**633,000**	2,667,995
Share issuance costs	**-**	-	**(248,915)**	(285,802)
	-	-	**384,085**	2,382,193
INCREASE (DECREASE) IN CASH	**(1,008,159)**	(6,883)	**(1,298,548)**	2,320,028
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**2,218,882**	2,527,849	**2,509,271**	200,938
CASH AND CASH EQUIVALENTS, END OF PERIOD	**1,210,723**	2,520,966	**1,210,723**	2,520,966

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

1. GENERAL INFORMATION

Morro Bay Resources Ltd. (formerly 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 MRB). 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. The Company is focused on gold-silver exploration with currently an option on mineral interests in Mexico. The Company has not yet been able to determine whether any of these properties contain resources that are economically recoverable.

The address of the registered office of the Company is 2248 - 9th Avenue SE, Calgary, Alberta, T2G 5P7.

The Company's ability to continue operations is uncertain and is dependent upon the ability of the Company to obtain necessary financing to meet the Company's liabilities and commitments as they become payable, and the ability to generate future profitable production or operations or sufficient proceeds from the disposition thereof. The outcome of these matters cannot be predicted at this time. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Management believes that the Company has sufficient working capital to maintain its operations and activities for the next fiscal year.

The financial statements were authorized for issue by the Board of Directors on August 21, 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 consolidated 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:

Consolidation
The condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, MB Resources SA de CV. All inter-company accounts and transactions have been eliminated.

Foreign Currency Translation
Transactions in foreign currencies are translated into the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the period-end exchange rate. Non-monetary items measured at historical cost are translated using the exchange rates at the dates of the initial transactions and are not subsequently restated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair values were determined.

All gains and losses arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of loss and comprehensive loss in the period in which they arise.

Exploration and evaluation expenditures
Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility, and the assessment of commercial viability of an identified resource.

The Company expenses all costs related to expenditures on mineral property interests, for which the Company does not possess unrestricted ownership and exploration rights, on a property-by-property basis. Such costs include mineral property acquisition costs pursuant to option agreements and exploration and development expenditures, net of any recoveries. Costs are expensed until a resource is established or a feasibility study has been completed.

From time-to-time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. Mineral option interests are dropped when exploration results suggest that additional exploration is not warranted. As such options are exercisable entirely at the discretion of the optionee the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment
Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of loss and comprehensive loss during the period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is calculated on a straight-line basis to recognize the cost of assets over their estimated useful lives. The depreciation rate applicable to the drilling equipment is 10 years.

Impairment of Assets
The carrying amount of the Company's assets is evaluated at least annually by management for indicators that carrying amount is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of loss and comprehensive loss.

In calculating the recoverable amount, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social and legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New standards and interpretations not yet adopted
Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2014. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

a) IAS 32 (Amendment): Standard amended to clarify requirements for offsetting financial assets and financial liabilities, effective for annual periods beginning on or after January 1, 2014.
b) IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2015.
c) IFRS 9: New standard that replaced IAS 39 for classification and measurement.

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:

Useful lives and residual values of equipment
The Company reviews the useful lives and estimated residual values of equipment at the end of each reporting period.

Impairment of exploration and evaluation expenditures
Exploration and evaluation expenditures are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses and cash flows at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

4. CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES (Continued)

Depreciation and amortization
Depreciation of equipment is carried out on the basis of the estimated useful lives of the related assets. Assessing the reasonableness of the estimated useful lives of property and equipment and intangibles requires judgment and is based on currently available information, including historical experience by the Company. Changes in circumstances, such as technological advances, changes to the Company's business strategy, changes in the Company's capital strategy or changes in regulations may result in the actual useful lives differing from the Company's estimates. A change in the remaining useful life of a group of assets, or their expected residual value, will affect the depreciation rate used to amortize the group of assets and thus affect depreciation expense as reported in the Company's results of operations. These changes are reported prospectively when they occur.

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.

Warrant value
Expenses associated with warrants are based on various assumptions, using the Black-Scholes option pricing model, to produce an estimate of fair value. This estimate may vary due to changes in the variables used in the model including interest rates, expected life, expected volatility, expected forfeitures and share prices. Estimating expected life and forfeitures requires judgment.

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:

	June 30, 2014	September 30, 2013
Cash on hand	**1,209,460**	309,271
Guaranteed investment certificate, daily rolling bearing interest at 0.83% per annum	**-**	2,200,000
	1,209,460	2,509,271

6. EQUIPMENT

	Drilling rig $
Cost	
As at September 30, 2013	-
Acquired from transaction (Note 7)	**206,439**
As at June 30, 2014	**206,439**
Accumulated depreciation	
As at September 30, 2013	-
Expense	**10,322**
As at June 30, 2014	**10,322**
Net book value as at:	
June 30, 2014	**196,117**

7. EXPLORATION AND EVALUATION EXPENDITURES

Peñoles project

On January 22, 2014, the Company and Sierra Madre Developments Inc. ("Sierra Madre") closed an asset purchase agreement by 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 could earn an initial 51% (and 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 of the Assets in exchange for 16 million common shares of the Company at a deemed value of $0.10 per common share and share purchase warrants entitling the holders thereof to acquire up to 8 million of the Company's common shares. The 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 warrants will expire one year after issuance being January 22, 2015. Upon closing of the acquisition of the Assets the Company entered into an amended and Restated Option Agreement with Riverside.

7. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

The Amended and Restated Option Agreement provides that in order for the Company to earn a 51% interest in the Peñoles project, the Company will be required to spend $750,000 of exploration expenditures and pay Riverside US$1,250,000 and CDN$100,000 cash and deliver to 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). As at June 30, 2014, the Company has met the $750,000 qualified exploration expenditures requirement. Subsequent to June 30,2 014, the timeline for exercise of the option was extended.

8. 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 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
Issued in conjuction with purchase of assets (Note 7)	**16,000,000**	**1,600,000**
Issued for cash pursuant to private placement	**6,330,000**	**633,000**
Share issuance costs	**-**	**(282,487)**
Balance at June 30, 2014	**53,309,950**	**4,392,221**
Agents' options and warrants		
Balance at September 30, 2012	-	-
Issued pursuant to offering	2,667,995	141,423
Balance at September 30, 2013	2,667,995	141,423
Issued in conjuction with purchase of assets (Note 7)	**8,000,000**	**117,349**
Issued for share issuance costs pursuant to private placement	**633,000**	**33,571**
Balance at June 30, 2014	**11,300,995**	**292,343**
Total equity instruments, June 30, 2014		**4,684,564**
Total equity instruments, September 30, 2013		2,583,131

8. EQUITY INSTRUMENTS (Continued)

Private placement

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, the Company 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.

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 $85,269 was recorded during the period ended June 30, 2014 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	0.100	0.100	
Issued	**2,900,000**	**0.100**	**0.100**	**0.075**
Options outstanding, June 30, 2014	**3,900,000**	**0.100**	**0.100**	

8. EQUITY INSTRUMENTS (Continued)

The following table summarizes information about the stock options outstanding at June 30, 2014.

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	3.73 years	333,333	0.100
2,900,000	0.10	0.10	4.56 years	-	-
3,900,000	0.10	0.10	4.35 years	333,333	0.100

Agents' options and warrants
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 for the estimated fair value of the agents' options granted. 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.

In conjunction with the private placement, the Company 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. An amount of $33,571 was recorded for the estimated fair value of the agents' warrants granted. The fair value of the agents' warrants 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.

In conjunction with the asset purchase agreement (Note 7), the Company issued share purchase warrants entitling the holders thereof to acquire up to 8 million of the Company common shares. The 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. No warrants were exercised during the period ended June 30, 2014. The warrants will expire one year after issuance. An amount of $117,349 was recorded for the estimated fair value of the warrants granted. The fair value of the warrants 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 1 year.

8. EQUITY INSTRUMENTS (Continued)

The Company has granted agents' options and warrants as follows:

	Number of shares	Option price per share	Weighted average exercise price	Weighted average grant date fair value
		$	$	$
Agent's options and warrants outstanding, September 30, 2013	2,667,995	0.10	0.100	
Issued in conjunction with the purchase of assets	**8,000,000**	**0.15 - 0.25**	**0.15 - 0.25**	**0.015**
Issued in conjunction with the private placement	**633,000**	**0.10**	**0.10**	**0.053**
Agent's options and warrants, outstanding June 30, 2014	**11,300,995**	**0.14**	**0.14**	

The following table summarizes information about the agents' options outstanding at June 30, 2014:

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	0.73 years	2,667,995	0.10
633,000	0.10	0.10	1.56 years	633,000	0.10
8,000,000	0.15 - 0.25	0.15 - 0.25	0.56 years	8,000,000	0.15 - 0.25
11,300,995	0.14	0.14	0.66 years	11,300,995	0.14

8. EQUITY INSTRUMENTS (Continued)

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

	For the 3 months ended June 30, 2014	For the 3 months ended June 30, 2013	**For the 9 months ended June 30, 2014**	For the 9 months ended June 30, 2013
Weighted average common shares outstanding - basic and diluted	**53,309,950**	30,979,950	**50,488,027**	14,072,875

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, 3,900,000 options and 11,300,995 agents' options and warrants have been excluded from the diluted weighted average common shares.

9. CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity. The Company's objective for managing capital is to maintain sufficient capital to explore and evaluate the mineral property interests in Mexico it is entitled to acquire pursuant to the Amended and Restated Option Agreement.

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. In order to exercise the option on the Peñoles Project, the Company will be required to pay cash consideration of at least $100,000 and US$1,250,000.

10. 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;
- 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.

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.

Foreign currency risk
The Company is exposed to foreign currency risk in regards to its Mexican operations and United States denominated option payment. The Company has incorporated a Mexican subsidiary with a Mexican bank account and also invested in a United States dollar guaranteed investment certificate to mitigate any foreign currency risk.

11. SUBSEQUENT EVENT

Subsequent to the period ended June 30, 2014, the Company and Riverside have extended the option exercise date for the Peñoles Project (Note 7). The date for the exercise of the option by the Company has been extended to now be the later of November 30, 2014 and the date which is 75 days after the completion of the Additional Work Program (discussed below), and in any event not later than December 31, 2014 (the "Option Exercise Date"). The Company has the option to earn a 51% interest in the Peñoles Project with an additional option to earn up to a 65% interest.

The Company and Riverside have agreed to the Company proceeding with an additional $500,000 exploration and development program at the Peñoles Project (the “Additional Work Program”). The Company will be the operator of the Additional Work Program and has retained Riverside to carry-out the program in Mexico. The Additional Work Program is to be concluded by October 31, 2014. The Company further agreed to deliver to Riverside one-half of the $1,500,000 payment required to exercise the option (the “Advanced Payment”). The Advance Payment was paid to Riverside by delivery of 10,135,135 common shares of the Company at a deemed value of $0.074 per share. 70% of such shares of the Company delivered to Riverside will be held in escrow until December 31, 2014. As a result of having made the Advance Payment, the consideration payable by the Company on exercise of the option is now reduced by $750,000 such that the Company’s obligations on exercise of the option are now as follows:

a) Pay to Riverside US$1,250,000;
b) Pay to Riverside $100,000;
c) Deliver to Riverside common shares of the Company having a value of $750,000 or pay cash in lieu of all or a portion thereof; and
d) Incur exploration expenditures totaling $500,000.

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 August 21, 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 9 months ended June 30, 2014 and the notes contained therein, of Morro Bay Resource Ltd. (the "Company"). This MD&A covers the 9 months ended June 30, 2014 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 Resources Ltd. (formerly 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 MRB). 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. The Company is focused on gold-silver exploration with currently an option on mineral interests in Mexico. The Company has not yet been able to determine whether any of these properties contain resources that are economically recoverable. The head office and registered office of the Company is located at 2248 -9th Avenue SE, Calgary, Alberta T2G 5P7.

Overall Performance

On January 22, 2014, the Company and Sierra Madre Developments Inc. ("Sierra Madre") closed an asset purchase agreement by 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 could earn an initial 51% (and 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 of the Assets in exchange for 16 million common shares of the Company at a deemed value of $0.10 per common share and share purchase warrants entitling the holders thereof to acquire up to 8 million of the Company's common shares. The 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 warrants will expire one year after issuance being January 22, 2015. Upon closing of the acquisition of the Assets the Company entered into an amended and Restated Option Agreement with Riverside.

The Amended and Restated Option Agreement provides that in order for the Company to earn a 51% interest in the Peñoles project, the Company will be required to spend $750,000 of exploration expenditures and pay Riverside US$1,250,000 and CDN$100,000 cash and deliver to 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). As at June 30, 2014, the Company has met the $750,000 qualified exploration expenditures requirement. Subsequent to June 30,2 014, the timeline for exercise of the option was extended..

Trend Analysis

The Company's ability to continue operations is uncertain and is dependent upon the ability of the Company to obtain necessary financing to meet the Company's liabilities and commitments as they become payable, the successful acquisition of an interest in assets or a business, and the ability to generate future profitable production or operations or sufficient proceeds from the disposition thereof. The outcome of these matters cannot be predicted at this time. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Management believes that the Company has sufficient working capital to maintain its operations and activities for the next fiscal year.

Selected Financial Data

	For the 3 months ended June 30, 2014	For the 3 months ended June 30, 2013	**For the 9 months ended June 30, 2014**	For the 9 months ended June 30, 2013
Net loss	**$ (244,577)**	$ (11,679)	**$ (892,602)**	$ (66,595)
Total assets	**$ 3,768,723**	$ 2,520,996	**$ 3,768,723**	$ 2,520,996
Common shares issued	**53,309,950**	30,979,950	**53,309,950**	30,979,950
Weighted average shares outstanding				
Basic	**53,309,950**	30,979,950	**50,488,027**	14,072,875
Diluted	**53,309,950**	30,979,950	**50,488,027**	14,072,875

Fluctuations in Results

Three months and nine month ended June 30, 2014 vs. three months and nine months ended June 30, 2013

For the three months and nine months ended June 30, 2014, the Company expended $227,894 and $421,812 on general and administrative costs, respectively, compared to $261 and $54,048 for the comparative three and nine months ended 2013, respectively. The majority of the increase was related to salaries, audit fees and legal fees, as the Company has completed its qualifying transaction and was fully executing on its exploration drilling program.

During the nine months ended June 30, 2014, the Company also expended $385,335 in transaction costs, related to the closing of its qualifying transaction.

Exploration and evaluation expenditures

During the three and nine months ended June 30, 2014, the Company spent $386,003 and $2,266,070, respectively, on exploration and evaluation expenditures. These amounts relate to the drilling program in Penoles, Durango, Mexico.

Penoles Project	**3 months ended June 30, 2014 $**	**9 months ended June 30, 2014 $**
Acquisition Costs	0	1,510,910
	0	1,510,910
Exploration and evaluation expenditures		
Concession fees and taxes	0	109,418
Licencing and liason	4,030	32,743
Legal consultants	0	2,500
Assay	48,479	54,164
Drilling	166,280	296,771
Geological consultants	91,037	162,137
Resource report	29,320	29,320
Equipment rentals	20,919	23,166
Fuel and chemicals	0	412
Office and administrative	(122)	18,470
Community reations & water use	26,060	26,060
	386,003	755,160
TOTAL	**386,003**	**2,266,070**

Liquidity and Capital Resources

As at June 30, 2014, the Company had a deficit totaling $1,008,497 (September 30, 2013 - $115,895). The Company had working capital of $1,300,578 at June 30, 2014 (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 June 30, 2014 the Company had cash and cash equivalents of $1,210,723 (September 30, 2013 - $2,509,271).

Quarterly Summary

	Apr. to Jun. 2014	Jan. to Mar 2014	Oct. to Dec 2013	Jul. to Sep. 2013
	$	$	$	$
Net loss for period	**(244,577)**	(619,465)	(28,560)	(37,717)
Basic loss per share	**(0.005)**	(0.013)	(0.001)	(0.001)
Diluted income (loss) per share	**N/A**	N/A	N/A	N/A
Weighted average number of shares outstanding	**53,309,950**	47,484,733	30,979,950	30,979,950

	Apr. to Jun. 2013	Jan. to Mar 2013	Oct. to Dec 2012	Aug. to Sep 2012
	$	$	$	$
Net loss for period	(11,697)	(23,047)	(31,869)	(11,565)
Basic loss per share	(0.000)	(0.003)	(0.007)	(0.005)
Diluted income (loss) per share	N/A	N/A	N/A	N/A
Weighted average number of shares outstanding	30,979,950	6,967,995	4,300,000	2,150,000

Related Party Transactions

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.

Subsequent Event

Subsequent to the period ended June 30, 2014, the Company and Riverside have extended the option exercise date for the Peñoles Project (Note 7). The date for the exercise of the option by the Company has been extended to now be the later of November 30, 2014 and the date which is 75 days after the completion of the Additional Work Program (discussed below), and in any event not later than December 31, 2014 (the "Option Exercise Date"). The Company has the option to earn a 51% interest in the Peñoles Project with an additional option to earn up to a 65% interest.

The Company and Riverside have agreed to the Company proceeding with an additional $500,000 exploration and development program at the Peñoles Project (the “Additional Work Program”). The Company will be the operator of the Additional Work Program and has retained Riverside to carry-out the program in Mexico. The Additional Work Program is to be concluded by October 31, 2014. The Company further agreed to deliver to Riverside one-half of the $1,500,000 payment required to exercise the option (the “Advanced Payment”). The Advance Payment was paid to Riverside by delivery of 10,135,135 common shares of the Company at a deemed value of $0.074 per share. 70% of such shares of the Company delivered to Riverside will be held in escrow until December 31, 2014. As a result of having made the Advance Payment, the consideration payable by the Company on exercise of the option is now reduced by $750,000 such that the Company’s obligations on exercise of the option are now as follows:

a) Pay to Riverside US$1,250,000;
b) Pay to Riverside $100,000;
c) Deliver to Riverside common shares of the Company having a value of $750,000 or pay cash in lieu of all or a portion thereof; and
d) Incur exploration expenditures totaling $500,000.

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:

Useful lives and residual values of equipment
The Company reviews the useful lives and estimated residual values of equipment at the end of each reporting period.

Impairment of exploration and evaluation expenditures
Exploration and evaluation expenditures are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses and cash flows at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Depreciation and amortization
Depreciation of equipment is carried out on the basis of the estimated useful lives of the related assets. Assessing the reasonableness of the estimated useful lives of property and equipment and intangibles requires judgment and is based on currently available information, including historical experience by the Company. Changes in circumstances, such as technological advances, changes to the Company's business strategy, changes in the Company's capital strategy or changes in regulations may result in the actual useful lives differing from the Company's estimates. A change in the remaining useful life of a group of assets, or their expected residual value, will affect the depreciation rate used to amortize the group of assets and thus affect depreciation expense as reported in the Company's results of operations. These changes are reported prospectively when they occur.

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.

Warrant value
Expenses associated with warrants are based on various assumptions, using the Black-Scholes option pricing model, to produce an estimate of fair value. This estimate may vary due to changes in the variables used in the model including interest rates, expected life, expected volatility, expected forfeitures and share prices. Estimating expected life and forfeitures requires judgment.

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:

Consolidation
The condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, MB Resources SA de CV. All inter-company accounts and transactions have been eliminated.

Foreign Currency Translation
Transactions in foreign currencies are translated into the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the period-end exchange rate. Non-monetary items measured at historical cost are translated using the exchange rates at the dates of the initial transactions and are not subsequently restated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair values were determined.

All gains and losses arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of loss and comprehensive loss in the period in which they arise.

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.

Exploration and evaluation expenditures
Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility, and the assessment of commercial viability of an identified resource.

The Company expenses all costs related to expenditures on mineral property interests, for which the Company does not possess unrestricted ownership and exploration rights, on a property-by-property basis. Such costs include mineral property acquisition costs pursuant to option agreements and exploration and development expenditures, net of any recoveries. Costs are expensed until a resource is established or a feasibility study has been completed.

From time-to-time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. Mineral option interests are dropped when exploration results suggest that additional exploration is not warranted. As such options are exercisable entirely at the discretion of the optionee the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

Equipment
Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of loss and comprehensive loss during the period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is calculated on a straight-line basis to recognize the cost of assets over their estimated useful lives. The depreciation rate applicable to the drilling equipment is 10 years.

Impairment of Assets
The carrying amount of the Company's assets is evaluated at least annually by management for indicators that carrying amount is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of loss and comprehensive loss.

In calculating the recoverable amount, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social and legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

New standards and interpretations not yet adopted
Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2014. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

a) IAS 32 (Amendment): Standard amended to clarify requirements for offsetting financial assets and financial liabilities, effective for annual periods beginning on or after January 1, 2014
b) IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2015
c) IFRS 9: New standard that replaced IAS 39 for classification and measurement

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 August 21, 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.

Risks and Uncertainties
An insurance program is maintained to mitigate risks and to protect against significant losses, while maintaining levels of risk within the Company, which management believes to be acceptable. While the Company believes that its liability, property and business interruption insurance is adequate and consistent with industry participants of the Company's size, the Company is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims.

The Company's operations may be adversely affected by changes in governmental policies, regulations or taxation concerning the Mexican mining industry. Changes in any of these areas may significantly increase the Company's costs or adversely affect its ability to conduct business.

The Company's operations are highly dependent on its executive officers and key personnel. The loss of the services of any of these people could have an adverse effect on the Company.

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;
• 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 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.

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.

The Company is exposed to foreign currency risk in regards to its Mexican operations and United States denominated option payment. The Company has incorporated a Mexican subsidiary with a Mexican bank account and also invested in a United States dollar GIC to mitigate any foreign currency risk.

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