

Consolidated Financial Statements of

MORRO BAY RESOURCES LTD.
(formerly Morro Bay Capital Ltd.)

As at and for the years ended September 30, 2014 and 2013

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Morro Bay Resources Ltd. (formerly Morro Bay Capital Ltd.):

We have audited the accompanying consolidated financial statements of Morro Bay Resources Ltd. (formerly Morro Bay Capital Ltd.), which comprise the consolidated statements of financial position as at September 30, 2014 and September 30, 2013, and the consolidated statements of operations, consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Morro Bay Resources Ltd. (formerly Morro Bay Capital Ltd.) as at September 30, 2014 and September 30, 2013, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Morro Bay Resources Ltd. (formerly Morro Bay Capital Ltd.) incurred a net loss of $ 1.1 million during the year ended September 30, 2014. As the Company continues to incur losses coupled with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Morro Bay Resources Ltd.'s ability to continue as a going concern.

Signed "Deloitte LLP"
Chartered Accountants

January 27, 2015
Calgary, Alberta

MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Consolidated Statements of Financial Position
(stated in Canadian dollars)

As at	**September 30, 2014 $**	September 30, 2013 $
ASSETS		
Current		
Cash and cash equivalents (Note 6)	**533,748**	2,509,271
Accounts receivable	**161,005**	-
Prepaids	**3,750**	-
	698,503	2,509,271
Exploration and evaluation expenditures (Note 7)	**3,668,087**	-
Total assets	**4,366,590**	2,509,271
LIABILITIES		
Current		
Accounts payable and accruals	**15,492**	17,944
Commitments (Note 7)		
SHAREHOLDERS' EQUITY		
Equity instruments (Note 9)	**5,427,086**	2,583,131
Share based payment reserve	**144,935**	24,091
Foreign currency translation reserve	**(25,258)**	-
Deficit	**(1,195,665)**	(115,895)
Total equity	**4,351,098**	2,491,327
Total liabilities and equity	**4,366,590**	2,509,271

Signed "Keith Erickson"
Keith Erickson, Director

Signed "John Zang"
John Zang, Director

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

MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Consolidated Statements of Operations
(stated in Canadian dollars)

	For the year ended September 30, 2014 $	For the year ended September 30, 2013 $
EXPENSES		
General and administrative	**571,126**	80,248
Transaction costs	**385,335**	-
Depreciation	**15,483**	-
Stock-based compensation	**120,844**	24,091
	1,092,788	104,339
OTHER INCOME		
Interest income	**13,018**	9
NET LOSS FOR THE YEAR	**(1,079,770)**	(104,330)
DEFICIT, BEGINNING OF YEAR	**(115,895)**	(11,565)
DEFICIT, END OF YEAR	**(1,195,665)**	(115,895)
LOSS PER SHARE (Note 9)		
Basic and diluted	**(0.022)**	(0.006)

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

MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Consolidated Statements of Comprehensive Loss
(stated in Canadian dollars)

	For the year ended September 30, 2014 $	For the year ended September 30, 2013 $
NET LOSS FOR THE YEAR	**(1,079,770)**	(11,565)
Other comprehensive loss		
Foreign currency translation adjustment	**(25,258)**	-
COMPREHENSIVE LOSS FOR THE YEAR	**(1,105,028)**	(11,565)

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

MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Consolidated Statements of Changes in Equity
(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
Total comprehensive loss for the year					
Net loss for the year	-	-	-	(104,330)	(104,330)
Transactions with owners, recorded directly in equity					
Issuance of common shares, net of share issuance costs	2,226,708	-	-	-	2,226,708
Issuance of agents' options	141,423	-	-	-	141,423
Stock-based compensation	-	24,091	-	-	24,091
Balance at September 30, 2013	2,583,131	24,091	-	(115,895)	2,491,327
Total comprehensive loss for the year					
Net loss for the year	-	-	-	**(1,079,770)**	**(1,079,770)**
Foriegn currently translation adjustment	-	-	**(25,258)**	-	**(25,258)**
Transactions with owners, recorded directly in equity					
Issuance of common shares, net of share issuance costs	**2,693,035**	-	-	-	**2,693,035**
Issuance of warrants	**150,920**	-	-	-	**150,920**
Stock-based compensation	-	**120,844**	-	-	**120,844**
Balance at September 30, 2014	**5,427,086**	**144,935**	**(25,258)**	**(1,195,665)**	**4,351,098**

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

MORRO BAY RESOURCES LTD. (formerly Morro Bay Capital Ltd.)
(an exploration stage company)
Consolidated Statements of Cash Flow
(stated in Canadian dollars)

	For the year ended September 30, 2014 $	For the year ended September 30, 2013 $
CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss for the year	**(1,079,770)**	(104,330)
Adjustment for:		
Depreciation	**15,483**	-
Stock-based compensation	**120,844**	24,091
	(943,443)	(80,239)
Changes in non-cash working capital		
Accounts receivable and accruals	**(161,005)**	-
Prepaid expenses	**(3,750)**	
Accounts payable and accruals	**(27,710)**	6,379
	(1,135,908)	(73,860)
INVESTING		
Exploration and evaluation expenditures	**(1,216,221)**	-
	(1,216,221)	-
FINANCING		
Issuance of equity instruments	**633,021**	2,667,995
Share issuance costs	**(256,415)**	(285,802)
	376,606	2,382,193
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,975,523)**	2,308,333
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**2,509,271**	200,938
CASH AND CASH EQUIVALENTS, END OF YEAR	**533,748**	2,509,271

The accompanying notes are an integral part of these consolidated 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 (Note 7). 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.

Going concern

The accompanying consolidated financial statements have been prepared assuming a continuation of the Company as a going concern. Based upon current and expected future spending, the Company will require additional funding to support ongoing operations, meet the Company's liabilities and commitments as they become payable. The Company will need additional capital to meet these commitments. Access to capital is subject to market conditions and other external factors which cannot be predicted at this time. These factors cause significant doubt of the Company's ability to meet its obligations as they come due and as such are threat to the Company's ability to continue as a going concern. 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 will be able to renegotiate the terms of its existing agreements and raise sufficient capital to maintain its operations and activities for the next fiscal year.

The consolidated financial statements were authorized for issue by the Board of Directors on January 27, 2015.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Basis of measurement

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Foreign Currency Translation

Functional Currency

The Company and its subsidiary determine the currency that is the most influential currency of the primary economic environment in which the entity operates ("Functional Currency"), and items included in the consolidated financial statements of the entity are measured using that Functional Currency. The Functional Currency of the Company is the Canadian Dollar. The functional currency for MB Resources is the Mexican Peso.

Transactions and Balances

Foreign currency transactions are initially translated to the Functional Currency using the foreign currency rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated to the Functional Currency at the foreign currency rate of exchange prevailing at the period end date. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end of monetary assets and liabilities not denominated in the Functional Currency are recognized in the consolidated statement of operations. Non-monetary items that originate in a currency other than the Functional Currency are translated at the foreign currency rate of exchange prevailing on the date of the initial transaction.

Translation of Foreign Operations

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operation is translated from its Functional Currency to Canadian dollars using the foreign currency rate of exchange prevailing at the period end date, and the results of operations are translated at the prevailing average monthly exchange rates. The resulting exchange differences are recognized initially in other comprehensive income and accumulated in the foreign currency translation reserve, a separate component of equity. On disposal or partial disposal of an entity with a functional currency other than Canadian dollars, any accumulated exchange differences in the foreign currency translation reserve are reclassified to the consolidated statement of operations. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, form part of the net investment in the foreign operation and are recognized initially in other comprehensive income and reclassified from equity to net income on repayment of the monetary item.

Cash and cash equivalents

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

Deferred financing fees

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Pre-exploration costs are expensed as incurred. The Company records E&E assets once it has the right to explore for mineral deposits, at cost. The Company also records, at cost, deferred exploration costs incurred as E&E assets once it has obtained the right to explore,. These costs consist of costs directly attributable to the exploration of these interests. All direct and indirect costs relating to the acquisition and exploration of these E&E asset interests are capitalized on the basis of specific claim blocks until the E&E asset interests to which they relate are placed into production, disposed of through sale, or where management has determined there to be an impairment. If an E&E asset interest is abandoned, the capitalized costs will be written off to operations in the period of abandonment.

On an on-going basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject property. Management's determination for impairment is based on: 1) whether the Company's exploration programs have significantly changed, such that previously identified resource targets are no longer being pursued; 2) whether exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future; or 3) whether remaining lease terms are insufficient to conduct necessary studies or exploration work.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The carrying amount of E&E assets will not reflect the recoverable value, as this will be dependent on future development programs, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

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 capitalized costs or recoveries when the payments are made or received.

Equipment
Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Substantially all of the Company's equipment is used for its E&E activities.

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 Long-Lived Assets
The carrying amount of the Company's assets is evaluated at each reporting date 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. In assessing value in use, the Company uses discounted cash flow techniques. 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.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax

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

Share based compensation plan

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

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

Recent accounting pronouncements

New standards effective beginning on or after October 1, 2013:

Effective October 1, 2013, the Company adopted the below standards and there was no material impact on these financial statements:

(i) IFRS 10 - New standard to establish principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities.
(ii) IFRS 11 - New standard to account for the rights and obligations in accordance with a joint arrangement.
(iii) IFRS 12 - New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39.
(iv) IFRS 13 - New standard on the measurement and disclosure of fair value.
(v) IAS 27 – New standard to account for investments at cost or in accordance with IFRS 9 Financial Instruments.
(vi) IAS 28 - New standard issued that supersedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures.

New standards effective beginning on or after January 1, 2014:

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

IFRIC 21 - *Levies* was issued by the International Accounting Standards Board (IASB) in May 2013 and is an interpretation of IAS 37 - *Provisions, contingent liabilities and contingent assets*. The interpretation clarifies the obligating event that gives rise to a liability to pay a levy. IFRIC 21 is effective for financial periods beginning on or after January 1, 2014. The Company has evaluated the impact of this interpretation on its consolidated financial statements and it did not have any material impact.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments to standards effective beginning on or after January 1, 2014:
In December 2013, the IASB issued amendments to seven standards under its Annual Improvements Project for 2010 2012. Amended standards include *IFRS 2 - Share based payment, IFRS 3 - Business combinations, IFRS 8 - Operating segments, IFRS 13 - Fair value measurement,* IAS 16 - *Property, plant and equipment,* IAS 24 - R*elated party disclosures,* and IAS 38 - *Intangible assets.* These amendments are effective for financial periods beginning on or after July 1, 2014. These amendments did not have a material impact on the Company's consolidated financial statements or its disclosures. In December 2013, the IASB also issued amendments to a number of standards under its Annual Improvements Project for 2011 2013. The following amendments are effective for financial periods beginning on or after January 1, 2014: *IAS 32 - Offsetting financial assets and financial liabilities*, *IFRS 10, IFRS 12 and IAS 27 - Investment entities*, *IAS 39 - Novation of derivatives and continuation of hedge accounting*, *IAS 36 - Recoverable amount disclosures for non financial assets.* In addition, the following amendments are effective for financial periods beginning on or after July 1, 2014: *IFRS 1 - First time adoption of IFRS, IFRS 3 - Business combinations, IFRS 13 - Fair value measurement, IAS 40 - Investment property,* and *IAS 19 - Defined benefit plans: Employee contributions*. These amendments did not have a material impact on the Company's consolidated financial statements or its disclosures.

In addition, the IASB issued amendments to the following standards in May 2014: IFRS 11 - *Accounting for acquisitions of interests in joint operations,* IAS 16 - *Property, plant and equipment,* and IAS 38 - *Clarification of acceptable methods of depreciation and amortization* amendments. These amendments are effective for financial periods beginning on or after January 1, 2016. The Company is evaluating the impact of these amendments on its consolidated financial statements and they are not expected to have any material impact.

On July 24, 2014, the IASB issued IFRS 9 - *Financial instruments,* which is the final element of its comprehensive revision of reporting requirements for financial instruments. IFRS 9 includes a logical model for classification and measurement, a single, forward looking expected loss impairment model and a substantially reformed approach to hedge accounting. This standard will replace IAS 39 - *Financial Instruments: Recognition and measurement,* and is effective for financial periods beginning on or after January 1, 2018. The Company is evaluating the impact of IFRS 9 on its consolidated financial statements and it is not expected to have a material impact.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

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

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.

Recoverable amounts of long lived assets
At each reporting period, management assesses whether there are indicators of impairment of the Company's long lived assets. If an indication of impairment exists, long lived assets are tested for impairment. In order to determine if impairment exists and to measure the potential impairment charge, the carrying amounts of the Company's CGUs are compared to their recoverable amounts, which is the greater of fair value less cost of disposal and value in use ("VIU"). An impairment charge is recognized to the extent the carrying amount exceeds the recoverable amount. VIU is calculated as the present value of the expected future cash flows specific to each CGU. In calculating VIU, significant judgment is required in making assumptions with respect to discount rates, the market outlook and future net cash flows associated with the CGU. Any changes in these assumptions will have an impact on the measurement of the recoverable amount and could result in adjustments to impairment charges already recorded.

Going concern
The Company has employed judgment that going concern was still an appropriate basis for the preparation of the consolidated financial statements. The Company has re-negotiated the Option Agreement pertaining to its Mexican property (the "Peñoles Project") such that (assuming the Company's common shares have a volume weighted average price of over $0.05) the exercise of the option does not require the Company to make a cash payment in order to exercise the option for 51% of the Peñoles Project. However, assuming the option is exercised, the Company will have expenditure requirements which will require the Company raise the necessary financing to advance the Peñoles Project (see also note 1 and note 13).

5. SEGMENT DISCLOSURES

Operating segments for consolidated financial statement purposes are reported on a geographic basis which is consistent with how operating segments are managed and how information is presented for internal reporting to the chief executive officer, who is responsible for the overall evaluation of segment performance and the allocation of resources. The costs for the non-current assets relate to the Peñoles project and the costs are presented where incurred. The Company operates in two geographic segments which are Canada and Mexico. The amounts relating to each segment are as follows:

Year Ended September 30, 2014	**Canada**	**Mexico**	**TOTAL**
	$	**$**	**$**
Current assets	549,143	149,360	698,503
Non-current assets	2,294,967	1,373,120	3,668,087
Segment profit (loss)	(1,079,250)	(520)	(1,079,770)

Year Ended September 30, 2013	**Canada**	**Mexico**	**TOTAL**
	$	**$**	**$**
Current assets	2,509,271	-	2,509,271
Non-current assets	-	-	-
Segment profit (loss)	(104,330)	-	(104,330)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2014	2013
Cash on hand	**533,748**	309,271
Guaranteed investment certificate, daily rolling bearing interest at 0.83% per annum	**-**	2,200,000
	533,748	2,509,271

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 under the option agreement dated February 14, 2012 (the "Option Agreement") between Sierra Madre and Riverside Resources Inc. ("Riverside") (collectively the "Assets"). This transaction has been accounted for as an asset acquisition. 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 entered into as of January 22, 2014 provided that in order for the Company to earn a 51% interest in the Peñoles project, the Company was 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 cash at the Company's option). This time line of this option agreement was initially extended to December 31, 2014. Subsequent to year end these terms were further amended (See note 13). 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 ("VWAP"), such payment must be made in cash. During the year ended September 30, 2014, the Company met the $750,000 qualified exploration expenditures requirement.

	Purchase price allocation $
Option agreement costs:	
Settled via shares	2,350,000
Settle via warrants	**117,349**
	2,467,349
Allocated to (1):	
Exploration and evaluation expenditures	2,261,030
Equipment	**206,439**
	2,467,469

(1) The purchase price was allocated to the above assets based on the estimated fair value of the Equipment, with the remainder of the value allocated to the Exploration and evaluation expenditures.

The Company and Riverside had agreed to the Company proceeding with an additional $500,000 exploration and development program at the Peñoles Project (the "Additional Work Program"). The Company was the operator of the Additional Work Program and retained Riverside to carry-out the program in Mexico. The Additional Work Program was 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 based on the VWAP. 70% of such shares of the Company delivered to Riverside were 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 at October 31, 2104 were as follows (the Company is not obligated to exercise the Option):

7. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

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 (which was concluded by October 31, 2014).

The Company fulfilled the initial expenditure requirement of $750,000 prior to the year ended September 30, 2014. Subsequent to the year end, the Company fulfilled the expenditure requirement of $500,000 for the Additional Work Program. Subsequent to the year end, the Company and Riverside extended the option exercise date for the Peñoles Project. The date for the exercise of the option by the Company has been extended to be March 31, 2015 (see Note 13). At the same time, the terms for the exercise of the option were further amended such that the cash payments of US$1,250,000 and $100,000 were removed but certain work commitments were added (see note 13). 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

	Exploration and evaluation assets $
Cost	
As at September 30, 2013	-
Option acquired on transaction (1)	**2,261,030**
Equipment	**206,439**
Exploration and evaluation expenses incurred	**1,216,101**
As at September 30, 2014	**3,683,570**
Accumulated depreciation and impairment	
As at September 30, 2013	-
Accumulated depreciation	**15,483**
Impairment	**-**
As at September 30, 2014	**15,483**
Net book value as at September 30, 2014	**3,668,087**

The impairment assessment performed on tangible assets used in exploration and evaluation assets did not identify any indicators of impairment, and as a result the Company's properties were not tested for impairment at year end.

8. INCOME TAXES

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

	2014	2013
Tax rate	**25.0%**	25.0%
	$	$
Net loss for the year	**(1,079,770)**	(104,330)
Expected income tax recovery at statutory rates	**(270,000)**	(26,000)
Stock based compensation	**30,000**	6,000
Other	**(6,000)**	-
Net change in unrecognized deferred tax asset	**246,000**	20,000
Income tax expense recognized	**-**	-

At September 30, 2014 and 2013, subject to assessment by income tax authorities, the Company has the following undeducted tax pools:

	2014	2013
	$	$
Undeducted share issue costs	**385,000**	240,000
Resource pools	**3,297,000**	-
Non-capital losses carried forward for tax purposes with expiration dates between 2032 and 2033	**1,474,000**	152,000
	5,156,000	392,000

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

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

	2014	2013
	$	$
Share issue costs	**97,000**	60,000
Exploration and evaluation expenditures	**(93,000)**	-
Unused tax losses carry forward	**368,000**	38,000
Unrecognized deferred tax asset	**(372,000)**	(98,000)
Deferred income tax asset	-	-

9. 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 initial public 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**
Issued to Riverside pursuant to Advance Payment (Note 7)	**10,135,135**	**750,000**
Exercise of warrants	**148**	**26**
Share issuance costs	**-**	**(289,987)**
Balance at September 30, 2014	**63,445,233**	**5,134,747**
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**
Exercise of warrants	**(148)**	**(4)**
Balance at September 30, 2014	**11,300,847**	**292,339**
Total equity instruments, September 30, 2014		**5,427,086**
Total equity instruments, September 30, 2013		2,583,131

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.

9. EQUITY INSTRUMENTS (Continued)

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 $120,844 was recorded during the year ended September 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	**2,800,000**	**0.100**	**0.100**	**0.075**
Options outstanding, September 30, 2014	**3,800,000**	**0.100**	**0.100**	

The following table summarizes information about the stock options outstanding as at September 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	3.48 years	333,333	0.10
2,800,000	0.10	0.10	4.31 years	-	-
3,800,000		0.10	4.10 years	333,333	0.10

9. EQUITY INSTRUMENTS (Continued)

Agents' options and warrants

In conjunction with the Company's initial public 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 common shares of the Company. 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 expired on January 22, 2015. 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.

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 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**
Exercise of warrants	**(148)**	**0.15**		
Agent's options and warrants, outstanding September 30, 2014	**11,300,847**	**0.14**	**0.14**	

9. EQUITY INSTRUMENTS (Continued)

The following table summarizes information about the agents' options outstanding at September 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
7,999,852	0.15 - 0.25	0.15 - 0.25	0.56 years	7,999,852	0.15 - 0.25
11,300,847	0.14	0.14	0.66 years	11,300,847	0.14

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

	For the year ended September 30, 2014	For the year ended September 30, 2013
Weighted average common shares outstanding - basic and diluted	**48,612,630**	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, 3,900,000 options and 11,300,847 agents' options and warrants have been excluded from the diluted weighted average common shares.

10. 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 is required to meet certain commitments as detailed in Note 7. The Company will require additional capital to meet these obligations as they come due (Note 1 – going concern).

11. 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.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 to mitigate any foreign currency risk.

Fair values versus carrying amounts
The carrying values of financial assets and liabilities approximate their fair value due to the short-term nature of these items.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data.

	Financial Assets at Fair Value			
	Level 1	Level 2	Level 3	**September 30, 2014**
	$	$	$	**$**
Cash and cash equivalents	533,748	-	-	**533,748**
Accounts receivable	161,005	-	-	**161,005**
	694,753	-	-	**694,753**

12. 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 consolidated financial statements, the Company had the following related party transaction:

a) For the year ended September 30, 2014, an officer of the Company paid $880 (September 30, 2013 - $1,077) of general and administrative expenses on behalf of the Company.
b) For the year ended September 30, 2014, the Company paid two directors of the Company $50,000 for geological services.

Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation comprised:

	2014	2013
	$	$
Short-term employee benefits	**180,000**	-
Long-term employee benefits	**37,472**	24,981
	217,472	24,981

13. SUBSEQUENT EVENT

Subsequent to the year ended September 30, 2014, the Company amended the Amended and Restated Option Agreement. The most significant change to the Amended and Restated Option Agreement dated January 15, 2015 is the removal of the requirements for the Company to pay the cash payments of US$1.25 million and CAD$100,000 to Riverside if the Company wishes to proceed to earn a 51% interest in the Peñoles Project (the "Initial Option"). In addition, the Option exercise date has been extended to March 31, 2015.

Subject to fulfilling the conditions referred to below, the Company has the option to acquire a 51 percent (and up to 65 percent, as set out below) in the Peñoles Project. The Option exercise date is not later than March 31, 2015. The conditions for the exercise of the option are as follows:

- The Company shall make a payment of $750,000 to Riverside by March 31, 2015 (payable in cash or shares of the Company at the Company's election provided that if the value of the Company's shares is less than $0.05 such payment must be made in cash);
- The Company shall incur Joint Venture Expenditures of $750,000 for each of the first three years (any amounts expended over $750,000 will be credited toward the following years expenditure requirements);
- Riverside shall have a credit of CAD$100,000 and US$1,250,000 against the first Joint Venture Expenditures incurred by the Joint Venture; and
- Should the Joint Venture fail to incur Joint Venture Expenditures of at least $750,000 in each of the first three years, Riverside will have to right to acquire 100% of the Company's Interest by returning to the Company 80% of the common shares issued by the Company to Riverside.

The revised Amended and Restated Option Agreement dated January 15, 2015 further provides that in order for the Company to earn an additional 14% interest in the Peñoles Project (bringing the Company's interest in the Peñoles Project to 65%) (the "Additional Option"), the Company must:

- Make a cash payment of $30,000 on or before the first anniversary date of the exercise of the initial option;
- Incur additional expenditures at the Peñoles Project of not less than $5 million, half of which are to be incurred within 12 months from the date of the exercise of the Initial Option (i.e. 51%) and half of which shall be incurred within 24 months from the date of the exercise of the Initial Option; and
- In the event the Company's shares are trading over $0.05, deliver to Riverside $750,000 in cash or shares at the Company's election, or if the Company's shares have a market value of less than $0.05 pay to Riverside the sum of $750,000 in cash.

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 January 27, 2015

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, 2014 and the notes contained therein, of Morro Bay Resource Ltd. (the "Company"). This MD&A covers the 12 months ended September 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 "Peñoles Project"). The operations of the Company in Mexico are carried out by its wholly owned Mexican subsidiary MB Resources C.V. The Company has not yet been able to determine whether any of these properties contain resources that are economically recoverable. The head office of the Company is located at 1300, 734 7th Avenue SW, Calgary, AB. T2P 3P8 and the 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 expired 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 provided that in order for the Company to earn a 51% interest in the Peñoles Project, the Company was 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). During the year ended September 30, 2014, the Company has met the $750,000 qualified exploration expenditures requirement.

Subsequent to the completion of the $750,000 qualified exploration expenditures, the Company and Riverside further amended the Option Agreement. Pursuant to this amendment of the Option Agreement the following additional terms were agreed to:

1. the date for the exercise of the option by the Company was extended to 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");

2. The Company was required to expend an additional $500,000 in exploration and development expenditures at the Peñoles Project (the "Additional Work Program"); and
3. The Company was required to deliver to Riverside one-half of the $1,500,000 (to be paid either by way of cash or Company shares) payment required to exercise the option (the "Advanced Payment").

Both of items 2 and 3 (above) have been fulfilled by the Company. The $500,000 Additional Work Program was concluded by October 31, 2014. The $750,000 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. As a result of having made the Advance Payment, the consideration payable by the Company on exercise of the option was reduced by $750,000.

The Option Agreement was further amended by way of an Amending Agreement dated effective January 15, 2015. This Amending Agreement extends the option exercise date to March 31, 2015 and removes the cash payment requirements of US$1,250,000 and $100,000 such that the Company's obligation in order to exercise the option as to a 51% interest in the Peñoles Project now requires only that the Company 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. The Company maintains the right to acquire an additional 14% upon certain amounts being paid to Riverside. The latest Amending Agreement also requires the Company to make certain expenditures at the Peñoles Property after exercise of the option. See "Subsequent Events" below.

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 support ongoing operations, 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. Financial resources available are its current cash position and raising funds through new equity or debt funding. 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 September 30, 2014	For the 3 months ended September 30, 2013	**For the 12 months ended September 30, 2014**	For the 12 months ended September 30, 2013
Net loss	**$ (187,168)**	$ (37,735)	**$ (1,079,770)**	$ (104,330)
Total assets	**$ 4,366,590**	$ 2,509,271	**$ 4,366,590**	$ 2,509,271
Common shares issued	**63,445,233**	30,979,950	**63,445,233**	30,979,950
Weighted average shares outstanding				
Basic	**62,343,588**	30,979,950	**48,612,630**	18,334,385
Diluted	**62,343,588**	30,979,950	**48,612,630**	18,334,385

Fluctuations in Results

Three months and year ended September 30, 2014 vs. three months and year ended September 30, 2013

For the three months and year ended September 30, 2014, the Company expended $149,314 and $571,126 on general and administrative costs, respectively, compared to $26,200 and $80,248 for the comparative three and year ended 2013, respectively. The majority of the increase was related to salaries, audit fees, investor relations fees and legal fees, as the Company has completed its qualifying transaction and was fully executing on its exploration drilling program, as compared to the prior year in which the Company had no active business operations.

During the year ended September 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 months and year ended September 30, 2014, the Company spent $1,211,061 and $3,477,131, respectively, on exploration and evaluation expenditures, which includes the consideration paid for the acquisition of the Option. These amounts relate to the acquisition of the Option and drilling program at the Peñoles Project, in Durango, Mexico.

Penoles Project	3 months ended September 30, 2014 $	12 months ended September 30, 2014 $
Acquisition Costs	750,000	2,260,910
	750,000	2,260,910
Exploration and evaluation expenditures		
Equipment	0	206,439
Concession fees and taxes	1,556	110,973
Licencing and liason	465	33,208
Legal consultants	0	2,500
Assay	0	0
Drilling	446,684	797,620
Geological consultants	2,305	164,442
Resource report	0	29,320
Equipment rentals	329	23,495
Fuel and chemicals	6	417
Office and administrative	9,345	27,815
Community reations & water use	370	26,431
	461,061	1,422,660
TOTAL	**1,211,061**	**3,683,570**

Liquidity and Capital Resources

As at September 30, 2014, the Company had a deficit of $1,195,665 (September 30, 2013 - $115,895). The Company had working capital surplus of $683,011 at September 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 September 30, 2014, the Company had cash and cash equivalents of $533,748 (September 30, 2013 - $2,509,271).

Quarterly Summary

	Jul. to Sep. 2014	Apr. to Jun. 2014	Jan. to Mar 2014	Oct. to Dec 2013
	$	$	$	$
Net loss for period	**(187,168)**	(244,577)	(619,465)	(28,560)
Basic loss per share	**(0.003)**	(0.005)	(0.013)	(0.001)
Diluted income (loss) per share	**N/A**	N/A	N/A	N/A
Weighted average number of shares outstanding	**62,343,588**	53,309,950	47,484,733	30,979,950
Exploration and evaluation expenditures	**1,211,062**	386,002	2,086,507	-

	Jul. to Sep. 2013	Apr. to Jun. 2013	Jan. to Mar 2013	Oct. to Dec 2012
	$	$	$	$
Net loss for period	(37,717)	(11,697)	(23,047)	(31,869)
Basic loss per share	(0.001)	(0.000)	(0.003)	(0.007)
Diluted income (loss) per share	N/A	N/A	N/A	N/A
Weighted average number of shares outstanding	30,979,950	30,979,950	6,967,995	4,300,000
Exploration and evaluation expenditures	-	-	-	-

Subsequent Event
Subsequent to the year ended September 30, 2014, the Company amended the Amended and Restated Option Agreement. The most significant change to the Amended and Restated Option Agreement dated January 15, 2015 is the removal of the requirement for the Company to pay the cash payment of US$1.25 million and CAD$100,000 to Riverside if the Company wishes to proceed to earn a 51% interest in the Peñoles Project (the "Initial Option"). In addition, the Option exercise date has been extended to March 31, 2015.

Subject to fulfilling the conditions referred to below, the Company has the option to acquire a 51 percent (and up to 65 percent, as set out below) in the Peñoles Project. The Option exercise date is not later than March 31, 2015. The conditions for the exercise of the option are as follows:

- The Company shall make a payment of $750,000 to Riverside by March 31, 2015 (payable in cash or shares of the Company at the Company's election (provided that if the value of the Company's shares is less than $0.05 such payment must be made in cash);
- The Company shall incur Joint Venture Expenditures of $750,000 for each of the first three years (any amounts expended over $750,000 will be credited toward the following years expenditure requirements);
- Riverside shall have a credit of CAD$100,000 and US$1,250,000 against the first Joint Venture Expenditures incurred by the Joint Venture; and
- Should the Joint Venture fail to incur Joint Venture Expenditures of at least $750,000 in each of the first three years, Riverside will have to right to acquire 100% of the Company's Interest by returning to the Company 80% of the common shares issued by the Company to Riverside.

The revised Amended and Restated Option Agreement dated January 15, 2015 further provides that in order for the Company to earn an additional 14% interest in the Peñoles Project (bringing the Company's interest in the Peñoles Project to 65%) (the "Additional Option"), the Company must:

- Make a cash payment of $30,000 on or before the first anniversary date of the exercise of the initial option;
- Incur additional expenditures at the Peñoles Project of not less than $5 million, half of which are to be incurred within 12 months from the date of the exercise of the Initial Option (i.e. 51%) and half of which shall be incurred within 24 months from the date of the exercise of the Initial Option; and
- In the event the Company's shares are trading over $0.05, deliver to Riverside $750,000 in cash or shares at the Company's election, or if the Company's shares have a market value of less than $0.05 pay to Riverside the sum of $750,000 in cash..

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.

For the year ended September 30, 2014, an officer of the Company paid $880 (September 30, 2013 - $1,077) of general and administrative expenses on behalf of the Company.

For the year ended September 30, 2014, the Company paid certain directors of the Company $50,000 for geological and services.

The Company has no revenue producing activities. The Company has limited funds available to fund continuing drilling activities and exercising the Option Agreement.

There is no assurance that the Company can access additional capital and other sources of financing.

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 continuing operating losses and a negative cash flow in the future.

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

Critical Accounting Estimates

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.

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.

Recoverable amounts of long lived assets

At each reporting period, management assesses whether there are indicators of impairment of the Company's long lived assets. If an indication of impairment exists, long lived assets are tested for impairment. In order to determine if impairment exists and to measure the potential impairment charge, the carrying amounts of the Company's CGUs are compared to their recoverable amounts, which is the greater of fair value less costs to sell and value in use ("VIU"). An impairment charge is recognized to the extent the carrying amount exceeds the recoverable amount. VIU is calculated as the present value of the expected future cash flows specific to each CGU. In calculating VIU, significant judgment is required in making assumptions with respect to discount rates, the market outlook and future net cash flows associated with the CGU. Any changes in these assumptions will have an impact on the measurement of the recoverable amount and could result in adjustments to impairment charges already recorded.

Going concern

The Company has employed judgment that going concern was still an appropriate basis for the preparation of the consolidated financial statements. The Company believes that it will be able to raise the necessary financing to advance the Peñoles Project in the most efficient manner and believes it will be able to meet corporate expenditure requirements for the next year.

Significant Accounting Policies

Consolidation

The consolidated 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

Functional Currency

The Company and each of its entities determines the currency that is the most influential currency of the primary economic environment in which the entity operates ("Functional Currency"), and items included in the consolidated financial statements of each entity are measured using that Functional Currency.

Transactions and Balances

Foreign currency transactions are initially translated to the Functional Currency using the foreign currency rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated to the Functional Currency at the foreign currency rate of exchange prevailing at the period end date. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end of monetary assets and liabilities not denominated in the Functional Currency are recognized in the consolidated statement of operations. Non-monetary items that originate in a currency other than the Functional Currency are translated at the foreign currency rate of exchange prevailing on the date of the initial transaction.

Translation of Foreign Operations
For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated from their Functional Currency to Canadian dollars using the foreign currency rate of exchange prevailing at the period end date, and the results of operations are translated at the prevailing average monthly exchange rates. The resulting exchange differences are recognized initially in other comprehensive income and accumulated in the foreign currency translation reserve, a separate component of equity. On disposal or partial disposal of an entity with a functional currency other than Canadian dollars, any accumulated exchange differences in the foreign currency translation reserve are reclassified to the consolidated statement of operations. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, form part of the net investment in the foreign operation and are recognized initially in other comprehensive income and reclassified from equity to net income on repayment of the monetary item.

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

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

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

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

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

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

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.

Pre-exploration costs are expensed as incurred. The Company records exploration and evaluation asset interests, which consist of the right to explore for mineral deposits, at cost. The Company records deferred exploration costs, which consist of costs attributable to the exploration of exploration and evaluation asset interests, at cost. All direct and indirect costs relating to the acquisition and exploration of these exploration and evaluation asset interests are capitalized on the basis of specific claim blocks until the exploration and evaluation asset interests to which they relate are placed into production, disposed of through sale, or where management has determined there to be an impairment. If an exploration and evaluation asset interest is abandoned, the exploration and evaluation asset interests and deferred exploration costs will be written off to operations in the period of abandonment.
On an on-going basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject property. Management's determination for impairment is based on: 1) whether the Company's exploration programs have significantly changed, such that previously identified resource targets are no longer being pursued; 2) whether exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future; or 3) whether remaining lease terms are insufficient to conduct necessary studies or exploration work.

The recorded cost of exploration and evaluation asset interests is based on cash paid and the assigned value of share consideration issued (where shares are issued) for exploration and evaluation asset interest acquisitions and exploration costs incurred. The recorded amount may not reflect the recoverable value, as this will be dependent on future development programs, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

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 Long-Lived 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.

Equity instruments

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

Impairment

Financial assets

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

Income taxes

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

Deferred tax

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

Share based compensation plan

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

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

New standards and interpretations not yet adopted

New standards effective beginning on or after October 1, 2013:

Effective October 1, 2013, the Company adopted the below standards and there was no material impact on the financial statements:

(i) IFRS 10 - New standard to establish principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities.
(ii) IFRS 11 - New standard to account for the rights and obligations in accordance with a joint arrangement.
(iii) IFRS 12 - New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39.
(iv) IFRS 13 - New standard on the measurement and disclosure of fair value.
(v) IAS 27 – New standard to account for investments at cost or in accordance with IFRS 9 Financial Instruments.
(vi) IAS 28 - New standard issued that supercedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures.

Amendments to standards effective beginning on or after January 1, 2014:

In December 2013, the IASB issued amendments to seven standards under its Annual Improvements Project for 2010 2012. Amended standards include *IFRS 2 - Share based payment, IFRS 3 - Business combinations, IFRS 8 - Operating segments, IFRS 13 - Fair value measurement,* IAS 16 - *Property, plant and equipment,* IAS 24 - R*elated party disclosures,* and IAS 38 - *Intangible assets.* These amendments are effective for financial periods beginning on or after July 1, 2014. These amendments did not have a material impact on the Company's consolidated financial statements or its disclosures. In December 2013, the IASB also issued amendments to a number of standards under its Annual Improvements Project for 2011 2013. The following amendments are effective for financial periods beginning on or after January 1, 2014: *IAS 32 - Offsetting financial assets and financial liabilities*, *IFRS 10, IFRS 12 and IAS 27 - Investment entities*, *IAS 39 - Novation of derivatives and continuation of hedge accounting*, *IAS 36 - Recoverable amount disclosures for non financial assets.* In addition, the following amendments are effective for financial periods beginning on or after July 1, 2014: *IFRS 1 - First time adoption of IFRS, IFRS 3 - Business combinations, IFRS 13 - Fair value measurement, IAS 40 - Investment property,* and *IAS 19 - Defined benefit plans: Employee contributions*. These amendments did not have a material impact on the Company's consolidated financial statements or its disclosures.

IFRS 15 - *Revenue from contracts with customers* was issued by the IASB in May 2014, jointly with the U.S. Financial Accounting Standards Board, to provide a single revenue model to use in the recognition of revenue from contracts with customers. The new standard requires entities to recognize revenue in a manner that reflects the payments expected to be received by the entities in exchange for the provision of goods or services. It also provides improved guidance for recognition, measurement and disclosure of service revenue and multiple element arrangements. IFRS 15 is effective for financial periods beginning on or after January 1, 2017. The Company is evaluating the impact of this standard on its consolidated financial statements.

In addition, the IASB issued amendments to the following standards in May 2014: IFRS 11 - *Accounting for acquisitions of interests in joint operations,* IAS 16 - *Property, plant and equipment,* and IAS 38 - *Clarification of acceptable methods of depreciation and amortization* amendments. These amendments are effective for financial periods beginning on or after January 1, 2016. The Company is evaluating the impact of these amendments on its consolidated financial statements and they are not expected to have any material impact.

On July 24, 2014, the IASB issued IFRS 9 - *Financial instruments,* which is the final element of its comprehensive revision of reporting requirements for financial instruments. IFRS 9 includes a logical model for classification and measurement, a single, forward looking expected loss impairment model and a substantially reformed approach to hedge accounting. This standard will replace IAS 39 - *Financial Instruments : Recognition and measurement,* and is effective for financial periods beginning on or after January 1, 2018. The Company is evaluating the impact of IFRS 9 on its consolidated financial statements and it is not expected to have a material impact.

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 January 27, 2015.

Common shares, issued and outstanding	**63,445,233**
Stock options outstanding [(1)]	**3,800,000**
Warrants outstanding [(2)]	**11,300,847**

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 7,999,852 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.