



Condensed Consolidated Interim Financial Statements of

MORRO BAY RESOURCES LTD.
(Unaudited – prepared by management)

December 31, 2014

**NOTICE OF NO AUDIT OR REVIEW OF CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

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

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

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

MORRO BAY RESOURCES LTD.
(an exploration stage company)
Condensed Consolidated Interim Statements of Financial Position
(Unaudited, prepared by management - stated in Canadian dollars)

As at	December 31, 2014 \$	September 30, 2014 \$
ASSETS		
Current		
Cash and cash equivalents (Note 6)	294,559	533,748
Accounts receivable	163,987	161,005
Prepays	16,337	3,750
	<u>474,883</u>	<u>698,503</u>
Exploration and evaluation expenditures (Note 7)	3,720,797	3,668,087
Total assets	<u>4,195,680</u>	<u>4,366,590</u>
LIABILITIES		
Current		
Accounts payable and accruals	77,056	15,492
SHAREHOLDERS' EQUITY		
Equity instruments (Note 8)	5,427,086	5,427,086
Share based payment reserve	182,505	144,935
Foreign currency translation reserve	(120,525)	(25,258)
Deficit	(1,370,442)	(1,195,665)
Total equity	<u>4,118,624</u>	<u>4,351,098</u>
Total liabilities and equity	<u>4,195,680</u>	<u>4,366,590</u>

Signed "Keith Erickson"
Keith Erickson, Director

Signed "John Zang"
John Zang, Director

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

MORRO BAY RESOURCES LTD.
(an exploration stage company)
Condensed Consolidated Interim Statements of Operations
(Unaudited, prepared by management - stated in Canadian dollars)

	For the three months ended December 31, 2014 \$	For the three months ended December 31, 2013 \$
EXPENSES		
General and administrative	133,342	21,791
Depreciation	5,061	-
Stock-based compensation	37,570	11,544
	<u>175,973</u>	<u>33,335</u>
OTHER INCOME		
Interest income	1,196	4,775
	<u>1,196</u>	<u>4,775</u>
NET LOSS FOR THE YEAR	(174,777)	(28,560)
DEFICIT, BEGINNING OF YEAR	(1,195,665)	(115,895)
DEFICIT, END OF YEAR	<u>(1,370,442)</u>	<u>(144,455)</u>
LOSS PER SHARE (Note 8)		
Basic and diluted	<u>(0.003)</u>	<u>(0.001)</u>

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MORRO BAY RESOURCES LTD.
(an exploration stage company)
Condensed Consolidated Interim Statements of Comprehensive Loss
(Unaudited, prepared by management - stated in Canadian dollars)

	For the three months ended December 31, 2014 \$	For the three months ended December 31, 2013 \$
NET LOSS FOR THE YEAR	(174,777)	(28,560)
Other comprehensive loss		
Foreign currency translation adjustment	(95,267)	-
COMPREHENSIVE LOSS FOR THE YEAR	(270,044)	(28,560)

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

MORRO BAY RESOURCES LTD.
(an exploration stage company)
Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited, prepared by management - stated in Canadian dollars)

	Equity instruments \$	Share based payment reserve \$	Foreign currency translation reserve	Deficit \$	Total shareholders' equity \$
Balance at September 30, 2013	2,583,131	24,091	-	(115,895)	2,491,327
Total comprehensive loss for the period					
Net loss for the year	-	-	-	(28,560)	(28,560)
Transactions with owners, recorded directly in equity					
Stock-based compensation	-	11,544	-	-	11,544
Balance at December 31, 2013	2,583,131	35,635	-	(144,455)	2,474,311
Total comprehensive loss for the period					
Net loss for the year	-	-	-	(1,051,210)	(1,051,210)
Foreign currency 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	-	109,300	-	-	109,300
Balance at September 30, 2014	5,427,086	144,935	(25,258)	(1,195,665)	4,351,098
Total comprehensive loss for the period					
Net loss for the period	-	-	-	(174,777)	(174,777)
Foreign currency translation adjustment	-	-	(95,267)	-	(95,267)
Transactions with owners, recorded directly in equity					
Issuance of common shares, net of share issuance costs	-	-	-	-	-
Issuance of warrants	-	-	-	-	-
Stock-based compensation	-	37,570	-	-	37,570
Balance at December 31, 2014	5,427,086	182,505	(120,525)	(1,370,442)	4,118,624

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

MORRO BAY RESOURCES LTD.
(an exploration stage company)
Condensed Consolidated Interim Statements of Cash Flow
(Unaudited, prepared by management - stated in Canadian dollars)

	For the three months ended December 31, 2014 \$	For the three months ended December 31, 2013 \$
CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss for the year	(174,777)	(28,560)
Adjustment for:		
Depreciation	5,061	-
Stock-based compensation	37,570	11,544
	<u>(132,146)</u>	<u>(17,016)</u>
Changes in non-cash working capital		
Accounts receivable and accruals	(10,356)	(33,303)
Prepaid expenses	(12,587)	-
Accounts payable and accruals	54,015	86,497
	<u>(101,074)</u>	<u>36,178</u>
INVESTING		
Payment of deferred acquisition expenditures	-	(136,667)
Exploration and evaluation expenditures	(136,864)	-
	<u>(136,864)</u>	<u>(136,667)</u>
FINANCING		
Payment of deferred financing fee	-	(42,500)
Foreign exchange loss on cash held foreign currency	(1,251)	-
	<u>(1,251)</u>	<u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(239,189)	(142,989)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>533,748</u>	<u>2,509,271</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>294,559</u>	<u>2,366,282</u>

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

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

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 condensed consolidated interim 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 February 26, 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:

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended September 30, 2014, prepared in accordance with IFRS applicable to these annual financial statements.

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.

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.

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

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

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.

5. SEGMENT DISCLOSURES

The Company operates in two geographic segments which are Canada and Mexico. The amounts relating to each segment are as follows:

December 31, 2014	Canada	Mexico	TOTAL
	\$	\$	\$
Current assets	316,848	158,035	474,883
Non-current assets	2,314,967	1,405,830	3,720,797
Segment loss	(169,631)	(5,146)	(174,777)

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 loss	(1,079,250)	(520)	(1,079,770)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	December 31, 2014	September 30, 2014
Cash on hand	294,559	533,748

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

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.

The Amended and Restated Option Agreement provides 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). 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. To date, 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 had 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 the later of November 30, 2014 and the date which was 75 days after the completion of the Additional Work Program (discussed below), and in any event not later than December 31, 2014 (the "Option Exercise Date"). The Company has the option to earn a 51% interest in the Peñoles Project with an additional option to earn up to a 65% interest.

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

7. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

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 had 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 was held in escrow until December 31, 2014. As a result of having made the Advance Payment, the consideration payable by the Company on exercise of the option is now reduced by \$750,000 such that the Company's obligations on exercise of the option are follows (the Company is not obligated to exercise the Option):

- 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).

	<u>Exploration and evaluation assets</u> \$
Cost	
As at September 30, 2014	3,683,570
Exploration and evaluation expenses incurred	136,864
Effect of exchange rate differences	(80,185)
As at December 31, 2014	<u>3,740,249</u>
Accumulated depreciation and impairment	
As at September 30, 2014	15,483
Accumulated depreciation	5,061
Effect of exchange rate differences	(1,092)
As at December 31, 2014	<u>19,452</u>
Net book value as at December 31, 2014	<u>3,720,797</u>

The impairment assessment performed on 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.

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

8. EQUITY INSTRUMENTS

Authorized

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

Issued

	<u>Shares</u>	<u>Amount \$</u>
Common shares		
Balance at September 30, 2014	63,445,233	5,134,747
No transactions	-	-
Balance at December 31, 2014	<u>63,445,233</u>	<u>5,134,747</u>
Agents' options and warrants		
Balance at September 30, 2014	11,300,847	292,339
No transactions	-	-
Balance at December 31, 2014	<u>11,300,847</u>	<u>292,339</u>
Total equity instruments, December 31, 2014		<u>5,427,086</u>
Total equity instruments, September 30, 2014		<u><u>5,427,086</u></u>

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 \$35,575 was recorded during the period ended December 31, 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.

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

8. EQUITY INSTRUMENTS (Continued)

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, 2014	3,800,000	0.100	0.100	
No transactions	-	-	-	
Options outstanding, December 31, 2014	3,800,000	0.100	0.100	

The following table summarizes information about the stock options outstanding as at December 31, 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	3.22 years	333,333	0.10
2,800,000	0.10	0.10	4.06 years	-	-
3,800,000		0.10	3.85 years	333,333	0.10

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, 2014	11,300,847	0.14	0.14	
No transactions	-	-	-	
Agent's options and warrants, Outstanding December 31, 2014	11,300,847	0.14	0.14	

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

8. EQUITY INSTRUMENTS (Continued)

The following table summarizes information about the agents' options outstanding at December 31, 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	0.22 years	2,667,995	0.10
633,000	0.10	0.10	1.06 years	633,000	0.10
7,999,852	0.15 - 0.25	0.15 - 0.25	0.06 years	7,999,852	0.15 - 0.25
11,300,847	0.14	0.14	0.15 years	11,300,847	0.14

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

	For the 3 months ended December 31, 2014	For the 3 months ended December 31, 2013
Weighted average common shares outstanding - basic and diluted	63,445,233	30,979,950

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, 3,800,000 options and 11,300,847 agents' options and warrants have been excluded from the diluted weighted average common shares.

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

9. CAPITAL MANAGEMENT

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

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

The Company's objectives when managing capital are:

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

The Company is not subject to any externally or internally imposed capital requirements at the period end. In order to exercise the option on the Peñoles Project, the Company 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.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Liquidity Risk

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

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

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

Credit Risk

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

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

10. 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			December 31,
	Level 1	Level 2	Level 3	2014
	\$	\$	\$	\$
Cash and cash equivalents	294,559	-	-	294,559
Accounts receivable	163,987	-	-	163,987
	458,546	-	-	458,546

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

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

11. 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 period ended December 31, 2014, an officer of the Company paid \$1,840 (December 31, 2013 - \$109) of general and administrative expenses on behalf of the Company.

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:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
	<u>\$</u>	<u>\$</u>
Short-term employee benefits	<u>60,000</u>	<u>-</u>

12. SUBSEQUENT EVENT

On January 15, 2015, the Company amended the Option Agreement. The most significant change to the Option Agreement 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 in order for the Company 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 the 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.

MORRO BAY RESOURCES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the period ended December 31, 2014
(Unaudited, prepared by management - stated in Canadian dollars)

12. SUBSEQUENT EVENT (Continued)

The Amended Peñoles Option Agreement 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 February 26, 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 and the unaudited condensed consolidated interim financial statements for the 3 months ended December 31, 2014, of Morro Bay Resource Ltd. (the "Company"). This MD&A covers the 3 months ended December 31, 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. ("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. (formerly Morro Bay Capital 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 15, 2015, the Company amended the Option Agreement. The most significant change to the Option Agreement 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 in order for the Company 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 the 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 Amended Peñoles Option Agreement 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.

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 December 31, 2014	For the 3 months ended December 31, 2013
Net loss	\$ (174,777)	\$ (28,560)
Total assets	\$ 4,195,680	\$ 2,578,753
Common shares issued	63,445,233	30,979,950
Weighted average shares outstanding		
Basic	63,445,233	30,979,950
Diluted	63,445,233	30,979,950

Fluctuations in Results

Three months ended December 31, 2014 vs. three months ended December 31, 2013

For the three months ended December 31, 2014, the Company expended \$133,342 on general and administrative costs, respectively, compared to \$21,791 the comparative three months ended December 31, 2013. The majority of the increase was related to salaries, audit fees, investor relations fees for the operations of the Company, as compared to the prior period in which the Company had no active business operations.

Exploration and evaluation expenditures

During the three months December 31, 2014, the Company spent \$136,864, on exploration and evaluation expenditures. These amounts relate to the \$500,000 drilling program at the Peñoles Project, in Durango, Mexico.

Penoles Project	For the 3 months	
	ended December	12 months ended
	31, 2014	September 30, 2014
	\$	\$
Acquisition Costs	-	2,260,910
	-	2,260,910
Exploration and evaluation expenditures		
Equipment	-	206,439
Concession fees and taxes	-	110,973
Licencing and liason	-	33,208
Legal consultants	-	2,500
Assay	-	-
Drilling	89,422	797,620
Geological consultants	16,946	164,442
Resource report	20,000	29,320
Equipment rentals	-	23,495
Fuel and chemicals	-	417
Office and administrative	10,497	27,815
Community reations & water use	-	26,431
	136,864	1,422,660
TOTAL	136,864	3,683,570

Liquidity and Capital Resources

As at December 31, 2014, the Company had a deficit of \$1,370,442 (September 30, 2014 - \$1,119,665). The Company had working capital surplus of \$397,827 at December 31, 2014 (September 30, 2014 - \$683,011). The continuation of the Company is dependent upon the continued financial support of shareholders, its ability to raise capital through the issuance of its securities, as well as obtaining long-term financing. As at December 31, 2014, the Company had cash and cash equivalents of \$294,559 (September 30, 2014 - \$533,748).

Quarterly Summary

	Oct. to Dec. 2014	Jul. to Sep. 2014	Apr. to Jun. 2014	Jan. to Mar 2014
	\$	\$	\$	\$
Net loss for period	(174,777)	(187,168)	(244,577)	(619,465)
Basic loss per share	(0.003)	(0.003)	(0.005)	(0.013)
Diluted income (loss) per share	N/A	N/A	N/A	N/A
Weighted average number of shares outstanding	62,445,233	62,343,588	53,309,950	47,484,733
Exploration and evaluation expenditures	136,864	1,211,062	386,002	2,086,507
	Oct. to Dec 2013	Jul. to Sep. 2013	Apr. to Jun. 2013	Jan. to Mar 2013
	\$	\$	\$	\$
Net loss for period	(28,560)	(37,717)	(11,697)	(23,047)
Basic loss per share	(0.001)	(0.001)	(0.000)	(0.003)
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	30,979,950	6,967,995
Exploration and evaluation expenditures	-	-	-	-

Related Party Transactions

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 period ended December 31, 2014, an officer of the Company paid \$1,840 (December 31, 2013 - \$109) of general and administrative expenses on behalf of the Company.

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.

Controls and Procedures

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

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

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

Share Capital Data

The following table sets forth the Company's share capital data as at February 26, 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 2,800,000 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.