



**CAZA GOLD CORP.**

**Consolidated Financial Statements**

**(stated in Canadian dollars)**

**Years ended December 31, 2013 and 2012**

**INDEPENDENT AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF CAZA GOLD CORP.**

We have audited the accompanying consolidated financial statements of Caza Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows 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.

*Auditors' 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 auditors' judgement, 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 financial position of Caza Gold Corp. as at December 31, 2013 and 2012, 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 describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

*"SmytheRatcliffe LLP" (signed)*

Chartered Accountants  
Vancouver, British Columbia  
April 24, 2014

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# CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Stated in Canadian dollars)

		December 31,	
	Notes	2013	2012
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 1,585,758	\$ 448,262
Receivables and prepaids	10(b)(iii)	77,955	174,232
Derivative asset	6	74,639	-
Total Current Assets		1,738,352	622,494
<b>Non-Current Assets</b>			
Mineral property interests	7 and 11	5,165,664	6,682,166
Equipment	8	8,682	42,174
Total Non-Current Assets		5,174,346	6,724,340
Total Assets		\$ 6,912,698	\$ 7,346,834
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	11	\$ 1,026,967	\$ 563,779
Demand loan payable	9(a)	204,603	-
Convertible promissory notes payable	9(b)	118,203	-
Total Liabilities		1,349,773	563,779
<b>Shareholders' Equity</b>			
Share capital	10(b)	17,773,987	15,533,320
Reserve for share-based payments		1,223,041	1,205,444
Deficit		(13,434,103)	(9,955,709)
Total Shareholders' Equity		5,562,925	6,783,055
Total Liabilities and Shareholders' Equity		\$ 6,912,698	\$ 7,346,834

Refer to the accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

/s/ Greg Myers

Director

/s/ James Defer

Director

# CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Comprehensive Loss

(Stated in Canadian dollars)

	Notes	Years ended December 31,	
		2013	2012
<b>Expenses:</b>			
Accounting and audit		\$ 35,328	\$ 57,715
Amortization		9,343	17,833
Employee and director remuneration	11	468,903	468,163
Legal	11	23,910	65,011
Office and sundry	11	123,308	251,191
Property investigation	11 and 12	342,439	760,782
Regulatory		87,263	95,396
Shareholder relations		67,050	197,191
Share-based payments	10(c) and 11	50,301	343,057
<b>Loss before the undernoted</b>		<b>(1,207,845)</b>	<b>(2,256,339)</b>
Foreign exchange loss		(37,867)	(52,970)
Interest income		581	11,179
Interest and finance charges	9	(19,130)	-
Unrealized gain on derivative asset	6	74,639	-
Write-off of receivables and value-added tax	11	(35,951)	(69,267)
Gain from disposition of equipment		5,551	-
Write-off of mineral property interests	7(a)	(2,291,076)	(1,065)
<b>Net loss and comprehensive loss for the year</b>		<b>\$ (3,511,098)</b>	<b>\$ (2,368,462)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.17)</b>	<b>\$ (0.13)</b>
<b>Weighted average number of common shares outstanding</b>		<b>20,853,869</b>	<b>18,883,479</b>

Refer to the accompanying notes to the consolidated financial statements.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Shareholders' Equity

(Stated in Canadian dollars)

	Notes	Share Capital		Reserve for Share-Based Payments	Obligation to Issue Shares	Deficit	Total
		Number of Shares	Amount				
Balance, December 31, 2011	10(b)(ii)	18,676,444	\$ 15,129,181	\$ 975,250	\$ 151,596	\$ (7,700,110)	\$ 8,555,917
Private placement, net of share issue costs	10(b)(iii)	761,667	212,536	-	-	-	212,536
Property acquisition	7(b)	388,361	191,603	-	(151,596)	-	40,007
Share-based payments		-	-	343,057	-	-	343,057
Expiry of stock options		-	-	(35,452)	-	35,452	-
Expiry of finders fee warrants		-	-	(77,411)	-	77,411	-
Net loss for the year		-	-	-	-	(2,368,462)	(2,368,462)
Balance, December 31, 2012		19,826,472	15,533,320	1,205,444	-	(9,955,709)	6,783,055
Private placement, net of share issue costs	10(b)(ii)	20,833,333	2,240,667	-	-	-	2,240,667
Share-based payments		-	-	50,301	-	-	50,301
Expiry of stock options		-	-	(32,704)	-	32,704	-
Net loss for the year		-	-	-	-	(3,511,098)	(3,511,098)
Balance, December 31, 2013		40,659,805	\$ 17,773,987	\$ 1,223,041	\$ -	\$ (13,434,103)	\$ 5,562,925

Refer to the accompanying notes to the consolidated financial statements.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

(Stated in Canadian dollars)

	Years ended December 31,	
	2013	2012
<b>Cash provided from (used by):</b>		
<b>Operations:</b>		
Loss for the year	\$ (3,511,098)	\$ (2,368,462)
Items not involving cash:		
Accrued interest	13,082	-
Amortization	9,343	17,833
Foreign exchange gain	(1,863)	(10,945)
Share-based payments	50,301	343,057
Unrealized gain on derivative asset	(74,639)	-
Gain from disposition of equipment	(5,551)	-
Write-off of receivables and value-added tax	35,951	69,267
Write-off of mineral property interests	2,291,076	-
	<b>(1,193,398)</b>	<b>(1,949,250)</b>
Changes in non-cash working capital items:		
Receivables and prepaids	35,326	91,448
Accounts payable and accrued liabilities	640,697	67,854
Cash used by operating activities	<b>(517,375)</b>	<b>(1,789,948)</b>
<b>Financing:</b>		
Proceeds from demand loan	200,000	-
Proceeds from convertible promissory notes, net of financing charges	109,724	-
Issuance of common shares, net of share issue costs	2,265,667	187,536
Cash provided from financing activities	<b>2,575,391</b>	<b>187,536</b>
<b>Investing:</b>		
Mineral property interests, net of recoveries	(952,083)	(2,703,057)
Acquisition of equipment	-	(5,028)
Proceeds from disposition of equipment	29,700	-
Cash used by investing activities	<b>(922,383)</b>	<b>(2,708,085)</b>
<b>Foreign exchange gain on cash held in foreign currency</b>	<b>1,863</b>	<b>10,945</b>
<b>Increase (decrease) in cash</b>	<b>1,137,496</b>	<b>(4,299,552)</b>
Cash, beginning of year	448,262	4,747,814
<b>Cash, end of year</b>	<b>\$ 1,585,758</b>	<b>\$ 448,262</b>

Refer to the accompanying notes to the consolidated financial statements.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

(Stated in Canadian dollars)

		Years ended December 31,	
	Notes	2013	2012
<b>Non-cash financing and investing activities:</b>			
Accrual for mineral property interests		\$ 202,488	\$ 379,997
Issuance of common shares for mineral property interests	7(b), 10(b)(iii)	-	40,007
Delivery against payment for private placement	10(b)(iii)	25,000	-
Obligation to issue common shares for mineral property interests	7(b), 10(b)(iii)	-	(151,596)
Fair values from the expiration of:			
Stock options		32,704	35,452
Finder's fee warrants		-	77,411
Interest paid		6,049	-
Income taxes paid		-	-

Refer to the accompanying notes to the consolidated financial statements.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 1. Nature of Operations and Going Concern

Caza Gold Corp. (the “Company”) was incorporated on November 15, 2007 under the laws of British Columbia, Canada. The address of the Company’s registered office is #1040 – 999 West Hastings Street, Vancouver, BC, Canada, V6C 2W2.

The Company is in the mineral exploration business and has not yet determined whether its properties contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the ability of the Company to arrange appropriate financing as needed, the discovery of reserves, the development of its properties, confirmation and maintenance of the Company’s interest in the underlying properties, the receipt of necessary permitting and upon future profitable production or proceeds from the disposition thereof.

The Company has no operating revenues, has incurred significant net losses of approximately \$3.5 million (2012 - \$2.4 million), and has a deficit of approximately \$13.4 million as at December 31, 2013 (December 31, 2012 - \$10.0 million). Furthermore, the Company has working capital of approximately \$388,600 as at December 31, 2013 (December 31, 2012 - \$58,700). These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent on the ability of the Company to raise debt or equity financings, and the attainment of profitable operations. Management would need to raise the necessary capital to meet its planned business objectives. There can be no assurance that management’s plans will be successful. These matters indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

## 2. Basis of Presentation

### (a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

### (b) Approval of consolidated financial statements:

These consolidated financial statements were approved by the Company’s Board of Directors on April 24, 2014.

### (c) Basis of presentation:

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments which are measured at fair value, as disclosed in Note 5.



# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 2. Basis of Presentation (continued)

### (d) Functional currency and presentation currency:

The functional and presentation currency of the Company is the Canadian dollar. Amounts recorded in a foreign currency are translated into Canadian dollars as follows:

- monetary assets and liabilities at the exchange rate at the consolidated statement of financial position date;
- non-monetary assets and liabilities at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect on the consolidated statement of financial position date; and
- revenue and expense items at the rate of exchange in effect on the transaction date.

Exchange gains and losses are recorded in the consolidated statements of comprehensive loss in the period in which they occur.

### (e) Critical accounting estimates:

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements along with the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates and, as such, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests; the determination of accrued liabilities; accrued site remediation; the variables used in the determination of the fair values of derivative assets, stock options granted, finders' fee warrants issued and warrants modified; and the recoverability of deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future financial performance and cash flows.

The Company applies judgment in assessing the functional currency of each entity consolidated in these consolidated financial statements.

The Company applies judgment in assessing whether material uncertainties exist that would cast significant doubt as to whether the Company could continue as a going concern.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 2. Basis of Presentation (continued)

### (f) New accounting standards and recent pronouncements:

The Company has reviewed new and amended accounting pronouncements that have been issued by the IASB but are not yet effective. All of the new and revised standards described below may be early adopted.

#### (i) IFRS 9 *Financial Instruments* (2011) (“IFRS 9”)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances);
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss; and
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss.

The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

#### (ii) IFRS 9 *Financial Instruments* (2010) (“IFRS 9”)

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 2. Basis of Presentation (continued)

### (f) New accounting standards and recent pronouncements: (continued)

#### (iii) IFRS 9 *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* (2013) (“IFRS 9”)

A revised version of IFRS 9 which:

- introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures;
- permits an entity to apply only the requirements introduced in IFRS 9 (2010) for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within profit or loss; and
- removes the mandatory effective date of IFRS 9 (2010) and IFRS 9 (2009), leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. Notwithstanding the removal of an effective date, each standard remains available for application.

This standard has no stated effective date.

#### (iv) IFRIC 21 *Levies* (“IFRIC 21”)

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognized progressively if the obligating event occurs over a period of time; and
- If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

IFRIC 12 applies to annual periods beginning on January 1, 2014.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 2. Basis of Presentation (continued)

### (f) New accounting standards and recent pronouncements: (continued)

#### (v) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amendments to IAS 32 *Financial Instruments: Presentation* clarify certain aspects because of diversity in application of the requirements on offsetting and focus on four main areas:

- the meaning of “currently has a legally enforceable right of set-off”,
- the application of simultaneous realization and settlement,
- the offsetting of collateral amounts, and
- the unit of account for applying the offsetting requirements.

Amendments to IAS 32 are applicable to annual periods beginning on January 1, 2014.

#### (vi) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amendments to IAS 36 *Impairment of Assets* are to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, to clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The amendments are applicable to annual periods beginning on January 1, 2014.

#### (vii) Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* are to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 2. Basis of Presentation (continued)

### (f) New accounting standards and recent pronouncements: (continued)

#### (viii) Annual Improvements 2010-2012 Cycle

These annual improvements make amendments to the following standards:

- IFRS 2 — Amends the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”;
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date;
- IFRS 8 — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly;
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only);
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount; and
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed

These amendments are applicable to annual periods beginning on or after July 1, 2014.

#### (ix) Annual Improvements 2011-2013 Cycle

These annual improvements make amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

These amendments are applicable to annual periods beginning on or after July 1, 2014.

The Company has not yet assessed the impact of these standards and amendments or determined whether it will early-adopt them.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### (a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Minera Caza S.A. de C.V. (“Minera Caza”), Minera Canarc de Mexico S.A. de C.V. (“Minera Canarc”) and Nicaza S.A. (“Nicaza”).

All significant intercompany transactions and balances have been eliminated.

### (b) Financial instruments:

#### (i) Financial assets:

The Company classifies its financial assets in the following categories: fair value through profit or loss (“FVTPL”), loans and receivables, held-to-maturity (“HTM”) and available-for-sale (“AFS”). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

#### *Financial assets at FVTPL*

Financial assets at FVTPL include a derivative financial asset, and are initially recognized at fair value with changes in fair value recorded through profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity dates. Loans and receivables are carried at amortized cost less any impairment.

#### *Held to maturity*

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company’s management has the positive intention and ability to hold to maturity. HTM investments are initially recognized on their trade-date at fair value, and subsequently measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 3. Significant Accounting Policies (continued)

### (b) Financial instruments: (continued)

#### (i) Financial assets: (continued)

##### *Available-for-sale financial assets*

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity. AFS financial assets include investments in equities of other entities.

Management assesses the carrying value of AFS financial assets at each reporting date and any impairment charges are recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss.

#### (ii) Financial liabilities:

The Company classifies its financial liabilities in the following categories: FVTPL, other financial liabilities, and derivative financial liabilities.

##### *Financial liabilities at FVTPL*

Financial liabilities at FVTPL include derivative financial liabilities, and are initially recognized at fair value with changes in fair value recorded through profit or loss. The Company has no financial liabilities at FVTPL.

##### *Other financial liabilities*

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

##### *Derivatives*

Derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss. Derivatives include warrants denominated in a currency other than the Company's functional currency.

# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 3. Significant Accounting Policies (continued)

### (b) Financial instruments: (continued)

#### (iii) Fair value hierarchy:

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

#### (iv) Impairment of financial assets:

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An evaluation is made as to whether a decline in fair value is “significant” or “prolonged” based on indicators such as significant adverse changes in the market, economic or legal environment.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

#### (v) Derecognition of financial assets and liabilities:

Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized in profit or loss.

### (c) Mineral property interests:

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition or staking costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company’s mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company’s assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.



# CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 3. Significant Accounting Policies (continued)

### (c) Mineral property interests: (continued)

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the property interests are abandoned or the claims are allowed to lapse.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of a property option agreement. As the property options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable in the future are not recorded. Property option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to profit or loss.

### (d) Equipment:

Equipment is recorded at cost. The Company calculates amortization using the declining balance method at rates varying from 10% to 30% annually.

### (e) Convertible instruments:

The proceeds received on the issuance of the Company's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortized cost until extinguished on conversion or maturity of the debt. The remainder of the proceeds is allocated to the conversion option and is recognised in the "Convertible debt option reserve" within shareholders' equity.

If the convertible debt has a conversion feature that permits only the Company to demand conversion, then there is no equity component, and instead a derivative asset is recognized and measured at fair value. The allocation between the debt and derivative asset component is performed on a relative fair value basis. The derivative asset is subsequently measured at fair value with changes in fair value recognized in profit and loss.

### (f) Proceeds on unit offerings:

Proceeds received on the issuance of units, consisting of common shares and warrants, are first allocated to the fair value of the common shares with any residual value then allocated to warrants.

### (g) Non-monetary transactions:

Common shares issued for consideration other than cash are valued at their fair value at the date of issuance.

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## 3. Significant Accounting Policies (continued)

### (h) Share-based payments:

The Company has a stock option plan that is described in Note 10(c). Share-based payments to employees are measured on the grant date using the Black-Scholes option pricing model and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to the reserve for share-based payments. Consideration received on the exercise of stock options is recorded as share capital and the related reserve for share-based payments is transferred to share capital. Upon expiry, the recorded fair value is transferred from the reserve for share-based payments to deficit.

### (i) Environmental rehabilitation:

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral property interests and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred. The cost of ongoing current programs to prevent and control pollution is charged against profit and loss as incurred.

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## 3. Significant Accounting Policies (continued)

### (j) Loss per share:

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. The treasury stock method is used to calculate diluted loss per common share amounts. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of the diluted per common share amount assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per common share presented is the same as basic loss per common share as the effect of outstanding share options and warrants would be anti-dilutive.

### (k) Provisions:

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

### (l) Income taxes:

The Company follows the asset and liability method for accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that recovery is considered probable.

## 4. Management of Capital

The Company is an exploration stage company and its activities involve a high degree of risk. The Company has not yet determined whether its mineral properties contain reserves and currently has not earned any revenues from its mineral property interests and does not generate cash flows from operations. The Company's primary sources of funds are from debt capital and the issuance of share capital.

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## 4. Management of Capital (continued)

The Company defines its capital as debt and share capital. Capital requirements are driven by the Company's exploration activities on its mineral property interests. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses on all exploration projects and overhead to manage its costs, commitments and exploration activities.

The Company has in the past invested its capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Management reviews the capital availability and needs on a regular basis to ensure the above-noted objectives are met. There have been no changes to the Company's approach to capital management during the period.

Although the Company has raised funds in the past from the issuance of debt instruments and share capital, it is uncertain whether it would be able to continue this financing in the future. The Company will continue to rely on debt and equity financings to meet its commitments as they become due, to continue exploration work on its mineral property interests, and to meet its administrative overhead costs for the coming periods.

As at December 31, 2013, the Company was not subject to any externally imposed capital requirements.

## 5. Financial Instruments and Management of Financial Risk

The Company has classified its cash and derivative asset component of convertible debt as FVTPL; receivables and derivative asset component of convertible debt as loans and receivables; and accounts payable and accrued liabilities, demand loan payable and convertible promissory notes payable as other financial liabilities.

The fair values of the Company's receivables, accounts payable and accrued liabilities, demand loan payable and convertible promissory notes payable approximate their carrying values due to the short terms to maturity. Cash is measured at fair value using Level 1 inputs. The derivative asset component of the Company's convertible promissory notes is measured using Level 3 inputs.

The Company is exposed in varying degrees to a variety of financial instrument related risks, including credit risk, liquidity risk, and market risk which includes foreign currency risk, interest rate risk and other price risk. The types of risk exposure and the way in which such exposure is managed are as follows.

### (a) Credit risk:

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions. Non-contractual taxes receivables from government agencies are not considered financial instruments.

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## 5. Financial Instruments and Management of Financial Risk (continued)

### (b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. The Company will require significant additional funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2014.

The following schedule provides the contractual obligations related to the demand loan payable (Note 9(a)) and convertible promissory notes payable (Note 9(b)) as at December 31, 2013:

	Payments due by Period (CAD\$)					Payments due by Period (US\$)				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Demand loan:										
Principal	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest <sup>(1)</sup>	30,050	24,000	6,050	-	-	-	-	-	-	-
Convertible promissory notes <sup>(2)</sup> :										
Principal	95,000	-	95,000	-	-	25,000	-	25,000	-	-
Interest <sup>(2)</sup>	17,150	11,400	5,750	-	-	4,510	3,000	1,510	-	-
<b>Total</b>	<b>\$ 342,200</b>	<b>\$ 35,400</b>	<b>\$ 306,800</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 29,510</b>	<b>\$ 3,000</b>	<b>\$ 26,510</b>	<b>\$ -</b>	<b>\$ -</b>

<sup>(1)</sup> Interests of \$6,050 and \$5,920 were paid in January 2014 and April 2014, respectively.

<sup>(2)</sup> In February 2014, interests of \$7,420 were paid. In March 2014 the Company converted the principal of the promissory notes into 800,000 units and paid interests of \$1,290.

Accounts payable and accrued liabilities are due in less than 90 days.

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## 5. Financial Instruments and Management of Financial Risk (continued)

### (c) Market risk:

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

#### (i) Foreign currency risk:

The Company's mineral property interests are in Nicaragua and previously in Mexico, and a portion of its operations were in Mexico, resulting in expenditures subject to foreign currency fluctuations. Fluctuations in the Mexican peso would impact the losses of the Company and the values of its assets and liabilities as the Company's functional and presentation currency is the Canadian dollar. The Canadian dollar fluctuates and floats with the Mexican peso.

At December 31, 2013, the Company was exposed to currency risk for its Canadian dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Held in Mexican Pesos (stated in Canadian dollars)
Cash	\$ 2,104
Receivables and prepaids	43,593
Accounts payable and accrued liabilities	<u>(486,237)</u>
Net financial assets (liabilities)	<u>\$ (440,540)</u>

Based upon the above net exposure as at December 31, 2013 and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar relative to the Mexican peso could result in a decrease/increase of approximately \$44,100 in the Company's net losses.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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## 5. Financial Instruments and Management of Financial Risk (continued)

### (c) Market risk: (continued)

#### (ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents.

At December 31, 2013, the Company had an investment of \$204,700 in guaranteed investment certificates which bear interests at discounts of 1.85% and 1.90% from the prime rate of 3% and which are redeemable at any time.

#### (iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company does not have any financial instruments which fluctuate with market prices, except for derivative asset which is recognized when the market price of the Company's common shares is less than the conversion price of the convertible promissory notes (Note 6).

## 6. Derivative Asset

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Balance, December 31, 2012	\$	-
Add: Unrealized gain from derivative asset		74,639
Balance, December 31, 2013	\$	74,639

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The Company recognized a derivative asset and liability from the convertible promissory notes given the convertible promissory notes were convertible at the sole option of the Company (Note 9(b)). The market price of the common share was \$0.10 as at December 31, 2013 which is less than the conversion price of \$0.15 (post 3-to-1 share consolidation), resulting in the recognition of a derivative asset. The fair value of the derivative asset was reduced by the liability attributable to the fair value of the warrants in the underlying units.

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## 7. Mineral Property Interests

	Year ended December 31, 2013								Total
	Mexico					Nicaragua			
	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes	Other		
<b>Acquisition Costs:</b>									
Balance, December 31, 2012	\$ 103,428	\$ 29,977	\$ 111,204	\$ 59,685	\$ 52,058	\$ 753,723	\$ -	\$ -	\$ 1,110,075
Option payment	-	-	-	30,853	-	317,850	-	-	348,703
Write-off	(103,428)	(29,977)	(111,204)	(90,538)	(52,058)	-	-	-	(387,205)
Balance, December 31, 2013	-	-	-	-	-	1,071,573	-	-	1,071,573
<b>Deferred Exploration Expenditures:</b>									
Balance, December 31, 2012	1,688,631	15,912	3,916	32,633	18,535	3,774,905	37,559	-	5,572,091
Advances	-	-	-	-	-	4,935	-	-	4,935
Aerial photos and mapping	-	-	-	485	-	-	-	-	485
Assays and surveys	-	-	-	-	-	430	975	-	1,405
Camp and field supplies	-	-	-	-	-	7,285	-	-	7,285
Community and social	-	-	-	-	-	2,706	-	-	2,706
Drilling	-	-	-	-	-	(44,771)	-	-	(44,771)
Equipment and systems	-	-	-	-	-	2,449	-	-	2,449
Environmental	-	-	-	-	-	13,093	-	-	13,093
Geology	-	-	-	-	-	(17,378)	-	-	(17,378)
Salaries and remuneration	35,431	-	-	-	-	198,050	-	-	233,481
Sundry	2,571	-	-	-	-	42,023	-	-	44,594
Surface taxes	89,440	-	705	10,819	3,241	43,175	10,146	-	157,526
Transportation and travel	1,552	-	-	-	-	18,509	-	-	20,061
Write-off	(1,817,625)	(15,912)	(4,621)	(43,937)	(21,776)	-	-	-	(1,903,871)
Balance, December 31, 2013	-	-	-	-	-	4,045,411	48,680	-	4,094,091
<b>Mineral Property Interests:</b>									
December 31, 2013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,116,984	\$ 48,680	\$ -	\$ 5,165,664



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## 7. Mineral Property Interests (continued)

	Year ended December 31, 2012								
	Mexico					Nicaragua			Total
	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes	Other		
<b>Acquisition Costs:</b>									
Balance, December 31, 2011	\$ 103,428	\$ 29,977	\$ 81,033	\$ 30,946	\$ 52,058	\$ 589,998	\$ -	\$ -	\$ 887,440
Option payment	-	-	30,171	28,739	-	163,725	-	-	222,635
Balance, December 31, 2012	103,428	29,977	111,204	59,685	52,058	753,723	-	-	1,110,075
<b>Deferred Exploration Expenditures:</b>									
Balance, December 31, 2011	1,361,570	15,527	2,903	23,126	6,985	1,413,809	-	-	2,823,920
Advances	-	-	-	-	-	(45,024)	-	-	(45,024)
Aerial photos and mapping	5,918	-	-	511	-	52,107	1,203	-	59,739
Assays and surveys	-	-	-	-	-	199,493	36,356	-	235,849
Camp and field supplies	14,102	385	385	385	385	429,033	-	-	444,675
Community and social	-	-	-	-	-	162,625	-	-	162,625
Drilling	-	-	-	-	-	238,750	-	-	238,750
Equipment and systems	532	-	-	-	-	8,527	-	-	9,059
Environmental	-	-	-	-	-	39,923	-	-	39,923
Geology	15,607	-	-	-	-	307,098	-	-	322,705
Local labour	32,328	-	-	-	-	-	-	-	32,328
Roads and drill pads	-	-	-	-	-	37,867	-	-	37,867
Salaries and remuneration	160,709	-	-	-	-	455,975	-	-	616,684
Sundry	13,397	-	-	-	-	133,142	-	-	146,539
Surface taxes	51,221	-	628	8,611	11,165	60,363	-	-	131,988
Transportation and travel	33,247	-	-	-	-	281,217	-	-	314,464
Balance, December 31, 2012	1,688,631	15,912	3,916	32,633	18,535	3,774,905	37,559	-	5,572,091
<b>Mineral Property Interests:</b>									
December 31, 2012	\$ 1,792,059	\$ 45,889	\$ 115,120	\$ 92,318	\$ 70,593	\$ 4,528,628	\$ 37,559	\$ -	\$ 6,682,166

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## 7. Mineral Property Interests (continued)

### (a) Moris and Santiago Fraction, El Relampago, Oaxaca and Tecolote (Mexico):

#### (i) Moris and Santiago Fraction:

On September 24, 2009, the Company entered into a mineral properties sale and purchase agreement with Exmin Resources Inc. ("Exmin") in which the Company acquired a 100% interest in the Moris and Santiago Fraction properties. Exmin retained a 1% NSR which was capped at US\$1 million for the Moris properties and US\$0.5 million for the Santiago Fraction property. In 2013, the Company decided not to pursue any further exploration efforts on the properties and such properties were written off.

Underlying the mineral properties sale and purchase agreement with Exmin were option to purchase agreements for the El Relampago, Oaxaca and Tecolote properties which were written off in 2013.

#### (ii) El Relampago:

On November 17, 2009, the Company amended the property option to purchase agreement for the El Relampago concession, in which the Company can earn a 100% interest by making cash payments of US\$105,000 over a 3 year period. Final cash payments of US\$30,000 were paid in 2012 (2011 - US\$30,000) in which the Company had earned a 100% interest in the property. In 2013, the Company wrote off the El Relampago property.

#### (iii) Oaxaca:

On November 17, 2009, the Company amended the option to purchase agreement for the Oaxaca property concessions, in which the Company can earn a 100% interest by making cash payments of US\$786,000 over a 5 year period.

On December 5, 2012, the Company amended the property option agreement whereby the Company can earn a 100% interest by making cash payments of US\$830,000 from December 2012 to January 2015.

Cash property option commitments of US\$30,000 were incurred of which US\$10,000 were paid in 2013 (2012 - US\$29,000 incurred and paid). As at December 31, 2013, the Company accrued US\$20,000 (December 31, 2012 - \$Nil) in outstanding property option payments.

In 2013, the Company wrote off the Oaxaca property but continues to incur cash obligation of US\$2,500 per month until the Company cancels the property option agreement subject to full settlement of all outstanding commitments owed.

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## 7. Mineral Property Interests (continued)

### (a) Moris and Santiago Fraction, El Relampago, Oaxaca and Tecolote (Mexico): (continued)

#### (iv) Tecolote:

In 2010, the Company earned a 100% interest in the Tecolote property by making total cash payments of US\$50,000.

In 2013, the Company wrote off the Tecolote property.

### (b) Los Andes property (Nicaragua):

In December 2010, as amended in January 2011, the Company entered into a property option agreement with Inversiones Ecologicas S.A. ("Inecosa") to acquire a 100% interest in the Los Andes property by making US\$1.17 million in cash payments, issuing 500,000 common shares (post 3-to-1 share consolidation) and spending US\$2.97 million on exploration over a 4 year period. The Company also agreed to issue 50,000 common shares (post 3-to-1 share consolidation) for the staking of additional properties to Inecosa in January 2011, and thereafter the Company shall issue that number of common shares equal to 0.53 (post 3-to-1 share consolidation) multiplied by the number of hectares staked in the area of mutual interest as defined, subject to regulatory approvals. Inecosa retains a 2% NSR, and the Company has the right to reduce the NSR to 1% by paying US\$1 million and to acquire the remaining 1% NSR by paying an additional US\$2 million.

In 2011 the Company recognized an obligation to issue 210,548 common shares, which were issuable for the Los Andes property and the staking of additional properties, at a value of \$0.72 per common share which were issued on January 17, 2012 (post 3-to-1 share consolidation). In December 2012, the Company paid US\$125,000 and issued 177,813 common shares at a value of \$0.225 per share to Inecosa (post 3-to-1 share consolidation). The Company paid US\$300,000 in December 2013, and issued 189,300 common shares at a value of \$0.075 in February 2014.

In April 2012, a shareholder who owns a 40% interest in Inecosa became a senior officer of the Company (Note 11).

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## 7. Mineral Property Interests (continued)

### (c) Mineral property commitments:

As at December 31, 2013, to maintain the Company's interest and to fully exercise the options under various property agreements covering its properties, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Option Payments (US dollars)	Monthly Option Payments (US dollars)	Expenditure Commitments (US dollars)	Number of Shares <sup>(2)</sup>
Oaxaca (Note 7(a)(iii)) <sup>(1)</sup> :				
January 2014 to December 2014	\$ -	\$ 2,500	\$ -	-
January 2015	750,000	-	-	-
Los Andes (Note 7(b)):				
December 15, 2013 <sup>(3)</sup>	-	-	-	100,000
December 15, 2014	600,000	-	-	100,000
	\$ 1,350,000	\$ 2,500	\$ -	200,000

<sup>(1)</sup> The Company wrote-off the Oaxaca property in 2013 and has accrued US\$20,000 in outstanding option payments as at December 31, 2013. The Company continues to incur cash obligation of US\$2,500 per month until the Company cancels the property option agreement subject to full settlement of all outstanding commitments owed.

<sup>(2)</sup> Post 3-to-1 share consolidation basis.

<sup>(3)</sup> The Company issued 189,300 common shares at a value of \$0.075 in February 2014 of which 89,300 common shares were issued for staked properties.

These amounts may be reduced in the future as the Company determines which mineral property interests to continue to explore and which to abandon.

### (d) Title to mineral property interests:

The Company has investigated rights of ownership of all of its mineral properties/concessions and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, all properties/concessions may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

### (e) Realization of assets:

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral property interests is dependent upon the existence of reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

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## 7. Mineral Property Interests (continued)

### (f) Environmental matters:

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former mineral property interests that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation of the Company's operation may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

## 8. Equipment

	Office Equipment	Field Equipment	Total
<b>Cost:</b>			
Balance, December 31, 2011	\$ 16,876	\$ 50,959	\$ 67,835
Add: Acquisitions	5,028	-	5,028
Balance, December 31, 2012	21,904	50,959	72,863
Less: Dispositions	(1,534)	(45,444)	(46,978)
Balance, December 31, 2013	20,370	5,515	25,885
<b>Accumulated amortization:</b>			
Balance, December 31, 2011	3,993	8,863	12,856
Add: Amortization	5,188	12,645	17,833
Balance, December 31, 2012	9,181	21,508	30,689
Add: Amortization	4,773	4,570	9,343
Less: Dispositions	(650)	(22,179)	(22,829)
Balance, December 31, 2013	13,304	3,899	17,203
<b>Net book value:</b>			
Balance, December 31, 2012	\$ 12,723	\$ 29,451	\$ 42,174
Balance, December 31, 2013	\$ 7,066	\$ 1,616	\$ 8,682

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## 9. Loans

### (a) Promissory Note:

In July 2013, the Company entered into a loan agreement with Polygon Mining Opportunity Master Fund ("Polygon") for \$200,000 which bears an interest rate of 12% per annum, compounded and payable quarterly. The loan and any accrued interest is repayable upon the earlier of January 22, 2015 or written demand for repayment after November 19, 2013. The Company has the option for early repayment whereby a minimum of 12 months interest compounded quarterly must be paid if the early repayment is made on or before July 22, 2014 and a minimum of 18 months interest compounded quarterly if early repayment after July 22, 2014 and prior to January 22, 2015. In connection with the loan, Polygon was granted a security interest in the Company's present and after-acquired personal property as well as a negative pledge over all of the Company's assets. In October 2013, interest of \$6,050 has been paid. As at December 31, 2013, interest of \$4,600 has been accrued. Further interests of \$6,050 and \$5,920 were paid in January 2014 and April 2014, respectively.

### (b) Convertible Promissory Notes:

In August 2013, the Company arranged convertible promissory notes for \$121,060 of which \$35,000 were from certain current and former directors. The convertible notes bore an interest rate of 12% per annum compounded annually and payable every second quarter, and mature on February 7, 2015. The Company may repay any portion of the convertible promissory note at any time without notice, bonus or penalty. The principal and accrued interest can be converted, at the sole option of the Company, into units of the Company with the principal at \$0.15 per unit (post 3-to-1 share consolidation) for the first year and at \$0.30 per unit (post 3-to-1 share consolidation) for the remaining 6 months, and accrued interest at market price per unit. Each unit was comprised of one common share and one common share purchase warrant; each warrant is exercisable to acquire one common share at \$0.30 per share (post 3-to-1 share consolidation) until August 7, 2016. A finder's fee of \$4,000 was paid on the debt financing. As at December 31, 2013, interest of \$8,480 has been accrued. In February 2014, the Company paid interest of \$7,420. Then in March 2014 the Company converted the principal of the promissory notes into 800,000 units and paid interests of \$1,290.

As the convertible promissory notes are compound financial instruments which are convertible at the Company's sole discretion into units, the instrument contains both a liability and a derivative asset. The liability, net of issue costs, is accreted using the effective interest rate method over the term of the convertible promissory notes. Note 6 provides further details.

	Demand Note Payable	Convertible Promissory Notes
Balance, December 31, 2012	\$ -	\$ -
Add:		
Proceeds from loans	200,000	121,058
Interest or accretion	10,652	8,479
Less:		
Issue costs	-	(11,334)
Interest payments	(6,049)	-
Balance, December 31, 2013	\$ 204,603	\$ 118,203

# CAZA GOLD CORP.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

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## 10. Share Capital

### (a) Authorized:

The authorized share capital of the Company is comprised of an unlimited number of common shares without par value.

### (b) Issued:

- (i) On February 3, 2014, the Company issued 189,300 common shares which were issuable for the Los Andes property and the staking of additional properties, at a value of \$0.075 per share (Note 7(b)).

On March 11, 2014, the Company converted the principal of the convertible promissory notes into 800,000 units, with each unit comprised of one common share and one share purchase warrant (Note 9(b)).

- (ii) In August 2013, the Company arranged convertible promissory notes for \$121,058 (Note 9(b)).

On December 13, 2013, the Company consolidated all of its issued and outstanding common shares on the basis of three (3) old common shares for one (1) new common share resulting in 19,826,472 new common shares issued and outstanding. The effect of the share consolidation has been retroactively adjusted within the consolidated financial statements unless otherwise noted.

Also on December 13, 2013, the Company closed a private placement with Polygon for 20,833,333 units at \$0.12 per unit for gross proceeds of \$2.5 million. Each unit was comprised of one common share and one share purchase warrant which is exercisable to acquire one common share at an exercise price of \$0.24 until December 13, 2016, resulting in Polygon becoming a new control person of the Company at that time. Note 14 provides further details.

- (iii) On January 17, 2012, the Company issued 210,548 common shares, which were issuable for the Los Andes property and the staking of additional properties, at a value of \$0.72 per common share (post 3-to-1 share consolidation) (Note 7(b)).

On December 28, 2012, the Company closed a private placement for 761,667 units at \$0.30 per unit (post 3-to-1 share consolidation) for gross proceeds of \$228,500 of which \$25,000 was on a delivery against payment basis in which funds were received in January 2013. Each unit was comprised of one common share and one-half of a whole common share purchase warrant; each full common share purchase warrant is exercisable to acquire one common share at \$0.60 (post 3-to-1 share consolidation) until December 28, 2014. Finder's fee of \$7,000 was paid.

On December 31, 2012, the Company issued 177,813 common shares, which were issuable for the Los Andes property and the staking of additional properties, at a value of \$0.225 per common share (post 3-to-1 share consolidation) (Note 7(b)).

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Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

## 10. Share Capital (continued)

(b) Issued: (continued)

- (iv) Pursuant to the escrow agreement dated October 19, 2010, 637,576 common shares (post 3-to-1 share consolidation) of the Company were held in escrow (the "Escrowed Shares") at that time. The Escrowed Shares were subject to be released under the following schedule:

November 22, 2010	1/4 of the Escrow Shares
May 22, 2011	1/3 of the remaining Escrow Shares
November 22, 2011	1/2 of the remaining Escrow Shares
May 22, 2012	the remaining Escrow Shares

As at December 31, 2013 and 2012, there were no common shares held in escrow.

(c) Stock option plan:

The Company has a stock option plan that allows it to grant stock options to its directors, officers, employees and consultants, provided that the aggregate number of stock options granted shall not at any time exceed 10% of the total number of issued and outstanding common shares of the Company. The exercise price of each stock option shall be based on the market price of the Company's shares as traded on the TSX Venture Exchange at the time of grant. Stock options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of stock options is made at the discretion of the Board at the time the stock options are granted.

The continuity of stock options for the years ended December 31, 2013 and 2012 with comparative figures adjusted for the 3-to-1 share consolidation is as follows:

	2013		2012	
	Number of Shares	Weighted average exercise price	Number of Shares	Weighted average exercise price
Outstanding balance, beginning of year	1,766,804	\$1.02	1,455,970	\$1.12
Granted	-	-	377,501	\$0.79
Expired	(54,169)	\$0.88	(26,667)	\$1.71
Forfeited	(34,664)	\$0.80	(40,000)	\$1.71
Outstanding balance, end of year	1,677,971	\$1.03	1,766,804	\$1.02
Exercise price range	\$0.78 - \$1.26		\$0.78 - \$1.26	



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Years ended December 31, 2013 and 2012

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## 10. Share Capital (continued)

### (c) Stock option plan: (continued)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2013:

Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at Dec 31, 2013	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices	Number Exercisable at Dec 31, 2013	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
\$1.05	790,001	1.89	\$1.05	790,001	1.89	\$1.05
\$1.26	62,634	1.91	\$1.26	62,634	1.91	\$1.26
\$1.125	524,999	2.48	\$1.125	524,999	2.48	\$1.125
\$0.78	300,337	3.33	\$0.78	254,673	3.33	\$0.78
	<u>1,677,971</u>	<u>2.33</u>	<u>\$1.03</u>	<u>1,632,307</u>	<u>2.30</u>	<u>\$1.04</u>

During the year ended December 31, 2013, the Company recognized share-based payments of \$50,301 (2012 - \$343,057) based on the fair value of stock options that were earned by the provision of services during the year. Share-based payments are segregated between directors and officers, employees and consultants as follows:

	2013	2012
Directors (exclude directors who are officers)	\$ 11,742	\$ 97,092
Officers (include directors who are officers)	48,095	180,766
Employees	2,154	62,321
Consultants	(11,690)	2,878
	<u>\$ 50,301</u>	<u>\$ 343,057</u>

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Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 10. Share Capital (continued)

### (c) Stock option plan: (continued)

The weighted average fair value of stock options granted and the weighted average assumptions used to calculate share-based payments for stock option grants are estimated using the Black-Scholes option pricing model with comparative figures adjusted for the 3-to-1 share consolidation as follows:

	2013	2012
Number of stock options granted	-	377,501
Fair value of stock options granted	n/a	\$0.57
Market price of shares on grant date	n/a	\$0.73
Expected forfeiture rate	n/a	0.00%
Risk-free interest rate	n/a	1.50%
Expected dividend yield	n/a	0%
Expected stock price volatility	n/a	115.72%
Expected option life in years	n/a	5

Expected stock price volatility is based on the historical price volatility of the Company's common shares.

On January 17, 2012, the Company granted stock options to employees to purchase 20,000 common shares at an exercise price of \$0.90 (post 3-to-1 share consolidation) and an expiry date of January 17, 2017. These stock options were subject to vesting provisions in which 20% of the stock options vest on the grant date and 20% vest every six months thereafter.

On April 10, 2012, the Company granted stock options to an employee to purchase 33,333 common shares at an exercise price of \$0.78 (post 3-to-1 share consolidation) and an expiry date of April 10, 2015. These stock options were subject to vesting provisions in which 25% of the stock options vest three months from the grant date and 25% vest every three months thereafter.

On April 30, 2012, the Company granted stock options to directors, officers, employees and consultants to purchase 324,167 common shares at an exercise price of \$0.78 (post 3-to-1 share consolidation) and an expiry date of April 30, 2017. These stock options were subject to vesting provisions in which 20% of the stock options vest on the grant date and 20% vest every six months thereafter.

On March 24, 2014, the Company granted stock options to purchase up to 2.32 million common shares at an exercise price of \$0.15 and an expiry date of March 24, 2019. Stock options for 2.16 million common shares are subject to vesting provisions in which 20% of the stock options vest immediately on the grant date and 20% vest every six months thereafter.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

## 10. Share Capital (continued)

### (d) Warrants:

At December 31, 2013, the Company had outstanding warrants with opening balance adjusted for the 3-to-1 share consolidation, as follows:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2012	Issued	Exercised	Expired	Outstanding at December 31, 2013
\$0.60	December 28, 2014	380,834	-	-	-	380,834
\$0.24	December 13, 2016	-	20,833,333	-	-	20,833,333
		380,834	20,833,333	-	-	21,214,167

At December 31, 2012, the Company had outstanding warrants adjusted for the 3-to-1 share consolidation as follows:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2011	Issued	Exercised	Expired	Outstanding at December 31, 2012
\$0.90	April 2, 2012	133,333	-	-	(133,333)	-
\$1.35	May 18, 2012	1,333,333	-	-	(1,333,333)	-
\$1.05	May 18, 2012	113,036	-	-	(113,036)	-
\$2.10	September 17, 2012	2,745,833	-	-	(2,745,833)	-
\$0.60	December 28, 2014	-	380,834	-	-	380,834
		4,325,535	380,834	-	(4,325,535)	380,834

On March 11, 2014, the Company converted the principal of the convertible promissory notes into 800,000 units, with each unit comprised of one common share and one share purchase warrant (Note (9)(b)).

### (e) Common shares reserved for issuance at December 31, 2013:

	December 31, 2013
Stock options (Note 10(c))	1,677,971
Warrants (Note 10(d))	21,214,167
Common shares reserved for issuance	22,892,138

# CAZA GOLD CORP.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 10. Share Capital (continued)

### (f) Shareholder rights plan:

On June 12, 2012, the shareholders of the Company approved a shareholder rights plan (the "Plan"). The Plan is intended to ensure that any entity seeking to acquire control of the Company makes an offer that represents fair value to all shareholders and provides the board of directors with sufficient time to assess and evaluate the offer, to permit competing bids to emerge, and, as appropriate, to explore and develop alternatives to maximize value for shareholders. Under the Plan, each shareholder at the time of the Plan's adoption was issued one Right for each common share of the Company held. Each Right entitles the registered holder thereof, except for certain "Acquiring Persons" (as defined in the Plan), to purchase from treasury one common share at a 50% discount to the prevailing market price, subject to certain adjustments intended to prevent dilution. The Rights are exercisable after the occurrence of specified events set out in the Plan generally related to when a person, together with affiliated or associated persons, acquires, or makes a take-over bid to acquire, beneficial ownership of 20% or more of the outstanding common shares of the Company. The Rights expire in three years.

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(Stated in Canadian dollars)

## 11. Related Party Transactions

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is disclosed in the table below.

Except as disclosed elsewhere in the consolidated financial statements, the Company had the following transactions with related parties:

	Years ended December 31,		Net balance receivable (payable) as at December 31,	
	2013	2012	2013	2012
Key management compensation:				
Executive salaries and remuneration <sup>(1)</sup>	\$ 402,907	\$ 450,345	\$ (232,249)	\$ (41,310)
Directors fees <sup>(2)</sup>	40,196	20,000	(60,196)	(20,000)
Share-based payments	59,837	277,858	-	-
	<u>\$ 502,940</u>	<u>\$ 748,203</u>	<u>\$ (292,445)</u>	<u>\$ (61,310)</u>
Mineral property expenditures incurred to Inecosa <sup>(3)</sup> :				
Acquisition costs:				
Cash property option payments	\$ 317,850	\$ 123,718	\$ -	\$ -
Number of common shares issued <sup>(4)</sup>	-	177,813		
Exploration expenditures incurred	\$ 181,291	\$ 730,205	\$ -	\$ (29,185)
Legal fees incurred to a law firm in which a director of the Company is a partner <sup>(5)</sup>	\$ 207,652	\$ 71,754	\$ (150,883)	\$ (22,079)
Net office, sundry, rent and salary allocations recovered from (incurred to) company(s) sharing certain common director(s) <sup>(6)</sup>	\$ (160,911)	\$ (183,806)	\$ (13,870)	\$ (14,262)
Write-off of receivables <sup>(7)</sup>	\$ 12,992	\$ -	\$ -	\$ -

<sup>(1)</sup> Includes key management compensation which is included in mineral property interests and property investigation.

<sup>(2)</sup> Directors fees are accrued.

<sup>(3)</sup> A 40% shareholder of Inecosa became a senior officer of the Company in April 2012. Exploration expenditures include those related to mineral property interests and property investigations. (Notes 7(b) and 12).

# CAZA GOLD CORP.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

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## 11. Related Party Transactions (continued)

- (4) Post 3-to-1 share consolidation.
- (5) Includes legal fees which are included in finance charges and share issuance expenses.
- (6) The company(ies) include Aztec Metals Corp. which share certain common director(s), and BYG Ventures Ltd. ("BYG"), Canarc Resource Corp. and Endeavour Silver Corp. which shared a common director until December 17, 2013.
- (7) The Company wrote-off receivables due from BYG in 2013.

The above transactions are incurred in the normal course of business.

Transactions with Polygon are provided in Notes 9(a), 10(b)(ii) and 14. Convertible promissory notes with certain related parties are provided in Note 9(b).

## 12. Property Investigation

	Years ended December 31,	
	2013	2012
Property Investigation:		
Assays	\$ -	\$ 52,869
Employee and management remuneration	323,387	439,193
Field supplies	986	24,811
Geologists	-	119,666
Local labour	-	12,186
Mapping and surveys	2,842	27,023
Office and sundry	6,571	16,532
Transportation and travel	8,653	68,502
	<u>\$ 342,439</u>	<u>\$ 760,782</u>

# CAZA GOLD CORP.

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Notes to the Consolidated Financial Statements

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(Stated in Canadian dollars)

## 13. Segment Disclosures

The Company has one operating segment, being mineral exploration, with assets located in Canada, Mexico and Nicaragua, as follows:

	December 31, 2013				December 31, 2012			
	Canada	Mexico	Nicaragua	Total	Canada	Mexico	Nicaragua	Total
Mineral property interests	\$ -	\$ -	\$ 5,165,664	\$ 5,165,664	\$ -	\$ 2,115,979	\$ 4,566,187	\$ 6,682,166
Equipment	2,717	5,965	-	8,682	3,881	38,293	-	42,174

## 14. Investment Agreement

In October 2013, the Company entered into an Investment Agreement (the "IA") with Polygon, the consummation of which was subject to satisfaction of a number of conditions precedent including shareholder and regulatory approvals. Under the terms of the IA, Polygon agreed to invest \$2.5 million to acquire 51.2% of the common shares of the Company on a post-consolidation basis at that time. A special general meeting of shareholders (the "SGM") was held to approve the investment and the creation of a new control person, to seek shareholder approval for a 3:1 share consolidation, and to approve the appointment of two nominees of Polygon to the Board of Directors of the Company. The proceeds of the investment are to be used to fund further exploration on the Company's Los Andes high-sulfidation gold project in Nicaragua (in a manner approved by Polygon) and for working capital.

At the Company's SGM held in December 2013, the Company's shareholders approved all matters, specifically as follows:

- By way of a special resolution, approval of the consolidation of all of the Company's issued and outstanding common shares on the basis of three (3) old common shares for one (1) new common share (the "Consolidation"). There has been no change in the Company's name;
- By way of a disinterested ordinary resolution, the shareholders approved its IA with Polygon, the related private placement and the resulting creation of a new control person. The Company has issued to Polygon, on a private placement post-consolidation basis, 20,833,333 units of the Company at \$0.12 per unit for total gross proceeds of \$2.5 million. Each unit consisted of one common share and one share purchase warrant exercisable for three years at \$0.24 per share and with an expiry date of December 13, 2016. All securities issued were subject to a hold period of four months plus one day, ending on April 14, 2014; and
- By ordinary resolution, approval of an increase in the number of directors from five to seven directors, and the election of Michael J. Humphries and Michael T. Adams to the Board of Directors of the Company.

# CAZA GOLD CORP.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

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## 15. Deferred Income Taxes

- (a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	2013	2012
Loss for the year	\$ (3,511,098)	\$ (2,368,462)
Canadian statutory tax rate	26.0%	25.0%
Income tax benefit computed at statutory rates	(915,283)	(592,116)
Foreign tax rates different from statutory rates	(123,923)	(47,047)
Items non-deductible for income tax purposes	13,078	85,764
Effect of change in tax rate	(78,709)	(59,780)
Change in timing differences	(153,403)	30,815
Unused tax losses and tax offsets not recognized in tax asset	1,397,541	505,426
Impact of foreign exchange on tax assets and liabilities	(139,301)	76,938
	\$ -	\$ -

Effective January 1, 2013, the Canadian federal corporate tax rate is 15% and the British Columbia provincial tax rate is 11% for a total Canadian statutory tax rate of 26%.

In 2009, the Mexican government approved tax reform that includes a 2% increase in the income tax rate in Mexico from 28% to 30% for a three-year period starting in 2010.

- (b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income liabilities at December 31, 2013 and 2012 are presented below:

	December 31,	
	2013	2012
Deferred tax assets		
Non-capital losses carried forward	\$ 643,643	\$ 644,602
Deferred tax liabilities		
Book value over tax value of equipment	(8,849)	(9,808)
Book value over tax value of mineral property interests	(634,794)	(634,794)
Deferred tax liabilities	(643,643)	(644,602)
Net deferred tax assets	\$ -	\$ -



# CAZA GOLD CORP.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in Canadian dollars)

## 15. Deferred Income Taxes (continued)

- (c) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31,	
	2013	2012
Non-capital losses	\$ 12,106,238	\$ 7,751,811
Share issue costs	399,969	322,848
Unrecognized deferred tax assets	\$ 12,506,207	\$ 8,074,659

The Company's unrecognized unused non-capital losses have the following expiry dates:

	Canada	Mexico	Total
2017	\$ -	\$ 350,189	\$ 350,189
2018	-	560,723	560,723
2019	-	382,066	382,066
2020	-	526,447	526,447
2021	-	2,881,550	2,881,550
2022	-	1,005,194	1,005,194
2023	-	3,098,051	3,098,051
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	27,623	-	27,623
2028	278,062	-	278,062
2029	467,363	-	467,363
2030	1,305,702	-	1,305,702
2031	1,593,807	-	1,593,807
2032	1,015,019	-	1,015,019
2033	877,271	-	877,271
	\$ 5,564,847	\$ 8,804,220	\$ 14,369,067

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Marco Montecinos ~ Vice-President, Exploration  
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