



CAZA GOLD CORP.

Third Quarter Report

Condensed Consolidated Interim Financial Statements

(stated in Canadian dollars)

Three and Nine Months ended September 30, 2014

(Unaudited – Prepared by Management)

**Notice of No Auditor Review of
Unaudited Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2014**

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

The accompanying unaudited condensed consolidated interim financial statements of Caza Gold Corp. (the “Company”) for the three and nine months ended September 30, 2014 (the “Financial Statements”) have been prepared by and are the responsibility of the Company’s management, and have not been reviewed by the Company’s auditors. The Financial Statements are stated in Canadian dollars, unless otherwise indicated, and are prepared in accordance with International Accounting Standards 34 (“IAS 34”) and International Financial Reporting Standards (“IFRS”).

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

| | Notes | September 30, 2014 | December 31, 2013 |
|---|----------|-----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash | | \$ 565,672 | \$ 1,585,758 |
| Receivables and prepaids | 11 | 137,380 | 77,955 |
| Derivative asset | 6 | - | 74,639 |
| Total Current Assets | | 703,052 | 1,738,352 |
| Non-Current Assets | | | |
| Mineral property interests | 7 and 11 | 6,356,605 | 5,165,664 |
| Equipment | 8 | 4,887 | 8,682 |
| Total Non-Current Assets | | 6,361,492 | 5,174,346 |
| Total Assets | | \$ 7,064,544 | \$ 6,912,698 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 11 | \$ 943,440 | \$ 1,026,967 |
| Derivative liability | 9(a) | 59,243 | - |
| Demand loans payable | 9(a) | 758,398 | 204,603 |
| Convertible promissory notes payable | 9(b) | - | 118,203 |
| Total Liabilities | | 1,761,081 | 1,349,773 |
| Shareholders' Equity | | | |
| Share capital | 10(b) | 18,018,011 | 17,773,987 |
| Reserve for share-based payments | | 553,929 | 1,223,041 |
| Deficit | | (13,268,477) | (13,434,103) |
| Total Shareholders' Equity | | 5,303,463 | 5,562,925 |
| Total Liabilities and Shareholders' Equity | | \$ 7,064,544 | \$ 6,912,698 |

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

| | | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|--------------|----------------------------------|---------------------|---------------------------------|-----------------------|
| | Notes | 2014 | 2013 | 2014 | 2013 |
| Expenses: | | | | | |
| Accounting and audit | | \$ 23,614 | \$ (1,216) | \$ 24,578 | \$ (3,280) |
| Amortization | | 1,258 | 1,297 | 3,795 | 8,025 |
| Employee and director remuneration | 11 | 76,202 | 113,171 | 263,851 | 360,963 |
| Legal | 11 | 20,012 | 13,242 | 66,692 | 34,368 |
| Office and sundry | 11 | 55,274 | 19,398 | 101,509 | 101,739 |
| Property investigation | 11 and 12 | - | 147,390 | 916 | 334,703 |
| Regulatory | | 20,662 | 8,746 | 50,371 | 66,966 |
| Shareholder relations | | 47 | 8,306 | 311 | 58,660 |
| Share-based payments | 10(c) and 11 | 19,609 | 8,573 | 121,958 | 51,260 |
| Loss before the undernoted | | (216,678) | (318,907) | (633,981) | (1,013,404) |
| Foreign exchange (loss) gain | | (16,701) | 1,371 | (19,381) | (2,814) |
| Interest income | | 383 | - | 2,988 | 108 |
| Accretion expense | | - | (3,048) | - | (3,048) |
| Interest and finance charges | 9 | (27,501) | (4,603) | (43,585) | (4,603) |
| Gain on disposition of equipment | | - | - | - | 5,551 |
| Derivative fair value changes | 9(a) | 59,243 | - | 59,243 | - |
| Gain from debt settlement | 11 | 42,091 | - | 42,091 | - |
| Recovery of value-added tax | | 238,373 | - | 238,373 | - |
| Unrealized loss on derivative asset | 6 | - | - | (74,639) | - |
| Write-off of receivables and value-added tax | | 8,549 | - | - | - |
| Write-off of mineral property interests | 7(a) | (111,515) | - | (196,553) | - |
| Net loss and comprehensive loss for the period | | \$ (23,756) | \$ (325,187) | \$ (625,444) | \$ (1,018,210) |
| Basic and diluted loss per share | | \$ (0.00) | \$ (0.02) | \$ (0.02) | \$ (0.05) |
| Weighted average number of common shares outstanding | | 42,382,605 | 19,826,495 | 41,667,588 | 19,826,495 |

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Shareholders' Equity

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

| | Notes | Share Capital | | Reserve for Share-Based Payments | Deficit | Total |
|---|---------------|---------------------|---------------|--|-----------------|--------------|
| | | Number of Shares | Amount | | | |
| 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), 14 | 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 |
| Property acquisition | 7(b) | 189,300 | 14,198 | - | - | 14,198 |
| Conversion of convertible promissory notes | 9(b) | 800,000 | 113,677 | - | - | 113,677 |
| Shares-for-debt settlement | | 1,874,500 | 149,960 | - | - | 149,960 |
| Share issuance expense | | - | (33,811) | - | - | (33,811) |
| Share-based payments | | - | - | 121,958 | - | 121,958 |
| Expiry of stock options | | - | - | (791,070) | 791,070 | - |
| Net loss for the period | | - | - | - | (625,444) | (625,444) |
| Balance, September 30, 2014 | | 43,523,605 | \$ 18,018,011 | \$ 553,929 | \$ (13,268,477) | \$ 5,303,463 |
| Balance, December 31, 2012 | | 19,826,472 | \$ 15,533,320 | \$ 1,205,444 | \$ (9,955,709) | \$ 6,783,055 |
| Share issuance expense | | - | (30,262) | - | - | (30,262) |
| Share-based payments | | - | - | 51,260 | - | 51,260 |
| Expiry of stock options | | - | - | (28,039) | 28,039 | - |
| Net loss for the period | | - | - | - | (1,018,210) | (1,018,210) |
| Balance, September 30, 2013 | | 19,826,472 | \$ 15,503,058 | \$ 1,228,665 | \$ (10,945,880) | \$ 5,785,843 |

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|----------------------------------|-------------------|---------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Cash provided from (used by): | | | | |
| Operations: | | | | |
| Loss for the period | \$ (23,756) | \$ (325,187) | \$ (625,444) | \$ (1,018,210) |
| Items not involving cash: | | | | |
| Accretion expense | - | 3,048 | - | 3,048 |
| Accrued interest | 9,608 | 4,603 | 9,608 | 4,603 |
| Amortization | 1,258 | 1,297 | 3,795 | 8,025 |
| Foreign exchange (gain) loss | (10,195) | 628 | (9,803) | (2,506) |
| Share-based payments | 19,609 | 8,573 | 121,958 | 51,260 |
| Gain on disposition of equipment | - | - | - | (5,551) |
| Gain from debt settlement | (42,091) | - | (42,091) | - |
| Derivative fair value changes | (59,243) | - | (59,243) | - |
| Unrealized loss on derivative asset | - | - | 74,639 | - |
| Recovery of value-added tax, net of write-off | (246,922) | - | (238,373) | - |
| Write-off of mineral property interests | 111,515 | - | 196,553 | - |
| | (240,217) | (307,038) | (568,401) | (959,331) |
| Changes in non-cash working capital items: | | | | |
| Receivables and prepaids | 135,640 | 88,262 | (59,425) | 56,023 |
| Accounts payable and accrued liabilities | 40,327 | 225,690 | 140,856 | 806,599 |
| Cash (used by) provided from operating activities | (64,250) | 6,914 | (486,970) | (96,709) |
| Financing: | | | | |
| Proceeds from demand loan, net of financing costs | 662,673 | 200,000 | 662,673 | 200,000 |
| Proceeds from convertible promissory notes, net of financing costs | - | 109,724 | - | 109,724 |
| Interest payments, net of accrued interest | 4,592 | - | - | - |
| Proceeds from prior issuance of common shares, net of share issue costs | - | - | - | 25,000 |
| Financing costs | (33,811) | (30,262) | (33,811) | (30,262) |
| Cash provided from financing activities | 633,454 | 279,462 | 628,862 | 304,462 |
| Investing: | | | | |
| Mineral property interests, net of recoveries | (334,849) | (119,363) | (1,171,781) | (455,482) |
| Disposition of equipment | - | 5,551 | - | 29,701 |
| Cash used by investing activities | (334,849) | (113,812) | (1,171,781) | (425,781) |
| Foreign exchange gain (loss) on cash held in foreign currency | 10,195 | (936) | 9,803 | 2,198 |
| (Decrease) increase in cash | 244,550 | 171,628 | (1,020,086) | (215,830) |
| Cash, beginning of period | 321,122 | 60,804 | 1,585,758 | 448,262 |
| Cash, end of period | \$ 565,672 | \$ 232,432 | \$ 565,672 | \$ 232,432 |

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

| | | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|----------------|----------------------------------|-----------|---------------------------------|------------|
| | Notes | 2014 | 2013 | 2014 | 2013 |
| Non-cash financing and investing activities: | | | | | |
| Accrual for mineral property interests | | \$ (113,257) | \$ 85,508 | \$ 86,950 | \$ 418,067 |
| Financing costs payable in common shares | 9(a) | 118,486 | - | 118,486 | - |
| Issuance of common shares: | | | | | |
| Mineral property interests | 7(b), 10(b)(i) | - | - | 14,198 | - |
| Debt settlement | 10(b)(i) | 149,960 | - | 149,960 | - |
| Conversion of convertible promissory notes | 9(b), 10(b)(i) | 4,290 | - | 113,677 | - |
| Fair values from the expiration of: | | | | | |
| Stock options | | 288,590 | 15,049 | 791,070 | 28,039 |
| Interest paid | | 8,923 | - | 29,599 | - |
| Income taxes paid | | - | - | - | - |

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CAZA GOLD CORP.

(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three and Nine Months ended September 30, 2014

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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 \$625,400 (September 30, 2013 - \$1.02 million), and has a deficit of approximately \$13.3 million as at September 30, 2014 (December 31, 2013 - \$13.4 million). Furthermore, the Company has working capital deficiency of \$1.06 million (December 31, 2013 – working capital of \$388,600). These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the interpretations of the International Financial Reporting Standards Interpretations Committee. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosures required for full and complete annual financial statements, and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2013. The Company has consistently applied the same accounting policies for all periods as presented. Certain of the prior periods’ comparative figures may have been reclassified to conform to the presentation adopted in the current period.

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(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three and Nine Months ended September 30, 2014

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

2. Basis of Presentation (continued)

(b) Approval of condensed consolidated interim financial statements:

These condensed consolidated interim financial statements were approved by the Company's Board of Directors on November 25, 2014.

(c) Basis of presentation:

These condensed consolidated interim 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.

(d) Functional currency and presentation currency:

The functional and presentation currencies of the Company are 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 and finders' fee warrants issued; 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 condensed consolidated interim 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.

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(An Exploration Stage Company)

Notes to the Condensed Consolidated Interim Financial Statements

Three and Nine Months ended September 30, 2014

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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. 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.

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Notes to the Condensed Consolidated Interim Financial Statements

Three and Nine Months ended September 30, 2014

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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.

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Notes to the Condensed Consolidated Interim Financial Statements

Three and Nine Months ended September 30, 2014

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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.

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Notes to the Condensed Consolidated Interim Financial Statements

Three and Nine Months ended September 30, 2014

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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 new accounting standards which were applicable to the interim reporting periods beginning on or after January 1, 2014 have no material impact to the Company’s unaudited condensed consolidated interim financial statements.

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Notes to the Condensed Consolidated Interim Financial Statements

Three and Nine Months ended September 30, 2014

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

3. Significant Accounting Policies

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

(a) Basis of consolidation:

These condensed consolidated interim 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.

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Notes to the Condensed Consolidated Interim Financial Statements

Three and Nine Months ended September 30, 2014

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

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.

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Notes to the Condensed Consolidated Interim Financial Statements

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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.

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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 condensed consolidated interim 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.

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.

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.

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4. Management of Capital (continued)

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 September 30, 2014, 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 as loans and receivables; and accounts payable and accrued liabilities, derivative liability, demand loans payable and convertible promissory notes payable as other financial liabilities.

The fair values of the Company's receivables, accounts payable and accrued liabilities, derivative liability, demand loans 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. Derivative liability is measured using Level 1 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)) as at September 30, 2014:

| | Payments due by Period | | | | |
|---|------------------------|------------------|------------|-----------|---------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| <u>Stated in Canadian dollars:</u> | | | | | |
| Demand loan: | | | | | |
| Principal | \$ 200,000 | \$ 200,000 | \$ - | \$ - | \$ - |
| Interest ⁽¹⁾ | 12,098 | 12,098 | - | - | - |
| Total (stated in Canadian dollars) | \$ 212,098 | \$ 212,098 | \$ - | \$ - | \$ - |
| <u>Stated in United States dollars:</u> | | | | | |
| Demand loan: | | | | | |
| Principal | \$ 600,000 | \$ - | \$ 600,000 | \$ - | \$ - |
| Interest | 97,600 | 72,000 | 25,600 | - | - |
| Total (stated in United States dollars) | \$ 697,600 | \$ 72,000 | \$ 625,600 | \$ - | \$ - |

⁽¹⁾ Interest of \$6,049 was paid in October 2014.

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 are in Nicaragua and were in Mexico, resulting in expenditures subject to foreign currency fluctuations. Fluctuations in the Nicaraguan Cordoba and Mexican peso would impact the losses of the Company and the values of its assets and liabilities as the Company's functional and presentation currencies are the Canadian dollar. The Canadian dollar fluctuates and floats with the Nicaraguan Cordoba and Mexican peso.

At September 30, 2014, 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:

| | Stated in Canadian Dollars | | |
|--|----------------------------|--------------------|--------------|
| | Held in | | Total |
| | Mexican Pesos | Nicaraguan Cordoba | |
| Cash | \$ 912 | \$ 3,137 | \$ 4,049 |
| Receivables and prepaids | 44,817 | 40,148 | 84,965 |
| Accounts payable and accrued liabilities | (456,862) | (22,207) | (479,069) |
| Net financial assets (liabilities) | \$ (411,133) | \$ 21,078 | \$ (390,055) |

Based upon the above net exposure as at September 30, 2014 and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar relative to the Nicaraguan Cordoba and the Mexican peso could result in a decrease/increase of approximately \$39,000 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 September 30, 2014, the Company had an investment of \$129,700 in guaranteed investment certificates which bear interests at a discount of 1.85% from the prime rate of 3% and which are redeemable at any time. The Company's debt obligations owed for demand loans and convertible promissory notes bear fixed interest rates.

(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's financial instruments which fluctuate with market prices include 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) and derivative liability which is payable in common shares of the Company (Note 9(a)).

6. Derivative Asset

| | | |
|---|----|----------|
| Balance, December 31, 2012 | \$ | - |
| Add: Unrealized gain from derivative asset | | 74,639 |
| <hr/> | | |
| Balance, December 31, 2013 | | 74,639 |
| Less: Unrealized loss from derivative asset | | (74,639) |
| <hr/> | | |
| Balance, September 30, 2014 | \$ | - |

The Company recognized a derivative asset 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, 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.

The convertible promissory notes were converted into units by the Company on March 11, 2014 on which date the market price of its common shares was \$0.16, resulting in the derecognition of the derivative asset (Notes 9(b) and 10(b)(i)).

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7. Mineral Property Interests

| | Nine Months ended September 30, 2014 | | |
|---|--------------------------------------|-----------|--------------|
| | Nicaragua | | Total |
| | Los Andes | Other | |
| Acquisition Costs: | | | |
| Balance, December 31, 2013 | \$ 1,071,573 | \$ - | \$ 1,071,573 |
| Option payment | 14,198 | - | 14,198 |
| Balance, September 30, 2014 | 1,085,771 | - | 1,085,771 |
| Deferred Exploration Expenditures: | | | |
| Balance, December 31, 2013 | 4,045,411 | 48,680 | 4,094,091 |
| Advances | (2,149) | - | (2,149) |
| Aerial, photo and mapping | 1,231 | - | 1,231 |
| Assays and surveys | 8,765 | 10,274 | 19,039 |
| Camp and field supplies | 9,916 | - | 9,916 |
| Community and social | 162,521 | - | 162,521 |
| Drilling | 245,482 | - | 245,482 |
| Equipment and systems | 263 | - | 263 |
| Environmental | 1,986 | - | 1,986 |
| Geochemistry | 26,704 | - | 26,704 |
| Geology | 32,163 | - | 32,163 |
| Geophysics | 12,985 | - | 12,985 |
| Roads and access | 9,286 | - | 9,286 |
| Salaries and remuneration | 402,688 | 1,867 | 404,555 |
| Sundry | 34,719 | 4,750 | 39,469 |
| Surface taxes | 107,035 | (10,145) | 96,890 |
| Transportation and travel | 116,360 | 42 | 116,402 |
| Balance, September 30, 2014 | 5,215,366 | 55,468 | 5,270,834 |
| Mineral Property Interests: | | | |
| December 31, 2013 | \$ 5,116,984 | \$ 48,680 | \$ 5,165,664 |
| September 30, 2014 | \$ 6,301,137 | \$ 55,468 | \$ 6,356,605 |

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7. Mineral Property Interests (continued)

| | Year ended December 31, 2013 | | | | | | | | |
|---|------------------------------|-------------------|--------------|-----------|-----------|--------------|-----------|--------------|-------|
| | Mexico | | | | | Nicaragua | | | Total |
| | Moris | Santiago Fraction | El Relampago | Oaxaca | Tecolote | Los Andes | Other | | |
| Acquisition Costs: | | | | | | | | | |
| 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 | |
| Deferred Exploration Expenditures: | | | | | | | | | |
| 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 | |
| Mineral Property Interests: | | | | | | | | | |
| December 31, 2013 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,116,984 | \$ 48,680 | \$ 5,165,664 | |

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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. In 2012, the Company had earned a 100% interest in the property. In 2013, the Company wrote off the El Relampago property. In November 2014, the Company transferred all its rights to the El Relampago property to the property owner of the Oaxaca property (Note 7(a)(iii)).

(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), and US\$22,500 were further incurred and accrued for the nine months ended September 30, 2014. As at September 30, 2014, the Company accrued US\$42,500 (December 31, 2013 - \$20,000) in outstanding cash property option payments.

In 2013, the Company wrote off the Oaxaca property but continued to incur cash obligations of US\$2,500 per month.

In November 2014, the Company entered into a Settlement Agreement whereby the Company paid US\$11,000 and transferred all the Company’s rights to the El Relampago property concessions in full and complete settlement of all obligations owed by the Company to the property owner of the Oaxaca property.

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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 and spending US\$2.97 million on exploration over a 4 year period. The Company also agreed to issue 50,000 common shares 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 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. 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. 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).

In connection with the loan agreement and security interest referred to in Note 9(a), Inecosa acknowledged the security interest granted in favour of Polygon Mining Opportunity Master Fund (“Polygon”) pursuant to an acknowledgement dated July 31, 2014 and has made certain covenants in favor of Polygon thereunder.

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7. Mineral Property Interests (continued)

(c) Mineral property commitments:

As at September 30, 2014, 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 |
|--|------------------------------------|--|--|---------------------|
| Oaxaca (Note 7(a)(iii)) ⁽¹⁾ : | | | | |
| October 2014 to December 2014 | \$ - | \$ 2,500 | \$ - | - |
| January 2015 | 750,000 | - | - | - |
| Los Andes (Note 7(b)): | | | | |
| December 15, 2014 | 600,000 | - | - | 100,000 |
| | \$ 1,350,000 | \$ 2,500 | \$ - | 100,000 |

⁽¹⁾ The Company wrote-off the Oaxaca property in 2013 and had accrued US\$42,500 in outstanding option payments as at September 30, 2014. In November 2014, the Company entered into a Settlement Agreement whereby the Company paid US\$11,000 and transferred all the Company's rights to the El Relampago property concessions in full and complete settlement of all obligations owed by the Company to the property owner of the Oaxaca property.

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 |
|----------------------------------|---------------------|--------------------|-----------|
| Cost: | | | |
| 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 |
| Adjustments | - | - | - |
| Balance, September 30, 2014 | 20,370 | 5,515 | 25,885 |
| Accumulated amortization: | | | |
| 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 |
| Add: Amortization | 3,239 | 556 | 3,795 |
| Balance, September 30, 2014 | 16,543 | 4,455 | 20,998 |
| Net book value: | | | |
| Balance, December 31, 2013 | \$ 7,066 | \$ 1,616 | \$ 8,682 |
| Balance, September 30, 2014 | \$ 3,827 | \$ 1,060 | \$ 4,887 |

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(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

9. Loans

| | Demand Note Payable | Convertible Promissory Notes |
|--|------------------------|---------------------------------|
| Balance, December 31, 2012 | \$ - | \$ - |
| Add: | | |
| Proceeds from loans | 200,000 | 121,058 |
| Interest | 10,652 | 8,479 |
| Less: | | |
| Issue costs | - | (11,334) |
| Interest payments | (6,049) | - |
| Balance, December 31, 2013 | 204,603 | 118,203 |
| Add: | | |
| Proceeds from loan | 672,000 | - |
| Interest | 39,402 | 4,183 |
| Less: | | |
| Issue costs | (9,327) | - |
| Loan bonus payable in common shares | (118,486) | - |
| Conversion of convertible promissory notes | - | (113,677) |
| Interest payments | (29,794) | (8,709) |
| Balance, September 30, 2014 | \$ 758,398 | \$ - |

(a) Promissory Note:

In July 2013, the Company entered into a loan agreement with 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.

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9. Loans (continued)

(a) Promissory Note: (continued)

In August 2014, the Company entered into a loan agreement with Polygon for US\$600,000 which bears an interest rate of 12% per annum, compounded and payable each calendar quarter. The loan and any accrued interest is repayable upon the earlier of February 8, 2016 or written demand for repayment after August 8, 2015. 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 August 8, 2015 and a minimum of 18 months interest compounded quarterly if early repayment after August 8, 2015 and prior to February 8, 2016. As a bonus for the loan, the Company shall issue common shares to Polygon, subject to applicable approvals. The number of common shares shall be equal to 18% of the principal amount of the loan divided by the market price of the Company's common share on the date of the notice of the Company's next shareholders' meeting subject to a minimum price of \$0.08 per common share if required by the TSX Venture Exchange. The Company recorded a derivative liability in relation to its obligation to issue common shares to Polygon as a loan bonus, and would recognize gains and losses from such liability as the market price of its common shares fluctuates below \$0.08. In connection with the loan, Polygon was granted a security interest in the Company's present and after-acquired personal property including the property option agreement under which the Company has a contractual right to acquire a 100% interest in the Los Andes property (Note 7(b)). Inecosa provided acknowledgement of Polygon's security interest. Polygon also has a negative pledge over all of the Company's assets.

(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 would 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 for the first year and at \$0.30 per unit 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 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 had been accrued. In February 2014, the Company paid interest of \$7,260. Then on March 11, 2014 the Company converted the promissory notes into 800,000 units and paid interests of \$1,450.

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, was accreted using the effective interest rate method over the term of the convertible promissory notes. Note 6 provides further details.

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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 convertible promissory notes into 800,000 units, with each unit comprised of one common share and one share purchase warrant (Note 9(b)).

On August 25, 2014, the Company issued 1,874,500 common shares at a value of \$0.08 to current and former senior officers pursuant to shares-for-debt settlements for \$149,960.

- (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 condensed consolidated interim 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.

(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.

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10. Share Capital (continued)

(c) Stock option plan: (continued)

The continuity of stock options for the nine months ended September 30, 2014 is as follows:

| | September 30, 2014 | |
|--|--------------------|---------------------------------|
| | Number of Shares | Weighted average exercise price |
| Outstanding balance, beginning of period | 1,677,971 | \$1.03 |
| Granted | 2,815,000 | \$0.14 |
| Forfeited | (50,000) | \$0.15 |
| Expired | (1,611,968) | \$0.73 |
| Outstanding balance, end of period | 2,831,003 | \$0.33 |
| Exercise price range | \$0.08 - \$1.26 | |

The following table summarizes information about stock options outstanding and exercisable at September 30, 2014:

| Exercise Prices | Options Outstanding | | | Options Exercisable | | |
|-----------------|-------------------------------------|---|----------------------------------|-------------------------------------|---|----------------------------------|
| | Number Outstanding at Sept 30, 2014 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices | Number Exercisable at Sept 30, 2014 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices |
| \$1.05 | 266,668 | 1.14 | \$1.05 | 266,668 | 1.14 | \$1.05 |
| \$1.26 | 30,667 | 1.17 | \$1.26 | 30,667 | 1.17 | \$1.26 |
| \$1.125 | 181,667 | 1.73 | \$1.125 | 181,667 | 1.73 | \$1.125 |
| \$0.78 | 160,001 | 2.58 | \$0.78 | 160,001 | 2.58 | \$0.78 |
| \$0.15 | 1,692,000 | 4.48 | \$0.15 | 684,000 | 4.48 | \$0.15 |
| \$0.08 | 500,000 | 4.98 | \$0.08 | 100,000 | 4.98 | \$0.08 |
| | 2,831,003 | 3.93 | \$0.33 | 1,423,003 | 3.25 | \$0.53 |

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10. Share Capital (continued)

(c) Stock option plan: (continued)

During the nine months ended September 30, 2014, the Company recognized share-based payments of \$121,958 (September 30, 2013 - \$51,260) based on the fair value of stock options that were earned by the provision of services during the period. Share-based payments are segregated between directors and officers, employees and consultants as follows:

| | September 30, | |
|---|-------------------|------------------|
| | 2014 | 2013 |
| Directors (excludes directors who are officers) | \$ 16,385 | \$ 16,696 |
| Officers (includes directors who are officers) | 86,713 | 43,362 |
| Employees | 9,248 | 2,488 |
| Consultants | 9,612 | (11,286) |
| | <u>\$ 121,958</u> | <u>\$ 51,260</u> |

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 as follows:

| | September 30, | |
|--------------------------------------|---------------|------|
| | 2014 | 2013 |
| Number of stock options granted | 2,815,000 | - |
| Fair value of stock options granted | \$0.09 | n/a |
| Market price of shares on grant date | \$0.13 | n/a |
| Pre-vest forfeiture rate | 10.57% | n/a |
| Risk-free interest rate | 1.32% | n/a |
| Expected dividend yield | 0% | n/a |
| Expected stock price volatility | 121.35% | n/a |
| Expected option life in years | 3 | n/a |

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

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 until 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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10. Share Capital (continued)

(c) Stock option plan: (continued)

On September 25, 2014, the Company granted stock options to purchase up to 500,000 common shares at an exercise price of \$0.08 until September 25, 2019. These stock options 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.

(d) Warrants:

At September 30, 2014, the Company had outstanding warrants as follows:

| Exercise Prices | Expiry Dates | Outstanding at December 31, 2013 | Issued | Exercised | Expired | Outstanding at September 30, 2014 |
|-----------------|-------------------|----------------------------------|---------|-----------|---------|-----------------------------------|
| \$0.60 | December 28, 2014 | 380,834 | - | - | - | 380,834 |
| \$0.24 | December 13, 2016 | 20,833,333 | - | - | - | 20,833,333 |
| \$0.30 | August 7, 2016 | - | 800,000 | - | - | 800,000 |
| | | 21,214,167 | 800,000 | - | - | 22,014,167 |

On March 11, 2014, the Company converted 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 September 30, 2014:

| | September 30, 2014 |
|-------------------------------------|--------------------|
| Stock options (Note 10(c)) | 2,831,003 |
| Warrants (Note 10(d)) | 22,014,167 |
| Common shares reserved for issuance | 24,845,170 |

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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. The Company has authority to terminate or abandon the Plan if its Board of Directors determines such cancellation is in the best interest of the Company.

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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 condensed consolidated interim financial statements, the Company had the following transactions with related parties:

| | Nine months ended September 30, | | Net balance receivable (payable) | |
|---|---------------------------------|---------------------|----------------------------------|---------------------|
| | 2014 | 2013 | September 30, 2014 | December 31, 2013 |
| Key management compensation: | | | | |
| Executive salaries and remuneration ⁽¹⁾ | \$ 359,062 | \$ 312,096 | \$ (48,320) | \$ (232,249) |
| Directors fees | 33,563 | 30,000 | (72,196) | (60,196) |
| Share-based payments | 103,098 | 60,058 | - | - |
| | <u>\$ 495,723</u> | <u>\$ 402,154</u> | <u>\$ (120,516)</u> | <u>\$ (292,445)</u> |
| Mineral property expenditures incurred to Inecosa ⁽²⁾ : | | | | |
| Acquisition costs: | | | | |
| Number of common shares issued | 189,300 | - | | |
| Exploration expenditures incurred | <u>\$ 385,175</u> | <u>\$ 173,545</u> | | |
| Legal fees incurred to a law firm in which a director of the Company is a partner ⁽³⁾ | <u>\$ 134,239</u> | <u>\$ 87,059</u> | <u>\$ (269,715)</u> | <u>\$ (150,883)</u> |
| Net office, sundry, rent and salary allocations recovered from (incurred to) company(s) sharing certain common director(s) ⁽⁴⁾ | <u>\$ 42</u> | <u>\$ (115,484)</u> | <u>\$ 51,050</u> | <u>\$ (13,870)</u> |

(1) Includes key management compensation which is included in mineral property interests and property investigation. Also includes an officer who was a director and who resigned August 1, 2014. On August 25, 2014, the Company issued 1,874,500 common shares at a value of \$0.08 to current and former senior officers pursuant to shares-for-debt settlements for \$149,960 and recognized a gain on debt settlement of \$42,091.

(2) 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).

(3) Includes legal fees which are included in finance charges and share issuance expenses.

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11. Related Party Transactions (continued)

(4) The company(ies) include Aztec Metals Corp. which share certain common director(s), and include BYG Ventures Ltd. (“BYG”), Canarc Resource Corp. and Endeavour Silver Corp. which previously shared a common director until December 17, 2013 when such expenses were incurred.

The above related party 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

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|--------------------------------------|----------------------------------|------------|---------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Property Investigation: | | | | |
| Employee and management remuneration | \$ - | \$ 144,611 | \$ - | \$ 317,206 |
| Field supplies | - | - | - | 986 |
| Mapping and surveys | - | 1,261 | - | 2,842 |
| Office and sundry | - | 1,518 | 916 | 5,682 |
| Transportation and travel | - | - | - | 7,987 |
| | \$ - | \$ 147,390 | \$ 916 | \$ 334,703 |

13. Segment Disclosures

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

| | September 30, 2014 | | | | December 31, 2013 | | | |
|----------------------------|--------------------|--------|--------------|--------------|-------------------|--------|--------------|--------------|
| | Canada | Mexico | Nicaragua | Total | Canada | Mexico | Nicaragua | Total |
| Mineral property interests | \$ - | \$ - | \$ 6,356,605 | \$ 6,356,605 | \$ - | \$ - | \$ 5,165,664 | \$ 5,165,664 |
| Equipment | 2,106 | 2,781 | - | 4,887 | 2,717 | 5,965 | - | 8,682 |

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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 had 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.

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Michael Adams
James Defer
Stewart Lockwood
Philip Yee

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Marco Montecinos ~ Vice-President, Exploration
Philip Yee ~ Chief Financial Officer
Stewart Lockwood ~ Secretary

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