



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended April 30, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

TSXV: TEN

**TERRACO GOLD CORP.**

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# TERRACO GOLD CORP.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited - Expressed in Canadian Dollars)

	April 30, 2015	July 31, 2014
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 109,616	\$ 657,308
Receivables	20,167	26,387
Available-for-sale securities (Note 3)	40,660	136,920
Prepaid expenses and deposits	38,398	34,761
	<u>208,841</u>	<u>855,376</u>
Reclamation bonds	184,917	165,710
Royalty acquisition (Note 5)	605,853	605,853
Royalty options (Note 6)	464,549	484,689
Exploration and evaluation assets (Note 4 and Schedule)	26,851,819	26,566,556
Other assets (Note 7)	1,030,441	1,029,515
Property and equipment	2,639	3,268
	<u>\$ 29,349,059</u>	<u>\$ 29,710,967</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 171,652	\$ 89,142
Reclamation provision	<u>119,073</u>	<u>106,705</u>
	<u>290,725</u>	<u>195,847</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital (Note 8)	36,418,550	36,418,550
Contributed surplus	7,561,143	7,211,962
Accumulated other comprehensive income	7,597	76,357
Deficit	<u>(14,928,956)</u>	<u>(14,191,749)</u>
	<u>29,058,334</u>	<u>29,515,120</u>
	<u>\$ 29,349,059</u>	<u>\$ 29,710,967</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

These condensed interim consolidated financial statements were approved for issue by the Audit Committee of the Board of Directors on June 25, 2015 and are signed on its behalf by:

Signed: "Todd Hilditch" \_\_\_\_\_, Director

Signed: "Alfred Fischer" \_\_\_\_\_, Director

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

## TERRACO GOLD CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS  
THREE AND NINE MONTHS ENDED APRIL 30, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

	Three month Period Ended April 30, 2015	Three month Period Ended April 30, 2014	Nine month Period ended April 30, 2015	Nine month Period ended April 30, 2014
Accounting and audit	\$ 5,510	\$ 16,670	\$ 39,544	\$ 39,332
Amortization	210	295	631	879
Consulting fees	67,500	67,852	202,500	204,674
Foreign exchange	14,548	14,917	(40,920)	(83,487)
Insurance	6,220	7,993	19,351	16,728
Investor relations	2,592	16,705	29,421	48,583
Legal and professional fees	2,832	15	12,045	5,735
Salaries, wages, office and sundry	36,308	39,177	113,125	121,017
Property investigation	628	-	628	-
Shareholder information	16	1,392	4,123	4,638
Share-based compensation	73,023	50,445	349,181	154,122
Telephone	987	2,020	2,750	6,878
Transfer agent and filing fees	4,455	1,999	22,622	11,569
Travel	-	3,445	75	11,098
<b>LOSS BEFORE OTHER ITEMS</b>	<b>(214,829)</b>	<b>(222,925)</b>	<b>(755,076)</b>	<b>(541,766)</b>
<b>OTHER ITEMS</b>				
Interest income and other	80	1	174	6,372
Gain on sale of investments	10,125	-	17,695	-
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>(204,624)</b>	<b>(222,924)</b>	<b>(737,207)</b>	<b>(535,394)</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(14,724,332)</b>	<b>(13,603,473)</b>	<b>(14,191,749)</b>	<b>(13,291,003)</b>
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (14,928,956)</b>	<b>\$ (13,826,397)</b>	<b>\$ (14,928,956)</b>	<b>\$ (13,826,397)</b>
<b>LOSS PER SHARE, BASIC AND DILUTED</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>134,797,151</b>	<b>134,797,151</b>	<b>134,797,151</b>	<b>134,771,510</b>

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

# TERRACO GOLD CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE AND NINE MONTHS ENDED APRIL 30, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

	Nine month Period Ended April 30, 2015	Nine month Period Ended April 30, 2014
<b>CASH (USED IN) PROVIDED BY</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (737,207)	\$ (535,394)
Items not affecting cash		
Amortization	629	879
Gain on marketable securities	(17,695)	-
Stock based compensation	349,180	154,121
	<u>(405,093)</u>	<u>(380,394)</u>
Changes in non-cash working capital balances		
Receivables	6,220	51,175
Prepaid expenses and deposits	(3,637)	(291)
Accounts payable and accrued liabilities	109,006	(109,969)
	<u>(293,504)</u>	<u>(439,479)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of shares, net	<u>-</u>	<u>24,500</u>
<b>INVESTING ACTIVITIES</b>		
Spring Valley Project royalty option expenditures	20,140	(6,941)
Reclamation bonds and deposits	(6,839)	(3,235)
Cash from sale of marketable securities	45,195	-
Exploration and evaluation expenditures	(311,758)	(306,040)
Other asset expenditures	(926)	(830)
	<u>(254,188)</u>	<u>(317,046)</u>
<b>DECREASE IN CASH CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>(547,692)</u>	<u>(732,025)</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 109,616</u>	<u>\$ 856,945</u>

## SUPPLEMENTAL CASH FLOW INFORMATION (Note 10)

Interest paid in cash	\$ -	\$ -
Income taxes paid in cash	\$ -	\$ -

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

## TERRACO GOLD CORP.

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited - Expressed in Canadian Dollars)

	Number of Shares	Common Shares	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance, July 31, 2013	134,622,151	\$ 36,372,501	\$ 6,818,751	\$ 37,554	\$ (13,291,003)	\$ 29,937,803
Common shares issued for:						
Cash – exercise of stock options (Note 8)	175,000	46,049	(21,549)	-	-	24,500
Share-based compensation	-	-	154,122	-	-	154,122
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	(51,295)	-	(51,295)
Net loss for the period	-	-	-	-	(535,394)	(535,394)
<b>Balance, April 30, 2014</b>	<b>134,797,151</b>	<b>\$ 36,418,550</b>	<b>\$ 6,951,324</b>	<b>\$ (13,741)</b>	<b>\$ (13,826,397)</b>	<b>\$ 29,529,736</b>
Balance, July 31, 2014	134,797,151	\$ 36,418,550	\$ 7,211,962	\$ 76,357	\$ (14,191,749)	\$ 29,515,120
Share-based compensation	-	-	349,181	-	-	349,181
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	(68,760)	-	(68,760)
Net loss for the period	-	-	-	-	(737,207)	(737,207)
<b>Balance, April 30, 2015</b>	<b>134,797,151</b>	<b>\$ 36,418,550</b>	<b>\$ 7,561,143</b>	<b>\$ 7,597</b>	<b>\$ (14,928,956)</b>	<b>\$ 29,058,334</b>

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

# TERRACO GOLD CORP.

## CONDENSED INTERIM CONSOLIDATED SCHEDULE OF EXPLORATION AND EVALUATION ASSETS (Unaudited - Expressed in Canadian Dollars)

	Period Ended April 30, 2015	Activity	Year Ended July 31, 2014	Activity	Year Ended July 31, 2013
<b>Almaden (Nutmeg Mountain Gold) Property</b>					
Property acquisition costs and option payments	\$ 14,045,558	\$ -	\$ 14,045,558	\$ -	\$ 14,045,558
Property maintenance costs	342,772	80,349	262,423	39,205	223,218
Engineering and consulting	1,126,595	14,175	1,112,420	68,494	1,043,926
Assays, surveys and analysis	335,247	-	335,247	11,199	324,048
Environmental	40,057	-	40,057	9,054	31,003
Drilling	2,486,933	-	2,486,933	-	2,486,933
PEA	36,196	-	36,196	-	36,196
Communications, field supplies and expenses	743,938	42,496	701,442	70,214	631,228
Reclamation costs	7,769	747	7,022	407	6,615
	<u>19,165,065</u>	<u>137,767</u>	<u>19,027,298</u>	<u>198,573</u>	<u>18,828,725</u>
<b>Moonlight Property</b>					
Property acquisition costs and option payments	3,138,575	30,551	3,108,024	53,496	3,054,528
Property maintenance costs	456,417	39,900	416,517	5,750	410,767
Engineering and consulting	1,067,303	41,784	1,025,519	96,946	928,573
Assays, surveys and analysis	503,270	5,762	497,508	14,753	482,755
Environmental	99,344	773	98,571	20,803	77,768
Drilling	1,437,533	-	1,437,533	-	1,437,533
Communications, field supplies and expenses	125,653	3,203	122,450	6,918	115,532
Reclamation cost	100,748	8,544	92,204	2,514	89,690
	<u>6,928,843</u>	<u>130,517</u>	<u>6,798,326</u>	<u>201,180</u>	<u>6,597,146</u>
<b>Bonanza Property</b>					
Property acquisition costs and option payments	247,871	-	247,871	5,319	242,552
Property maintenance costs	105,375	2,370	103,005	16	102,989
Engineering and consulting	285,669	5,033	280,636	6,320	274,316
Assays, surveys and analysis	160,433	-	160,433	-	160,433
Environmental	248	-	248	-	248
Equipment rental	225	-	225	-	225
Drilling	193,936	-	193,936	-	193,936
Communications, field supplies and expenses	31,639	175	31,464	-	31,464
Sale proceeds	(62,828)	-	(62,828)	-	(62,828)
Recovery	(147,458)	-	(147,458)	-	(147,458)
Impairment charge	(605,355)	-	(605,355)	-	(605,355)
	<u>209,755</u>	<u>7,578</u>	<u>202,177</u>	<u>11,655</u>	<u>190,522</u>
<b>Middlegate Property</b>					
Property acquisition costs and option payments	11,053	-	11,053	-	11,053
Property maintenance costs	91,999	8,082	83,917	1,004	82,913
Engineering and consulting	133,347	1,424	131,923	8,774	123,149
Assays, surveys and analysis	87,092	-	87,092	-	87,092
Environmental	4,212	(3,208)	7,420	91	7,329
Drilling	202,075	-	202,075	-	202,075
Communications, field supplies and expenses	7,821	26	7,795	395	7,400
Reclamation cost	10,557	3,077	7,480	(777)	8,257
	<u>548,156</u>	<u>9,401</u>	<u>538,755</u>	<u>9,487</u>	<u>529,268</u>
Total exploration and evaluation assets	\$ <u>26,851,819</u>	\$ <u>285,263</u>	\$ <u>26,566,556</u>	\$ <u>420,895</u>	\$ <u>26,145,661</u>

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

# TERRACO GOLD CORP.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED APRIL 30, 2015 AND 2014

(Unaudited - Expressed in Canadian Dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

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Terraco Gold Corp. (the “Company” or “Terraco”) was incorporated on November 28, 1995 under the Business Corporations Act (Alberta). The Company continued into British Columbia from Alberta on June 8, 2011 under the Business Corporations Act (British Columbia). The Company’s common shares are listed on the TSX Venture Exchange (the “Exchange”) under the trading symbol “TEN.V”. The Company’s principal office is located at #1825 – 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9.

The Company is a precious metals exploration and royalty company engaged in the acquisition and exploration of mineral properties and the acquisition of royalty assets. The Company currently has exploration properties and royalty assets in the United States of America. To date, no mineral development projects have been completed and no commercial development or production has commenced.

The Company is primarily in the exploration stage with respect to its mineral properties. Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of the amounts shown for exploration and evaluation costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development programs and ultimately upon future profitable production.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Management believes the Company has sufficient funding available to continue exploration plans for the Company’s mineral property interests and to continue normal operations over the next 12 months. The continuing operations of the Company are dependent upon economic and market factors which involve uncertainties including the Company’s ability to raise adequate equity financing for future exploration programs and continuing operations. There can be no assurance that capital will be available, as necessary, to meet the Company’s operating commitments and further exploration and development plans.

	April 30, 2015	July 31, 2014
Deficit	\$ 14,928,956	\$ 14,191,749
Working capital	\$ 37,189	\$ 766,234

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### 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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(a) Statement of compliance

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim statements, including IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”).

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those applied in the Company’s annual consolidated financial statements for the year ended July 31, 2014. These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended July 31, 2014 which have been prepared according to IFRS as issued by the IASB. The Audit Committee of the Board of Directors authorized for publication the condensed interim consolidated financial statements on June 25, 2015.

(b) Accounting standards and interpretations issued but not yet adopted

i) IFRS 9 – Financial instruments, classification and measurement

In July 2014, the IASB issued IFRS 9 – Financial Instruments. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 – Financial Instruments: Recognition and Measurement.



## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED APRIL 30, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

### 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

This standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability and own credit. The standard introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses. The new standard also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The extent of the impact of adoption of IFRS 9 has not yet been determined.

#### (ii) IFRIC 21, Levies ("IFRIC 21")

In May 2013, the IASB issued IFRIC 21, which is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Company will adopt IFRIC 21 in its consolidated financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of IFRIC 21 has not yet been determined.

### 3. AVAILABLE-FOR-SALE SECURITIES

At April 30, 2015, the Company owns 214,000 common shares of Sama Resources Inc./Ressources Sama Inc. ("Sama"); a company listed on the Exchange with a director and officers in common. This investment is accounted for as an available-for-sale investment measured at fair value with changes in fair value recognized in accumulated other comprehensive income net of deferred income taxes. Management estimates the fair market value of these available-for-sale securities using the quoted market price of the securities at the reporting date.

	Number of shares	Cost \$	Fair value \$	Accumulated unrealized holding gain (loss) \$	Deferred income taxes on accumulated unrealized holding gain (loss) \$	Cumulative gains (losses) \$
April 30, 2015						
Sama	214,000	21,400	40,660	19,260	(11,663)	7,597
July 31, 2014						
Sama	489,000	48,900	136,920	88,020	(11,663)	76,357

During the year ended July 31, 2014, the Company sold 166,000 common shares of Freegold Ventures Limited ("Freegold") for proceeds of \$31,547, resulting in a net loss on sale of \$68,060. During the nine months ended April 30, 2015, the Company sold 275,000 common shares of Sama for proceeds of \$45,195, resulting in a net gain on sale of \$17,695.

The Company records a deferred income tax recovery in its financial statements where the Company has sufficient previously unrecognized tax loss carry forwards available to offset the deferred tax liability relating to unrealized gains included in other comprehensive income.

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED APRIL 30, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

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### 4. EXPLORATION AND EVALUATION ASSETS

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(a) Almaden (Nutmeg Mountain) Property

On January 25, 2011, the Company acquired all of the outstanding securities of Western Standard Metals Ltd. ("Western") in an all-share transaction by way of a plan of arrangement. Accordingly, the Company acquired a 100% interest in the Almaden (Nutmeg Mountain) Property comprising 12 leased patented lode mining claims (approximately 248 acres), 208 unpatented lode mining claims (approximately 4,150 acres) and approximately 280 acres of private fee ground located in Washington County, Idaho.

The minimum future payments required to maintain the leased patented lode mining claims over the next 7 years are as follows:

- US\$35,520 cash before fiscal year ended July 31, 2013 (paid);
- US\$35,520 cash before fiscal year ended July 31, 2014 (paid);
- US\$35,520 cash before fiscal year ended July 31, 2015; and
- US\$129,600 cash thereafter.

During the year ended July 31, 2012, the Company staked an additional 2 unpatented mining claims in the surrounding area.

The Almaden Property is subject to a 4% net proceeds royalty interest payable to underlying property owners, a 1% net smelter return ("NSR") royalty (for gold prices equal to or less than US\$425/oz.) or 2% (for gold prices greater than US\$425/oz.) payable to Royal Gold Inc. and a 0.5% NSR royalty payable to a strategic investor (Note 6).

(b) Moonlight Property

During the year ended July 31, 2007, the Company entered into a purchase agreement for a 100% interest in 64 unpatented mining claims comprising approximately 1,380 acres with an option to joint venture on the Moonlight Property located in Pershing County, Nevada, for the consideration of US\$1,000,000 (paid); the Company staked 164 unpatented mining claims in the surrounding area; and the Company entered into four additional mining leases and option to purchase agreements covering a total of 24 claims and approximately 615 acres on private land in the vicinity of the Moonlight Property, US\$11,750 was paid upon execution of the various agreements.

During the year ended July 31, 2008, the Company entered into one additional mining lease and option to purchase agreement and one corrective deed sale covering approximately 60 acres on private land in the vicinity of the Moonlight Property, US\$10,500 was paid upon execution of the various agreements.

The minimum future payments required to maintain the mining lease and option to purchase agreements over 28 years are as follows:

- US\$40,000 cash before fiscal year ended July 31, 2013 (paid);
- US\$45,000 cash before fiscal year ended July 31, 2014 (paid);
- US\$45,000 cash before fiscal year ended July 31, 2015; and
- US\$557,000 cash thereafter.

Work commitments covering 15 of the claims are as follows:

- US\$135,000 expenditures to incur before fiscal year ended July 31, 2014 and each year thereafter up to and including the twentieth anniversary (December 6, 2026) of the agreement date. During the year ended July 31, 2014, the landowner waived the 2014 expenditure commitment in exchange for a cash payment of US\$5,000 (paid).

Purchase option payments to acquire 100% of the properties under the agreements total US\$1,500,000. Certain land parcels within the Moonlight Property area are subject to a NSR royalty of up to 3%.

## TERRACO GOLD CORP.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED APRIL 30, 2015 AND 2014

(Unaudited - Expressed in Canadian Dollars)

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#### 4. EXPLORATION AND EVALUATION ASSETS (Cont'd)

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During the year ended July 31, 2012, the Company entered into a purchase agreement for a 100% interest in 88 land parcels comprising 1,040 acres of net surface rights and 2,860 acres of net mineral rights in Pershing County, Nevada, for consideration of US\$1,169,929 (paid) and the issuance of 773,000 (issued) common shares. The Company also staked an additional 2 unpatented mining claims in the surrounding area during the year.

(c) Bonanza Property

Pursuant to an assignment agreement effective January 27, 2005, the Company acquired rights and obligations under an option to lease agreement relating to the Bonanza Property consisting of 9 patented and 14 unpatented mining claims comprising approximately 450 acres located in La Paz County, Arizona. The Company paid US\$9,000 and issued 200,000 common shares as consideration for this agreement.

The Company exercised the option and entered into a mining and lease agreement on September 20, 2005.

In accordance with this agreement, the following advance royalty payments are required (credited against the 2% production royalty):

- US\$10,000 cash before fiscal year ended July 31, 2011 (paid);
- US\$10,000 cash before fiscal year ended July 31, 2012 (paid);
- US\$20,000 cash before fiscal year ended July 31, 2013 (paid); and
- US\$5,000 cash before fiscal year ended July 31, 2014 (paid) and annually thereafter for the duration of the agreement.

The original 9 remaining acquired claims are subject to a 1% NSR royalty agreement. Also, under this agreement, the Company would be required to pay a production royalty of 2% upon commencement of commercial production. Prior to paying the production royalty, the original claims are subject to a 5% NSR royalty payable to a maximum of US\$200,000. The Company has the option of pre-paying the US\$200,000 up front or a 5% NSR royalty to a maximum of US\$200,000.

(d) Middlegate Property

On November 30, 2007, the Company entered into an Exploration and Option Purchase Agreement ("EA") for the Middlegate Property consisting of the Thunder and Lightning unpatented mining claims comprising approximately 40 acres in Churchill County, Nevada (the "Middlegate Claims"). The Company, through its wholly-owned Nevada subsidiary, staked an additional 43 unpatented mining claims comprising approximately 1,940 acres (the "TGC Claims" and collectively with the Middlegate Claims, the "Middlegate Property"), which total approximately 3 square miles.

Pursuant to the terms of the EA, the Company has an option to earn an undivided 100% interest in the Middlegate Claims by incurring a minimum of US\$480,000 in exploration expenditures on the Middlegate Property within a four-year period.

On February 24, 2012, the Company entered into a Restatement and Termination of Exploration and Option to Purchase Agreement ("RTEOPA") for the Middlegate Claims whereby the Company made a final payment of US\$7,438 to earn an undivided 100% interest in the Middlegate Claims.

The RTEOPA allows for a 5% NSR royalty on the Middlegate Claims which, on or before November 27, 2015 at the Company's option, can be reduced to 2% by buying down the NSR royalty for a total of US\$135,000, structured as follows: purchase first 1% by paying US\$35,000; second 1% by paying US\$50,000; and third 1% by paying US\$50,000. The additional TGC Claims hold to the seller's benefit a 3% NSR royalty, which the Company may buy down to 2% by paying a one-time fee of US\$75,000 on or before November 27, 2015.

## TERRACO GOLD CORP.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED APRIL 30, 2015 AND 2014

(Unaudited - Expressed in Canadian Dollars)

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#### 5. ROYALTY ACQUISITION

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On March 8, 2012, the Company entered into a Royalty Assignment, Purchase and Option Agreement (“Royalty Assignment, Purchase and Option Agreement”) pursuant to which the Company acquired a 0.5% NSR royalty from a strategic partner on a portion of the Spring Valley Gold Project (“Spring Valley Project”) located in Pershing County, Nevada, in exchange for 2,500,000 common shares with an estimated fair value of \$587,500. The Spring Valley Project is a joint venture between Barrick Gold Corp. (“Barrick”) and Midway Gold Corp., where Barrick has the right to earn a 75% interest in the Spring Valley Project by completing work expenditures totaling US\$38,000,000 before December 31, 2014 (completed). The Company issued 2,500,000 common shares as consideration for the full purchase price.

As at April 30, 2015, the Company had capitalized acquisition costs of \$605,853 (July 31, 2014 - \$605,853) under royalty acquisition.

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#### 6. ROYALTY OPTIONS

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##### Spring Valley Royalty Option #1

On December 21, 2011, the Company entered into an Assignment and Option Agreement (“Assignment and Option Agreement”) pursuant to which a wholly-owned subsidiary acquired an option to purchase a 2.5% NSR sliding scale royalty on a portion of the Spring Valley Project and received in cash US\$5,000,000. The terms of the option provide the Company with the ability to purchase a 2.5% NSR sliding scale royalty on a portion of the Spring Valley Project for US\$12,500,000 for a period of 5 years from the closing of the transaction or within 1 year of a change of control of the Company. In exchange for the option, the Company issued a 1% NSR royalty on its Moonlight Property; a 0.5% NSR royalty (and up to a 1.0% NSR royalty in certain circumstances) on its Almaden Property; an off-take for 30% of the minerals produced from the Almaden (Nutmeg Mountain) Property during the life of the mine; and 1,000,000 share purchase warrants with an exercise price of \$0.35 per share for a period of 5 years, subject to early expiry at the discretion of the Company, if the Company shares trade at \$0.70 or higher for 20 consecutive trading days. The fair value attributed to the share purchase warrants was estimated to be \$228,399 using the Black-Scholes option-pricing model with the following assumptions: expected warrant life of 5 years, risk-free interest rate of 1.15%, dividend yield of 0% and expected volatility of 151%. The Company incurred a success fee of \$300,000 (paid) in conjunction with this transaction.

NSR sliding scale royalty:

Gold Price (US\$ per oz)	Terraco Royalty Option
<\$300	0.71%
\$300-\$399	1.07%
\$400-\$499	1.43%
\$500-\$599	1.79%
\$600-\$699	2.14%
\$700+	2.50%

##### Spring Valley Royalty Option #2

On March 8, 2012, the Company entered into a Royalty Assignment, Purchase and Option Agreement pursuant to which a wholly-owned subsidiary acquired an option to acquire a 0.5% NSR royalty on a portion of the Spring Valley Project. The terms of the option provide the Company with the ability to purchase a 0.5% NSR royalty on a portion of the Spring Valley Project for US\$983,211 for a period of 5 years from the closing of the transaction or within 1 year of a change of control of the Company.

##### Spring Valley Royalty Option #3

On April 21, 2013, the Company entered into a Royalty Purchase Agreement (“RPA”) and a Royalty Purchase and Option Agreement (“RPOA”) pursuant to which a wholly-owned subsidiary acquired for US\$4,200,000 and sold for US\$5,200,000 a 1.0% NSR sliding scale royalty on a portion of the Spring Valley Project while retaining an option to acquire a NSR sliding scale royalty on a portion of the Spring Valley Project.

## TERRACO GOLD CORP.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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#### 6. ROYALTY OPTIONS (Cont'd)

The terms of the option provide the Company with the ability to purchase a 0.5% NSR sliding scale royalty on a portion of the Spring Valley Project for US\$2,600,000 for a period of 3.7 years from the closing of the transaction (expiring on December 30, 2016) or within 1 year of a change of control of the Company. Pursuant to the RPA and RPOA, the Company issued 800,000 common shares (Note 10) as consideration with an estimated fair value of \$88,000 and received a net cash infusion of US\$1,000,000.

NSR sliding scale royalty:

Gold Price (US\$ per oz)	Terraco Royalty Option
<\$300	0.71%
\$300-\$399	1.07%
\$400-\$499	1.43%
\$500-\$599	1.79%
\$600-\$699	2.14%
\$700+	2.50%

As at April 30, 2015, the Company had capitalized acquisition costs of \$464,549 (July 31, 2014 - \$484,689) under all royalty options.

#### 7. OTHER ASSETS

Right-of-First-Refusal – Spring Valley Project

On December 21, 2011, the Company issued 4,000,000 common shares at an estimated fair value of \$1,020,000 to acquire a right of first refusal on a separate 1% area of interest royalty located on the Spring Valley Project.

As at April 30, 2015 the Company had capitalized acquisition costs of \$1,030,441 (July 31, 2014 - \$1,029,515) under other assets.

#### 8. CAPITAL

- (a) Authorized:  
Unlimited number of voting common shares  
Unlimited number of non-voting preferred shares, none issued and outstanding

- (b) Share purchase options

As at April 30, 2015, the Company had outstanding share purchase options enabling holders to acquire common shares of the Company as follows:

Number	Vested	Price per share	Expiry date
450,000	450,000	\$0.47	September 10, 2015
750,000	750,000	\$0.47	September 27, 2015
675,000	675,000	\$0.47	November 11, 2015
300,000	300,000	\$0.34	April 17, 2016
1,975,000	1,975,000	\$0.26	October 18, 2016
2,925,000	2,925,000	\$0.11	October 29, 2018
5,051,000	2,525,500	\$0.16	June 9, 2019
12,126,000	9,600,500		

**TERRACO GOLD CORP.**

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## 8. CAPITAL (Cont'd)

A summary of the Company's options and the changes for the year are as follows:

	April 30, 2015		July 31, 2014	
	Number	Number	Number	Weighted Average Exercise Price
Outstanding, beginning of the period/year	12,126,000	\$0.22	7,550,000	\$0.28
Granted	-	-	7,976,000	0.14
Exercised	-	-	(175,000)	0.14
Expired	-	-	(3,225,000)	0.19
Outstanding, end of the period/year	12,126,000	\$0.22	12,126,000	\$0.22

## (b) Share purchase options (Cont'd)

The Company has a share purchase option plan under which directors, officers, employees and consultants of the Company are eligible to receive share purchase options. The aggregate number of shares available to be issued upon the exercise of all share purchase options granted under the plan shall not exceed 10% of the issued and outstanding shares of the Company. The plan limits the maximum number of share purchase options issuable in any one 12-month period to any one optionee to 5% of the total common shares outstanding. The Board of Directors shall determine the terms and provisions of the options at the time of grant. The exercise price of each share purchase option shall not be less than the market price of the common shares on the date of the grant less the discount permitted by the Exchange. The maximum term of share purchase options shall not exceed 10 years or such other term as permitted by the Exchange.

	April 30, 2015	July 31, 2014
Risk-free interest rate	-	1.291 – 1.656%
Estimated volatility	-	112.700 – 130.464%
Expected life	-	3.31 – 4.81 years
Expected dividend yield	-	0.00%

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measures of the fair value of the Company's share purchase options.

## (c) Share purchase warrants

As at April, 2015, the Company had outstanding share purchase warrants enabling holders to acquire common shares of the Company as follows:

Expiry date	Exercise price per share	Number
December 22, 2016 <sup>(1)</sup>	\$0.35	1,000,000

<sup>(1)</sup> On December 22, 2011, the Company issued 1,000,000 share purchase warrants in connection with royalty options (Note 7).

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### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED APRIL 30, 2015 AND 2014

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#### 8. CAPITAL (Cont'd)

A summary of the Company's share purchase warrants and the changes for the period are as follows:

	April 30, 2015		July 31, 2014	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the period/year	1,000,000	\$0.35	1,000,000	\$0.35
Issued	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding, end of the period/year	1,000,000	\$0.35	1,000,000	\$0.35

#### (d) Shareholder rights plan

On April 16, 2013, the board of directors approved the adoption of a shareholder rights plan (the "Plan"). The Plan is designed to provide shareholders and the Company's board of directors with adequate time to consider and evaluate any unsolicited bid made for the Company, to provide the board of directors with adequate time to identify, develop and negotiate value-enhancing alternatives, if considered appropriate, to any such unsolicited bid, to encourage the fair treatment of shareholders in connection with any take-over bid for the Company and to ensure that any proposed transaction is in the best interests of the Company's shareholders.

The rights issued under the Plan will become exercisable only if a person, together with its affiliates, associates and joint actors, acquires or announces its intention to acquire beneficial ownership of shares which when aggregated with its current holdings, total 20% or more of the Company's outstanding common shares (determined in the manner set out in the Plan), other than by a permitted bid (as described in the Plan).

Permitted bids must be made by way of a take-over bid circular prepared in compliance with applicable securities laws and, among other conditions, must remain open for 60 days.

In the event that a take-over bid does not meet the permitted bid requirements of the Plan, the rights will entitle shareholders, other than any shareholder or shareholders making the take-over bid, to purchase additional common shares of the Company at a substantial discount to the market price of the common shares at that time.

#### 9. RELATED PARTY DISCLOSURES

##### (a) Transactions with key management personnel

During the period ended April 30, 2015, the Company paid or accrued consulting fees of \$166,500 (April 30, 2014 – \$111,000) and salaries, wages, office and sundry fees of \$22,500 (April 30, 2014 – \$22,650) to an officer or companies controlled by officers of the Company.

As at April 30, 2015, \$122,358 (July 31, 2014 – \$17,457) is payable to companies controlled by officers and/or directors of the Company, which is included in accounts payable and accrued liabilities.

During the period ended April 30, 2015, the Company paid engineering and consulting fees of US\$52,065 (April 30, 2014 - US\$113,053) to companies controlled by an officer or director of the Company. Of these fees, US\$51,439 (April 30, 2014 - US\$113,053) has been capitalized under exploration and evaluation assets as the fees were incurred directly for exploration and evaluation projects.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED APRIL 30, 2015 AND 2014  
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### 9. RELATED PARTY DISCLOSURES (Cont'd)

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During the period ended April 30, 2015, the Company incurred share-based payments of \$62,096 (April 30, 2014 – \$32,768) to officers and directors of the Company.

(b) Transactions with other related parties

As at April 30, 2015, \$6,129 (July 31, 2014 – \$4,578) is due from a director of the Company and a company with a director and officers in common. This amount is included in receivables.

Included in available-for-sale securities as at April 30, 2015 is 214,000 common shares with a market value of \$40,660 (July 31, 2014 - \$136,920) received from a company with a director and officers in common (Note 3).

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### 10. SUPPLEMENTAL CASH FLOW INFORMATION

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The following significant non-cash transactions have been excluded from the consolidated statements of cash flows:

As at April 30, 2015, exploration and evaluation expenditures incurred of \$9,641 (July 31, 2014 – \$36,167) are included under accounts payable and accrued liabilities.

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### 11. FINANCIAL INSTRUMENT – FAIR VALUE

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Financial instruments are classified into one of the following four categories: fair-value-through-profit or loss (“FVTPL”); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instrument	Category	April 30, 2015	July 31, 2014
Cash	FVTPL	\$ 109,616	\$ 657,308
Receivables	Loans and receivables	20,167	26,387
Available-for-sale securities	Available-for-sale	40,660	136,920
Reclamation bonds	Loans and receivables	184,917	165,710
Accounts payable and accrued liabilities	Other liabilities	(171,652)	(89,142)

The Company’s financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company’s fair value of cash and available-for-sale securities under the fair value hierarchy are measured using Level 1 inputs. The recorded amounts for receivables, accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The recorded amount for the reclamation bonds approximates its fair value.

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