Terraco
GOLD CORP

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended January 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

TSXV: TEN

TERRACO GOLD CORP.

INDEX

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

TERRACO GOLD CORP.

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

		January 31, 2015		July 31, 2014
ASSETS				
Current assets				
Cash	$	219,029	$	657,308
Receivables		15,179		26,387
Available-for-sale securities (Note 3)		105,360		136,920
Prepaid expenses and deposits		40,414		34,761
		379,982		855,376
Reclamation bonds (Note 9)		194,835		165,710
Royalty acquisition (Note 5)		605,853		605,853
Royalty options (Note 6)		486,782		484,689
Exploration and evaluation assets (Note 4 and Schedule)		26,762,326		26,566,556
Other assets (Note 7)		1,030,441		1,029,515
Property and equipment (Note 8)		2,847		3,268
	$	29,463,066	$	29,710,967
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	106,542	$	89,142
Reclamation provision (Note 9)		124,388		106,705
		230,930		195,847
SHAREHOLDERS' EQUITY				
Capital (Note 10)		36,418,550		36,418,550
Contributed surplus		7,488,121		7,211,962
Accumulated other comprehensive income		49,797		76,357
Deficit		(14,724,332)		(14,191,749)
		29,232,136		29,515,120
	$	29,463,066	$	29,710,967

COMMITMENTS (Notes 4 and 14)

These condensed interim consolidated financial statements were approved for issue by the Audit Committee of the Board of Directors on March 27, 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 SIX MONTHS ENDED JANUARY 31, 2015 AND 2014
(Unaudited - Expressed in Canadian Dollars)

	Three month Period Ended January 31, 2015	Three month Period Ended January 31, 2014	Six month Period Ended January 31, 2015	Six month Period Ended January 31, 2014
Accounting and audit	$ 15,343	$ 22,662	$ 34,033	$ 22,662
Amortization	207	292	421	584
Consulting fees	67,500	67,500	135,000	136,823
Foreign exchange	(41,439)	(78,447)	(55,468)	(98,404)
Insurance	5,939	8,922	13,131	8,735
Investor relations	10,495	18,800	26,829	31,879
Legal and professional fees	2,779	1,738	9,213	5,721
Salaries, wages, office and sundry	40,206	42,374	76,817	81,840
Shareholder information	150	2,914	4,107	3,244
Share-based compensation	108,556	52,347	276,159	103,677
Telephone	853	3,249	1,763	4,858
Transfer agent and filing fees	4,892	5,000	18,167	9,570
Travel	-	7,394	75	7,653
LOSS BEFORE OTHER ITEMS	(215,481)	(154,745)	(540,247)	(318,842)
OTHER ITEMS				
Interest income and other	40	6,370	94	6,372
Gain on sale of investments	7,570	-	7,570	-
NET INCOME (LOSS) FOR THE PERIOD	(207,871)	(148,375)	(532,583)	(312,470)
DEFICIT, BEGINNING OF PERIOD	(14,516,461)	(13,455,098)	(14,191,749)	(13,291,003)
DEFICIT, END OF PERIOD	$ (14,724,332)	$ (13,603,473)	$ (14,724,332)	$ (13,603,473)
LOSS PER SHARE, BASIC AND DILUTED	$ 0.00	$ 0.00	$ 0.00	$ 0.00
WEIGHTED AVERAGE SHARES OUTSTANDING	134,797,151	134,797,151	134,797,151	134,759,108

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 SIX MONTHS ENDED JANUARY 31, 2015 AND 2014
(Unaudited - Expressed in Canadian Dollars)

	Three month Period Ended January 31, 2015	Three month Period Ended January 31, 2014	Six month Period Ended January 31, 2015	Six month Period Ended January 31, 2014
CASH (USED IN) PROVIDED BY				
OPERATING ACTIVITIES				
Net income (loss)	$ (207,871)	$ (148,375)	$ (532,583)	$ (312,470)
Items not affecting cash				
Amortization	209	292	421	584
Gain on marketable securities	(7,570)	-	(7,570)	-
Stock based compensation	108,556	52,347	276,158	103,677
	(106,676)	(95,736)	(263,574)	(208,209)
Changes in non-cash working capital balances				
Receivables	17,715	62,143	11,208	58,423
Prepaid expenses and deposits	(6,831)	(187)	(5,653)	(3,026)
Accounts payable and accrued liabilities	31,671	(42,593)	46,171	(98,632)
	(64,121)	(76,373)	(211,848)	(251,444)
FINANCING ACTIVITIES				
Issuance of shares, net	-	-	-	24,500
INVESTING ACTIVITIES				
Reclamation bonds and deposits	(7,987)	(3,351)	(11,442)	(4,105)
Cash from sale of marketable securities	12,570	-	12,570	-
Exploration and evaluation expenditures	(69,234)	(69,588)	(224,540)	(189,197)
Other asset expenditures	(1,479)	(6,553)	(3,019)	(6,942)
	(66,130)	(79,492)	(226,431)	(200,244)
DECREASE IN CASH	(130,251)	(155,865)	(438,279)	(427,188)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	349,280	1,317,647	657,308	1,588,970
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 219,029	$ 1,161,782	$ 219,029	$ 1,161,782

SUPPLEMENTAL CASH FLOW INFORMATION (Note 13)

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 10)	175,000		46,049		(21,549)		-		-		24,500
Share-based compensation	-		-		103,677		-		-		103,677
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-		-		-		(31,369)		-		(31,369)
Net loss for the period	-		-		-		-		(312,470)		(312,470)
Balance, January 31, 2014	134,797,151	$	36,418,550	$	6,900,879	$	6,185	$	(13,603,473)	$	29,722,141
Balance, July 31, 2014	134,797,151	$	36,418,550	$	7,211,962	$	76,357	$	(14,191,749)	$	29,515,120
Common shares issued for:											
Share-based compensation	-		-		276,159		-		-		276,159
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-		-		-		(26,560)		-		(26,560)
Net loss for the period	-		-		-		-		(532,583)		(532,583)
Balance, January 31, 2015	134,797,151	$	36,418,550	$	7,488,121	$	49,797	$	(14,724,332)	$	29,232,136

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 January 31, 2015	Activity	Year Ended July 31, 2014	Activity	Year Ended July 31, 2013
Almaden (Nutmeg Mountain Gold) Property					
Property acquisition costs and option payments	$ 14,045,558	$ -	$ 14,045,558	$ -	$ 14,045,558
Property maintenance costs	297,974	35,551	262,423	39,205	223,218
Engineering and consulting	1,118,725	6,305	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	729,000	27,558	701,442	70,214	631,228
Reclamation costs	8,186	1,164	7,022	407	6,615
	19,097,876	70,578	19,027,298	198,573	18,828,725
Moonlight Property					
Property acquisition costs and option payments	3,132,269	24,245	3,108,024	53,496	3,054,528
Property maintenance costs	455,714	39,197	416,517	5,750	410,767
Engineering and consulting	1,055,494	29,975	1,025,519	96,946	928,573
Assays, surveys and analysis	503,270	5,762	497,508	14,753	482,755
Environmental	98,571	-	98,571	20,803	77,768
Drilling	1,437,533	-	1,437,533	-	1,437,533
Communications, field supplies and expenses	124,700	2,250	122,450	6,918	115,532
Reclamation cost	107,484	15,280	92,204	2,514	89,690
	6,915,035	116,709	6,798,326	201,180	6,597,146
Bonanza Property					
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	280,636	-	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	31,464	-	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)
	204,547	2,370	202,177	11,655	190,522
Middlegate Property					
Property acquisition costs and option payments	11,053	-	11,053	-	11,053
Property maintenance costs	91,998	8,081	83,917	1,004	82,913
Engineering and consulting	131,923	-	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	7,795	-	7,795	395	7,400
Reclamation cost	8,720	1,240	7,480	(777)	8,257
	544,868	6,113	538,755	9,487	529,268
Total exploration and evaluation assets	$ 26,762,326	$ 195,770	$ 26,566,556	$ 420,895	$ 26,145,661

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

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

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.

		January 31, 2015		July 31, 2014
Deficit	$	14,724,332	$	14,191,749
Working capital	$	273,440	$	766,234

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(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 March 27, 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.

(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 January 31, 2015, the Company owns 439,000 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) $
			January 31, 2015			
Sama	439,000	43,900	105,360	61,460	(11,663)	47,797
			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 six months ended January 31, 2015, the Company sold 50,000 common shares of Sama Resources Inc. ("Sama") for proceeds of $12,570, resulting in a net gain on sale of $7,570.

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.

4. EXPLORATION AND EVALUATION ASSETS

(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%.

4. EXPLORATION AND EVALUATION ASSETS (Cont'd)

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.

(Expressed in Canadian Dollars)

5. ROYALTY ACQUISITION

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 January 31, 2015, the Company had capitalized acquisition costs of $605,853 (July 31, 2014 - $605,853) under royalty acquisition.

6. ROYALTY OPTIONS

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.

(Expressed in Canadian Dollars)

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 January 31, 2015, the Company had capitalized acquisition costs of $486,782 (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 January 31, 2015 the Company had capitalized acquisition costs of $1,030,441 (July 31, 2014 - $1,029,515) under other assets.

8. PROPERTY AND EQUIPMENT

	Furniture and equipment	Computer equipment	Leasehold improvements	Total
Cost				
Balance, July 31, 2014	$ 8,134	$ 12,376	$ 6,017	$ 26,527
Additions (disposals)	-	-	-	-
Balance, January 31, 2015	$ 8,134	$ 12,376	$ 6,017	$ 26,527
Accumulated Depreciation				
Balance, July 31, 2014	6,314	12,198	4,747	23,259
Depreciation	182	27	212	421
Balance, January 31, 2015	$ 6,496	$ 12,225	$ 4,959	$ 23,680
Carrying Value				
Balance, July 31, 2013	$ 2,275	$ 258	$ 1,905	$ 4,438
Balance, July 31, 2014	1,820	178	1,270	3,268
Balance, January 31, 2015	$ 1,638	$ 151	$ 1,058	$ 2,847

(Expressed in Canadian Dollars)

9. RECLAMATION PROVISION

The reclamation provision is the estimated cost of reclaiming the disturbed area on the Company's Almaden, Moonlight and Middlegate Properties. An amount equal to the undiscounted obligation plus accrued interest is held with the Bureau of Land Management of the States of Nevada and Idaho in the form of reclamation bonds. All of the accrued reclamation costs are long-term in nature. No portion of these costs has been classified as a current liability.

The following table reconciles the estimated beginning and ending carrying amounts of the reclamation provision related to reclamation costs at the Company's properties.

	January 31, 2015	July 31, 2014
Reclamation provision, beginning of the period/year	$ 106,705	$ 102,694
Current year additions	17,683	4,011
Reclamation provision, end of the period/year	$ 124,388	$ 106,705

The assumptions used for the calculation of the provision are as follows:

	January 31, 2015	July 31, 2014
Estimated cash flows to settle the obligations (undiscounted)	$ 194,835	$ 165,710
Time range for settling the obligation for all active projects	10 years	10 years
Risk adjusted discount rate for all projects	4.5%	4.5%

10. 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 January 31, 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	2,193,750	$0.11	October 29, 2018
5,051,000	2,525,500	$0.16	June 9, 2019
12,126,000	8,869,250		

(Expressed in Canadian Dollars)

10. CAPITAL (Cont'd)

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

	January 31, 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

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.

	January 31, 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 January 31, 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[1]	$0.35	1,000,000

[1] On December 22, 2011, the Company issued 1,000,000 share purchase warrants in connection with royalty options (Note 7).

(Expressed in Canadian Dollars)

10. CAPITAL (Cont'd)

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

	January 31, 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.

11. RELATED PARTY DISCLOSURES

(a) Transactions with key management personnel

During the period ended January 31, 2015, the Company paid consulting fees of $111,000 (January 31, 2014 – $111,000) and salaries, wages, office and sundry fees of $15,000 (January 31, 2014 – $15,150) to companies controlled by officers and/or directors of the Company.

As at January 31, 2015, $61,599 (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 January 31, 2015, the Company paid engineering and consulting fees of US$30,525 (January 31, 2014 - US$73,780) to companies controlled by an officer or director of the Company. Of these fees, US$30,525 (January 31, 2014 - US$73,780) has been capitalized under exploration and evaluation assets as the fees were incurred directly for exploration and evaluation projects.

(Expressed in Canadian Dollars)

11. RELATED PARTY DISCLOSURES (Cont'd)

During the period ended January 31, 2015, the Company incurred share-based payments of $91,926 (January 31, 2014 – $34,003) to officers and directors of the Company.

(a) Transactions with other related parties

As at January 31, 2015, $6,327 (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 January 31, 2015 is 439,000 common shares with a market value of $105,360 (July 31, 2014 - $136,920) received from a company with a director and officers in common (Note 3).

12. OPERATING SEGMENTS

The Company operates in one reportable business segment: the exploration and development of unproven exploration and evaluation assets. As at January 31, 2015, the Company's exploration and evaluation assets are located in the two geographic areas as set out below:

	January 31, 2015		
	Canada	US	Total
Current assets	$ 209,587	$ 170,395	$ 379,982
Other assets	-	1,030,441	1,030,441
Exploration and evaluation assets	-	26,762,326	26,762,326
Royalty options	-	486,782	486,782
Royalty acquisition	-	605,853	605,853
Property and equipment	2,847	-	2,847
Reclamation bonds	-	194,835	194,835
	$ 212,434	$ 29,250,632	$ 29,463,066

	July 31, 2014		
	Canada	US	Total
Current assets	$ 421,596	$ 433,780	$ 855,376
Other assets	-	1,029,515	1,029,515
Exploration and evaluation assets	-	26,566,556	26,566,556
Royalty options	-	484,689	484,689
Royalty acquisition	-	605,853	605,853
Property and equipment	3,268	-	3,268
Reclamation bonds	-	165,710	165,710
	$ 424,864	$ 29,286,103	$ 29,710,967

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

As at January 31, 2015, exploration and evaluation expenditures incurred of $7,398 (July 31, 2014 – $36,167) are included under accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

14. COMMITMENTS

The Company has an operating lease commitment for office premises in Vancouver, British Columbia, requiring basic annual rent payments of $32,346 to December 31, 2015, and for office premises in Weiser, Idaho, requiring basic annual rent payments of US$43,200 to March 31, 2016.

Minimum payments relating to the above commitments in each of the next two fiscal years are as follows:

2015	$	44,201
2016	$	50,784

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Categories of financial assets and financial liabilities:

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	January 31, 2015	July 31, 2014
Cash	FVTPL	$ 219,029	$ 657,308
Receivables	Loans and receivables	15,179	26,387
Available-for-sale securities	Available-for-sale	105,360	136,920
Reclamation bonds	Loans and receivables	194,835	165,710
Accounts payable and accrued liabilities	Other liabilities	(106,542)	(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.

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's receivables predominately relate to receivables from goods and services input tax credits. Accordingly, the Company views credit risk on receivables as minimal, as it is primarily from an agency of the Government of Canada. The Company is also exposed to credit concentration risk by holding cash. This risk is minimized by holding the investments in large financial institutions or with the Government of Canada.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties meeting its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities and property commitments when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. Management attempts to ensure sufficient cash or liquid investments are available to satisfy budgeted expenditures.

(c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

(d) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian and the United States Dollar. The Company's exploration and evaluation costs are denominated in Canadian Dollars and United States Dollars. The Company has not entered into any arrangements to hedge its currency risk but does maintain cash balances within each currency.

(e) Commodity price risk

Commodity price risk is the risk that the fair value of financial assets and financial liabilities or expected future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States Dollars, as outlined above. As the Company has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time. However, the Company is exposed to commodity price risk as it impacts the Company's access to capital and funding.

(f) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of cash and term deposits is limited because of their short-term investment nature. A variable rate of interest is earned on cash; changes in market interest rates at the year-end would not have a material impact on the Company's financial statements.

16. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the continued development of its mineral properties. Therefore, the Company monitors the level of risk associated with its mineral property expenditures relative to its capital structure.

The Company considers its capital structure to include working capital and shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets and capital markets. In order to facilitate the management of capital and the development of its mineral properties, the Company prepares annual expenditure budgets which are regularly monitored and updated as considered necessary.

To maintain or adjust the capital structure, the Company may issue new equity, if available, on favourable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Company's investment policy is to hold cash and term deposits in interest-bearing bank accounts and highly liquid short-term, interest-bearing investments with maturities of one year or less which can be liquidated at any time without penalties. The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the period ended January 31, 2015.