



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

TSXV: TEN

**Notice of No Auditor Review of Interim Financial Statements**

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

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

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

**TERRACO GOLD CORP.**

INDEX

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION.....	1
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS.....	2
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS.....	3
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY.....	4
CONDENSED INTERIM CONSOLIDATED SCHEDULE OF EXPLORATION AND EVALUATION ASSETS.....	5

# TERRACO GOLD CORP.

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

	October 31, 2015	July 31, 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 323,923	\$ 534,670
Receivables	8,584	25,299
Available-for-sale securities (Note 3)	32,100	29,960
Prepaid expenses and deposits	20,400	28,491
Subscriptions receivable (Note 7)	-	50,444
	<u>385,007</u>	<u>668,864</u>
Reclamation bonds	203,143	198,633
Royalty acquisition (Note 5)	605,853	605,853
Royalty options (Note 6)	464,549	464,549
Exploration and evaluation assets (Note 4 and Schedule)	26,274,886	26,166,551
Other assets (Note 11)	1,030,441	1,030,441
Property and equipment	2,275	2,429
	<u>\$ 28,966,154</u>	<u>\$ 29,137,320</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 191,496	\$ 188,499
Reclamation provision	<u>130,809</u>	<u>129,101</u>
	<u>322,305</u>	<u>317,600</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital (Note 7)	37,065,367	37,068,442
Contributed surplus	7,630,313	7,604,223
Accumulated other comprehensive income	9,565	7,425
Deficit	<u>(16,061,396)</u>	<u>(15,860,370)</u>
	<u>28,643,849</u>	<u>28,819,720</u>
	<u>\$ 28,966,154</u>	<u>\$ 29,137,320</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)  
COMMITMENTS (Notes 4 and 9)  
EVENTS AFTER THE REPORTING PERIOD (Note 12)

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on December 23, 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 MONTHS ENDED OCTOBER 31, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

	Period Ended October 31, 2015	Period Ended October 31, 2014
Accounting and audit	\$ 17,085	\$ 18,690
Amortization	153	212
Consulting fees	67,500	67,500
Foreign exchange	1,683	(14,029)
Insurance	6,377	7,192
Investor relations	-	16,334
Legal and professional fees	-	6,434
Salaries, wages, office and sundry	33,905	36,611
Shareholder information	574	3,960
Share-based compensation	26,090	167,602
Telephone	808	910
Transfer agent and filing fees	11,581	13,275
Travel	-	75
<b>LOSS BEFORE OTHER ITEMS</b>	<b>(165,756)</b>	<b>(324,766)</b>
<b>OTHER ITEMS</b>		
Interest income and other	1	54
Impairment charge (Note 4)	(35,271)	-
<b>NET LOSS FOR THE PERIOD</b>	<b>(201,026)</b>	<b>(324,712)</b>
<b>LOSS PER SHARE, BASIC AND DILUTED</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>143,638,548</b>	<b>134,797,151</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 MONTHS ENDED OCTOBER 31, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

	Period Ended October 31, 2015	Period Ended October 31, 2014
<b>CASH (USED IN) PROVIDED BY</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (201,026)	\$ (324,712)
Items not affecting cash		
Amortization	153	212
Impairment charge	35,271	-
Share based compensation	26,090	167,602
	<u>(139,512)</u>	<u>(156,898)</u>
Changes in non-cash working capital balances		
Receivables	16,715	(6,507)
Prepaid expenses and deposits	8,091	1,178
Accounts payable and accrued liabilities	(153)	(19,119)
Subscriptions receivable	50,444	-
	<u>(64,415)</u>	<u>(181,346)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of shares, net	<u>(3,075)</u>	<u>-</u>
<b>INVESTING ACTIVITIES</b>		
Royalty options	-	(1,540)
Reclamation bonds and deposits	(2,802)	-
Proceeds on sale of marketable securities	-	(3,455)
Exploration and evaluation expenditures	(140,455)	(121,687)
Other asset expenditures	-	-
	<u>(143,257)</u>	<u>(126,682)</u>
<b>DECREASE IN CASH</b>	<b>(210,747)</b>	<b>(308,028)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>534,670</b>	<b>657,308</b>
<b>CASH, END OF PERIOD</b>	<b>\$ <u>323,923</u></b>	<b>\$ <u>349,280</u></b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION (Note 8)</b>		
Interest paid in cash	\$ <u>-</u>	\$ <u>-</u>
Income taxes paid in cash	\$ <u>-</u>	\$ <u>-</u>

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## 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, 2014	134,797,151	\$ 36,418,550	\$ 7,211,962	\$ 76,357	\$ (14,191,749)	\$ 29,515,120
Share-based compensation	-	-	167,602	-	-	167,602
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	(14,670)	-	(14,670)
Net loss for the period	-	-	-	-	(324,712)	(324,712)
<b>Balance, October 31, 2014</b>	<b>134,797,151</b>	<b>\$ 36,418,550</b>	<b>\$ 7,379,564</b>	<b>\$ 61,687</b>	<b>\$ (14,516,461)</b>	<b>\$ 29,343,340</b>
Balance, July 31, 2015	143,638,548	\$ 37,068,442	\$ 7,604,223	\$ 7,425	\$ (15,860,370)	\$ 28,819,720
Share issue costs	-	(3,075)	-	-	-	(3,075)
Share-based compensation	-	-	26,090	-	-	26,090
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	2,140	-	2,140
Net loss for the period	-	-	-	-	(201,026)	(201,026)
<b>Balance, October 31, 2015</b>	<b>143,638,548</b>	<b>\$ 37,065,367</b>	<b>\$ 7,630,313</b>	<b>\$ 9,565</b>	<b>\$ (16,061,396)</b>	<b>\$ 28,643,849</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 October 31, 2015	Activity	Year Ended July 31, 2015	Activity	Year Ended July 31, 2014
<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	385,577	42,849	342,728	80,305	262,423
Engineering and consulting	1,150,465	15,199	1,135,266	22,846	1,112,420
Assays, surveys and analysis	335,247	-	335,247	-	335,247
Environmental	40,057	-	40,057	-	40,057
Drilling	2,486,933	-	2,486,933	-	2,486,933
PEA	36,196	-	36,196	-	36,196
Communications, field supplies and expenses	776,644	15,297	761,347	59,905	701,442
Reclamation costs	8,420	(3)	8,423	1,401	7,022
	<u>19,265,097</u>	<u>73,342</u>	<u>19,191,755</u>	<u>164,457</u>	<u>19,027,298</u>
<b>Moonlight Property</b>					
Property acquisition costs and option payments	3,168,815	-	3,168,815	60,791	3,108,024
Property maintenance costs	487,628	27,920	459,708	43,191	416,517
Engineering and consulting	1,076,979	7,024	1,069,955	44,436	1,025,519
Assays, surveys and analysis	503,270	-	503,270	5,762	497,508
Environmental	97,458	(2,375)	99,833	1,262	98,571
Drilling	1,437,533	-	1,437,533	-	1,437,533
Communications, field supplies and expenses	127,158	709	126,449	3,999	122,450
Reclamation cost	110,948	1,715	109,233	17,029	92,204
	<u>7,009,789</u>	<u>34,993</u>	<u>6,974,796</u>	<u>176,470</u>	<u>6,798,326</u>
<b>Bonanza Property</b>					
Property acquisition costs and option payments	247,871	-	247,871	-	247,871
Property maintenance costs	105,395	20	105,375	2,370	103,005
Engineering and consulting	286,897	289	286,608	5,972	280,636
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	31,701	13	31,688	224	31,464
Sale proceeds	(62,828)	-	(62,828)	-	(62,828)
Recovery	(147,458)	-	(147,458)	-	(147,458)
Impairment charge	(816,420)	(322)	(816,098)	(210,743)	(605,355)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(202,177)</u>	<u>202,177</u>
<b>Middlegate Property</b>					
Property acquisition costs and option payments	11,053	-	11,053	-	11,053
Property maintenance costs	126,646	34,647	91,999	8,082	83,917
Engineering and consulting	134,105	289	133,816	1,893	131,923
Assays, surveys and analysis	87,092	-	87,092	-	87,092
Environmental	4,343	-	4,343	(3,077)	7,420
Drilling	202,075	-	202,075	-	202,075
Communications, field supplies and expenses	7,857	13	7,844	49	7,795
Reclamation cost	11,442	(4)	11,446	3,966	7,480
Impairment charge	(584,613)	(34,945)	(549,668)	(549,668)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(538,755)</u>	<u>538,755</u>
Total exploration and evaluation assets	\$ <u>26,274,886</u>	\$ <u>108,335</u>	\$ <u>26,166,551</u>	\$ <u>(400,005)</u>	\$ <u>26,566,556</u>

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



# TERRACO GOLD CORP.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED OCTOBER 31, 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. These uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. 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.

	October 31, 2015	July 31, 2015
Deficit	\$ 16,061,396	\$ 15,860,370
Working capital	\$ 193,511	\$ 480,365

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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, 2015. 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, 2015 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 December 23, 2015.

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

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

#### (b) Accounting Standards and Interpretations Issued but Not Yet Adopted

As at the date of these financial statements, the following standards have not been applied in these financial statements:

- (i) IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 prohibits reclassifications except in rare circumstances when the entity's business model changes. The new standard removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortized cost or fair value.
- (ii) IFRS 15 *Revenue from contracts with customers*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.

### 3. AVAILABLE-FOR-SALE SECURITIES

At October 31, 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) \$
October 31, 2015						
Sama	214,000	21,400	32,100	10,700	(1,135)	9,565
July 31, 2015						
Sama	214,000	21,400	29,960	8,560	(1,135)	7,425

During the year ended July 31, 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  
THREE MONTHS ENDED OCTOBER 31, 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 (paid);
- US\$35,520 cash before fiscal year ended July 31, 2016; and
- US\$94,080 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\$45,000 cash before fiscal year ended July 31, 2014 (paid);
- US\$45,000 cash before fiscal year ended July 31, 2015 (paid);
- US\$45,000 cash before fiscal year ended July 31, 2016; and
- US\$300,000 cash thereafter.

Work commitments covering 15 of the claims are as follows:

- US\$135,000 expenditures to incur before fiscal year ended July 31, 2016 and each year thereafter up to and including the twentieth anniversary (December 6, 2026) of the agreement date. During the year ended July 31, 2015, the landowner waived the 2015 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  
THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

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

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(b) Moonlight Property (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.

During the year ended July 31, 2015, management centralized its efforts and focus on its core royalty and exploration and evaluation assets; as a result, the Company recorded an impairment charge of \$210,743 against the carrying value of the Bonanza Property. A further impairment charge of \$322 was recorded for the three months ended October 31, 2015.

(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  
THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

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

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#### (d) Middlegate Property (Cont'd)

During the year ended July 31, 2015, management centralized its efforts and focus on its core royalty and exploration and evaluation assets; as a result, the Company recorded an impairment charge of \$549,668 against the carrying value of the Middlegate Property. A further impairment charge of \$34,945 was recorded during the three months ended October 31, 2015.

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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 October 31, 2015, the Company had capitalized acquisition costs of \$605,853 (July 31, 2015 - \$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%

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

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

#### 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.

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 October 31, 2015, the Company had capitalized acquisition costs of \$464,549 (July 31, 2015 - \$464,549) under all royalty options.

### 7. CAPITAL

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

#### Private Placement

On July 31, 2015, the Company completed a non-brokered private placement of 8,841,397 units at a price of \$0.075 per unit for total gross proceeds of \$663,105. Each unit is comprised of one common share and one half share purchase warrant. Each whole warrant will entitle the holder to purchase for a period of twenty-four months from the date of issuance, one additional share for \$0.10.

As at July 31, 2015, \$50,444 of the gross proceeds from the private placement was included as subscriptions receivable. As at October 31, 2015, the gross proceeds related to the subscriptions receivable had been received.

**TERRACO GOLD CORP.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
 THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014  
 (Unaudited - Expressed in Canadian Dollars)

## 7. CAPITAL (Cont'd)

## (b) Share purchase options

As at October 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
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	3,788,250	\$0.16	June 9, 2019
<b>10,926,000</b>	<b>9,663,250</b>		

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

	October 31, 2015		July 31, 2015	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the period	12,126,000	\$0.22	12,126,000	\$0.22
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(1,200,000)	0.47	-	-
<b>Outstanding, end of the period</b>	<b>10,926,000</b>	<b>\$0.19</b>	<b>12,126,000</b>	<b>\$0.22</b>

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.

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.

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

### 7. CAPITAL (Cont'd)

#### (c) Share purchase warrants

As at October 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 <sup>(1)</sup>	\$0.35	1,000,000
July 31, 2017	\$0.10	4,420,698
		<u>5,420,698</u>

<sup>(1)</sup> On December 22, 2011, the Company issued 1,000,000 share purchase warrants in connection with royalty options (Note 6).

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

	October 31, 2015		July 31, 2015	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the period	5,420,698	\$0.15	1,000,000	\$0.35
Issued	-	-	4,420,698	\$0.10
Outstanding, end of the period	<u>5,420,698</u>	<u>\$0.15</u>	<u>5,420,698</u>	<u>\$0.15</u>

#### (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.



## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

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### 8. 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 October 31, 2015, exploration and evaluation expenditures incurred of \$11,935 (July 31, 2015 – \$8,785) are included under accounts payable and accrued liabilities.

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### 9. COMMITMENTS

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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 basic annual rent payments of \$32,761 to July 31, 2018. For the office premises in Weiser, Idaho, basic annual rent payments of US\$43,200 are required to March 31, 2016.

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

2016	\$	48,560
2017	\$	32,761
2018	\$	32,761

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### 10. FINANCIAL INSTRUMENTS – 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	October 31, 2015	July 31, 2015
Cash	FVTPL	\$ 323,923	\$ 534,670
Receivables	Loans and receivables	8,584	25,299
Subscriptions receivable	Loans and receivables	-	50,444
Available-for-sale securities	Available-for-sale	32,100	29,960
Reclamation bonds	Loans and receivables	203,143	198,633
Accounts payable and accrued liabilities	Other liabilities	(191,496)	(188,499)

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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## **TERRACO GOLD CORP.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014  
(Unaudited - Expressed in Canadian Dollars)

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### 11. OTHER ASSETS

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#### 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 October 31, 2015 the Company had capitalized acquisition costs of \$1,030,441 (July 31, 2015 - \$1,030,441) under other assets.

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### 12. SUBSEQUENT EVENTS

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Subsequent to period end, the Company granted a total of 4,050,000 incentive stock options to certain directors, officers, employees and consultants of the Company, subject to certain vesting provisions. These options will be exercisable at a price of \$0.12 per common share and will expire on November 26, 2020.