

**CORTEZ GOLD CORP.**  
**INTERIM FINANCIAL STATEMENTS**  
**August 31, 2010**

(Stated in Canadian Dollars)

(Unaudited)

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**THE ACCOMPANYING FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2010  
HAVE NOT BEEN REVIEWED OR AUDITED BY THE CORPORATION'S AUDITORS.**

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**CORTEZ GOLD CORP.**  
**INTERIM BALANCE SHEETS**  
 August 31, 2010  
 (Stated in Canadian Dollars)  
 (Unaudited)

	<b>Aug 31, 2010</b>	February 28, 2010
<b><u>ASSETS</u></b>		
Current		
Cash and cash equivalents – Note 3	\$ 784,362	\$ 558,501
GST/HST recoverable	35,420	14,247
Prepaid expenses – Note 5 and 7	57,100	-
	<b>876,882</b>	572,748
Capital Assets – Note 4	51,333	-
Mineral properties – Note 5	701,843	29,299
	<b>\$ 1,630,058</b>	<b>\$ 602,047</b>

<b><u>LIABILITIES</u></b>		
Current		
Accounts payable and accrued liabilities – Note 7	\$ 37,746	\$ 29,977

<b><u>SHAREHOLDERS' EQUITY</u></b>		
Share capital – Note 6	2,637,390	1,454,846
Contributed surplus – Note 6	406,832	61,545
Deficit	(1,451,910)	(944,321)
	<b>1,592,312</b>	572,070
	<b>\$ 1,630,058</b>	<b>\$ 602,047</b>

Nature of Operations – Note 1  
 Commitments – Notes 5 and 6

APPROVED ON BEHALF OF THE BOARD:

<u>“Robert Eadie”</u> Robert Eadie	Director	<u>“Gary Arca”</u> Gary Arca	Director
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SEE ACCOMPANYING NOTES

**CORTEZ GOLD CORP.**  
**INTERIM STATEMENTS OF OPERATIONS AND DEFICIT**  
For the three and six months ended August 31, 2010 and 2009  
(Stated in Canadian Dollars)  
(Unaudited)

	<b>Three months ended August 31, 2010</b>	Three months ended August 31, 2009	<b>Six months ended August 31, 2010</b>	Six months ended August 31, 2009
<b>Expenses</b>				
Accounting and audit fees – Note 7	\$ 5,250	\$ 870	\$ 3,883	\$ 1,350
Amortization	610	-	610	-
Bank charges and interest	673	445	1,357	711
Consulting fees	36,035	3,845	60,947	8,377
Legal and corporate services	30,445	36,935	60,091	49,867
Management services	-	-	5,000	-
Office and administration – Note 7	33,467	4,499	48,421	10,518
Rent – Note 7	5,500	4,500	12,500	9,000
Stock based compensation	-	-	202,941	-
Shareholder communications – Note 7	28,035	11,030	41,946	15,317
Transfer agent and filing fees	16,600	8,976	27,600	12,876
Travel	19,556	9,581	45,998	33,077
Loss before other items	(176,171)	(80,681)	(511,294)	(141,093)
Other items:				
Interest income	98	-	320	12
Foreign exchange loss	8,274	16,406	3,385	16,406
Net loss and comprehensive loss for the period	(167,799)	(64,275)	(507,589)	(124,675)
Deficit, beginning of period	(1,284,111)	(288,052)	(944,321)	(227,652)
Deficit, end of period	\$ (1,451,910)	\$ (352,327)	\$ (1,451,910)	\$ (352,327)
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.05)
Weighted average number of shares outstanding	13,046,740	3,850,001	9,264,626	2,503,700

SEE ACCOMPANYING NOTES

**CORTEZ GOLD CORP.**  
(formerly Cortez Resources Corp.)  
**INTERIM STATEMENTS OF CASH FLOWS**  
For the three and six months ended August 31, 2010 and 2009  
(Stated in Canadian Dollars)  
(Unaudited)

	<b>Three months ended August 31, 2009</b>	Three months ended August 31, 2009	<b>Six months ended August 31, 2009</b>	Six months ended August 31, 2009
<b>Operating Activities</b>				
Net loss for the period	\$ (167,799)	\$ (64,275)	\$ (507,589)	\$ (124,675)
Non cash items:				
Amortization	610	-	610	-
Stock based compensation	-	-	202,941	-
	<b>(167,189)</b>	(64,275)	<b>(304,038)</b>	(124,675)
Changes in non-cash working capital items:				
GST/HST recoverable	(15,450)	(2,475)	(21,173)	(3,155)
Prepaid expenses	82,600	(46,249)	(57,100)	(46,249)
Accounts payable and accrued liabilities	(2,592)	(8,000)	7,769	(13,250)
Cash used in operating activities	<b>(102,631)</b>	(120,999)	<b>(374,542)</b>	(187,329)
<b>Investing Activities</b>				
Capital assets	(51,943)	-	(51,943)	-
Mineral properties	(420,604)	(603,404)	(486,544)	(675,550)
<b>Financing Activities</b>				
Issuance of common shares	240,000	1,010,000	1,200,000	1,010,000
Share issue costs	-	(76,764)	(61,110)	(76,764)
Cash provided by financing activities	<b>240,000</b>	933,236	<b>1,138,890</b>	933,236
Increase (decrease) in cash during the period	<b>(335,178)</b>	208,833	<b>225,861</b>	70,357
Cash, beginning of the period	<b>1,119,540</b>	228,346	<b>558,501</b>	366,822
Cash, end of the period	<b>\$ 784,362</b>	\$ 437,179	<b>\$ 784,362</b>	\$ 437,179
<b>Supplementary disclosure of cash flow information:</b>				
Cash paid for:				
Interest	\$ -	\$ -	\$ -	\$ -
Income taxes	\$ -	\$ -	\$ -	\$ -

Non-cash Transaction – Note 5 and 6

SEE ACCOMPANYING NOTES

**CORTEZ GOLD CORP.**  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
August 31, 2010  
(Stated in Canadian Dollars)  
(Unaudited)

**Note 1**     **Nature of Operations**

The Company was incorporated in the Province of British Columbia on March 29, 2007 under the Business Corporations Act of British Columbia as 0786996 BC Ltd., changed its name to Cortez Resources Corp. on April 13, 2007 and changed its name to Cortez Gold Corp. on September 18, 2009.

The Company received acceptance from the TSX Venture Exchange (the “Exchange”) for the Company’s qualifying transaction described in its filing statement dated February 10, 2010. As such the Company is no longer considered a capital pool company and is listed as a Tier 2 issuer on the Exchange.

The recoverability of the amounts shown in the balance sheet for expenditures on mineral properties is dependent upon the existence of economically recoverable reserves, maintaining beneficial interest in the property and the underlying mining claims, obtaining the necessary regulatory approvals and permits, the ability to obtain the necessary financing to fulfil its obligations as they arise, the ability to complete the development of the claims, and achieving profitable production or receiving proceeds from the disposition of the property.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) applicable to a going concern, under which material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern must be disclosed. As at August 31, 2010, the Company has not yet achieved profitable operations and has accumulated losses of \$1,451,910 since its inception. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain necessary financing to meet the Company’s liabilities as they become payable and ultimately to generate profitable future operations. Working capital at August 31, 2010 was \$839,136. These financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of operations, and at amounts different from those in the accompanying consolidated financial statements.

**Note 2**     **Interim Reporting**

While the information presents in the accompanying financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim period in accordance with Canadian generally accepted accounting principles. It is suggested that these interim unaudited financial statements be read in conjunction with the Company’s audited financial statements for the year ended February 28, 2010.

These unaudited interim financial statements follow the same accounting policies and methods as the Company’s most recent annual audited financial statements. Operating results for the six months ended August 31, 2010 are not necessarily indicative of the results that can be expected for the year ending February 28, 2011.

**CORTEZ GOLD CORP.**

Notes to the Interim Financial Statements

August 31, 2010

(Stated in Canadian Dollars)

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**Note 3 Cash and Cash Equivalents**

All of the Company's cash is held at one financial institution and as such the Company is exposed to the risks of that financial institution.

**Note 4 Capital Assets**

	<b>August 31, 2010</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Vehicles	\$ 51,943	\$ 610	\$ 51,333
	<b>\$ 51,943</b>	<b>\$ 610</b>	<b>\$ 51,333</b>

**Note 5 Mineral Properties**

	Timber Property	Petlacala Property	Total
Balance, February 28, 2009	\$ -	\$ -	\$ -
Acquisition Cost:			
Property payments	25,000	-	25,000
Exploration cost			
Geological consulting	4,299	-	4,299
Balance, February 28, 2010	29,299	-	29,299
Acquisition Cost:			
Property payments	-	123,261	123,261
500,000 common shares at \$0.31	-	155,000	155,000
100,000 common shares at \$0.31 to finder's	-	31,000	31,000
Exploration cost			
Geological consulting	-	26,185	26,185
Joint venture	-	334,535	334,535
Assays and sampling	-	2,563	2,563
<b>Balance, May 31, 2010</b>	<b>\$ 29,299</b>	<b>\$ 672,544</b>	<b>\$ 701,843</b>

***Timber Property***

The Company entered into a letter of agreement with Strategic Metals Ltd. ("Strategic") dated January 14, 2010 under which the Company will have the right and option to earn an undivided 50% interest in the Timber Property which is comprised of 48 claims in the Mining District of Watson Lake located in southeast Yukon Territory.

**CORTEZ GOLD CORP.**

Notes to the Interim Financial Statements

August 31, 2010

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**Note 5**     **Mineral Properties** – (cont'd)

***Timber Property – (cont'd)***

The Option Agreement provides that the Company will pay to Strategic an aggregate of \$150,000 in cash and commit to \$1,000,000 in exploration expenditures over a three-year period, in order to earn its interest.

In order to acquire a 50% interest in the Timber Property, the Company must:

(a) Pay Strategic not less than an aggregate \$150,000, as follows:

- (i)     \$25,000 on Exchange acceptance (paid);
- (ii)    an additional \$50,000 by February 18, 2011; and
- (iii)   an additional \$75,000 by February 18, 2012.

(b) Incur exploration expenditures of not less than an aggregate \$1,000,000 as follows:

- (i)     \$200,000 on or before December 31, 2010;
- (ii)    an additional \$300,000 on or before December 31, 2011; and
- (iii)   an additional \$500,000 on or before December 31, 2012.

The Company shall be the operator until the option is fully exercised, at which point the Company and Strategic shall enter into a Joint Venture Agreement.

***Petlacala Property***

On April 9, 2010 the Company entered into non-binding agreement, pursuant to a Letter of Intent (the "LOI") with Cortez Minera Mexicana, S.A. de C.V. ("Minera Mexicana"), a private Mexican company. The LOI sets out the terms upon which the Company can acquire 100% of the issued and outstanding shares of Minera Mexicana. Minera Mexicana holds an option to purchase a 100% interest in the Petlacala gold-silver project in Guerrero State, Mexico, under an option agreement dated April 2, 2010 with the property vendor, Minera Petlacala, S.A. de C.V. ("Minera Petlacala").

The LOI provided the Company the right to conduct due diligence for the purposes of entering into an agreement to purchase the shares of Minera Mexicana. In order to acquire the shares of Minera Mexicana, the Company must make cash payments of US\$1,700,000 over 48 months and issue 4,000,000 shares of the Company over 24 months from the effective date, August 6, 2010, as follows:

- (i)     US \$50,000 upon signing of the Letter of Intent (paid);
- (ii)    US \$50,000 upon signing a definitive agreement (paid);
- (iii)   an additional US \$100,000 and issue 2,000,000 shares (500,000 issued) of the Company by August 6, 2011;

**CORTEZ GOLD CORP.**

Notes to the Interim Financial Statements

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(Stated in Canadian Dollars)

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**Note 5**     **Mineral Properties** – (cont'd)

***Petlacala Property – (cont'd)***

- (iv) an additional US \$300,000 and issue 2,000,000 shares of the Company by August 6, 2012;
- (v) an additional US \$400,000 by August 6, 2013;
- (vi) an additional US \$800,000 by August 6, 2014;

In order to acquire a 100% interest in the Petlacala property from Minera Petlacala, Minera Mexicana must conduct a 3,000 meter drill by October 2010 and make payments as follows:

- (i) \$8,000,000 in cash over 48 months of signing the agreement;
- (ii) Issuance of 4,000,000 shares of Minera Mexicana (which may be substituted with shares of the Company);
- (iii) Completion of staged exploration expenditures in the aggregate amount of \$7,000,000 over 48 months.

In addition Minera Petlacala will retain a 2% Net Profit Royalty. The Company has issued 100,000 shares as a finder's fee.

Included in prepaid expenses at May 31, 2010, is \$24,760 (February 28, 2010 - Nil) related to prepaid drilling expenses on the Petlacala project.

Effective August 6, 2010 the Company executed the Definitive Agreement with Minera Mexicana and its shareholders formalizing the transaction.

***Environmental Protection Practices and Asset Retirement Obligation***

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

**CORTEZ GOLD CORP.**

Notes to the Interim Financial Statements

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(Stated in Canadian Dollars)

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**Note 6      Share Capital and Contributed Surplus**a) Authorized

Unlimited common shares without par value

b) Shares issued and Contributed Surplus

	Number	Amount	Contributed Surplus
Balance, February 29, 2008 and February 28, 2009	4,050,001	\$ 517,166	\$ 65,989
Issued for cash pursuant to:			
Private placement at \$0.20	5,000,000	1,000,000	-
Exercise of agent's warrants at \$0.20	50,000	10,000	-
Share issue costs	-	(76,764)	-
Transfer from contributed surplus on exercise of agent's warrants	-	4,444	(4,444)
Balance, February 28, 2010	9,100,001	\$ 1,454,846	\$ 61,545
Issued for cash pursuant to:			
Private placement at \$0.30	4,000,000	1,087,720	112,280
Issued for acquisition of mineral property at \$0.31	500,000	155,000	-
Issued for finder's fee for acquisition of mineral property at \$0.31	100,000-	31,000	-
Share issue costs	-	(91,176)	30,066
Stock based compensation	-	-	202,941
<b>Balance, August 31, 2010</b>	<b>13,700,001</b>	<b>\$ 2,637,390</b>	<b>\$ 406,832</b>

During the period ended August 31, 2010, the Company completed private placements for proceeds of \$1,200,000 pursuant to the issue of 4,000,000 units at \$0.30 per unit. Each Unit consists of one common share and one-half of one warrant, with each whole warrant entitling the holder to acquire an additional common share at \$0.45 per share until May, 2012 and December, 2012.

The shares issue in this private placement had a weighted average value of \$0.27 per share or \$1,092,720, which was equal to the market price on the date the shares were issued. The intrinsic fair value of the warrants was calculated to be \$0.03 per one-half warrant, or \$112,280, which was credited to contributed surplus.

**CORTEZ GOLD CORP.**

Notes to the Interim Financial Statements

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**Note 6**     Share Capital and Contributed Surplus – (cont'd)b) Shares issued and Contributed Surplus – (cont'd)

An aggregate of \$61,110 in cash was paid to various finders for that portion of the financing attributable to these finders' efforts. In addition, a total of 160,800 in agents' warrants were issued, each warrant is exercisable at \$0.31 until May 18, 2011. Share issue cost includes \$30,066 for the fair value of the agent's warrants.

The fair value of agents' warrants was determined using the Black-Scholes model with the following assumptions:

Dividend rate	0%
Risk-free interest rate	1.62%
Expected life	1 Year
Expected annual volatility	155%

During the period ended August 31, 2010, the Company issued 500,000 common shares valued at \$0.31 per share pursuant to the Petlcala Property acquisition (Note 5), The Company also issued 100,000 common shares as finder's fees in the acquisition. These shares are valued at \$155,000 and \$31,000 respectively, have been excluded from the statement of cash flows.

During the year ended February 28, 2010, the Company completed a \$1,000,000 financing consisting of 5,000,000 common shares at \$0.20 per share. Pursuant to this private placement, the Company paid share issue costs of \$76,764.

Also during the year ended February 28, 2010, the Company issued 50,000 common shares pursuant to the exercise of agent's warrants at \$0.20 per share. The fair value of these warrants, \$4,444, transferred from contributed surplus to share capital on exercise, has been excluded from the statement of cash flows. The remaining 100,000 agent's warrants expired unexercised during the year.

The Company issued no common shares during the year ended February 28, 2009.

c) Stock-based Compensation

The Company, in accordance with the policies of the Exchange, is authorized to grant options to directors, officers, and employees to acquire up to 10% of common stock outstanding. Options may be granted for a maximum term of 5 years. Optioned shares will vest when granted except where granted for investor relations activities which vest and may be exercised in accordance with the vesting provisions as to ¼ of the options each 3 months.

During the period ended August 31, 2010 the Company granted incentive stock options to directors, key employees and consultants to acquire up to 595,000 shares at \$0.35 per share until April 15, 2015. The fair value of the 595,000 options granted was estimated to be \$202,941, using the Black-Scholes option pricing model with the following weighted average assumptions at date of grant:

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(Stated in Canadian Dollars)

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**Note 6 Share Capital and Contributed Surplus – (cont'd)**c) Stock-based Compensation – (cont'd)

Dividend rate	0%
Risk-free interest rate	2.55%
Expected life	5 Years
Expected annual volatility	198%

No stock options were granted during the years ended February 28, 2010 or 2009. During the year ended February 28, 2010, 85,000 options were forfeited upon the resignation of a director.

A summary of the Company's outstanding stock options as of August 31, 2010 and the changes during the periods then ended is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding at February 28, 2009 and 2008	400,000	\$0.20
Forfeited	(85,000)	\$0.20
Outstanding at February 28, 2010	315,000	\$0.20
Granted	595,000	\$0.35
<b>Outstanding and exercisable at August 31, 2010</b>	<b>910,000</b>	<b>\$0.30</b>

At August 31, 2010, there were 910,000 stock options outstanding entitling the holders thereof to purchase one common share for each option held as follows:

Number of Shares	Number Exercisable	Exercise Price	Expiry Date	Contractual Life Remaining
305,000	305,000	\$0.20	August 20, 2012	1.97 years
10,000	10,000	\$0.20	August 20, 2017	6.97 years
595,000	595,000	\$0.35	April 15, 2015	4.62 years
<b>910,000</b>	<b>910,000</b>	<b>\$0.30</b>		<b>3.76 years</b>

**CORTEZ GOLD CORP.**

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**Note 6      Share Capital and Contributed Surplus – (cont'd)**d) Warrants Outstanding

A summary of the Company's outstanding share purchase warrants at August 31, 2010 and the years ended February 28, 2010 and 2009 and the changes during the periods then ended is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at February 28, 2009 and 2008	150,000	\$0.20
Exercised	(50,000)	\$0.20
Expired	(100,000)	\$0.20
Outstanding at February 28, 2010	-	-
Issued	2,160,800	\$0.44
<b>Outstanding at May 31, 2010</b>	<b>2,160,800</b>	<b>\$0.44</b>

e) Escrow shares

At August 31, 2010, 1,500,001 (February 28, 2010: 1,800,001) shares were held in escrow subject to an escrow agreement and are being released in accordance with CPC policy guidelines.

**Note 7      Related Party Transactions**

During the period ended August 31, 2010, the Company paid, rent of \$12,500 (2009: \$9,000), office and administration fees of \$25,500 (2009: \$9,000) and shareholders communications of \$6,500 to a company controlled by a director of the Company also paid management services fees of \$5,000 (2009: Nil) and consulting fees of \$16,750 (2009: Nil) to Directors.

Included in prepaid expenses at August 31, 2010, is \$3,000 for prepaid rent with a company controlled by a director.

Included in accounts payable and accrued liabilities at August 31, 2010 is \$21,769 due to companies controlled by directors for expense reimbursement.

These charges were measured at the exchange amount, which is the amount agreed upon by the transacting parties.

## **CORTEZ GOLD CORP.**

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### **Note 8      Capital Management**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

### **Note 9      Financial Instruments**

#### a) Interest rate risk

The Company's cash earns interest at a variable interest rate. Because of the nature of this financial instrument, fluctuations in market rates do not have a significant impact on estimated fair values as of August 31, 2010. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Interest rate risk consists of two components:

- (i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (ii) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's exposure to interest rate fluctuations is minimal.

#### b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk with respect to its cash and cash equivalents, the balance of which at August 31, 2010 is \$784,362. Cash and cash equivalents are held at a chartered Canadian financial institution.

#### c) Liquidity risk

Liquidity risk arises from the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company achieves this by maintaining sufficient cash reserves. As at August 31, 2010, the Company was holding cash and cash equivalents of \$784,362. The Company's accounts payable and accrued liabilities are due in the short term.

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(Stated in Canadian Dollars)

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**Note 9      Financial Instruments** – (cont'd)

d) Currency risk

Currency risk is the risk that funds held in currencies other than the operating currency will fluctuate negatively, resulting in a foreign exchange loss. The Company is exposed to currency risk with respect to its cash and cash equivalents, the balance of which at August 31, 2010 was \$784,362. Of the cash balance, US Dollars of \$3,898 (CDN\$4,158) is held at a Canadian financial institution.