

CORTEZ GOLD CORP.
(formerly Cortez Resources Corp.)

FINANCIAL STATEMENTS

February 28, 2010

(Stated in Canadian Dollars)



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AUDITORS' REPORT

To the Shareholders,
Cortez Gold Corp.
(formerly Cortez Resources Corp.)

We have audited the balance sheets of Cortez Gold Corp. (formerly Cortez Resources Corp.) as at February 28, 2010 and 2009 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, Canada
May 28, 2010

CORTEZ GOLD CORP.
(formerly Cortez Resources Corp.)
BALANCE SHEETS
February 28, 2010 and 2009
(Stated in Canadian Dollars)

	2010	2009
<u>ASSETS</u>		
Current		
Cash and cash equivalents – Note 3	\$ 558,501	\$ 366,822
GST recoverable	14,247	2,431
<hr/>		
Mineral properties – Note 4	572,748	369,253
	29,299	-
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	\$ 602,047	\$ 369,253
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<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 29,977	\$ 13,750
<hr/>		
<u>SHAREHOLDERS' EQUITY</u>		
Share capital – Note 5	1,454,846	517,166
Contributed surplus – Note 5	61,545	65,989
Deficit	(944,321)	(227,652)
<hr/>		
	572,070	355,503
<hr/>		
	\$ 602,047	\$ 369,253
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Nature of Operations – Note 1
Commitments – Notes 4 and 5
Subsequent Events – Note 11

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.
(formerly Cortez Resources Corp.)
STATEMENTS OF OPERATIONS AND DEFICIT
For the years ended February 28, 2010 and 2009
(Stated in Canadian Dollars)

	2010	2009
Expenses		
Accounting and audit fees – Note 6	\$ 37,611	\$ 8,248
Bank charges and interest	1,388	299
Consulting fees	100,712	3,050
Legal and corporate services	126,954	31,804
Office and administration – Note 6	21,308	18,861
Rent – Note 6	18,000	18,000
Shareholder communications	54,854	5,576
Transfer agent and filing fees	38,632	13,301
Travel	79,269	-
Loss before other items	(478,728)	(99,139)
Other items:		
Interest income	148	4,044
Foreign exchange loss	(15,340)	-
Write-off of investigation costs – Note 9	(222,749)	-
Net loss and comprehensive loss for the year	(716,669)	(95,095)
Deficit, beginning of year	(227,652)	(132,557)
Deficit, end of year	\$ (944,321)	\$ (227,652)
Basic and diluted loss per share	\$ (0.14)	\$ (0.05)
Weighted average number of shares outstanding	5,068,220	2,050,000

SEE ACCOMPANYING NOTES

CORTEZ GOLD CORP.
(formerly Cortez Resources Corp.)
STATEMENTS OF CASH FLOWS
For the years ended February 28, 2010 and 2009
(Stated in Canadian Dollars)

	2010	2009
Operating Activities		
Net loss for the year	\$ (716,669)	\$ (95,095)
Non-cash items:		
Unrealized foreign exchange	14,149	-
Write-off of investigation costs	222,749	-
	(479,771)	(95,095)
Changes in non-cash working capital items:		
GST recoverable	(11,816)	(839)
Accounts payable and accrued liabilities	11,928	302
Cash used in operating activities	(479,659)	(95,632)
Investing Activities		
Mineral property investigation – Note 9	(675,550)	-
Deferred mineral property costs	(25,000)	-
Recovery of property investigation costs – Note 9	452,801	-
Cash used in investing activities	(247,749)	-
Financing Activities		
Issuance of common shares	1,010,000	-
Share issue costs	(76,764)	-
Cash provided by financing activities	933,236	-
Effect of foreign exchange on cash	(14,149)	-
Increase (decrease) in cash during the year	191,679	(95,632)
Cash, beginning of the year	366,822	462,454
Cash, end of the year	\$ 558,501	\$ 366,822
Supplementary disclosure of cash flow information:		
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

SEE ACCOMPANYING NOTES

CORTEZ GOLD CORP.
(formerly Cortez Resources Corp.)
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2010
(Stated in Canadian Dollars)

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 February 28, 2010, the Company has not yet achieved profitable operations and continues to be dependent upon its ability to obtain sufficient working capital from external financing to meet the Company's liabilities as they become payable and ultimately to generate profitable future operations. During 2010 the Company was able to raise additional capital and as at February 28, 2010 had a working capital balance of \$542,771. 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 **Significant Accounting Policies**

Management has prepared the financial statements of the Company in accordance with Canadian GAAP. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. These financial statements have been prepared within the framework of the significant accounting policies summarized below.

CORTEZ GOLD CORP.

(formerly Cortez Resources Corp.)

Notes to the Financial Statements

February 28, 2010

(Stated in Canadian Dollars) – Page 2

Note 2 Significant Accounting Policies – (cont'd)

a) Use of Estimates

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of these financial statements requires management to make estimates and assumptions. The most significant estimates include, but are not limited to: the recoverability of amounts receivable; the future cost of asset retirement obligations; the anticipated costs of reclamation and closure cost obligations; the amounts of contingencies; and assumptions used in the accounting for stock-based compensation such as volatility, expected term and risk free interest rate. Using these estimates and assumptions, management makes various decisions in preparing the financial statements including:

- Whether long-lived assets; equipment; mineral properties and deferred exploration costs are impaired, and if so, estimates of the fair value of those assets and any corresponding impairment charge;
- The ability to realize future income tax assets;
- The useful lives of long-lived assets and the measurement of amortization;
- The fair value of reclamation and closure cost obligations where estimable;
- The likelihood of loss contingencies occurring and the amount of any potential loss; and
- The amount of stock-based compensation expense.

As the estimation process is inherently uncertain, actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the financial statements.

b) Basic and Diluted Loss per Share

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

Potentially dilutive common shares (relating to options and warrants outstanding at year-end) totalling 315,000 (2009: 550,000) were not included in the computation of loss per share because their effect was anti-dilutive.

CORTEZ GOLD CORP.

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Notes to the Financial Statements

February 28, 2010

(Stated in Canadian Dollars) – Page 3

Note 2 Significant Accounting Policies – (cont'd)c) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the tax and accounting basis of assets and liabilities. The future tax assets or liabilities are calculated using the tax rates for the period in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

d) Stock-based Compensation

The Company has a stock-based compensation plan, whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options granted are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes valuation model to determine the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value.

e) Share issue costs

Share issue costs, which include commissions, professional and regulatory fees are charged directly to share capital.

f) Financial Instruments

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of changes in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income (loss) until the asset is removed from the balance sheet. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to debt financings will be expensed in the period incurred.

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Notes to the Financial Statements

February 28, 2010

(Stated in Canadian Dollars) – Page 4

Note 2 **Significant Accounting Policies** – (cont'd)

f) Financial Instruments – (cont'd)

The Company's financial instruments consist of cash and cash equivalents, which is classified as held-for-trading, and accounts payable, which is classified as other financial liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

In 2009, the CICA amended Section 3862, "Amendment to Financial Instruments – Disclosures" to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data

The adoption of this standard is consistent with recent amendments to financial instrument disclosure standards in IFRS. All of the financial instruments measured at fair value on the balance sheet are included in Level 1.

g) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited

to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on an annual basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

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Note 2 Significant Accounting Policies – (cont'd)**h) Asset Retirement Obligations**

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The obligation is measured initially at fair value using present value methodology and the resulting costs are capitalized into the carrying amount of the related asset. In subsequent periods, the liability will be adjusted for any changes in the amount or timing of the underlying future cash flows. Capitalized asset retirement costs are depreciated on the same basis as the related asset and the discounted accretion of the liability is included in determining the results of operations. As at February 28, 2010 and 2009, the Company did not have any asset retirement obligations.

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, and the means of reclamation or of cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

i) Going Concern

Effective March 1, 2008, the Company adopted the amendments to the guidelines of CICA Handbook Section 1400, General Standards of Financial Statement Presentation. The Canadian Accountability Standards Board amended Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The adoption of these amendments resulted in no disclosure changes to the Company's financial statements.

j) Impairment of Long-lived Assets

Canadian GAAP require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. With the exception of the Seabridge Acquisition, which were written down during the year (See Note 9), management believes there has been no impairment of the Company's long-lived assets as at February 28, 2010 and 2009.

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Notes to the Financial Statements

February 28, 2010

(Stated in Canadian Dollars) – Page 6

Note 2 **Significant Accounting Policies** – (cont'd)

k) Foreign Currency Translation

Monetary assets and liabilities denominated in other than Canadian dollars are translated using the exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Foreign currency denominated expenses are translated at exchange rates prevailing at the transaction dates. Gains and losses on foreign currency transactions are recorded in operations in the current year.

l) Future Accounting Changes

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The effective date for the Company is for interim and annual financial statements relating to fiscal years beginning on or after March 1, 2012. This transition will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended February 28, 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

Note 3 **Cash and Cash Equivalents**

Cash equivalents include Guaranteed Investment Certificates with a market value of \$421,136 earning interest income at approximately 0.25% per annum and maturing on December 1, 2010. 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.

CORTEZ GOLD CORP.

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Notes to the Financial Statements

February 28, 2010

(Stated in Canadian Dollars) – Page 7

Note 4 **Mineral Properties**

		Timber Property
Balance, February 28, 2009	\$	-
Acquisition Cost:		
Property payments		25,000
Exploration cost		
Geological consulting		4,299
Balance, February 28, 2010	\$	29,299

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.

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 after February 18, 2011; and
- (iii) an additional \$75,000 after 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.

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Notes to the Financial Statements

February 28, 2010

(Stated in Canadian Dollars) – Page 8

Note 4 **Mineral Properties** – (cont'd)

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.

Note 5 **Share Capital and Contributed Surplus**a) Authorized

Unlimited common shares without par value

b) Shares issued

	Number	Amount
Balance, February 29, 2008 and February 28, 2009	4,050,001	\$ 517,166
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
Balance, February 28, 2010	9,100,001	\$ 1,454,846

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.

CORTEZ GOLD CORP.

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Notes to the Financial Statements

February 28, 2010

(Stated in Canadian Dollars) – Page 9

Note 5 Share Capital and Contributed Surplus – (cont'd)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.

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 February 28, 2010 and the changes during the period 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 and exercisable at February 28, 2010	315,000	\$0.20

At February 28, 2010, there were 315,000 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	2.48 years
10,000	10,000	\$0.20	August 20, 2017	7.48 years
315,000	315,000	\$0.20		2.64 years

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Notes to the Financial Statements

February 28, 2010

(Stated in Canadian Dollars) – Page 10

Note 5 **Share Capital and Contributed Surplus** – (cont'd)d) Warrants Outstanding

A summary of the Company's outstanding share purchase warrants at February 28, 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
<hr/>		
Outstanding at February 28, 2010	-	-

e) Contributed Surplus

	February 28, 2010	February 28, 2009
Balance, beginning of the year	\$ 65,989	\$ 65,989
Transfer to share capital on exercise of Agent's warrants exercised	(4,444)	-
<hr/>		
Balance, end of the year	\$ 61,545	\$ 65,989

f) Escrow shares

At February 28, 2010, 1,500,001 (2009: 2,000,001) shares were held in escrow subject to an escrow agreement and are being released in accordance with CPC policy guidelines.

Note 6 **Related Party Transactions**

During the year ended February 28, 2010, the Company paid accounting fees of \$8,750 (2009: \$Nil), rent of \$18,000 (2008: \$18,000) and office and administration fees of \$18,000 (2009: \$18,000) to a company controlled by a director.

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

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Notes to the Financial Statements

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Note 7 Income taxes

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	February 28, 2010	February 28, 2009
Loss before income taxes	\$ (716,669)	\$ (95,095)
Basic statutory and provincial income tax rate	29.75%	30.75%
Expected tax recovery on net loss, before income tax	(213,200)	(29,200)
Differences due to recognition of items for tax purposes:		
Permanent differences	2,900	-
Effect of reduction in statutory rate	36,100	4,500
Share issue costs	(19,200)	-
Increase in valuation allowance	193,400	24,700
Future income tax recovery	\$ -	\$ -

Significant components of the Company's future tax assets and liabilities are as follows:

	February 28, 2009	February 28, 2009
Future income tax assets		
Non-capital losses carried forward	\$ 181,000	\$ 54,000
Mineral property expenditures	56,000	-
Undeducted financing cost	23,000	13,000
	260,000	67,000
Less: valuation allowance	(260,000)	(67,000)
Future income tax assets	\$ -	\$ -

At February 28, 2010, the Company has accumulated non-capital losses totalling approximately \$722,000, which may be applied against future years' taxable income. The non-capital losses expire in various amounts from 2028 to 2030.

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Notes to the Financial Statements

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Note 8 Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support a qualifying transaction. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Should current market conditions persist, management anticipates potential challenges in raising further external financing. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended February 28, 2010. The Company is not subject to externally imposed capital requirements.

Note 9 Seabridge Agreement

The Company entered into a letter agreement dated March 25, 2009, and amended July 9, 2009, and September 30, 2009, as well as an Asset Purchase agreement dated July 31, 2009 and amended September 30, 2009 (the "Agreement") with Seabridge Gold Inc. ("Seabridge") to acquire various mineral claims in Nevada (the "Seabridge Acquisition") held by Seabridge's wholly-owned subsidiaries.

The Seabridge Acquisition consisted of interests in all or, at the election of the Company, any number of Seabridge's mineral properties located in various counties in Nevada, including Churchill, Elko, Esmeralda, Humboldt and Nye, and includes Seabridge's Castle Blackrock Property (the "Properties").

Pursuant to the Agreement, the Company paid Seabridge a non-refundable deposit of US\$20,000 in March, 2009. The Seabridge Acquisition was to be completed by October 30, 2009. In consideration for an extension under the amended agreement, the Company paid an additional US\$80,000 to Seabridge. Upon execution of the Formal Agreement, the Company advanced to Seabridge's counsel the further refundable deposit of US\$409,925 (CDN\$452,801) for lease and claims maintenance fees in respect of the Properties that were due prior to September 30, 2009.

During the year ended February 28, 2010, the agreement was terminated and a write-down of \$222,749 relating to deposits and property investigation costs, was reported on the statement of operations. The US\$409,925 was recovered and is included in cash at February 28, 2010.

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Note 10 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 February 28, 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 February 28, 2010 is \$558,501. 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 February 28, 2010, the Company was holding cash and cash equivalents of \$558,501. The Company's accounts payable and accrued liabilities are due in the short term.

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 February 28, 2010 was \$558,501. Of the cash balance, US Dollars of \$11,246 (CDN\$11,837) is held at a Canadian financial institution. Of the cash equivalents balance, US Dollars of \$400,129 (CDN\$421,136) are held at a Canadian financial institution.

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Note 11 **Subsequent Events**

- a) 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 provides 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 (US\$50,000 paid) over 48 months and issue 4,000,000 shares of the Company over 24 months pursuant to the Minera Petlacala agreement below.

In order to acquire a 100% interest in the Petlacala property from Minera Petlacala, Minera Mexicana must conduct a 3,000 meter drill before October 2, 2010 and make payments as follows:

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

The Company will assume the above commitments if it proceeds with the transaction.

Minera Petlacala will retain a 2% Net Profit Royalty.

A finder’s fee, which is subject to regulatory approval, will be payable on this acquisition.

- b) Subsequent to February 28, 2010, the Company agreed to undertake a non-brokered private placement of up to 3,500,000 units (the “Units”) at \$0.30 per Unit, for proceeds of \$1,050,000. The Company has issued 2,576,000 Units for proceeds of \$772,800 pursuant to this financing, which proceeds are held pending finalization of the above transaction.

Each Unit will consist of one share and one-half of one share purchase warrant (a “Warrant”) with each whole Warrant entitling the holder to acquire an additional common share for two years at \$0.45 per share.

CORTEZ GOLD CORP.

(formerly Cortez Resources Corp.)

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Note 11 **Subsequent Events** – (cont'd)

b) – (cont'd)

The net proceeds of the private placement will be added to working capital and to finance the due diligence requirements of the LOI with Minera Mexicana. The private placement is subject to Exchange acceptance. All of the securities issued pursuant to this offering will have a hold period expiring four months after the closing date. A finder's fee will apply subject to the policies of the Exchange

c) Subsequent to February 28, 2010, the Company granted incentive stock options to directors, key employees and consultants to acquire up to 595,000 shares at a price of \$0.35 per share exercisable until April 15, 2015.