

XTIERRA INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – prepared by management

Third quarter

For the nine month period ended September 30, 2013

(Expressed in US\$000's)

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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.

XTIERRA INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Unaudited – prepared by management
Third quarter
For the nine month period ended September 30, 2013

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XTIERRA INC.**Condensed Interim Consolidated Statements of Financial Position***Unaudited - prepared by management***As at**

(Expressed in US\$000's)		September 30, 2013 \$	December 31, 2012 \$
	Note		
ASSETS			
Current assets			
Cash and cash equivalents	6	626	2,761
Amounts receivable and other	7	134	256
Prepaid expenses	7	24	20
Total current assets		784	3,037
Non-current assets			
Exploration and evaluation assets	9	27,095	24,701
Property, plant and equipment	8	82	100
Prepaid expenses and other non-current assets	10	49	25
Total non-current assets		27,226	24,826
Total assets		28,010	27,863
LIABILITIES			
Current			
Accounts payable and accruals	11	249	148
Property acquisition obligations (current)	11	768	-
Other financial instruments (convertible notes)	13	1,266	564
Total current liabilities		2,283	712
Non-current liabilities			
Property acquisition obligations	12	1,104	1,677
Other financial instruments (convertible notes)	13	-	848
Total non-current liabilities		1,104	2,525
Total liabilities		3,387	3,237
SHAREHOLDERS' EQUITY			
Capital stock	14	33,594	33,594
Share-based payment reserve	16	2,097	2,780
		35,691	36,374
Deficit		(11,068)	(11,748)
		24,623	24,626
Total liabilities and shareholders' equity		28,010	27,863

COMMITMENTS AND CONTINGENCIES (Notes 1, 9, 12 and 19)

The financial statements were approved by the Board of Directors on November [], 2013 and signed on its behalf by:

Signed "John F. Kearney", Director

Signed "T.D. Gallagher", Director

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.**Condensed Interim Consolidated Statements of Operations and Comprehensive Loss****For the nine month period ended September 30,**

(Expressed in US\$000's, except for per share amounts)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Expenses				
Foreign exchange loss	20	26	47	11
General and administrative expenses	22	49	98	136
Corporate expenses	50	46	122	134
Professional fees	37	47	108	149
Loss from operations	129	168	375	430
Other items				
Interest income	-	(6)	(2)	(12)
Change in fair value of convertible notes	(157)	260	(370)	154
Change in fair value of warrants	-	741	-	411
Net income (loss) and comprehensive income (loss) for the period	28	(1,163)	(3)	(983)
Net income (loss) per share – basic and diluted	0.000	(0.011)	(0.000)	(0.010)
Weighted average common shares outstanding				
– basic and diluted	103,425,892	103,425,892	103,425,892	103,425,892

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.**Condensed Interim Consolidated Statements of Changes in Equity***Unaudited - prepared by management*

	Share Capital	Share-based payment reserve	Retained losses	Total
(Expressed in US\$000's)	\$	\$	\$	\$
Balance as at January 1, 2012	33,594	2,780	(11,646)	24,728
Total loss for year	-	-	(102)	(102)
Balance as at December 31, 2012	33,594	2,780	(11,748)	24,626
Stock options expired	-	(683)	683	-
Total income for the period	-	-	(3)	(3)
Balance as at September 30, 2013	33,594	2,097	(11,068)	24,623

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.**Condensed Interim Consolidated Statements of Cash Flows***Unaudited - prepared by management***For the nine month period ended September 30,**

(Expressed in US\$000's)	2013 \$	2012 \$
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net income (loss) for the period	(3)	(983)
Depreciation	18	24
Change in fair value of convertible notes	(370)	154
Change in fair value of warrants	-	411
Foreign exchange	1	(20)
Interest income	(2)	(12)
Operating cash flow before movements in working capital	<u>(356)</u>	<u>(426)</u>
Movements in working capital		
Decrease in amounts receivable and other and prepaids	95	12
Increase in accounts payable and accruals	<u>101</u>	<u>39</u>
Net cash used in operating activities	<u>(160)</u>	<u>(375)</u>
INVESTING ACTIVITIES:		
Interest income	2	12
Investment in exploration and evaluation assets	(1,976)	(3,450)
Expenditures on property, plant and equipment	<u>-</u>	<u>(33)</u>
Net cash used in investing activities	<u>(1,974)</u>	<u>(3,471)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1)</u>	<u>20</u>
Change in cash and cash equivalents	(2,135)	(3,826)
Cash and cash equivalents, beginning of period	<u>2,761</u>	<u>7,782</u>
Cash and cash equivalents, end of period	<u><u>626</u></u>	<u><u>3,956</u></u>
Cash and cash equivalents consist of:		
Cash	126	934
Cash equivalents	<u>500</u>	<u>3,022</u>
	<u><u>626</u></u>	<u><u>3,956</u></u>

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US\$000's)
For the nine month period ended September 30, 2013

1. NATURE OF OPERATIONS

Xtierra Inc. (the "Company" or "Xtierra") has interests in exploration and evaluation properties located in Mexico. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in exploration properties contain mineral reserves which are economically recoverable.

The Company's head office is located at 220 Bay Street, Suite 700, Toronto, Ontario M5J 2W4.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of mineral property interests and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values. All of the Company's mining assets are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. The Company's properties may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and regulatory and environmental requirements.

Basis of measurement and going concern

The Company is in the process of exploring its exploration and evaluation properties and has not yet determined whether its exploration and evaluation properties contain economically recoverable mineral reserves. The underlying value and the recoverability of the exploration and evaluation properties is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the exploration and evaluation properties, and the generation of future profitable production or proceeds from the disposition of the exploration and evaluation properties.

These consolidated financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the current fiscal year. Several conditions discussed below create a material uncertainty about the Company's ability to continue as a going concern.

At September 30, 2013, the Company had not achieved profitable operations, had an accumulated deficit since inception and expects to incur further losses in the development of its business. Management recognizes that the Company will need to reach agreement with Pacific Road for the conversion, repayment or other settlement of the convertible notes (Note 13). In the absence of an agreement to convert, the company would need to raise sufficient cash to meet the payment on maturity. Management further recognizes that the Company will need to generate additional financial resources in order to meet its planned business objectives. There are no assurances that the Company will continue to obtain additional financial resources and/or achieve positive cash flows or profitability. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration activities. Furthermore, failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements of the Company were prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012 prepared in accordance with IFRS.

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit and loss which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except cash flow information. These condensed interim financial statements are expressed in United States Dollars ("US\$").

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2. BASIS OF PREPARATION (continued)

The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual report that are relevant to these condensed interim financial statements will be finalized only when the annual IFRS financial statements are prepared for the year ending December 31, 2013. The accounting policies chosen by the Company have been applied consistently to all periods presented.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Company. All material intra-Company transactions, balances, income and expenses are eliminated on consolidation.

(a) Accounting Changes

The Company did not adopt any new International Financial Reporting Standards (IFRSs) or Interpretations during the period that had a material impact on the Company's financial statements.

IFRS Standards issued but not yet effective:

IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1	Presentation of Financial Statements
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures

The Company has not yet determined the impact of these amendments on its financial statements.

4. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

	September 30 2013 \$	September 30 2012 \$
Office expenses	<u>29</u>	<u>29</u>
Administrative expenses	36	48
Professional fees	<u>222</u>	<u>291</u>
Key Management personnel remuneration	<u>258</u>	<u>339</u>
Capitalized as exploration assets	<u>95</u>	<u>158</u>

No fees were paid by the Company to directors for their services as directors of the Company in the nine month periods ended September 30, 2013 or September 30, 2012.

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4. RELATED PARTY TRANSACTIONS (continued)

Key management personnel remuneration comprises payments for administration, geological, investor relations and legal services provided by persons or corporations controlled by persons who are directors or by any other person with the authority and responsibility for planning, directing and controlling the activities of the Company.

Included in accounts payable and accruals at September 30, 2013 is \$20 (2012 - \$21) due to related parties. These balances are due on demand, unsecured and non-interest bearing.

Name of Subsidiary	Country of Incorporation	Percentage owned	Principal activity
Orca Minerals Limited	Canada	100%	Holding company for Orca Gold International
Orca Gold International Limited	Bahamas	100%	Holding company for Mexican subsidiaries
Bilbao Resources S.A. de C.V.	Mexico	100%	Exploration
Golden Dust S.A. de C.V.	Mexico	100%	Exploration
Minera Orca S.A. de C.V.	Mexico	100%	Exploration
Orca Mining Exploration S.A. de C.V.	Mexico	100%	Exploration
Bilbao Mining S.A. de C.V.	Mexico	100%	Exploration

5. SEGMENTAL ANALYSIS

	Segment result	
	September 30 2013	September 30 2012
	\$	\$
Continuing Operations		
Canada	(3)	983
Mexico	-	-
Total for continuing operations	(3)	983
Income tax	-	-
Income (loss) for the period	(3)	983
Segment assets and segment liabilities		
	Assets	
	September 30 2013	December 31 2012
	\$	\$
Canada	704	2,697
Mexico	27,306	25,166
	28,010	27,863
	Additions to non-current assets	
	September 30 2013	September 30 2012
	\$	\$
Canada	-	-
Mexico	2,352	3,790
	2,352	3,790

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5. SEGMENTAL ANALYSIS (continued)

	Liabilities	
	September 30	December 31
	2013	2012
	\$	\$
Canada	(2,674)	(2,618)
Mexico	<u>(713)</u>	<u>(620)</u>
	<u>(3,387)</u>	<u>(3,238)</u>

6. CASH AND CASH EQUIVALENTS

	September 30	December 31
	2013	2012
	\$	\$
Cash	126	739
Cash equivalents	<u>500</u>	<u>2,022</u>
Total	<u>626</u>	<u>2,761</u>

The currency profile of cash and cash equivalents is as follows:

Canadian Dollars	38	85
US Dollars	562	2,520
Mexican Pesos	<u>26</u>	<u>156</u>
	<u>626</u>	<u>2,761</u>

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Where investments are categorised as cash equivalents, the related balances have a maturity of three months or less from the date of investment. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the cash requirements of the Company, and earn interest at the respective short-term deposit rates at floating rates.

7. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	September 30	December 31
	2013	2012
	\$	\$
Trade receivables	13	2
Receivable sales taxes - Canada	41	51
Receivable sales taxes - Mexico	<u>80</u>	<u>203</u>
Amounts receivables and other	134	256
Prepaid expenses	<u>24</u>	<u>20</u>
	<u>158</u>	<u>276</u>

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8. PROPERTY, PLANT AND EQUIPMENT

	September 30 2013 \$	Additions (depreciation) \$	December 31 2012 \$
Equipment at cost	170	-	170
Accumulated depreciation	(88)	(18)	(70)
Total	82	(18)	100

9. EXPLORATION AND EVALUATION ASSETS

The following table shows the mineral property interests:

	September 30 2013 \$	Additions (Write downs) \$	December 31 2012 \$
Bilbao	21,512	2,212	19,300
Laguna	2,825	16	2,809
El Dorado	1,354	97	1,257
Other	1,404	69	1,335
Total	27,095	2,394	24,701

The Company has the following investments in exploration and development properties located in the States of Zacatecas and San Luis Potosi, Mexico:

Bilbao

The Company holds a 100% interest in the Bilbao zinc-silver-lead-copper project, subject to a 1.5% net smelter royalty.

Prior to August 2008, the Company was earning into a 75% interest in the Bilbao property. In August 2008, the Company acquired the outstanding 25% interest in the Bilbao property for total consideration of \$5,000 of which \$2,500 was paid on the closing date and a further \$500 was paid one year after the closing date and the balance of \$2,000 is payable on the following terms:

- \$500 at the time of commencement of construction of a mine or no later than August 2014;
- \$500 on the first anniversary of commencement of construction of a mine or no later than August 2018;
- \$500 on the second anniversary of commencement of construction of a mine or no later than August 2018; and
- \$500 on the third anniversary of commencement of construction of a mine or no later than August 2018.

At the time of the agreement in 2008 the present value of the then outstanding future payments of \$2,500 was determined to be approximately \$1,023 based on a discount rate of 15%. This value was recorded as a liability and is being accreted to its face value over the estimated life of the payment obligations.

Laguna

The Company holds a 100% interest in the Laguna silver-gold-mercury tailings development project and has been granted a twenty year concession dated December 10, 2003 by the Comision Nacional del Agua ("Conagua") relating to the extraction rights to six million cubic metres of tailings material, subject to an amount payable to Conagua in the amount MX\$11.00 (approximately US\$1.00) per cubic metre of tailings.

On October 25, 2013, Conagua advised the Company of their decision to rescind the Company's December 10, 2003, twenty year extraction licence on the basis that no extraction had been done for at least three years. The Company rejects this action and has instructed its counsel in Mexico to commence appeal proceedings against the decision of Conagua to rescind the licence.

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9. EXPLORATION AND EVALUATION ASSETS (continued)

El Dorado Gold Project

In April 2010, the Company acquired a 100% interest in the El Dorado gold project located in the Pinos district of south-eastern Zacatecas State, Mexico, for payments totalling approximately \$930, of which \$126 has been paid and the balance is payable on the following terms:

- payment of \$268 on the earlier of January 15, 2014 or the date a feasibility study is completed;
- payment of \$268 on January 15, 2015; and
- payment of \$268 on January 15, 2016.

If the Company completes a feasibility study with gold reserves in excess of 250,000 ounces or 500,000 ounces, additional payments of \$500 or \$1,000 respectively, are required.

At the time of the agreement the present value of the outstanding future payments that totaled \$804 was determined to be approximately \$402 at based on a discount rate of 15%. This value has been recorded as a liability and is being accreted to its face value over the estimated life of the payment obligations.

Other

The Company holds a 100% interest in certain exploration concessions in the Panfilo Natera Mining District in Mexico in three claim groupings: (1) Galore; (2) El Morro; and (3) Milagros.

Financing Option

The Pacific Road Group of Funds ("Pacific Road") holds options negotiated in terms of the Initial Agreement dated September 19, 2007, to provide financing of up to \$15,000 and \$17,500 directly to the Laguna and Bilbao projects, respectively, to obtain interests of up to 35% and 25% of the Company's interests in such projects, respectively. Such project financings, if advanced, may be converted into common shares of the Company or a subsidiary of the Company based on the 30-day volume weighted average trading price at the time of conversion. A fee of 2.5% will be payable to the Manager/Advisor of Pacific Road on any project financing provided under these options. A director of the Company is an officer of the Manager/Advisor to Pacific Road. As of September 30, 2013, no financing has been provided to the Laguna or Bilbao projects under these options.

10. PREPAID EXPENSES AND OTHER NON-CURRENT ASSETS

	September 30 2013 \$	December 31 2012 \$
Prepaid expenses and other non-current assets	49	25

11. ACCOUNTS PAYABLE AND ACCRUALS

	September 30 2013 \$	December 31 2012 \$
Trade creditors	179	58
Payable to related parties (Note 4)	20	9
Property acquisition obligations due within one year	768	-
Accrued liabilities	49	81
	<u>1,017</u>	<u>148</u>

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12. NON CURRENT LIABILITIES

	September 30 2013	December 31 2012
Property acquisition obligations (stated at net present cost) due as follows:	\$	\$
Between two and five years	1,104	990
After five years	-	687
	<u>1,104</u>	<u>1,677</u>

See Note 9.

13. OTHER FINANCIAL LIABILITIES

	September 30 2013	December 31 2012
Financial liabilities carried at fair value through profit and loss	\$	\$
Conversion option component of convertible notes	194	564
	194	564
Financial liabilities at amortized cost		
Debt component of convertible notes	1,072	848
	<u>1,266</u>	<u>1,412</u>

Convertible Notes

On April 14, 2009, the Company and Pacific Road entered into an agreement, whereby Pacific Road subscribed for an aggregate principal amount of \$1,250 in non-interest bearing convertible notes (the "Notes") issued by Orca Minerals Limited ("Orca Minerals"), a subsidiary of the Company. The Notes have a term of five years, maturing April 14, 2014, and are convertible, at the holders' option, into a number of common shares of Orca Minerals which will equal ten percent (10%) of the issued shares of Orca Minerals on a fully diluted basis. A director of the Company is an officer of the Manager/Advisor to Pacific Road.

Pacific Road has a further right to exchange its holdings in Orca Minerals into either: (i) a number of shares of Bilbao Resources, S.A. de C.V. ("Bilbao Resources"), an indirectly-owned Mexican subsidiary of Orca Minerals which holds the Company's interest in the Bilbao project, which will equal ten percent (10%) of the issued shares of Bilbao Resources on a fully diluted basis or (ii) a number of common shares of Xtierra equal to the value of Pacific Road's equity interest in Orca Minerals at the time of exchange divided by the volume-weighted average trading price of Xtierra's shares during a 30-day period prior to such exchange.

If exchanged into shares of Bilbao Resources, the Bilbao Resources shares are further exchangeable into a number of common shares of Xtierra equal to the value of Pacific Road's equity interest in Bilbao Resources at the time of exchange divided by the volume-weighted average trading price of Xtierra's shares during a 30-day period prior to such exchange.

Pacific Road also has a put right, exercisable at its option at any time prior to maturity, to require Xtierra to purchase the Notes for a number of common shares equal to the principal amount of the Notes divided by the volume weighted average trading price of Xtierra's common shares during the 30 day period prior to the exercise of such right.

The Notes provide for a minimum conversion price of Cdn\$0.10 per Xtierra common share.

On issuance of the convertible notes, the Company determined the debt component of the convertible notes to be a financial liability at amortized cost, and the conversion option component to be a financial liability at fair value through profit or loss.

Subsequent to initial recognition, the debt component is measured at amortized cost using the effective interest method and is accreted to its fair value over the expected life of the obligation. The conversion option component is recorded at its estimated fair value at each reporting date, with changes in fair value being included in the consolidated statement of operations and comprehensive income (Loss).

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13. OTHER FINANCIAL LIABILITIES (continued)

Convertible Notes (continued)

	Conversion option component	Debt component	Total
	\$	\$	\$
Convertible Notes - Face Value			1,250
Balance, December 31, 2011	623	627	1,250
Change in fair value	(59)	-	(59)
Accretion	-	221	221
Balance, December 31, 2012	564	848	1,412
Change in fair value	(370)	-	(370)
Accretion	-	224	224
Balance, September 30, 2013	194	1,072	1,266

The change in fair value of convertible notes, as recorded in the statement of operations, is a result of the fair value adjustment of the conversion option component of the convertible notes. The conversion option component of the convertible notes is carried on the consolidated statement of financial position as a financial liability at its estimated fair value. The change in fair value recorded is a non-cash adjustment that has had no cash effect on the Company.

14. CAPITAL STOCK

Common shares

Authorized

Unlimited number of common shares

Issued

	Shares (000's)	Amount \$
Balance, December 31, 2012 and September 30, 2013	103,426	33,594

15. STOCK OPTIONS

The board of directors has approved a Stock Option Plan for directors, officers, management, employees and other persons who perform ongoing services for the Company or any of its subsidiaries. The purpose of the plan is to attract, retain and motivate these parties by providing them with the opportunity, through share options, to acquire a proprietary interest in the Company and to benefit from its growth.

The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed 10% of the total number of common shares outstanding immediately prior to such an issuance. The options are exercisable over a period not exceeding ten years. The options are non-assignable and may be granted for a term not exceeding ten years. The exercise price of the options is fixed by the board of directors at the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

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15. STOCK OPTIONS (continued)

As at September 30, 2013, the Company had the following outstanding stock options:

<u>Number of Options Granted and Exercisable at September 30, 2013</u>	<u>Estimated Grant Date Fair Value</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
(000's)	\$		
2,351	368	Cdn\$0.21	February 15, 2015
4,225	1,729	Cdn\$0.51	April 27, 2016
<u>Total</u>	<u>6,576</u>		
	<u>2,097</u>		

Stock option transactions for the respective periods were as follows:

	<u>Number of Options (000's)</u>	<u>Weighted Average Exercise Price Cdn\$</u>
Balance, December 31, 2012	8,826	0.43
Expired	<u>(2,250)</u>	<u>0.50</u>
Balance, September 30, 2013	<u>6,576</u>	<u>0.40</u>

The weighted average remaining contractual life of options outstanding at September 30, 2013 is 2.0 years.

The weighted average exercise price for options that are exercisable at September 30, 2013 amounted to Cdn\$0.40 per option.

16. SHARE-BASED PAYMENT RESERVE

	<u>September 30 2013 \$</u>
Balance, December 31, 2012	2,780
Stock options expired	<u>(683)</u>
Balance, September 30, 2013	<u>2,097</u>

17. FINANCIAL INSTRUMENTS

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. There have been no significant changes in the risks or the Company's objectives, policies and procedures related to risk management.

The principal risks to which the Company is exposed to are described below.

Fair value

The carrying amounts for cash, amounts receivable and other, and accounts payable and accruals on the consolidated statements of financial position, approximate fair value because of the limited term of these instruments. Cash equivalents, derivative financial liabilities and other financial liabilities are carried at fair value.

Capital Risk:

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and explore its mineral properties.

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Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US\$000's)
For the nine month period ended September 30, 2013

17. FINANCIAL INSTRUMENTS (continued)

Credit Risk:

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to funds held in Canadian banks.

Liquidity Risk:

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At September 30, 2013, the Company had cash and cash equivalents of \$626 to settle accounts payable and accruals of \$230. This does not include current liabilities in the amount of \$1,266 in respect of financial instruments (convertible notes) in the principal amount of \$1,250 maturing March 14, 2014 held by Pacific Road Group of Funds, the Company's largest shareholder which holds approximately 34% of the Company's outstanding shares. Management recognizes that the Company will need to reach agreement with Pacific Road for the conversion, repayment or other settlement of these convertible notes. In the absence of an agreement to convert, the company would need to raise sufficient cash to meet the payment on maturity. Management further recognizes that the Company will need to generate additional financial resources in order to meet its planned business objectives. There are no assurances that the Company will continue to obtain additional financial resources and/or achieve positive cash flows or profitability. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration activities.

Price Volatility of Publicly Traded Securities:

Securities of exploration companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the relative attractiveness of particular industries. The Company's share price is also likely to be significantly affected by short-term changes in metal prices or in the Company's financial condition or results of operations as reflected in quarterly earnings reports.

Price Risk:

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not a producing entity.

Interest Rate Risk:

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by major Canadian banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign Currency Risk:

The Company is subject to foreign exchange risk as some of its operating, investing and financing activities are transacted in currencies other than the United States ("US") dollar. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the U.S. dollar. As at September 30, 2013, the Company held Canadian monetary assets and liabilities totalling approximately (Cdn\$73,000) (\$71), and Mexican monetary assets and liabilities totalling approximately MXN\$1,058,000 (\$81).

Sensitivity Analysis:

The Company has designated its cash equivalents, warrants and other financial liabilities as held-for-trading, which are measured at fair value. Financial instruments included in cash and amounts receivable and other are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accruals are classified as other financial liabilities, which are measured at amortized cost.

The Company had a negative balance of approximately (Cdn\$73,000) (\$71) in financial assets and liabilities. A one percent change in the Canadian - US foreign exchange rates could result in a foreign exchange impact of approximately \$Nil based on monetary assets and liability balances existing at September 30, 2013.

The Company holds approximately Mxn\$1,058,000 (\$81) in financial assets and liabilities. A one percent change in the Mexican - US foreign exchange rates could result in a foreign exchange impact of approximately \$1 based on monetary assets and liability balances existing at September 30, 2013.

A one percent change in interest rates will result in a corresponding change in interest income of approximately \$5 based on cash and cash equivalent balances existing at September 30, 2013.

17. FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy and Liquidity Risk Disclosure:

The fair value hierarchy have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At September 30, 2013, the Company's financial instruments that are carried at fair value, consisting of cash equivalents have been classified as Level 2 within the fair value hierarchy.

18. CAPITAL MANAGEMENT

The Company's capital structure consists of its capital stock, convertible notes, property acquisition obligation, warrants and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. 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.

The properties in which the Company currently has an interest are in the exploration and development stages; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will utilize its existing working capital and seek to raise additional amounts as needed through the issue of common shares or other securities.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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 have been no changes to the Company's capital management during 2013 and 2012.

19. COMMITMENTS AND CONTINGENCIES

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.