XTIERRA INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – prepared by management

Third quarter

For the three and nine month periods ended September 30, 2014

(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.

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Condensed Interim Consolidated Statements of Financial Position

Unaudited - prepared by management

As at

(Expressed in US$000's)	Note	September 30, 2014 $	December 31, 2013 $
ASSETS			
Current assets			
Cash and cash equivalents	6	168	128
Amounts receivable and other	7	14	78
Prepaid expenses	7	1	18
Total current assets		183	224
Non-current assets			
Exploration and evaluation assets	9	21,151	21,048
Property, plant and equipment	8	60	77
Prepaid expenses and other non-current assets		-	9
Total non-current assets		21,211	21,134
Total assets		21,394	21,358
LIABILITIES			
Current			
Accounts payable and accruals	10	88	321
Property acquisition obligations	11	-	500
Notes payable	12	953	1,502
Total current liabilities		1,041	2,323
Non-current liabilities			
Property acquisition obligations	11	1,172	748
Total non-current liabilities		1,172	748
Total liabilities		2,213	3,071
SHAREHOLDERS' EQUITY			
Capital stock	13	34,669	33,594
Share-based payment reserve	15	2,097	2,097
Total capital stock and reserve		36,766	35,691
Deficit		(17,585)	(17,404)
Total shareholders' equity		19,181	18,287
Total liabilities and shareholders' equity		21,394	21,358

COMMITMENTS AND CONTINGENCIES (Notes 1, 9, 12 and 16)

The financial statements were approved by the Board of Directors on November 26, 2014 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 three and nine month periods ended September 30,

(Expressed in US$000's, except for per share amounts)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	$	$	$	$
Expenses				
Foreign exchange loss	(30)	20	(60)	47
General and administrative expenses	45	22	65	98
Corporate expenses	5	50	46	122
Professional fees	42	37	112	108
Loss from operations	62	129	163	375
Other items				
Interest income	-	-	-	(2)
Interest expense on notes payable	12	-	28	-
Write down on exploration and evaluation assets	-	-	122	-
Change in fair value of convertible notes	-	(157)	(132)	(370)
Net loss and comprehensive (income) loss for the period	74	(28)	181	3
Net loss (income) per share – basic and diluted	0.001	(0.000)	0.002	0.000
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

(Expressed in US$000's)	Stock Capital $	Share-based payment reserve $	Deficit $	Total $
Balance as at January 1, 2013	**33,594**	**2,780**	**(11,748)**	**24,626**
Stock options expired	-	(683)	683	-
Net loss for the year	-	-	(6,339)	(6,339)
Balance as at December 31, 2013	**33,594**	**2,097**	**(17,404)**	**18,287**
Shares issued on conversion of convertible notes	1,075	-	-	1,075
Net loss for the period	-	-	(181)	(181)
Balance as at September 30, 2014	**34,669**	**2,097**	**(17,585)**	**19,181**

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)	2014	2013
	$	$
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss for the period	(181)	(3)
Depreciation	17	18
Change in fair value of convertible notes	(132)	(370)
Foreign exchange	-	1
Interest expense on notes payable	28	-
Interest income	-	(2)
Operating cash flow before movements in working capital	(268)	(356)
Movements in working capital		
Decrease in amounts receivable and other and prepaids	90	95
Increase/(decrease) in accounts payable and accruals	(233)	101
Net cash used in operating activities	(411)	(160)
FINANCING ACTIVITIES:		
Notes payable	630	-
Net cash generated by financing activities	630	-
INVESTING ACTIVITIES:		
Interest income	-	2
Investment in exploration and evaluation assets	(179)	(1,976)
Expenditures on property, plant and equipment	-	-
Net cash used in investing activities	(179)	(1,974)
Effect of exchange rate changes on cash and cash equivalents	-	(1)
Change in cash and cash equivalents	40	(2,135)
Cash and cash equivalents, beginning of period	128	2,761
Cash and cash equivalents, end of period	168	626
Cash and cash equivalents consist of:		
Cash	168	126
Cash equivalents	-	500
	168	626

See accompanying notes to the condensed interim consolidated financial statements

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.

The Company is in the process of exploring its exploration and evaluation properties. The underlying value and the recoverability of the exploration and evaluation properties is 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 its exploration and evaluation properties, and the generation of future profitable production or proceeds from the disposition of its exploration and evaluation properties.

Going concern

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, 2014, the Company had a working capital deficit of $858, had not achieved profitable operations, had an accumulated deficit since inception and expects to incur further losses in the development of its business. In April 2014 the Company received an independent Technical Report in compliance with NI 43-101 containing a new mineral resource estimate and a Preliminary Economic Assessment (PEA) of the Bilbao Project. The continuing operations of the Company are dependent upon its ability to raise adequate financing for working capital, pre-feasibility and feasibility studies, and for financing in the longer term to complete the acquisition of Bilbao property and to build the proposed mine at Bilbao.

The Company is currently considering various financing options and is engaged in discussions with its major shareholders and third parties regarding strategic alternatives. The Company has reasonable expectations that these financing discussions will be successful and therefore the condensed interim consolidated financial statements have been presented on the basis that the Company is a going concern. The consolidated financial statements do not give effect to any adjustment which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different than those reflected in the condensed interim consolidated financial statements.

There are no assurances that the Company will continue to obtain additional financial resources on a timely basis or on acceptable terms. 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"). The accounting policies set out below have been applied consistently to all periods presented unless otherwise noted below.

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, 2013 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$").

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
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 21	Levies

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

(Expressed in US$000's)

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, 2014	September 30, 2013
	$	$
Office expenses	3	29
Administrative expenses	-	36
Professional fees	111	222
Key Management personnel remuneration	111	258
Capitalized as exploration assets	11	95

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, 2014 or September 30, 2013.

Key management personnel remuneration comprises professional fees 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, 2014 is $11 (2013 - $20) due to related parties. These balances are due on demand, unsecured and non-interest bearing.

The subsidiaries of the Company at September 30, 2014 were as follows:

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

(Expressed in US$000's)

5. SEGMENTAL ANALYSIS

	Segment result	
	September 30, 2014	September 30, 2013
	$	$
Continuing Operations		
Canada	(21)	(3)
Mexico	(160)	-
Total for continuing operations	(181)	(3)
Income tax	-	-
Income (loss) for the period	(181)	(3)

Segment assets and segment liabilities	Assets	
	September 30, 2014	December 31, 2013
	$	$
Canada	156	124
Mexico	21,238	21,234
	21,394	21,358

	Additions to non-current assets	
	September 30, 2014	September 30, 2013
	$	$
Canada	-	-
Mexico	85	2,352
	85	2,352

	Liabilities	
	September 30, 2014	December 31, 2013
	$	$
Canada	(2,181)	(2,876)
Mexico	(32)	(195)
	(2,213)	(3,071)

(Expressed in US$000's)

6. CASH AND CASH EQUIVALENTS

	September 30, 2014	December 31, 2013
	$	$
Cash	168	128

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

Canadian Dollars	30	48
US Dollars	126	7
Mexican Pesos	12	73
	168	128

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 nine 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 nine 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, 2014	December 31, 2013
	$	$
Trade receivables	-	-
Receivable sales taxes - Canada	6	51
Receivable sales taxes - Mexico	8	27
Amounts receivables and other	14	78
Prepaid expenses	1	18
	15	96

8. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2014	Disposal	December 31, 2013	Depreciation	January 1, 2013
	$	$	$	$	$
Equipment at cost	147	(23)	170	-	170
Accumulated	(87)	6	(93)	(23)	(70)
Total	60	(17)	77	(23)	100

(Expressed in US$000's)

9. EXPLORATION AND EVALUATION ASSETS

The following table shows the mineral property interests:

	September 30, 2014	Additions	December 31, 2013	Write down	Additions	January 1, 2013
	$	$	$		$	$
Bilbao	18,321	103	18,218	(4,000)	2,918	19,300
Laguna	2,830	-	2,830	-	21	2,809
El Dorado	-	-	-	(1,281)	24	1,257
Other	-	-	-	(1,485)	150	1,335
Total	21,151	103	21,048	(6,766)	3,113	24,701

The Company has the following investments in exploration and development properties located in the State of Zacatecas, Mexico:

Bilbao
The Company holds a 100% interest in the Bilbao zinc-silver-lead-copper project, subject to a 1.5% net smelter royalty. In 2012, the Company acquired the necessary surface lands for surface installations and development of the Bilbao deposit.

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. The remaining balance of $2,000 is payable in four consecutive equal payments of $500 each, the first such $500 annual payment to be made at the time of commencement of construction of any mine developed on the Bilbao concession but in any event shall be paid in full 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. Since August 2008 to September 30, 2014, a further $500 has been paid and $609 of accretion expense has been added to exploration and evaluation assets related to this property acquisition obligation. As at September 30, 2014, the remaining property acquisition obligation amounted to $1,172.

In April 2014, in accordance with the Company's accounting policies the Company carried out an impairment analysis and recorded an impairment charge on the Bilbao project, as at December 31, 2013, in the amount of $4,000,000, reducing the estimated fair value of the Bilbao property to $18.2 million, which approximates the pre-tax net present value over the eight year mine life projected in the PEA discounted at 8%.

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, the Mexican authority responsible for water resources, advised the Company of their decision to rescind the Company's December 10, 2003, twenty year extraction licence for the Laguna project on the basis that no extraction has been done for at least three years. The Company appealed this decision through the courts. The appeal was heard by the Court of Zacatecas in June 2014 and a judgement in favor of the Company and setting aside the rescission was issued on October 7, 2014.

(Expressed in US$000's)

9. EXPLORATION AND EVALUATION ASSETS (continued)

El Dorado

In accordance with its cost curtailment intentions and as a cash preservation measure, the Company relinquished its El Dorado exploration property on January 14, 2014. The Company had not carried out any exploration work on this property since the third quarter of 2013. A write down of $1,281 was recorded at December 31, 2013.

Other

The Company had 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. As the Company's focus is the development of the Bilbao property, and as a cash preservation measure, the Company surrendered these mineral claims. A write down of $1,485 was recorded in the year ended December 31, 2013 and expenditures of $122 related to these mineral claims were written off in the statement of operations for the nine month period ended September 30, 2014.

10. ACCOUNTS PAYABLE AND ACCRUALS

	September 30, 2014 $	December 31, 2013 $
Trade creditors	41	276
Payable to related parties (Note 4)	11	9
Accrued liabilities	36	36
	88	321

11. NON CURRENT LIABILITIES

Property acquisition obligations (stated at net present cost) due as follows:	September 30, 2014 $	December 31, 2013 $
Between one and two years	-	500
Between two and five years	1,172	748
	1,172	1,248

See Note 9. The liability of $500 was reclassified to non-current at September 30, 2014.

12. OTHER FINANCIAL LIABILITIES

	September 30, 2014 $	December 31, 2013 $
Financial liabilities carried at fair value through profit and loss		
Conversion option component of convertible notes	-	235
Financial liabilities at amortized cost		
Debt component of convertible notes	-	1,147
	-	1,382
Note payable	953	120
Total financial liabilities	953	1,502

12. OTHER FINANCIAL LIABILITIES (continued)

Convertible Notes

On April 14, 2009, the Company and Pacific Road Group of Funds ("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 had a term of five years, maturing April 14, 2014, and were 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.

Pacific Road had a further right to exchange its holdings in Orca Minerals into either 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, or common shares of Xtierra.

Pacific Road also had 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.

In April 2014, the Company reached an agreement with Pacific Road whereby Pacific Road exercised its right to exchange $1,075 of its convertible notes for 11,944,444 shares of the Company. The remaining balance of Pacific Road's convertible notes in the amount of $175 was rolled into a new non-convertible 5% secured note, see Notes payable below.

Notes payable

In December 2013 the Company's major shareholders, Pacific Road and Minco plc ("Minco") agreed to provide working capital financing to the Company and each agreed to purchase $250 principal amount of 5% working capital notes due March 31, 2014 (the "Notes"). Minco advanced $120 in December 2013 and advanced an additional $130 (total $250) on January 10, 2014. On January 10, 2014, Pacific Road advanced $250.

The remaining balance of Pacific Road's convertible notes in the amount of $175, together with the $250 working capital Notes and together with a further advance of $125, were rolled into new non-convertible 5% secured notes (total $550) due April 30, 2015, secured, pari-passu with Minco, by a pledge by Xtierra of its shares of the Orca Minerals Limited.

As part of the April 2014 agreement Pacific Road also relinquished its priority financing rights on the Bilbao and Laguna projects but retains its information rights, board representation and non-dilution rights.

At the same time, in April 2014, Minco also agreed to provide a further working capital advance of $125, which together with the $250 working capital Notes, were rolled into new non-convertible 5% secured notes (total $375) due April 30, 2015, secured, pari-passu with Pacific Road, by a pledge by Xtierra of its shares of the Orca Minerals Limited.

The net effect of the Company's April 2014 agreements with its major shareholders was to settle its liability of $1,075 due April 2014 by the issue of 11,944,444 shares, roll over $508 in working capital notes, including $8 interest, due March 31, 2014, until April 30, 2015 and obtain further advances of $250 to fund its working capital for the balance of 2014.

The resultant balance of shareholder advances of $933 is due April 30, 2015, carries interest of 5% and is secured by a pledge by the Company of its shares in its wholly owned subsidiary Orca Minerals limited. At September 30, 2014, the balance due was $953 including $20 accrued interest.

(Expressed in US$000's)

13. CAPITAL STOCK

Common shares

Authorized
Unlimited number of common shares

Issued	Shares (000's)	Amount $
Balance, December 31, 2013	103,426	33,594
Shares issued on conversion of convertible notes	11,944	1,075
Balance, September 30, 2014	115,370	34,669

In April 2014, Pacific Road exercised its right to exchange $1,075 of its convertible notes for 11,944,444 shares of the Company.

14. 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.

As at September 30, 2014, the Company had the following outstanding stock options:

	Number of Options Granted and Exercisable at September 30, 2014	Estimated Grant Date Fair Value	Exercise Price	Expiry Date
	(000's)	$		
	2,351	368	Cdn$0.21	February 15, 2015
	4,225	1,729	Cdn$0.51	April 27, 2016
Total	6,576	2,097		

Stock option transactions for the respective periods were as follows:

	Number of Options	Weighted Average Exercise Price
	(000's)	Cdn$
Balance, January 1, 2013	8,826	0.43
Expired	(2,250)	0.50
Balance, December 31, 2013 and September 30, 2014	6,576	0.40

The weighted average remaining contractual life of options outstanding at September 30, 2014 is 2.0 years.

The weighted average exercise price for options that are exercisable at September 30, 2014 amounted to Cdn$0.40 per option.

(Expressed in US$000's)

15. SHARE-BASED PAYMENT RESERVE

	September 30, 2014 $
Balance, January 1, 2013	2,780
Stock options expired	(683)
Balance, December 31, 2013 and September 30, 2014	2,097

16. COMMITMENTS

The Company entered into an Advisory Engagement Agreement with Jennings Capital Inc. as financial advisor with respect to consideration of strategic alternatives for the Bilbao project. Compensation for the services includes a payment of $50,000 for the period September 1, 2014 to December 31, 2014, payable after the end of the period through the issue of 1,000,000 (one million) common shares of the Company at a price of C$0.05 per common share, subject to the approval of the TSX Venture Exchange.

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 during the period.

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 exploration and evaluation assets.

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, 2014, the Company had cash and cash equivalents of $168 to settle accounts payable of $88.

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.

17. FINANCIAL INSTRUMENTS (continued)

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, 2014, the Company held Canadian monetary assets and liabilities totalling approximately (Cdn$21,000) ($19), and Mexican monetary assets and liabilities totalling approximately MXN$65,000 ($5).

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 balance of approximately (Cdn$21,000) ($19) 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, 2014.

The Company holds approximately Mxn$65,000 ($5) 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 $Nil based on monetary assets and liability balances existing at September 30, 2014.

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, 2014, 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 2014 and 2013.