

**XTIERRA INC.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*Unaudited – prepared by management*

**Third quarter**

**For the nine month period ended September 30, 2015**

(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, 2015**

<b><i>INDEX</i></b>	<b><i>PAGE</i></b>
Condensed Interim Consolidated Statements of Financial Position	1
Condensed Interim Consolidated Statements of Operations and Comprehensive (Income) Loss	2
Condensed Interim Consolidated Statements of Changes in Equity	3
Condensed Interim Consolidated Statements of Cash Flows	4
Notes to the Condensed Interim Consolidated Financial Statements	5- 14

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

(Expressed in US\$000's)	Note	September 30, 2015 \$	December 31, 2014 \$
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	6	81	117
Amounts receivable and other	7	12	12
Total current assets		<u>93</u>	<u>129</u>
Non-current assets			
Exploration and evaluation assets	9	11,398	11,210
Property, plant and equipment	8	32	50
Total non-current assets		<u>11,430</u>	<u>11,260</u>
Total assets		<u>11,523</u>	<u>11,389</u>
<b>LIABILITIES</b>			
Current			
Accounts payable and accruals	11	29	55
Notes payable	13	1,096	965
Total current liabilities		<u>1,125</u>	<u>1,020</u>
Non-current liabilities			
Property acquisition obligations	12	1,347	1,212
Total non-current liabilities		<u>1,347</u>	<u>1,212</u>
Total liabilities		<u>2,472</u>	<u>2,232</u>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	14	34,669	34,669
Share-based payment reserve	15/16	1,647	2,140
Total capital stock and reserve		<u>36,316</u>	<u>36,809</u>
Deficit		<u>(27,265)</u>	<u>(27,652)</u>
Total shareholders' equity		<u>9,051</u>	<u>9,157</u>
Total liabilities and shareholders' equity		<u>11,523</u>	<u>11,389</u>

**COMMITMENTS AND CONTINGENCIES** (Notes 1, 9, 13 and 17)

The financial statements were approved by the Board of Directors on November 23, 2015 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		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Expenses				
Foreign exchange gain	(49)	(30)	(114)	(60)
General and administrative expenses	36	45	109	65
Corporate expenses	2	5	20	46
Professional fees	15	42	30	112
Loss from operations	<u>4</u>	<u>62</u>	<u>45</u>	<u>163</u>
Other items				
Interest expense on notes payable	13	12	38	28
Extension fee on notes payable	23	-	23	-
Write down on exploration and evaluation assets	-	-	-	122
Change in fair value of convertible notes	-	-	-	(132)
<b>Net loss and comprehensive (income) loss for the period</b>	<u><u>40</u></u>	<u><u>74</u></u>	<u><u>106</u></u>	<u><u>181</u></u>
Net loss (income) per share – basic and diluted	0.000	0.001	0.001	0.002
<b>Weighted average common shares outstanding</b> – basic and diluted	115,370,336	115,370,336	115,370,336	115,370,336

See accompanying notes to the condensed interim consolidated financial statements

**XTIERRA INC.****Condensed Interim Consolidated Statements of Changes in Equity***Unaudited - prepared by management***As at September 30, 2015**

	Stock Capital	Share-based payment reserve	Deficit	Total
(Expressed in US\$000's)	\$	\$	\$	\$
<b>Balance as at January 1, 2014</b>	<b>33,594</b>	<b>2,097</b>	<b>(17,404)</b>	<b>18,287</b>
Shares issued on conversion of convertible notes	1,075	43	-	1,118
Net loss for the period	-	-	(181)	(181)
<b>Balance as at September 30, 2014</b>	<b>34,669</b>	<b>2,140</b>	<b>(17,585)</b>	<b>19,224</b>
Net loss for the period	-	-	(10,067)	(10,067)
<b>Balance as at December 31, 2014</b>	<b>34,669</b>	<b>2,140</b>	<b>(27,652)</b>	<b>9,157</b>
Share-based payments expired		(493)	493	-
Net loss for the period	-	-	(106)	(106)
<b>Balance as at September 30, 2015</b>	<b>34,669</b>	<b>1,647</b>	<b>(27,265)</b>	<b>9,051</b>

See accompanying notes to the condensed interim consolidated financial statement

**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)	2015	2014
	\$	\$
<b>CASH FLOWS USED IN OPERATING ACTIVITIES:</b>		
Net loss for the period	(106)	(181)
Depreciation	-	17
Change in fair value of convertible notes	-	(132)
Interest expense on notes payable	38	28
Extension fee on notes payable	23	-
Operating cash flow before movements in working capital	<u>(45)</u>	<u>(268)</u>
Movements in working capital		
(Increase)/decrease in amounts receivable and other and prepaids	-	90
(Decrease) in accounts payable and accruals	(27)	(233)
Net cash used in operating activities	<u>(72)</u>	<u>(411)</u>
<b>FINANCING ACTIVITIES:</b>		
Notes payable	65	630
Net cash generated by financing activities	<u>65</u>	<u>630</u>
<b>INVESTING ACTIVITIES:</b>		
Interest expense	-	-
Investment in exploration and evaluation assets	(53)	(179)
Proceeds from sale of equipment	24	-
Net cash used in investing activities	<u>(29)</u>	<u>(179)</u>
Effect of exchange rate changes on cash	<u>-</u>	<u>-</u>
Change in cash	(36)	40
Cash, beginning of period	117	128
Cash, end of period	<u>81</u>	<u>168</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, 2015**

---

#### **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 1200, 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, 2015, the Company had a working capital deficit of \$1,032, 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 considering various financing options and is engaged in discussions with its major shareholders regarding strategic alternatives.

These condensed interim consolidated financial statements have been presented on the basis that the Company is a going concern. On April 29, 2015, Pacific Road and Minco plc, both agreed to extend the due dates of the non-convertible 5% secured notes in the amount of \$965 from April 30, 2015 to August 31, 2015, and to provide further advances up to \$15 each. On August 24, 2015, Pacific Road and Minco both agreed to further extend the due dates of the Notes from August 31, 2015 to January 31, 2016 and to provide further advances of up to \$17.5 each to fund the Company's property maintenance costs and working capital. The purpose of the extension of the maturity date of the secured notes is to provide the Company additional time to assess its strategic alternatives.

Pacific Road has advised that Xtierra should move within the extension period to either complete a strategic transaction or restructure the Company and that Pacific Road desires to see this process come to a conclusion but, in the absence of an acceptable outcome, Pacific Road reserves all its rights to demand repayment of the Notes on maturity and if necessary to initiate foreclosure actions.

The Notes are secured by the pledge by Xtierra of the shares of its wholly owned subsidiary Orca Minerals Limited, which indirectly holds the Company's Mexican assets. The security includes various standard provisions, including the right of the lenders to enforce their security in an event of default, including default in payment on the notes when due, which enforcement remedies include foreclosure against the pledged shares of Orca Minerals Limited.

**XTIERRA INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**(Expressed in US\$000's)**  
**For the nine month period ended September 30, 2015**

---

**1. NATURE OF OPERATIONS (continued)**

**Going concern (continued)**

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, 2014 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 8	Operating segments
IFRS 9	Financial Instruments
IFRS 10 & IAS 28	Consolidated Financial Statements
IFRS 13	Fair value measurement
IAS 1	Presentation of Financial Statements
IAS 19	Employee Benefits
IAS 24	Related Party Disclosures
IAS 27	Separate Financial Statements
IAS 38 & IAS 16	Intangible Assets

The Company has not yet determined the impact of these amendments on its 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, 2015**

**4. RELATED PARTY TRANSACTIONS**

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

No fees were paid by the Company to directors for their services as directors of the Company in the three month periods ended September 30, 2015 or September 30, 2014.

For the nine month period ended September 30, 2015, the Company made payments or accrued \$10 (2014 - \$111) to related parties, including \$8 to Steenberglaw Professional Corporation, a company controlled by Neil J.F. Steenberg, Director and Secretary, for legal fees, \$2 to T. D. Gallagher, Director, for investor relations services.

Included in accounts payable and accruals at September 30, 2015 is \$2 (2014 - \$11) due to related parties. These balances are due on demand, unsecured and non-interest bearing.

The subsidiaries of the Company at September 30, 2015 were as follows:

<b>Name of Subsidiary</b>	<b>Country of Incorporation</b>	<b>Percentage owned</b>	<b>Principal activity</b>
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
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, 2015	September 30, 2014
	\$	\$
<b>Continuing Operations</b>		
Canada	(63)	(21)
Mexico	(43)	(160)
Total for continuing operations	<u>(106)</u>	<u>(181)</u>
Income tax	<u>-</u>	<u>-</u>
Income (loss) for the period	<u><u>(106)</u></u>	<u><u>(181)</u></u>
<b>Segment assets and segment liabilities</b>		Assets
	September 30, 2015	December 31, 2014
	\$	\$
Canada	71	107
Mexico	<u>11,452</u>	<u>11,282</u>
	<u><u>11,523</u></u>	<u><u>11,389</u></u>

**XTIERRA INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**(Expressed in US\$000's)**  
**For the nine month period ended September 30, 2015**

**5. SEGMENTAL ANALYSIS (continued)**

	Additions to non-current assets	
	September 30, 2015	September 30, 2014
	\$	\$
Canada	-	-
Mexico	170	85
	<u>170</u>	<u>85</u>
	<u><u>170</u></u>	<u><u>85</u></u>

  

	Liabilities	
	September 30, 2015	December 31, 2014
	\$	\$
Canada	(2,465)	(2,212)
Mexico	(7)	(20)
	<u>(2,472)</u>	<u>(2,232)</u>
	<u><u>(2,472)</u></u>	<u><u>(2,232)</u></u>

**6. CASH AND CASH EQUIVALENTS**

	September 30, 2015	December 31, 2014
	\$	\$
Cash	<u>81</u>	<u>117</u>

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

Canadian Dollars	18	35
US Dollars	54	75
Mexican Pesos	9	7
	<u>81</u>	<u>117</u>
	<u><u>81</u></u>	<u><u>117</u></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, 2015	December 31, 2014
	\$	\$
Receivable sales taxes - Canada	1	2
Receivable sales taxes - Mexico	11	9
Amounts receivables and other	<u>12</u>	<u>11</u>
	<u><u>12</u></u>	<u><u>11</u></u>

**XTIERRA INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**(Expressed in US\$000's)**  
**For the nine month period ended September 30, 2015**

**8. PROPERTY, PLANT AND EQUIPMENT**

	September 30, 2015 \$	Disposal \$	December 31, 2014 \$	Disposal \$	Depreciation \$	December 31, 2014 \$
Equipment at cost	71	(63)	134	(36)	-	170
Accumulated depreciation	(39)	45	(84)	28	(19)	(93)
<b>Total</b>	<b>32</b>	<b>(18)</b>	<b>50</b>	<b>(8)</b>	<b>(19)</b>	<b>77</b>

**9. EXPLORATION AND EVALUATION ASSETS**

The following table shows the mineral property interests:

	September 30, 2015 \$	Additions \$	December 31, 2014 \$	Write down	Additions \$	January 1, 2014 \$
Bilbao	8,566	188	8,378	(10,000)	160	18,218
Laguna	2,832	-	2,832	-	2	2,830
<b>Total</b>	<b>11,398</b>	<b>188</b>	<b>11,210</b>	<b>(10,000)</b>	<b>162</b>	<b>21,048</b>

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 including 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 then outstanding future payments of \$2,500 was determined to be \$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. As at September 30, 2015, the remaining present value of the outstanding payment obligation amounted to \$1,347.

A write down of \$10,000 was recorded at December 31, 2014 (2013 – \$4,000). See Note 10.

**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 Mxn\$11.00 (approximately US\$1.00) per cubic metre of tailings.

**XTIERRA INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**(Expressed in US\$000's)**  
**For the nine month period ended September 30, 2015**

**10. IMPAIRMENT OF EXPLORATION AND EVALUATION ASSETS**

In accordance with the Company's accounting policies, and as required by IAS 36 – Impairment of Assets, as indications of impairment exist, the Company carried out an impairment assessment of the Bilbao property as at December 31, 2014 and based on such assessment recorded a non-cash impairment charge against its mineral property interests in the amount of \$10,000.

Significant judgments and assumptions are required in making estimates of fair value and valuations are subject to variability in key assumptions including, but not limited to, long-term metal prices, currency exchange rates, discount rates, production, operating and capital costs. Any change in one or more of the assumptions used to estimate fair value could result in a change in the fair value of the Bilbao property.

**11. ACCOUNTS PAYABLE AND ACCRUALS**

	September 30, 2015 \$	December 31, 2014 \$
Trade creditors	9	15
Payable to related parties (Note 4)	2	4
Accrued liabilities	<u>18</u>	<u>36</u>
	<u>29</u>	<u>55</u>

**12. NON CURRENT LIABILITIES**

	September 30, 2015 \$	December 31, 2014 \$
<b>Property acquisition obligations (stated at net present cost) due as follows:</b>		
Between one and two years	-	-
Between two and five years	<u>1,347</u>	<u>1,212</u>
	<u>1,347</u>	<u>1,212</u>

**13. OTHER FINANCIAL LIABILITIES**

	September 30, 2015 \$	December 31, 2014 \$
<b>Notes payable</b>		
Note payable to Pacific Road	645	573
Note payable to Minco plc	<u>451</u>	<u>392</u>
<b>Total notes payable</b>	<u>1,096</u>	<u>965</u>

**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 "Convertible Notes") issued by Orca Minerals Limited ("Orca Minerals"), a subsidiary of the Company. The Convertible 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 Convertible Notes for a number of common shares equal to the principal amount of the Convertible 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.

**XTIERRA INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**(Expressed in US\$000's)**  
**For the nine month period ended September 30, 2015**

---

**13. OTHER FINANCIAL LIABILITIES (continued)**

**Notes payable**

In December 2013 the Company's major shareholders, Pacific Road and Minco plc 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.

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 convertible notes previously owed to Pacific Road 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 Orca Minerals Limited.

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 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 September 30, 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 carries interest of 5%, was due April 30, 2015.

On April 29, 2015, Pacific Road and Minco plc, both agreed to extend the due dates of the non-convertible 5% secured notes in the amount of \$965 from April 30, 2015 to August 31, 2015, and to provide further advances up to \$15 each. On August 24, 2015, Pacific Road and Minco both agreed to further extend the due dates of the Notes from August 31, 2015 to January 31, 2016 and to provide further advances of up to \$17.5 each to fund the Company's property maintenance costs and working capital. The Company agreed to a fee of \$21 to obtain the extension, which amount was added to the principal amount of the Notes. The purpose of the extension of the maturity date of the secured notes is to provide the Company additional time to assess its strategic alternatives.

Pacific Road has advised that Xtierra should move within the extension period to either complete a strategic transaction or restructure the Company and that Pacific Road desires to see this process come to a conclusion but, in the absence of an acceptable outcome, Pacific Road reserves all its rights to demand repayment of the Notes on maturity and if necessary to initiate foreclosure actions.

The Notes are secured by the pledge by Xtierra of the shares of its wholly owned subsidiary Orca Minerals Limited, which indirectly holds the Company's Mexican assets. The security includes various standard provisions, including the right of the lenders to enforce their security in an event of default, including default in payment on the notes when due, which enforcement remedies include foreclosure against the pledged shares of Orca Minerals Limited.

At September 30, 2015, the balance due was \$1,096.

**14. CAPITAL STOCK**

**Common shares**

**Authorized**

Unlimited number of common shares

**Issued**

Balance, December 31, 2014 and September 30, 2015

Shares (000's)	Amount \$
<u>115,370</u>	<u>34,669</u>

**XTIERRA INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**(Expressed in US\$000's)**  
**For the nine month period ended September 30, 2015**

**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.

As at September 30, 2015, the Company had the following outstanding stock options:

Number of Options Granted and Exercisable at September 30, 2015 (000's)	Estimated Grant Date Fair Value \$	Exercise Price	Expiry Date
<u>4,225</u>	<u>1,729</u>	Cdn\$0.51	April 27, 2016

Stock option transactions for the respective periods were as follows:

	Number of Options (000's)	Weighted Average Exercise Price Cdn\$
Balance, January 1, 2015	6,576	0.43
Expired	<u>(2,351)</u>	<u>0.21</u>
Balance, September 30, 2015	<u>4,225</u>	<u>0.51</u>

The weighted average remaining contractual life of options outstanding at September 30, 2015 is 0.6 year.

The weighted average exercise price for options that are exercisable at September 30, 2015 amounted to Cdn\$0.51 per option.

**16. SHARE-BASED PAYMENT RESERVE**

	September 30, 2014 \$
Balance, December 31, 2014 and September 30, 2015	<u>1,647</u>

**17. COMMITMENTS**

The Company's mining and exploration activities are subject to various 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.

Exploration and Evaluation Properties

In order to maintain the Company's mineral concessions and titles in good standing, the Company will be required to maintain a prescribed minimum of annual exploration expenditure and pay fees semi-annually to the Secretaria de Economia in Mexico. Minimum expenditure and concession payment commitments of approximately \$69 (Mxn\$1,023,500) are due within one year.

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.

**XTIERRA INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**(Expressed in US\$000's)**  
**For the nine month period ended September 30, 2015**

---

**18. FINANCIAL INSTRUMENTS**

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, 2015, the Company had cash and cash equivalents of \$81 to settle accounts payable of \$29.

**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, 2015, the Company held Canadian monetary assets and liabilities totalling approximately (Cdn\$4,000) (\$3), and Mexican monetary assets and liabilities totalling approximately Mxn\$243,000 (\$15).

**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\$4,000) (\$3) 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, 2015.

The Company holds approximately Mxn\$243,000 (\$15) 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, 2015.

## **XTIERRA INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**(Expressed in US\$000's)**

**For the nine month period ended September 30, 2015**

---

#### **18. 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, 2015, 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.

#### **19. 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 2015 and 2014.