

XTIERRA INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – prepared by management

Third Quarter

For the nine-month period ended September 30, 2017

(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

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For the nine-month period ended September 30, 2017

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XTIERRA INC.
Condensed Interim Consolidated Balance Sheet
As at September 30, 2017

Unaudited - prepared by management

(Expressed in US Dollars)	Note	September 30, 2017 \$	December 31, 2016 \$
ASSETS			
Current assets			
Cash		12,579	17,557
Amounts receivable and other	6	<u>157</u>	<u>17,937</u>
Total current assets		<u>12,736</u>	<u>35,494</u>
Non-current assets			
Mineral properties	8	1	1
Property, plant and equipment	7	<u>17,151</u>	<u>19,822</u>
Total non-current assets		<u>17,152</u>	<u>19,823</u>
Total assets		<u><u>29,888</u></u>	<u><u>55,317</u></u>
LIABILITIES			
Current			
Accounts payable and accruals	4/9	25,511	31,118
Property acquisition obligations	8/10	1,784,000	-
Notes payable	11	<u>1,393,300</u>	<u>1,250,629</u>
Total current liabilities		<u>3,202,811</u>	<u>1,281,747</u>
Non-current liabilities			
Property acquisition obligations	8/10	-	<u>1,604,000</u>
Total non-current liabilities		-	<u>1,604,000</u>
Total liabilities		<u>3,202,811</u>	<u>2,885,747</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Capital stock	12	34,711,765	34,711,765
Deficit		<u>(37,884,688)</u>	<u>(37,542,195)</u>
(Deficiency)		<u>(3,172,923)</u>	<u>(2,830,430)</u>
Total liabilities and shareholders' equity (deficiency)		<u><u>29,888</u></u>	<u><u>55,317</u></u>

COMMITMENTS AND CONTINGENCIES (Notes 1, 8, 11 and 13)

The financial statements were approved by the Board of Directors on November 23, 2017 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 Dollars)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Expenses				
General and administrative expenses	22,526	23,223	23,417	26,855
Corporate expenses	758	664	8,474	15,547
Professional fees	447	1,409	3,164	10,679
Accretion on property acquisition obligation	60,000	53,000	180,000	159,000
Exploration and evaluation expenses	<u>27,606</u>	<u>13,711</u>	<u>85,471</u>	<u>45,328</u>
Loss from operations	111,337	92,008	300,526	257,409
Other items				
Foreign exchange gain	(1,647)	(18,888)	(7,704)	(19,773)
Interest expense on notes payable	<u>17,262</u>	<u>14,984</u>	<u>49,671</u>	<u>42,900</u>
	<u>15,615</u>	<u>(3,904)</u>	<u>41,967</u>	<u>23,127</u>
Net loss and comprehensive loss for the period	<u>126,952</u>	<u>88,104</u>	<u>342,493</u>	<u>280,536</u>
Net loss (income) per share – basic and diluted	0.001	0.001	0.003	0.002
Weighted average common shares outstanding – basic and diluted	116,370,336	116,370,336	116,370,336	116,370,336

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.**Condensed Interim Consolidated Statements of Changes in Equity/(Deficiency)***Unaudited - prepared by management***As at September 30, 2017**

	Stock Capital	Share-based payment reserve	Deficit	Total
(Expressed in US Dollars)	\$	\$	\$	\$
Balance as at December 31, 2015	34,711,765	1,472,250	(38,606,852)	(2,422,837)
Share-based payments expired	-	(1,472,250)	1,472,250	-
Net loss for the period	-	-	(280,536)	(280,536)
Balance as at September 30, 2016	34,711,765	-	(37,415,137)	(2,703,373)
Net loss for the year	-	-	(127,057)	(127,057)
Balance as at December 31, 2016	34,711,765	-	(37,542,195)	(2,830,430)
Net loss for the period	-	-	(342,493)	(342,493)
Balance as at September 30, 2017	34,711,765	-	(37,884,688)	(3,172,923)

See accompanying notes to the condensed interim consolidated financial statements

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

(Expressed in US Dollars)	2017	2016
	\$	\$
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss for the period	(342,493)	(280,536)
Depreciation and proceeds on disposal of equipment	2,671	6,945
Accretion on property acquisition obligation	180,000	159,000
Interest expense and fees on notes payable	49,671	42,900
Operating cash flow before movements in working capital	<u>(110,151)</u>	<u>(71,690)</u>
Movements in working capital		
(Increase) in amounts receivable and other and prepaids	17,780	(421)
Increase/(decrease) in accounts payable and accruals	<u>(5,607)</u>	<u>(7,862)</u>
Net cash used in operating activities	<u>(97,978)</u>	<u>(79,973)</u>
FINANCING ACTIVITIES:		
Notes payable	<u>93,000</u>	<u>50,000</u>
Net cash generated by financing activities	<u>93,000</u>	<u>50,000</u>
Change in cash	(4,978)	(29,973)
Cash, beginning of year	<u>17,557</u>	<u>59,167</u>
Cash, end of period	<u><u>12,579</u></u>	<u><u>29,193</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 Dollars)
For the nine-month period ended September 30, 2017

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 55 University Ave, Suite 1805, Toronto, Ontario M5J 2H7.

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, 2017, the Company had not achieved profitable operations, had a working capital deficiency, had an accumulated deficit since inception and expects to incur further losses in the development of its business. The Company's secured Notes matured and became due and payable on April 30, 2016. One or both of the Company's major shareholders, which collectively hold 66.4% of the Company's outstanding shares and all of its secured debt, may initiate foreclosure actions in respect of the secured notes which matured April 30, 2016 (see Note 11). An outstanding balance of the purchase price for an interest in the Bilbao property will become payable in August 2018 (see note 8). The Company will need to restructure its financial affairs and generate additional financial resources in order to continue as a going concern. 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.

There is a significant risk that an extension to the secured notes or, a deferment or re-negotiation of the property payment, or a successful financial restructuring, may not be achieved and/or that additional financing will not be available to the Company on a timely basis or on acceptable terms, or at all. 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 may be required to conduct a sales process to liquidate its assets in a formal process.

The Company has not yet determined whether its exploration and evaluation projects contain economically recoverable mineral reserves. The underlying value and the recoverability of the exploration and evaluation projects 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 projects, and the generation of future profitable production or proceeds from the disposition of the exploration and evaluation projects.

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, 2016 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

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.

XTIERRA INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the nine-month period ended September 30, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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.

Statement of Compliance

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, 2017.

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 2	Share-based payments
IFRS 9	Financial Instruments
IFRS 10	Consolidated financial statements
IFRS 12	Disclosure of interests in other entities
IFRS 16	Leases
IAS 7	Statement of cash flows
IAS 12	Income taxes
IAS 40	Transfers of investment property
IFRIC 22	Foreign currency translations and advance consideration

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

4. RELATED PARTY TRANSACTIONS

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, 2017 or September 30, 2016.

For the nine-month period ended September 30, 2017, the Company made payments or accrued \$550 (2016 - \$6,500) to Steenberglaw Professional Corporation, a company controlled by Neil J.F. Steenberg, Director and Secretary, for legal fees.

Included in accounts payable and accruals at September 30, 2017 is \$Nil (2016 - \$4,000) due to related parties. These balances are due on demand, unsecured and non-interest bearing.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed. See Note 11 for details of Notes due to related parties.

The subsidiaries of the Company at September 30, 2017 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
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

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US Dollars)
For the nine-month period ended September 30, 2017

5. SEGMENTAL ANALYSIS

	Segment result	
	September 30, 2017	September 30, 2016
	\$	\$
Continuing Operations		
Canada	(239,474)	(207,097)
Mexico	(103,019)	(73,439)
Loss for the period	<u>(342,493)</u>	<u>(280,536)</u>
Segment assets and segment liabilities		
	Assets	
	September 30, 2017	December 31, 2016
	\$	\$
Canada	12,517	12,719
Mexico	17,371	42,597
	<u>29,888</u>	<u>55,317</u>
	Liabilities	
	September 30, 2017	December 31, 2016
	\$	\$
Canada	(3,186,991)	(2,869,979)
Mexico	(15,819)	(15,768)
	<u>(3,202,811)</u>	<u>(2,885,747)</u>

6. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	September 30, 2017	December 31, 2016
	\$	\$
Receivable sales taxes - Canada	158	267
Receivable sales taxes - Mexico	-	17,670
Amounts receivables and other	<u>158</u>	<u>17,937</u>

7. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2017	Accum. Depreciation	December 31, 2016	Disposal	December 31, 2015
	\$000's	\$000's	\$000's	\$000's	\$000's
Equipment at cost	53	-	53	(17)	70
Accumulated depreciation	(37)	(3)	(34)	7	(41)
Total	<u>16</u>	<u>(3)</u>	<u>19</u>	<u>(10)</u>	<u>29</u>

XTIERRA INC.**Notes to the Condensed Interim Consolidated Financial Statements****(Expressed in US Dollars)****For the nine-month period ended September 30, 2017****8. MINERAL PROPERTIES EXPLORATION AND EVALUATION EXPENDITURES**

In accordance with the Company's accounting policy, all costs associated with the exploration and evaluation of properties are expensed until it has been established that a mineral property is commercially viable and a mine development decision has been made by the Company.

The following table shows the Company's cumulative exploration and evaluation expenditures:

	September 30, 2017 \$000's	Additions \$000's	December 31, 2016 \$000's	Additions \$000's	December 31, 2015 \$000's
Bilbao	22,679	85	22,594	88	22,506
Laguna	7,281	-	7,281	-	7,281
Total	<u>29,960</u>	<u>85</u>	<u>29,875</u>	<u>88</u>	<u>29,787</u>

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 \$5,000,000 of which \$2,500,000 was paid on the closing date and a further \$500,000 was paid one year after the closing date. The remaining balance of \$2,000,000 is payable in four consecutive equal payments of \$500,000 each, the first such \$500,000 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 payable in full no later than August 2018.

At the time of the agreement in 2008 the present value of then outstanding future payments of \$2,500,000 was determined to be \$1,023,000 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, 2017, the remaining present value of the outstanding payment obligation amounted to \$1,724,000.

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.

In order to maintain the Company's mineral concessions and titles in good standing, the Company is required to maintain a prescribed minimum of annual exploration expenditure and pay fees semi-annually to the Secretaria de Economia in Mexico. Minimum expenditure commitments and concession payments totaling approximately \$52,000 (MXN \$1,080,000) are required annually. Failure to make the annual concession payments or incur the minimum annual exploration expenditures, to the satisfaction of the Mexican authorities, or a determination that the expenditures incurred are not qualifying expenditures, may result in the cancellation or forfeiture of the mineral concessions.

9. ACCOUNTS PAYABLE AND ACCRUALS

	September 30, 2017 \$	December 31, 2016 \$
Trade creditors	22,711	19,758
Payable to related parties (Note 4)	-	1,360
Accrued liabilities	<u>2,800</u>	<u>10,000</u>
	<u>25,511</u>	<u>31,118</u>

XTIERRA INC.**Notes to the Condensed Interim Consolidated Financial Statements****(Expressed in US Dollars)****For the nine-month period ended September 30, 2017****10. PROPERTY ACQUISITION OBLIGATIONS**

	September 30, 2017	December 31, 2016
Property acquisition obligations (stated at net present cost - See Note 8) due as follows:	\$	\$
Current liability	1,784,000	-
Between one and two years	-	1,604,000
Between two and five years	-	-
	<u>1,784,000</u>	<u>1,604,000</u>

11. OTHER FINANCIAL LIABILITIES

	September 30, 2017	December 31, 2016
	\$	\$
Notes payable		
Note payable to Pacific Road	717,231	690,999
Note payable to Buchans Resources	676,069	559,630
Total notes payable	<u>1,393,300</u>	<u>1,250,629</u>

Notes payable

In 2014, the Company entered in to agreements with its major shareholders Pacific Road Group of Funds ("Pacific Road") and Minco plc for notes payable of \$933,000 which carried interest of 5% and were due April 30, 2015 (the "Notes"). The Notes payable are secured by a pledge by Xtierra of its shares of Orca Minerals Limited.

On April 29, 2015, Pacific Road and Minco, both agreed to extend the due dates of the Notes in the amount of \$965,000 from April 30, 2015 to August 31, 2015, and to provide further advances up to \$15,000 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 \$17,500 each to fund the Company's property maintenance costs and working capital. The Company agreed to a fee of \$29,000 to obtain the extension, which amount was added to the principal amount of the Notes. On January 31, 2016, Pacific Road and Minco both agreed to an extension of the maturity dates of the Notes to April 30, 2016.

The purpose of the extension of the maturity date of the Notes was to provide the Company additional time to assess its strategic alternatives. Pacific Road then advised that Xtierra should move within the extension period to either complete a strategic transaction or restructure the Company.

The Notes matured and became due and payable on April 30, 2016. Pacific Road and Minco have not made demands for payment and are discussing possible solutions with Xtierra on a without prejudice basis. Xtierra has made certain settlement or restructuring proposals to each of Pacific Road and Minco. Pacific Road has advised Xtierra that Pacific Road desires to see this process come to a conclusion in the near term and, in the absence of an acceptable outcome, Pacific Road reserves all its rights to demand repayment of the Notes 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.

During 2016, Minco assigned the Notes to its subsidiary Buchans Resources Limited ("Buchans") and made additional advances in the amount of \$75,000 in secured Notes. In the first nine months of 2017, Buchans made further advances in the amount of \$93,000 in secured Notes to fund the Company's working capital and maintain its mineral properties.

The principal amount of the Notes outstanding at any time, and from time to time shall bear interest before maturity, demand, default, and judgment at a rate of 5% per annum, calculated daily, compounded annually and payable at the Maturity Date. The principal amount and any unpaid interest outstanding at any time, and from time to time, from and after the Maturity Date shall bear interest from and after maturity, demand, default, and judgment at a rate of 25% per annum. The Company has recognized in liabilities the principal amount of the Notes together with accrued interest calculated at a rate of 5% per annum. The Company has not recognized any additional interest after maturity and such unrecognized amounts are treated as contingent liabilities.

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US Dollars)
For the nine-month period ended September 30, 2017

11. OTHER FINANCIAL LIABILITIES (CONTINUED)

The Company is reviewing all alternatives with respect to the repayment of advances to the secured creditors, including with respect to a sale of its assets and considering various financing options, and is engaged in discussions with its major shareholders. There are no assurances that these discussions will result in a financial arrangement or, if an arrangement is undertaken, as to the commercial terms or timing of such an arrangement. The outcome of this process will determine whether the Company can continue as a going concern. There is a significant risk that a successful financial restructuring may not be achieved and/or that additional financing will not be available to the Company on a timely basis or on acceptable terms, or at all.

If the Company is unable to negotiate a further extension or restructuring of the secured notes or other financial arrangement or obtain adequate additional financing, the Company may be required to cease all operations and may be required to conduct a sales process to liquidate its assets in a formal process. Furthermore, one or both of the Company's major shareholders, which collectively hold 66.4% of the Company's outstanding shares and all of its secured debt, may initiate foreclosure actions in respect of the secured notes which matured and became due on April 30, 2016.

The continuing operations of the Company in the short term are dependent upon continued support from its major shareholders and its ability to raise adequate working capital to continue as a going concern. Additional funding will be required for optimisation and feasibility studies, further exploration and for financing in the longer term to develop the Bilbao project.

12. CAPITAL STOCK

Common shares

Authorized

Unlimited number of common shares

Issued

	Shares 000's	Amount \$000's
Balance, December 31, 2016 and September 30, 2017	116,370	34,712

13. 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 is required to maintain a prescribed minimum of annual exploration expenditure and pay fees semi-annually to the Secretaria de Economia in Mexico. Minimum expenditure commitments and concession payments totaling approximately \$52,000 (MXN \$1,080,000) are required annually. Failure to make the annual concession payments or incur the minimum annual exploration expenditures, to the satisfaction of the Mexican authorities, or a determination that the expenditures incurred are not qualifying expenditures, may result in the cancellation or forfeiture of the mineral concessions.

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 Dollars)
For the nine-month period ended September 30, 2017

14. 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 seek to have sufficient liquidity to meet liabilities when due. At September 30, 2017, the Company had cash and cash equivalents of \$12,578 to settle accounts payable of \$31,070. In addition, the Company has outstanding secured Notes in the total amount of \$1,393,300 (September 30, 2017) which matured and became due and payable on April 30, 2016 and \$1,784,000 property acquisition obligations due August 2018. See Notes 8, 10 and 11.

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, 2017, the Company held Canadian monetary assets and liabilities totalling approximately (Cdn\$9,400) (\$7,000), and Mexican monetary assets and liabilities totalling approximately Mxn\$18,000 (\$990).

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.

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, 2017, 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.

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US Dollars)
For the nine-month period ended September 30, 2017

15. 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.

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 the nine-month period ended September 30, 2017. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than Policy 2.5 of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) CDN\$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.