

XTIERRA INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – prepared by management

Third quarter

For the nine month period ended September 30, 2016

(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, 2016

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XTIERRA INC.**Condensed Interim Consolidated Statements of Financial Position***Unaudited - prepared by management***As at September 30, 2016**

(Expressed in US\$000's)	Note	September 30, 2016 \$	December 31, 2015 \$
ASSETS			
Current assets			
Cash	7	29	59
Amounts receivable and other	8	15	14
Total current assets		<u>44</u>	<u>73</u>
Non-current assets			
Mineral properties	3/10	1	-
Property, plant and equipment	9	21	29
Total non-current assets		<u>22</u>	<u>29</u>
Total assets		<u><u>66</u></u>	<u><u>102</u></u>
LIABILITIES			
Current			
Accounts payable and accruals	11	15	23
Notes payable	13	1,203	1,110
Total current liabilities		<u>1,218</u>	<u>1,133</u>
Non-current liabilities			
Property acquisition obligations	10/12	1,551	1,392
Total non-current liabilities		<u>1,551</u>	<u>1,392</u>
Total liabilities		<u>2,769</u>	<u>2,525</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Capital stock	14	34,712	34,712
Share-based payment reserve	15/16	-	1,472
Total capital stock and reserve		<u>34,712</u>	<u>36,184</u>
Deficit		<u>(37,415)</u>	<u>(38,607)</u>
(Deficiency)		<u>(2,703)</u>	<u>(2,423)</u>
Total liabilities and shareholders' equity (deficiency)		<u><u>66</u></u>	<u><u>102</u></u>

COMMITMENTS AND CONTINGENCIES (Notes 1, 10, 13 and 17)

The financial statements were approved by the Board of Directors on November 22, 2016 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,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Expenses				
General and administrative expenses	-	36	27	64
Corporate expenses	1	2	15	20
Professional fees	1	15	11	30
Accretion on property acquisition obligation	53	45	159	135
Exploration and evaluation expenses	14	30	45	98
Loss from operations	<u>69</u>	<u>128</u>	<u>257</u>	<u>347</u>
Other items				
Foreign exchange gain	3	(49)	(20)	(114)
Interest expense on notes payable	15	13	43	38
Extension fee on notes payable	-	23	-	23
	<u>18</u>	<u>(13)</u>	<u>23</u>	<u>(53)</u>
Net loss and comprehensive (income)				
loss for the period	<u>87</u>	<u>115</u>	<u>280</u>	<u>294</u>
Net loss (income) per share – basic and diluted	0.001	0.001	0.002	0.003
Weighted average common shares outstanding				
– 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, 2016**

	Stock Capital	Share-based payment reserve	Deficit	Total
(Expressed in US\$000's)	\$	\$	\$	\$
Balance as at January 1, 2015	34,669	2,140	(38,862)	(2,053)
Shares issued for services (Note 16)	43	(43)	-	-
Share-based payments expired	-	(493)	493	-
Net loss for the period	-	-	(294)	(294)
Balance as at September 30, 2015	34,712	1,604	(38,663)	(2,347)
Share-based payments expired	-	(132)	132	-
Net loss for the year	-	-	(76)	(76)
Balance as at December 31, 2015	34,712	1,472	(38,607)	(2,423)
Share-based payments expired	-	(1,472)	1,472	-
Net loss for the period	-	-	(280)	(280)
Balance as at September 30, 2016	34,712	-	(37,415)	(2,703)

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, 2016**

(Expressed in US\$000's)	2016	2015
	\$	\$
		(Note 3)
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss for the year	(280)	(294)
Accretion on property acquisition obligation	159	135
Interest expense on notes payable	43	38
Depreciation	3	-
Extension fee on notes payable	-	23
Operating cash flow before movements in working capital	<u>(75)</u>	<u>(98)</u>
Movements in working capital		
(Increase)/decrease in amounts receivable and other and prepaid	1	-
(Decrease) in accounts payable and accruals	<u>(8)</u>	<u>(27)</u>
Net cash used in operating activities	<u>(82)</u>	<u>(125)</u>
FINANCING ACTIVITIES:		
Notes payable	<u>50</u>	<u>65</u>
Net cash generated by financing activities	<u>50</u>	<u>65</u>
INVESTING ACTIVITIES:		
Proceeds from sale of equipment	<u>2</u>	<u>24</u>
Net cash provided by investing activities	<u>2</u>	<u>24</u>
Effect of exchange rate changes on cash	<u>-</u>	<u>-</u>
Change in cash	(30)	(36)
Cash, beginning of year	<u>59</u>	<u>117</u>
Cash, end of year	<u><u>29</u></u>	<u><u>81</u></u>

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US\$000's)
For the nine month period ended September 30, 2016

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, 2016, 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 will need to negotiate an extension to the maturity date of its secured notes, which matured and became due and payable on April 30, 2016, and generate additional financial resources in order to continue as a going concern. 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 April 30, 2016. 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 of the maturity date of the secured notes, 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.

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.

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US\$000's)
For the nine month period ended September 30, 2016

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, 2015 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. CHANGE IN ACCOUNTING POLICY

During the year ended December 31, 2015, in accordance to IFRS 6, "Exploration for and evaluation of mineral resources", the Company changed its accounting policy of capitalizing exploration and evaluation expenditures.

Under the new 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.

Upon establishment of a NI 43-101 compliant resource, and where the directors consider that the resource is economic, the Company capitalises any further evaluation expenditure under Exploration and evaluation assets.

The statement of operations and comprehensive loss, and statement of cash flows have been restated to reflect adjustments made as a result of this change in accounting policy.

The following is a reconciliation of these statements for the nine month period ended September 30, 2015.

Statements of Operations and Comprehensive Loss (Expressed in US\$000's)	September 30, 2015		
	as previously reported	adjustments	restated
	\$	\$	\$
Expenses (Income)			
General and administrative expenses	109	(45)	64
Corporate expenses	20	-	20
Professional fees	30	-	30
Accretion on property acquisition obligation	-	135	135
Exploration and evaluation expenses	-	98	98
Loss before other items	159	188	347
Other item			
Foreign exchange (gain) / loss	(114)	-	(114)
Interest expense on notes payable	38	-	38
Extension fee on notes payable	23	-	23
Write down on exploration and evaluation assets	-	-	-
	(53)	-	(53)
Net loss and comprehensive loss for the period	106	188	294

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US\$000's)
For the nine month period ended September 30, 2016

3. CHANGE IN ACCOUNTING POLICY (Continued)

Consolidated Statement of Cash Flows	September 30, 2015		
	As previously reported	Adjustments	Restated
	\$	\$	\$
Operating cash flow before working capital changes	(45)	(53)	(98)
Net change in non-cash working capital	(27)	-	(27)
Net cash used in operations	(72)	(53)	(125)
Cash flow from investing activities	<u>(29)</u>	<u>53</u>	<u>24</u>

4. 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.

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, 2016.

Accounting Changes

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

IFRS Standards issued but not yet effective:

- IFRS 9 Financial Instruments
- IFRS 10 & IAS 28 Consolidated Financial Statements
- IAS 1 Presentation of Financial Statements
- IAS 12 Income taxes
- IAS 38 & IAS 16 Intangible Assets

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

5. 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 nine month periods ended September 30, 2016 or September 30, 2015.

For the nine month period ended September 30, 2016, the Company made payments or accrued \$7 (2015 - \$10) 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, 2016 is \$1 (2015 - \$4) due to related parties. These balances are due on demand, unsecured and non-interest bearing.

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
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For the nine month period ended September 30, 2016

5. RELATED PARTY TRANSACTIONS (Continued)

The subsidiaries of the Company at September 30, 2016 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

6. SEGMENTAL ANALYSIS

	Segment result	
	September 30, 2016	September 30, 2015
	\$	\$
Continuing Operations		
Canada	(207)	(111)
Mexico	(73)	(68)
Total for continuing operations	<u>(280)</u>	<u>(179)</u>
Income tax	<u>-</u>	<u>-</u>
Income (loss) for the period	<u><u>(280)</u></u>	<u><u>(179)</u></u>
Segment assets and segment liabilities		
	Assets	
	September 30, 2016	December 31, 2015
	\$	\$
Canada	26	55
Mexico	<u>40</u>	<u>47</u>
	<u><u>66</u></u>	<u><u>102</u></u>
	Liabilities	
	September 30, 2016	December 31, 2015
	\$	\$
Canada	(2,770)	(2,525)
Mexico	<u>-</u>	<u>-</u>
	<u><u>(2,770)</u></u>	<u><u>(2,525)</u></u>

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
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7. CASH

	September 30, 2016	December 31, 2015
	\$	\$
Cash	<u>29</u>	<u>59</u>

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

Canadian Dollars	6	15
US Dollars	20	41
Mexican Pesos	<u>3</u>	<u>3</u>
	<u>29</u>	<u>59</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 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.

8. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	September 30, 2016	December 31, 2015
	\$	\$
Receivable sales taxes - Canada	1	1
Receivable sales taxes - Mexico	14	13
Amounts receivables and other	<u>15</u>	<u>14</u>

9. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2016	Disposal	December 31, 2015	Disposal	January 1, 2015
	\$	\$	\$	\$	\$
Equipment at cost	56	(14)	70	(64)	134
Accumulated depreciation	<u>(35)</u>	<u>6</u>	<u>(41)</u>	<u>43</u>	<u>(84)</u>
Total	<u>21</u>	<u>(8)</u>	<u>29</u>	<u>(21)</u>	<u>50</u>

XTIERRA INC.**Notes to the Condensed Interim Consolidated Financial Statements****(Expressed in US\$000's)****For the nine month period ended September 30, 2016****10. MINERAL PROPERTIES EXPLORATION AND EVALUATION EXPENDITURES**

In accordance with the change in accounting policy (Note 3), 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, 2016 \$	Additions \$	December 31, 2015 \$	Additions \$	January 1, 2015 \$
Bilbao	22,710	204	22,506	78	22,428
Laguna	8,436	-	8,436	-	8,436
Total	<u>31,146</u>	<u>204</u>	<u>30,942</u>	<u>78</u>	<u>30,864</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 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, 2016, the remaining present value of the outstanding payment obligation amounted to \$1,551.

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 and concession payment commitments of approximately \$60 (Mxn\$1,023,500) are due within one year.

11. ACCOUNTS PAYABLE AND ACCRUALS

	September 30, 2016 \$	December 31, 2015 \$
Trade creditors	1	2
Payable to related parties (Note 5)	1	4
Accrued liabilities	<u>13</u>	<u>17</u>
	<u>15</u>	<u>23</u>

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
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12. NON CURRENT LIABILITIES

	September 30, 2016	December 31, 2015
Property acquisition obligations (stated at net present cost - See Note 10) due as follows:	\$	\$
Between one and two years	1,551	-
Between two and five years	-	1,392
	<u>1,551</u>	<u>1,392</u>

13. OTHER FINANCIAL LIABILITIES

	September 30, 2016	December 31, 2015
	\$	\$
Notes payable		
Note payable to Pacific Road	678	653
Note payable to Minco plc	525	457
Total notes payable	<u>1,203</u>	<u>1,110</u>

Notes payable

In December 2013, Pacific Road Group of Funds ("Pacific Road") and Minco plc, the Company's major shareholders, agreed to provide working capital financing to the Company and each agreed to purchase \$250 principal amount of 5% working capital notes due September 30, 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, (see Convertible Notes below) 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 carried interest of 5% and 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 \$29 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 secured notes to April 30, 2016.

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

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
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For the nine month period ended September 30, 2016

13. OTHER FINANCIAL LIABILITIES (Continued)

Notes payable (continued)

The Notes matured and became due and payable on April 30, 2016. Pacific Road and Minco have not, to date, made demands for payment and are discussing possible solutions with the Company on a without prejudice basis. Xtierra has made certain settlement or restructuring proposals to each of Pacific Road and Minco. Pacific Road has advised the Company 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. On July 26, 2016, Minco increased the amount of its Notes by the advance of an additional \$50 to Xtierra to fund its ongoing working capital requirements.

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.

The Company is 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 an extension of the maturity date of the secured notes, 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.

14. CAPITAL STOCK

Common shares

Authorized

Unlimited number of common shares

Issued

	Shares (000's)	Amount \$
Balance, December 31, 2014	115,370	34,669
Shares issued during the year	1,000	43
Balance, December 31, 2015 and September 30, 2016	<u>116,370</u>	<u>34,712</u>

In January 2015, the Company issued 1,000,000 shares of the Company to Mackie Research Capital Corporation in part payment for services rendered in 2014.

15. STOCK OPTIONS

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

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

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15. STOCK OPTIONS (Continued)

Stock option transactions for the respective periods were as follows:

	Number of Options (000's)	Weighted Average Exercise Price Cdn\$
Balance, December 31, 2015	6,576	0.43
Expired	<u>(6,576)</u>	<u>0.43</u>
Balance, September 30, 2016	<u><u>-</u></u>	<u><u>-</u></u>

On April 27, 2016, all remaining stock options expired unexercised.

16. SHARE-BASED PAYMENT RESERVE

	September 30, 2016 \$
Balance, December 31, 2015	1,472
Stock options expired	<u>(1,472)</u>
Balance, September 30, 2016	<u><u>-</u></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 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 and concession payment commitments of approximately \$60 (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.

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.

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18. FINANCIAL INSTRUMENTS (Continued)

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, 2016, the Company had cash and cash equivalents of \$29 to settle accounts payable of \$15.

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, 2016, the Company held Canadian monetary assets and liabilities totalling approximately Cdn\$15,000 (\$11), and Mexican monetary assets and liabilities totalling approximately Mxn\$346,000 (\$18).

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\$15,000 (\$11) 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, 2016.

The Company holds approximately Mxn\$346,000 (\$18) 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, 2016.

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, 2016, 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.

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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.

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 2016 and 2015.