

XTIERRA INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – prepared by management

First quarter

For the three month period ended March 31, 2014

(Expressed in US\$000's)

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

XTIERRA INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – prepared by management

First quarter

For the three month period ended March 31, 2014

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

(Expressed in US\$000's)	Note	March 31, 2014 \$	December 31, 2013 \$
ASSETS			
Current assets			
Cash and cash equivalents	6	84	128
Amounts receivable and other	7	71	78
Prepaid expenses	7	14	18
Total current assets		<u>169</u>	<u>224</u>
Non-current assets			
Exploration and evaluation assets	9	21,166	21,048
Property, plant and equipment	8	71	77
Prepaid expenses and other non-current assets		-	9
Total non-current assets		<u>21,237</u>	<u>21,134</u>
Total assets		<u><u>21,406</u></u>	<u><u>21,358</u></u>
LIABILITIES			
Current			
Accounts payable and accruals	10	120	321
Property acquisition obligations	11	500	500
Financial liabilities	12	1,756	1,502
Total current liabilities		<u>2,376</u>	<u>2,323</u>
Non-current liabilities			
Property acquisition obligations	11	788	748
Total non-current liabilities		<u>788</u>	<u>748</u>
Total liabilities		<u>3,164</u>	<u>3,071</u>
SHAREHOLDERS' EQUITY			
Capital stock	13	33,594	33,594
Share-based payment reserve	15	2,097	2,097
Total capital stock and reserve		<u>35,691</u>	<u>35,691</u>
Deficit		<u>(17,449)</u>	<u>(17,404)</u>
Total shareholders' equity		<u>18,242</u>	<u>18,287</u>
Total liabilities and shareholders' equity		<u><u>21,406</u></u>	<u><u>21,358</u></u>

COMMITMENTS AND CONTINGENCIES (Notes 1, 9, 12 and 18)

The financial statements were approved by the Board of Directors on May 21, 2014 and signed on its behalf by:

Signed "John F. Kearney" , Director

Signed "T.D. Gallagher" , Director

See accompanying notes to the condensed interim consolidated financial statements

XTIERRA INC.**Condensed Interim Consolidated Statements of Operations and Comprehensive Loss***Unaudited - prepared by management***For the three month period ended March 31,**

(Expressed in US\$000's, except for per share amounts)	2014	2013
	\$	\$
Expenses (Income)		
Foreign exchange (gain) / loss	(32)	5
General and administrative expenses	20	60
Corporate expenses	20	32
Professional fees	41	35
Loss from operations	<u>49</u>	<u>132</u>
Other items		
Interest income	-	(2)
Interest expense on notes payable	6	-
Write down on exploration and evaluation assets	122	-
Change in fair value of convertible notes	<u>(132)</u>	<u>(115)</u>
Net loss and comprehensive loss for the period	<u><u>45</u></u>	<u><u>15</u></u>
Net loss per share – basic and diluted	0.000	0.000
Weighted average common shares outstanding		
– basic and diluted	103,425,892	103,425,892

See accompanying notes to the condensed interim consolidated financial statements

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

	Stock Capital	Share-based payment reserve	Deficit	Total
(Expressed in US\$000's)	\$	\$	\$	\$
Balance as at January 1, 2013	33,594	2,780	(11,748)	24,626
Stock options expired	-	(683)	683	-
Net loss for the year	-	-	(6,339)	(6,339)
Balance as at December 31, 2013	33,594	2,097	(17,404)	18,287
Net loss for the period	-	-	(45)	(45)
Balance as at March 31, 2014	33,594	2,097	(17,449)	18,242

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 three month period ended March 31,**

(Expressed in US\$000's)	2014	2013
	\$	\$
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss for the period	(45)	(15)
Depreciation	11	11
Change in fair value of convertible notes	(132)	(115)
Foreign exchange	-	(3)
Interest income	6	(2)
Operating cash flow before movements in working capital	<u>(160)</u>	<u>(124)</u>
Movements in working capital		
Decrease in amounts receivable and other and prepaids	21	46
Increase/(decrease) in accounts payable and accruals	(201)	151
Net cash used in operating activities	<u>(340)</u>	<u>73</u>
FINANCING ACTIVITIES:		
Notes payable	380	-
Net cash generated by financing activities	<u>380</u>	<u>-</u>
INVESTING ACTIVITIES:		
Interest income	(6)	2
Investment in exploration and evaluation assets	(78)	(468)
Expenditures on property, plant and equipment	-	(10)
Net cash used in investing activities	<u>(84)</u>	<u>(476)</u>
Effect of exchange rate changes on cash and cash equivalents	-	3
Change in cash and cash equivalents	(44)	(400)
Cash and cash equivalents, beginning of period	128	2,761
Cash and cash equivalents, end of period	<u>84</u>	<u>2,361</u>
Cash and cash equivalents consist of:		
Cash	84	659
Cash equivalents	-	1,702
	<u>84</u>	<u>2,361</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 three month period ended March 31, 2014

1. NATURE OF OPERATIONS

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

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

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

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

Going concern

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

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

At March 31, 2014, the Company had not achieved profitable operations, had an accumulated deficit since inception and expects to incur further losses in the development of its business. 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. Supported by the results of the PEA, the Company considers that the Bilbao project is a valuable asset. The continuing operations of the Company are dependent upon its ability to raise adequate financing for working capital, pre-feasibility and feasibility studies, and for financing in the longer term to complete the acquisition of Bilbao property and to build the proposed mine at Bilbao.

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

There are no assurances that the Company will continue to obtain additional financial resources on a timely basis or on acceptable terms. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration activities. Furthermore, failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis.

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US\$000's)
For the three month period ended March 31, 2014

2. BASIS OF PREPARATION

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

These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013 prepared in accordance with IFRS.

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

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, 2014. The accounting policies chosen by the Company have been applied consistently to all periods presented.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

(a) Accounting Changes

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

IFRS Standards issued but not yet effective:

IFRS 9	Financial Instruments
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 21	Levies

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

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US\$000's)
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4. RELATED PARTY TRANSACTIONS

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

	March 31, 2014	March 31, 2013
	\$	\$
Office expenses	<u>3</u>	<u>10</u>
Administrative expenses	-	36
Professional fees	<u>64</u>	<u>81</u>
Key Management personnel remuneration	<u>64</u>	<u>117</u>
Capitalized as exploration assets	<u>11</u>	<u>33</u>

No fees were paid by the Company to directors for their services as directors of the Company in the three month periods ended March 31, 2014 or March 31, 2013.

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

Included in accounts payable and accruals at March 31, 2014 is \$8 (2013 - \$31) due to related parties. These balances are due on demand, unsecured and non-interest bearing.

The subsidiaries of the Company at March 31, 2014 were as follows:

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

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in US\$000's)
For the three month period ended March 31, 2014

4. SEGMENTAL ANALYSIS

	Segment result	
	March 31, 2014	March 31, 2013
	\$	\$
Continuing Operations		
Canada	77	(15)
Mexico	(122)	-
Total for continuing operations	<u>(45)</u>	<u>(15)</u>
Income tax	<u>-</u>	<u>-</u>
Income (loss) for the period	<u><u>(45)</u></u>	<u><u>(15)</u></u>
Segment assets and segment liabilities		
	Assets	
	March 31, 2014	December 31, 2013
	\$	\$
Canada	112	124
Mexico	<u>21,294</u>	<u>21,234</u>
	<u><u>21,406</u></u>	<u><u>21,358</u></u>
	Additions to non-current assets	
	March 31, 2014	March 31, 2013
	\$	\$
Canada	-	-
Mexico	<u>113</u>	<u>606</u>
	<u><u>113</u></u>	<u><u>606</u></u>
	Liabilities	
	March 31, 2014	December 31, 2013
	\$	\$
Canada	(3,164)	(2,876)
Mexico	<u>-</u>	<u>(195)</u>
	<u><u>(3,164)</u></u>	<u><u>(3,071)</u></u>

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5. CASH AND CASH EQUIVALENTS

	March 31, 2014	December 31, 2013
	\$	\$
Cash	<u>84</u>	<u>128</u>

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

Canadian Dollars	30	48
US Dollars	45	7
Mexican Pesos	9	73
	<u>84</u>	<u>128</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.

6. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	March 31, 2014	December 31, 2013
	\$	\$
Trade receivables	-	-
Receivable sales taxes - Canada	18	51
Receivable sales taxes - Mexico	39	27
Amounts receivables and other	<u>57</u>	<u>78</u>
Prepaid expenses	<u>14</u>	<u>18</u>
	<u>71</u>	<u>96</u>

7. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2014	Disposal	December 31, 2013	Depreciation	January 1, 2013
	\$	\$	\$	\$	\$
Equipment at cost	151	(19)	170	-	170
Accumulated	<u>(80)</u>	<u>13</u>	<u>(93)</u>	<u>(23)</u>	<u>(70)</u>
Total	<u>71</u>	<u>(6)</u>	<u>77</u>	<u>(23)</u>	<u>100</u>

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Notes to the Condensed Interim Consolidated Financial Statements
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8. EXPLORATION AND EVALUATION ASSETS

The following table shows the mineral property interests:

	March 31, 2014	Additions	December 31, 2013	Write down	Additions	January 1, 2013
	\$	\$	\$		\$	\$
Bilbao	18,336	118	18,218	(4,000)	2,918	19,300
Laguna	2,830	-	2,830	-	21	2,809
El Dorado	-	-	-	(1,281)	24	1,257
Other	-	-	-	(1,485)	150	1,335
Total	21,166	118	21,048	(6,766)	3,113	24,701

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

Bilbao

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

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

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

At the time of the agreement in 2008 the present value of the then outstanding future payments of \$2,500 was determined to be approximately \$1,023 based on a discount rate of 15%. This value was recorded as a liability and is being accreted to its face value over the estimated life of the payment obligations. Since the date of the agreement to March 31, 2014, \$715 of accretion expense has been added to exploration and evaluation assets related to this property acquisition obligation. As at March 31, 2014, the remaining property acquisition obligation amounted to \$1,288. The Company plans to defer the outstanding payments for the acquisition of the 25% interest in the Bilbao property pending commencement of construction of a mine on the property.

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

Laguna

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

On October 25, 2013, Conagua, the Mexican authority responsible for water resources, advised the Company of their decision to rescind the Company's December 10, 2003, twenty year extraction licence for the Laguna project on the basis that no extraction has been done for at least three years. The Company has commenced appeal proceedings through the courts. The Company believes based on advice from its Mexican lawyers; that the Laguna Project Agreements and all previous agreements are legal, valid and enforceable contracts and that Conagua does not have the legal right to rescind the licence.

While Xtierra expects to continue discussions with Conagua, there can be no assurance that any agreement will be concluded with Conagua or that any transaction will be consummated or that Xtierra will be able to successfully resolve any of the matters currently affecting the Laguna Project.

XTIERRA INC.**Notes to the Condensed Interim Consolidated Financial Statements****(Expressed in US\$000's)****For the three month period ended March 31, 2014****9. EXPLORATION AND EVALUATION ASSETS (continued)****El Dorado**

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

Other

The Company holds a 100% interest in certain exploration concessions in the Panfilo Natera Mining District in Mexico in three claim groupings: (1) Galore; (2) El Morro; and (3) Milagros. As the Company's focus is the development of the Bilbao property, and as a cash preservation measure, the Company decided to surrender these mineral claims. A write down of \$1,485 was recorded in the year ended December 31, 2013 and expenditures of \$122 related to these mineral claims were written off in the statement of operations for the quarter ended March 31, 2014.

10. ACCOUNTS PAYABLE AND ACCRUALS

	March 31, 2014	December 31, 2013
	\$	\$
Trade creditors	76	276
Payable to related parties (Note 4)	8	9
Accrued liabilities	36	36
	<u>120</u>	<u>321</u>

11. NON CURRENT LIABILITIES

	March 31, 2014	December 31, 2013
	\$	\$
Property acquisition obligations (stated at net present cost) due as follows:		
Between one and two years	500	500
Between two and five years	788	748
After five years	-	-
	<u>1,288</u>	<u>748</u>

See Note 9.

12. OTHER FINANCIAL LIABILITIES

	March 31, 2014	December 31, 2013
	\$	\$
Financial liabilities carried at fair value through profit and loss		
Conversion option component of convertible notes	1,250	235
Financial liabilities at amortized cost		
Debt component of convertible notes	-	1,147
	<u>1,250</u>	<u>1,382</u>
Note payable	506	120
Total financial liabilities	<u>1,756</u>	<u>1,502</u>

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
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12. OTHER FINANCIAL LIABILITIES (continued)

Convertible Notes

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

Pacific Road had a further right to exchange its holdings in Orca Minerals into either shares of Bilbao Resources, S.A. de C.V. ("Bilbao Resources"), an indirectly-owned Mexican subsidiary of Orca Minerals which holds the Company's interest in the Bilbao project, or common shares of Xtierra.

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

See Note 18, Subsequent Events.

Notes payable

In December 2013 the Company's major shareholders, Pacific Road and Minco plc ("Minco") agreed to provide working capital financing to the Company and each agreed to purchase \$250 principal amount of 5% working capital notes due March 31, 2014 (the "Notes"). Minco advanced \$120 in December 2013 and advanced an additional \$130 (total \$250) on January 10, 2014. On January 10, 2014, Pacific Road advanced \$250. The Notes rank senior to Pacific Road's existing \$1,250 Convertible Notes (Note 13). At March 31, 2014, the amount due on the notes was \$506 including \$6 accrued interest.

See Note 18, Subsequent Events.

13. CAPITAL STOCK

Common shares

Authorized

Unlimited number of common shares

Issued

	Shares (000's)	Amount \$
Balance, December 31, 2013 and March 31, 2014	<u>103,426</u>	<u>33,594</u>

14. STOCK OPTIONS

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

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

XTIERRA INC.
Notes to the Condensed Interim Consolidated Financial Statements
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For the three month period ended March 31, 2014

14. STOCK OPTIONS (continued)

As at March 31, 2014, the Company had the following outstanding stock options:

Number of Options Granted and Exercisable at March 31, 2014 (000's)	Estimated Grant Date Fair Value \$	Exercise Price	Expiry Date
2,351	368	Cdn\$0.21	February 15, 2015
<u>4,225</u>	<u>1,729</u>	Cdn\$0.51	April 27, 2016
Total	<u>6,576</u>		

Stock option transactions for the respective periods were as follows:

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

The weighted average remaining contractual life of options outstanding at March 31, 2014 is 2.0 years.

The weighted average exercise price for options that are exercisable at March 31, 2014 amounted to Cdn\$0.40 per option.

15. SHARE-BASED PAYMENT RESERVE

	March 31, 2014 \$
Balance, January 1, 2013	2,780
Stock options expired	<u>(683)</u>
Balance, December 31, 2013 and March 31, 2014	<u>2,097</u>

16. FINANCIAL INSTRUMENTS

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

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

Fair value:

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

Capital Risk:

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and explore its exploration and evaluation assets.

Credit Risk:

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

XTIERRA INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US\$000's)

For the three month period ended March 31, 2014

16. 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 March 31, 2014, the Company had cash and cash equivalents of \$84 (2013 - \$128) to settle current liabilities of \$2,376 (2013 - \$2,323).

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 March 31, 2014, the Company held Canadian monetary assets and liabilities totalling approximately (Cdn\$52,000) (\$47), and Mexican monetary assets and liabilities totalling approximately MXN\$737,000 (\$56).

Sensitivity Analysis:

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

The Company had a negative balance of approximately (Cdn\$52,000) (\$47) 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 March 31, 2014.

The Company holds approximately Mxn\$737,000 (\$56) in financial assets and liabilities. A one percent change in the Mexican - US foreign exchange rates could result in a foreign exchange impact of approximately \$1 based on monetary assets and liability balances existing at March 31, 2014.

Fair Value Hierarchy and Liquidity Risk Disclosure:

The fair value hierarchy have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At March 31, 2014, the Company's financial instruments that are carried at fair value, consisting of cash equivalents have been classified as Level 2 within the fair value hierarchy.

17. 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.

XTIERRA INC.
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17. CAPITAL MANAGEMENT (continued)

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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

18. SUBSEQUENT EVENTS

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

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

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

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

The net effect of the Company's April 2014 agreements with its major shareholders was to settle its liability of \$1,075 due April 24, 2014 by the issue of 11,944,444 shares, roll over \$508 in working capital notes, including \$8 interest, due March 31 2014, until April 30, 2015 and secure further advances of \$250 to fund its working capital for the balance of 2014.

The resultant balance of shareholder advances of \$933 is now due April 30, 2015, carries interest of 5% and is secured by a pledge by the Company of its shares in its wholly owned subsidiary Orca Minerals limited.