

**XTIERRA INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**For the three and six month periods ended June 30, 2014**

Dated July 31, 2014

**(Expressed in US\$000's, except per share amounts)**

(Form 51-102F1)

**XTIERRA INC.**  
**Management Discussion and Analysis**  
**For the six month period ended June 30, 2014**  
(Expressed in US Dollars)

Date: July 31, 2014

## **General**

The following discussion of financial condition, results of operations and future prospects should be read in conjunction with the condensed interim consolidated financial statements for the three and six month periods ended June 30, 2014 of Xtierra Inc. ("Xtierra" or the "Company"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts are stated in US dollars, unless otherwise noted.

## **Company Overview**

Xtierra is a natural resource company with the primary business objective of exploring for and developing precious and base metal deposits on its mineral properties located in the Central Silver Belt of Mexico in the State of Zacatecas.

The Central Mexican Mineral Belt is a prolific mineralized belt that has historically generated the bulk of Mexico's silver production from the early colonial period to the present day and hosts many world class precious and base metal deposits. Substantially all of the Company's efforts are devoted to developing these properties.

## **Overall Performance**

*The following discussion is based on and/or derived from the Preliminary Economic Assessment (PEA) on the Bilbao Project by RungePincockMinarco (Canada) Limited (RPM) dated April 28, 2014. The PEA is preliminary in nature in that it includes in part inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Mineral resources that are not mineral reserves and do not have demonstrated economic viability. There is no certainty that the results projected by the PEA will be realized with further work and actual results may vary substantially. Because inferred resources are speculative, the modifying factors that are applied to assess the potential economic viability of the project are also speculative.*

The disclosure in this MD&A of scientific or technical information has been prepared by or under the supervision of and approved by Gerald J. Gauthier, P. Eng., the President and Chief Operating Officer of the Company, who is a 'qualified person' as defined in National Instrument 43-101 – *Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators* ("NI 43-101").

In April 2014 RPM delivered an independent Technical Report in accordance with NI 43-101 containing an updated resource estimate and PEA on the Bilbao Project. Economic results of the pre-tax cash flow model indicate an Internal Rate of Return (IRR) of 13.2% and a Net Present Value (NPV) of US\$11.0 million at a 10% discount rate and a NPV of US\$18.7 million at an 8% discount rate.

Supported by the results of the PEA, Xtierra considers its Bilbao Silver-Zinc-Lead project is a valuable asset. The Company has initiated a strategic review to consider alternatives and has retained Jennings Capital Inc. to assist in the strategic review process. Strategic alternatives include, but are not limited to, financing structures for the development of the Bilbao Project, the sale of all or a portion of the Company's interest in the Bilbao Project or a corporate transaction.

The Company has taken steps to control costs in order to maintain its Bilbao properties and has curtailed all other expenditures, other than minimal corporate administration costs, while examining strategic alternatives for advancing the Bilbao Project.

The continuing operations of the Company are dependent upon its ability to raise adequate financing and additional funding will be required for working capital, optimisation and feasibility studies, further exploration and for financing in the longer term to develop the Bilbao project.

## **Bilbao Silver-Zinc-Lead-Copper Project- Preliminary Economic Assessment**

The Bilbao Project is a polymetallic sulphide and oxide replacement silver-lead-zinc-copper deposit located approximately 500km northwest of Mexico City in the southeastern part of the State of Zacatecas.

In July 2010, the Company commissioned DRA Americas Inc. to oversee and complete a project study for the Bilbao project. The initial phase of the study was comprised of metallurgical test work on the oxide, mixed and sulphide mineralization, geotechnical studies, hydrogeological studies, topographic surveys, conceptual mine planning and engineering studies, preliminary capital and operating costs and environmental and permitting studies.

With a view to accelerating the project study process, in particular, the generation of a revised resource based on the 2012 infill drilling program, Xtierra commissioned RPM in January 2013 to complete the study on the Bilbao project.

RPM updated the previous resource model taking into account additional drilling completed in both 2012 and 2013 and coordinated and supervised various third party independent consultants to carry out various studies including; Nordmin Engineering Ltd. developed a mine design and production schedule; DRA Americas Inc. analyzed metallurgical testing and recovery methods and designed a process plant; Golder Associates carried out various environmental studies including the design of a tailings disposal facility; and Micon International Limited carried out a high level review of metal markets.

### **Exploration and Drilling**

RPM, after reviewing the extensive work previously completed and the large amount of information generated, recommended extending the scope of the previously completed infill drilling program by a minimum of four holes and assaying historical core in strategic locations.

Six infill holes were drilled in June 2013, completing an additional drilling campaign in the southern part of the silver-zinc-lead-copper project. All six drill-holes, with a total of 1,784 metres, encountered thick intersections of good grade mineralization with notable high grade silver intersections throughout. Four of the drill-holes showed highly mineralized intervals comprising massive to semi-massive sulfide mineralization varying between 20 and 40m in thickness. This drilling followed a 10 hole, 2032 metre infill drilling campaign during the third quarter of 2012.

Since 2006, Xtierra has drilled 113 diamond drill-holes in the Bilbao deposit. All of the drill-holes are diamond NQ-HQ core holes with most (104) being vertical. The drill campaigns defined a general grid of 50 m by 50 m and a tighter drilling grid of 26 holes defining 35 m by 35 m in the high grade core. The drilled zone extends over an area of 530m along north-south axis and 580m along east-west axis.

### **Mineral Resource Estimates**

The new Zn/Pb/Ag/Cu resource estimation of the Bilbao deposit was prepared by RPM to incorporate new drilling information acquired during 2011-2013. The geological model was generated using 113 holes (all the logged drill holes). The block resource model was estimated using 105 holes which had assays. A lithology model was built and Indicator and Ordinary Kriging (OK) were used to estimate Zn, Pb, Ag and Cu resources. Density measurements were updated using 224 new density determinations completed since the last 2010 model was constructed. The previous 2011 model was based on the average of 14 measurements and assigned a density of 3.6g/cc to sulphide blocks while the new 2013 model established a mean density of 3.3 g/cc for the sulphide zone.

RPM used three year trailing average prices of US\$0.94 lb/Zn, US\$1.01 lb/Pb, and US\$30.24 oz/Ag for purposes of determining cutoff grades and Zn equivalent ("Zn equiv.") values. Metallurgical recoveries were applied in the equivalent equation as 76.7%, 90.6% and 73.4% for Zn, Pb, and Ag, respectively. The Zn equiv. equation used is as follows: Zn equiv. = Zn + 0.969\*Pb + 0.09947\*Ag.

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The total resources by mineral type at 3% Zn equivalent cut-off, excluding approximately 1 million tonnes of previously mined out ore, estimated by RPM and reported in April 2014 are shown in the following tables:

Indicated Resource

Mineralization Type	Zn equiv. (%)	Tonnes	Zn %	Pb %	Ag (ppm)	Cu %
Oxide	6.69	791,082	1.73	2.53	39	0.18
Mixed	7.93	778,336	2.52	2.48	51	0.21
Sulphide	7.56	4,555,809	2.38	1.57	72	0.18
Total	7.50	6,125,227	2.31	1.81	65	0.19

Inferred Resource

Mineralization Type	Zn equiv. (%)	Tonnes	Zn %	Pb %	Ag (ppm)	Cu %
Oxide	6.38	3,069,852	1.69	2.23	42	0.16
Mixed	4.43	238,923	0.59	1.13	55	0.11
Sulphide	4.31	1,201,032	0.67	0.77	60	0.11
Total	5.73	4,509,537	1.36	1.78	47	0.15

The previous resource estimation was originally carried out by Richard Parker Consulting Geologist in 2011 and included 84 drill holes. The resources reported in 2011 (including both oxide and sulphide) were 10,617,891 tonnes @ 6.48% Zn equiv. in the Indicated category and 430,000 tonnes @ 5.19% Zn equiv. in the Inferred category. (Technical Report dated April, 2011 entitled "Geology and revised Minerals resources of the Bilbao Silver-Lead-Zinc Deposit – State of Zacatecas, Mexico" by RTG Parker, Consulting Geologist).

### Net Smelter Return Cut-off Value

The Net Smelter Return (NSR) cutoff value of US\$45.21 per tonne of ore used for the Bilbao Project stope tonnes and grade determination is based on direct mining, processing and G&A costs.

### Mineral Processing and Metallurgical Testing

Locked cycle testing of a sulfide composite achieved good stability after six cycles of flotation and produced acceptable concentrate grades at lead and zinc recoveries of 90.6% and 76.7%, respectively. Silver recovery to the lead concentrate was 73.4%. Minor element analyses of the locked cycle test concentrates indicate the possibility of penalties for bismuth in the lead concentrate and for iron and cadmium in the zinc concentrate.

### Mine Design and Production Planning

RPM has estimated that approximately 5.2M tonnes grading 2.10% Zn, 1.40% Pb and 63.96 grams Ag per tonne of the indicated and inferred underground sulphide resources are potentially mineable. The tonnes and grade include an average dilution of 10 percent, at zero grade, as well as mining losses of 5%. The RPM PEA relies on indicated mineral resources as well as inferred mineral resources.

The current mine plan incorporated in the PEA targets the extraction of the sulphide zone only given the results of the metallurgical test work on the oxide and transition zones completed to date.

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The mine production schedule is based on a production rate of 2,000 tpd of potentially economic mineralization, or 720,000 tonnes per year. This provides for a mine life of approximately 8 years, mining out the resources available.

Underground mining methods will be used to access the sulphide zone located approximately 50 meters below surface, and accessed via a portal and ramp system. The main access to the underground mine will be via a main ramp from surface to the 1860 Level.

The main proposed mining method is Longhole Open Stopping using downholes, while near the top of the deposit Longhole Open Stopping using upholes will be employed. Longhole stopes will be backfilled with a cemented rock fill.

Based on the selected mining method a dilution factor of 10% is applied which allows for dilution from hanging and footwall wall exposures and cemented backfill dilution which results from blasting against backfilled stopes. Mining recovery of 95% is assumed for this deposit.

### Recovery Methods

The mineral processing plant described is for the treatment of a silver-lead-zinc sulfide ore at a design throughput rate of 2,000 t/d. The mineral processing plant will produce lead-silver and zinc concentrates which will be transported off-site.

The process flow sheet selected for the Bilbao process plant comprises of two stages of crushing, two stages of grinding, lead rougher flotation, lead regrind, lead cleaner and lead concentrate and dewatering stages, zinc rougher flotation, zinc regrind, zinc cleaner flotation and zinc concentrate and dewatering stages.

The plant will be capable of processing 720,000 tonnes per year with an average grade of 2.1%, 1.4% and 63.96 g/t of zinc, lead and silver respectively. The plant has an operating regime of 360 days per year, 7 days per week, 24 hours per day and a plant utilization of 92%, resulting in an average nominal throughput of 91 tonnes per hour.

The plant will produce, on average, 16,913 dry tonnes per year of silver-rich lead concentrate, and 26,966 dry tonnes per year of zinc concentrate. Plant recovery is estimated to be 76.7% for zinc, 90.6% for lead and 73.4% for silver over the life of the mine.

### Capital and Operating Costs

Project capital costs, as of April 2014, are estimated by RPM to be US\$99.5 million including an allowance for contingencies of US\$8.7 million, equivalent to 8.8% of total capital expenditure. The capital cost outlines total pre-production capital of US\$91.2 million and remaining other capital and sustaining capital costs of US\$8.3 million for the eight year production life, including acquisition to replace mine equipment fleet, plant and infrastructure.

The operating expenditure is based on all development work in waste being performed by contractors, and stope development by Xtierra personnel and equipment fleets. The strategy was determined as the most cost effective for the operation and ensures sustainability of a skilled labor force. The average total unit operating cost over the life of the project is US\$66.90/t of ore, including mining, processing, general and administration, freight and insurance, smelting, refining and penalty costs.

### Economic Analysis

The economic analysis was completed by RPM for a 720,000 tonne per year processing plant capacity and is based on 5.2 million tonnes, grading of 2.10 % Zn, 1.40 % Pb and 63.96 grams Ag per tonne, being the portion of the indicated and inferred underground resource estimated by RPM to be potentially mineable.

RPM has based its economic analysis of the Bilbao project on three-year average metal prices. For the three-year period ending 31 October, 2013, the rolling average prices based on LME cash buyer quotes for zinc and lead, and as reported by Kitco on [www.kitco.com](http://www.kitco.com) for silver are as follows: Zinc US\$0.92/lb; Lead US\$1.00/lb; and Silver US\$30.38/oz.

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Total revenue for the project is based on 720,000 tonnes per year production to be reached in production year 2 and continuing for the life of the project average US\$73.6 million per year (gross revenue). The current plan estimates 11,000 tonnes of zinc concentrate and 7,000 tonnes of lead concentrate in the first production year.

**Cash Flow**

Pre-tax earnings total US\$59.9 million over the eight year mining plan to extract the Indicated and Inferred potentially minable resource. Economic results of the Bilbao Project pre-tax cash flow model indicate an Internal Rate of Return (IRR) of 13.2% and a Net Present Value (NPV) of US\$11.0 million at a 10% discount rate and a NPV of US\$18.7 million at an 8% discount rate. RPM considered the ten percent discount rate appropriate for this evaluation as the overall project risks are considered to be relatively low in terms of total capital committed, geological risk and market risk.

This preliminary economic assessment is preliminary in nature. It includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary economic assessment will be realized.

After-tax net cash flow totals US\$32.6 million over the eight year mine plan. Economic results of the Project after-tax cash flow model indicate an IRR of 8.1% and an after-tax NPV of negative US\$5.8 million at a 10% discount rate and a NPV of US\$359,000 at an 8% discount rate.

RPM also developed a sensitivity analysis to the Project's IRR and NPV to +/- 15 percent changes to key assumptions in the cash flow model based on variations in key project elements of metal price, operating and capital costs. The Bilbao Project was found to be most sensitive to changes in operating costs where a 15% reduction in operating costs would result in pre-tax NPV of US\$45.0 million and a pre-tax IRR of 22.0%. RPM noted that there may be opportunity to reduce operating costs significantly (~US\$5/t to US\$6/t) by reducing the number of stopes filled with backfill. With regard to changes in metal prices, the Bilbao Project was found to be most sensitive to movements in the price of silver. The result of the pre-tax sensitivity analysis is shown in the following table:

Item	NPV (USD Million)	IRR (%)
<b>Base Case</b>	<b>11.0</b>	<b>13.2%</b>
Capital Cost +15%	-3.7	9.01%
Capital Cost -15%	25.7	18.53%
Operating Cost +15%	-23.0	2.08%
Operating Cost -15%	45.0	21.99%
Sale Price (Zinc) +15%	25.4	17.22%
Sale Price (Zinc) -15%	-3.5	8.93%
Sale Price (Lead) +15%	24.8	17.04%
Sale Price (Lead) -15%	-2.8	9.14%
Sale Price (Silver) +15%	32.6	18.94%
Sale Price (Silver) -15%	-10.6	6.55%
Mill Recovery (Zinc) +15%	25.4	17.22%
Mill Recovery (Zinc) -15%	-3.5	8.93%
Mill Recovery (Lead) +15%	24.8	17.04%
Mill Recovery (Lead) -15%	-2.8	9.14%
Mill Recovery (Silver) +15%	29.7	18.22%
Mill Recovery (Silver) -15%	-7.7	7.52%

## Recommendations by RPM

Recommendations have been made by RPM in the PEA identifying various opportunities to increase the mineable portion of the indicated resource and reduce operating costs through additional exploration and engineering, improving the overall economics of the project. RPM recommendations include:

- Additional definition drilling targeted at the Bilbao transition and sulphide zones could lead to re-classification of inferred resources to indicated resources, potentially adding to the total mineable portion of the indicated resource;
- The potential to increase level spacing and correspondingly reduce level development, through use of cable bolts, may lead to lower mine development costs and should be further assessed;
- Further analysis of hydraulic and sand backfilling options, in terms of preparation and distribution, may further reduce overall operating costs;
- There may also be opportunity to reduce operating costs significantly (~US\$5/t to US\$6/t) by reducing the number of stopes filled with backfill all together. Further geotechnical study would need to be carried out for this scenario to better understand possible ore losses with pillars left in place, and possible recovery of these pillars through caving activity. Potential also exists for deferral of ramp and associated development;
- Inclusion of transition zone material in the mine plan should be investigated (requiring additional metallurgical testwork) to extend the life of mine and/or potentially increase the mining rate per year;
- Further optimization of stope sequencing could lead to improved cash flow and should be studied;
- Exploration drilling at the Bilbao 2 area, approximately 1.5 km south of Bilbao, has potential to offer additional mineral resources to the project due to the fact that current trenching, sampling and resulting soil geochemistry information identifies similarities between the two areas. An additional source of feed to the designed plant could lengthen the overall life of the mine, increase the daily production rate, or result in a combination of the two, improving the NPV and IRR of the project.

RPM noted that the Bilbao deposit contains a reasonable quantity of mineral resources between the oxide, transition, and sulphide mineral zones; however, the lack of metallurgical test data available for the transition zone and identified recovery challenges for the oxide zone currently limit the scope of this PEA to the total mineable portion of the sulphide resources to offset the capital costs associated with the project.

A Technical Report in accordance with NI 43-101 was filed on SEDAR on April 28, 2014.

### **Exploration and Enhancement Opportunities at Bilbao**

The potential to identify additional mineralized bodies at the Bilbao property is believed to be excellent. The occurrence of stacked lenses of mineralization in sediments close to the contact of the La Blanca granodiorite suggests that similar bodies may also occur along that contact elsewhere on the Company's property or district-wide in a similar geological context.

As part of the future Bilbao development plan, the Company would continue exploration work in and around the Bilbao deposit area, as well as in other mineral claims it holds within the immediate Panfilo Natera Mining District in the search for Bilbao-type mineralization.

The silver-enriched zone at Bilbao is now known to extend over an area 350 x 100m in a north-south direction and appears to occupy a brecciated zone within the limestone sequence, the thickness of which is variable from about four to 20 metres. The resources estimate does not include the newly found silver rich manganiferous limestone breccia zones nor the high grade silver veins.

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The results of the test-work on the oxide ore completed to date indicates that while it is possible to achieve acceptable recovery levels, the costs involved in doing so, particularly for the amounts of reagent consumption required, is likely to be expensive. Further metallurgical test work on the oxide ore to optimize economic metal recoveries, including the recovery of lead by means of gravity separation, has shown some promise and further metallurgical test-work on the oxide ore may be undertaken at a later date.

**Bilbao Carrying Value**

In April 2014, in accordance with the Company's accounting policies the Company carried out an impairment analysis as at December 31, 2013 and recorded an impairment charge on the Bilbao project 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 designated in the PEA discounted at 8%. This fair value estimate does not give any value to the potential to reduce operating and capital costs, higher metal prices, the substantial in-situ transitional and oxide resource or the exploration potential of the Bilbao property.

Estimated cash flows based on expected future production, operating costs and capital costs estimates, and forecasts of commodity prices and exchange rate assumptions, along with an estimate of value of exploration potential, is included in the determination of fair value. RPM has noted that exploration drilling at the Bilbao 2 area, approximately 1.5 km south of Bilbao, has potential to offer additional mineral resources to the project. Bilbao also contains approximately 3.8 million tonnes of inferred oxide resources at a Zn equivalent grade of 6.5%, which represents a substantial in-situ additional resource which would add value to the Project if a solution to the recovery of lead/silver can be identified. The Company also owns a large area of land at Bilbao and land value was estimated on a per hectare basis with reference to comparable land purchases.

A pre-tax cash flow was determined excluding corporate tax, profit sharing and mining duty payable to the Mexican government. Pre-tax net cash flow totals \$59.9 million over the eight year designated mine life. Economic results of the project cash flow model indicate a NPV of \$18.7 million at an 8% discount rate. The 8% discount rate was considered appropriate by the Company for the impairment evaluation as the overall project risks are considered to be relatively low and this approach appears to be consistent with the valuation approach taken by other comparable market participants.

Commodity prices and exchange rates were estimated with reference to external market forecasts. RPM based its PEA economic analysis of the Bilbao project on three-year average metal prices of Zinc US\$0.92/lb, Lead US\$1.00/lb and Silver US\$30.38/oz.

For the impairment analysis the Company tested the sensitivity of the Bilbao project to different metal prices using consensus commodity price forecasts, which in the case of zinc and lead are generally higher than those used by RPM. It was noted that a 15% increase in the price of zinc (from US\$0.92 /lb. to \$1.05/lb) would increase the pre-tax net present value of Bilbao, discounted at 10%, to \$25.4 million.

It was also noted that RPM had recommended that there may also be opportunity to reduce operating costs by ~\$5/t to \$6/t by reducing the number of stopes filled with backfill. Such a reduction, if it can be achieved, would reduce the projected operating cost by approximately 9%, and would result in a pre-tax NPV, discounted at 10%, of approximately \$31 million.

**La Laguna Pedernalillo (Laguna) Tailings Project**

Through its Mexican subsidiary, Minera Orca S.A de C.V., ("Minera Orca"), the Company holds an extraction licence granted by Conagua, the Mexican authority responsible for water resources, for the silver-rich La Laguna Pedernalillo ("Laguna") tailings deposit located near the city of Zacatecas in Mexico. The Laguna deposit comprises tailings solids derived from historic mine processing wastes and tailings located some distance from a dam constructed in 1836 to retain water for agricultural use. The mineral reserve as estimated by Micon International in February 2008 totals 6.8 million tonnes containing an average of 57.92 g/t silver, 0.31 g/t gold and 328.92 g/t mercury.

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 believes based on advice from its Mexican lawyers; that the Laguna Project Agreements and all previous agreements are legal, valid and



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enforceable contracts and that Conagua does not have the legal right to rescind the licence. The Company has appealed this decision through the courts. The appeal was heard by the Court of Zacatecas in June 2014 but a judgement has not yet been issued.

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.

**Future Plans**

The Company's focus going forward is to review strategic alternatives to maximize the value of its Bilbao Silver-Zinc-Lead project in Zacatecas, Mexico.

RPM have made numerous recommendations throughout the PEA identifying various opportunities to increase the mineable portion of the resource and reduce operating costs through additional exploration and engineering, improving the overall economics of the Bilbao project.

Further metallurgical test work on the oxide ore to optimize economic metal recoveries, including the recovery of lead by means of gravity separation, has shown some promise and further metallurgical test-work on the oxide ore should be undertaken.

The Company has initiated a strategic review to consider alternatives in relation to Bilbao and has retained Jennings Capital Inc. to assist in the strategic review process. Strategic alternatives include, but are not limited to, financial structures for the development of the Bilbao Project, the sale of all or a portion of the Company's interest in the Bilbao project or a corporate transaction.

There are no assurances that the process will result in a transaction or, if a transaction is undertaken, as to the commercial terms or timing of such a transaction.

The continuing operations of the Company are dependent upon its ability to raise adequate financing and additional funding will be required for working capital, optimisation and feasibility studies, further exploration and for financing in the longer term to develop the Bilbao project.

**Exploration Properties - Schedule of Deferred Exploration Expenditures**  
**For the three month periods ended June 30, 2014 and 2013**

	Bilbao		Laguna		El Dorado		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Expressed in US\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Drilling	-	6	-	-	-	-	-	-	-	6
Geology, geophysics and geochemistry	-	44	-	-	-	-	-	-	-	44
Pilot plant	-	-	-	-	-	-	-	-	-	-
Salaries	-	131	-	-	-	-	-	-	-	131
Feasibility study and technical reports	101	161	-	-	-	-	-	-	101	161
Mining tax concessions	10	10	-	-	-	5	-	45	10	60
Other	29	75	-	3	-	3	-	(15)	29	66
<b>Total additions</b>	<b>140</b>	<b>427</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>30</b>	<b>140</b>	<b>468</b>
<b>Accretion (reversal)/expense</b>	<b>(116)</b>	<b>115</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>(116)</b>	<b>139</b>
<b>Net additions</b>	<b>24</b>	<b>542</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>32</b>	<b>-</b>	<b>30</b>	<b>24</b>	<b>607</b>

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**Results of Operations**

The Company recorded no revenue in the three or six month periods ended June 30, 2014 or June 30, 2013.

For the six month period ended June 30, 2014, the Company recorded a loss of \$108,000 (\$0.001 per share), including an expense of \$122,000 on mineral claims surrendered, and a gain of \$132,000 arising on a reduction in the fair value of the convertible notes liability.

For the six month period ended June 30, 2013, the Company incurred a loss of \$31,000 (\$0.000 per share), including a gain of \$213,000 arising on a reduction in the fair value of the convertible notes liability.

For the three month period ended June 30, 2014, the Company incurred a loss of \$63,000 (\$0.001 per share), compared to a loss of \$16,000 (\$0.000) in the same period ended June 30, 2013.

The Company's convertible notes were classified under IFRS as derivative financial liabilities and changes in fair value were credited or charged through profit or loss. In April 2014, \$1,075,000 of convertible notes were exchanged for 11,944,444 shares of the Company resulting in a gain of \$132,000. The changes in fair value recorded are non-cash adjustments that have no cash effect on the Company.

Administrative expenses for the six month period ended June 30, 2014 amounted to \$102,000, compared to \$246,000 during the same period in 2013.

**Summary of Quarterly Results (IFRS)**

	Sept. 30 2012 \$000's	Dec. 31 2012 \$000's	Mar. 31 2013 \$000's	June 30 2013 \$000's	Sept. 30 2013 \$000's	Dec. 31 2013 \$000's	Mar. 31 2014 \$000's	June 30 2014 \$000's
Net loss (gain)	(1,163)	1,284	(15)	(16)	(3)	6,466	45	63
Net loss (gain) per share	(0.011)	0.012	(0.000)	(0.000)	(0.000)	0.063	0.000	0.001
Total assets	27,978	27,863	28,024	28,000	28,010	21,358	21,406	21,404
Working Capital	3,953	2,889	2,244	1,305	(1,499)	(2,099)	(2,207)	(754)

- The loss in the quarter ended September 30, 2012 included an expense arising on the increase in the fair value of financial liabilities of \$1,001,000.
- The income in the quarter ended December 31, 2012 included a gain on expiry of the unexercised warrants in the amount of \$769,000 and a notional gain of \$213,000 arising on the decrease in the fair value of the convertible notes.
- The loss in the quarter ended March 31, 2013 included a notional gain of \$115,000 arising on the decrease in the fair value of financial liabilities.
- The loss in the quarter ended June 30, 2013 included a notional gain of \$98,000 arising on the decrease in the fair value of financial liabilities.
- The income in the quarter ended September 30, 2013 included a notional gain of \$157,000 arising on the decrease in the fair value of financial liabilities.
- The loss in the quarter ended December 31, 2013 included impairment of \$4,000,000 on exploration and evaluation assets, an expense of \$2,245,000 arising on the relinquishment of mineral claims and an expense arising on the increase in the fair value of financial liabilities of \$41,000.
- The loss in the quarter ended March 31, 2013 included a notional gain of \$132,000 arising on the decrease in the fair value of financial liabilities, and an expense of \$122,000 on mineral claims surrendered.

## **Liquidity and Capital Resources**

Total assets increased to \$21,404,000 at June 30, 2014 from \$21,358,000 at December 31, 2013. Current liabilities at June 30, 2014 amounted to \$1,018,000, compared to \$2,323,000 at December 31, 2013.

At June 30, 2014, the Company had mineral properties with a total book value of \$21,072,000. The balance sheet values may not represent this which could be obtained if the properties were to be offered for sale at this time.

At June 30, 2014, the Company held \$220,000 in cash and cash equivalents. In April 2014 the Company secured further advances of \$250,000 from its major shareholders to fund its working capital for the remainder of 2014.

In April 2014, the Company reached an agreement with Pacific Road whereby Pacific Road exercised its right to exchange \$1,075,000 of its convertible notes for 11,944,444 shares of the Company. Pacific Road also relinquished its priority financing rights on the Bilbao and Laguna projects but retained its information rights, board representation and non-dilute rights.

The remaining balance of the Pacific Road convertible notes in the amount of \$175,000, together with the \$254,000 working capital notes and together with a further advance of \$125,000, were rolled into a new non-convertible 5% secured note due April 30, 2015, secured by a pledge by Xtierra of its shares of the Orca Minerals Limited ranking pari passu with Minco's notes.

At the same time in April 2014, Minco agreed that its \$254,000 working capital notes, together with a further advance of \$125,000 be rolled into a new note due April 30, 2015 with the same terms and security, and ranking pari passu with Pacific Road's notes.

The net effect of the Company's agreement with its major shareholders was to settle its liability of \$1,075,000 due April 28, 2014 by the issue of 11,944,444 shares, roll over \$508,000 in working capital notes due June 30 2014 until April 30, 2015 and secure further advances of \$250,000 to fund its working capital for the remainder of 2014.

The resultant balance of shareholder advances of \$925,000 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.

To save costs, the Company has curtailed expenditures while examining strategic alternatives for advancing the Bilbao project. The Company also 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.

The continuing operations of the Company are dependent upon its ability to raise adequate financing for working capital, pre-feasibility and feasibility studies, and in the longer term to build the proposed mine at Bilbao.

The Company believes that the required financing can be raised and is therefore currently considering various financing options, including seeking to develop Bilbao either alone or in joint venture with a partner or through corporate transactions. The Company has reasonable expectations that these financing discussions will be successful and therefore that the Company can continue as a going concern.

There are no assurances that the Company will be able 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 its operations and exploration activities.

## **Related Party Transactions**

During the year 2013 and subsequent to June 30, 2014, the Company entered into various funding agreements with its major shareholders, see Liquidity and Capital Resources above.

Related party transactions were in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Amounts paid and accrued include the following expenditures which were incurred with directors and officers of the Company, corporations with directors and/or officers in common with the Company, and corporations controlled by directors and/or officers of the company.

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	June 30, 2,014 \$000's	June 30, 2013 \$000's
Office and general	3	20
Administrative expenses	-	36
Professional fees	93	161
	<u>96</u>	<u>217</u>

No fees were paid by the Company to directors for their services as directors of the Company in the six month periods ended June 30, 2014 or June 30, 2013.

During the six month period ended June 30, 2014, the Company made payments or accrued \$96,000 (2013 - \$217,000) to related parties, including \$37,000 to Steenberglaw Professional Corporation, a company controlled by Neil J.F. Steenberg, Director and Secretary, for legal fees, \$23,000 to Tim Gallagher, Director, for investor relations services, \$33,000 to Gerald Gauthier, Chief Operating Officer, for management services, and \$3,000 to Labrador Iron Mines Holdings Limited, a company with common directors and/or officers, for office rent.

Included in accounts payable and accrued liabilities at June 30, 2014 is \$5,000 (2013 – \$4,000) due to the above noted related parties.

### **Critical Accounting Estimates**

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and require management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuation of tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

The following is a discussion of the accounting estimates that are considered by management to be significant in determining the Company's financial results and position.

### **Mineral Property Interests**

The Company reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from sale of the property. Management's assessment of the properties estimated current value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. These assessments are based on opinions, estimates and assumptions and are subject to risks and uncertainties, including geological and exploration risks.

### **Adoption of New Accounting Standards**

The standards and interpretations within IFRS are subject to change. For further details, please refer to Note 3 of the December 31, 2013 audited consolidated financial statements.

### **Risk and Uncertainties**

In conducting its business, the Company faces a number of risks common to the mining and exploration industry. These are summarized below. There are also certain specific risks including those listed below, associated with an investment in the Company and prospective investors should consider carefully these specific risk factors associated with an investment in the Company.

### **Failure to Obtain Additional Financing – Going Concern**

At June 30, 2014 the Company held \$220,000 in cash and cash equivalents. The condensed interim consolidated financial statements at as June 30, 2014 have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business.

The Company does not currently have all the financial resources necessary to develop the Bilbao Project or to conduct exploration on its mineral properties and there can be no assurance that the Company will be successful in obtaining the additional required funding necessary to advance the development of the Bilbao project or conduct additional exploration on the Company's exploration properties or to develop mineral resources on such properties, if commercially mineable quantities of such resources are located thereon.

The continuing operations of the Company are dependent upon its ability to raise adequate financing and funding will be required for working capital, optimization and further project studies, and for financing in the longer term to develop the Bilbao project. It cannot be guaranteed that such financing will be available on a timely basis or on acceptable terms. Failure to obtain additional financing on a timely basis could cause the Company to forfeit its interest in its properties. If additional financing is raised through the issuance of equity or convertible debt securities of the Company, the interests of shareholders in the net assets of the Company may be diluted.

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.

### **Title Risks**

Title insurance is generally not available although the Company has exercised the usual due diligence with respect to determining title to and interests in the Properties, there is no guarantee that such title to or interests in the Properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers and title may be affected by, among other things, undetected defects. Until competing interests in the mineral lands have been determined, the Company can give no assurance as to the validity of title of the Company to those lands or the size of such mineral lands.

### **Exploration, Development and Operating Risk**

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by numerous factors that are beyond the control of the Company and that cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection, the combination of which factors may result in the Company not receiving an adequate return of investment capital. Many of the claims to which the Company has a right to acquire an interest are in the exploration stage only and are without a known body of commercial ore. Development of the subject mineral properties would follow only if favourable exploration results are obtained and a positive study is completed.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will in part be directly related to the costs and success of its exploration and development programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

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**No Assurance of Production**

Mineral exploration is highly speculative in nature, involves many risks, and frequently does not lead to the discovery of commercial reserves of minerals. While the rewards can be substantial if commercial reserves of minerals are found, there can be no assurance that the Company's past or future exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable.

The Company has limited experience in placing resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if the Company places its resource properties into production and whether it will produce revenue, operate profitably or provide a return on investment in the future.

**Factors beyond the Company's Control**

The exploration and development of mineral properties and the marketability of any minerals contained in such properties will be affected by numerous factors beyond the control of the Company. These factors include government regulation, high levels of volatility in market prices, availability of markets, availability of adequate transportation and refining facilities and the imposition of new or amendments to existing taxes and royalties. The effect of these factors cannot be accurately predicted.

**Insurance and Uninsured Risks**

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or properties of others, delays in development or mining, monetary losses and possible legal liability.

Although the Company will purchase insurance to protect against certain risks in such amounts as it considers reasonable, such insurance may not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

**Environmental Risks and Hazards**

The Company's operations may be subject to environmental regulations in the various jurisdictions in which it operates. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The Company intends to comply fully with all applicable environmental regulations.

**Government Regulation and Permitting**

The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, state and local governmental authorities in Mexico, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, water use, environmental protection, land claims of local people, mine safety and other matters.

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Mexico is considered among the desirable regions of the world for exploration and mining, according to results of a survey conducted by The Fraser Institute, an independent Canadian research organization. The country's desirability for mining companies results from a combination of factors including a strong mining culture, excellent geology, relative political stability and favourable tax and permitting structures. Under the country's foreign ownership laws, non-Mexican companies can maintain 100% ownership of their properties and reap the benefits of successful exploration.

Such operations and exploration activities are also subject to substantial regulation under applicable laws by governmental agencies that will require the Company to obtain permits, licences and approvals from various governmental agencies. There can be no assurance, however, that all permits, licences and approvals that the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

To the best of the Company's knowledge, it is operating in compliance with all applicable rules and regulations, however, 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.

#### **Delays**

The Company is unable to predict the amount of time which may elapse between the date when any new mineral reserve may be discovered, the date upon which such discovery may be deemed to be economic pursuant to a study and the date when production will commence from any such discovery.

#### **Infrastructure**

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants which affect capital and operating costs. Unusual or infrequent weather phenomena, terrorism, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

#### **Competition**

The mining industry is intensely competitive in all its phases, and the Company competes with other mining companies in connection with the acquisition of properties producing or capable of producing, precious and base metals. Many of these companies have greater financial resources, operational experience and technical facilities than the Company. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future. Consequently, the Company's revenue, operations and financial condition could be materially adversely affected.

#### **Management**

The success of the Company is currently largely dependent on the performance of its directors and officers. There is no assurance the Company can maintain the services of its directors and officers or other qualified personnel required to operate its business. The loss of the services of these persons could have a material adverse effect on the Company and its prospects. Some of the directors and officers also serve as directors and/or officers of other companies which are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other companies, and situations may arise where these directors and officers will be in

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direct competition with the Company. Conflicts, if any, will be dealt with in accordance with the relevant provisions of applicable corporate and securities laws.

**Ability to Attract and Retain Qualified Personnel**

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, additional key financial, administrative and mining personnel as well as additional operations staff will be required. Although the Company believes it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If the Company is not successful in attracting, training and retaining qualified personnel, the efficiency of operations could be affected.

**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. Other factors unrelated to the Company's performance that may have an effect on the price of the the Company Shares include the following:

- the extent of analytical coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow its securities;
- the limited trading volume and general market interest in the Company's securities may affect an investor's ability to trade the Company Shares;
- the relatively small size of the publicly held shares will limit the ability of some institutions to invest in the Company's securities; and
- a substantial decline in the Company's share price that persists for a significant period of time could cause its securities to be delisted from any stock exchange upon which they are listed, further reducing market liquidity.

As a result of any of these factors, the market price of the Company Shares at any given point in time may not accurately reflect the Company's long-term value.

**Fluctuating Mineral Prices**

Factors beyond the control of the Company may affect the marketability of metals discovered, if any. Metal prices are subject to significant fluctuation and are affected by a number of factors which are beyond the control of the Company. The principal factors include: diminished demand which may arise if current rates of economic growth in North America, India and China are not sustained; supply interruptions due to changes in government policies in base and precious metals, war, or international trade embargos; increases in supply resulting from the alleviation of professional and skilled labour shortages experienced by the world's largest producers; and, increases in supply resulting from the discovery and the development of new sources of base and precious metals. The effect of these factors on the Company's operations cannot be predicted.

**Foreign Currency Exchange**

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company's financing activities have been denominated in Canadian Dollars, while the expenditures to be incurred by the Company on its mineral exploration projects in Mexico will be denominated in US Dollars or Mexican Pesos. The Company also has certain liabilities denominated in US Dollars. The appreciation of the US Dollar against the Canadian Dollar, if it occurs, would result in increased costs of the Company's activities in Mexico in Canadian Dollar terms, and currency movements may have a significant impact on the Company's financial position and results of operations in the future. Fluctuations in the exchange rates between the Canadian Dollar and the Mexican Peso or US Dollar may have an adverse or positive effect on the Company.



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**Dividends**

The Company has not paid any dividends on its Shares since incorporation. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably. Payment of any future dividends will be at the discretion of the Company's board of directors after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

**Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements.

**Financial Instruments**

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Fair value estimates of financial assets and liabilities are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates involve uncertainties and are subjective in nature. Other financial instruments included in current assets are classified as loans and receivables, which are measured at amortized costs. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. As at June 30, 2014, the carrying and fair value amounts of the Company's financial instruments are the same.

The Company is subject to foreign exchange risk as some of its operating, investing and financing activities are transacted in currencies other than the US Dollar. The Company's operations are carried out in Mexico and Canada and cash is held in Canadian Dollars and Mexican Pesos as well as in US Dollars, the Company is therefore subject to gains and losses due to fluctuations in these currencies.

Under IFRS, the convertible notes are considered derivative financial instruments and are initially recognized at fair value at the date the derivative contract is entered into and subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognized in the profit or loss immediately.

**Outstanding Share Capital**

The Company has unlimited authorized share capital of a single class of common shares of which, at June 30, 2014 and July 31, 2014, 115,370,336 common shares were issued.

At June 30, 2014 and July 31, 2014, the Company had 6,576,250 stock options issued pursuant to the Company's Stock Option Plan. The options are exercisable over a period of five years.

**Additional Information**

Additional information about the Company is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website.

## **Forward-Looking Statements**

*This management's discussion and analysis contains certain forward-looking statements relating to, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance.*

*Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, delays in the development of projects changes in exchange rates, fluctuations in commodity prices, inflation and other factors.*

*Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Shareholders and prospective investors should be aware that these statements are subject to known and unknown risks uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur.*

*The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.*

*Date: July 31, 2014*