

**SIERRA IRON ORE CORPORATION**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**Expressed in Canadian Dollars**

**(Unaudited – Prepared by Management)**

**FOR THE THREE MONTHS ENDED DECEMBER 31, 2015**

**Head Office Address**

13236 Cliffstone Court, Lake Country,  
British Columbia, Canada V4V 2R1

**Registered and Records Office Address**

1400 – 1125 Howe Street  
Vancouver British Columbia V6Z 2K8

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim 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 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.

**SIERRA IRON ORE CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited – Prepared by Management)  
Expressed in Canadian Dollars  
AS AT

	December 31, 2015	September 30, 2015
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 9,736	\$ 155,430
Receivables	37,312	21,197
	<u>47,048</u>	<u>176,627</u>
<b>Deposit</b>	-	25,000
<b>Exploration and evaluation assets</b> (Note 3)	1,655,237	1,370,400
<b>Land, building and equipment</b> (Note 4)	264,858	266,372
	<u>\$ 1,967,143</u>	<u>\$ 1,838,399</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 486,304	\$ 577,985
Due to related parties (Note 7)	211,420	143,915
Loans payable (Note 5)	166,263	133,238
Mortgage payable (Note 4)	261,323	263,791
	<u>1,125,310</u>	<u>1,118,929</u>
<b>Long term loans payable</b> (Note 5)	260,202	252,832
	<u>1,385,512</u>	<u>1,371,761</u>
<b>Shareholders' equity (deficiency)</b>		
Capital stock (Note 6)	11,768,043	11,256,470
Subscription received in advance (Note 6)	2,200	22,200
Commitment to issue shares	-	80,000
Share-based payment reserve (Note 6)	1,085,284	1,085,284
Equity component of convertible loans (Note 5)	7,836	7,836
Deficit	(12,281,732)	(11,985,152)
	<u>581,631</u>	<u>466,638</u>
	<u>\$ 1,967,143</u>	<u>\$ 1,838,399</u>

**Nature and continuance of operations** (Note 1)  
**Subsequent event** (Note 13)

**On behalf of the Board:**

*“Wally Boguski”*

Director

*“Alphonse Ruggiero”*

Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**SIERRA IRON ORE CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Unaudited – Prepared by Management)  
Expressed in Canadian Dollars  
FOR THE THREE MONTHS ENDED DECEMBER 31,

	2015	2014
<b>EXPENSES</b>		
Amortization (Note 4)	\$ 1,514	\$ 5,972
Consulting fees (Note 7)	50,768	47,713
Directors fees (Note 7)	7,225	9,000
Gain on settlement of accounts payable	(31,948)	-
General, rent and administrative (Note 7)	13,386	17,530
Management fees (Note 7)	31,147	15,000
Office and miscellaneous	101,775	48,958
Professional fees	92,333	62,402
Property investigation	6,877	2,044
Regulatory fees	1,767	3,083
Salary	360	3,200
Transfer agent fees	837	2,955
Travel and promotion	20,539	20,684
<b>Loss and comprehensive loss for the period</b>	<b>\$ (296,580)</b>	<b>\$ (238,541)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>32,725,598</b>	<b>29,280,678</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**SIERRA IRON ORE CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**  
(Unaudited – Prepared by Management)  
Expressed in Canadian Dollars  
FOR THE THREE MONTHS ENDED DECEMBER 31,

	Number of shares	Capital stock	Subscriptions received in advance	Commitment to issue shares	Share-based payment reserve	Equity Component of Convertible Loans	Deficit	Total equity (deficiency)
<b>September 30, 2014</b>	<b>23,500,738</b>	<b>\$ 9,022,357</b>	<b>\$ 190,050</b>	<b>\$ -</b>	<b>\$ 712,718</b>	<b>\$ -</b>	<b>\$ (10,491,359)</b>	<b>\$ (566,234)</b>
Private placement	1,767,000	265,050	(190,050)	-	-	-	-	75,000
Share issuance costs	-	(5,000)	-	-	-	-	-	(5,000)
Shares issued for debt settlement	3,849,291	577,394	-	-	-	-	-	577,394
Shares issued for mineral property	2,865,625	386,859	-	-	-	-	-	386,859
Loss for the period	-	-	-	-	-	-	(238,541)	(238,541)
<b>December 31, 2014</b>	<b>31,982,654</b>	<b>10,246,660</b>	<b>-</b>	<b>-</b>	<b>712,718</b>	<b>-</b>	<b>(10,729,900)</b>	<b>229,478</b>
Private placements	2,366,667	445,000	-	-	-	-	-	445,000
Share issuance costs	-	(9,348)	-	-	-	-	-	(9,348)
Exercise of warrants	1,175,000	470,000	-	-	-	-	-	470,000
Exercise of options	160,000	64,000	-	-	-	-	-	64,000
Fair value of exercise of options	-	40,158	-	-	(40,158)	-	-	-
Share-based compensation	-	-	-	-	412,724	-	-	412,724
Shares subscriptions received in advance	-	-	22,200	-	-	-	-	22,200
Shares to be issued for debt settlement	-	-	-	80,000	-	-	-	80,000
Equity portion of convertible loans	-	-	-	-	-	7,836	-	7,836
Loss for the period	-	-	-	-	-	-	(1,255,252)	(1,255,252)
<b>September 30, 2015</b>	<b>35,684,321</b>	<b>11,256,470</b>	<b>22,200</b>	<b>80,000</b>	<b>1,085,284</b>	<b>7,836</b>	<b>(11,985,152)</b>	<b>466,638</b>
Private placements	400,000	160,000	(20,000)	-	-	-	-	140,000
Share issuance costs	-	(1,550)	-	-	-	-	-	(1,550)
Exercise of warrants	866,667	173,333	-	-	-	-	-	173,333
Shares issued for debt settlement	334,000	133,600	-	-	-	-	-	133,600
Shares to be issued for debt settlement	-	-	-	(80,000)	-	-	-	(80,000)
Shares issued for mineral property	115,475	46,190	-	-	-	-	-	46,190
Loss for the period	-	-	-	-	-	-	(296,580)	(296,580)
<b>December 31, 2015</b>	<b>37,400,463</b>	<b>\$ 11,768,043</b>	<b>\$ 2,200</b>	<b>\$ -</b>	<b>\$ 1,085,284</b>	<b>\$ 7,836</b>	<b>\$ (12,281,732)</b>	<b>\$ 581,631</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**SIERRA IRON ORE CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
(Unaudited – Prepared by Management)  
Expressed in Canadian Dollars  
**FOR THE THREE MONTHS ENDED DECEMBER 31,**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (296,580)	\$ (238,541)
Item not affecting cash:		
Amortization	1,514	5,972
Interest on loans payable	10,395	3,025
Interest on mortgage payable	7,405	-
Gain on settlement of accounts payable	(4,000)	-
Changes in non-cash working capital items:		
Decrease in due to related parties	67,505	52,439
Increase in receivables	(16,115)	(4,844)
Increase in accounts payable and accrued liabilities	(16,329)	146,760
Net cash used in operating activities	<u>(246,205)</u>	<u>(35,189)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of capital stock	140,000	75,000
Proceeds from the exercise of warrants	173,333	-
Repayment on mortgage liability	(9,873)	-
Loan payable	30,000	-
Loan repayment	-	(17,873)
Share issuance costs	(1,550)	(5,000)
Net cash provided by financing activities	<u>331,910</u>	<u>52,127</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of exploration and evaluation assets	(2,900)	-
Sale of equipment	-	28,378
Exploration and evaluation assets	(228,499)	(54,700)
Net cash used in investing activities	<u>(231,399)</u>	<u>(26,322)</u>
<b>Change in cash for the period</b>	<b>(145,694)</b>	<b>(9,384)</b>
<b>Cash, beginning of period</b>	<b>155,430</b>	<b>12,541</b>
<b>Cash, end of period</b>	<b>\$ 9,736</b>	<b>\$ 3,157</b>
<b>Cash paid during the period for interest</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid during the period for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

Supplemental disclosure with respect to cash flows (Note 10)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## **SIERRA IRON ORE CORPORATION**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited – Prepared by Management)

Expressed in Canadian Dollars

FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

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#### **1. NATURE AND CONTINUANCE OF OPERATIONS**

Sierra Iron Ore Corporation (the "Company") was incorporated under the Business Corporations Act (British Columbia) on July 20, 2009 and is publicly listed and traded on the TSX Venture Exchange ("TSX-V"). The Company is currently engaged in the identification, acquisition and exploration of precious metal resources in Canada. The Company's head office is 13236 Cliffstone Court, Lake Country, British Columbia, V4V 2R1, Canada. The Company's registered and records office is located at #1400 – 1225 Howe Street, Vancouver, British Columbia, V6Z 2K8, Canada.

These condensed consolidated interim financial statements have been prepared in accordance with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were primarily funded by the issue of capital stock.

The continued operations of the Company are dependent on its ability to develop a sufficient financing plan, receive continued financial support from related parties, complete sufficient public equity financings or generate profitable operations in the future. These material uncertainties may cast significant doubt on the entity's ability to continue as a going concern. The condensed consolidated interim financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue business.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of presentation**

These condensed consolidated interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting.

The policies applied in the condensed consolidated interim financial statements are presented below and are based on IFRS' issued and outstanding as of February 25, 2016, the date the Board of Directors approved the condensed consolidated interim financial statements. None of these standards are expected to have a significant effect on the condensed consolidated interim financial statements.

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

##### **Principles of consolidation**

These condensed consolidated interim financial statements include the accounts of the Company, its wholly-owned Mexican subsidiary Minera Sierra Gioc SA and its wholly owned United States subsidiary Sierra Iron Ore USA. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant inter-company transactions and balances have been eliminated upon consolidation.

**SIERRA IRON ORE CORPORATION**  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited – Prepared by Management)  
Expressed in Canadian Dollars  
FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Estimates, judgments and assumptions**

The preparation of the Company's condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Significant Judgments

a. Deferred taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

b. Functional currency

The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

Significant Estimates

Share-based compensation

Share-based compensation is determined using the Black-Scholes option pricing model based on the estimated fair value of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Non-cash transactions

The valuation of shares issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When this cannot be determined, it is based on the fair value of the non-cash consideration. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.



**SIERRA IRON ORE CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited – Prepared by Management)

Expressed in Canadian Dollars

FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Foreign exchange**

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the period.

**Exploration and evaluation assets**

Upon acquiring the legal right to explore a property, costs related to acquisition and exploration are capitalized by property until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition and exploration costs are not recoverable over the estimated economic life of the exploration and evaluation assets, or the exploration and evaluation assets are abandoned, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to their net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**Impairment**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Decommissioning and restoration provision**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

As at December 31, 2015 and 2014, the Company has no decommissioning or restoration obligations.

**Land, building and equipment**

Land, building and equipment is recorded at cost and amortized using the declining balance method at the following rates per annum.

Computer equipment	55% to 100% per annum
Furniture and equipment	20% per annum
Machinery and equipment	30% per annum
Vehicles	30% per annum
Building	4% per annum

Land, building and equipment that is withdrawn from use, or has no reasonable prospect of being recovered through use or sale, are regularly identified and written off. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditures relating to an item of land, building and equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance.

**Flow-through shares**

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby the premium paid for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to other liabilities and included in profit or loss at the same time the qualifying expenditures are made.

**Share-based compensation**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

## SIERRA IRON ORE CORPORATION

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

Expressed in Canadian Dollars

FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

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## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

### Share-based compensation (cont'd...)

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock. The effect of forfeitures is accounted for as they occur.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based compensation is measured at the fair value of goods or services received.

### Financial instruments

#### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of loss and comprehensive loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash at fair value through profit and loss. The Company's receivables and due from a related party are classified as loans and receivables.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited – Prepared by Management)  
Expressed in Canadian Dollars  
FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss and comprehensive loss.

*Other financial liabilities* - This category includes amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company's accounts payable and accrued liabilities, loans payable, mortgage payable, and due to related parties are classified as other financial liabilities.

Financial instruments that are measured at fair value use inputs, which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

**Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**SIERRA IRON ORE CORPORATION****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited – Prepared by Management)

Expressed in Canadian Dollars

FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed by assuming that outstanding options, warrants and similar instruments were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

**Future accounting pronouncements**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

**Accounting Standards Issued and Effective for Annual Reporting Periods Beginning On or After January 1, 2015:**

IFRS 9 *Financial Instruments* replaces the current standard IAS 39 *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

IFRS 7 is amended to require additional disclosures on transition from IAS 39 to IFRS 9. The Company has adopted this policy and it doesn't have a significant effect on the financial statements. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

IFRS 15, *Revenue from Contracts with Customers*: IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions involving Advertising Service*.

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**3. EXPLORATION AND EVALUATION ASSETS**

<b>Period Ended December 31, 2015</b>	Tom Cat Claims, British Columbia, Canada	Iron Property, Ontario Canada	Farm Property Ontario Canada	Allen Property, Ontario Canada	Total
<b>Acquisition Costs:</b>					
Balance, beginning of period	\$ 244,146	\$ 451,859	\$ 250,000	\$ 100,000	\$ 1,046,005
Cash payment	-	2,900	-	-	2,900
Shares issued	-	46,190	-	-	46,190
Balance, end of period	244,146	500,949	250,000	100,000	1,095,095
<b>Deferred Exploration Costs:</b>					
Balance, beginning of period	170,301	149,094	-	5,000	324,395
Assay	-	7,702	-	-	7,702
Consulting	20,000	-	-	-	20,000
Drilling	-	144,177	-	-	144,177
Field work and other	19,205	9,625	-	-	28,830
Geologist and testing	-	7,200	-	1,900	9,100
Project management fees	2,148	12,500	-	-	14,648
Supplies	-	11,290	-	-	11,290
Balance, end of period	211,654	341,588	-	6,900	560,142
<b>Total</b>	<b>\$ 455,800</b>	<b>\$ 842,537</b>	<b>\$ 250,000</b>	<b>\$ 106,900</b>	<b>\$ 1,655,237</b>

<b>Year Ended September 30, 2015</b>	Tom Cat Claims, British Columbia, Canada	Iron Property, Ontario Canada	Farm Property Ontario Canada	Allen Property, Ontario Canada	Total
<b>Acquisition Costs:</b>					
Balance, beginning of year	\$ 244,146	\$ 65,000	\$ -	\$ -	\$ 309,146
Cash payment	-	-	250,000	100,000	350,000
Shares issued	-	386,859	-	-	386,859
Balance, end of year	244,146	451,859	250,000	100,000	1,046,005
<b>Deferred Exploration Costs:</b>					
Balance, beginning of year	149,460	-	-	-	149,460
Assay	-	12,324	-	-	12,324
Consulting	6,150	39,976	-	5,000	51,126
Drilling	-	27,771	-	-	27,771
Field work and other	12,020	-	-	-	12,020
Project management fees	14,400	60,000	-	-	74,400
Supplies	-	9,023	-	-	9,023
BCMETS*	(11,729)	-	-	-	(11,729)
Balance, end of year	170,301	149,094	-	5,000	324,395
<b>Total</b>	<b>\$ 414,447</b>	<b>\$ 600,953</b>	<b>\$ 250,000</b>	<b>\$ 105,000</b>	<b>\$ 1,370,400</b>

\*British Columbia Mining Exploration Tax Credit ("BCMETS")

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#### 3. EXPLORATION AND EVALUATION ASSETS (cont'd...)

##### Tom Cat Claims, British Columbia

The Company owns a 100% interest in certain mining claims, known as the Tom Cat Claims, located in the Nicloa Mining District, British Columbia. The claims are subject to a 2% Net Smelter Royalty (“NSR”), of which 1% may be purchased for \$2,000,000 for five years from the start of commercial production.

##### Iron Ore Property, Emo, Ontario

The Company entered into a series of agreements, the last of which was finalized during the period ended December 31, 2015, to acquire the right to earn up to a 92% interest in the iron mineralization on the Emerald Lake Property located north of the town of Emo, Ontario.

Pursuant to the agreements, the Company paid \$65,000 in fiscal 2014 and issued 2,865,625 common shares valued at \$386,859 in fiscal 2015. In order to complete the acquisition of an initial 60% interest, the Company is required to pay four additional installments of \$50,000 each commencing April 15, 2016 and continuing every six months to October 17, 2017, plus additional finder’s fees of 115,475 common shares, which were issued during the period ended December 31, 2015 and valued at \$46,190 and an additional 6,392,000 common shares on the earlier of a positive feasibility or the commencement of commercial production. The Company is also required to incur exploration expenditures of \$1,500,000 by October 15, 2017. The Company has the option to acquire an additional 32% interest in the iron ore mineralization present on the property at fair market value, plus the right of first refusal on future properties acquired by the vendor.

##### Farm Property, Emo, Ontario

The Company entered into a series of agreements, the last of which was finalized during the period ended December 31, 2015, to acquire the right to earn up to a 92% interest in Iron Property located in Emo, Ontario.

Pursuant to the agreements, the Company paid \$250,000 in fiscal 2015. In order to complete the acquisition of an initial 50% interest, the Company is required to pay \$10,000 within five days of regulatory approval and an additional \$250,000 within 18 months of regulatory approval. The Company is also required to incur exploration expenditures of \$2,000,000 within the 36-month period following the date of the agreement (by October 22, 2018).

Provided the Company completes the requirements to complete the purchase of 50% of the property, for a period of 2-years from the date of earning the Company will have a right of first refusal to purchase an additional 42% interest in the property by issuing common shares that equal 42% of the then fair market value of the property. The property is subject to a 3% NSR.

##### Allen Property, Emo, Ontario

The Company entered into a series of agreements, the last of which was finalized during the period ended December 31, 2015, to acquire the right to earn a 15% interest in Allen Property located in Emo, Ontario.

Pursuant to the agreements, the Company paid \$100,000 in fiscal 2015. In order to complete the acquisition of the 15% interest, the Company is required to pay \$10,000 upon regulatory approval, \$500,000 within 8 months of regulatory approval, \$1,500,000 within 12 months of regulatory approval and issue 3,500,000 common shares over a period of 15 months after regulatory approval. The Company is also required to incur exploration expenditures of \$1,500,000 within 24 months following regulatory approval. The Company has the option to acquire an additional 36% interest in the property at terms to be negotiated, plus the right of first refusal on future properties acquired by the vendor.

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**4. LAND, BUILDING AND EQUIPMENT**

Equipment is carried at cost less accumulated amortization. Details are as follows:

	Mining Equipment	Furniture and Equipment	Computer	Building and Land	Total
<b>Cost</b>					
Balance, September 30, 2014	\$ 129,811	\$ 16,370	\$ 9,671	\$ 265,290	\$ 421,142
Disposals	(129,811)	(396)	-	-	(130,207)
Balance, September 30, 2015 and December 31, 2015	\$ -	\$ 15,974	\$ 9,671	\$ 265,290	\$ 290,935
<b>Accumulated depreciation</b>					
Balance, September 30, 2014	46,045	8,522	9,445	-	64,012
Additions	16,615	1,570	226	4,800	23,211
Disposals	(62,660)	-	-	-	(62,660)
Balance, September 30, 2015	-	10,092	9,671	4,800	24,563
Additions	-	314	-	1,200	1,514
Balance, December 31, 2015	\$ -	\$ 10,406	\$ 9,671	\$ 6,000	\$ 26,077
<b>Carrying amounts</b>					
Balance, September 30, 2015	\$ -	\$ 5,882	\$ -	\$ 260,490*	\$ 266,372
Balance, December 31, 2015	\$ -	\$ 5,568	\$ -	\$ 259,290	\$ 264,858

\* Building and land consists of \$145,290 of land and a \$115,200 building.

During the year ended September 30, 2015, the Company:

- i) allocated \$Nil (September 30, 2014 - \$226,020) in amortization to the El Creston Property exploration expenditures (Note 3).
- ii) wrote off equipment located in Mexico due to inaccessibility and sold equipment for gross proceeds of \$28,379.
- iii) extended the mortgage entered into during the year ended September 30, 2014 for \$263,791 for an additional year. The mortgage accrues interest at a rate of 12% per annum. Mortgage payments of \$2,468 per month are due on the first of the month with the final payment August 8, 2016. The mortgage covers land and a building in the district of Rainy River, Ontario.



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**5. LOANS PAYABLE**

	2015	2014
i) During the year ended September 30, 2015, the Company entered into a \$250,000 debenture loan. The debenture will mature on March 28, 2017 and will accrue interest at a rate of 10% per annum payable annually and convertible into common shares of the Company at a price of \$0.32 per share, at any time prior to maturity.	\$ 260,202	\$ -
<p>The loan has been classified into its separate loan liability and conversion feature equity components in the Company's financial statements using the fair value method and an effective interest rate of 12%. The liability was valued first, resulting in an initial amount of \$242,164 being allocated to the liability and \$7,836 being allocated to the conversion feature. Over the term of the loan this carrying value is to be accreted to the \$250,000 principal amount using the effective-interest-rate method, with an effective interest rate of 12%. For the year ended September 30, 2015, the corresponding interest and accretion of \$10,668 was charged to operations.</p>		
ii) During the year ended September 30, 2014, the Company entered into two debenture loan agreements whereby the Company borrowed \$200,000. The loan bears simple interest at 12% per annum and was repayable by December 13, 2014. Pursuant to the agreement, the lender has the right to convert all or any portion of the accrued interest into common shares of the Company prior to the end of the term. The loan is secured by the Company's assets.	136,263	218,477
<p>During the year ended September 30, 2015, the Company accrued \$33,238 (September 30, 2014 - \$18,477) of interest. During the year ended September 30, 2015, the Company settled \$100,000 of the principal debt for shares. The remaining \$100,000 of principal and interest remained unpaid. Interest continues to accrue with no additional penalties.</p>		
ii) During the period ended December 31, 2015, the Company received \$30,000 from the CEO of the Company, consisting of a series of non-interest bearing, unsecured advances with no fixed terms of repayment.	30,000	34,235
Total loan payable	426,465	252,712
Current portion	(166,263)	-
	\$ 260,202	\$ -

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**6. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE**

Included in issued share capital are Nil (September 30, 2015 – Nil) common shares held in escrow that will be released in stages over a period of up to two years.

During the period ended December 31, 2015, the Company,

- i) closed the previously announced debt settlement and has issued 334,000 common shares to creditors to settle debts aggregating \$167,000 of which 110,000 common shares for debts aggregating \$55,000 were issued to related parties.
- ii) closed a non-brokered private placement and issued 400,000 units for net proceeds of \$160,000. Each unit consists of one common share, issued at \$0.40 per share, and one-half common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of \$0.055 on or before December 22, 2017. \$22,200 of the proceeds were received during the year ended September 30, 2015.
- iii) issued 115,475 shares at a value of \$46,190 as the balance due for the finder's fee payable on the acquisition of the Emerald Lake property.
- iv) issued 866,667 common shares pursuant to exercise of warrants for gross proceeds of \$173,333.

During the year ended September 30, 2015, the Company:

- i) issued 3,849,291 common shares to creditors to settle debts aggregating \$577,394 of which 1,959,074 common shares for debts aggregating \$293,862 were issued to related parties.
- ii) issued 1,767,000 units for gross proceeds of \$265,050. Each unit consists of one common share issued at \$0.15 per share, and one common share purchase warrant. Each common share purchase warrant may be exercised by the holder to purchase an additional common share at a price of \$0.20 for 24 months from closing. At September 30, 2014, the Company had received \$190,050 in subscriptions which was recorded as subscriptions received in advance.
- iii) issued 2,865,625 shares for exploration and evaluation assets (Note 3).
- iv) issued 1,066,667 units for gross proceeds of \$160,000. Each unit consists of one common share issued at \$0.15 per share, and one common share purchase warrant. Each common share purchase warrant may be exercised by the holder to purchase an additional common share at a price of \$0.20 for 24 months from closing. The Company paid \$1,775 of cash share issuance costs in relation to the private placement.
- v) issued 300,000 units for gross proceeds of \$45,000. Each unit consists of one common share issued at \$0.15 per share, and one common share purchase warrant. Each common share purchase warrant may be exercised by the holder to purchase an additional common share at a price of \$0.20 for 24 months from closing.
- vi) issued 1,000,000 units for gross proceeds of \$240,000. Each unit consists of one common share issued at \$0.24 per share, and one common share purchase warrant. Each common share purchase warrant may be exercised by the holder to purchase an additional common share at a price of \$0.24 for 24 months from closing. The Company paid \$7,573 of cash share issuance costs in relation to the private placement.
- vii) issued 1,175,000 common shares pursuant to exercise of warrants for gross proceeds of \$470,000.
- viii) issued 160,000 common shares pursuant to exercise of options for gross proceeds of \$64,000. Accordingly, the Company transferred \$40,158 to capital stock from share-based payments reserve.

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**6. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE (cont'd...)****Stock options**

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less an applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

A summary of changes in options during the period is as follows:

	Number of options	Weighted average exercise price
Outstanding and exercisable September 30, 2014	1,992,657	\$ 0.45
Granted	1,720,000	0.75
Exercised	(160,000)	0.40
Cancelled/Expired	<u>(816,326)</u>	0.44
Outstanding and exercisable September 30, 2014	2,736,331	0.64
Cancelled/Expired	<u>(221,428)</u>	0.42
Outstanding and exercisable December 31, 2015	2,514,903	\$ 0.74

The following stock options were outstanding at December 31, 2015:

Expiry Date	Exercise Price	Number of Options	Number of Options Exercisable
June 28, 2016	\$ 0.80	144,903	144,903
July 21, 2017	\$ 0.75	1,720,000	1,720,000
May 8, 2018	\$ 0.40	400,000	400,000
September 7, 2018	\$ 0.40	132,500	132,500
September 17, 2018	\$ 0.43	117,500	117,500
		<u>2,514,903</u>	<u>2,514,903</u>

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**6. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE (cont'd...)**

**Warrants**

A summary of changes in warrants during the period is as follows:

	Number of warrants		Weighted average exercise price
Outstanding September 30, 2014	6,132,989	\$	0.41
Granted	4,133,667		0.21
Exercised	(1,175,000)		0.40
Expired	(3,033,821)		0.40
Outstanding September 30, 2015	6,057,835	\$	0.22
Granted	200,000		0.55
Exercised	(866,667)		0.20
Outstanding December 31, 2015	5,391,168	\$	0.24

The following warrants were outstanding at December 31, 2015:

Number of Warrants	Exercise Price	Expiry Date
257,500	\$ 0.55	February 25, 2016*
800,001	\$ 0.20	June 19, 2016
1,767,000	\$ 0.20	December 21, 2016
1,066,667	\$ 0.20	March 6, 2017
300,000	\$ 0.20	April 6, 2017
1,000,000	\$ 0.24	May 4, 2017
200,000	\$ 0.55	December 21, 2017
5,391,168		

\*expired subsequent to December 31, 2015

**7. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members. Other than disclosed below, there was no other compensation paid to key management during the periods ended December 31, 2015 and 2014. During the period ended December 31, 2015, the Company paid or accrued:

- (i) general, rent and administration fees of \$1,500 (2014 - \$2,475) to the CEO and a company with a common director of the Company.
- (ii) management fees of \$31,147 (2014 - \$28,632) to the CEO and CFO and companies controlled by CEO and CFO of the Company.
- (iii) directors fees of \$7,225 (2014 - \$9,000) to directors and a former director of the Company.
- (iv) professional and admin fees of \$Nil (2014 - \$Nil) and \$12,480 (2014 - \$Nil) to a former director and spouse of a director

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- (v) professional fees of \$69,814 (2014 - \$Nil) to a law firm managed by a director of the Company for legal services.

**7. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (cont'd...)**

Included in accounts payable and accrued liabilities as at December 31, 2015 is \$217,478 (September 30, 2015 - \$144,320) due to directors, a spouse of a director, former directors and companies controlled by directors.

At December 31, 2015, the Company owed the CEO \$279,068 (September 30, 2015 - \$329,890) for management fees as well as expenses that he paid for on behalf of the Company and \$30,000 (September 30, 2015 - \$Nil) for loans received from the CEO. The Company has a balance receivable from a corporation with a common director of \$Nil (September 30, 2015 - \$Nil) for expenses incurred for the USA Subsidiary.

**8. CAPITAL MANAGEMENT**

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and to maintain sufficient funds to finance the exploration of its exploration and evaluation interests. Capital is comprised of the Company's shareholders' equity (deficiency). As at December 31, 2015, the Company's shareholders' equity was \$581,631 (September 30, 2015 - \$466,638).

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period ended December 31, 2015.

**9. FINANCIAL RISK FACTORS**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

The carrying value of the Company's receivables, due from related parties, accounts payable and accrued liabilities, due to related parties, and mortgage payable approximate their fair value because of the short-term nature of these instruments. Cash is carried at a fair value using a level 1 fair value measurement. Loans payable are accounted for using the effective interest rate method.

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. The Company's management believes it has no significant credit risk.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2015, the Company had a cash balance of \$9,736 (September 30, 2015 - \$155,430) to settle current liabilities of \$1,125,310 (September 30, 2015 - \$1,118,929). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company expects to fund these liabilities through the use of existing cash resources and additional equity financing.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

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a) Interest rate risk

The Company has cash balances held with financial institutions. The Company is satisfied with the credit rating of its bank.

**9. FINANCIAL RISK FACTORS** (cont'd...)

*Market risk* (cont'd...)

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated in a foreign currency. As at December 31, 2015, the Company had minimal cash amounts in foreign currencies and considers foreign currency risk insignificant.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of commodities, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions during the period ended December 31, 2015 include the Company:

- i) issued shares in settlement of \$133,600 worth of accounts payable and accrued liabilities.
- ii) issued 115,475 shares at a value of \$46,190 as the balance due for the finder's fee payable on the acquisition of the Emerald Lake property.

At December 31, 2015, the Company had an accounts payable balance of \$115,3111 (September 30, 2015 - \$133,063) related to exploration and evaluation asset expenditures.

**11. SEGMENTED INFORMATION**

The Company has one operating segment, being the exploration of exploration and evaluation assets in Canada. The Company's equipment and exploration and evaluation assets at December 31, 2015 were \$1,920,095 (September 30, 2015 - \$1,636,772).

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**12. SUBSIDIARIES**

Significant subsidiaries of the Company are as follows:

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	Country of Incorporation	Principal Activity	Effective interest for 2015 and 2014
Minera Sierra Gioc SA	Mexico	Holding company	100%
Sierra Iron Ore USA	United States	Mineral exploration	100%

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**13. SUBSEQUENT EVENT**

Subsequent to December 31, 2015, the Company closed a debt settlement and issued 745,620 common shares to creditors, at a deemed value of \$0.40 per Share, to settle debts aggregating \$298,248.