

XTIERRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND DECEMBER 31, 2018

(Expressed in US Dollars)

XTIERRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND DECEMBER 31, 2018

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Audit. Tax. Advisory.

Independent Auditor's Report

To the Shareholders of Xtierra Inc.

Opinion

We have audited the consolidated financial statements of Xtierra Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2019 and, as of that date, the Company's current liabilities exceeded its current assets. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is

materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Jessica Glendinning.

McGovern Hurley LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
April 28, 2020

XTIERRA INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2019 and 2018

(Expressed in US Dollars)	Notes	2019	2018
		\$	\$
ASSETS			
Current assets			
Cash		38,065	3,556
Amounts receivable and other	5	<u>2,924</u>	<u>777</u>
Total current assets		<u>40,989</u>	<u>4,333</u>
Non-current assets			
Mineral properties	7	1	1
Mineral royalty interests	8	20,000	-
Equipment	6	<u>-</u>	<u>7,683</u>
Total non-current assets		<u>20,001</u>	<u>7,684</u>
Total assets		<u>60,990</u>	<u>12,017</u>
LIABILITIES			
Current			
Accounts payable and accruals	4/9	67,730	70,957
Notes payable	10	<u>796,477</u>	<u>766,477</u>
Current liabilities, before the undernoted		864,207	837,434
Other liability of subsidiary	11	<u>2,000,000</u>	<u>2,000,000</u>
Total current liabilities		<u>2,864,207</u>	<u>2,837,434</u>
SHAREHOLDERS' DEFICIENCY			
Share capital	12	35,643,062	35,446,827
Warrants	13	310,440	310,440
Share-based payment reserve	15	296,112	302,480
Deficit		<u>(39,052,831)</u>	<u>(38,885,164)</u>
Deficiency		<u>(2,803,217)</u>	<u>(2,825,417)</u>
Total liabilities and shareholders' deficiency		<u>60,990</u>	<u>12,017</u>

GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 8, 10, 11, 13 and 19)

SUBSEQUENT EVENTS (Note 20)

The financial statements were approved by the Board of Directors on April 28, 2020 and signed on its behalf by:

Signed "Neil J.F. Steenberg", Director

Signed "Timothy Gallagher", Director

See accompanying notes to the consolidated financial statements.

XTIERRA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US Dollars)	Notes	2019 \$	2018 \$
Expenses			
General and administrative expenses		25,400	23,902
Corporate expenses		13,294	18,599
Professional fees	4	20,866	32,332
Accretion on property acquisition obligation	11	-	156,000
Exploration and evaluation expenses	7	<u>104,508</u>	<u>54,719</u>
Operating loss		164,068	285,552
Other items			
Foreign exchange loss/(gain)		3,599	(23,373)
Share-based compensation	15	-	302,480
Warrants issued	12/13	-	310,440
Interest expense and fees on notes payable	10	<u>-</u>	<u>7,067</u>
Net loss and comprehensive loss for the year		<u>167,667</u>	<u>882,166</u>
Net loss per share – basic and diluted		0.001	0.007
Weighted average common shares outstanding			
– basic and diluted		139,966,501	132,539,297

See accompanying notes to the consolidated financial statements.

XTIERRA INC.**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**

	Share Capital	Warrants	Share-based payment reserve	Deficit	Total
(Expressed in US Dollars)	\$	\$	\$	\$	\$
Balance as at December 31, 2017	34,711,765	-	-	(38,002,998)	(3,291,233)
Shares issued in settlement of debt	735,062	-	-	-	735,062
Warrants	-	310,440	-	-	310,440
Share-based payments reserve	-	-	302,480	-	302,480
Net loss for the year	-	-	-	(882,166)	(882,166)
Balance as at December 31, 2018	35,446,827	310,440	302,480	(38,885,164)	(2,825,417)
Shares issued	186,879	-	-	-	186,879
Share issue costs	(4,540)	-	-	-	(4,540)
Stock options exercised	13,896	-	(6,368)	-	7,528
Net loss for the year	-	-	-	(167,667)	(167,667)
Balance as at December 31, 2019	35,643,062	310,440	296,112	(39,052,831)	(2,803,217)

See accompanying notes to the consolidated financial statements.

XTIERRA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US Dollars)	Notes	2019 \$	2018 \$
Cash flow from operating activities			
Net loss for the year		(167,667)	(882,166)
Depreciation		7,683	7,024
Non-cash exploration and evaluation expenditure		37,257	-
Accretion on property acquisition obligation		-	156,000
Share-based compensation		-	302,480
Warrants issued		-	310,440
Accrued interest expense on notes payable		-	7,067
Operating cash flow before movements in working capital		<u>(122,727)</u>	<u>(99,155)</u>
Movements in working capital			
(Increase) in amounts receivable and other		(2,147)	(374)
(Decrease)/increase in accounts payable and accruals		(3,227)	22,527
Net cash used in operating activities		<u>(128,101)</u>	<u>(77,002)</u>
Cash flows from investing activities			
Mineral royalty interests		(20,000)	-
Total cash flows from investing activities		<u>(20,000)</u>	<u>-</u>
Cash flows from financing activities			
Proceeds from issuance of shares and exercise of stock options	12	157,150	-
Share issue costs	12	(4,540)	-
Notes payable	10	30,000	75,000
Net cash generated by financing activities		<u>182,610</u>	<u>75,000</u>
Change in cash		34,509	(2,002)
Cash, beginning of year		3,556	5,558
Cash, end of year		<u>38,065</u>	<u>3,556</u>
Supplemental information			
Shares issued for acquisition of royalty	8	37,257	-
Shares issued in settlement of debt	10	-	735,062

See accompanying notes to the consolidated financial statements.

XTIERRA INC.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)
December 31, 2019 and December 31, 2018

1. NATURE OF OPERATIONS

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

The Company's head office is located at 55 University Ave, Suite 1805, Toronto, Ontario M5J 2H7.

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

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

Basis of measurement and going concern

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

At December 31, 2019, the Company had not achieved profitable operations, had a working capital deficiency, had an accumulated deficit since inception and expects to incur further losses in the development of its business. The Company will have to rely on equity financing to generate additional financial resources to fund its working capital requirements and will need to generate additional financial resources to fund its planned programs. There is a risk that additional financing will not be available to the Company on a timely basis or on acceptable terms. There are no assurances that the Company will continue to obtain additional financial resources and/or achieve positive cash flows or profitability. Based on the assumptions that such finance will become available, the Directors believe that the going concern basis is appropriate for group financial statements.

The underlying value and the recoverability of the exploration and evaluation projects is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the exploration and evaluation projects, and the generation of future profitable production or proceeds from the disposition of the exploration and evaluation projects.

The Company's operations could be significantly adversely affected by the effects of the global spread of the contagious coronavirus, causing the worldwide outbreak of COVID-19 respiratory disease which was declared a pandemic by the World Health Organization on March 11, 2020. The Company cannot predict the impact the COVID-19 pandemic will have on its operations, including uncertainties relating to the severity of the disease, the duration of the outbreak, the impact on schedules and timelines for planned operations or exploration programs and the length of travel and quarantine restrictions imposed by governmental authorities. In addition, this widespread health crisis has adversely affected the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

2. BASIS OF PREPARATION

These consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied to all the periods presented, unless otherwise noted.

These consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except cash flow information.

These consolidated financial statements were authorized for issuance by the Board of Directors on April 28, 2020.

XTIERRA INC.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)
December 31, 2019 and December 31, 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

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

(b) Exploration and evaluation expenditures

Mineral exploration properties include acquired mineral use rights for mineral properties held by the Company. The amount of consideration paid (in cash or share value) for mineral use rights is capitalized. Exploration expenditure relates to the initial search for precious and base metals. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

Exploration and evaluation costs are expensed as incurred and included in the statement of operations until technical feasibility and commercial viability of extraction of reserves are demonstrable. Once a mine development decision has been made by the Company, subsequent expenditures incurred to develop the mine are capitalized to mineral properties. Exploration costs include an allocation of administration and salary costs (including share-based payments) as determined by management, where they relate to specific projects.

(c) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use, along with the future cost of dismantling and removing the asset.

Equipment is amortized over the estimated useful life of the assets using the declining balance method at rates of 20% to 30% per annum, as appropriate. Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

(d) Asset retirement obligations

The Company will record a liability for the estimated future costs associated with legal and constructive obligations relating to the reclamation and closure of its exploration and evaluation projects. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion expense on the discounted liability. An equivalent amount is recorded as an increase to mineral exploration properties and amortized over the useful life of these assets. Management is currently not aware of any existing significant asset retirement obligations and the Company does not currently have any legal or constructive obligations relating to the reclamation of its exploration and evaluation projects and equipment at December 31, 2019 and 2018.

(e) Cash

Cash is comprised of cash on hand, deposits in banks and highly liquid investments having original terms to maturity of 90 days or less when acquired. Term deposits can be redeemed at any time without interest or penalty.

XTIERRA INC.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)
December 31, 2019 and December 31, 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either fair value through profit and loss (“FVPL”) or fair value through other comprehensive income (“FVOCI”), or “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. Accounts receivable held for collection of contractual cash flows are measured at amortized cost.

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of operations.

Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of operations. The Company does not measure any financial assets at FVPL.

Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive loss in the consolidated statements of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of operations when the right to receive payments is established.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company’s only financial assets subject to impairment are amounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, amounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

XTIERRA INC.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)
December 31, 2019 and December 31, 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accruals, notes payable and other liability of subsidiary, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of operations.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of operations.

(g) Functional and presentation currency

The functional currency of the Company and its subsidiaries is the US Dollar. For the purpose of the consolidated financial statements, the results and financial position of each company are expressed in US Dollars (the Company's presentation currency). In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the Statement of Financial Position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was re-determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in operations for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in operations.

(h) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The Company records compensation cost using the fair value method of accounting for share-based payments. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as share-based payments expense and share-based payment reserve. When options are exercised, the proceeds received, together with any related amount in share-based payment reserve, will be credited to capital stock.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. On expiry, any related amount in share-based payment reserve will be credited to deficit.

(i) Operating loss

Operating loss comprises of general administrative costs incurred by the Company, exploration expenditures and all impairment charges relating to intangible assets and financial assets during the period. Operating loss is stated before finance income, finance costs and other gains and losses.

XTIERRA INC.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)
December 31, 2019 and December 31, 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies above, management has identified the judgemental areas that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations), which are dealt with below.

Key sources of estimation uncertainty

Preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty are discussed below:

Mineral resource estimates

Mineral resources are estimated in accordance with Canadian Institute of Mining, Metallurgy and Petroleum Standards on Mineral Resources and Reserves, Definitions and Guidelines and disclosed in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects" issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation.

Share-based payments

Estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Company is the Black-Scholes valuation model.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Determination of functional currency

Functional currency is determined annually for each entity based on a set of primary and secondary factors that include; the currency that influences sales prices for goods and services; the currency of the country that determines the sales prices of goods and services; the currency that mainly influences the costs of providing goods and services; the currency in which funds from financing activities are generated; the currency in which receipts from operating activities are usually retained. When the factors do not provide clear indicators, management judgement must be applied in the determination of functional currency.

Contingencies

See Note 19.

(k) Impairment of non-financial assets

At the end of each reporting period, non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Any impairment is recognized in the consolidated statement of operations.

XTIERRA INC.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)
December 31, 2019 and December 31, 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options, warrants and other convertible securities that would decrease loss per share, as a result, all outstanding convertible securities for the years ended December 31, 2019 and 2018 have been excluded from diluted loss per share.

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

(n) Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) Changes in accounting policies

During the year ended December 31, 2019, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IFRS 3, IFRS 16 and IFRIC 23. These new standards and changes did not have any material impact on the Company's consolidated financial statements.

(p) New standards and interpretations not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

IFRS 3 – Business Combinations (“IFRS 3”) was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

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4. RELATED PARTY TRANSACTIONS

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

No fees were paid by the Company to directors and key management personnel for their services as directors and officers of the Company in the years ended December 31, 2019 or December 31, 2018. Share-based compensation in the form of stock option grants to directors and key management personnel during 2019 was \$Nil (2018 – \$240,130). See Note 14.

During 2019 and 2018, the Company entered into various funding agreements with its major shareholder Buchans Resources Limited, see Note 10.

For the year ended December 31, 2019, the Company made payments or accrued \$2,260 (2018 - \$16,140) to Steenberglaw Professional Corporation, a company controlled by Neil J.F. Steenberg, Director and Secretary, for legal fees.

During 2019, the Company received an advance in the amount of \$10,000 from a director to fund working capital expenses.

Included in accounts payable and accruals at December 31, 2019 is \$42,802 (2018 - \$32,486) due to related parties other than notes due to the major shareholder. These balances are due on demand, unsecured and non-interest bearing.

The subsidiaries of the Company during the years ended December 31, 2019 and 2018 were as follows:

Name of Subsidiary	Country of Incorporation	Percentage owned	Principal activity
Orca Minerals Limited	Canada	100%	Holding company for Orca Gold International
Orca Gold International Ltd.	Bahamas	100%	Holding company for Mexican subsidiaries
Bilbao Resources SA de CV	Mexico	100%	Exploration
Bilbao Mining SA de CV	Mexico	100%	Exploration
Minera Orca SA de CV	Mexico	100%	Exploration
Orca Mining Exploration SA de CV	Mexico	100%	Exploration

5. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	December 31, 2019	December 31, 2018
	\$	\$
Receivable sales taxes - Canada	2,686	536
Receivable sales taxes - Mexico	238	241
Amounts receivables and other	<u>2,924</u>	<u>777</u>

6. EQUIPMENT

	December 31, 2019	Depreciation	December 31, 2018	Depreciation	December 31, 2017
	\$	\$	\$	\$	\$
Equipment at cost	54,326	-	54,326	-	54,326
Accumulated depreciation	<u>(54,326)</u>	<u>(7,683)</u>	<u>(46,643)</u>	<u>(7,024)</u>	<u>(39,619)</u>
Total	<u>-</u>	<u>(7,683)</u>	<u>7,683</u>	<u>(7,024)</u>	<u>14,707</u>

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7. EXPLORATION AND EVALUATION EXPENDITURES

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

	December 31, 2019	Additions	December 31, 2018	Additions	December 31, 2017
	\$	\$	\$	\$	\$
Bilbao	22,838,698	104,508	22,734,190	54,719	22,679,471
Laguna	7,281,000	-	7,281,000	-	7,281,000
Total	<u>30,119,698</u>	<u>104,508</u>	<u>30,015,190</u>	<u>54,719</u>	<u>29,960,471</u>

Bilbao

The Company, through its indirectly wholly owned Mexican subsidiaries, holds a 100% interest in the Bilbao zinc-silver-lead-copper project, including the necessary surface lands for surface installations and development of the Bilbao deposit. See Note 11.

Laguna

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

In order to maintain the Company's mineral concessions and titles in good standing, the Company is required to maintain a prescribed minimum of annual exploration expenditure and pay fees semi-annually to the Secretaria de Economia in Mexico. Minimum expenditure commitments and concession payments totaling approximately \$65,000 (MXN \$1,228,000) are required annually. Failure to make the annual concession payments or incur the minimum annual exploration expenditures, to the satisfaction of the Mexican authorities, or a determination that the expenditures incurred are not qualifying expenditures, may result in the cancellation or forfeiture of the mineral concessions.

8. MINERAL ROYALTY INTERESTS

On July 31, 2019, the Company acquired, indirectly through a wholly owned subsidiary, a 1.5% net smelter royalty in four mining concessions comprising the bulk of the Bilbao property (see Note 7) for \$76,829 (Cdn\$100,000), paid as to Cdn\$51,000 in cash and Cdn\$49,000 by the issue of 980,000 common shares of the Company. The fair value of the common shares issued was estimated based on the market price of the shares on the date of issuance. The investment of Cdn\$100,000 was expensed to exploration and evaluation costs as incurred and is included in the statement of operations for the year ended December 31, 2019.

On August 13, 2019, the Company signed letter of intent, to acquire Minera Portree De Zacatecas, S.A. de C.V ("Minera Portree"), subject to due diligence and final agreement on price, terms and conditions. Minera Portree holds various legal or royalty interests in certain mineral properties in Mexico, including the Company's Bilbao property in Zacatecas, Mexico, (see Note 7), and an asserted claim to a 2% net smelter royalty on six mining concessions located adjacent to the Cozamin mine, in Zacatecas, Mexico, operated by Capstone Mining Corp.

Subsequent to December 31, 2019, the Company entered into a binding agreement to acquire 88% of the shares of Minera Portree in consideration of the payment of Cdn\$56,000, less the deposit of \$20,000 previously paid, with the remaining Cdn\$30,000 payable in installments subject to certain milestones, and the issue to the vendors of 2,000,000 shares of the Company, subject to TSXV approval.

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9. ACCOUNTS PAYABLE AND ACCRUALS

	December 31, 2019	December 31, 2018
	\$	\$
Trade creditors	12,558	29,231
Payable to related parties (Note 4)	42,802	32,486
Accrued liabilities	12,370	9,240
	<u>67,730</u>	<u>70,957</u>

10. NOTES PAYABLE

	December 31, 2019	December 31, 2018
	\$	\$
Notes payable		
Note payable to Buchans Resources	796,477	766,477
Total notes payable	<u>796,477</u>	<u>766,477</u>

Notes payable

Under agreements with its then major shareholders Pacific Road Group of Funds (“Pacific Road”) and Minco entered into in 2014, and subsequently amended, the Company had outstanding notes payable as at December 31, 2017 of \$1,419,473 which carried interest of 5%. The notes payable are secured by a pledge by Xtierra of its shares of Orca Minerals Limited.

On February 14, 2018, the Company settled its secured notes owing to Pacific Road in the amount of \$735,062, by the issue to Pacific Road of 18,442,721 common shares of Xtierra at Cdn\$0.05 per share.

On the same date, Buchans Resources Limited (“Buchans”) (successor to Minco) entered into a two-year Support and Standstill Agreement (“Support Agreement”) to defer repayment of principal and accrued interest, and also to provide additional financial support of up to US\$100,000, on the following terms:

- The Notes, including the additional advances, remain secured by a pledge to Buchans of the shares of Orca Minerals Limited, which indirectly holds Xtierra’s mineral properties in Mexico (the “Secured Property”);
- The accrual of interest is suspended during the term of the Support Agreement;
- Buchans has the option at any time, upon 60 days written notice, to require the transfer of the Secured Property to Buchans in full satisfaction of the debt, unless during that 60-day period the debt is repaid in full, in cash;
- Xtierra has the right to repay the debt in cash at any time; and
- Upon expiry of the term of the Support Agreement on February 14, 2020, Xtierra may discharge the debt in full by transferring the Secured Property to Buchans.

In consideration for the Support and Standstill Agreement, the Company issued 13 million, non-transferable warrants to Buchans, each warrant entitling Buchans to purchase one common share of Xtierra for Cdn\$0.05 per share for a period of two years expiring February 14, 2020. These warrants expired unexercised on February 14, 2020.

During the years ended December 31, 2018 and 2019, Buchans advanced US\$75,000 and US\$30,000, respectively, to Xtierra under the terms of the Support Agreement.

By an Extension Agreement dated as of February 7, 2020, the term of the Support Agreement was extended for an additional year expiring February 7, 2021. In consideration for the extension, the Company agreed, subject to TSXV approval, to issue to Buchans 13 million, non-transferable warrants. Each warrant entitles Buchans to purchase one common share of Xtierra for \$0.05 per share for a term of two years.

See Notes 13 and 20.

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11. OTHER LIABILITY OF SUBSIDIARY

Under an Indemnity and Guarantee Agreement dated August 11, 2008, entered into in connection with the acquisition by Orca Gold International Ltd. ("Orca Gold"), from Shoshone Silver Mining Company ("Shoshone Silver"), of the shares of Shoshone Mexico S.A. de C.V., ("Shoshone Mexico"), the registered owner of four mining concessions comprising the bulk of the Bilbao property, subject to a 1.5% net smelter royalty, and the beneficial owner of a 25% interest in the Bilbao concessions, Shoshone Silver agreed to indemnify Orca Gold and Shoshone Mexico against any damages or losses suffered from all liabilities and obligations of Shoshone Mexico, in consideration of the agreement by Orca Gold to pay to Shoshone Silver the total sum of \$4,900,000. Of this total amount, \$2,400,000 was paid on the date of transfer of the shares of Shoshone Mexico to Orca Gold in August 2008 and a further \$500,000 was paid one year after the date of the first payment.

The balance of \$2,000,000 expressed to be payable by Orca Gold to Shoshone Silver pursuant to the Indemnity and Guarantee Agreement was to be payable in four consecutive equal annual payments of \$500,000 each, the first such \$500,000 annual payment to be made at the time of commencement of construction of any mine developed on the Bilbao concessions, but in any event not less than six years after the date of the first payment of \$2,400,000 in August 2008 and provided that the remaining balance of \$2,000,000 was to be paid in full no later than ten years after the date of the first payment of \$2,400,000. Construction of a mine on the Bilbao concessions has not commenced to date. The payment was secured by a charge granted by Shoshone Mexico in favor of Shoshone Silver and registered against the four Bilbao mining concessions.

Orca Minerals Limited, the parent company of Orca Gold, guaranteed the payments and obligations of Orca Gold to Shoshone Silver. Orca Gold is treating any potential claim that may become due to Shoshone Silver under the Indemnity and Guarantee Agreement as a contingent liability as the likelihood of this occurring cannot be predicted at this time. Xtierra acquired Orca Minerals Limited on August 29, 2008, but did not assume or guarantee, on a corporate non-consolidated basis, the payments or obligations of Orca Gold. Xtierra has no direct liability for any payments that may become due to Shoshone Silver, however under IFRS 9 *Financial Instruments*, upon consolidation, the Company is required to recognise this potential payment as a financial liability.

12. CAPITAL STOCK

Common shares

Authorized

Unlimited number of common shares

Issued

	Shares	Amount \$
Balance, December 31, 2017	116,370,336	34,711,765
Shares issued	<u>18,442,721</u>	<u>735,062</u>
Balance, December 31, 2018	134,813,057	35,446,827
Shares issued	4,000,000	149,622
Share issue costs	-	(4,540)
Shares issued for acquisition of royalty	980,000	37,257
Stock options exercised	<u>200,000</u>	<u>13,896</u>
Balance, December 31, 2019	<u>139,993,057</u>	<u>35,643,062</u>

In April 2019, the Company issued 4,000,000 common shares for gross proceeds of \$149,622 (Cdn\$200,000).

In February 2018, the Company completed the partial settlement and restructuring of the Company's secured promissory notes held by a secured creditor and issued 18,442,721 common shares at a deemed value of \$0.05 per share. See Note 10.

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13. WARRANTS

On February 14, 2018, and in consideration for the Support and Standstill Agreement, the Company issued 13 million, non-transferable warrants to Buchans, each warrant entitling Buchans to purchase one common share of Xtierra for Cdn\$0.05 per share for a period of two years expiring February 14, 2020. See Note 10.

The grant fair value of these warrants was calculated at \$310,440 which was recorded to the consolidated statements of operations in 2018. The following assumptions were used in calculating the fair value of warrants granted, using the Black-Scholes option pricing model: expected dividend yield of 0%, expected volatility of 115%, based on the volatilities of a sample of similar companies, risk-free interest rate of 1.82%, share price of \$0.05 and expected life of two years. These warrants expired on February 14, 2020.

14. STOCK OPTIONS

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

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

Stock options transactions during the years ended December 31, 2019 and 2018 were as follows:

	Number of Options Granted and Exercisable at December 31, 2019	Estimated Grant Date Fair Value	Exercise Price	Expiry Date
		\$		
Balance, December 31, 2017	-	-		
Stock options granted	9,500,000	302,480	Cdn\$0.05	January 30, 2023
Balance, December 31, 2018	9,500,000	302,480		
Stock options exercised	(200,000)	(6,368)	Cdn\$0.05	
Balance, December 31, 2019	9,300,000	296,112	Cdn\$0.05	January 30, 2023

In January 2018, the Company granted a total of 9,500,000 incentive stock options to directors, officers and consultants pursuant to the Company's Stock Option Plan. All these stock options are exercisable at a price of Cdn\$0.05 per share for a period of five years from January 29, 2018. These options vested on the date of the grant. The grant fair value of these options was calculated at \$302,480 which was recorded to share-based compensation and share-based payment reserve in 2018. The following assumptions were used in calculating the fair value of options granted, using the Black-Scholes option pricing model: expected dividend yield of 0%, expected volatility of 115%, based on the volatilities of a sample of similar companies, risk-free interest rate of 1.82%, share price of \$0.05 and expected life of five years. Directors and officers were granted 7,300,000 of the stock options at a value of \$240,130.

15. SHARE-BASED PAYMENT RESERVE

Share-based payment reserve transactions for the years ended December 31, 2019 and 2018 were as follows:

	\$
Balance, December 31, 2017	-
Stock options granted	302,480
Balance, December 31, 2018	302,480
Stock options exercised	(6,368)
Balance, December 31, 2019	296,112

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16. INCOME TAXES

Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2018 – 26.5%) were as follows:

	December 31, 2019	December 31, 2018
	\$	\$
Loss before income taxes	(167,667)	(882,166)
Expected recoverable income taxes at statutory rates	(44,000)	(234,000)
Increase (decrease) resulting from:		
Expenses not deductible for tax purposes	-	204,000
Change in foreign exchange rates	40,000	(689,000)
Change in benefit of tax assets not recognized	4,000	719,000
Deferred income tax provision (recovery)	-	-

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2019	2018
	\$	\$
Non-capital loss carry-forwards - Canada	3,604,000	3,389,000
Non-capital loss carry-forwards - Mexico	11,313,000	11,712,000
Unrecorded deferred tax assets	14,917,000	15,101,000

The Company has approximately Cdn\$4,624,000 (\$3,604,000) of non-capital losses in Canada and approximately MXN213,851,000 Mexican Pesos (\$11,313,000), of non-capital losses in Mexico which under certain circumstances can be used to reduce the taxable income of future years. The Canadian losses expire at various dates through 2039 and the Mexican losses expire at various dates through 2029.

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17. FINANCIAL INSTRUMENTS

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. There have been no significant changes in the risks or the Company's objectives, policies and procedures related to risk management during 2019 and 2018.

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

Fair value:

The carrying amounts for cash, amounts receivable and other, accounts payable and accruals, notes payable and other liability of subsidiary on the consolidated statements of financial position approximate fair value because of the limited term of these instruments.

Capital Risk:

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and explore its exploration and evaluation projects. See Note 19.

Credit Risk:

Credit risk is the risk that a counterparty will be unable to pay amounts owing to the Company. Management's assessment of the Company's risk is low as it is primarily attributable to funds held in Canadian banks.

Liquidity Risk:

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2019, the Company had cash of \$38,065 (2018 - \$3,556) to settle current accounts payable of \$2,864,207 (2018 - \$2,837,434) (including liability of a subsidiary in the amount of \$2,000,000 (2018 - \$2,000,000) see Note 11). The Company's accounts payable and accruals generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Price Volatility of Publicly Traded Securities

Securities of exploration companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the relative attractiveness of particular industries. The Company's share price is also likely to be significantly affected by short-term changes in metal prices or in the Company's financial condition or results of operations as reflected in quarterly earnings reports.

Price Risk:

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not a producing entity.

Interest Rate Risk:

The Company is not subject to interest rate risk due to the minimal cash levels, and the debt being at a fixed rate or not interest-bearing.

Foreign Currency Risk:

The Company is subject to foreign exchange risk as some of its operating, investing and financing activities are transacted in currencies other than the United States ("US") dollar. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the U.S. dollar.

Sensitivity Analysis:

Financial instruments included in cash and amounts receivable are measured at amortized cost. Accounts payable and accruals, notes payable and other liability of subsidiary are classified as financial liabilities, measured at amortized cost.

The Company holds approximately (Cdn\$-49,670) (\$-40,480 net) (2018- (Cdn\$-62,400) (\$-45,600 net)) in financial assets and liabilities. A one percent change in the Canadian - US foreign exchange rates could result in a foreign exchange impact of approximately \$405 based on monetary asset and liability balances existing at December 31, 2019.

The Company holds approximately (MXN\$114,000) (\$6,000 net) (2018 - (MXN\$392,000) (\$21,000 net)) in financial assets and liabilities. A one percent change in the Mexican - US foreign exchange rates could result in a foreign exchange impact of approximately \$60 based on monetary asset and liability balances existing at December 31, 2019.

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17. FINANCIAL INSTRUMENTS (CONTINUED)

Sensitivity Analysis (continued)

A one percent change in interest rates will result in a corresponding change in interest income of approximately \$Nil based on monetary asset and liability balances existing at December 31, 2019.

Fair Value Hierarchy and Liquidity Risk Disclosure:

The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As at December 31, 2019 and 2018, the Company did not have any financial instruments carried at fair value.

18. CAPITAL MANAGEMENT

The Company's capital structure consists of its capital stock, warrants and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

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

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

The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2019 and 2018. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than Policy 2.5 of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) CDN\$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

19. COMMITMENTS AND CONTINGENCIES

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

In order to maintain the Company's mineral concessions and titles in good standing, the Company is required to maintain a prescribed minimum of annual exploration expenditure and pay fees semi-annually to the Secretaria de Economia in Mexico. Minimum expenditure commitments and concession payments totaling approximately \$65,000 (MXN \$1,228,000) are required annually. Failure to make the annual concession payments or incur the minimum annual exploration expenditures, to the satisfaction of the Mexican authorities, or a determination that the expenditures incurred are not qualifying expenditures, may result in the cancellation or forfeiture of the mineral concessions. See Note 7.

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20. SUBSEQUENT EVENTS

By an Extension Agreement dated as of February 7, 2020, the term of the Support Agreement with Buchans Resources Limited was extended for an additional one year to February 7, 2021 in consideration of the issue to Buchans, subject to TSXV approval, of 13 million, non-transferable warrants, each warrant entitling Buchans to purchase one common share of Xtierra for Cdn\$0.05 per share for a term of two years. See notes 10 and 13.

Subsequent to December 31, 2019, the Company entered into an agreement to acquire 88% of the shares of Minera Portree in consideration of the payment of Cdn\$56,000, less the deposit of \$20,000 previously paid, with the remaining Cdn\$30,000 payable in installments subject to certain milestones, and the issue to the vendors of 2,000,000 shares of the Company, subject to TSXV approval. See Note 8.