

XTIERRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND DECEMBER 31, 2017

(Expressed in US Dollars)

XTIERRA INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND DECEMBER 31, 2017

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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, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in 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, 2018 and 2017, 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 had a working capital deficiency and accumulated deficit as at December 31, 2018 and that the Company expects to incur further losses. 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.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, 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.

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.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 16, 2019

XTIERRA INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31,

(Expressed in US Dollars)	Notes	2018	2017
		\$	\$
ASSETS			
Current assets			
Cash		3,556	5,558
Amounts receivable and other	6	<u>777</u>	<u>403</u>
Total current assets		<u>4,333</u>	<u>5,961</u>
Non-current assets			
Mineral properties	8	1	1
Property, plant and equipment	7	<u>7,683</u>	<u>14,707</u>
Total non-current assets		<u>7,684</u>	<u>14,708</u>
Total assets		<u><u>12,017</u></u>	<u><u>20,669</u></u>
LIABILITIES			
Current			
Accounts payable and accruals	4/9	70,957	48,429
Notes payable	11	<u>766,477</u>	<u>1,419,473</u>
Current liabilities, before the undernoted		837,434	1,467,902
Other liability of subsidiary	10	<u>2,000,000</u>	<u>1,844,000</u>
Total current liabilities		<u>2,837,434</u>	<u>3,311,902</u>
SHAREHOLDERS' DEFICIENCY			
Capital stock	12	35,446,827	34,711,765
Warrants	11/13	310,440	-
Share-based payment reserve	15	302,480	-
Deficit		<u>(38,885,164)</u>	<u>(38,002,998)</u>
Deficiency		<u>(2,825,417)</u>	<u>(3,291,233)</u>
Total liabilities and shareholders' deficiency		<u><u>12,017</u></u>	<u><u>20,669</u></u>

GOING CONCERN (Note 1)

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

The financial statements were approved by the Board of Directors on April 16, 2019 and signed on its behalf by:

Signed “John F. Kearney”, 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, 2018 AND 2017**

(Expressed in US Dollars)	Notes	2018 \$	2017 \$
Expenses			
General and administrative expenses		23,902	22,184
Corporate expenses		18,599	9,248
Professional fees	4	32,332	26,372
Accretion on property acquisition obligation	10	156,000	240,000
Exploration and evaluation expenses	8	<u>54,719</u>	<u>85,865</u>
Operating loss		285,552	383,669
Other items			
Foreign exchange (gain)/loss		(23,373)	1,290
Share-based compensation	14	302,480	-
Warrants issued	11/13	310,440	-
Interest expense and fees on notes payable	11	<u>7,067</u>	<u>75,844</u>
Net loss and comprehensive loss for the year		<u><u>882,166</u></u>	<u><u>460,803</u></u>
Net loss per share – basic and diluted		0.007	0.004
Weighted average common shares outstanding			
– basic and diluted		132,539,297	116,370,336

See accompanying notes to the consolidated financial statements.

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

(Expressed in US Dollars)	Stock Capital \$	Warrants \$	Share-based payment reserve \$	Deficit \$	Total \$
Balance as at December 31, 2016	34,711,765	-	-	(37,542,195)	(2,830,430)
Net loss for the year	-	-	-	(460,803)	(460,803)
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)

See accompanying notes to the consolidated financial statements.

XTIERRA INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

(Expressed in US Dollars)	2018	2017
	\$	\$
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss for the year	(882,166)	(460,803)
Depreciation and proceeds on disposal of equipment	7,024	5,115
Impairment of accretion on other liability	156,000	240,000
Share-based compensation	302,480	-
Accretion of warrants issued	310,440	-
Accrued interest expense on notes payable	7,067	75,844
Operating cash flow before movements in working capital	<u>(99,155)</u>	<u>(139,844)</u>
Movements in working capital		
(Increase)/decrease in amounts receivable and other and prepaids	(374)	17,534
Increase in accounts payable and accruals	22,527	17,311
Net cash used in operating activities	<u>(77,002)</u>	<u>(104,999)</u>
FINANCING ACTIVITIES:		
Notes payable	<u>75,000</u>	<u>93,000</u>
Net cash generated by financing activities	<u>75,000</u>	<u>93,000</u>
Change in cash	(2,002)	(11,999)
Cash, beginning of year	<u>5,558</u>	<u>17,557</u>
Cash, end of year	<u><u>3,556</u></u>	<u><u>5,558</u></u>
Supplemental information:		
Shares issued in settlement of debt	735,062	-

See accompanying notes to the consolidated financial statements.

XTIERRA INC.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)
December 31, 2018 and December 31, 2017

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 reserves 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 reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values of the Company's assets. All of the Company's mineral exploration assets are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. The Company's properties may be subject to government licensing requirements, social licensing requirements, unregistered prior agreements, unregistered claims, 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, 2018, the Company had not achieved profitable operations, had a working capital deficiency, had an accumulated deficit since inception and expects to incur further losses in the development of its business. The Company will need to generate additional financial resources in order to fund its planned exploration 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.

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

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 were authorized for issuance by the Board of Directors on April 16, 2019.

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.

XTIERRA INC.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)
December 31, 2018 and December 31, 2017

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 and equipment. 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 equipment, 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, 2018 and 2017.

(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, 2018 and December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments

Accounting policy under IFRS 9 applicable from January 1, 2018

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 FVPL or FVOCI, and “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, 2018 and December 31, 2017

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.

Accounting policy under IAS 39 applicable prior to January 1, 2018

The accounting policy under IAS 39 for the comparative information presented in respect of financial assets and liabilities, was similar to the accounting policy adopted in 2018. The policy was as follows:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- (i) Financial assets at fair value through profit or loss:** Financial assets classified as held-for-trading are included in the category financial assets at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Gains or losses on these items are recognized in profit or loss.
- (ii) Financial liabilities at fair value through profit or loss:** Financial liabilities classified as fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as a fair value through profit or loss. Derivatives, including separable embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized in profit or loss. Certain other financial instruments (conversion option component of the convertible notes) are classified under IFRS as financial liabilities measured at fair value through profit or loss as a result of the conversion option being convertible into an other than fixed number of common shares of the Company.
- (iii) Available-for-sale investments:** Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the statement of operations and are included in other gains and losses.

XTIERRA INC.
Notes to the Consolidated Financial Statements
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(iv) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and amounts receivable and other due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(v) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accruals, notes payable and other liability of subsidiary. Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities at amortized cost are measured using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets: A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(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, 2018 and December 31, 2017

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 reserve estimates

The figures for mineral reserves and mineral resources are determined 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. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

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.

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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, 2018 and 2017 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, 2018, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IFRS 2, IFRS 9 and IFRIC 22. These new standards and changes did not have any material impact on the Company's financial statements.

IFRS 9, Financial Instruments

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	Financial instrument classification	
	Under IAS 39	Under IFRS 9
Financial assets		
Cash	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accruals	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost
Other liability of subsidiary	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended December 31, 2017 was accounted for in accordance with the Company's previous accounting policy under IAS 39. Significant accounting policies which outline the current and previous accounting policies pertaining to financial instruments.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2019. 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. Earlier adoption is permitted.

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. Earlier adoption is permitted.

IFRS 3 – Business Combinations (“IFRS 3”) and IFRS 11 – Joint Arrangements (“IFRS 11”) were amended in December 2017. IFRS 3 was amended to clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, it re-measures previously held interests in that business. IFRS 11 was amended to clarify that when a party that participates in, but does not have joint control of, a joint operation obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.

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.

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

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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, 2018 or December 31, 2017. Share-based compensation in the form of stock option grants to directors and key management personnel during 2018 was \$240,130 (2017 – \$Nil). See Note 14.

During 2018 and 2017, the Company entered into various funding agreements with its major shareholders, see Note 11.

For the year ended December 31, 2018, the Company made payments or accrued \$16,140 (2017 - \$15,460) to Steenberglaw Professional Corporation, a company controlled by Neil J.F. Steenberg, Director and Secretary, for legal fees.

Included in accounts payable and accruals at December 31, 2018 is \$32,486 (2017 - \$15,000) due to related parties other than notes due to major shareholders. These balances are due on demand, unsecured and non-interest bearing.

See also Note 11.

The subsidiaries of the Company during the years ended December 31, 2018 and 2017 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. SEGMENTAL ANALYSIS

	Segment result	
	December 31, 2018	December 31, 2017
	\$	\$
Continuing Operations		
Canada	(804,691)	(351,679)
Mexico	<u>(77,475)</u>	<u>(109,124)</u>
Loss for the period	<u><u>(882,166)</u></u>	<u><u>(460,803)</u></u>
Segment assets and segment liabilities		
	Assets	
	December 31, 2018	December 31, 2017
	\$	\$
Canada	2,536	4,186
Mexico	<u>9,481</u>	<u>16,483</u>
	<u><u>12,017</u></u>	<u><u>20,669</u></u>

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5. SEGMENTAL ANALYSIS (CONTINUED)

	Liabilities	
	December 31, 2018	December 31, 2017
	\$	\$
Canada	(814,680)	(1,450,239)
Mexico	(2,022,754)	(1,861,663)
	<u>(2,837,434)</u>	<u>(3,311,902)</u>

6. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	December 31, 2018	December 31, 2017
	\$	\$
Receivable sales taxes - Canada	536	174
Receivable sales taxes - Mexico	241	229
Amounts receivables and other	<u>777</u>	<u>403</u>

7. EQUIPMENT

	December 31, 2018	Depreciation	December 31, 2017	Disposal	December 31, 2016
	\$	\$	\$	\$	\$
Equipment at cost	54,326	-	54,326	-	54,326
Accumulated depreciation	(46,643)	(7,024)	(39,619)	(5,115)	(34,504)
Total	<u>7,683</u>	<u>(7,024)</u>	<u>14,707</u>	<u>(5,115)</u>	<u>19,822</u>

8. EXPLORATION AND EVALUATION EXPENDITURES

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

	December 31, 2018	Additions	December 31, 2017	Additions	December 31, 2016
	\$	\$	\$	\$	\$
Bilbao	22,734,190	54,719	22,679,471	85,865	22,593,606
Laguna	7,281,000	-	7,281,000	-	7,281,000
Total	<u>30,015,190</u>	<u>54,719</u>	<u>29,960,471</u>	<u>85,865</u>	<u>29,874,606</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, subject to a 1.5% net smelter royalty.

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.

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8. EXPLORATION AND EVALUATION EXPENDITURES (CONTINUED)

Laguna (continued)

On October 25, 2013, Conagua, the Mexican authority responsible for water resources, advised the Company of their decision to rescind the Company's December 10, 2003, twenty-year extraction licence for the Laguna project on the basis that no extraction has been done for at least three years. The Company appealed this decision through the courts. The appeal was heard by the Court of Zacatecas in June 2014 and a judgement in favor of the Company and setting aside the rescission was issued on October 7, 2014.

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 \$61,000 (MXN \$1,172,000) 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.

9. ACCOUNTS PAYABLE AND ACCRUALS

	December 31, 2018	December 31, 2017
	\$	\$
Trade creditors	29,231	20,663
Payable to related parties (Note 4)	32,486	15,000
Accrued liabilities	9,240	12,766
	<u>70,957</u>	<u>48,429</u>

10. PROPERTY ACQUISITION OBLIGATION

	December 31, 2018	December 31, 2017
	\$	\$
Liability of subsidiary	2,000,000	1,844,000
	<u>2,000,000</u>	<u>1,844,000</u>

Under an Option Agreement dated February 22, 2006, between Minco plc and Shoshone Mexico S.A. de C.V., ("Shoshone Mexico"), as amended, Minco plc ("Minco") through its then wholly owned subsidiary Bilbao Mining S.A. de C.V., earned into a 75% interest in four mining concessions comprising the bulk of the Bilbao property.

In August 2008, Orca Gold International Ltd. ("Orca Gold"), then an indirect subsidiary of Minco, purchased from Shoshone Silver Mining Company ("Shoshone Silver"), for \$100,000, all the shares of Shoshone Mexico, the registered owner of the four Bilbao concessions and the beneficial owner of the remaining 25% interest in the Bilbao concessions.

By an Indemnity and Guarantee Agreement dated August 11, 2008, 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 remaining balance of \$2,000,000 payable by Orca Gold to Shoshone Silver pursuant to the Indemnity and Guarantee Agreement was expressed 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 (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. The payment is 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 under the Indemnity and Guarantee Agreement.

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10. PROPERTY ACQUISITION OBLIGATION (CONTINUED)

On August 29, 2008, Xtierra Inc. acquired all of the shares of Orca Minerals Limited from Minco but did not assume or guarantee, on a corporate non-consolidated basis, the payments or obligations of Orca Gold and has no direct liability for any payments that may become due to Shoshone Silver under the Indemnity and Guarantee Agreement.

At the time of the Indemnity and Guarantee Agreement in 2008, the present value of then outstanding future payments of \$2,500,000 was determined to be \$1,023,000 based on a discount rate of 15%. This value was recorded as a liability and was accreted to its face value over the period of ten years to August 2018.

Construction of a mine on the Bilbao concessions has not commenced to date and Orca Gold has taken the position that the remaining balance of \$2,000,000 is not payable to Shoshone Silver until the time of commencement of construction of any mine developed on the Bilbao concessions. Orca Gold is also reserving any claims that may be outstanding against Shoshone Silver under the Indemnity and Guarantee Agreement.

11. OTHER FINANCIAL LIABILITIES

	December 31, 2018	December 31, 2017
	\$	\$
Notes payable		
Note payable to Pacific Road	-	731,379
Note payable to Buchans Resources	766,477	688,094
Total notes payable	<u>766,477</u>	<u>1,419,473</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 matured and had become due and payable on April 30, 2016. 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.

See Notes 12 and 13.

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12. CAPITAL STOCK

Common shares

Authorized

Unlimited number of common shares

Issued

	Shares	Amount \$
Balance, December 31, 2017 and 2016	116,370,336	34,711,765
Shares issued	<u>18,442,721</u>	<u>735,062</u>
Total shares at December 31, 2018	<u>134,813,057</u>	<u>35,446,827</u>

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 11.

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 11.

The grant fair value of these warrants was estimated at \$310,440 which has been recorded to the consolidated statements of operations. 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 Cdn\$0.05 and expected life of two years. No warrants were issued and outstanding at December 31, 2017 and 2016.

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.

As at December 31, 2017 and 2016, the Company had no outstanding stock options. Stock options transactions during the year ended December 31, 2018 were as follows:

Number of Options Granted and Exercisable <u>at December 31, 2018</u> (000's)	Estimated Grant Date <u>Fair Value</u> \$	<u>Exercise Price</u>	<u>Expiry Date</u>
<u>9,500</u>	<u>302,480</u>	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 has been recorded to share-based compensation and share-based payment reserve. 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 Cdn\$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.

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15. SHARE-BASED PAYMENT RESERVE

Share-based payment reserve transactions for the years ended December 31, 2018 and 2017 were as follows:

	\$
Balance, December 31, 2017 and 2016	-
Stock options granted	302,480
Balance, December 31, 2018	<u>302,480</u>

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% (2017 – 26.5%) were as follows:

	December 31, 2018	December 31, 2017
	\$	\$
(Loss) before income taxes	<u>(882,166)</u>	<u>(460,803)</u>
Expected recoverable income taxes at statutory rates	(234,000)	(122,000)
Increase (decrease) resulting from:		
Expenses not deductible for tax purposes	204,000	211,000
Change in foreign exchange rates	(689,000)	(704,000)
Changes and differences in tax rates	-	16,000
Change in benefit of tax assets not recognized	719,000	599,000
Deferred income tax provision (recovery)	<u>-</u>	<u>-</u>

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

	2018	2017
	\$	\$
Non-capital loss carry-forwards - Canada	3,389,000	3,659,000
Non-capital loss carry-forwards - Mexico	<u>11,712,000</u>	<u>15,134,000</u>
Unrecorded deferred tax assets	<u>15,101,000</u>	<u>18,793,000</u>

The Company has approximately Cdn\$4,609,000 (\$3,389,000) of non-capital losses in Canada and approximately MXN\$218,915,000 Mexican Pesos (\$11,712,000), 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 2038 and the Mexican losses expire at various dates through 2028.

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 2018 and 2017.

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.

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17. FINANCIAL INSTRUMENTS (continued)

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 18.

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, 2018, the Company had cash of \$3,556 (2017 - \$5,558) to settle current liabilities of \$2,837,434 (2017 - \$3,311,902). 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 US dollar. As at December 31, 2018, the Company held Canadian monetary assets and liabilities totalling approximately (Cdn\$-62,400) (\$-45,600 net) (2017 (Cdn\$33,600) (\$26,600 net)), and Mexican monetary assets and liabilities totalling approximately (MXN\$392,000) (\$21,000 net) (2017 (MXN\$324,000) (\$16,000 net)).

Sensitivity Analysis:

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

The Company holds approximately (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 \$456 based on monetary asset and liability balances existing at December 31, 2018.

The Company holds approximately (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 \$210 based on monetary asset and liability balances existing at December 31, 2018.

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, 2018.

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, 2018 and 2017, the Company did not have any financial instruments carried at fair value.

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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, 2018 and 2017. 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. As of December 31, 2018 and 2017, the Company was not compliant with Policy 2.5. The impact of this situation is not known and is ultimately dependent on the discretion of the TSXV.

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 \$58,000 (MXN \$1,080,000) 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 8.