

# **XTIERRA INC.**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*Unaudited*

**For the six-month period ended June 30, 2020**

(Expressed in US Dollars)

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

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

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

# **XTIERRA INC.**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*Unaudited*

**For the six-month period ended June 30, 2020**

(Expressed in US Dollars)

<b><i>INDEX</i></b>	<b><i>PAGE</i></b>
Condensed Interim Consolidated Statements of Financial Position	1
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss	2
Condensed Interim Consolidated Statements of Changes in Equity (deficiency)	3
Condensed Interim Consolidated Statements of Cash Flows	4
Notes to the Condensed Interim Consolidated Financial Statements	5-13

**XTIERRA INC.**  
**Condensed Interim Statements of Financial Position**  
*Unaudited - prepared by management*  
**As at June 30, 2020**

(Expressed in US Dollars)	Notes	June 30, 2020 \$	December 31, 2019 \$
<b>ASSETS</b>			
Current assets			
Cash		134,405	38,065
Amounts receivable and other		<u>9,542</u>	<u>2,924</u>
Total current assets		<u>143,947</u>	<u>40,989</u>
Non-current assets			
Mineral properties	3	1	1
Mineral royalty interests	4	<u>98,159</u>	<u>20,000</u>
Total non-current assets		<u>98,160</u>	<u>20,001</u>
Total assets		<u>242,107</u>	<u>60,990</u>
<b>LIABILITIES</b>			
Current			
Accounts payable and accruals	5/11	75,409	67,730
Notes payable	6	<u>796,477</u>	<u>796,477</u>
Current liabilities, before the undernoted		871,886	864,207
Contingent liability of subsidiary	14	<u>2,000,000</u>	<u>2,000,000</u>
Total current liabilities		<u>2,871,886</u>	<u>2,864,207</u>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Capital stock	7	35,877,185	35,643,062
Warrants	8	186,492	310,440
Share-based payment reserve	10	329,318	296,112
Deficit		<u>(39,022,774)</u>	<u>(39,052,831)</u>
Deficiency		<u>(2,629,779)</u>	<u>(2,803,217)</u>
Total liabilities and shareholders' deficiency		<u>242,107</u>	<u>60,990</u>

COMMITMENTS AND CONTINGENCIES (Notes 1, 6 and 15)

The financial statements were approved by the Board of Directors on August 13, 2020 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.****Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)***Unaudited - prepared by management***For the six month period ended June 30,**

(Expressed in US\$ Dollars, except for per share amounts)	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Expenses				
General and administrative expenses	4,337	8,148	9,190	14,352
Corporate expenses	12,241	5,141	17,082	10,589
Professional fees	9,416	9,492	10,649	10,094
Exploration and evaluation expenses	304	-	10,382	12,192
Loss before other items	<u>26,298</u>	<u>22,781</u>	<u>47,303</u>	<u>47,227</u>
Other items				
Foreign exchange (gain) / loss	1,764	7,942	4,031	7,385
Share-based compensation	42,557	-	42,557	-
Warrants	186,492	-	186,492	-
	<u>230,813</u>	<u>7,942</u>	<u>233,080</u>	<u>7,385</u>
<b>Net loss and comprehensive loss for the period</b>	<u>257,111</u>	<u>30,723</u>	<u>280,383</u>	<u>54,612</u>
<b>Net loss per share – basic and diluted</b>	0.002	0.000	0.002	0.000
<b>Weighted average common shares outstanding – basic and diluted</b>	140,093,331	135,479,724	140,093,331	135,479,724

See accompanying notes to the consolidated financial statements.

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

(Expressed in US Dollars)	Share Capital \$	Warrants \$	Share-based payment reserve \$	Deficit \$	Total \$
<b>Balance as at December 31, 2018</b>	35,446,827	310,440	302,480	(38,885,164)	(2,825,417)
Shares issued	149,622	-	-	-	149,622
Net loss for the period	-	-	-	(54,612)	(54,612)
<b>Balance as at June 30, 2019</b>	35,596,449	310,440	302,480	(38,939,775)	(2,730,407)
Shares issued	37,257	-	-	-	37,257
Share issue costs	(4,540)	-	-	-	(4,540)
Stock options exercised	13,896	-	(6,368)	-	7,528
Net loss for the period	-	-	-	(113,055)	(113,055)
<b>Balance as at December 31, 2019</b>	35,643,062	310,440	296,112	(39,052,831)	(2,803,217)
Warrants expired	-	(310,440)	-	310,440	-
Warrants issued	-	186,492	-	-	186,492
Stock options exercised	20,347	-	(9,351)	-	10,996
Stock options granted	-	-	42,557	-	42,557
Shares issued	213,776	-	-	-	213,776
Net loss for the period	-	-	-	(280,383)	(280,383)
<b>Balance as at June 30, 2020</b>	35,877,185	186,492	329,318	(39,022,774)	(2,629,779)

See accompanying notes to the consolidated financial statements.

**XTIERRA INC.****Condensed Interim Consolidated Statements of Cash Flows***Unaudited - prepared by management***For the six-month periods ended June 30, 2020 and 2019**

(Expressed in US Dollars)	Notes	June 30, 2020 \$	June 30, 2019 \$
<b>Cash flow from operating activities</b>			
Net loss for the period		(280,383)	(54,612)
Depreciation		-	4,483
Share-based compensation		42,557	-
Warrants issued		186,492	-
Operating cash flow before movements in working capital		<u>(51,334)</u>	<u>(50,129)</u>
Movements in working capital			
(Increase) in amounts receivable and other		(6,618)	(3,212)
Increase/(decrease) in accounts payable and accruals		<u>7,679</u>	<u>(18,521)</u>
Net cash used in operating activities		<u>(50,273)</u>	<u>(71,862)</u>
<b>Cash flows from investing activities</b>			
Mineral royalty interests	4	<u>(78,159)</u>	-
Total cash flows from investing activities		<u>(78,159)</u>	-
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares and exercise of stock options	7/9	224,772	149,622
Notes payable		<u>-</u>	<u>30,000</u>
Net cash generated by financing activities		<u>224,772</u>	<u>179,622</u>
Change in cash		96,340	107,760
Cash, beginning of the year		<u>38,065</u>	<u>3,556</u>
Cash, end of the period		<u><u>134,405</u></u>	<u><u>111,316</u></u>

See accompanying notes to the consolidated financial statements.

## **XTIERRA INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**(Expressed in US Dollars)**

**For the six-month period ended June 30, 2020**

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#### **1. NATURE OF OPERATIONS**

Xtierra Inc. (the "Company" or "Xtierra") has interests in exploration and evaluation properties located in Mexico. 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.

#### **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 June 30, 2020, 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 financing 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below were consistently applied to all periods presented, unless otherwise noted.

These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019 prepared in accordance with IFRS.

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

#### **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities at the reporting date and the reported amounts of income and expenses during the reporting year. Actual results may differ from these estimates. There have been no changes in the judgments, estimates or assumptions from those disclosed in the Company's audited annual consolidated financial statements for the year ended December 31, 2019.

## **XTIERRA INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**(Expressed in US Dollars)**

**For the six-month period ended June 30, 2020**

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Basis of consolidation**

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

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

## **3. EXPLORATION AND EVALUATION EXPENDITURES**

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

	June 30, 2,020	Additions	December 31, 2,019	Additions	December 31, 2,018
	\$	\$	\$	\$	\$
Bilbao	22,849,080	10,382	22,838,698	104,508	22,734,190
Laguna	7,281,000	-	7,281,000	-	7,281,000
Total	<u>30,130,080</u>	<u>10,382</u>	<u>30,119,698</u>	<u>104,508</u>	<u>30,015,190</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 4.

### **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 \$53,000 (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.

## XTIERRA INC.

### Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the six-month period ended June 30, 2020

#### 4. 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 3) 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 was included in the statement of operations for the year ended December 31, 2019.

On August 13, 2019, the Company signed a 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.

On April 22, 2020, 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 Cdn\$26,000 previously paid, with the remaining Cdn\$30,000 payable subject to certain conditions, and the issue to the vendors of 2,000,000 shares of the Company. See Note 16.

Minera Portree holds various legal or royalty interests in certain mineral properties in Mexico, including the Company's Bilbao property and an asserted claim to a 2% net smelter royalty on six mining concessions located adjacent to the Cozamin Mine in Zacatecas operated by Capstone Mining Corp. (TSX:CS), five of which were acquired by Capstone from a third party in 2017 and 2019. The third-party had acquired the six mining concessions from Minera Portree in 2002, subject to a 2% net smelter royalty retained by Minera Portree. The entitlement of Minera Portree to the royalty may be contested by the third party and/or Capstone.

#### 5. ACCOUNTS PAYABLE AND ACCRUALS

	June 30, 2020	December 31, 2019
	\$	\$
Trade creditors	19,292	12,558
Payable to related parties (Note 11)	48,444	42,802
Accrued liabilities	7,672	12,370
	<u>75,409</u>	<u>67,730</u>

#### 6. NOTES PAYABLE

	June 30, 2020	December 31, 2019
	\$	\$
<b>Notes payable</b>		
Note payable to Buchans Resources	796,477	796,477
<b>Total notes payable</b>	<u>796,477</u>	<u>796,477</u>

Under agreements with its major shareholder, Buchans Resources Limited ("Buchans"), the Company had outstanding notes payable as at December 31, 2019 and June 30, 2020 of \$796,477 which are secured by a pledge by Xtierra of its shares of Orca Minerals Limited.

On January 17, 2018, Buchans entered into a two-year Support and Standstill Agreement ("Support Agreement") to defer repayment of principal and accrued interest until February 7, 2020, 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, 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.

## XTIERRA INC.

### Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the six-month period ended June 30, 2020

#### 6. NOTES PAYABLE (CONTINUED)

By an Extension Agreement dated as of February 7, 2020, as amended by an Amending Agreement dated April 30, 2020, the term of the Notes was extended for an additional period to April 30, 2021, in consideration of the issue to Buchans, following TSXV approval, of 13 million, non-transferable warrants, each warrant entitling Buchans to purchase one common share of Xtierra for \$0.05 per share for a term to April 30, 2021.

See Note 8.

#### 7. CAPITAL STOCK

##### Common shares

###### Authorized

Unlimited number of common shares

###### Issued

	Shares	Amount
		\$
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	200,000	13,896
Balance, December 31, 2019	139,993,057	35,643,062
Stock options exercised	300,000	20,347
Shares issued for acquisition of royalty	2,000,000	78,159
Shares issued	3,700,000	135,617
Balance, June 30, 2020	145,993,057	35,877,185

On April 30, 2020, 300,000 stock options were exercised.

On May 15, 2020, the Company issued 2,000,000 shares in the acquisition of the Minera Portree royalty, see Note 4.

In June 2020, the Company completed the first tranche of a private placement and received \$135,617 (Cdn\$185,000) for the issue of 3,700,000 new shares at Cdn\$0.05 per share.

In July 2020, the Company completed the second tranche of the private placement and received Cdn\$815,000 for the issue of 16,300,000 common shares at Cdn\$0.05 per share. The shares are subject to a four month hold period expiring on November 11, 2020.

#### 8. WARRANTS

	\$
Balance, December 31, 2019 and 2018	310,440
Warrants expired	(310,440)
Warrants issued	186,492
Balance, June 30, 2020	186,492

On April 30, 2020, and in consideration for the extension 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 one year expiring April 30, 2021. See Note 6.

The grant date fair value of these new warrants was calculated at \$186,492, 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 125%, based on the volatilities of a sample of similar companies, risk-free interest rate of 1.71%, share price of \$0.05 and expected life of one year.

## XTIERRA INC.

### Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the six-month period ended June 30, 2020

#### 9. 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 periods ended June 30, 2020 and December 31, 2019 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, 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
Stock options exercised	(300,000)	(9,351)		
Stock options granted	5,000,000	42,557	Cdn\$0.06	June 4, 2025
Balance, June 30, 2020	14,000,000	329,318	Cdn\$0.054	

In June 2020, the Company granted a total of 5,000,000 incentive stock options to consultants and service providers pursuant to the Company's Stock Option Plan. All these stock options are exercisable at a price of Cdn\$0.06 per share for a period of five years from June 4, 2020, all vesting quarterly over a period of one year. The grant date fair value of these options was calculated at \$170,228. In the period ended June 30, 2020, the Company recorded \$42,557 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 125%, risk-free interest rate of 1.71%, share price of Cdn\$0.055 and expected life of five years.

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 date 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 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.

On April 30, 2020, 300,000 stock options were exercised for gross proceeds of Cdn\$15,000. During 2019, 200,000 options were exercised for gross proceeds of Cdn\$10,000.

#### 10. SHARE-BASED PAYMENT RESERVE

Share-based payment reserve transactions for the period ended June 30, 2020 were as follows:

	\$
Balance, December 31, 2018	302,480
Stock options exercised	(6,368)
Balance, December 31, 2019	296,112
Stock options exercised	(9,351)
Stock options granted	42,557
Balance, June 30, 2020	329,318

## **XTIERRA INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**(Expressed in US Dollars)**

**For the six-month period ended June 30, 2020**

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#### **11. 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 periods ended June 30, 2020 or June 30, 2019.

Included in accounts payable and accruals at June 30, 2020 is \$38,444 due to Steenberglaw Professional Corporation, a company controlled by Neil J.F. Steenberg, Director and Secretary, for legal fees, and \$10,000 due to a director for a working capital advance. These balances are due on demand, unsecured and non-interest bearing.

The subsidiaries of the Company at June 30, 2020 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

#### **12. 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 managed and that the capital base is adequate in relation to those risks. For further details, please refer to Note 17 to the December 31, 2019 audited consolidated financial statements. There have been no significant changes in the risks or the Company's objectives, policies and procedures related to risk management during the six-month period ended June 30, 2020.

The principal financial risks to which the Company may be exposed to are described below.

##### **Fair value:**

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

##### **Capital Risk:**

The Company seeks to manage its capital to ensure that there are adequate capital resources for the Company to maintain and explore its exploration and evaluation projects.

##### **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 June 30, 2020, the Company had cash of \$134,405 to settle current liabilities of \$75,409, excluding \$796,477 due to Buchans and \$2,000,000 contingent liability of a subsidiary. The Company's accounts payable and accruals generally have contractual maturities of less than 30 days and are subject to normal trade terms.

## **XTIERRA INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**(Expressed in US Dollars)**

**For the six-month period ended June 30, 2020**

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#### **12. FINANCIAL INSTRUMENTS (CONTINUED)**

##### **Commodity Price Risk:**

The Company is exposed to price risk with respect to commodity prices. 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 Mexico and 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.

##### **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.

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 June 30, 2020.

#### **13. CAPITAL MANAGEMENT**

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

The Company manages its capital structure 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's capital management objectives, policies and processes have remained unchanged during the period ended June 30, 2020. 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.

#### **14. 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 \$53,000 (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 3.

## **XTIERRA INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**(Expressed in US Dollars)**

**For the six-month period ended June 30, 2020**

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#### **14. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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.

#### **15. SUBSEQUENT EVENTS**

In July 2020, the Company completed the second tranche of a private placement and received Cdn\$815,000 for the issue of 16,300,000 common shares at Cdn\$0.05 per share. The shares are subject to a four month hold period expiring on November 11, 2020.