

XTIERRA INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

For the three and nine months ended September 30, 2021

(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.

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For the three and nine months ended September 30, 2021

(Expressed in US Dollars)

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XTIERRA INC.
Condensed Interim Statements of Financial Position
As at September 30, 2021

Unaudited - prepared by management

(Expressed in US Dollars)	Notes	September 30, 2021 \$	December 31, 2020 \$
ASSETS			
Current assets			
Cash		48,223	523,651
Amounts receivable and other	3	8,680	14,776
Prepaid expenses	3	219	39,470
Total current assets		<u>57,122</u>	<u>577,897</u>
Non-current assets			
Mineral properties	4	1	1
Mineral royalty interests	5	187,379	187,379
Total non-current assets		<u>187,380</u>	<u>187,380</u>
Total assets		<u>244,502</u>	<u>765,277</u>
LIABILITIES			
Current			
Accounts payable and accruals	6	93,170	143,168
Notes payable	7	196,018	796,477
Current liabilities, before the undernoted		<u>289,188</u>	<u>939,645</u>
Other liability of subsidiary	15	2,000,000	2,000,000
Total current liabilities		<u>2,289,188</u>	<u>2,939,645</u>
SHAREHOLDERS' DEFICIENCY			
Capital stock	8	37,046,171	36,522,116
Warrants	9	219,637	186,492
Share-based payment reserve	11	444,521	401,964
Deficit		<u>(39,775,804)</u>	<u>(39,305,729)</u>
Deficiency attributable to equity holders of the company		<u>(2,065,475)</u>	<u>(2,195,157)</u>
Non controlling interest		<u>20,789</u>	<u>20,789</u>
Total shareholders' deficiency		<u>(2,044,686)</u>	<u>(2,174,368)</u>
Total liabilities and shareholders' deficiency		<u>244,502</u>	<u>765,277</u>

COMMITMENTS AND CONTINGENCIES (Notes 1, 7 and 15)

The financial statements were approved by the Board of Directors on November 25, 2021 and signed on its behalf by:

Signed "Timothy Gallagher", Director

Signed "Gerald Gauthier", Director

See accompanying notes to the consolidated financial statements.

XTIERRA INC.**Condensed Interim Consolidated Statements of Operations and Comprehensive Loss***Unaudited - prepared by management***For the three and nine months ended September 30,**

(Expressed in US Dollars)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Expenses				
General and administrative expenses	11,979	6,244	42,186	15,434
Corporate expenses	3,388	31,839	52,923	48,921
Professional fees	5,695	4,991	27,260	15,640
Exploration and evaluation expenses	22,063	17,127	305,429	27,509
Loss from operations	43,125	60,201	427,798	107,504
Other items				
Interest expense	4,219	-	4,219	-
Foreign exchange loss/(gain)	(962)	(1,570)	(37,644)	2,461
Share-based compensation	-	42,557	42,557	85,114
Warrants	-	-	219,637	186,492
	3,257	40,987	228,769	274,067
Net loss and comprehensive loss for the period	46,382	101,188	656,567	381,571
Net loss (income) per share – basic and diluted	0.000	0.001	0.004	0.003
Weighted average common shares outstanding – basic and diluted	167,251,961	134,813,057	167,251,961	134,813,057

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 \$	Attributable to equity holders of the company \$	Non-controlling interest \$	Total \$
Balance as at December 31, 2019	35,643,062	310,440	296,112	(39,052,831)	(2,803,217)	-	(2,803,217)
Warrants expired	-	(310,440)	-	310,440	-	-	-
Warrants issued	-	186,492	-	-	186,492	-	186,492
Stock options exercised	20,347	-	(9,351)	-	10,996	-	10,996
Stock options granted	-	-	42,557	-	42,557	-	42,557
Shares issued	186,879	-	-	-	186,879	-	186,879
Net loss for the period	-	-	-	(381,571)	(381,571)	-	(381,571)
Balance as at September 30, 2020	35,850,287	186,492	329,318	(39,123,962)	(2,757,864)	-	(2,757,864)
Stock options exercised	28,942	-	(12,468)	-	16,474	-	16,474
Stock options granted	-	-	85,114	-	85,114	-	85,114
Shares issued	647,887	-	-	-	647,887	-	647,887
Share issue costs	(5,001)	-	-	-	(5,001)	-	(5,001)
Acquisition of mineral interest	-	-	-	-	-	20,789	20,789
Net loss for the year	-	-	-	(181,767)	(181,767)	-	(181,767)
Balance as at December 31, 2020	36,522,116	186,492	401,964	(39,305,729)	(2,195,157)	20,789	(2,174,368)
Stock options granted	-	-	42,557	-	42,557	-	42,557
Warrants expired	-	(186,492)	-	186,492	-	-	-
Warrants issued	-	219,637	-	-	219,637	-	219,637
Shares issued	524,055	-	-	-	524,055	-	524,055
Net loss for the period	-	-	-	(656,567)	(656,567)	-	(656,567)
Balance as at September 30, 2021	37,046,171	219,637	444,521	(39,775,804)	(2,065,475)	20,789	(2,044,686)

See accompanying notes to the consolidated financial statements.

XTIERRA INC.**Condensed Interim Consolidated Statements of Cash Flows****For the nine months ended September 30, 2021 and 2020***Unaudited - prepared by management*

(Expressed in US Dollars)	Notes	September 30, 2021 \$	September 30, 2020 \$
Cash flow from operating activities			
Net loss for the period		(656,567)	(280,383)
Non-cash interest expense		4,219	-
Share-based compensation		42,557	42,557
Warrants issued		219,637	186,492
Operating cash flow before movements in working capital		<u>(390,154)</u>	<u>(51,334)</u>
Movements in working capital			
(Increase) in amounts receivable		6,096	(6,618)
(Increase) in prepaid expense		39,252	-
Increase/(decrease) in accounts payable and accruals		<u>(49,998)</u>	<u>7,679</u>
Net cash used in operating activities		<u>(394,804)</u>	<u>(50,273)</u>
Cash flows from investing activities			
Mineral royalty interests	6	-	(78,159)
Partial payment of note payable	7	<u>(80,624)</u>	-
Total cash flows used in investing activities		<u>(80,624)</u>	<u>(78,159)</u>
Cash flows from financing activities			
Proceeds from issuance of shares and exercise of stock options	9/11	-	<u>224,772</u>
Net cash generated by financing activities		<u>-</u>	<u>224,772</u>
Change in cash		(475,428)	96,340
Cash, beginning of the period		<u>523,651</u>	<u>38,065</u>
Cash, end of the period		<u><u>48,223</u></u>	<u><u>134,405</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 nine months ended September 30, 2021 and 2020

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 September 30, 2021, 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 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, 2020 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, 2020.

XTIERRA INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the nine months ended September 30, 2021 and 2020

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. AMOUNTS RECEIVABLE AND OTHER AND PREPAID EXPENSES

	September 30, 2021	December 31, 2020
	\$	\$
Receivable sales taxes - Canada	-	8,488
Receivable sales taxes - Mexico	-	226
Amounts receivables and other	8,680	6,062
Prepaid expenses	219	39,470
	<u>8,899</u>	<u>54,246</u>

4. EXPLORATION AND EVALUATION EXPENDITURES

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

	September 30, 2021	Additions	December 31, 2020	Additions	December 31, 2019
	\$	\$	\$	\$	\$
Bilbao	23,292,148	305,429	22,986,719	148,021	22,838,698
Laguna	7,281,000	-	7,281,000	-	7,281,000
Total	<u>30,573,148</u>	<u>305,429</u>	<u>30,267,719</u>	<u>148,021</u>	<u>30,119,698</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.

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 \$60,000 (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 nine months ended September 30, 2021 and 2020

5. MINERAL ROYALTY INTERESTS

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. The fair value of the common shares issued of \$99,330, was estimated based on the market price of the shares on the date of issuance.

Minera Portree holds various legal or royalty interests in certain mineral properties in Mexico, 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). The entitlement of Minera Portree to the royalty may be contested by a third party and/or Capstone.

6. ACCOUNTS PAYABLE AND ACCRUALS

	September 30, 2021	December 31, 2020
	\$	\$
Trade creditors	22,821	75,004
Payable to related parties (Note 12)	41,263	41,348
Accrued liabilities	29,086	26,816
	<u>93,170</u>	<u>143,168</u>

7. NOTES PAYABLE

	September 30, 2021	December 31, 2020
	\$	\$
Notes payable to Buchans Resources		
Opening balance	796,477	796,477
Reduction through issue of shares	(524,055)	-
Payment	(80,624)	-
Interest expense	4,220	-
Total notes payable to Buchans Resources	<u>196,018</u>	<u>796,477</u>

Notes payable

On February 14, 2018, Buchans had entered into a two-year Support and Standstill Agreement (“Support Agreement”) to defer repayment of principal and accrued interest of its Notes receivable in consideration of the issue to Buchans of 13,000,000, non-transferable warrants, each warrant entitling Buchans to purchase one common share of Xtierra for \$0.05 per share for a term of two years expiring February 14, 2020.

By an Extension Agreement dated as of February 7, 2020, as amended by an Amending Agreement dated April 30, 2020, the term of the Support Agreement was extended for an additional period to April 30, 2021, in consideration of the issue to Buchans of 13,000,000, 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.

On April 27, 2021, Buchans exercised its Xtierra warrants and acquired 13,000,000 shares of Xtierra for a consideration of \$524,055 (Cdn-\$650,000), in addition, the Company paid \$80,624 (Cdn-\$100,000) as part payment of the Notes payable to Buchans.

By a Second Extension Amendment Agreement dated April 27, 2021, the Support Agreement between Buchans and Xtierra dated January 17, 2018, was further amended to provide that interest on the remaining balance of the notes payable to Buchans in the amount of \$191,798 resume to accrue interest at the rate of 5% per annum effective May 1, 2021, until paid, and the term of the Support Agreement was extended for a further period to April 30, 2023. Interest expense in the amount of \$4,220 is included in operations during the nine months ended September 30, 2021.

In connection with the Second Extension Amendment Agreement, Xtierra agreed to issue to Buchans 5,000,000 share purchase warrants, each warrant entitling Buchans to purchase one common share of Xtierra at a price of \$0.10 per share for a term of two years. See Note 9.

XTIERRA INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the nine months ended September 30, 2021 and 2020

8. CAPITAL STOCK

Common shares

Authorized

Unlimited number of common shares

Issued	Shares	Amount \$
Balance, December 31, 2019	139,993,057	35,643,062
Stock options exercised	700,000	49,289
Shares issued for acquisition of royalty	2,000,000	99,330
Shares issued	20,000,000	735,436
Share issue costs	-	(5,001)
Balance, December 31, 2020	162,693,057	36,522,116
Shares issued from the exercise of warrants	13,000,000	524,055
Balance, September 30, 2021	175,693,057	37,046,171

On April 27, 2021, Buchans exercised its Xtierra warrants and acquired 13,000,000 shares of Xtierra for a consideration of \$524,055 (Cdn-\$650,000).

On July 10, 2020, the Company completed a private placement and received \$735,436 (Cdn\$1,000,000) for the issue of 20,000,000 common shares at Cdn\$0.05 per share. A company controlled by an officer and director subscribed for 3,800,000 shares as part of this private placement.

On May 15, 2020, the Company issued 2,000,000 shares in the acquisition of the Minera Portree royalty, see Note 5.

During the year ended December 31, 2020, 700,000 stock options were exercised.

9. WARRANTS

Balance, December 31, 2019	13,000,000	\$ 310,440
Warrants expired	(13,000,000)	(310,440)
Warrants issued	13,000,000	186,492
Balance, December 31, 2020	13,000,000	186,492
Warrants exercised	(13,000,000)	(186,492)
Warrants issued	5,000,000	219,637
Balance, September 30, 2021	5,000,000	219,637

In connection with the Support and Standstill Agreement dated January 17, 2018 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.

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 7.

On April 27, 2021, Buchans exercised the warrants and acquired 13,000,000 shares of Xtierra for a consideration of CDN\$650,000 and Xtierra agreed to issue to Buchans, 5,000,000 new share purchase warrants, each warrant entitling Buchans to purchase one common share of Xtierra at a price of \$0.10 per share for a term of two years.

The value of the new warrants received was estimated to be \$219,637 at April 27, 2021 based on the Black-Scholes model and the following assumptions: expected dividend yield 0%, expected volatility 125%, life two years, a risk free interest rate 1.00% and share price of Cdn\$0.09. The value of the warrants is included in operations during the period ended September 30, 2021.

XTIERRA INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the nine months ended September 30, 2021 and 2020

10. 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 September 30, 2021 and December 31, 2020 were as follows:

	Number of Options Granted at Sept. 30, 2021	Number of Options Exercisable at Sept. 30, 2021	Estimated Grant Date Fair Value	Exercise Price	Expiry Date
			\$		
Balance, December 31, 2019	9,300,000	9,300,000	296,112	Cdn\$0.05	January 30, 2023
Stock options exercised	(700,000)	(700,000)	(21,819)		
Stock options granted	5,000,000	3,750,000	127,671	Cdn\$0.06	June 4, 2025
Balance, December 31, 2020	13,600,000	12,350,000	401,964	Cdn\$0.054	
Stock options granted	-	1,250,000	42,557	Cdn\$0.06	
Balance, September 30, 2021	13,600,000	13,600,000	444,521	Cdn\$0.054	

During the year ended December 31, 2020, 700,000 stock options were exercised for gross proceeds of Cdn\$35,000 (\$27,471). The weighted average life in years of the remaining stock options is 2.69 years.

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. During 2020, the Company recorded \$127,671 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.

11. SHARE-BASED PAYMENT RESERVE

Share-based payment reserve transactions for the period ended September 30, 2021 were as follows:

	\$
Balance, December 31, 2019	296,112
Stock options exercised	(21,819)
Stock options granted	127,671
Balance, December 31, 2020	401,964
Stock options granted	42,557
Balance, September 30, 2021	444,521

XTIERRA INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the nine months ended September 30, 2021 and 2020

12. 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 September 30, 2021 and 2020.

During 2021 and 2020, the Company entered into various funding agreements with its major shareholder Buchans Resources Limited, see Note 7 and 9.

Included in accounts payable and accruals at September 30, 2021 is \$41,263 (2020 - \$41,348) due to Steenberglaw Professional Corporation, a company controlled by Neil J.F. Steenberg, Secretary, for legal fees. These balances are due on demand, unsecured and non-interest bearing.

The subsidiaries of the Company during 2021 and 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
Minera Portree de Zacatecas SA de CV	Mexico	88%	Holding company for mineral royalty interests

13. 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, 2020 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 three-month period ended September 30, 2021.

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.

XTIERRA INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the nine months ended September 30, 2021 and 2020

13. FINANCIAL INSTRUMENTS (CONTINUED)

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 September 30, 2021, the Company had cash of \$48,223 to settle current liabilities of \$93,170, excluding \$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.

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 September 30, 2021.

14. 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 September 30, 2021. 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.

XTIERRA INC.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars)

For the nine months ended September 30, 2021 and 2020

15. 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 \$60,000 (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 4.

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.