

XAU Resources Inc.
(A Capital Pool Company)

Financial Statements
(Expressed in Canadian Dollars)

**For the year ended October 31, 2019 and for the period from date of
incorporation June 18, 2018 to October 31, 2018**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of XAU Resources Inc.

Opinion

We have audited the financial statements of XAU Resources Inc. (the Company) which comprise the statements of financial position as at October 31, 2019 and October 31, 2018 and the statements of comprehensive loss, changes in equity and cash flows for the year ended October 31, 2019 and the period from June 18, 2018 to October 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2019 and October 31, 2018, and its financial performance and its cash flows for the year ended October 31, 2019 and the period from June 18, 2018 to October 31, 2018 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 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 financial statements in Canada, and 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.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management 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 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 Financial Statements

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

In preparing the 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 to 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 risk 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 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 financial statements, including the disclosures, and whether the 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 on the audit resulting in this independent auditor's report is Stephen McCourt.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
February 28, 2020
Toronto, Ontario

XAU RESOURCES INC.
(A Capital Pool Company)
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	October 31, 2019	October 31, 2018
Assets		
Current Assets		
Cash (Note 6)	\$ 415,310	\$ 170,886
Receivables	-	650
Total Current Assets	415,310	171,536
Deferred financing costs (Note 3)	-	18,150
Total Assets	\$415,310	\$ 189,686
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$11,348	\$ 19,066
Total Liabilities	11,348	19,066
Shareholders' Equity		
Share capital (Note 4)	521,767	200,000
Contributed Surplus (Note 4)	\$86,467	-
Deficit	(204,272)	(29,380)
Total Shareholders' Equity	403,962	170,620
Total Liabilities and Shareholders' Equity	\$ 415,310	\$ 189,686

Nature of operations (Note 1)

On Behalf of the Board:

"Dan Hrushewsky" Director

"Gairat Gary Bay" Director

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

XAU RESOURCES INC.
(A Capital Pool Company)
STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	For the year ended October 31, 2019	Period from incorporation on June 18, 2018 to October 31, 2018
Expenses		
Professional fees	\$ 97,916	\$ 14,066
Registration and filing	13,890	15,314
Share based compensation (Note 4)	63,086	-
Total expenses	\$174,892	(29,380)
Loss and comprehensive loss	\$(174,892)	\$ (29,380)
Loss per common share	(0.14)	(0.01)
Weighted average number of common shares outstanding	1,269,062	4,000,000

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

XAU RESOURCES INC.
(A Capital Pool Company)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share Capital		Contributed Surplus	Deficit	Total
	Shares	Amount			
Shares issued for cash (Note 4)	4,000,000	\$200,000	\$ -	\$ -	\$200,000
Loss for the period	-	-	-	(29,380)	(29,380)
Balance, October 31, 2018	4,000,000	200,000	-	(29,380)	170,620
Issuance of common shares (Note 4)	4,411,500	441,150	-	-	441,150
Share issuance costs (Note 4)	-	(119,383)	-	-	(119,383)
Fair value of agents warrants issued (Note 4)	-	-	23,381	-	23,381
Fair value of stock options issued (Note 4)	-	-	63,086	-	63,086
Loss for year	-	-	-	(174,892)	(174,892)
Balance, October 31, 2019	8,411,500	\$ 521,767	\$ 86,467	\$ (204,272)	\$ 403,962

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

XAU RESOURCES INC.
(A Capital Pool Company)
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	For the year ended October 2019	Period from incorporation on June 18, 2018 to October 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$(174,892)	\$ (29,380)
Add Share based compensation:	63,086	-
Changes in non-cash working capital items:		
Receivables	650	(650)
Deferred financing costs	18,150	-
Accounts payable and accrued liabilities	(7,718)	916
Net cash used in operating activities	(100,724)	(29,114)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issuances	441,150	200,000
Share issuance costs	(96,002)	-
Net cash provided by financing activities	345,148	200,000
Change in cash	244,024	170,886
Cash, beginning of the period	170,886	-
Cash, end of the period	\$415,310	\$ 170,886

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

XAU Resources Inc.

(A Capital Pool Corporation)

Notes to Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019 and for the period from date of incorporation June 18, 2018 to October 31, 2018

1. NATURE OF OPERATIONS

XAU Resources Inc. (the “Company”) was incorporated under the *Canada Business Corporations Act* on June 18, 2018. The principal business of the Company is the identification and evaluation of assets or a business (Qualifying Transaction) and, once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities.

On July 18, 2019, the Company completed its Initial Public Offering (“**IPO**”) of 4,411,500 common shares at a purchase price of \$0.10 per common share for aggregate proceeds of \$441,150. These IPO proceeds may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the issuance of shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a Qualifying Transaction by the Company as defined under the Exchange policy 2.4.

The Company’s head office, principal address and registered and records office is located at Suite 4100, 66 Wellington Street West, Toronto, Ontario, Canada, M5K 1B7.

These financial statements were authorized for issue by the Board of Directors on February 28, 2020.

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s continuing operations, as intended, are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses within 24 months of listing on the TSX-V.

There is no assurance that the Company will complete a Qualifying Transaction within twenty-four months from the date the Company’s shares are listed on the TSX-V, at which time the TSX-V may suspend or de-list the Company’s shares from trading.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency.

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

Significant Accounting Estimates and Judgments

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant estimates included in these financial statements include the valuation of share based payments.

XAU Resources Inc.

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Notes to Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019 and for the period from date of incorporation June 18, 2018 to October 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Significant Accounting Estimates and Judgments, continued

There have been no significant judgements made by management in the application of IFRS that have a significant effect on these financial statements.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. 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 balance sheet when there is a legal 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.

i) Financial assets

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI.

At present, the Company classifies all financial assets as held at amortized cost. Cash and receivables are classified as a financial asset.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. There are three measurement categories under which the Company classifies its financial assets:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest rate method.

XAU Resources Inc.

(A Capital Pool Corporation)

Notes to Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019 and for the period from date of incorporation June 18, 2018 to October 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial Instruments, continued

Fair value through OCI (FVOCI): Debt instruments that are held for collection of contractual cash flows and for selling the debt instruments, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the debt instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these debt instruments is included as finance income using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the statement of loss and comprehensive loss in the period in which it arises.

ii) Financial liabilities

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: where the Company optionally designates financial liabilities at FVTPL the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company does not designate any financial liabilities at FVTPL.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

At present, the Company classifies all of its financial liabilities as held at amortized cost. These financial liabilities are classified as current liabilities as the payment is due within 12 months.

Share-based compensation

The Company has a share-based compensation plan that is described in note 4. The Company accounts for share-based payments using the fair value based method. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche of options issued to employees and others providing similar services is determined by using the Black-Scholes option pricing model. The fair value of each tranche of options issued to non-employees is determined by the fair value of the goods or services received. If the fair value of goods or services received cannot be reliably measured, then the Black-Scholes option pricing model is used.

The fair value of stock options, adjusted for expected forfeitures, is recognized as share-based payments expense over each tranche's vesting period with an offsetting credit charged to contributed surplus. The applicable contributed surplus is transferred to share capital if and when, the stock options are exercised. Any consideration paid on the exercise of stock options is credited to share capital.

Share issuance costs

Costs directly attributable to the raising of capital are charged against the related share capital. Costs related to shares not yet issued are recorded as deferred share issuance costs. These costs are deferred until the issuance of the shares to which the costs relate to, at which time the costs will be charged against the related share capital or charged to operations if the shares are not issued.

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For the year ended October 31, 2019 and for the period from date of incorporation June 18, 2018 to October 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Loss per Share

Basic loss per share is computed by dividing net (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted (loss) per share is computed similar to basic (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants and convertible loan, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and the convertible loans were converted and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. For the periods presented, the calculations proved to be anti-dilutive.

3. DEFERRED FINANCING COSTS

The Company entered into a Letter Agreement with Hampton Securities Inc. (the "Agent") dated July 16, 2018 whereby the Company agreed to offer, through the Agent, a minimum of 4,000,000 common shares, and a maximum of 6,000,000 shares, at a price of \$0.10 per share. Upon completion of the IPO noted above these costs were charged against the related share capital (Note 4).

4. SHARE CAPITAL

Common Shares

Authorized

Unlimited number of common shares with no par value.

Issued

On June 18, 2018, the Company issued 4,000,000 shares at a price of \$0.05 per share for gross proceeds of \$200,000 pursuant to a private placement. All common shares issued are subject to escrow restrictions upon the completion of the IPO and will be released from escrow in tranches over 36 months from its listing on the TSX-V.

Initial Public Offering

On July 18, 2019, the Company completed its IPO of 4,411,500 common shares at a purchase price of \$0.10 per common share for aggregate proceeds of \$441,150.

Hampton Securities Limited (the "Agent") acted as agent for the IPO. In connection with the IPO, the Agent received a cash commission of \$44,115, equal to 10% of the aggregate gross proceeds from the sale of the common shares. In addition, the Company reimbursed the Agent's legal fees in the amount of \$25,262 and corporate finance fees of \$26,625.

XAU Resources Inc.
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Notes to Financial Statements
(Expressed in Canadian Dollars)

For the year ended October 31, 2019 and for the period from date of incorporation June 18, 2018 to October 31, 2018

4. SHARE CAPITAL, CONTINUED

Stock Options

A summary of stock option activity during the year ended October 31, 2019 is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining life
Outstanding, October 31, 2018	-	\$ -	-
Granted	841,147	0.10	4.72
Exercised	-	-	-
Expired	-	-	-
Outstanding October 31, 2019	841,147	\$ 0.10	4.72

The Company has a common share purchase option plan (the "Plan") for directors, officers, employees and consultants. The number of common shares reserved for issuance pursuant to the Plan is equal to 10% of the Company's issued and outstanding common shares at the time of grant. The number of common shares reserved for issuance or granted to any insiders, within any twelve-month period, will not exceed 10% of the issued and outstanding common shares at the date of the grant. Options granted under the Plan have a five-year term. Options are granted at a price no lower than the market price of the common shares less any discounts allowed by the TSX Venture Exchange at the time of the grant.

The Company granted the directors and officers stock options at closing of the IPO, which will entitle the holders to purchase an aggregate of up to 841,147 common shares at a price of \$0.10 per common share for a period of 5 years from the date of grant, in accordance with the policies of the TSX-V. All options vested immediately on the issuance date. The options were valued at \$63,086 using a Black-Scholes option model with the following assumptions: share price of \$0.10 per common share, expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 1.46%, expected life of five years.

The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised the greater of 12 months after the completion of the Qualifying Transaction and 90 days following cessation of the Optionee's position with the Company, subject to the expiry date of such option. Any common shares acquired pursuant to the exercise of options prior to the Completion of the Qualifying Transaction will be subject to escrow restrictions until the issuance of the Final Exchange Bulletin.

Warrants

A summary of warrant activity during the year ended October 31, 2019 is as follows:

	Number of warrants	Weighted average exercise price	Weighted average remaining life
Outstanding, October 31, 2018	-	\$ -	-
Granted	441,150	0.10	1.72
Exercised	-	-	-
Expired	-	-	-
Outstanding October 31, 2019	441,150	\$ 0.10	1.72

XAU Resources Inc.

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Notes to Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019 and for the period from date of incorporation June 18, 2018 to October 31, 2018

4. SHARE CAPITAL, CONTINUED

In connection with IPO, the Company granted to the Agent non-transferable warrants to acquire up to an aggregate of 441,150 common shares (the "Agent's Warrants"). Each Agent's Warrant is exercisable to acquire one common share at a price of \$0.10 for a period of 24 months following the date that the common shares are listed on the Exchange. The Agent's Warrants were valued at \$23,381 using a Black-Scholes option pricing model with the following assumptions: share price of \$0.10 per common share, expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 1.55%, expected life of two years. The value of the Agent's Warrants has been recorded as a share issue cost.

Contributed surplus

Contributed surplus records items recognized as share-based payments and allocation of the value of warrants and agent's options until such time that the options and warrants are exercised, at which time the corresponding amount will be transferred to share capital.

5. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of risks related to financial instruments. The Board approves and monitors the risk management processes. The principal types of risk exposure and the way in which they are managed are as follows:

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The Company has deposited the cash with a Schedule 1 Canadian bank from which management believes the risk of loss is remote.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due. Accounts payable and accrued liabilities are due within the current operating period. The Company has a sufficient cash balance to settle current liabilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

The fair value of the Company's receivables and accounts payable and accrued liabilities approximates their carrying value because of the short-term nature of the financial instruments. The Company's cash is measured at amortized cost.

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For the year ended October 31, 2019 and for the period from date of incorporation June 18, 2018 to October 31, 2018

6. DEFERRED TAXES

(a) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in these financial statements:

	2019	2018
Loss before income taxes	\$ (174,892)	\$ (29,380)
Statutory rate	26.5%	26.5%
Expected income tax recovery	\$ (46,346)	\$ (7,786)
Share-based compensation	16,718	-
Share issuance costs	(20,632)	(5,678)
Change in deferred tax assets not recognized	50,260	13,920
Income tax expense	\$ -	\$ -

(b) Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	2019	2018
Deferred tax assets		
Non-capital loss carry forwards	\$ 43,225	\$ 8,243
Share issuance costs	20,955	5,678
	64,180	13,920
Less: Deferred tax asset not recognized	(64,180)	(13,920)
Deferred income tax assets	\$ -	\$ -

(c) Non-Capital Losses

The Company has non-capital losses of approximately \$163,100 to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2038	\$ 31,100
2039	132,000
	\$ 163,100

The potential tax benefit relating to these losses has not been reflected in these financial statements.

7. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the completion of a Qualifying Transaction. Therefore, the Company monitors the level of risk incurred in its expenditures relative to its capital.

XAU Resources Inc.

(A Capital Pool Corporation)

Notes to Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019 and for the period from date of incorporation June 18, 2018 to October 31, 2018

7. CAPITAL MANAGEMENT, CONTINUED

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the completion of a Qualifying Transaction. Therefore, the Company monitors the level of risk incurred in its expenditures relative to its capital structure.

The Company considers its capital structure to consist of components of shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the potential underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms and approved by the TSX-V.

As a CPC, the Company is subject to externally imposed cash restrictions as outlined in TSX-V Policy 2.4. The proceeds raised from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the issuance of shares may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a Qualifying Transaction by the Company.