
**CHILEAN METALS INC.
(FORMERLY INTERNATIONAL PBX VENTURES LTD.)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012**

**CHILEAN METALS INC.
(FORMERLY INTERNATIONAL PBX VENTURES LTD.)**

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Chilean Metals Inc. (formerly International PBX Ventures Ltd.)

We have audited the accompanying consolidated financial statements of Chilean Metals Inc. which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chilean Metals Inc. as at December 31, 2013 and 2012, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to these consolidated financial statements which describe the existence of a material uncertainty that may cast significant doubt about the ability of Chilean Metals Inc. to continue as a going concern.

Manning Elliott LLP

CHILEAN METALS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013 AND 2012
(Expressed in Canadian Dollars)

	Note	2013 \$	2012 \$
ASSETS			
CURRENT ASSETS			
Cash		62,902	122,392
Marketable securities		-	941
Amounts receivable		7,748	90,758
Advances, prepaid expenses and deposits		9,325	47,330
Assets held for sale	6	2,742,838	-
		2,822,813	261,422
DEFERRED SHARE ISSUANCE COSTS		-	20,536
EQUIPMENT	4	26,351	316,702
MINERAL PROPERTIES	5	5,564,813	24,845,976
		8,413,977	25,444,635
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	11(d) and (g)	1,099,458	976,397
Deferred acquisition deposit	5(a)	201,736	-
Loans payable	7(c) and (d)	343,310	200,000
Convertible debentures	7(a)	1,943,365	-
		3,587,869	1,176,397
SHAREHOLDERS' EQUITY			
ISSUED CAPITAL	8	47,517,549	46,809,389
SHARE SUBSCRIPTIONS		-	647,750
CONTRIBUTED SURPLUS		3,190,781	3,190,781
ACCUMULATED OTHER COMPREHENSIVE LOSS		-	(31,059)
DEFICIT		(45,882,222)	(26,348,623)
		4,826,108	24,268,238
		8,413,977	25,444,635

Nature of operations and continuance of business (Note 1)
 Commitments (Note 17)
 Subsequent Events (Note 18)

Approved and authorized for issue on behalf of the Board on April 29, 2014:

/s/ "Terry Lynch"
 Director

/s/ "Peter Kent"
 Director

(See accompanying notes to these consolidated financial statements)

CHILEAN METALS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in Canadian Dollars)

	Note	2013	2012
		\$	\$
EXPENSES			
Administration fees	11(a) and (c)	252,163	715,751
Amortization		93,493	151,633
Bank and interest charges	7	155,215	29,451
Foreign exchange loss (gain)		(5,804)	43,742
Generative exploration expense		225,932	195,564
Investor relations		21,859	126,685
Office and miscellaneous		220,052	259,247
Professional fees	11(b)	387,883	592,409
Share-based payments	9	-	231,350
Transfer agent and regulatory		23,540	51,572
Travel, promotion and mining shows		57,475	94,437
		1,431,808	2,491,841
Loss before other items		(1,431,808)	(2,491,841)
OTHER ITEMS			
Financing costs for convertible debts	7(a)	(1,045,044)	-
Impairment loss on mineral property	6	(17,025,440)	-
Realized loss on disposal of marketable securities		(31,307)	-
NET LOSS FOR THE YEAR		(19,533,599)	(2,491,841)
Reversal of unrealized loss on sale of marketable securities		31,059	-
Unrealized loss on marketable securities		-	(1,176)
COMPREHENSIVE LOSS FOR THE YEAR		(19,502,540)	(2,493,017)
Net Loss Per Share – Basic and Diluted		(1.23)	(0.18)
Weighted Average Number of Common Shares Outstanding		15,926,309	13,880,855

(See accompanying notes to these consolidated financial statements)

CHILEAN METALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Common shares Shares	Common shares Amount \$	Share Subscriptions \$	Contributed Surplus \$	Accumulated Other Comprehensive Income \$	Deficit \$	Shareholders' Equity \$
Balance, January 1, 2012	12,465,982	44,687,839	–	2,957,822	(29,883)	(23,856,782)	23,758,996
Private placements	2,144,350	2,048,820	647,750	–	–	–	2,696,570
Exercise of options	80,000	80,000	–	(20,080)	–	–	59,920
Share-based payments	–	–	–	253,039	–	–	253,039
Share issuance cost	–	(27,350)	–	–	–	–	(27,350)
Fair value of options exercised	–	20,080	–	–	–	–	20,080
Comprehensive loss	–	–	–	–	(1,176)	(2,491,841)	(2,493,017)
Balance, December 31, 2012	14,690,332	46,809,389	647,750	3,190,781	(31,059)	(26,348,623)	24,268,238
Private placements	1,079,583	647,750	(647,750)	–	–	–	–
Convertible debenture shares	311,460	83,605	–	–	–	–	83,605
Share issuance cost	–	(23,195)	–	–	–	–	(23,195)
Comprehensive loss	–	–	–	–	31,059	(19,533,599)	(19,502,540)
Balance, December 31, 2013	16,081,375	47,517,549	–	3,190,781	–	(45,882,222)	4,826,108

(See accompanying notes to these consolidated financial statements)

CHILEAN METALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in Canadian Dollars)

	2013	2012
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(19,533,599)	(2,491,841)
Less items not affecting cash		
Amortization	93,493	151,633
Share-based payments	–	231,350
Loss on sale of marketable securities	31,307	–
Financing costs	1,017,985	–
Interest accrued	102,915	–
Impairment loss on mineral property	17,025,440	–
	(1,262,459)	(2,108,858)
Change in non-cash components of working capital		
Amounts receivable	83,010	(45,666)
Advances, prepaid expenses and deposits	38,005	11,325
Accounts payable and accrued liabilities	(66,948)	(493,498)
NET CASH USED IN OPERATING ACTIVITIES	(1,208,392)	(2,636,697)
INVESTING ACTIVITIES		
Acquisition of and expenditures on mineral properties	(100,249)	(121,013)
Deferred acquisition deposit	201,736	–
Proceeds from sale of marketable securities	694	–
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	102,181	(121,013)
FINANCING ACTIVITIES		
Share capital issued	–	2,128,820
Share subscriptions	–	647,750
Proceeds from issuance of convertible debentures	934,380	–
Loans received during the year	388,000	–
Loan repayments	(273,000)	–
Share issuance costs	(2,659)	(27,350)
Deferred share issuance costs	–	(20,536)
CASH PROVIDED BY FINANCING ACTIVITIES	1,046,721	2,728,684
DECREASE IN CASH	(59,490)	(29,026)
CASH – BEGINNING OF YEAR	122,392	151,418
CASH – END OF YEAR	62,902	122,392
SUPPLEMENTAL DISCLOSURES		
Interest paid	24,152	24,000
Income tax paid	–	–

(See accompanying notes to these consolidated financial statements)

CHILEAN METALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

Chilean Metals Inc. (formerly International PBX Ventures Ltd; the “Company”) is an exploration stage company and is in the business of acquiring and exploring mineral properties in Chile. There has been no determination whether properties held contain ore reserves, which are economically recoverable.

The Company is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. The Company’s shares are listed on the TSX Venture Exchange. The head office and principal address of the Company are located at Suite 205 - 490 Adelaide Street West, Toronto, Ontario, Canada, M5V 1T2. The Company’s registered and records office address is at Suite 700 – 595 Burrard Street, PO Box 49290, Vancouver, British Columbia, Canada, V7X 1S8.

The recoverability of carrying amounts for mineral properties and options is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development and achieve profitable production or alternatively, dispose of the properties. It is reasonably possible that economically recoverable reserves may not be discovered and accordingly a material portion of the carrying value of mineral properties could be written-off.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. As at December 31, 2013, the Company has incurred significant losses since inception totalling \$45,882,222. The Company has a working capital deficiency of \$765,056; the continuing operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that additional funds will be obtained from external financing to meet the Company’s liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

2. BASIS OF PREPARATION

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

These consolidated financial statements were approved and authorized for issue by the Company’s Board of Directors on April 29, 2014.

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention, except for the revaluation of certain financial instruments.

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

CHILEAN METALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

2. BASIS OF PREPARATION (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed below.

3. SIGNIFICANT ACCOUNTING POLICIES

[a] Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned Chilean subsidiary, Minera IPBX Ltda., and its wholly-owned Canadian subsidiaries, Tierra de Oro Resources Ltd. and Chilean Metals Exploration Ltd. These consolidated financial statements include the indirectly 100% owned subsidiaries of SPN Metals Exploration Ltd., TDO Metals Exploration Ltd., Pintada Minerals Inc., Pintada Holdings Inc., Palo Negro Mining Inc., Palo Negro Holdings Inc., Verna Explorations Ltd., and Verna Holdings Ltd. The Company also has a 100% indirect interest in three Chilean subsidiaries: Minera Tierra de Oro Ltda., Minera Palo Negro Ltda. and Minera Sierra Pintada Ltda. All material inter-company balances and transactions have been eliminated on consolidation.

[b] Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

[c] Marketable securities

The Company has classified its marketable securities as available-for-sale and therefore carries them at fair market value with the unrealized gain or loss recorded in accumulated other comprehensive income. Fair values were determined by reference to published price quotations in an active market as at December 31, 2013. When marketable securities are disposed of any unrealized gain or loss in the accumulated other comprehensive income will become realized and the corresponding gain or loss will be recognized in the net operating income or loss from operations.

[d] Equipment

Equipment is recorded at cost less accumulated amortization less impairment losses. Amortization method, useful life and residual values are assessed annually and currently is recognized on the declining balance basis at the following rates per annum:

Office equipment	30%
Field equipment	30%
Camp	30%

Where an item of equipment comprises significant components with different useful lives, the components are accounted for as separate items of equipment. Subsequent costs to replace parts of an item of equipment are recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and the cost of the item can be measured reliably. The costs of day-to-day servicing are recognized in profit or loss as incurred.

CHILEAN METALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[e] Mineral properties

Exploration and evaluation costs, including the acquisition, exploration and development of mineral properties are capitalized as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and the commercial viability of the project. The capitalized costs are presented as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. Capitalized costs include costs directly related to exploration and evaluation activities in the area of interest. General and administrative costs are only allocated to the asset to the extent that those costs can be directly related to operational activities in the relevant area of interest. When a license is relinquished or a project is abandoned, the related costs are recognized in profit and loss immediately. Upon commencement of commercial production, the related accumulated costs are amortized to income using the units of production method over estimated recoverable ore reserves. Management periodically assesses the carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that have lapsed, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and do not necessarily reflect present or future values. The costs incurred include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

[f] Impairment

The Company's tangible and intangible assets are reviewed for indications of impairment at each statement of financial position date. If indications of impairment exist, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[g] Decommissioning liabilities

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities and may from time to time incur decommissioning liabilities and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2013 and 2012, the Company had not incurred any decommissioning liabilities related to the exploration and development of its mineral properties.

[h] Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

[i] Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

[j] Foreign currency translation

The reporting currency of the Company is the Canadian dollar.

The functional currency of the Company, its Canadian and Chilean subsidiaries is the Canadian dollar.

Items included in the financial statements of each of the Company's Chilean subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the income statement.

CHILEAN METALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[j] Foreign currency translation (continued)

Management determines the functional currency by examining the primary economic environment of each mineral property. The Company considers the following factors in determining its functional currency:

- a. The currency that mainly influence labor, material and other costs of providing goods;
- b. The currency in which funds from financing activities are generated;
- c. The currency in which receipts from operating activities are usually retained; and
- d. Whether the activities are carried out as an extension of the Company rather than being carried out with a significant degree of autonomy.

Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the year end rates of exchange, and the results of their operations are translated at average rates of exchange for the year. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

[k] Income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the liability method, deferred income taxes and liabilities are recognized to reflect the expected deferred tax consequences arising from temporary differences between the carrying value and the tax bases of the deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. Deferred tax assets are not recognized if it is probable that the asset will not be realized.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit;
- goodwill; and
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

[l] Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or financial assets at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. At December 31, 2013, the Company's amounts receivable is classified as loans and receivables. The Company has classified marketable securities as available for sale.

CHILEAN METALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[l] Financial instruments (continued)

Financial assets (continued)

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as financial liabilities at FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized costs using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable, loans payable and convertible debentures are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings. The Company is not exposed to any derivative instruments and foreign exchange hedges in place at this time.

[m] Share-based payments

The Company has a stock option plan, which is described in Note 9. The Company applies the fair value method to all share-based payments and to all grants that are direct awards of stock that call for settlement in cash or other assets. Options granted under the Company's stock option plan vest as determined by the directors at the time of grant. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, share capital is credited for the consideration received and the related contributed surplus is decreased. The Company uses the Black Scholes option pricing model to estimate the fair value of share based payments.

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss, unless the fair value cannot be estimated reliably, in which case they are recorded at the fair value of the equity instruments granted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[n] Comprehensive loss

Comprehensive loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses. The Company's comprehensive loss, components of other comprehensive income, and cumulative translation adjustments are presented in the consolidated statements of comprehensive loss and the consolidated statements of change of equity.

[o] Loss per share

The Company uses the treasury stock method in computing loss per share. Under this method, basic loss per share is computed by dividing losses available to common shareholders by the weighted average number of common shares outstanding during the period. For the years ended December 31, 2013 and 2012, the existence of warrants and options causes the calculation of fully diluted loss per share to be antidilutive. Accordingly, fully diluted loss per share information has not been shown.

[p] Critical accounting estimates and judgements

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year are:

- (i) Impairment of mineral properties and equipment;
- (ii) Share-based payments; and
- (iii) Deferred income taxes.

Critical accounting judgements made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year are:

- (i) Going concern; and
- (ii) Determination of functional currency.

[q] Adoption of new pronouncements

The Company adopted the following new accounting standards during the year ended December 31, 2013:

IAS 1, Presentation of Financial Statements ("IAS 1")

The Company adopted the amendments to IAS 1 in the year ended December 31, 2013. The amendments require the Company to group into two categories the items of other comprehensive income, segregating those that will be reclassified subsequently to net income from those that will not. The Company has presented its consolidated statements of comprehensive loss according to this requirement.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduced new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. IFRS 12 did not have a material impact on the consolidated financial statements.

CHILEAN METALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

[q] Adoption of new pronouncements (continued)

IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 did not have a material impact on the consolidated financial statements.

[r] Accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the Interpretations of the International Financial Reporting Interpretations Committee that are mandatory for accounting periods noted below. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IFRS 9, Financial Instruments ("IFRS 9")

This standard was issued in November, 2009 with the intent to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in three phases. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as Fair value through profit or loss, financial guarantees and certain other exceptions. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2015 (with earlier application still permitted). The IASB recently deferred the originally planned effective date of January 1, 2015 and at present the effective date has not been determined. The Company is currently assessing the impact of this new standard on its financial statements.

IAS 32, Financial Instruments: Presentation ("IAS 32")

Amendments to IAS 32 provide specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists, and when an entity meets the criterion for the intent to settle on a net basis. These amendments are effective for annual periods beginning after January 1, 2014. The Company is currently assessing the impact of this new standard on its financial statements.

IAS 36, Impairment of Assets ("IAS 36")

In May 2013, the IASB amended IAS 36 to provide guidance on recoverable amount disclosures for nonfinancial assets. The amendments to IAS 36 must be applied retrospectively by the Company for the annual period beginning January 1, 2014. The Company is currently assessing the impact on the presentation of its financial statements.

IFRIC 21, Levies ("IFRIC 21")

This interpretation addresses when an entity should recognize a liability to pay a government levy (other than income taxes). IFRIC 21 is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation is effective for annual periods beginning after January 1, 2014. The Company is currently assessing the impact of this new interpretation on its consolidated financial statements.

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4. EQUIPMENT

COSTS	Field equipment \$	Furniture and office equipment \$	Camp \$	Total \$
As at December 31, 2012	83,278	123,676	453,662	660,616
Reclassified to assets held for sale	-	-	(453,662)	(453,662)
As at December 31, 2013	83,278	123,676	-	206,954
ACCUMULATED AMORTIZATION				Total
As at January 1, 2012	34,396	89,735	68,150	192,281
Amortization for the year	24,665	10,490	116,478	151,633
As at December 31, 2012	59,061	100,225	184,628	343,914
Amortization for the year	11,945	9,372	72,176	93,493
Reclassified to assets held for sale	-	-	(256,804)	(256,804)
As at December 31, 2013	71,006	109,597	-	180,603
NET BOOK VALUE				Total
As at December 31, 2012	24,217	23,451	269,034	316,702
As at December 31, 2013	12,272	14,079	-	26,351

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5. MINERAL PROPERTIES

	Copaquire \$	Sierra Pintada \$	Tierra de Oro \$	Other \$	Total \$
Balance January 1, 2012	19,115,739	908,439	4,307,371	–	24,331,549
Acquisition and staking	230,602	58,762	49,832	–	339,196
Exploration					
Field costs	498,945	–	–	–	498,945
Project management	9,520	416	7,477	–	17,413
Other	39,066	–	–	–	39,066
Exploration and acquisition costs 2012	778,133	59,178	57,309	–	894,620
Sales of drilling supplies	(24,933)	–	–	–	(24,933)
Camp cost recovery	(60,435)	–	–	–	(60,435)
Option payments received	(294,825)	–	–	–	(294,825)
Balance December 31, 2012	19,513,679	967,617	4,364,680	–	24,845,976
Acquisition and staking	77,734	88,126	95,803	48,587	310,250
Exploration					
Drilling (recover)	(10,476)	–	–	–	(10,476)
Field costs	1,547	–	–	–	1,547
Exploration and acquisition costs 2013	68,805	88,126	95,803	48,587	301,321
Sales of drilling supplies	–	–	–	–	–
Camp cost recovery	(11,064)	–	–	–	(11,064)
Impairment loss	(17,025,440)	–	–	–	(17,025,440)
Reclassified to assets held for sale	(2,545,980)	–	–	–	(2,545,980)
Balance December 31, 2013	–	1,055,743	4,460,483	48,587	5,564,813

[a] Copaquire Property, Chile

On October 11, 2013 the Company, through its wholly owned Chilean subsidiary, Minera IPBX Ltda. (“IPBX”), entered into an agreement to sell 100% of its interest in the Copaquire Property as well as the camp located on the property (the “Camp”), to Teck Resources Chile Ltda. (“Teck”), a subsidiary of Teck Resources Limited for cash consideration of \$2,706,862 (US\$2,545,000) and \$519,628 (US\$488,556) respectively, plus a 3% net smelter royalty (NSR) payable to IPBX (the “Sale Agreement”). Under terms of the Sale Agreement, Teck will have the option to buy back 1% of the NSR for US\$3 million at any time, and will assume all associated rights, permits and obligations (including future option payments). The sale closed on March 24, 2014.

The Company received an initial payment of US\$200,000 upon the signing of the agreement and is classified as a deferred acquisition deposit on the statement of financial position. The mineral interests associated with the Copaquire property were reclassified to assets held for sale when the criteria to be classified as held for sale were met on October 11, 2013 (Note 6). Upon reclassifying the property as held for sale, an impairment loss of \$17,025,440 was recorded. The balance represents the expected recoverable amount of the mineral property.

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5. MINERAL PROPERTIES (continued)

[a] Copaquire Property, Chile (continued)

In 2004, the Company entered into an Option Purchase Agreement with Compania Minera Huatacondo S.C.M. and Sociedad Legal Minera Macate Primera de Huatacondo of Chile to acquire the Copaquire copper-molybdenum porphyry, Region II in Chile. The Company fulfilled its commitment under the agreement during 2008 and owns 100% (1,473 hectares) of the claims, subject to a 2% Net Smelter Royalty (NSR). The total cost of the property was US\$2,100,000 in cash and US\$2,000,000 in work commitments. According to the Option Purchase Agreement, the NSR can be bought out at any time for an additional amount of US\$2,000,000. Teck assumes any future NSR payable to Compania Minera Huatacondo S.C.M. and Sociedad Legal Minera Macate Primera de Huatacondo of Chile as part of the agreement discussed in the above paragraph.

In May 2011, the Company entered into a further Option Purchase Agreement with Compania Minera Huatacondo S.C.M. and Sociedad Legal Minera Macate Primera de Huatacondo of Chile to acquire 111 mining claims (555 hectares). In 2012, the Company extended its Options Agreement by one further claim of 5 hectares adjacent to the north and west of the Company's Copaquire claims for a total purchase price of US\$800,000 payable over a period of four years (included in the acquisition and staking section in the table above) as follows:

- a) US\$196,000 upon settlement – May 5, 2011 (paid);
- b) US\$201,333 on or before May 5, 2012 (paid);
- c) US\$67,111 on or before September 5, 2013 (paid October 16, 2013);
- d) US\$67,111 on or before January 5, 2014 (assumed by Teck per agreement);
- e) US\$67,111 on or before May 5, 2014 (assumed by Teck per agreement) and;
- f) US\$201,334 on or before May 5, 2014 (assumed by Teck per agreement).

During the year ended December 31, 2013 the Company expensed \$65,028 (2012 - \$Nil) in maintenance costs and land taxes for the Copaquire Property.

[b] Sierra Pintada, Chile

The Company owns a 100% interest in exploitation and exploration concessions covering 4,970 hectares in Region III, Chile.

[c] Tierra de Oro, Chile

The Company owns a 100% interest in exploitation and exploration concessions covering 5,758 hectares in Region III, Chile.

[d] Other properties

During the year ended December 31, 2013 the Company expensed a total of \$159,830 (2012 - \$195,564) in other exploration expenses and spent \$48,587 (2012 - \$Nil) in application for acquisition of additional exploration concessions as follows:

[i] Hornitos Property, Chile

The Company has staked eleven claims, covering 3,009 hectares located 35 kilometres south of Copiapo, Chile. Currently, the Company does not actively pursue the property.

During the year ended December 31, 2013, the Company incurred maintenance costs of \$47,288 (2012 - \$21,450) in connection with this property.

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5. MINERAL PROPERTIES (continued)

[d] Other properties (continued)

[ii] Palo Negro Property, Chile

The Company owns mining concessions covering 6,028 hectares in Chile. Currently, the Company is not conducting active exploration on the property.

During the year ended December 31, 2013, the Company expensed maintenance cost of \$99,445 (2012 - \$57,316) in connection with this property.

[iii] Zulema aka. Chicharra Property, Chile

The Company has acquired 100% of the rights to an exploitation concession and has staked an area of 871 hectares in Chile.

During the year ended December 31, 2013, the Company incurred and expensed maintenance costs of \$Nil (2012 - \$6,251) in connection with this property.

[iv] Tabaco, Chile

The Company owns mining concessions covering 700 hectares in Chile. Currently, the Company is not conducting active exploration on the property.

During the year ended December 31, 2013, the Company incurred and expensed maintenance costs of \$13,097 (2012 - \$16,455) in connection with this property.

[v] Other Property, Chile

The Company has acquired the 100% of the rights to an exploitation concession and has staked an area of 5,300 hectares in Chile.

During the year ended December 31, 2013 the Company incurred acquisition costs of \$48,587 (2012 - \$Nil).

6. ASSETS HELD FOR SALE

During the year ended December 31, 2013, the Company committed to disposing of the Copaquire Property pursuant to the Sale Agreement described in Note 5(a). Management expected the completion of the sale within a year was highly probable. Under IFRS, non-current assets, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. As at December 31, 2013, the Copaquire Property met the criteria to be classified as held for sale.

Immediately before classification as held for sale, the Copaquire Property was assessed for impairment, resulting in the recognition of an impairment loss as follows:

	Amount
	\$
Proceeds allocated to the Property as per the Sale Agreement	2,706,862
Estimated selling costs	(160,882)
Less: carrying value of Mineral Properties	(19,571,420)
Impairment loss	(17,025,440)

The Camp assets included in the Sale Agreement for proceeds of \$519,628 (Note 5(a)) had a net book value of \$196,858 when the criteria to be classified as held for sale were met. The net book value of the Camp of \$196,858 and the carrying value of the Copaquire mineral interests of \$2,545,980 is included in assets held for sale of \$2,742,838.

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7. CONVERTIBLE DEBENTURES AND LOANS

[a] During the year ended December 31, 2013 the Company issued \$934,380 of convertible debentures (“Debentures”) bearing interest at a rate of 14% per annum and maturing on the earliest of (1) June 1, 2014; (2) the sale of the Copaquire Property; or (3) in the event of the sale (change of control) of the Company (the “maturity date events”). The Debentures are convertible at \$0.06 per share after December 1, 2013 at the holder’s option if the Company does not repay the principal in full with interest plus a bonus amount equal to 100% of the principal (the “100% bonus”) on or before December 1, 2013. In the event of a sale of the Copaquire Property or the Company at any time up until June 1, 2014 the Debentures are due in full immediately including accrued interest and the 100% bonus.

In addition, each holder of the Debentures will receive an amount equal to 10% of the principal of the Debentures in common shares of the Company at a price of \$0.03 per share upon purchase of the Debentures. The fair value of the shares, as determined by the market price on the date of issuance, was \$83,605. As at December 31, 2013, the total interest accrued on the Debentures is \$74,605.

The Company determined the sale of the Copaquire Property was substantially complete and therefore a maturity date event had been triggered upon receiving shareholder approval of the preliminary Sale Agreement in December 2013, as the final Sale Agreement, which was signed subsequent to the year-end on January 20, 2014, was substantially the same as the preliminary Sale Agreement. Under the terms of the convertible debenture agreement, the principal amount, accrued interest and the 100% bonus were deemed payable as at December 31, 2013,

	Total
	\$
Opening balance, January 1, 2013	-
Issuance Convertible debentures	934,380
Transaction costs	(110,664)
Accretion	110,664
Accrued interest	74,605
100% bonus	934,380
Balance, December 31, 2013	1,943,365

[b] During the year ended December 31, 2013, the Company obtained a loan facility for \$300,000 of which \$273,000 was drawn during the year. The Company repaid the drawn balance on the loan facility in full plus accrued interest totalling \$289,380 before the end of the year.

[c] The Company had two loans totalling \$200,000 from a former director, who resigned in March 2012. Both loans are interest bearing at 1% per month, unsecured, and due on demand. The Company accrued \$24,000 (2012 - \$24,000) of interest on the loans as at December 31, 2013.

[d] On October 16, 2013 the Company obtained a loan for an aggregate amount of \$115,000. The Company paid an \$11,500 financing fee to obtain the loan. The loan bears interest at 18% per annum and is due on April 23, 2014. The Company accrued interest of \$4,310 at December 31, 2013.

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8. ISSUED CAPITAL

[a] Authorized: Unlimited number of common shares without par value

[b] Issued and outstanding

During the year ended December 31, 2013, the Company issued 311,460 common shares with a cost base of \$83,605 as part of the Convertible Debenture Private Placement (“Debenture”) announced May 29, 2013 (refer to Note 7(a)).

During the year ended December 31, 2012, the Company issued 80,000 shares upon the exercise of options at \$1.00 per common share. The fair value allocated from contributed surplus to share capital was \$20,080. The Company had also completed four private placements as follows:

On February 8, 2012, the Company closed a private placement issuing 476,200 units for \$1.50 per unit. Each unit is comprised of one common share and one half of a purchase Warrant. The Company issued 238,100 warrants. Each whole Warrant entitles the holder, on exercise, to purchase one common share at a share price of \$2.50 for a period of 24 months, provided that, if the common shares of the Company are traded on the exchange at a price of \$3.50 or more for 10 consecutive trading days (the “Acceleration Event”), then the Warrants will expire on the earlier of the expiry date and on the date which is 30 calendar days after the Company provides notice to the holder of the Warrants that the Acceleration Event has occurred.

On April 27, 2012, the Company closed a private placement issuing 837,650 units for \$0.80 per unit. Each unit is comprised of one common share and one half of a purchase Warrant. The Company issued 418,825 warrants. Each whole Warrant entitles the holder, on exercise, to purchase one common share at a share price of \$1.20 for a period of 24 months, provided that, if the common shares of the Company are traded on the exchange at a price of \$2.00 or more for 10 consecutive trading days (the “Acceleration Event”), then the Warrants will expire on the earlier of the expiry date and on the date which is 30 calendar days after the Company provides notice to the holder of the Warrants that the Acceleration Event has occurred.

On July 27, 2012, the Company closed a private placement issuing 830,500 units for \$0.80 per unit. Each unit is comprised of one common share and one half of a purchase Warrant. The Company issued 415,250 warrants. Each whole Warrant entitles the holder, on exercise, to purchase one common share at a share price of \$1.20 for a period of 24 months, provided that, if the common shares of the Company are traded on the exchange at a price of \$2.00 or more for 10 consecutive trading days (the “Acceleration Event”), then the Warrants will expire on the earlier of the expiry date and on the date which is 30 calendar days after the Company provides notice to the holder of the Warrants that the Acceleration Event has occurred.

On December 31, 2012, the Company received share subscriptions of \$64,775 for a private placement of 1,079,583 units for \$0.60 per unit. Each unit is comprised of one common share and one purchase Warrant. The common shares were issued subsequent to December 31, 2012. The Company issued 1,079,583 warrants. Each Warrant entitles the holder, on exercise, to purchase one common share at a share price of \$0.70 for a period of 12 months.

No Acceleration Events have occurred by December 31, 2013 for any of the outstanding shares issued and completed with warrants in 2012 or 2013.

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9. STOCK OPTIONS

The Company has implemented a stock option plan (“the Plan”) to be administered by the Board of Directors. Pursuant to the Plan the Board of Director’s has discretion to grant options for up to a maximum of 10% of the issued and outstanding common shares of the Company at the date the options are granted. The option price under each option shall be not less than the discounted market price on the grant date. The expiry date of an option shall be set by the Board of Directors at the time the option is awarded, and shall not be more than ten years after the grant date. Options granted to directors, employees and consultants, other than consultants engaged in investor relations activities, will vest immediately upon granting, unless otherwise approved by the relevant regulatory authorities. Options granted to employees and consultants engaged in investor relations activities will vest in stages over a minimum period of 12 months with no more than one-quarter of the options vesting in any three-month period.

The continuity of options is as follows:

	Number of shares	Weighted average exercise price \$
Outstanding, December 31, 2011	595,000	3.20
Exercised	(80,000)	1.00
Expired	(40,000)	4.40
Granted	390,000	1.20
Outstanding, December 31, 2012	865,000	2.50
Expired	(560,000)	2.80
Outstanding, December 31, 2013	305,000	1.90

During the year ended December 31, 2013 560,000 options expired unexercised.

On April 3, 2013, the Company re-priced the exercise price of 540,000 stock options it previously granted on December 5, 2012 from \$0.80 to \$1.00 per common share subject to regulatory approval. The Company granted an additional 80,000 stock options on May 21, 2013 at an exercise price of \$1.00 with an expiry date of May 21, 2018 subject to regulatory approval. The sum of these options granted are not presented in the continuity schedule above or the outstanding and exercisable schedule below as regulatory approval has not been sought.

As at December 31, 2013, the following options were outstanding and exercisable:

Options outstanding					Options exercisable		
Exercise Price \$	Fair Value \$	Units of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price \$	Units of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price \$
1.00	0.25	10,000	0.42	1.00	10,000	0.42	1.00
1.20	0.70	210,000	1.48	1.20	210,000	1.48	1.20
3.80	2.72	80,000	0.51	3.80	80,000	0.51	3.80
5.00	3.42	5,000	0.08	5.00	5,000	0.08	5.00
		305,000	1.17	1.90	305,000	1.17	1.90

Stock options outstanding as at December 31, 2013 will expire between January 31, 2014 and June 25, 2015.

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10. WARRANTS

The continuity of warrants is as follows:

	Number of shares	Weighted Average Exercise Price \$
Balance, January 1, 2012	264,000	3.00
Issued	1,072,175	1.49
Balance, December 31, 2012	1,336,175	1.80
Issued	1,079,583	0.70
Expired	(264,000)	3.00
Balance, December 31, 2013	2,151,758	1.09

During the year ended December 31, 2013 264,000 warrants expired unexercised.

On December 4, 2013 the Company extended the expiry date of 1,079,583 warrants from December 31, 2013 to August 31, 2014.

Warrants outstanding at December 31, 2013 will expire between April 27, 2014 and August 31, 2014.

11. RELATED PARTY TRANSACTIONS/BALANCES

During the year ended December 31, 2013 and 2012, the Company had the following related party transactions:

- [a] The Company incurred administration expenses from former officers or former directors or companies controlled by officers or directors or former officers or directors of \$144,000 (2012 - \$315,000). Included in the advances, prepaid expenses and deposits is \$Nil (2012 - \$12,000) covering periods subsequent to December 31, 2012.
- [b] The Company incurred accounting expenses from officers or former officers or companies controlled by officers or former officers of \$148,115 (2012 - \$172,917).
- [c] The Company incurred geological consulting expenses from a company controlled by an officer of \$90,946 (2012 - \$30,960).
- [d] Included in accounts payable and accrued liabilities is \$101,747 allegedly owing to a company controlled by former a director and officer for alleged past services provided. On February 27, 2013 a company controlled by a former officer and director of the Company, commenced action and filed a claim against the Company in the Supreme Court of British Columbia, Canada. The claim was for \$101,747 with respect to alleged past services provided. The claim also includes interest and other related costs.

On March 20, 2013, the Company filed a counterclaim about alleged management fees payable of \$101,747. The counterclaim is in the amount of \$181,600. The Company intends and continues to vigorously defend itself against the claim and to pursue its counterclaim.

- [e] The Company incurred consulting expenses from directors, former directors or companies controlled by directors and former directors of \$Nil (2012 - \$41,994).

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11. RELATED PARTY TRANSACTIONS/BALANCES (continued)

- [f] The Company incurred share-based payments of \$Nil (2012 – \$231,350) from options granted to directors and officers.
- [g] Included in accounts payable and accrued liabilities is \$25,755 (2012 - \$119,178) owing to officers, companies controlled by officers, former directors or officers or companies controlled by former directors or officers. Included in the amount of \$119,178 from 2012 is \$101,747 allegedly owing to its former Chief Executive Officer and with a company controlled by him for alleged past services provided. Refer to Note 11[d] for additional information.
- [h] Included in convertible debentures is \$150,000 owing to officers, companies controlled by officers and directors, as well as accrued interest of \$5,600 included in the convertible debenture line item. Included in finance charges is \$75,000 relating to these debentures for the 100% bonus (see Note 7(a)). Included in accounts payable is accrued interest on these debentures of \$5,600.

12. KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate value of transactions relating to key management personnel and entities over which they have control or significant influence over are as follows:

Compensation	Fees charged \$	Share-based benefits \$	Year ended December 31, 2013 \$	Fees charged \$	Share-based benefits \$	Year ended December 31, 2012 \$
Chairman of the Board	-	-	-	10,000	28,919	38,919
Chief Executive Officer (former)	-	-	-	147,096	28,919	176,015
Chief Executive Officer	144,000	-	144,000	123,000	57,837	180,837
Chief Financial Officer (former)	89,276	-	89,276	172,917	14,459	187,376
Chief Financial Officer	58,839	-	58,839	-	-	-
Total	292,115	-	292,115	453,013	130,134	583,147

13. SEGMENTED INFORMATION

The Company operates in one industry segment, namely exploration of mineral resources in one geographic region, Chile.

14. INCOME TAXES

Reconciliation to statutory rates - The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates of 25.75% (2012: 25.00%):

	2013	2012
Expected income tax benefit computed at statutory rates	\$ 5,030,836	\$ 622,960
Effect of:		
Permanent differences	14,505	(58,777)
Lower statutory tax rate of foreign subsidiaries	(1,030,028)	(46,736)
Change in enacted tax rates and other	73,687	147,553
Deferred tax assets not recognized	(4,089,000)	(665,000)
	\$ -	\$ -

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14. INCOME TAXES (continue)

Non-capital losses - The Company has non-capital losses of \$10,280,000 available to offset future taxable income, expiring from 2014 to 2033. The Company also has \$3,280,000 of non-capital losses that carry forward indefinitely. The non-capital losses expire as follows:

2014	\$	596,000
2015		712,000
2026		974,000
2027		1,192,000
2028		882,000
2029		725,000
2030		1,265,000
2031		1,648,000
2032		1,253,000
2033		1,033,000
	\$	<u>10,280,000</u>

Deferred tax assets - The tax effects of temporary differences that give rise to significant portions of the future tax assets at December 31, 2013 and 2012 are presented below:

	2013	2012
Future income tax assets		
Non-capital loss carry forwards	\$ 3,329,000	\$ 2,948,000
Capital loss carry forwards	44,000	39,000
Loan receivable	31,000	30,000
Marketable securities	—	4,000
Property and equipment	29,000	26,000
Resource pools	4,730,000	1,258,000
Convertible debenture	243,000	
Share issuance costs	24,000	36,000
Valuation allowance	(8,430,00)	(4,341,000)
Net deferred income tax asset (liability)	\$ —	\$ —

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion of the tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences reverse. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax assets considered realizable could change materially in the near term based on future taxable income during the carry forward period.

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares and alternative financing activities dependent on market conditions.

The Company includes the components of shareholders' equity in its management of capital.

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15. CAPITAL MANAGEMENT (continued)

As at December 31, 2013, the Company had capital resources consisting of cash. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, obtain loans or issue convertible debenture securities to raise cash.

The Company's investment policy is to invest its cash in investment instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

16. FINANCIAL INSTRUMENTS AND RISK

Fair value

The Company's financial instruments consist of cash, marketable securities, accounts payable, convertible debenture and loans payable. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature and current market rates for similar financial instruments.

The following table summarizes the carrying values of the Company's financial instruments:

	December 31, 2013	December 31, 2012
	\$	\$
<i>Assets:</i>		
FVTPL (i)	62,902	122,392
Available for sale investments (ii)	-	941
<i>Liabilities:</i>		
Other financial liabilities (iii)	3,386,133	1,176,397

(i) Cash

(ii) Marketable securities

(iii) Accounts payable, convertible debentures and loans payable

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous year as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures is described below:

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

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 (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3 – Inputs that are not based on observable market data

As at December 31, 2013, and December 31, 2012, the Company's financial instruments which are measured at fair value on a recurring basis are cash and marketable securities. These financial instrument are classified as Level 1 financial instruments.

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16. FINANCIAL INSTRUMENTS AND RISK (continued)

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents, marketable securities and amounts receivable. To minimize the credit risk the Company places these instruments with financial institutions. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial institutions with which it keeps its bank accounts.

Liquidity Risk

The Company ensures its holding of cash is sufficient to meet its short-term general and administrative expenditures. The Company does not have investments in any asset backed deposits. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. The Company's accounts payable and accrued liabilities aged concentration is as follows:

	Current	31-60 days	61+ days	Carrying Value
Trade accounts payable	\$68,381	\$14,187	\$1,016,890	\$1,099,458

The following are the contractual maturities of financial liabilities:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years
	\$	\$	\$	\$
<i>At December 31, 2013</i>				
Accounts payable	1,099,458	1,099,458	1,099,458	-
Loans payable	343,310	343,310	343,310	-
Convertible debentures	1,943,365	1,943,365	1,943,365	-
Total	3,386,133	3,386,133	3,386,133	-

At December 31, 2012

Accounts payable	976,397	976,397	976,397	-
Loans payable	200,000	200,000	200,000	-
Convertible debentures	-	-	-	-
Total	1,176,397	1,176,397	1,176,397	-

Foreign Exchange Risk

The Company's functional currency is the Canadian dollar. However, the Company is exposed to the currency risk related to the fluctuation of foreign exchange rates as some of the company's operations are located in Chile. A significant change in the currency exchange rates between the Canadian dollar relative to the Chilean peso could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations. The sensitivity of the Company's net earnings and other comprehensive income to changes in the exchange rate between the Canadian dollar and the Chilean peso resulting from a 1% change in the Chilean peso exchange rate relative to the Canadian dollar would change the Company's net loss by \$336,093.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is not exposed to interest rate risk because it does not have loans that have a floating interest rate.

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16. FINANCIAL INSTRUMENTS AND RISK (continued)

Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of molybdenum, gold and copper. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

17. COMMITMENTS

The Company is committed to settling the convertible debentures discussed on Note 7(a). The debentures became due immediately upon the sale of the Copaquire property, which was finalized on March 24, 2014 (Note 18(e)).

18. SUBSEQUENT EVENTS

[a] On January 20, 2014 the Company announced that, through its wholly owned Chilean subsidiary, Minera IPBX Ltda. ("IPBX"), it has signed the definitive purchase and conveyance agreement to sell 100% of its interest in the Copaquire Property ("Copaquire" or "the Property"), located in the Andean Cordillera of Region I, northern Chile, to Teck Resources Chile Ltda. ("Teck"), a subsidiary of Teck Resources Limited for US\$3,033,556 cash plus a 3% net smelter royalty (NSR) payable to IPBX. Additionally, Teck will have the option to buy back 1% of the NSR for US\$3 million at any time.

[b] On January 20, 2014 the Company extended the expiry date of 238,100 warrants set to expire February 8, 2014 to August 31, 2014.

[c] On January 31, 2014 5,000 incentive stock options exercisable at \$5.00 per common share expired.

[d] On February, 28, 2014 the Company effected a name change to Chilean Metals Inc. (CMX) from International PBX Ventures Ltd (PBX) and 10:1 share consolidation. The Company obtained shareholder approval for the name change and share consolidation during its December 3, 2013 AGM.

As a result of the share consolidation, the number of shares presented in these consolidated financial statements and the calculated weighted average number of common shares issued and outstanding for the purpose of earnings per share calculation are based on the post-consolidation shares for all years presented.

[e] On March 24, 2014 the Company closed the sale of its Copaquire property discussed in Note (a).

[f] On March 24, 2014 coinciding with the closing of the sale of Copaquire the Convertible Debentures matured and \$1,972,606.05 was payable to cancel the outstanding convertible debentures, representing the principal amount plus accrued interest. Up to April 28, 2014, \$1,836,072.07 has been repaid relating to the outstanding convertible debentures.

[g] On March 24, 2014 the Company extended the expiry dates of 418,825 warrants set to expire on April 27, 2014 and 415,250 warrants set to expire on July 27, 2014 to August 31, 2014, subject to regulatory approval.

[h] On March 24, 2014 the Company re-priced all outstanding warrants to have an exercise price of \$0.25, including 238,100 warrants with an original exercise price of \$2.50, 834,075 warrants with an original exercise price of \$1.20, and 1,079,583 warrants with an original exercise price of \$0.70, subject to regulatory approval.

[i] On April 26, 2014 the Company obtained TSX Venture Exchange approval for the expiry date extension and the re-pricing of the 418,825 warrants which were to expire on April 27, 2014 as discussed above in Note 18 [g] and [h].