
CHILEAN METALS INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN CANADIAN DOLLARS)

Independent Auditor's Report

To the Shareholders of Chilean Metals Inc.

Opinion

We have audited the consolidated financial statements of Chilean Metals Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statement of changes in equity (deficiency) for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$2,142,965 during the year ended December 31, 2018 and, as of that date, the Company's current liabilities exceeded its current assets by \$1,413,964. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the

consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Koko Yamamoto.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 30, 2019

Chilean Metals Inc.

Consolidated Statements of Financial Position (Expressed in Canadian Dollars)

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 29,960 | \$ 59,383 |
| Marketable securities | - | 33,668 |
| Amounts receivable | 24,981 | 20,519 |
| Advances, prepaid expenses and deposits | 192,901 | 221,858 |
| Total current assets | 247,842 | 335,428 |
| Non-current assets | | |
| Prepaid expenses | - | 57,292 |
| Equipment (note 5) | 4,184 | 6,001 |
| Total assets | \$ 252,026 | \$ 398,721 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (notes 13 and 15) | \$ 1,219,738 | \$ 1,078,170 |
| Flow-through liability (note 9) | 56,059 | - |
| Debentures payable (note 7) | 386,009 | 303,850 |
| Total current liabilities | 1,661,806 | 1,382,020 |
| Non-current liabilities | | |
| Other liabilities (note 8) | 69,554 | 69,554 |
| Total liabilities | 1,731,360 | 1,451,574 |
| Shareholders' equity (deficiency) | | |
| Issued capital (note 9) | 56,307,489 | 55,261,850 |
| Shares to be issued (note 9) | - | 60,315 |
| Contributed surplus | 3,811,387 | 4,190,817 |
| Warrants (note 11) | 971,731 | 418,622 |
| Deficit | (62,569,941) | (60,984,457) |
| Total shareholders' deficiency | (1,479,334) | (1,052,853) |
| Total liabilities and shareholders' deficiency | \$ 252,026 | \$ 398,721 |

Nature of operations and going concern (note 1)

Commitments and contingencies (notes 7, 17 and 15)

On behalf of the Board:

(Signed) "Terry Lynch"
Terry Lynch, Director

(Signed) "Peter Kent"
Peter Kent, Director

The notes to the consolidated financial statements are an integral part of these statements.

Chilean Metals Inc.**Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)**

| | Year ended December 31, | |
|---|----------------------------|-----------------------|
| | 2018 | 2017 |
| Administrative expenses | | |
| Administration fees (note 13) | \$ 331,174 | \$ 452,013 |
| Amortization (note 5) | 1,817 | 2,572 |
| Interest (note 7) | 193,683 | 272,553 |
| Exploration and expenditures (note 6) | 722,096 | 1,087,832 |
| Foreign exchange gain | (11,934) | (28,519) |
| Investor relations | 262,203 | 316,211 |
| Office and miscellaneous | 144,658 | 127,729 |
| Professional fees (note 13) | 408,892 | 94,866 |
| Share-based payments (note 10) | - | 59,454 |
| Transfer agent and regulatory | 74,820 | 32,886 |
| Travel, promotion and mining shows | 42,029 | 70,622 |
| Net operating loss before other items | (2,169,438) | (2,488,219) |
| Other items | | |
| Impairment of marketable securities (note 6) | (33,668) | - |
| Unrealized gain on warrant liability | - | 5,432 |
| Reversal of flow-through liability | 60,141 | - |
| Net loss and comprehensive loss for the year | \$ (2,142,965) | \$ (2,482,787) |
| Basic and diluted net loss per share (note 12) | \$ (0.07) | \$ (0.13) |
| Weighted average number of common shares outstanding - basic and diluted (note 12) | 29,193,394 | 18,895,085 |

The notes to the consolidated financial statements are an integral part of these statements.

Chilean Metals Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Year ended
December 31,
2018 **2017**

| | | |
|--|--------------------|--------------------|
| Operating activities | | |
| Net loss for the year | \$ (2,142,965) | \$ (2,482,787) |
| Items not affecting cash: | | |
| Amortization | 1,817 | 2,572 |
| Share-based payments | - | 59,454 |
| Shares issued for mineral exploration properties | 10,000 | - |
| Accrued interest | 60,833 | 93,219 |
| Loss on marketable securities | 33,668 | - |
| Unrealized loss on warrant liability | - | (5,432) |
| Reversal of flow-through liability | (60,141) | - |
| Non-cash working capital items: | | |
| Amounts receivable | (4,462) | 18,345 |
| Advances, prepaid expenses and deposits | 86,249 | (179,559) |
| Accounts payable and accrued liabilities | 366,568 | 570,728 |
| Net cash used in operating activities | (1,648,433) | (1,923,460) |
| Financing activities | | |
| Proceeds on private placement | 1,636,390 | 1,198,645 |
| Share issue costs | (38,706) | (21,509) |
| Warrants exercised | - | 11,136 |
| Shares to be issued | - | 60,315 |
| Repayments of debentures | (343,674) | - |
| Loan received | - | 175,000 |
| Loan repayments | - | (175,000) |
| Issuance of debentures | 456,250 | 210,000 |
| Debenture issue costs | (91,250) | (11,025) |
| Net cash provided by financing activities | 1,619,010 | 1,447,562 |
| Net change in cash | (29,423) | (475,898) |
| Cash, beginning of year | 59,383 | 535,281 |
| Cash, end of year | \$ 29,960 | \$ 59,383 |
| Supplemental disclosures | | |
| Common shares issued for debt | \$ 225,000 | \$ - |
| Warrants issued to brokers | \$ 2,960 | \$ 5,184 |
| Flow-through premium liability | \$ 116,200 | \$ - |
| Warrants granted | \$ 741,677 | \$ - |

The notes to the consolidated financial statements are an integral part of these statements.

Chilean Metals Inc.

Consolidated Statements of Changes in Equity (Deficiency)

(Expressed in Canadian Dollars)

| | Common Shares | | Shares to be issued | Contributed Surplus | Warrants | Deficit | Total |
|---|-------------------|----------------------|------------------------|------------------------|-------------------|------------------------|-----------------------|
| | Number | Amount | | | | | |
| Balance, December 31, 2016 | 18,834,325 | \$ 54,299,990 | \$ - | \$ 4,131,363 | \$ 126,782 | \$ (58,536,192) | \$ 21,943 |
| Private placements | 2,444,292 | 1,198,645 | 60,315 | - | - | - | 1,258,960 |
| Share issuance cost | - | (26,693) | - | - | 5,184 | - | (21,509) |
| Exercise of warrants | 39,773 | 11,136 | - | - | - | - | 11,136 |
| Value of warrants exercised | - | 14,159 | - | - | (14,159) | - | - |
| Warrant expiry | - | - | - | - | (34,522) | 34,522 | - |
| Value of warrants | - | (235,387) | - | - | 235,387 | - | - |
| Warrants issued on debentures | - | - | - | - | 99,950 | - | 99,950 |
| Share-based payments | - | - | - | 59,454 | - | - | 59,454 |
| Net comprehensive loss for the year | - | - | - | - | - | (2,482,787) | (2,482,787) |
| Balance, December 31, 2017 | 21,318,390 | \$ 55,261,850 | \$ 60,315 | \$ 4,190,817 | \$ 418,622 | \$ (60,984,457) | \$ (1,052,853) |
| Private placements | 12,668,250 | 1,636,390 | - | - | - | - | 1,636,390 |
| Share issuance cost | - | (25,229) | - | - | (13,477) | - | (38,706) |
| Broker warrants | - | (2,960) | - | - | 2,960 | - | - |
| Shares to be issued | 100,525 | 60,315 | (60,315) | - | - | - | - |
| Value of warrants | - | (741,677) | - | - | 741,677 | - | - |
| Flow-through premium | - | (116,200) | - | - | - | - | (116,200) |
| Shares issued on settlements | 1,250,000 | 225,000 | - | - | - | - | 225,000 |
| Option expiry | - | - | - | (379,430) | - | 379,430 | - |
| Shares issued for mineral exploration properties | 67,775 | 10,000 | - | - | - | - | 10,000 |
| Value of warrants exercised | - | - | - | - | (178,051) | 178,051 | - |
| Net comprehensive loss for the year | - | - | - | - | - | (2,142,965) | (2,142,965) |
| Balance, December 31, 2018 | 35,404,940 | \$ 56,307,489 | \$ - | \$ 3,811,387 | \$ 971,731 | \$ (62,569,941) | \$ (1,479,334) |

The notes to the consolidated financial statements are an integral part of these statements.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

1. Nature of operations and going concern

Chilean Metals Inc. (the "Company") is a mining exploration company and is in the business of acquiring and exploring mineral properties in Chile and Nova Scotia. 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 ("TSX-V"), OTCQB and Santiago Stock Exchange, Venture Market. The head office and principal address of the Company are located at the Canadian Venture Building, 82 Richmond Street East, Suite 202, Toronto, Ontario, M5C 1P1. The Company's registered and records office address is at Suite 700 – 595 Burrard Street, PO Box 49290, Vancouver, British Columbia, Canada, V7X 1S8.

On August 27, 2018, at the request of TSXV a trading halt was issued on the stock. All matters with respect to the halt were resolved after the Company's annual general shareholders meeting where, as requested by the TSXV the private placement placees who invested in June 2018 did not have their vote counted at the annual general shareholders meeting official ballot. On December 27, 2018, the halt was lifted and the stock resumed trading.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's property interests may also be subject to increases in taxes and royalties, renegotiation of contracts, and political uncertainty.

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. During the year ended December 31, 2018, the Company incurred a net loss of \$2,142,965 (year ended December 31, 2017 - \$2,482,787). As at December 31, 2018, the Company has incurred significant losses since inception totaling \$62,569,941 (December 31, 2017 - \$60,984,457). As at December 31, 2018, the Company has a working capital deficiency of \$1,413,964 (December 31, 2017 - \$1,046,592); 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. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern and accordingly use accounting principles applicable to a going concern.

2. Basis of presentation

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements for the year ended December 31, 2018 were approved and authorized for issue by the Company's Board of Directors on April 30, 2019.

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. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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 Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

2. Basis of presentation (continued)

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 for the year ended December 31, 2018 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 Canadian subsidiaries SPN Metals Exploration Ltd., TDO Metals Exploration Ltd., Pintada Minerals Inc., Pintada Holdings Inc., Palo Negro Mining Inc., Palo Negro Holdings Inc., Verna Exploration 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.

Subsidiaries are entities over which the Company has control, where control is defined to exist when the Company is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases.

(b) 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:

| | |
|--------------------------------|-----|
| Furniture and office equipment | 30% |
| Field equipment | 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.

(c) Exploration and evaluation

Exploration and evaluation ("E&E") expenditures include the direct costs of mineral exploration rights, licenses, technical services and studies, environmental studies, exploration drilling and testing, production scale manufacturing tests, directly attributable overhead and administrative expenses including remuneration of operating personnel and supervisory management, and all costs relating to the acquisition of mineral properties determined to be the acquisition of assets and liabilities for accounting purposes.

E&E expenditures are expensed as incurred to the date that costs incurred are determined to be economically recoverable, the assessment of which would require the completion of a feasibility study that demonstrates a positive commercial outcome, and for the Company to decide to move forward with development of the property into a commercial operation such that it is probable that the future economic benefits will flow to the Company.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

Gouvernement assistance

Government assistance is recognized as a recovery of exploration expenses in the consolidated statement of loss when there is reasonable assurance that the Company will comply with the conditions attached to them and that the assistance will be received.

(d) 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.

(e) 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, 2018 and 2017, the Company had not incurred any decommissioning liabilities related to the exploration of its mineral properties.

(f) 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.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(g) Foreign currency translation

The reporting currency of the Company is the Canadian dollar.

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation of monetary assets and liabilities not denominated in the functional currency of an entity at period end exchange rates are recognized in the statement of loss.

Management determines the functional currency by examining the primary economic environment in which it operates. The Company considers the following factors in determining its functional currency:

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

(h) Income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this 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 and 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:

- (i) the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit; and
- (ii) 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.

(i) Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9 - Financial Instruments ("IFRS 9"). In July 2014, the IASB issued the final publication of the IFRS 9 standard, which supersedes IAS 39 - Financial Instruments: recognition and measurement ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company has adopted IFRS 9 on a retrospective basis without restating comparatives, however, this adoption had no impact to the Company's consolidated financial statements.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Below is a summary showing the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

| Classification | IAS 39 | IFRS 9 |
|--|-----------------------|----------------|
| Cash | Loans and receivables | Amortized cost |
| Amounts receivable | Loans and receivables | Amortized cost |
| Advances | Loans and receivables | Amortized cost |
| Marketable securities | FVTPL | FVTPL |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |
| Debentures payable | Amortized cost | Amortized cost |
| Other liabilities | Amortized cost | Amortized cost |

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss. The Company's marketable securities are classified as financial assets measured at FVTPL.

ii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at FVTPL: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest". The Company's cash, amounts receivable, and advances are classified as financial assets measured at amortized cost.

Financial liabilities

Financial liabilities are classified as either financial liabilities at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Financial liabilities (continued)

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

The Company's accounts payable and accrued liabilities, debentures payable, and other liabilities do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

ii. Financial liabilities recorded FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Expected credit loss impairment model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's consolidated financial statements.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(j) Share-based payments

The Company has a stock option plan, which is described in Note 10. 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 stock 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 stock 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 stock 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 loss, unless the fair value cannot be estimated reliably, in which case they are recorded at the fair value of the equity instruments granted.

(k) Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

(l) 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, 2018 and 2017, the existence of warrants and options causes the calculation of diluted loss per share to be anti-dilutive and have been excluded from the calculation of diluted weighted average number of common shares.

(m) Debentures

When debentures are issued, the Company analyzes their terms and conditions and first assesses whether the debenture is equity or a liability using the criteria provided in IAS 32. The Company may also conclude that the convertible debentures have both debt and equity components. Where there is a debt component that meets the definition of a financial liability and also an equity component where the debenture holder has a conversion option, the following paragraphs describe that accounting treatment.

The component parts of debentures issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(m) Debentures (continued)

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Conversion rights classified as equity are determined by deducting the amount of the liability component from the fair value of the convertible debenture as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion right classified as equity will remain in equity until the conversion right is exercised, in which case, the balance recognized in equity will be transferred to share capital. When the conversion rights remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to accumulated deficit. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion right.

(n) Warrants

Warrants exercisable in the Company's functional currency are recorded to equity on the consolidated statements of financial position and valued using the Black-Scholes option pricing model. Warrants exercisable in a currency other than the Company's functional currency are recorded to warrant liability on the consolidated statement of financial position and valued initially and at each period end using the Black-Scholes option pricing model. Any gains or losses are recognized in the statements of loss (see note 11).

(o) Critical accounting estimates and judgments

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) Share-based payments

When stock options and warrants are issued by the Company, it calculates their estimated fair value using the Black-Scholes option pricing model, which may not reflect the actual value on exercise. The Company uses publicly available rates, where available, as inputs into the model including volatility assumptions. The Company recognizes the fair value of stock options on the consolidated statement of loss when vesting occurs.

(ii) Debentures payable

The Company was required to make certain estimates when determining the value of the liability component, equity component and the right to acquire the Copaque Net Smelter Royalties ("NSR"). The Company values the debt component of the debentures by calculating the present value of the principal and interest payments. The Company values the equity component using the Black-Scholes option pricing model. The Company determined the right to acquire the Copaque NSR was nominal.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(o) Critical accounting estimates and judgments (continued)

(iii) Income taxes

Income, value added, withholding and other taxes The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

(iv) Restoration, rehabilitation and environmental provisions

The Company assumes no material restoration, rehabilitation and environmental provisions based on facts and circumstances that existed as of each reporting period. The Company must review this assumption in accordance with exploration results, existing laws, contracts and other policies. A material restoration obligation involves a number of estimates relating to timing, type of costs and associated contract negotiations, and a review of potential methods and technical advancements.

Critical accounting judgments 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

The going concern presentation of the consolidated financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

(ii) Determination of functional currency

Under IFRS, each entity must determine its own functional currency, which becomes the currency that entity measures its results and financial position in. In determining the functional currencies of the Company and its subsidiaries, the Company considered many factors, including the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales prices, and the currency that mainly influences labour material and other costs for each consolidated entity.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(p) Recent accounting pronouncements

Certain pronouncements were issued by the International Accounting Standards Board ("IASB") or the IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods on or after January 1, 2019 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

IFRS 16, Leases ("IFRS 16") was issued in January 2016, and supersedes IAS 17, Leases. This standard introduces a single lessee accounting model. The new standard will affect the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including for most leases which are currently accounted for as operating leases. The Standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

4. Change in accounting policies

The Company adopted the following accounting pronouncement during the year.

IFRS 9 - Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. At January 1, 2018, the Company adopted this new standard.

Due to the nature of its financial instruments, the adoption of IFRS 9 had no impact on the opening accumulated deficit balance on January 1, 2018.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

5. Equipment

Cost

| | Field equipment | Furniture and office equipment | Total |
|----------------------------|--------------------|-----------------------------------|------------|
| Balance, December 31, 2016 | \$ 83,278 | \$ 123,676 | \$ 206,954 |
| Balance, December 31, 2017 | 83,278 | 123,676 | 206,954 |
| Balance, December 31, 2018 | \$ 83,278 | \$ 123,676 | \$ 206,954 |

Accumulated amortization

| | Field equipment | Furniture and office equipment | Total |
|----------------------------|--------------------|-----------------------------------|------------|
| Balance, December 31, 2016 | \$ 79,286 | \$ 119,095 | \$ 198,381 |
| Amortization | 1,196 | 1,376 | 2,572 |
| Balance, December 31, 2017 | 80,482 | 120,471 | 200,953 |
| Amortization | 840 | 977 | 1,817 |
| Balance, December 31, 2018 | \$ 81,322 | \$ 121,448 | \$ 202,770 |

Net book value

| | Field equipment | Furniture and office equipment | Total |
|----------------------|--------------------|-----------------------------------|----------|
| At December 31, 2017 | \$ 2,796 | \$ 3,205 | \$ 6,001 |
| At December 31, 2018 | \$ 1,956 | \$ 2,228 | \$ 4,184 |

6. Mineral exploration expenditures

Exploration and acquisition costs for the years ended December 31, 2018 and December 31, 2017 are as follows:

| | Tierra de Oro | Zulema | Nova Scotia | Total |
|---|-------------------|-------------------|--------------------|---------------------|
| Property option proceeds | \$ - | \$ - | \$ (33,763) | \$ (33,763) |
| Exploration | | | | |
| Assays | - | - | 297 | 297 |
| Claim costs | 253,649 | 17,601 | 7,024 | 278,274 |
| Drilling | - | 643,715 | - | 643,715 |
| Field costs | 1,106 | 38,751 | 5,846 | 45,703 |
| Geological | - | 146,583 | 7,023 | 153,606 |
| Exploration and acquisition costs 2017 | \$ 254,755 | \$ 846,650 | \$ (13,573) | \$ 1,087,832 |
| Acquisition and staking | \$ - | \$ - | \$ 34,640 | \$ 34,640 |
| Government grant | - | - | (35,150) | (35,150) |
| Exploration | | | | |
| Assay | - | 3,131 | 7,927 | 11,058 |
| Claim costs | 156,446 | 118,880 | 14,442 | 289,768 |
| Drilling | - | - | 54,341 | 54,341 |
| Field costs and other | - | - | 70,701 | 70,701 |
| Geological | - | 123,391 | 63,505 | 186,896 |
| Geophysics | - | - | 109,842 | 109,842 |
| Exploration and acquisition costs 2018 | \$ 156,446 | \$ 245,402 | \$ 320,248 | \$ 722,096 |

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

6. Mineral exploration expenditures (continued)

(a) Copaque Property, Chile

The Company holds a 3% net smelter royalty ("NSR") on the Copaque Property previously sold to Teck Resources Chile Ltda. ("Teck"), a subsidiary of Teck Resources Limited. Teck has the option to buy back 1% of the NSR for US\$3 million at any time.

(b) Tierra de Oro, Chile

The Company owns a 100% interest in exploration concessions in Region III, Chile.

(c) Zulema also known as Chicharra Property, Chile

The Company owns 100% of the rights to certain exploitation concessions and certain exploration concessions in Region III, Chile.

(d) Fox River Property, Canada

In June 2016, the Company completed the acquisition of the Fox River Property from Cogonov Inc. ("Cogonov") through the issuance of 1,500,000 shares (valued at \$780,000 based on the quoted price of the shares on the acquisition date). The Fox River Project is located in the western Cobequid Highlands in Nova Scotia, Canada. Two directors of the Company are directors and officers of Cogonov.

Under the Nova Scotia Mineral Resources Act there is a royalty, payable to the crown, of 2% of the net revenue or 15% of all net income, whichever is greater, derived from the sale of metals produced from a mining lease.

(e) Hornitos Property, Chile

The Company owns mining concessions in Region III, Chile. Currently, the Company is not conducting active exploration on the property. Fees of approximately 144,000,000 Chilean Pesos (\$284,000) remain unpaid and unaccrued as at December 31, 2018 (December 31, 2017 – 114,000,000 Chilean Peso (\$233,000)) related to Hornito property taxes.

(f) Tabaco, Chile

The Company owns mining concessions near Vallenar, Chile. Currently, the Company is not conducting active exploration on the property. Fees of approximately 30,000,000 Chilean Pesos (\$59,000) remain unpaid and unaccrued as at December 31, 2018 (December 31, 2017 – 15,000,000 Chilean Peso (\$31,000)) related to Hornito property taxes.

(g) Lynn, Parrsboro and Bass River Properties, Canada

In 2016, the Company completed the acquisition of the Lynn, Parrsboro and Bass River Properties from Cogonov through the issuance of 5,125,000 shares (valued at \$2,767,500, based on the quoted price of the shares on the acquisition date). The deferred transaction advance received during the year ended December 31, 2015 was netted against the acquisition costs. The Lynn, Parrsboro and Bass River Properties are located in central Nova Scotia, Canada.

Under the Nova Scotia Mineral Resources Act there is a royalty, payable to the crown, of 2% of the net revenue or 15% of all net income, whichever is greater, derived from the sale of metals produced from a mining lease.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

6. Mineral exploration expenditures (continued)

(g) *Lynn, Parrsboro and Bass River Properties, Canada (continued)*

(i) In 2016, the Company entered into a non-binding letter of intent to joint venture its Bass River project in Nova Scotia with Tejas Gold Company ("Tejas"), a company whose CEO was a director of the Company. Tejas had until May 6, 2018 to earn a 35% working interest in the joint venture. To earn the interest Tejas would have been required to pay a non refundable deposit of USD \$25,000 (received during the year ended December 31, 2017), issue 25,000 common shares of Tejas stock (received during the year ended December 31, 2016 and valued at \$33,668 based on the price of a recent arm's length financing) and to expend \$400,000 in exploration work including drilling on Bass River. In addition, Tejas shall pay the Company a management fee of \$5,000 per month over the duration of the work program. During the period ended December 31, 2017, the Company agreed to the assignment by Tejas of the agreement to Highlander Resources Corp ("Highlander"). Subsequently in fiscal 2018, the Company concluded that it will not complete a joint venture with Highlander and has now abandoned these discussions. During the year ended December 31, 2018, the Company recorded an impairment on the Tejas stock for the full value of the carrying amount of \$33,668.

(ii) During the years ended December 31, 2018, the Company entered into an option agreement with Elk Exploration Ltd. ("Elk") to acquire 3 licenses representing land located within the Bass River concessions.

In consideration for the option agreement, the Company shall pay Elk as follows: (a) a cash payment of \$12,000 (paid); (b) an issuance of common shares (33,360 shares of the Company), valued at \$5,000 based on the quoted price of shares on the acquisition date (issued); (c) a cash payment of \$5,000 paid to Elk on or before the first anniversary and all subsequent years thereafter; and (d) incur within 3 years, at least \$500,000 in exploration expenditures on the property, upon which the Company will have earned its 90% interest in the property, subject only to the 10% free carried interest and the 1% NSR royalty to be held by Elk. The Company may purchase the additional 10% free carried interest for \$500,000 payable in cash or shares and it may acquire the 1% NSR royalty by paying \$250,000 in cash or shares.

(iii) During the years ended December 31, 2018, the Company entered into an option agreement to acquire the Economy East Exploration License in Nova Scotia which consists of 12 claims.

In consideration for the option agreement, the Company shall pay the as follows: (a) a cash payment of \$12,000 (paid); (b) an issuance of common shares (34,415 shares of the Company), valued at \$5,000 based on the quoted price of shares on the acquisition date (issued); (c) a cash payment of \$5,000 paid and all subsequent years thereafter; and (d) incur, within 3 years, at least \$500,000 in exploration expenditures on the property, upon which the Company will have earned its 90% interest in the property, subject only to the 10% free carried interest and the 1% NSR royalty to be held by the optionor. The Company may purchase the 10% free carried interest for \$500,000 payable in cash or shares and it may acquire the 1% NSR royalty by paying \$250,000 in cash or shares.

7. Debentures and loans

(a) On May 11, 2016, the Company issued \$150,000 of debentures bearing interest at a rate of 14% per annum and maturing on the earliest of the sale of the Copacquire 3% NSR, and October 31, 2018. In connection with the issuance of the debentures, the Company was required to issue 375,000 warrants, exercisable at a price of \$0.48 per share until October 31, 2018 (see note 11). On November 1, 2018, if the debentures were not repaid in full, the holders had the right to acquire \$150,000/US\$1,000,000 percent of the Copacquire NSR. The debenture was secured by the shares of the Company's subsidiary, IPBX, that contains the Copacquire NSR and a first floating secured position on all the assets of the Company. On June 8, 2018, the principal and accrued interest of the debenture was repaid in full.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

7. Debentures and loans (continued)

(a) (continued) The Company valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 30%, being management's best estimate of the rate that a debenture without warrants with similar terms would bear. The Company valued the warrants using the Black-Scholes option pricing model with the following assumptions: a 2.47 year expected average life; 149% expected volatility; risk-free interest rate of 0.53%; and an expected dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life. Based on this calculation, the liability component is \$71,889 (\$70,649 net of transaction costs), the equity component is \$78,101 (recorded in warrants) and the right to acquire the Copacquire NSR is valued at \$nil.

(b) On March 24, 2017, the Company issued \$210,000 of debentures bearing interest at a rate of 14% per annum and maturing on the earliest of the sale of its Copacquire 3% NSR, and October 31, 2018. In connection with the issuance of the debentures, the Company was required to issue 375,000 warrants, exercisable at a price of \$0.72 per share until October 31, 2018 (see note 11). On November 1, 2018, if the debentures were not repaid in full, the holders had the right to acquire \$210,000/US\$1,000,000 or 1 percent of the Copacquire NSR. The debenture was secured by the shares of the Company's subsidiary, IPBX, that contains the Copacquire NSR and a first floating secured position on all the assets of the Company. A fee of \$10,000 was paid to the debenture holder in respect of this transaction. On June 8, 2018, the principal and accrued interest of the debenture was repaid in full.

The Company valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 30%, being management's best estimate of the rate that a debenture without warrants with similar terms would bear. The Company valued the warrants using the Black-Scholes option pricing model with the following assumptions: a 1.61 year expected average life; 171% expected volatility; risk-free interest rate of 0.68%; and an expected dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life. Based on this calculation, the initial liability component was \$110,050 (\$104,272 net of transaction costs), the equity component was \$99,950 (recorded in warrants) and the right to acquire the Copacquire NSR was valued at \$nil.

All debentures were held with shareholders of the Company.

(c) During the year ended December 31, 2017, the Company entered into a short-term loan agreement for \$175,000 with a shareholder of the Company, which was repaid prior to December 31, 2017. The loan bore interest at 14% per annum and included fees of \$10,000.

(d) On August 24, 2018, the Company issued \$250,000 of secured debentures with a maturity of August 25, 2019 to a shareholder of the Company. The debenture bears interest at 14% per annum payable up front, \$35,000 was paid as of December 31, 2018. In addition, a finance cost of \$15,000 was paid as of December 31, 2018.

The Company valued the debt component of the debentures by calculating the present value of the principal and interest, discounted at a rate of 23%, being management's best estimate of the rate of a debenture with an arm's length creditor with similar terms. Based on this calculation, the liability component is \$232,072 (\$215,686 net of transaction costs).

(e) On December 3, 2018, the Company issued \$206,250 secured debentures with a maturity of December 3, 2019; of which \$181,250 are held by one officer, one shareholder, and one non-shareholder of the Company. The debentures bear interest at 14% per annum payable up front, \$28,875 was paid as of December 31, 2018. In addition, a finance cost of \$12,375 was paid as of December 31, 2018.

The Company valued the debt component of the debentures by calculating the present value of the principal and interest, discounted at a rate of 30%, being management's best estimate of the rate of a debenture with an arm's length creditor with similar terms. Based on this calculation, the liability component is \$174,946 (\$170,323 net of transaction costs).

The debentures are secured against all assets of the Company.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

8. Other liabilities

During the year ended December 31, 2017, the Company transferred \$69,554 of accounts payable (the "Statute-barred Claims") to non-current liabilities on the basis that any claims in respect of the Statute-barred Claims were statute-barred under the Limitations Act (British Columbia). The Statute-barred Claims related to expenses billed by and third party liabilities incurred prior to December 2015. However, for accounting purposes under IFRS, a debt can only be removed from the Company's statement of financial position when it is extinguished meaning only when the contract is discharged or canceled or expires. The effect of the Limitations Act is to prevent a creditor from enforcing an obligation but it does not formally extinguish the debt for accounting purposes. It is the position of management of the Company that the Statute-barred Claims cannot be enforced by the creditors, do not create any obligation for the Company to pay out any cash and do not affect the financial or working capital position of the Company. The Statute-barred Claims are required to be reflected on the Company's statement of financial position as a result of the current interpretation of IFRS, but they are classified as long-term liabilities since the Company has no intention or obligation to pay these Statute-barred Claims and the creditors cannot enforce payment of the Statute-barred Claims. While inclusion of these items is intended solely to comply with the requirements of IFRS, the Company in no way acknowledges any of the Statute-barred Claims.

9. Issued capital

On May 18, 2018, the Company completed the share consolidation of its issued and outstanding common shares on the basis of one post-consolidation common share for every four pre-consolidation common shares. All applicable references to the number of shares, warrants and options, strike price and per share information has been restated to reflect the effect of the share consolidation, unless otherwise noted.

a) Authorized share capital

At December 31, 2018, the authorized share capital consisted of an unlimited number of common shares, non-voting Class A preference shares with a par value of \$4.00 and Class B preference shares with a par value of \$20.00. The common shares do not have a par value.

b) Common shares issued

| | Number of common shares | Amount |
|--|----------------------------|----------------------|
| Balance, December 31, 2016 | 18,834,325 | \$ 54,299,990 |
| Private placements (i), (ii), (iii) | 2,444,292 | 1,198,645 |
| Share issuance costs (i), (ii) | - | (26,693) |
| Warrant value (i), (ii), (iii) | - | (235,387) |
| Exercise of warrants (note 11) | 39,773 | 11,136 |
| Value of warrants exercised (note 11) | - | 14,159 |
| Balance, December 31, 2017 | 21,318,390 | \$ 55,261,850 |
| Private placements (v) | 12,668,250 | 1,636,390 |
| Value of warrants (v) | - | (741,677) |
| Share issuance costs | - | (25,229) |
| Broker warrants issued | - | (2,960) |
| Flow-through premium (v) | - | (116,200) |
| Shares to be issued (iii) | 100,525 | 60,315 |
| Shares issued for mineral exploration properties (note 6) (viii) | 67,775 | 10,000 |
| Shares issued on settlements (iv), (vi), | 1,250,000 | 225,000 |
| Balance, December 31, 2018 | 35,404,940 | \$ 56,307,489 |

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

9. Issued capital (continued)

(i) In January 2017, the Company completed the final tranche of a non-brokered private placement of 41,667 common shares at \$0.60 per share for aggregate gross proceeds of \$25,000. Share issuance costs of \$875 were recorded as part of this transaction.

(ii) On October 4, 2017, the Company completed a non-brokered private placement of 1,163,500 units at \$0.60 per unit for aggregated gross proceeds of \$698,100. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable at \$0.80 until June 1, 2019, subject to the Company's ability to accelerate the warrants expiry, should its shares trade above \$1.20 for for more than 15 consecutive trading days, to the date that is 30 days following the date on which the Company announces the accelerated expiry by press release.

In connection with the financing, the Company paid finder's fees of \$12,000 and issued 20,000 finders' warrants. Each finders' warrant is exercisable at \$0.60 into a unit until June 1, 2019, subject to the Company's ability to accelerate the warrants should its shares trade above \$1.20 for for more than 15 consecutive trading days.

The 581,750 warrants and 20,000 finders' warrants were valued at \$101,690 and \$5,184, respectively, using the Black-Scholes option-pricing model. The following weighted average assumptions were used: risk free interest rate – 1.53%; expected volatility – 159% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 1.7 years.

(iii) On October 23, 2017, the Company completed a non-brokered private placement of 1,339,650 units at \$0.40 per unit for aggregated gross proceeds of \$535,860. Each unit consisted of one common share and one half of one common share purchase warrant. 619,563 whole warrants are exercisable at \$0.72 and 50,263 whole warrants are exercisable at USD \$0.58 (\$0.79) until October 16, 2019, subject to the Company's ability to accelerate the warrants expiry, should its shares trade above \$1.44 for for more than 15 consecutive trading days, to the date that is 30 days following the date on which the Company announces the accelerated expiry by press release.

The 669,826 warrants were valued at \$133,697 using the Black-Scholes option-pricing model. The following weighted average assumptions were used: risk free interest rate – 1.47%; expected volatility – 147% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 2 years.

100,525 of the common shares were issued during the year ended December 31, 2018 and have been included in shares to be issued at December 31, 2017.

(iv) In May 2018, the Company issued 380,856 common shares, as settlement for debt of \$91,405 owing to former directors and officers of the Company (see note 13 (iv)).

In December 2018, the Company issued 119,144 common shares, as a settlement for debt of \$28,595 owing to former directors and officers of the Company (see note 13 (iv)).

(v) In June 2018, the Company completed a private placement of 9,763,250 common share units at \$0.12 per common share unit and 2,905,000 flow-through units at \$0.16 per flow-through unit for aggregate gross proceeds of \$1,636,390. Each common share unit consisted of one common share and one common share purchase warrant. Each flow-through unit consisted of one flow-through common share and one common share purchase warrant. The 12,668,250 warrants were valued at \$741,677 using the Black-Scholes option-pricing model. The following assumptions were used: risk free interest rate – 2.22%; expected volatility – 194% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 5 years. Each warrant is exercisable into one common share at \$0.18 for 5 years from closing (see note 13 (v)).

The flow-through units were issued at a premium to the market price in recognition of the tax benefits accruing to the subscribers. The flow-through liability was calculated to be \$116,200 (see note 15).

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

9. Issued capital (continued)

b) Common shares issued (continued)

In connection with the financing, the Company paid finder's fees of \$38,706 and issued 120,800 finders' warrants valued at \$2,960, using the Black-Scholes option-pricing model. The following assumptions were used: risk free interest rate – 1.9%; expected volatility – 122% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 18 months. Each finders' warrant is exercisable at \$0.12 into a common share unit for 18 months from closing.

(vi) In July 2018, the Company issued 750,000 common shares, with a fair value of \$105,000 based on quoted market price on date of settlement.

(vii) During the year ended December 31, 2018, the Company issued 67,775 shares of the Company for the acquisition of mineral properties valued at \$10,000.

10. 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 following table reflects the continuity of stock options for the years presented:

| | Number of stock options | Weighted average exercise price (\$) |
|-----------------------------------|----------------------------|---|
| Balance, December 31, 2016 | 1,712,500 | 0.64 |
| Granted (i), (ii) | 87,500 | 0.72 |
| Balance, December 31, 2017 | 1,800,000 | 0.64 |
| Expired | (687,500) | 0.47 |
| Balance, December 31, 2018 | 1,112,500 | 0.76 |

(i) On January 20, 2017, the Company granted stock options to a consultant of the Company for the purchase of a total of 50,000 common shares. The options are exercisable for a period of two years at an exercise price of \$0.72 per share and vested immediately. The fair value of these options at the date of grant was estimated at \$28,320 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate – 0.77%; expected volatility – 175% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 2 years.

CHILEAN METALS INC.**Notes to Consolidated Financial Statements****Years Ended December 31, 2018 and 2017****(Expressed in Canadian Dollars)**

10. Stock options (continued)

(ii) On March 20, 2017, the Company granted stock options to a consultant of the Company for the purchase of a total of 37,500 common shares. The options are exercisable for a period of five years at an exercise price of \$0.68 per share and vested immediately. The fair value of these options at the date of grant was estimated at \$24,810 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate – 1.18%; expected volatility – 197% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 5 years.

The following table reflects the actual stock options issued and outstanding as of December 31, 2018:

| Expiry date | Exercise price (\$) | Remaining contractual life (years) | Number of options outstanding | Number of exercisable options |
|---------------------------------|----------------------------|---|--------------------------------------|--------------------------------------|
| January 19, 2019 ⁽¹⁾ | 0.72 | 0.05 | 50,000 | 50,000 |
| June 11, 2019 | 1.00 | 0.44 | 410,000 | 410,000 |
| July 4, 2021 | 0.60 | 2.51 | 50,000 | 50,000 |
| September 6, 2021 | 0.68 | 2.68 | 90,000 | 90,000 |
| November 14, 2021 | 0.60 | 2.87 | 475,000 | 475,000 |
| March 20, 2022 | 0.68 | 3.22 | 37,500 | 37,500 |
| | 0.76 | 1.83 | 1,112,500 | 1,112,500 |

(1) Expired subsequent to December 31, 2018.

11. Warrants

The following table reflects the continuity of warrants for the years presented:

| | Number of warrants | Weighted average exercise price (\$) |
|---------------------------------------|---------------------------|---|
| Balance, December 31, 2016 | 520,257 | 0.48 |
| Granted (note 7, and 9(b),(ii),(iii)) | 1,646,575 | 0.73 |
| Expired | (105,485) | 0.60 |
| Exercised | (39,773) | 0.28 |
| Balance, December 31, 2017 | 2,021,575 | 0.68 |
| Granted (note 9 (b)(v)) | 12,789,050 | 0.18 |
| Expired | (770,000) | 0.60 |
| Balance, December 31, 2018 | 14,040,625 | 0.23 |

CHILEAN METALS INC.

Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

11. Warrants (continued)

The following table reflects the actual warrants issued as of December 31, 2018:

| Number of warrants outstanding | Grant date fair value (\$) | Exercise price (\$) | Expiry date | Remaining contract life (years) |
|--------------------------------|----------------------------|---------------------|------------------|---------------------------------|
| 581,750 | 106,874 | 0.80 | June 1, 2019 | 0.42 |
| 619,562 | 123,665 | 0.72 | October 23, 2019 | 0.81 |
| 50,263 | 10,032 | USD 0.58 (\$0.79) | October 23, 2019 | 0.81 |
| 86,400 | 2,117 | 0.12 ⁽¹⁾ | December 8, 2019 | 0.94 |
| 34,400 | 843 | 0.12 ⁽¹⁾ | December 8, 2019 | 0.94 |
| 4,205,834 | 241,761 | 0.18 | June 8, 2023 | 4.44 |
| 8,462,416 | 486,439 | 0.18 | June 8, 2023 | 4.44 |
| 14,040,625 | 971,731 | 0.23 | | 4.07 |

(1) Exercisable into one common share and one additional common share purchase warrant. Each additional warrant will be exercisable at \$0.18 until June 8, 2023.

12. Net loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2018 was based on the loss attributable to common shareholders of \$2,142,965 (year ended December 31, 2017 - \$2,482,787) and the weighted average number of common shares outstanding of 29,193,394 (year ended December 31, 2017 - 18,895,085). Diluted loss per share did not include the effect of 1,112,500 options outstanding (year ended December 31, 2017 - 1,800,000 options outstanding) or the effect of 14,040,625 warrants outstanding (year ended December 31, 2017 - 2,021,575 warrants outstanding) as they are anti-dilutive.

13. Related party balances and transactions

Related parties include the Board of Directors, officers, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

As at December 31, 2018, the directors and/or officers of the Company collectively control 3,202,864 (2017 - 3,239,611) common shares of the Company or approximately 9% (2017 - 15%) of the total common shares outstanding and an insider of the Company controls 3,833,028 (2018 - nil) common shares of the Company or approximately 11% (2017 - nil) of the total common shares outstanding. To the knowledge of directors and officers of the Company, the remainder of the outstanding common shares are held by diverse shareholders. These holdings can change at any time at the discretion of the owner.

CHILEAN METALS INC.**Notes to Consolidated Financial Statements****Years Ended December 31, 2018 and 2017****(Expressed in Canadian Dollars)**

13. Related party balances and transactions (continued)

(a) The Company entered into the following transactions with related parties:

| | Notes | Year ended December 31, | |
|-------------------------------|--------------|------------------------------------|-------------|
| | | 2018 | 2017 |
| Administration expense | (i) | \$ 215,000 | \$ 324,000 |
| Accounting expense | (ii) | \$ 58,042 | \$ 55,495 |
| Geological consulting expense | (iii) | \$ 96,000 | \$ 96,000 |
| Debt settlement expense | (iv) | \$ 120,000 | \$ - |

(i) For the year ended December 31, 2018, the Company incurred consulting fees from companies controlled by an officer, by a director and by a former officer of \$215,000 (year ended December 31, 2017 - \$324,000) recorded in administration fees. As at December 31, 2018, \$nil (December 31, 2017 - \$15,401) is included in advances, prepaid expenses and deposits.

(ii) For the year ended December 31, 2018, the Company incurred accounting expenses from companies related to a former officer of \$58,042 (year ended December 31, 2017 - \$55,495) recorded in professional fees.

(iii) For the year ended December 31, 2018, the Company incurred geological consulting expenses from a company controlled by an officer and a former officer of \$96,000 (year ended December 31, 2017 - \$96,000) recorded in exploration expenditures and consulting fees.

(iv) During the year ended December 31, 2018, the Company settled a debt in the amount of \$120,000 with one director and one officer of the Company for shares in the Company.

(v) Directors and officers of the Company purchased 1,527,875 common share units in the June 2018 private placement (see note 9(b)(v)).

(vi) See note 7 and 9.

(vii) As at December 31, 2018, included in accounts payable and accrued liabilities is \$20,286 (December 31, 2017 - \$18,998) due to directors and key management. These amounts are unsecured, non-interest bearing and due on demand.

(viii) A director and officer of the Company purchased 450,000 units in the October 23, 2017 private placement (see note 9(b)(iii)).

| | As at December 31, 2018 | As at December 31, 2017 |
|--------------------------------------|--|--|
| President and Director | \$ 1,736 | \$ 1,560 |
| Chief Financial Officer (former) | 13,550 | 12,631 |
| Director and Chief Executive Officer | 5,000 | 4,807 |
| | \$ 20,286 | \$ 18,998 |

CHILEAN METALS INC.**Notes to Consolidated Financial Statements****Years Ended December 31, 2018 and 2017****(Expressed in Canadian Dollars)**

13. Related party balances and transactions (continued)

(b) Remuneration of directors and key management personnel of the Company was as follows:

| | Year ended December 31, | |
|--|----------------------------|------------|
| | 2018 | 2017 |
| Fees charged: | | |
| Directors | \$ 41,000 | \$ - |
| Chief Executive Officer and Director | 144,000 | 144,000 |
| Chief Executive Officer (Former) and Director (Former) | 30,000 | 180,000 |
| Chief Financial Officer (Former) | 58,042 | 55,495 |
| VP Exploration (Former) and Director (Former) | 16,000 | 96,000 |
| President and Director | 80,000 | - |
| Total remuneration | \$ 369,042 | \$ 475,495 |

Payments to directors and key management personnel of the Company include certain transactions with related parties in (a) above, and (b) remuneration to directors and key management personnel of the Company.

The above noted transactions are in the normal course of business and approved by the Board of Directors.

14. Segmented information

The Company operates in one industry segment, namely exploration of mineral resources in two geographic regions, Canada and Chile. Geographical segmentation of the Company's non-current assets is as follows:

| December 31, 2018 | Canada | Chile | Total |
|-------------------|--------|----------|----------|
| Equipment | \$ - | \$ 4,184 | \$ 4,184 |
| December 31, 2017 | Canada | Chile | Total |
| Equipment | \$ - | \$ 6,001 | \$ 6,001 |

CHILEAN METALS INC.

Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

14. Segmented information (continued)

| Year ended December 31, 2018 | Canada | Chile | Total |
|---|-----------------------|---------------------|-----------------------|
| Administrative expenses | | | |
| Administration fees | \$ 318,874 | \$ 12,300 | \$ 331,174 |
| Amortization | - | 1,817 | 1,817 |
| Bank and interest charges | 157,298 | 36,385 | 193,683 |
| Exploration and acquisition costs | 320,248 | 401,848 | 722,096 |
| Foreign exchange loss (gain) | 1,288 | (13,222) | (11,934) |
| Investor relations | 262,203 | - | 262,203 |
| Office and miscellaneous | 94,820 | 49,838 | 144,658 |
| Professional fees | 376,852 | 32,040 | 408,892 |
| Transfer agent and regulatory | 74,820 | - | 74,820 |
| Travel, promotion and mining shows | 42,029 | - | 42,029 |
| Net operating loss before other items | (1,648,432) | (521,006) | (2,169,438) |
| Other items | | | |
| Impairment of marketable securities | (33,668) | - | (33,668) |
| Reversal of flow-through liability | 60,141 | - | 60,141 |
| Net loss and comprehensive loss for the year | \$ (1,621,959) | \$ (521,006) | \$ (2,142,965) |
| Year ended December 31, 2017 | Canada | Chile | Total |
| Administrative expenses | | | |
| Administration fees | \$ 439,283 | \$ 12,730 | \$ 452,013 |
| Amortization | - | 2,572 | 2,572 |
| Bank and interest charges | 165,384 | 107,169 | 272,553 |
| Exploration and acquisition costs | 1,087,832 | - | 1,087,832 |
| Foreign exchange loss (gain) | 3,246 | (31,765) | (28,519) |
| Investor relations | 316,211 | - | 316,211 |
| Office and miscellaneous | 42,514 | 85,215 | 127,729 |
| Professional fees | 80,563 | 14,303 | 94,866 |
| Share-based payments | 59,454 | - | 59,454 |
| Transfer agent and regulatory | 32,886 | - | 32,886 |
| Travel, promotion and mining shows | 70,622 | - | 70,622 |
| Net operating loss before other items | \$ (2,297,995) | \$ (190,224) | \$ (2,488,219) |
| Other items | | | |
| Unrealized gain on warrant liability | 5,432 | - | 5,432 |
| Net loss and comprehensive loss for the year | \$ (2,292,563) | \$ (190,224) | \$ (2,482,787) |

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

15. Commitments and contingencies

Consulting

The Company has entered into a consulting agreement with a company controlled by Directors and Officers of the Company. The obligation under these agreements amounts to \$144,000 per year. The Company has committed to these payments for the 2019 fiscal year.

Environmental and legal

The Company's operations are subject to government environmental protection legislation. Environmental consequences are difficult to identify in terms of results, timetable and impact. At this time, to management's best knowledge, the Company's operations are in compliance with current laws and regulations.

Property taxes

As at December 31, 2018, the Company has unpaid property tax for various mineral exploration property claims totaling approximately 444,000,000 Chilean Pesos (\$874,000) (December 31, 2017 - 310,000,000 Chilean Pesos (\$632,000)) which has been included in accounts payable and accrued liabilities as at December 31, 2018 and 2017. In the event that the claims are put up for tax auction, the Company will have a notice period to make the payment for the portion of this amount required. The property tax commitment for 2019 fiscal year is \$53,000,000 Chilean Pesos (\$104,000).

Flow-through

As at December 31, 2018, the Company is required to incur additional qualifying expenditures of \$224,000 no later than December 31, 2019 as a result of the flow-through units issued (see note 9(b)(v)).

16. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended December 31, 2018 and December 31, 2017 is as follows:

| | Year ended December 31, | |
|---|----------------------------|----------------|
| | 2018 | 2017 |
| Net loss before income taxes | \$ (2,142,965) | \$ (2,482,787) |
| Combined federal and provincial statutory income tax rate | 26.50 % | 26.50 % |
| Expected income tax recovery | \$ (568,000) | \$ (658,000) |
| Permanent differences | 1,000 | 18,000 |
| Change in tax rates and other | (206,000) | (7,936,000) |
| Change in tax benefits not recognized | 773,000 | 8,576,000 |
| Income tax expense (recovery) | \$ - | \$ - |

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

16. Income taxes (continued)

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

| | As at December 31, 2018 | As at December 31, 2017 |
|--|-------------------------------|-------------------------------|
| Non-capital losses carried forward | \$ 79,238,000 | \$ 81,404,000 |
| Capital losses carried forward | 341,000 | 341,000 |
| Finance costs and other | 174,000 | 182,000 |
| Mineral exploration properties and equipment | 10,662,000 | 10,423,000 |
| | \$ 90,415,000 | \$ 92,350,000 |

The Company has approximately \$65,000,000 (December 31, 2017 - \$67,000,000) of Chilean non-capital losses that carry forward indefinitely. The Company also has Canadian non-capital losses of approximately \$14,238,000 (December 31, 2017 - \$14,852,000) expiring as follows:

| | Canada |
|------|----------------------|
| 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 | 1,970,000 |
| 2034 | 1,263,000 |
| 2035 | 449,000 |
| 2036 | 995,000 |
| 2037 | 1,095,000 |
| 2038 | 527,000 |
| | \$ 14,238,000 |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

17. 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. 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.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

17. Capital management (continued)

The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2018. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than Policy 2.5 of the TSX-V which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of December 31, 2018 and 2017, the Company is not compliant with Policy 2.5. The impact of this violation is not known and is ultimately dependent on the discretion of the TSX-V.

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

As at December 31, 2018 and 2017, 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 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.

18. Financial instruments and risk

Fair value

The Company's financial instruments consist of cash, amounts receivable, advances, marketable securities, accounts payable and accrued liabilities, advances from related party, loans payable, deferred transaction advance, warrant liability and debentures 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:

| | As at December 31, 2018 | As at December 31, 2017 |
|--|-------------------------------|-------------------------------|
| | \$ | \$ |
| Assets: | | |
| <i>FVTPL</i> | | |
| Marketable securities | - | 33,668 |
| <i>Amortized cost</i> | | |
| Cash | 29,960 | 59,383 |
| Amounts receivable | 24,981 | 20,519 |
| Advances | - | 15,401 |
| Liabilities: | | |
| <i>Amortized cost</i> | | |
| Accounts payable and accrued liabilities | 1,219,738 | 1,078,170 |
| Debentures payable | 386,009 | 303,850 |
| Other liabilities | 69,554 | 69,554 |

CHILEAN METALS INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

18. Financial instruments and risk (continued)

Fair value (continued)

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 risk 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, 2018, marketable securities is considered Level 2. As at December 31, 2017, marketable securities are considered Level 2.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places cash 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

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at December 31, 2018, the Company had cash and amounts receivable of \$54,941 (December 31, 2017 - \$79,902) to settle current liabilities of \$1,661,806 (December 31, 2017 - \$1,382,020). 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, except for the debentures payable. The carrying value of the debentures payable approximates the fair value due to the short-term nature of the debt. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity and the Company's ability to continue as a going concern.

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 loss and comprehensive loss 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 approximately \$1,000 (December 31, 2017 - \$6,000).

The Company is also exposed to the currency risk related to the fluctuation of US Dollar as some of the Company's expenses are denominated and warrants are exercisable in US Dollars. As at December 31, 2018, currency risk for the US Dollar was not significant.

CHILEAN METALS INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

18. Financial instruments and risk (continued)

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.

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 gold and copper. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

19. Subsequent event

Subsequent to year end, 50,000 stock options of the Company expired (see note 10).