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**CHILEAN METALS INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Chilean Metals Inc.

We have audited the accompanying consolidated financial statements of Chilean Metals Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years ended December 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chilean Metals Inc. and its subsidiaries as at December 31, 2017, 2016 and 2015, and their financial performance and cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Chilean Metals Inc. had continuing losses during the year ended December 31, 2017, and a working capital deficiency and cumulative deficit as at December 31, 2017. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the ability of Chilean Metals Inc. to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants  
Licensed Public Accountants

TORONTO, Canada  
April 30, 2018

# Chilean Metals Inc.

## Consolidated Statements of Financial Position (Expressed in Canadian Dollars)

	As at December 31, 2017	As at December 31, 2016 (note 4)	As at December 31 2015 (note 4)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	\$ 59,383	\$ 535,281	\$ 456
Marketable securities (note 6(g))	33,668	33,668	-
Amounts receivable	20,519	38,864	7,709
Advances, prepaid expenses and deposits (note 13)	221,858	99,591	4,031
<b>Total current assets</b>	<b>335,428</b>	<b>707,404</b>	<b>12,196</b>
<b>Non-current assets</b>			
Prepaid expenses	57,292	-	-
Equipment (note 5)	6,001	8,573	12,249
<b>Total assets</b>	<b>\$ 398,721</b>	<b>\$ 715,977</b>	<b>\$ 24,445</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities (notes 13(a)(ix) and 15)	\$ 1,078,170	\$ 576,996	\$ 730,683
Advances from related party	-	-	54,000
Loans payable	-	-	94,000
Deferred transaction advance	-	-	50,000
Debentures payable (note 7)	303,850	-	273,514
Warrant liability (note 11)	-	5,432	-
<b>Total current liabilities</b>	<b>1,382,020</b>	<b>582,428</b>	<b>1,202,197</b>
<b>Non-current liabilities</b>			
Debentures payable (note 7)	-	111,606	-
Other liabilities (note 8)	69,554	-	-
<b>Total liabilities</b>	<b>1,451,574</b>	<b>694,034</b>	<b>1,202,197</b>
<b>Shareholders' equity (deficiency)</b>			
Issued capital (note 9)	55,261,850	54,299,990	48,385,997
Shares to be issued (note 9(b)(vii))	60,315	-	-
Contributed surplus	4,190,817	4,131,363	3,392,781
Warrants (note 11)	418,622	126,782	72,898
Deficit	(60,984,457)	(58,536,192)	(53,029,428)
<b>Total shareholders' equity (deficiency)</b>	<b>(1,052,853)</b>	<b>21,943</b>	<b>(1,177,752)</b>
<b>Total equity (deficiency) and liabilities</b>	<b>\$ 398,721</b>	<b>\$ 715,977</b>	<b>\$ 24,445</b>

**Nature of operations and going concern** (note 1)  
**Subsequent events** (notes 6, 10 and 19)

**Commitments and contingencies** (notes 6, 7 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.

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

	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
		<b>(note 4)</b>
<b>Administrative expenses</b>		
Administration fees (note 13)	\$ 452,013	\$ 524,066
Amortization (note 5)	2,572	3,676
Bank and interest charges (note 7)	272,553	157,597
Exploration and acquisition costs (note 6)	1,087,832	3,494,517
Foreign exchange loss (gain)	(28,519)	90,298
Investor relations	316,211	116,505
Office and miscellaneous	127,729	134,496
Professional fees (note 13)	94,866	118,377
Share-based payments (note 10)	59,454	738,582
Transfer agent and regulatory	32,886	46,996
Travel, promotion and mining shows	70,622	57,962
Net operating loss before other items	(2,488,219)	(5,483,072)
<b>Other items</b>		
Loss on debt settlement (note 9)	-	(23,202)
Unrealized gain (loss) on warrant liability (note 11)	5,432	(490)
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (2,482,787)</b>	<b>\$ (5,506,764)</b>
<b>Basic and diluted net loss per share (note 12)</b>	<b>\$ (0.03)</b>	<b>\$ (0.13)</b>
<b>Weighted average number of common shares outstanding - basic and diluted (note 12)</b>	<b>77,736,245</b>	<b>42,407,213</b>

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,  
2017                      2016  
(note 4)

**Operating activities**

Net loss for the year	\$ (2,482,787)	\$ (5,506,764)
Items not affecting cash:		
Amortization	2,572	3,676
Share-based payments	59,454	738,582
Common shares issued for property interest, net of costs	-	3,497,500
Accrued interest	93,219	137,609
Loss on debt settlement	-	23,202
Marketable securities received on option of mineral exploration property	-	(33,668)
Unrealized gain on warrant liability	(5,432)	490
Non-cash working capital items:		
Amounts receivable	18,345	(31,155)
Advances, prepaid expenses and deposits	(179,559)	(95,560)
Accounts payable and accrued liabilities	570,728	(153,689)

<b>Net cash used in operating activities</b>	<b>(1,923,460)</b>	<b>(1,419,777)</b>
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**Financing activities**

Proceeds on private placement	1,198,645	2,091,487
Share issue costs	(21,509)	(102,990)
Warrants exercised	11,136	4,008
Shares to be issued	60,315	-
Repayment of advance from related party	-	(54,000)
Repayment of debentures	-	(38,653)
Loan received	175,000	-
Loan repayments	(175,000)	(94,000)
Issuance of debentures	210,000	150,000
Debenture issue costs	(11,025)	(1,250)

<b>Net cash provided by financing activities</b>	<b>1,447,562</b>	<b>1,954,602</b>
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<b>Net change in cash</b>	<b>(475,898)</b>	<b>534,825</b>
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<b>Cash, beginning of year</b>	<b>535,281</b>	<b>456</b>
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<b>Cash, end of year</b>	<b>\$ 59,383</b>	<b>\$ 535,281</b>
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**Supplemental disclosures**

Common shares issued for debt	\$ -	\$ 197,214
Conversion of debentures to exercise warrants	\$ -	\$ 157,500
Finders' warrants issued	\$ 5,184	\$ 58,719

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

# Chilean Metals Inc.

## Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

	Common Shares		Shares to be issued	Contributed Surplus	Warrants	Deficit (note 4)	Total
	Number	Amount					
<b>Balance, December 31, 2015</b>	<b>25,193,374</b>	<b>\$ 48,385,997</b>	<b>\$ -</b>	<b>\$ 3,392,781</b>	<b>\$ 72,898</b>	<b>\$(53,029,428)</b>	<b>\$ (1,177,752)</b>
Private placements	19,276,579	2,091,487	-	-	-	-	2,091,487
Share issuance cost	-	(160,340)	-	-	53,777	-	(106,563)
Exercise of warrants	3,207,260	161,508	-	-	-	-	161,508
Value of warrants exercised	-	77,994	-	-	(77,994)	-	-
Shares issued for debt	1,160,085	195,844	-	-	-	-	195,844
Shares issued for mineral exploration properties	26,500,000	3,547,500	-	-	-	-	3,547,500
Warrants issued on debentures	-	-	-	-	78,101	-	78,101
Share-based payments	-	-	-	738,582	-	-	738,582
Net comprehensive loss for the year	-	-	-	-	-	(5,506,764)	(5,506,764)
<b>Balance, December 31, 2016</b>	<b>75,337,298</b>	<b>\$ 54,299,990</b>	<b>\$ -</b>	<b>\$ 4,131,363</b>	<b>\$ 126,782</b>	<b>\$(58,536,192)</b>	<b>\$ 21,943</b>
Private placements	9,777,167	1,198,645	60,315	-	-	-	1,258,960
Share issuance cost	-	(26,693)	-	-	5,184	-	(21,509)
Value of warrants	-	(235,387)	-	-	235,387	-	-
Share-based payments	-	-	-	59,454	-	-	59,454
Warrant expiry	-	-	-	-	(34,522)	34,522	-
Warrants issued on debentures	-	-	-	-	99,950	-	99,950
Exercise of warrants	159,090	11,136	-	-	-	-	11,136
Value of warrants exercised	-	14,159	-	-	(14,159)	-	-
Net comprehensive loss for the year	-	-	-	-	-	(2,482,787)	(2,482,787)
<b>Balance, December 31, 2017</b>	<b>85,273,555</b>	<b>\$ 55,261,850</b>	<b>\$ 60,315</b>	<b>\$ 4,190,817</b>	<b>\$ 418,622</b>	<b>\$(60,984,457)</b>	<b>\$ (1,052,853)</b>

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

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# **CHILEAN METALS INC.**

## **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2017 and 2016**

**(Expressed in Canadian Dollars)**

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### **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.

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 assets 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, 2017, the Company incurred a net loss of \$2,482,787 (year ended December 31, 2016 - \$5,506,764). As at December 31, 2017, the Company has incurred significant losses since inception totaling \$60,984,457 (December 31, 2016 - \$58,536,192). As at December 31, 2017, the Company has a working capital deficiency of \$1,046,592 (December 31, 2016 - working capital of \$124,976); 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, 2017 were approved and authorized for issue by the Company's Board of Directors on April 30, 2018.

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.

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.

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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### 3. Significant accounting policies

#### (a) Basis of consolidation

These consolidated financial statements for the year ended December 31, 2017 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.



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## **CHILEAN METALS INC.**

### **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2017 and 2016**

**(Expressed in Canadian Dollars)**

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#### **3. Significant accounting policies (continued)**

##### **(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, 2017 and 2016, 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.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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#### 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

###### *Financial assets*

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

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

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. At December 31, 2017 and 2016, the Company's cash, amounts receivable and advances are classified as loans and receivables.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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#### 3. Significant accounting policies (continued)

##### (i) Financial instruments (continued)

###### *Financial assets (continued)*

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income except for losses in value that are considered other than temporary, in which case the losses are recognized in the statement of loss.

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

###### *Financial liabilities*

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

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

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

##### (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.

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

#### (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, 2017 and 2016, 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.

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 warrants 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.

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## **CHILEAN METALS INC.**

### **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2017 and 2016**

**(Expressed in Canadian Dollars)**

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#### **3. Significant accounting policies (continued)**

##### **(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 Copaquire 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 Copaquire NSR was nominal.

##### **(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.

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

(o) Critical accounting estimates and judgments (continued)

(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.

(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, 2018 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.

(i) 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

(ii) 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, with earlier adoption permitted if IFRS 15, Revenue from Contracts with Customers has also been applied.

(iii) 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.

### 4. Change in accounting policy

During the year ended December 31, 2017 the Company changed its accounting policy for mineral exploration properties to recognize these costs in the statements of loss and comprehensive loss in the period incurred, as permitted under IFRS 6, Exploration for and Evaluation of Mineral Resources. Management judges that the change in accounting policy will result in clearer, more relevant and reliable financial information.

The previous accounting policy was that exploration and evaluation expenditures were capitalized in respect of each identifiable area of interest, once the legal right to explore had been acquired, until the technical feasibility and commercial viability of extracting a mineral resource was demonstrated.

# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

### 4. Change in accounting policy (continued)

The impact of this change on the previously reported financial statements for the years ended December 31, 2016 and 2015 are as follows:

#### (i) Statements of Financial Position

As at December 31, 2015	As previously reported (\$)	Adjustment (\$)	Restated (\$)
Mineral exploration properties	4,897,865	(4,897,865)	-
Deficit	48,131,563	4,897,865	53,029,428

As at December 31, 2016	As previously reported (\$)	Adjustment (\$)	Restated (\$)
Mineral exploration properties	8,343,795	(8,343,795)	-
Deficit	50,192,397	8,343,795	58,536,192

#### (ii) Statement of Loss and Comprehensive Loss

Year ended December 31, 2016	As previously reported (\$)	Adjustment (\$)	Restated (\$)
Exploration and evaluation expenditures	-	(3,494,517)	(3,494,517)
Impairment loss on mineral exploration properties	(48,587)	48,587	-
Net loss and comprehensive loss for the year	(2,060,834)	(3,445,930)	(5,506,764)

#### (iii) Statement of Cash Flows

Year ended December 31, 2016	As previously reported (\$)	Adjustment (\$)	Restated (\$)
Net loss for the year	(2,060,834)	(3,445,930)	(5,506,764)
Impairment loss on mineral exploration properties	48,587	(48,587)	-
Common shares issued for property interest, net of costs	-	3,497,500	3,497,500
Marketable securities received on option of mineral exploration property	-	(33,668)	(33,668)
Accounts payable and accrued liabilities	(103,930)	(49,759)	(153,689)
Net cash used in operating activities	(1,339,333)	(80,444)	(1,419,777)
Acquisition of and expenditures on mineral exploration properties	(80,444)	80,444	-
Net cash used in investing activities	(80,444)	80,444	-

### 5. Equipment

#### Cost

	Field equipment	Furniture and office equipment	Total
Balance, December 31, 2015	\$ 83,278	\$ 123,676	\$ 206,954
Balance, December 31, 2016	83,278	123,676	206,954
Balance, December 31, 2017	\$ 83,278	\$ 123,676	\$ 206,954

# CHILEAN METALS INC.

Notes to Consolidated Financial Statements  
Years Ended December 31, 2017 and 2016  
(Expressed in Canadian Dollars)

## 5. Equipment (continued)

### Accumulated amortization

	Field equipment	Furniture and office equipment	Total
Balance, December 31, 2015	\$ 77,574	\$ 117,131	\$ 194,705
Amortization	1,712	1,964	3,676
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

### Net book value

	Field equipment	Furniture and office equipment	Total
At December 31, 2015	\$ 5,704	\$ 6,545	\$ 12,249
At December 31, 2016	\$ 3,992	\$ 4,581	\$ 8,573
At December 31, 2017	\$ 2,796	\$ 3,205	\$ 6,001

## 6. Mineral exploration properties

Exploration and acquisition costs for the years presented are as follows:

	Tierra de Oro	Zulema	Nova Scotia	Other	Total
Acquisition and staking	\$ -	\$ -	\$ 3,511,800	\$ -	\$ 3,511,800
Property option proceeds	-	-	(33,668)	-	(33,668)
Impairment loss	-	-	-	(48,587)	(48,587)
Exploration					
Claim costs (reversal)	(172,002)	99,342	8,520	-	(64,140)
Field costs	-	1,612	-	-	1,612
Geological	-	45,083	-	-	45,083
Project management	-	9,771	2,530	-	12,301
Technical Report	-	-	21,529	-	21,529
<b>Exploration and acquisition costs 2016</b>	<b>\$ (172,002)</b>	<b>\$ 155,808</b>	<b>\$ 3,510,711</b>	<b>\$ (48,587)</b>	<b>\$ 3,445,930</b>
Property option proceeds	\$ -	\$ -	\$ (33,763)	\$ -	\$ (33,763)
Exploration					
Assay	-	-	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
<b>Exploration and acquisition costs 2017</b>	<b>\$ 254,755</b>	<b>\$ 846,650</b>	<b>\$ (13,573)</b>	<b>\$ -</b>	<b>\$ 1,087,832</b>

### (a) Copaquire Property, Chile

The Company holds a 3% net smelter royalty ("NSR") on the Copaquire 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.



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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements Years Ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

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#### 6. Mineral properties (continued)

##### *(b) Tierra de Oro, Chile*

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

##### *(c) Zulema aka. 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 6,000,000 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 114,000,000 Chilean Pesos (\$233,000) remain unpaid and unaccrued as at December 31, 2017 (December 31, 2016 – 85,000,000 Chilean Peso (\$174,000)) 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 15,000,000 Chilean Pesos (\$31,000) remain unpaid and unaccrued as at December 31, 2017 (December 31, 2016 – 11,000,000 Chilean Peso (\$22,000)) 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 20,500,000 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.

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 is a director of the Company. Tejas will have until May 6, 2018 to earn a 35% working interest in the joint venture. To earn the interest Tejas will be required to pay a non refundable deposit of USD \$25,000 (received during the year ended December 31, 2017), issue 100,000 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. Subsequent to December 31, 2017, the Company agreed to the assignment by Tejas of the agreement to Highlander Resources Corp ("Highlander"). Subsequently, the Company concluded that it will not be able to complete a joint venture with Highlander and has now abandoned these discussions.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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#### 7. Debentures and loans

(a) On May 31, 2014, the Company entered into a loan agreement for \$94,000 to be repaid on May 31, 2015. The loan bore interest at 12% per annum with the interest prepaid. During the year ended December 31, 2016, the Company repaid the loan and accrued interest of \$13,969.

(b) On March 26, 2015, the Company issued \$190,000 of debentures bearing interest at a rate of 14% per annum and maturing on the earliest of the sale of the Copaquire 3% net smelter royalty ("NSR") (see note 6(a)) and October 31, 2016. As part of the issuance, the Company paid an origination fee of \$26,600. The debentures could be repaid prior to July 1, 2015 by paying a bonus of 20% of the principal. As the debentures were not repaid as of July 1, 2015, the Company was required to issue 1,900,000 warrants, exercisable at a price of \$0.05 per share until October 31, 2016. On November 1, 2016, if the debentures were not repaid in full plus a bonus of 100% of the principal, the holders had the right to acquire \$190,000/US\$1,000,000 percent of the Copaquire NSR. The debentures were secured by the shares of the Company's subsidiary, Minera IPBX Ltda. ("IPBX"), that holds the Copaquire NSR.

During the year ended December 31, 2016, \$95,000 of the debenture principal was converted to exercise the 1,900,000 warrants and the remaining principal and accrued interest were settled for common shares of the Company (see note 9).

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 1.34 year expected average life; 143% expected volatility; risk-free interest rate of 0.61%; 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 was \$144,832 (\$114,094 net of transaction costs), the equity component was \$45,168 (reclassified to warrants on warrant issuance) and the right to acquire the Copaquire NSR was valued at \$nil.

(c) On April 22, 2015, the Company issued \$40,000 of debentures bearing interest at a rate of 14% per annum and maturing on the earliest of the sale of the Copaquire 3% NSR (see note 6(a)) and October 31, 2016. The debentures could be repaid prior to July 1, 2015 by paying a bonus of 20% of the principal. As the debentures were not repaid as of July 1, 2015, the Company was required to issue 400,000 warrants, exercisable at a price of \$0.05 per share until October 31, 2016. On November 1, 2016, if the debentures were not repaid in full plus a bonus of 100% of the principal, the holders had the right to acquire \$40,000/US\$1,000,000 percent of the Copaquire NSR. The debenture was secured by the shares of the Company's subsidiary, IPBX, that contains the Copaquire NSR.

During the year ended December 31, 2016, \$20,000 of the debenture principal was converted to exercise the 400,000 warrants and the remaining principal and accrued interest were settled for common shares of the Company (see note 9).

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 1.34 year expected average life; 185% expected volatility; risk-free interest rate of 0.69%; 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 was \$29,660 (\$29,410 net of transaction costs), the equity component was \$10,340 (reclassified to warrants on warrant issuance) and the right to acquire the Copaquire NSR was valued at \$nil.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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#### 7. Debentures and loans (continued)

(d) On May 5, 2015, the Company issued \$60,000 of debentures bearing interest at a rate of 14% per annum and maturing on the earliest of the sale of the Copaquire 3% NSR (see note 6(a)) and October 31, 2016. As part of the issuance, the Company paid a brokerage fee of \$3,600. The debentures could be repaid prior to July 1, 2015 by paying a bonus of 20% of the principal. As the debentures were not repaid as of July 1, 2015, the Company was required to issue 600,000 warrants, exercisable at a price of \$0.05 per share until October 31, 2016. On November 1, 2016, if the debentures were not repaid in full plus a bonus of 100% of the principal, the holders had the right to acquire \$60,000/US\$1,000,000 percent of the Copaquire NSR. The debenture was secured by the shares of the Company's subsidiary, IPBX, that contains the Copaquire NSR.

During the year ended December 31, 2016, \$30,000 of the debenture principal was converted to exercise the 600,000 warrants and the remaining principal and interest was repaid.

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 1.34 year expected average life; 176% expected volatility; risk-free interest rate of 0.73%; 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 was \$44,933 (\$40,958 net of transaction costs), the equity component was \$15,067 (reclassified to warrants on warrant issuance) and the right to acquire the Copaquire NSR was valued at \$nil.

(e) On August 26, 2015, the Company issued \$25,000 of debentures bearing interest at a rate of 14% per annum and maturing on the earliest of the sale of the Copaquire 3% NSR (see note 6(a)) and October 31, 2016. In connection with the issuance of the debentures, the Company was required to issue 250,000 warrants, exercisable at a price of \$0.05 per share until October 31, 2016. On November 1, 2016, if the debentures were not repaid in full plus a bonus of 100% of the principal, the holders had the right to acquire \$25,000/US\$1,000,000 percent of the Copaquire NSR. The debenture was secured by the shares of the Company's subsidiary, IPBX, that contains the Copaquire NSR.

During the year ended December 31, 2016, \$12,500 of the debenture principal was converted to exercise the 250,000 warrants and the remaining principal and accrued interest were settled for common shares of the Company (see note 9).

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 1.18 year expected average life; 168% expected volatility; risk-free interest rate of 0.39%; 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 was \$22,677 (\$21,531 net of transaction costs), the equity component was \$2,323 (reclassified to warrants on warrant issuance) and the right to acquire the Copaquire NSR was \$nil.

(f) 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 Copaquire 3% NSR, which is not expected to occur prior to December 31, 2018, and October 31, 2018. In connection with the issuance of the debentures, the Company was required to issue 1,500,000 warrants, exercisable at a price of \$0.12 per share until October 31, 2018 (see note 11). On November 1, 2018, if the debentures are not repaid in full, the holders shall have the right to acquire \$150,000/US\$1,000,000 percent of the Copaquire NSR. The debenture is secured by the shares of the Company's subsidiary, IPBX, that contains the Copaquire NSR and a first floating secured position on all the assets of the Company.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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#### 7. Debentures and loans (continued)

(f) (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.

(g) 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, which is not expected to occur prior to December 31, 2018, and October 31, 2018. In connection with the issuance of the debentures, the Company was required to issue 1,500,000 warrants, exercisable at a price of \$0.18 per share until October 31, 2018 (see note 11). On November 1, 2018, if the debentures are not repaid in full, the holders shall have the right to acquire \$210,000/US\$1,000,000 percent of the Copacquire NSR. The debenture is 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.

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 liability component is \$110,050 (\$104,272 net of transaction costs), the equity component is \$99,950 (recorded in warrants) and the right to acquire the Copacquire NSR is valued at \$nil.

All debentures are held with shareholders of the Company.

(h) 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.

#### 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.

# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

### 9. Issued capital

#### a) Authorized share capital

At December 31, 2017, the authorized share capital consisted of an unlimited number of common shares, non-voting Class A preference shares with a par value of \$1.00 and Class B preference shares with a par value of \$5.00. The common shares do not have a par value.

#### b) Common shares issued

	Number of common shares	Amount
<b>Balance, December 31, 2015</b>	<b>25,193,374</b>	<b>\$ 48,385,997</b>
Private placements (i), (ii), (iv)	19,276,579	2,091,487
Share issuance costs (i)	-	(160,340)
Shares issued for debt (iii)	1,160,085	195,844
Shares issued for mineral exploration properties (notes 6(d) and (g))	26,500,000	3,547,500
Exercise of warrants (note 11)	3,207,260	161,508
Value of warrants exercised (note 11)	-	77,994
<b>Balance, December 31, 2016</b>	<b>75,337,298</b>	<b>\$ 54,299,990</b>
Private placements (v), (vi), (vii)	9,777,167	1,198,645
Value of warrants (v), (vi), (vii)	-	(235,387)
Share issuance costs (v), (vi), (vii)	-	(26,693)
Exercise of warrants (note 11)	159,090	11,136
Value of warrants exercised (note 11)	-	14,159
<b>Balance, December 31, 2017</b>	<b>85,273,555</b>	<b>\$ 55,261,850</b>

(i) On May 17, 2016, the Company completed a non-brokered private placement of 10,000,000 common shares at \$0.07 per share for aggregated gross proceeds of \$700,000. In connection with the financing, the Company paid finder's fees of \$18,645 and issued 216,350 finders' warrants entitling the holder to acquire common shares at a price of \$0.07 per share until June 1, 2017.

The 216,350 warrants were valued at of \$19,255 using the Black-Scholes option-pricing model. The following weighted average assumptions were used: risk free interest rate – 1.11%; expected volatility – 184% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 1 year.

(ii) On November 1, 2016, the Company completed a non-brokered private placement of 5,372,566 common shares at \$0.15 per share for aggregated gross proceeds of \$805,885. In connection with the financing, the Company paid finder's fees of \$36,028 and issued 240,187 finders' warrants. 229,771 warrants entitle the holder to acquire common shares at a price of \$0.15 per share and 10,416 warrants entitle the holder to acquire common shares at a price of USD\$0.12 per share until October 24, 2017.

The 229,771 warrants were valued at \$16,566 using the Black-Scholes option-pricing model. The following weighted average assumptions were used: risk free interest rate – 0.54%; expected volatility – 174% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 1 year.

The 10,416 warrants were valued at \$732 using the Black-Scholes option-pricing model. The following weighted average assumptions were used: risk free interest rate – 0.54%; expected volatility – 174% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 1 year. As a result of the exercise price of the warrants being denominated in a currency other than the functional currency, the warrants are considered a derivative financial liability.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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#### 9. Issued capital (continued)

##### b) Common shares issued (continued)

(iii) On November 18, 2016, the Company issued 1,160,085 shares to settle the remaining principal and accrued interest of certain debentures payable (see notes 7(b), (c) and (e)) totalling \$174,013. As a result, a loss on debt settlement of \$23,202 was recorded.

(iv) On December 29, 2016, the Company completed the first tranche of a non-brokered private placement of 3,904,013 common shares at \$0.15 per share for aggregated gross proceeds of \$585,602. In connection with the financing, the Company paid finder's fees of \$27,565 and issued 181,752 finders' warrants. 146,579 warrants entitle the holder to acquire common shares at a price of \$0.15 per share and 35,173 warrants entitle the holder to acquire common shares at a price of USD\$0.12 per share until December 30, 2017.

The 146,579 warrants were valued at \$17,956 using the Black-Scholes option-pricing model. The following weighted average assumptions were used: risk free interest rate – 0.64%; expected volatility – 176% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 1 year.

The 35,173 warrants were valued at \$4,210 using the Black-Scholes option-pricing model. The following weighted average assumptions were used: risk free interest rate – 0.64%; expected volatility – 176% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 1 year. As a result of the exercise price of the warrants being denominated in a currency other than the functional currency, the warrants are considered a derivative financial liability.

(v) On January 19, 2017, the Company completed the final tranche of a non-brokered private placement of 166,667 common shares at \$0.15 per share for aggregate gross proceeds of \$25,000.

(vi) On October 4, 2017, the Company completed a non-brokered private placement of 4,654,000 units at \$0.15 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 \$0.20 until June 1, 2019, subject to the Company's ability to accelerate the warrants expiry, should its shares trade above \$0.30 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 80,000 finders' warrants. Each finders' warrant is exercisable at \$0.15 into a unit until June 1, 2019, subject to the Company's ability to accelerate the warrants should its shares trade above \$0.30 for more than 15 consecutive trading days.

The 2,327,000 warrants and 80,000 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.

(vii) On October 23, 2017, the Company completed a non-brokered private placement of 5,358,600 units at \$0.10 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. 2,478,250 whole warrants are exercisable at \$0.18 and 201,050 whole warrants are exercisable at USD \$0.145 until October 16, 2019, subject to the Company's ability to accelerate the warrants expiry, should its shares trade above \$0.36 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 2,679,300 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.

402,100 of the common shares were issued subsequent to December 31, 2017 and have been included in shares to be issued at December 31, 2017.

# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

### 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 (\$)
<b>Balance, December 31, 2015</b>	<b>1,880,000</b>	<b>0.25</b>
Expired	(240,000)	0.25
Granted (i), (ii), (iii), (iv), (v)	5,210,000	0.13
<b>Balance, December 31, 2016</b>	<b>6,850,000</b>	<b>0.16</b>
Granted (vi), (vii)	350,000	0.18
<b>Balance, December 31, 2017</b>	<b>7,200,000</b>	<b>0.16</b>

(i) On May 27, 2016, the Company granted stock options to certain members of management of the Company for the purchase of a total of 1,600,000 common shares. The options are exercisable for a period of five years at an exercise price of \$0.09 per share and vested immediately. The fair value of these options at the date of grant was estimated at \$218,240 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate – 0.78%; expected volatility – 190% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 5 years.

(ii) On July 4, 2016, the Company granted stock options to a consultant of the Company for the purchase of a total of 200,000 common shares. The options are exercisable for a period of five years at an exercise price of \$0.15 per share and vest 1/4 every 3 months. The fair value of these options at the date of grant was estimated at \$29,020 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate – 0.56%; expected volatility – 191% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 5 years.

(iii) On July 4, 2016, the Company granted stock options to a consultant of the Company for the purchase of a total of 200,000 common shares. The options are exercisable for a period of two years at an exercise price of \$0.20 per share and vested immediately. The fair value of these options at the date of grant was estimated at \$27,680 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate – 0.52%; expected volatility – 211% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 2 years.

(iv) On September 6, 2016, the Company granted stock options to a consultant of the Company for the purchase of a total of 360,000 common shares. The options are exercisable for a period of five years at an exercise price of \$0.17 per share and vested immediately. The fair value of these options at the date of grant was estimated at \$59,436 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate – 0.66%; expected volatility – 195% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 5 years.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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#### 10. Stock options (continued)

(v) On November 14, 2016, the Company granted stock options to directors, officers and a consultant of the Company for the purchase of a total of 2,850,000 common shares. The options are exercisable for a period of five years at an exercise price of \$0.15 per share and vested immediately. The fair value of these options at the date of grant was estimated at \$415,530 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate – 0.96%; expected volatility – 196% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 5 years.

(vi) On January 20, 2017, the Company granted stock options to a consultant of the Company for the purchase of a total of 200,000 common shares. The options are exercisable for a period of two years at an exercise price of \$0.18 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.

(vii) On March 20, 2017, the Company granted stock options to a consultant of the Company for the purchase of a total of 150,000 common shares. The options are exercisable for a period of five years at an exercise price of \$0.17 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, 2017:

Expiry date	Exercise price (\$)	Remaining contractual life (years)	Number of options outstanding	Number of exercisable options
July 4, 2018	0.20	0.51	200,000	200,000
June 11, 2019	0.25	1.44	1,640,000	1,640,000
January 19, 2019	0.18	1.05	200,000	200,000
May 27, 2021 <sup>(1)</sup>	0.09	3.41	1,600,000	1,600,000
July 4, 2021	0.15	3.51	200,000	200,000
September 6, 2021	0.17	3.68	360,000	360,000
November 14, 2021 <sup>(2)</sup>	0.15	3.87	2,850,000	2,850,000
March 20, 2022	0.17	4.22	150,000	150,000
		<b>3.03</b>	<b>7,200,000</b>	<b>7,200,000</b>

(1) Cancelled subsequent to December 31, 2017, see note 19.

(2) 950,000 expired subsequent to December 31, 2017, see note 19.



# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2017 and 2016 (Expressed in Canadian Dollars)

### 11. Warrants

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

	Number of warrants	Weighted average exercise price (\$)
<b>Balance, December 31, 2015</b>	<b>3,150,000</b>	<b>0.05</b>
Granted (notes 7 and 9 (b)(i), (ii) and (iv))	2,138,289	0.12
Exercised	(3,207,260)	0.05
<b>Balance, December 31, 2016</b>	<b>2,081,029</b>	<b>0.12</b>
Granted (notes 7 and 9 (b)(vi) and (vii))	6,586,300	0.19
Expired	(421,939)	0.15
Exercised	(159,090)	0.07
<b>Balance, December 31, 2017</b>	<b>8,086,300</b>	<b>0.17</b>

The following table reflects the actual warrants issued as of December 31, 2017:

Number of warrants outstanding	Grant date fair value (\$)	Exercise price (\$)	Expiry date
1,500,000	78,101	0.12	October 31, 2018
1,500,000	99,950	0.18	October 31, 2018
2,327,000	101,690	0.20	June 1, 2019
80,000	5,184	0.15 <sup>(1)</sup>	June 1, 2019
2,478,250	123,665	0.18	October 23, 2019
201,050	10,032	USD 0.145	October 23, 2019
<b>8,086,300</b>	<b>418,622</b>	<b>0.17</b>	

(1) Exercisable into units consisting of one common share and one half of one additional common share purchase warrant. Each additional whole warrant will be exercisable at \$0.20 until June 1, 2019.

### 12. Net loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2017 was based on the loss attributable to common shareholders of \$2,482,787 (year ended December 31, 2016 - \$5,506,764) and the weighted average number of common shares outstanding of 77,736,245 (year ended December 31, 2016 - 42,407,213). Diluted loss per share did not include the effect of 7,200,000 options outstanding (year ended December 31, 2016 - 6,850,000 options outstanding) or the effect of 8,086,300 warrants outstanding (year ended December 31, 2016 - 2,081,029 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, 2017, the directors and/or officers of the Company collectively control 12,958,444 common shares of the Company or approximately 15% 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.

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**CHILEAN METALS INC.****Notes to Consolidated Financial Statements****Years Ended December 31, 2017 and 2016****(Expressed in Canadian Dollars)**

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**13. Related party balances and transactions (continued)**

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

	Notes	Year ended December 31,	
		2017	2016
Administration expense	(i)	\$ 324,000	\$ 279,000
Accounting expense	(ii)	\$ 55,495	\$ 50,798
Geological consulting expense	(iii)	\$ 96,000	\$ 65,600
Consulting expense	(iv)	\$ -	\$ 12,000
Bonus	(v)	\$ -	\$ 144,000

(i) For the year ended December 31, 2017, the Company incurred consulting fees from companies controlled by an officer and former officer of \$324,000 (year ended December 31, 2016 - \$279,000) recorded in administration fees. As at December 31, 2017, \$15,401 (December 31, 2016 - \$30,274) is included in advances, prepaid expenses and deposits.

(ii) For the year ended December 31, 2017, the Company incurred accounting expenses from companies related to an officer of \$55,495 (year ended December 31, 2016 - \$50,798) recorded in professional fees.

(iii) For the year ended December 31, 2017, the Company incurred geological consulting expenses from companies controlled by former officers of \$96,000 (year ended December 31, 2016 - \$65,600) recorded in administration fees.

(iv) For the year ended December 31, 2017, the Company incurred consulting expenses from a director of \$nil (year ended December 31, 2016 - \$12,000) recorded in administration fees.

(v) During the year ended December 31, 2017, the Company issued a bonus of \$nil (year ended December 31, 2016 - \$144,000) to the former President of the Company. As a condition of the bonus, the former President has relinquished any right to future severance in the event of termination or a change of control of the Company.

(vi) A director and officer of the Company purchased 1,096,000 common shares in the May 17, 2016 private placement (see note 9(b)(i)), 200,000 common shares in the November 1, 2016 private placement (see note 9(b)(ii)) and 756,500 common shares in the October 23, 2017 private placement (see note 9(b)(vii)).

(vii) A director of the Company purchased 450,000 common shares in the October 23, 2017 private placement (see note 9(b)(vii)).

(viii) See notes 6 and 7.

(ix) As at December 31, 2017, included in accounts payable and accrued liabilities is \$18,998 (December 31, 2016 - \$16,289) due to directors and key management. These amounts are unsecured, non-interest bearing and due on demand.

	As at December 31, 2017	As at December 31, 2016
Chief Executive Officer and Director	\$ 1,560	\$ 8,723
Chief Financial Officer	12,631	7,566
VP Exploration (Former)	4,807	-
	\$ 18,998	\$ 16,289

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**CHILEAN METALS INC.****Notes to Consolidated Financial Statements****Years Ended December 31, 2017 and 2016****(Expressed in Canadian Dollars)**

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**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,	
	2017	2016
<b>Fees charged:</b>		
Directors	\$ -	\$ 12,000
Chief Executive Officer and Director	144,000	288,000
Chief Executive Officer (Former) and Director	180,000	135,000
Chief Financial Officer	55,495	50,798
VP Exploration (Former) and Director	96,000	60,000
VP Exploration (Former)	-	5,600
<b>Share-based benefits:</b>		
Directors	-	228,906
Chief Executive Officer, President and Director	-	253,040
Chief Financial Officer	-	26,244
VP Exploration and Director	-	103,710
Total remuneration	\$ 475,495	\$ 1,163,298

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. See also note 15.

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, 2017	Canada	Chile	Total
Equipment	\$ -	\$ 6,001	\$ 6,001
<b>December 31, 2016</b>	<b>Canada</b>	<b>Chile</b>	<b>Total</b>
Equipment	\$ -	\$ 8,573	\$ 8,573

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**CHILEAN METALS INC.****Notes to Consolidated Financial Statements****Years Ended December 31, 2017 and 2016****(Expressed in Canadian Dollars)**

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**14. Segmented information (continued)**

<b>Year ended December 31, 2017</b>	<b>Canada</b>	<b>Chile</b>	<b>Total</b>
<b>Administrative expenses</b>			
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)
<b>Other items</b>			
Unrealized gain on warrant liability	5,432	-	5,432
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (2,292,563)</b>	<b>\$ (190,224)</b>	<b>\$ (2,482,787)</b>

<b>Year ended December 31, 2016</b>	<b>Canada</b>	<b>Chile</b>	<b>Total</b>
<b>Administrative expenses</b>			
Administration fees	\$ 510,933	\$ 13,133	\$ 524,066
Amortization	-	3,676	3,676
Bank and interest charges	155,762	1,835	157,597
Exploration and acquisition costs	3,494,517	-	3,494,517
Foreign exchange loss (gain)	(11,666)	101,964	90,298
Investor relations	116,505	-	116,505
Office and miscellaneous	49,432	85,064	134,496
Professional fees	83,890	34,487	118,377
Share-based payments	738,582	-	738,582
Transfer agent and regulatory	46,996	-	46,996
Travel, promotion and mining shows	57,962	-	57,962
Net operating loss before other items	\$ (5,242,913)	\$ (240,159)	\$ (5,483,072)
<b>Other items</b>			
Loss on debt settlement	(23,202)	-	(23,202)
Unrealized loss on warrant liability	(490)	-	(490)
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (5,266,605)</b>	<b>\$ (240,159)</b>	<b>\$ (5,506,764)</b>

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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### 15. Commitments and contingencies

#### 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, 2017, the Company has unpaid property tax for various mineral exploration property claims totaling approximately 310,000,000 Chilean Pesos (\$632,000) (December 31, 2016 - 196,000,000 Chilean Pesos (\$393,000) which has been included in accounts payable and accrued liabilities as at December 31, 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 Company will also be required to pay property taxes for fiscal 2018 on its mineral property claims of approximately 48,000,000 Chilean Pesos (\$98,000).

During the year, the Company was advised that its Tierra de Oro and Zulema claims were scheduled to be put up for auction in May 2017 as a result of non-payment of property taxes related to the years 2010 to 2013. The Company filed applications, as permitted by the relevant statutes, to forgive these back taxes which was accepted. Therefore the 2010 to 2013 property taxes are no longer owing.

#### Consulting agreements

The Company entered into a consulting agreement with the Chief Executive Officer of the Company starting May 1, 2016, providing for the payment of \$180,000 per year for the services of the Chief Executive Officer. Previously, in the event of termination without cause or change of control, the Chief Executive Officer was entitled to two times annual salary. In the event of a change of control, the Chief Executive Officer could terminate his consulting agreement for good reason, as defined in the agreement, resulting in being entitled to receive one year salary. See note 19.

The Company entered into a consulting agreement with the VP Exploration of the Company starting May 1, 2016, providing for the payment of \$96,000 per year for the services of the VP Exploration. Previously, in the event of termination without cause or change of control, the VP Exploration was entitled to one year annual salary. In the event of a change of control, the VP Exploration could terminate his consulting agreement for good reason, as defined in the agreement, resulting in being entitled to receive one year annual salary. See note 19.

These amounts have not been accrued as the triggering event has not occurred. See note 19.

### 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, 2017 and December 31, 2016 is as follows:

	Year ended December 31,	
	2017	2016
Net loss before income taxes	\$ (2,482,787)	\$ (5,506,764)
Combined federal and provincial statutory income tax rate	26.50 %	26.50 %
Expected income tax recovery	\$ (658,000)	\$ (546,000)
Permanent differences	18,000	200,000
Change in tax rates and other	(7,936,000)	(5,763,000)
Change in tax benefits not recognized	8,576,000	6,109,000
Income tax expense (recovery)	\$ -	\$ -

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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#### 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, 2017	As at December 31, 2016
Non-capital losses carried forward	\$ 81,404,000	\$ 55,531,000
Capital losses carried forward	341,000	341,000
Mineral exploration properties and equipment	182,000	4,411,000
Finance costs and other	10,423,000	205,000
	<b>\$ 92,350,000</b>	<b>\$ 60,488,000</b>

The Company has approximately \$67,000,000 (December 31, 2016 - \$43,000,000) of Chilean non-capital losses that carry forward indefinitely. The Company also has Canadian non-capital losses of approximately \$14,852,000 (December 31, 2016 - \$12,607,000) 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	2,236,000
	<b>\$ 14,852,000</b>

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.

The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2017. 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, 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.

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## CHILEAN METALS INC.

Notes to Consolidated Financial Statements  
Years Ended December 31, 2017 and 2016  
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### 17. Capital management (continued)

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

As at December 31, 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, 2017	As at December 31, 2016
	\$	\$
<b>Assets:</b>		
<i>FVTPL</i>		
Marketable securities	33,668	33,668
<i>Loans and receivables</i>		
Cash	59,383	535,281
Amounts receivable	20,519	38,864
Advances	15,401	30,274
<b>Liabilities:</b>		
<i>FVTPL</i>		
Warrant liability	-	5,432
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	1,078,170	576,996
Debentures payable	303,850	111,606

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:

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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### 18. Financial instruments and risk (continued)

#### *Fair value (continued)*

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, 2017, marketable securities is considered Level 2. As at December 31, 2016, marketable securities and warrant liability 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, 2017, the Company had cash and amounts receivable of \$79,902 (December 31, 2016 - \$574,145) to settle current liabilities of \$1,382,020 (December 31, 2016 - \$582,428). 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 \$11,000 (December 31, 2016 - \$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, 2017, currency risk for the US Dollar was not significant.

#### *Interest Rate Risk*

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



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## **CHILEAN METALS INC.**

### **Notes to Consolidated Financial Statements**

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#### **18. Financial instruments and risk (continued)**

##### *Commodity Price Risk*

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

#### **19. Subsequent events**

(i) Subsequent to December 31, 2017, the Company announced that Patrick Cruickshank and Gary Lohman resigned their respective positions as the Company's Chief Executive Officer and VP Exploration with effect on February 28, 2018. Current chairman, Terry Lynch, replaced Mr. Cruickshank as the Company's CEO.

Mr. Cruickshank and Mr. Lohman agreed to the cancellation of all of their respective Company stock options effective February 28, 2018. The Company agreed to issue 1,333,333 common shares to Mr. Cruickshank and 666,667 common shares to Mr. Lohman as consideration for their past services and the cancellation of their stock options. The issuance of the Company shares to Mr. Cruickshank and Mr. Lohman are subject to TSX-V approval and will bear a hold period of 4 months from issuance.