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**CHILEAN METALS INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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*Audit. Tax. Advisory.*

## **Independent Auditor's Report**

To the Shareholders of Chilean Metals Inc.

### **Opinion**

We have audited the consolidated financial statements of Chilean Metals Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows, and consolidated statements of changes in shareholders' deficiency for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis for opinion**

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

### **Material uncertainty related to going concern**

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2020 and, as of that date, the Company's current liabilities exceeded its current assets. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other information**

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

**McGovern Hurley LLP**



**Chartered Professional Accountants  
Licensed Public Accountants**

Toronto, Ontario  
May 5, 2021

# Chilean Metals Inc.

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

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 179,272	\$ 7,438
Amounts receivable (note 8)	194,301	2,893
Due from related party (note 12)	60,662	-
Advances, prepaid expenses and deposits	50,054	78,817
<b>Total current assets</b>	<b>484,289</b>	<b>89,148</b>
<b>Non-current assets</b>		
Equipment (note 4)	18,403	4,604
<b>Total assets</b>	<b>\$ 502,692</b>	<b>\$ 93,752</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (notes 12 and 14)	\$ 1,118,560	\$ 1,364,224
Due to related parties (note 12)	39,084	380,612
Debentures payable (note 6)	-	472,392
Advances from shareholders (note 12)	7,000	477,000
<b>Total current liabilities</b>	<b>1,164,644</b>	<b>2,694,228</b>
<b>Non-current liabilities</b>		
Debenture payable (note 6)	585,836	-
Other liabilities (note 7)	69,554	69,554
<b>Total liabilities</b>	<b>1,820,034</b>	<b>2,763,782</b>
<b>Shareholders' deficiency</b>		
Issued capital (note 8)	58,328,714	56,307,489
Contributed surplus	4,096,158	3,608,887
Warrants (note 10)	1,611,502	728,200
Deficit	(65,353,716)	(63,314,606)
<b>Total shareholders' deficiency</b>	<b>(1,317,342)</b>	<b>(2,670,030)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>\$ 502,692</b>	<b>\$ 93,752</b>

Nature of operations and going concern (note 1)  
Commitments and contingencies (notes 5 and 14)  
Subsequent events (note 18)

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

	Year ended December 31,	
	2020	2019
<b>Operating expenses</b>		
Administration fees (note 12)	\$ 385,000	\$ 338,439
Amortization (note 4)	2,543	2,601
Bank and Interest (note 6 and 12)	136,115	91,652
Exploration expenditures (note 5)	373,980	470,050
Foreign exchange loss (gain)	88,773	(86,287)
Investor relations	128,668	170,530
Office and miscellaneous	94,197	30,464
Professional fees (note 12)	290,849	175,277
Share-based payments (note 9)	487,271	-
Transfer agent and regulatory	46,461	20,896
Travel, promotion and mining shows	1,917	6,579
Part XII.6 tax interest and penalty (note 14)	3,336	26,554
Net operating loss before other items	<b>(2,039,110)</b>	<b>(1,246,755)</b>
<b>Other items</b>		
Reversal of flow-through liability	-	56,059
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (2,039,110)</b>	<b>\$ (1,190,696)</b>
<b>Basic and diluted net loss per share (note 11)</b>	<b>\$ (0.09)</b>	<b>\$ (0.08)</b>
<b>Weighted average number of common shares outstanding - basic and diluted (note 11)</b>	<b>22,089,079</b>	<b>14,161,976</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,	
	2020	2019
<b>Operating activities</b>		
Net loss for the year	\$ (2,039,110)	\$ (1,190,696)
Items not affecting cash:		
Amortization	2,543	2,601
Share-based payments	487,271	-
Accrued interest and accretion	133,264	86,383
Write down of claim costs	(109,828)	-
Reversal of flow-through liability	-	(56,059)
Non-cash working capital items:		
Amounts receivable	(91,408)	22,088
Advances, prepaid expenses and deposits	28,763	114,084
Accounts payable and accrued liabilities	(135,836)	164,772
Repayment (advances) from related parties	(454,622)	360,326
<b>Net cash used in operating activities</b>	<b>(2,178,963)</b>	<b>(496,501)</b>
<b>Financing activities</b>		
Proceeds from private placement	2,917,525	-
Shares issuance costs	(162,512)	-
Advances from shareholders	183,772	477,000
Repayments to shareholders	(509,084)	-
Debenture repayments	(62,562)	-
<b>Net cash provided by financing activities</b>	<b>2,367,139</b>	<b>477,000</b>
<b>Investing activities</b>		
Purchase of equipment	(16,342)	(3,021)
<b>Net cash used in investing activities</b>	<b>(16,342)</b>	<b>(3,021)</b>
<b>Net change in cash</b>	<b>171,834</b>	<b>(22,522)</b>
<b>Cash, beginning of year</b>	<b>7,438</b>	<b>29,960</b>
<b>Cash, end of year</b>	<b>\$ 179,272</b>	<b>\$ 7,438</b>
<b>Supplemental disclosures</b>		
Bonus warrants	\$ 49,514	\$ -
Warrants issued to brokers	\$ 59,680	\$ -
Expiry of warrants	\$ -	\$ 243,531
Expiry of options	\$ -	\$ 202,500
Subscription receivable	\$ 100,000	\$ -

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

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**Chilean Metals Inc.****Consolidated Statements of Changes in Shareholders' Deficiency  
(Expressed in Canadian Dollars)**

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	Common Shares		Contributed Surplus	Warrants	Deficit	Total
	Number	Amount				
<b>Balance, December 31, 2018</b>	<b>14,161,976</b>	<b>\$ 56,307,489</b>	<b>\$ 3,811,387</b>	<b>\$ 971,731</b>	<b>\$(62,569,941)</b>	<b>\$ (1,479,334)</b>
Option expiry	-	-	(202,500)	-	202,500	-
Value of warrants expired	-	-	-	(243,531)	243,531	-
Net comprehensive loss for the year	-	-	-	-	(1,190,696)	(1,190,696)
<b>Balance, December 31, 2019</b>	<b>14,161,976</b>	<b>\$ 56,307,489</b>	<b>\$ 3,608,887</b>	<b>\$ 728,200</b>	<b>\$(63,314,606)</b>	<b>\$ (2,670,030)</b>
Private placement	30,175,250	2,181,886	-	835,639	-	3,017,525
Share issuance cost	-	(117,508)	-	(45,004)	-	(162,512)
Broker warrants	-	(59,680)	-	59,680	-	-
Broker warrant issuance costs	-	16,527	-	(16,527)	-	-
Share based compensation	-	-	487,271	-	-	487,271
Bonus warrants	-	-	-	49,514	-	49,514
Net comprehensive loss for the year	-	-	-	-	(2,039,110)	(2,039,110)
<b>Balance, December 31, 2020</b>	<b>44,337,226</b>	<b>\$ 58,328,714</b>	<b>\$ 4,096,158</b>	<b>\$ 1,611,502</b>	<b>\$(65,353,716)</b>	<b>\$ (1,317,342)</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, 2020 and 2019 (Expressed in Canadian Dollars)

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### 1. Nature of operations and going concern

Chilean Metals Inc. (the "Company" or "Chilean") is a mineral exploration company and is in the business of acquiring and exploring mineral properties in Chile and Canada.

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"), 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 property interests may also be subject to increases in taxes and royalties, renegotiation of contracts, and political uncertainty. The Company's Chilean mineral property maintenance payments are in arrears (see note 14) and as a result, the Copiapó Court has been notified by the General Treasury of the Republic of Chile. The Copiapó Court may initiate the auction of the properties. If the Company's claims are put up for auction the Company, as concession holder, is not allowed to place bids on its claims under auction; however, the concession holder may remove a concession from auction by paying the penalty amount which is equal to double the patent amount outstanding. Accordingly, there is a risk that the Company will not be able to retain title to its mineral claims in Chile.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions.

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, 2020, the Company incurred a net loss of \$2,039,110 (year ended December 31, 2019 - \$1,190,696). As at December 31, 2020, the Company has incurred significant losses since inception totaling \$65,353,716 (December 31, 2019 - \$63,314,606). As at December 31, 2020, the Company has a working capital deficiency of \$680,355 (December 31, 2019 - \$2,605,080); 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 material uncertainties 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.

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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### 2. Basis of presentation

#### *Statement of compliance*

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS, which have been applied consistently to all periods presented. These consolidated financial statements were issued and effective as of May 5, 2021, the date the Board of Directors approved the statements.

#### *Basis of measurement*

These consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

#### *Functional and presentation currency*

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. The functional currency of each individual entity is measured using the currency of the primary economic environment in which the entity operates, being the Canadian dollar.

#### *Basis of consolidation*

These consolidated financial statements incorporate the assets, liabilities and results of operations of all entities controlled by the Company. The effects of all transactions between entities in the consolidated group have been eliminated.

These consolidated financial statements include the accounts of the Company, its wholly-owned Chilean subsidiary, Minera IPBX Ltda., and its wholly-owned Canadian subsidiaries, Tierra de Oro Resources Ltd. and Chilean Metals Exploration Ltd. These consolidated financial statements include the indirectly 100% owned 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.

#### *Use of estimates and judgments*

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes may differ from these estimates.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 2. Basis of presentation (continued)

##### *Use of estimates and judgments (continued)*

The critical judgments management has made in the process of applying the Company's accounting policies, apart from those involving estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are in relation to the assumption that the Company will continue as a going concern. The most significant accounts that require estimates as the basis for determining the stated amounts include the following:

##### (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) 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.

##### (iii) 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.

##### (iv) Contingencies

See note 14.

##### (v) Going concern

The going concern presentation of the consolidated financial statements 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.

##### (vi) 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.

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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### 2. Basis of presentation (continued)

#### ***New standards adopted***

##### *Definition of a Business (Amendments to IFRS 3)*

The IASB has issued Definition of a Business (Amendments to IFRS 3) to clarify the definition of a business for the purpose of determining whether a transaction should be accounted for as an asset acquisition or a business combination. The amendments:

- clarify the minimum attributes that the acquired assets and activities must have to be considered a business
- remove the assessment of whether market participants can acquire the business and replace missing inputs or processes to enable them to continue to produce outputs
- narrow the definition of a business and the definition of outputs
- add an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business

The Company has adopted this policy on January 1, 2020, and there was no material impact to the consolidated financial statements.

##### *Amendments to IAS 1 - Presentation of financial statements ("IAS 1") and IAS 8 - Accounting policies, changes in accounting estimates and errors ("IAS 8")*

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The Company has adopted this policy on January 1, 2020, and there was no material impact to the consolidated financial statements.

#### ***New standards not yet adopted***

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for annual periods beginning on or after January 1, 2021 or later periods.

##### *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period"
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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### 3. Significant accounting policies

#### (a) 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:

Automobile	30%
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.

#### (b) 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.

#### *Government assistance*

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

#### (c) Impairment

The Company's tangible 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.

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

#### (c) Impairment (continued)

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.

#### (d) 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, 2020 and 2019, the Company had not incurred any decommissioning liabilities related to the exploration of its mineral properties.

#### (e) 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.

#### (f) 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.

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

#### (g) 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.

#### (h) Financial instruments

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

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Classification	Measurement
Cash	Amortized cost
Amounts receivable	Amortized cost
Amounts due from related parties	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Due to related parties	Amortized cost
Advances from shareholders	Amortized cost
Debenture payable	Amortized cost
Other liabilities	Amortized cost

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#### Financial assets

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

##### i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss.

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

#### (h) Financial instruments

##### Financial assets (continued)

##### ii. Amortized cost

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

##### Financial liabilities

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

##### i. Amortized cost

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

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

##### ii. Financial liabilities recorded FVTPL

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

##### Transaction costs

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

##### Subsequent measurement

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

##### Derecognition

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

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

#### (h) Financial instruments

##### Expected credit loss impairment model

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

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

#### (i) Share-based payments

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

The 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.

#### (j) 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.

#### (k) Loss per share

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, 2020 and 2019, 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.

# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

### 3. Significant accounting policies (continued)

#### (l) 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 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.

#### (m) Warrants

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

### 4. Equipment

<b>Cost</b>	<b>Automobiles</b>	<b>Field Equipment</b>	<b>Furniture and office equipment</b>	<b>Total</b>
<b>Balance, December 31, 2018</b>	\$ -	\$ 83,278	\$ 123,676	\$ 206,954
Additions	-	-	3,021	3,021
<b>Balance, December 31, 2019</b>	-	83,278	126,697	209,975
Additions	16,342	-	-	16,342
<b>Balance, December 31, 2020</b>	\$ 16,342	\$ 83,278	\$ 126,697	\$ 226,317

<b>Accumulated amortization</b>	<b>Automobiles</b>	<b>Field Equipment</b>	<b>Furniture and office equipment</b>	<b>Total</b>
<b>Balance, December 31, 2018</b>	\$ -	\$ 81,322	\$ 121,448	\$ 202,770
Additions	-	588	2,013	2,601
<b>Balance, December 31, 2019</b>	-	81,910	123,461	205,371
Additions	967	412	1,164	2,543
<b>Balance, December 31, 2020</b>	\$ 967	\$ 82,322	\$ 124,625	\$ 207,914

## CHILEAN METALS INC.

Notes to Consolidated Financial Statements  
Years Ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)

### 4. Equipment (continued)

<i>Net book value</i>	Automobiles	Field Equipment	Furniture and office equipment	Total
Balance, December 31, 2019	\$ -	\$ 1,368	\$ 3,236	\$ 4,604
Balance, December 31, 2020	\$ 15,375	\$ 956	\$ 2,072	\$ 18,403

### 5. Mineral exploration expenditures

Exploration and acquisition costs for the years ended December 31, 2020 and December 31, 2019 are as follows:

	Zulema	Nova Scotia	Total
Assays	\$ 5,157	\$ -	\$ 5,157
Claim costs	168,331	47,905	216,236
Option payments	-	5,000	5,000
Field costs	120,909	29,992	150,901
Geophysics	92,756	-	92,756
<b>Balance, December 31, 2019</b>	<b>\$ 387,153</b>	<b>\$ 82,897</b>	<b>\$ 470,050</b>

	Other	Zulema	Nisk	Total
Assays	\$ -	\$ 5,204	\$ -	\$ 5,204
Claim costs	-	8,136	-	8,136
Drilling	-	349,182	-	349,182
Option payments	-	-	25,000	25,000
Field costs	-	17,456	-	17,456
Geophysics and geological	-	78,830	-	78,830
Write down of claim taxes	(109,828)	-	-	(109,828)
<b>Balance, December 31, 2020</b>	<b>\$ (109,828)</b>	<b>\$ 458,808</b>	<b>\$ 25,000</b>	<b>\$ 373,980</b>

#### (a) Tierra de Oro, Chile

Tierra de Oro is an exploration project located in Region III on the eastern flank of Chile's Coastal Iron Oxide Copper Gold belt. The Company owns a 100% interest in exploration concessions in Region III, Chile. See Note 1 and 14 for status of claims in Chile.

#### (b) Zulema also known as Chicharra Property, Chile

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

During the year ended December 31, 2019, the Company dropped all claims related to its Sierra pintada properties, and as a result has no claims related to these properties.

#### (c) Lynn, Parrsboro and Bass River Properties, Canada

The Lynn, Parrsboro and Bass River Properties are located in central Nova Scotia, Canada. During the year ended December 31, 2020, the Company has ceased its exploration efforts in Nova Scotia.

#### (d) Other Properties, Chile

During the year ended December 31, 2020, the Government of Chile, released Chilean from paying for a number of claims which had taxes owing (note 14). These claims related to non-core properties, and properties where the Company had ceased its exploration programs.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 5. Mineral exploration expenditures (continued)

(e) *Nisk Property, British Columbia, Canada*

On December 22, 2020 (the "Effective Date") the Company entered into an option agreement with Critical Elements Limited ("Critical") to acquire a 50% interest in the Nisk property (the "First Option"). Upon completion of the terms of the First Option the Company also has a Second Option to increase its interest from 50% to 80% by incurring or funding additional work in the amount of \$2,200,000 including a Resource Estimate for a period of four years from the effective date of completion of the First Option.

Under the terms of the agreement the requirements to exercise the First Option are:

- (a) Make cash payments totaling \$500,000 to Critical on or before the dates set out below:
  - (i) A non-refundable amount of \$25,000 on the date of execution of the agreement; (paid)
  - (ii) An amount of \$225,000 within five (5) Business Days following the Effective Date; and (paid subsequent to December 31, 2020)
  - (iii) An amount \$250,000 within six (6) months from the Effective Date;
- (b) issue 12,051,770 Shares within five (5) Business Days following the Effective Date. (issued subsequent to December 31, 2020)
- (c) incur an aggregate of \$2,800,000 of exploration expenditures on the Property on or before the dates set out below:
  - (i) \$500,000 in exploration expenditures on or before the date that is one (1) year from Effective Date;
  - (ii) \$800,000 in exploration expenditures on or before the date that is two (2) years from Effective Date; and
  - (iii) \$1,500,000 in exploration expenditures on or before the date that is three (3) years from Effective Date;

Following the exercise of the First Option Critical will receive a 2% net smelter return from the extraction and production of lithium products, of which Chilean may reduce to 1% upon paying \$2,000,000 in cash.

#### 6. Debentures payable

(a) On August 24, 2018, the Company issued \$250,000 of secured debentures with a maturity of August 25, 2019 to a shareholder of the Company. The debenture bears interest at 14% per annum payable up front, \$35,000 was paid as of December 31, 2018. In addition, a finance cost of \$15,000 was paid as of September 30, 2019. As at December 31, 2019 the debentures were due on demand. During the year ended December 31, 2020, the debentures were extended to August 31, 2020.

The Company valued the debenture liability by calculating the present value of the principal and interest, discounted at a rate of 23%, being management's best estimate of the rate of a debenture with an arm's length creditor with similar terms.

(b) On December 3, 2018, the Company issued \$206,250 secured debentures with a maturity of December 3, 2019; The debentures bear interest at 14% per annum payable up front, \$28,875 was paid as of December 31, 2018. As at December 31, 2019 the debentures were due on demand. During year ended December 31, 2020 the debentures were extended to August 31, 2020, and \$112,562 of interest and principal balance was repaid.

The Company valued the debenture liability by calculating the present value of the principal and interest, discounted at a rate of 30%, being management's best estimate of the rate of a debenture with an arm's length creditor with similar terms.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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

(c) Effective September 28, 2020, the Company issued a debenture in the amount of \$702,000 which combined the balance of the debentures noted in (a), (b), and a portion of the advances which was payable to a significant shareholder of the Company into a single debenture. Under the terms of the agreement the debenture is repayable on September 28, 2022, with an interest rate of 14% per annum, and \$93,228 of the interest was prepaid. The debenture included 4,682,861 warrants issued to the lender.

The warrants are exercisable for a period of two years at an exercise price of \$0.13 per share and vest immediately. The debenture is accounted for as a compound financial instrument with a liability component, being the host debt contract, (the "host contract") and a separate equity component, being the warrants. At inception, the Company recognized the host debt at its fair value less transaction costs determined by discounting the net present value of future payments of interest and principal at the market rate for similar non-convertible liabilities at the time of issue (20%). The residual amount of \$49,514 was allocated to the warrants. The discount will be amortized over a 24 month period using the effective interest method at an effective interest rate of 18.65%.

All debentures were held with shareholders of the Company.

The debentures are secured against all assets of the Company.

A reconciliation of the debentures is as follows:

	Dec 31, 2020	Dec 31, 2019
<b>Opening balance</b>	<b>\$ 472,392</b>	<b>\$ 386,009</b>
Amounts transferred from due to related parties	144,688	-
Repayments of debentures	(62,562)	-
Allocation of warrants	(49,514)	-
Interest and accretion	80,832	86,383
<b>Ending balance</b>	<b>\$ 585,836</b>	<b>\$ 472,392</b>

#### 7. 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.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 8. Issued capital

On July 3, 2019, the Company completed a share consolidation of its issued and outstanding common shares on the basis of one post-consolidation common share for every two point five (2.5) pre-consolidation common shares. All applicable references to the number of shares, warrants and options, strike price and per share information has been restated to reflect the effect of the share consolidation, unless otherwise noted.

##### a) Authorized share capital

At December 31, 2020, the authorized share capital consisted of an unlimited number of common shares, non-voting Class A preference shares with a par value of \$4.00 and Class B preference shares with a par value of \$20.00. The common shares do not have a par value. No Class A or Class B preference shares have been issued.

##### b) Common shares issued

	Number of common shares	Amount
<b>Balance, December 31, 2018 and December 31, 2019</b>	<b>14,161,976</b>	<b>\$ 56,307,489</b>
Private placements (i)	30,175,250	3,017,525
Value of warrants (i)	-	(835,639)
Share issuance costs (i)	-	(162,512)
Broker warrants issued (i)	-	(59,680)
Share issuance costs allocated to warrants	-	61,531
<b>Balance, December 31, 2020</b>	<b>44,337,226</b>	<b>\$ 58,328,714</b>

(i) On September 29, 2020, the Company announced it completed a non-brokered private placement of 30,175,250 units at \$0.10 per unit for aggregated gross proceeds of \$3,017,525. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable at \$0.15 for a period of 24 months. Should the Company's shares trade above \$0.30 for more than 10 consecutive trading days, to the date that is 20 days following the date on which the Company announces the accelerated expiry by press release. The Company incurred broker fees of \$162,512 and issued 1,505,120 broker warrants giving the brokers the right to purchase one common share for \$0.10 for one year.

The warrants and broker warrants were valued at \$835,639 and \$59,680, respectively using the Black-Scholes option-pricing model. The following weighted average assumptions were used: relative share price - \$0.07; risk free interest rate - 0.24%-0.31%; expected volatility - 173% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 1-2 years.

Directors, officers, and their family members subscribed to 3,920,000 units in connection with this placement. A significant shareholder subscribed to 1,500,000 units in connection with this placement.

Included in amounts receivable as at December 31, 2020, was \$100,000 related to the September 29, 2020 financing that was received in January 2021.

#### 9. Stock options

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

## CHILEAN METALS INC.

Notes to Consolidated Financial Statements  
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### 9. Stock options (continued)

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, 2018</b>	<b>445,000</b>	<b>1.90</b>
Expired	(184,000)	2.42
<b>Balance, December 31, 2019</b>	<b>261,000</b>	<b>1.54</b>
Granted (i)	4,300,000	0.15
<b>Balance, December 31, 2020</b>	<b>4,561,000</b>	<b>0.21</b>

(i) On October 7, 2020, the Company granted stock options to employees, officers, and directors of the Company for the purchase of a total of 3,950,000 common shares. The options are exercisable for a period of five years at an exercise price of \$0.14 per share and vested immediately. The fair value of these options at the date of grant was estimated at \$430,738 using the Black-Scholes option pricing model with the following assumptions: share price - \$0.14; risk free interest rate - 0.24%; expected volatility - 173% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 2 years.

(ii) On December 21, 2020, the Company granted stock options to a consultant for the purchase of a total of 350,000 common shares. The options are exercisable for a period of two years at an exercise price of \$0.315 per share and vested immediately. The fair value of these options at the date of grant was estimated at \$56,534 using the Black-Scholes option pricing model with the following assumptions: share price - \$0.22; risk free interest rate - 0.23%; expected volatility - 172% (which is based on historical volatility of the Company's share price); expected dividend yield - nil; expected life - 2 years.

The following table reflects the actual stock options issued and outstanding as of December 31, 2020:

Expiry date	Exercise price (\$)	Remaining contractual life (years)	Number of options outstanding	Number of exercisable options
July 4, 2021	1.50	0.51	20,000	20,000
September 6, 2021	1.70	0.68	36,000	36,000
November 14, 2021	1.50	0.87	190,000	190,000
March 20, 2022	1.70	1.22	15,000	15,000
December 21, 2022	0.315	1.97	350,000	350,000
October 9, 2025	0.14	4.78	3,950,000	3,950,000
	<b>0.21</b>	<b>4.33</b>	<b>4,561,000</b>	<b>4,561,000</b>

## CHILEAN METALS INC.

Notes to Consolidated Financial Statements  
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### 10. Warrants

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

	Number of warrants	Weighted average exercise price (\$)
<b>Balance, December 31, 2018</b>	<b>5,616,250</b>	<b>0.58</b>
Expired	(548,950)	1.75
<b>Balance, December 31, 2019</b>	<b>5,067,300</b>	<b>0.45</b>
Granted (note 6 and 8(b)(i))	21,275,606	0.14
<b>Balance, December 31, 2020</b>	<b>26,342,906</b>	<b>0.20</b>

The following table reflects the actual warrants issued as of December 31, 2020:

Number of warrants outstanding	Grant date fair value (\$)	Exercise price (\$)	Expiry date	Remaining contract life (years)
1,505,120	43,153	0.10	September 29, 2021	0.75
15,087,625	790,635	0.15	October 1, 2022	1.75
4,682,861	49,514	0.13	October 1, 2022	1.75
1,682,334	241,761	0.45	June 8, 2023	2.44
3,384,966	486,439	0.45	June 8, 2023	2.44
<b>26,342,906</b>	<b>1,611,502</b>	<b>0.20</b>		<b>1.82</b>

### 11. Net loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2020 was based on the loss attributable to common shareholders of \$2,039,110 (December 31, 2019 - \$1,190,696) and the weighted average number of common shares outstanding of 22,089,079 (December 31, 2019 - 14,161,976). Diluted loss per share did not include the effect of 4,561,000 options outstanding (December 31, 2019 - 261,000 options outstanding) or the effect of 26,342,906 warrants outstanding (December 31, 2019 - 5,067,300 warrants outstanding) as they are anti-dilutive.

### 12. 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, 2020, the directors and/or officers of the Company collectively control 3,078,815 (December 31 2019 - 1,126,842) common shares of the Company or approximately 7% (December 31, 2019 - 8%) of the total common shares outstanding and an insider of the Company controls 4,333,028 (December 31, 2020 - 1,533,211) common shares of the Company or approximately 10% (December 31, 2019 - 11%) 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, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 12. Related party balances and transactions

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

	Notes		Year ended December 31,	
			2020	2019
Administration expense	(i)(v)	\$	385,000	\$ 325,000
Accounting expense	(iii)	\$	52,598	\$ 46,360
Professional fees	(v)	\$	-	\$ 25,000
Geological consulting expense	(vi)	\$	-	\$ 86,000
Interest expense	(ii)	\$	52,432	\$ -

(i) For the year ended December 31, 2020, the Company incurred consulting fees from companies controlled by an officer and a director of \$210,000 (December 31, 2019 - \$200,000) recorded in administration fees.

(ii) For the year ended December 31, 2020, the Company incurred interest fees from companies controlled by an officer and a director of \$52,432 (December 31, 2019 - \$nil) on advances provided to the Company recorded in interest fees.

(iii) For the year ended December 31, 2020, the Company incurred accounting expenses from companies related to an officer of \$52,598 (December 31, 2019 - \$46,360) recorded in professional fees.

(iv) As at December 31, 2020, the Company has \$60,662 (December 31, 2019 - \$nil) outstanding from an officer and director. This amount is unsecured, non-interest bearing and due on demand.

(v) For the year ended December 31, 2020, the Company incurred directors fees \$175,000 (December 31, 2019 - \$150,000) recorded in administration and professional fees.

(vi) For the year ended December 31, 2020, the Company incurred geological consulting expenses from a related party of \$nil (year ended December 31, 2019 - \$86,000) recorded in exploration expenditures.

(vii) As at December 31, 2020, included in accounts payable and accrued liabilities is \$120,614 (December 31, 2019 - \$405,612) due to directors and key management, these amounts are unsecured, non-interest bearing, and due on demand.

(viii) During the year ended December 31, 2020, the Company repaid advances to shareholders of \$470,000 (December 31, 2019 - received advances of \$477,000). These amounts are unsecured, due on demand and non-interest bearing. Directors and officers represent \$241,000 of the advances repaid (December 31, 2019 - advances received \$241,000). As at December 31, 2020, the balance outstanding was \$7,000 (December 31, 2019 - \$477,000).

(ix) As at December 31, 2020, the Company has \$39,084 (December 31, 2019 - \$50,000) due to a significant shareholder included in due to related parties, which is unsecured, due on demand, and non-interest bearing.

(x) See note 6, 8 and 14.

Payments to directors and key management personnel of the Company include certain transactions with related parties in above, noted transactions are in the normal course of business and approved by the Board of Directors.

# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

### 13. 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:

<b>December 31, 2020</b>	<b>Canada</b>	<b>Chile</b>	<b>Total</b>
Equipment	\$ -	\$ 18,403	\$ 18,403

<b>December 31, 2019</b>	<b>Canada</b>	<b>Chile</b>	<b>Total</b>
Equipment	\$ -	\$ 4,604	\$ 4,604

<b>Year ended December 31, 2020</b>	<b>Canada</b>	<b>Chile</b>	<b>Total</b>
<b>Operating expenses</b>			
Administration fees	\$ 385,000	\$ -	\$ 385,000
Amortization	-	2,543	2,543
Bank and interest charges	135,532	583	136,115
Exploration expenditures	25,000	348,980	373,980
Foreign exchange loss	4,911	83,862	88,773
Investor relations	128,668	-	128,668
Office and miscellaneous	46,248	47,949	94,197
Professional fees	282,214	8,635	290,849
Share-based payments	487,271	-	487,271
Transfer agent and regulatory	46,461	-	46,461
Travel, promotion and mining shows	-	1,917	1,917
Part XII.6 tax interest and penalty	-	3,336	3,336
<b>Net loss and comprehensive loss for the year</b>	\$ (1,541,305)	\$ (497,805)	\$ (2,039,110)

<b>Year ended December 31, 2019</b>	<b>Canada</b>	<b>Chile</b>	<b>Total</b>
<b>Operating expenses</b>			
Administration fees	\$ 325,000	\$ 13,439	\$ 338,439
Amortization	-	2,601	2,601
Bank and interest charges	88,275	3,377	91,652
Exploration expenditures	82,897	387,153	470,050
Foreign exchange (gain)	-	(86,287)	(86,287)
Investor relations	170,530	-	170,530
Office and miscellaneous	(4,753)	35,217	30,464
Professional fees	153,853	21,424	175,277
Transfer agent and regulatory	20,896	-	20,896
Travel, promotion and mining shows	6,579	-	6,579
Part XII.6 tax interest and penalty	26,554	-	26,554
Net operating loss before other items	(869,831)	(376,924)	(1,246,755)
<b>Other items</b>			
Reversal of flow-through liability	56,059	-	56,059
<b>Net loss and comprehensive loss for the year</b>	\$ (813,772)	\$ (376,924)	\$ (1,190,696)

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## CHILEAN METALS INC.

Notes to Consolidated Financial Statements  
Years Ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)

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### 14. Commitments and contingencies

#### Consulting

The Company has entered into a consulting agreement with a company controlled by Directors and Officers of the Company. The obligation under these agreements amounts to \$350,000 per year. The Company has committed to these payments for the 2021 fiscal year.

#### Flow-through indemnification

The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to flow-through participants. The Company indemnified the subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditure commitments. The Company has not fully met all of its expenditure commitments for previous flow-through financings. If the Canadian Revenue Agency ("CRA") determined that the Company was not compliant with their flow-through expenditure commitments, the Company may be liable to indemnify subscribers for any related tax amounts. No provision has been recorded in these consolidated financial statements related to this contingency as various triggering events have not taken place. See note 18.

The Company has estimated potential Part XII.6 taxes in relation to unspent flow-through expenditures for fiscal 2018-2019. As at December 31, 2020, the Company accrued \$29,919 (December 31, 2019 - \$26,553) for Part XII.6 taxes interest and penalties.

#### 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, 2020, the Company has unpaid property tax for various mineral exploration property claims totaling approximately 473,933,021 Chilean Pesos (\$849,190) (December 31, 2019 - 539,000,000 Chilean Pesos (\$954,000)) which has been included in accounts payable and accrued liabilities as at December 31, 2020. In the event that the claims are put up for tax auction, the Company will have a notice period to make the payment for the portion of this amount required. The property tax commitment for 2021 fiscal year is \$33,743,039 Chilean Pesos.

See note 18.

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**CHILEAN METALS INC.****Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**15. 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, 2020 and December 31, 2019 is as follows:

	Year ended December 31,	
	2020	2019
Net loss before income taxes	\$ (2,039,110)	\$ (1,190,696)
Combined federal and provincial statutory income tax rate	26.50 %	26.50 %
Expected income tax recovery	\$ (540,000)	\$ (316,000)
Other	102,000	(23,000)
Change in tax benefits not recognized	438,000	339,000
Income tax expense (recovery)	\$ -	\$ -

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, 2020	As at December 31, 2019
Non-capital losses carried forward	\$ 76,915,000	\$ 83,922,000
Capital losses carried forward	341,000	341,000
Finance costs and other	193,000	137,000
Mineral exploration properties and equipment	9,533,000	9,838,000
	\$ 86,982,000	\$ 94,238,000

The Company has approximately \$60,000,000 of Chilean non-capital losses that carry forward indefinitely. The Company also has Canadian non-capital losses of approximately \$16,897,000 expiring as follows:

	Canada
2026	\$ 974,000
2027	1,192,000
2028	882,000
2029	725,000
2030	1,265,000
2031	1,648,000
2032	1,253,000
2033	1,970,000
2034	1,263,000
2035	449,000
2036	995,000
2037	1,095,000
2038	1,270,000
2039	806,000
2040	1,110,000
	\$ 16,897,000

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# CHILEAN METALS INC.

## Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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### 15. Income taxes (continued)

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.

### 16. 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, 2020. 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, 2020 and 2019, the Company is not compliant with Policy 2.5. The impact of this violation is not known and is ultimately dependent on the discretion of the TSX-V.

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

As at December 31, 2020 and 2019, 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.

### 17. Financial instruments and risk

#### *Fair value*

The Company's financial instruments consist of cash, amounts receivable, advances from shareholders, accounts payable and accrued liabilities, advances from/to related party, other liabilities, and debenture 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, 2020	As at December 31, 2019
	\$	\$
<b>Assets:</b>		
<i>Amortized cost</i>		
Cash	179,272	7,438
Amounts receivable	194,301	2,893
Due from related parties	60,662	-

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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

##### *Fair value (continued)*

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

	As at December 31, 2020	As at December 31, 2019
	\$	\$
<b>Liabilities:</b>		
<i>Amortized cost</i>		
Accounts payable and accrued liabilities	1,118,560	1,364,224
Advances from related party	39,084	380,612
Advances from shareholders	7,000	477,000
Debentures payable	585,836	472,392
Other liabilities	69,554	69,554

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

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities,

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

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

##### *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, 2020, the Company had cash, amounts receivable, and amounts due from related parties of \$434,235 (December 31, 2019 - \$10,331) to settle current liabilities of \$1,164,644 (December 31, 2019 - \$2,694,228). 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 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.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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

The following are the undiscounted amounts and contractual maturities of the Company's financial liabilities as at December 31, 2020:

	<b>&lt;1 year</b>	<b>1-2 years</b>	<b>&gt;2 years</b>
Accounts payable and accrued liabilities	\$ 1,118,560	\$ -	\$ -
Due to related parties	39,084	-	-
Advances from shareholders	7,000	-	-
Debenture payable	-	805,332	-
Other liabilities	-	-	69,554
<b>Total</b>	<b>\$ 1,164,644</b>	<b>\$ 805,332</b>	<b>\$ 69,554</b>

#### *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 \$616 (December 31, 2019 - \$1,000).

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 in US Dollars. As at December 31, 2020, 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.

#### *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.

#### 18. Subsequent events

(i) On December 30, 2020, the Company entered into a short-term loan agreement with Granby Gold Inc. whereby the Company provided a loan of \$50,000 with an interest rate of 6% per annum. The funds were advanced in January 2021, and repaid in February 2021.

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## CHILEAN METALS INC.

### Notes to Consolidated Financial Statements Years Ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 18. Subsequent events (continued)

(ii) On January 14, 2021, the Company announced it finalized an agreement dated October 7, 2020 to acquire 100% of the Golden Ivan property via a series of option payments and work commitments as follows:

Chilean is to make cash payments totaling \$150,000 to the Optionor, Grandby Gold Inc., on or before the dates set out below:

- (i) \$50,000 on or before September 30, 2021;
- (ii) an additional \$50,000 on or before September 30, 2022; and
- (iii) an additional \$50,000 on or before September 30, 2023

Make stock payments via the issue of an aggregate of 11,400,000 common shares to the Optionor, on or before the dates set out below:

- (i) 3,900,000 common shares within five Business Days after receipt of the TSXV Approval; (issued subsequent to December 31, 2020)
- (ii) an additional 2,500,000 common shares on or before September 30, 2021;
- (iii) an additional 2,500,000 common shares on or before September 30, 2022; and
- (iv) an additional 2,500,000 common shares on or before September 30, 2023

Chilean would be required to incur an aggregate of \$ 1,800,000 of work expenditures on the Golden Ivan Property on or before the dates set out below:

- (i) \$450,000 in exploration expenditures on or before September 30, 2021
- (ii) \$450,000 in exploration expenditures on or before September 30, 2022
- (iii) \$450,000 in exploration expenditures on or before September 30, 2023
- (iv) \$450,000 in exploration expenditures on or before September 30, 2024

On performance of the payments noted above and completion of the work commitments the Company would acquire a 100% interest subject only to a 2.5% NSR royalty. The Company retains the option to purchase 40% of this royalty for a one-time payment of \$1,000,000.

(iii) On February 25, 2021, the Company issued 12,051,770 common shares to Critical Elements in accordance with the First and Second option agreement (see note 5(d)).

(iv) On May 4, 2021, the Company announced the closing of a non-brokered private placement financing for gross proceeds of \$2,200,000 of which \$900,000 was raised from the issuance of 3,600,000 common shares at \$0.25 per share and \$1,200,000 was raised from the issuance of 3,00,000 flow-through shares at \$0.40 per flow-through share. The Company has paid broker fees in the amount of \$128,400 and issued 216,000 broker warrants exercisable at \$0.25 for a period of 18 months, and 180,000 broker warrants exercisable at \$0.40 for a period of 18 months.

The Company is committed to expend \$1,200,000 on eligible flow-through expenditures by December 31, 2022.