



(An Exploration Stage Company)

**CONDENSED INTERIM FINANCIAL STATEMENTS**

For the nine months ended September 30, 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed interim financial statements for the nine months ended September 30, 2018. These condensed interim financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

**RACKLA METALS INC.**

(An Exploration Stage Company)

**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

(Expressed in Canadian Dollars)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 119,100	\$ 245,217
Equity investments (Note 5)	3,376	4,501
Taxes receivable	1,438	1,144
Prepaid expenses	2,119	-
	126,033	250,862
<b>Non-current assets</b>		
Deposit (Note 11)	61,000	61,000
Property and equipment (Note 6)	2,772	4,608
Exploration and evaluation assets (Note 7)	1	50,004
	63,773	115,612
<b>TOTAL ASSETS</b>	<b>\$ 189,806</b>	<b>\$ 366,474</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 355	\$ 17,425
Due to related parties (Note 11)	138,683	207,805
<b>Total liabilities</b>	139,038	225,230
<b>Shareholders' equity</b>		
Share capital (Note 9)	7,819,280	7,799,555
Other equity reserves	128,023	128,023
Accumulated other comprehensive income	(56,374)	1,500
Deficit	(7,840,161)	(7,787,834)
<b>Total shareholders' equity</b>	50,768	141,244
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 189,806</b>	<b>\$ 366,474</b>

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON NOVEMBER 15, 2018:

"Simon Ridgway"  
Simon Ridgway, Director

"William Katzin"  
William Katzin, Director

*The accompanying notes are an integral part of these condensed interim financial statements*

**RACKLA METALS INC.**

(An Exploration Stage Company)

**CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)**

(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<b>EXPLORATION EXPENDITURES</b> (Notes 8 and 11)	\$ -	\$ -	\$ 18,001	\$ -
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Amortization	612	612	1,836	1,836
Legal and audit fees	-	-	1,655	1,002
Management fees (Note 11)	10,500	10,500	31,500	31,500
Office and administrative (Note 11)	5,874	7,360	21,245	22,800
Salaries and benefits (Note 11)	6,358	2,485	18,745	9,435
Shareholder communications	451	4,067	2,171	5,014
Transfer agent and regulatory fees (Note 11)	860	1,502	9,194	10,537
Travel and accommodation (Note 11)	75	248	665	642
	24,730	26,774	87,011	82,766
<b>Loss before other items</b>	(24,730)	(26,774)	(105,012)	(82,766)
<b>OTHER ITEMS</b>				
Loss on debt settlement (Note 9(a))	4,061	-	4,061	-
Loss on disposal of exploration and evaluation assets	-	-	(3)	-
<b>Net loss for the period</b>	<b>\$ (28,791)</b>	<b>\$ (26,774)</b>	<b>\$ (109,076)</b>	<b>\$ (82,766)</b>
<b>Other comprehensive income (loss)</b>				
Items that may be reclassified subsequently to profit or loss:				
Fair value gain (loss) on equity investments (Note 5)	-	7,500	(1,125)	6,750
<b>Total comprehensive loss</b>	<b>\$ (28,791)</b>	<b>\$ (19,274)</b>	<b>\$ (110,201)</b>	<b>\$ (76,016)</b>
Basic and diluted loss per share	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.01)
Weighted average number of common shares outstanding	20,134,173	15,400,488	20,110,759	15,216,990

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**RACKLA METALS INC.**

(An Exploration Stage Company)

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY) (UNAUDITED)**

For the nine months ended September 30, 2018 and 2017

(Expressed in Canadian Dollars)

	Number of common shares	Share capital	Share- based payments	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2016	15,098,858	\$ 7,549,555	\$ 128,023	\$ 750	\$ (7,707,207)	\$ (28,879)
Loss for the period	-	-	-	-	(82,766)	(82,766)
Warrants exercised	350,000	17,500	-	-	-	17,500
Fair value loss on equity investments	-	-	-	6,750	-	6,750
Balance, September 30, 2017	15,448,858	7,567,055	128,023	7,500	(7,789,973)	(87,395)
Income for the period	-	-	-	-	2,139	2,139
Warrants exercised	4,650,000	232,500	-	-	-	232,500
Fair value gain on equity investments	-	-	-	(6,000)	-	(6,000)
<b>Balance, December 31, 2017</b>	<b>20,098,858</b>	<b>7,799,555</b>	<b>128,023</b>	<b>1,500</b>	<b>(7,787,834)</b>	<b>141,244</b>
Impact of adopting IFRS 9 on January 1, 2018 (Note 4)	-	-	-	(56,749)	56,749	-
<b>Balance, January 1, 2018</b>	<b>20,098,858</b>	<b>7,799,555</b>	<b>128,023</b>	<b>(55,249)</b>	<b>(7,731,085)</b>	<b>141,244</b>
Loss for the period	-	-	-	-	(109,076)	(109,076)
Shares issued for debt settlement (Note 11)	162,450	20,306	-	-	-	20,306
Share issuance costs	-	(581)	-	-	-	(581)
Fair value loss on equity investments	-	-	-	(1,125)	-	(1,125)
<b>Balance, September 30, 2018</b>	<b>20,261,308</b>	<b>\$ 7,819,280</b>	<b>\$ 128,023</b>	<b>\$ (56,374)</b>	<b>\$ (7,840,161)</b>	<b>\$ 50,768</b>

*The accompanying notes are an integral part of these condensed interim financial statements*

**RACKLA METALS INC.**

(An Exploration Stage Company)

**CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)**

(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<b>Cash provided by (used in):</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (28,791)	\$ (26,774)	\$ (109,076)	\$ (82,766)
Items not involving cash:				
Amortization	612	612	1,836	1,836
Loss on debt settlement	4,061	-	4,061	-
Loss on disposal of exploration and evaluation assets	-	-	3	-
	(24,118)	(26,162)	(103,176)	(80,930)
Changes in non-cash working capital items:				
Taxes receivable	849	590	(294)	215
Prepaid expenses	(2,119)	-	(2,119)	-
Accounts payable and accrued liabilities	(18,489)	(16,461)	(17,070)	(15,785)
Due to related parties	9,187	21,253	(52,877)	69,322
	(34,690)	(20,780)	(175,536)	(27,178)
<b>FINANCING ACTIVITIES</b>				
Proceeds on issuance of common shares	-	2,500	-	17,500
Share issuance costs	(581)	-	(581)	-
	(581)	2,500	(581)	17,500
<b>INVESTING ACTIVITIES</b>				
Proceeds from sale of exploration and evaluation assets	-	-	50,000	-
	-	-	50,000	-
<b>Decrease in cash</b>	(35,271)	(18,280)	(126,117)	(9,678)
Cash, beginning of period	154,371	39,856	245,217	31,254
<b>Cash, end of period</b>	<b>\$ 119,100</b>	<b>\$ 21,576</b>	<b>\$ 119,100</b>	<b>\$ 21,576</b>

*The accompanying notes are an integral part of these condensed interim financial statements*

# **RACKLA METALS INC.**

(An Exploration Stage Company)

## **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

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### **1. CORPORATE INFORMATION**

Rackla Metals Inc. (the "Company") is pursuing opportunities related to exploration of mineral resource properties. The Company was incorporated in the Province of British Columbia on September 20, 2011, and its common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol RAK.

The address of the Company's corporate office and principal place of business is 650, 200 Burrard Street, Vancouver, BC, Canada V6C 3L6.

### **2. BASIS OF PREPARATION**

These condensed interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements of the Company, except as described in Note 4. These condensed interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed interim financial statements should be read in conjunction with the Company's most recent annual financial statements, which were prepared in accordance with IFRS as issued by the IASB.

#### **Basis of Measurement**

These condensed interim financial statements have been prepared on the historical cost basis, except for certain financial instruments carried at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The presentation and functional currency of the Company is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the condensed interim financial statements are disclosed in Note 3.

#### **Nature of Operations and Ability to Continue as a Going Concern**

These condensed interim financial statements have been presented on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Realization values may be substantially different from the carrying values shown and these condensed interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At September 30, 2018, the Company had not yet achieved profitable operations, has accumulated losses of \$7,840,161 since inception, and is expected to incur further losses in the development of its business, all of which raises significant doubt about its ability to continue as a going concern. The Company will periodically have to raise funds to continue operations; although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. If the Company is unable to obtain additional financing, management may be required to curtail certain discretionary expenses.

These condensed interim financial statements do not give effect to adjustments to the recoverability of assets and satisfaction of liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

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#### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the condensed interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- i) The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

Assets or cash-generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's exploration and evaluation assets.

In respect of costs incurred for its investment in exploration and evaluation assets, management has determined the acquisition costs that have been capitalized may not be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit, including access to financing to further exploration and development, geologic and metallurgic information, economics assessment/ studies, accessible facilities and existing permits.

- ii) The Company has not recognized a deferred tax asset as management believes that it is not probable that taxable profit will be available against which a deductible temporary difference can be utilized.
- iii) The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its operating expenditures, meet its liabilities for the current year, and to fund planned contractual exploration programs, involves significant judgement based on historical experiences and other factors including expectation of future events that are believed to be reasonable under the circumstances.

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

#### 4. ADOPTION OF NEW ACCOUNTING STANDARD

On January 1, 2018, the Company adopted IFRS 9 – Financial Instruments (“IFRS 9”), which replaced IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 provides a revised model for classification and measurement of financial assets, including a new expected credit loss (“ECL”) impairment model. The revised model for classifying financial assets results in classification according to their contractual cash flow characteristics and the business models under which they are held. IFRS 9 also introduces a reformed approach to hedge accounting. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018.

As a result of the adoption of IFRS 9, the Company has changed its accounting policy for financial instruments retrospectively. The change did not result in a change in carrying value of any of our financial instruments on transition date. The adoption of the ECL impairment model did not have an impact on the Company’s condensed interim financial statements. IFRS 9 does not require restatement of comparative periods. Accordingly, the Company has reflected the retrospective impact of the adoption of IFRS 9 due to the change in accounting policy for equity investments as an adjustment to opening components of equity as at January 1, 2018.

The Company’s financial instruments are accounted for as follows under IFRS 9 as compared to the Company’s previous policy in accordance with IAS 39:

January 1, 2018		
	IAS 39	IFRS 9
<b>Financial Asset</b>		
Cash	Fair value through profit or loss (“FVTPL”)	FVTPL
Receivables	Amortized cost	Amortized cost
Equity investments	Fair value through other comprehensive income (“FVOCI”)	FVOCI
<b>Financial Liability</b>		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost

The Company’s equity investments consist of equity securities. For equity securities not held for trading, the Company may make an irrevocable election at initial recognition to recognize changes in fair value through other comprehensive income rather than profit or loss. The Company elected to designate its equity securities as financial assets at FVOCI, where they will be recorded initially at fair value. Subsequent changes in fair value will be recognized in other comprehensive income only and will not be recycled into income (loss) upon disposition. As a result of this change, the Company reclassified \$56,749 of impairment losses recognized in prior years on equity securities which continue to be held by the Company as at January 1, 2018 from opening deficit to accumulated other comprehensive income. As a result of adopting IFRS 9, the net change in fair value of the equity securities, including realized and unrealized gains and losses, if any, is now presented as an item that will not be reclassified subsequently to profit or loss in the Statements of Loss and Comprehensive Loss.

The adoption of IFRS 9 has not had a significant impact on the Company’s policies related to financial assets of cash and receivables and financial liabilities.

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

#### 5. EQUITY INVESTMENTS

As of September 30, 2018, equity investments (formerly called available-for-sale investments) consisted of 75,000 common shares of Damara Gold Corp. ("Damara"), a public company, and 200,000 common shares of Voyager Gold Corp. ("Voyager"), a private company with a common director. The private company shares were initially measured at fair value and subsequently written down to \$1.

As at September 30, 2018, the carrying amount for the equity investments was \$3,376 (December 31, 2017: \$4,501).

During the period ended September 30, 2018, there was a decrease in fair value of the Damara shares by \$1,125. This amount was recorded as a fair value loss in other comprehensive income.

	Damara	Voyager	Total
Balance, December 31, 2016	\$ 3,750	\$ 1	\$ 3,751
Change in fair value	750	-	750
Balance, December 31, 2017	4,500	1	4,501
Change in fair value	(1,125)	-	(1,125)
<b>Balance, September 30, 2018</b>	<b>\$ 3,375</b>	<b>\$ 1</b>	<b>\$ 3,376</b>

#### 6. PROPERTY AND EQUIPMENT

	Leasehold improvements
<b>Cost</b>	
Balance, December 31, 2016	\$ 19,060
Additions	-
Balance, December 31, 2017	19,060
Additions	-
<b>Balance, September 30, 2018</b>	<b>\$ 19,060</b>
<b>Accumulated amortization</b>	
Balance, December 31, 2016	\$ 12,004
Charge for the period	2,448
Balance, December 31, 2017	14,452
Charge for the period	1,836
<b>Balance, September 30, 2018</b>	<b>\$ 16,288</b>
<b>Carrying amounts</b>	
At December 31, 2017	\$ 4,608
<b>At September 30, 2018</b>	<b>\$ 2,772</b>

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

#### 7. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition costs of its mineral property interests as at September 30, 2018:

	Rivier	Scarlet	Sixty Mile	Face	Total
Balance, December 31, 2016	\$ 1	\$ 1	\$ 1	\$ 1	\$ 4
Reversal of impairment	-	41,000	-	9,000	50,000
Balance, December 31, 2017	1	41,001	1	9,001	50,004
Disposal of assets	-	(41,001)	(1)	(9,001)	(50,003)
<b>Balance, September 30, 2018</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1</b>

Details of the Company's mineral property interests are disclosed in full in the financial statements for the year ended December 31, 2017. Significant changes to exploration and evaluation assets since December 31, 2017 are as follows:

(i) Rivier Property – Yukon Territory

The Rivier Property, located in the Watson Lake Mining District, consisted of 116 claims of which 16 claims are 100% owned and 100 claims were held pursuant to an option agreement (the "Initial Option") with the property owner (the "Rivier Owner") until the Initial Option was terminated by the Company during the 2017 fiscal year.

During the period ended September 30, 2018, the Company entered into an agreement (the "Rivier and Sixty Mile Agreement") with the Rivier Owner whereby the Company has acquired 100% ownership of the 100 Rivier claims previously subject to the Initial Option, in consideration for transferring to the Rivier Owner 63 of the Company's Sixty Mile claims, agreeing to make annual advance royalty payments of \$10,000 to the Rivier Owner commencing in April 2020, and granting to the Rivier Owner a 2% net smelter return royalty. As a result of the Rivier and Sixty Mile Agreement, the Rivier Property consists of 116 claims owned by the Company.

(ii) Sixty Mile Area – Yukon Territory

The Sixty Mile Property consisted of 508 100% owned claims located in the Dawson Mining District. During the period ended September 30, 2018:

- the Company entered into an agreement dated March 8, 2018 to sell 81 of its Sixty Mile claims (the "Sold Claims"). In consideration therefor, the purchaser has agreed to: (i) keep the Sold Claims in good standing for five years; and (ii) pay to the Company 25% of any cash or share payments the purchaser may receive during the next five years in respect of the Sold Claims and certain additional claims adjacent to the Sold Claims which the purchaser proposes to acquire;
- the Company relinquished 18 of its Sixty Mile claims to a previous owner in accordance with an underlying agreement previously assumed by the Company with respect to these claims;
- the Company allowed 346 claims to lapse; and
- the Company entered into the Rivier and 60 Mile Agreement dated April 16, 2018 whereby it sold the remaining 63 of its Sixty Mile claims to the Rivier Owner.

As a result of the above transactions, the Company no longer owns any Sixty Mile claims.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

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#### **7. EXPLORATION AND EVALUATION ASSETS (cont'd)**

##### (iii) Scarlet Property – Yukon Territory

The Scarlet Property consisted of 100% owned claims located in the Mayo Mining District and was divided into two claim blocks, Scarlet East and Scarlet West.

During the 2017 fiscal year, a total 193 Scarlet West claims were allowed to lapse. During the period ended September 30, 2018, the Company allowed all remaining 320 Scarlet West claims to lapse.

During the period ended September 30, 2018, the Company entered into an agreement (the “Scarlet and Hat Agreement”) dated April 5, 2018 whereby it sold its 230 Scarlet East claims, and 49 Hat claims (see Face Property below), in consideration for a cash payment of \$50,000 (received) and a 1% net smelter return royalty. As a result of this transaction, the \$41,001 carrying value of the Scarlet East claims that was previously recorded as an asset held for sale was reduced to nil.

As a result of the above transactions, the Company no longer owns any Scarlet claims.

##### (iv) Face Property – Yukon Territory

The Face Property consisted of 49 100% owned claims located in the Dawson Mining District. As noted above, during the period ended September 30, 2018, the Company sold these claims pursuant to the Scarlet and Hat Agreement dated April 5, 2018. As a result of this transaction, the \$9,001 carrying value of the Face Property that was previously recorded as an asset held for sale was reduced to nil.

#### **8. EXPLORATION EXPENDITURES**

During the nine month period ended September 30, 2018, the Company incurred \$18,001 (2017: \$Nil) on general care and maintenance of its Rivier property and other property investigation costs.

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

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#### 9. SHARE CAPITAL AND RESERVES

##### (a) Common Shares

The Company is authorized to issue an unlimited number of common shares without par value.

During the nine month period ended September 30, 2018, the Company issued 162,450 common shares with a fair value of \$20,306 at the date of issuance to a related party to settle debt with a carrying value of \$16,245 (Note 11). The amount of \$20,306 was recorded to equity and the difference of \$4,061 between the fair value of the shares issued and the carrying value of the debt was charged to operations as a loss on debt settlement. Share issuance costs associated with this transaction totaled \$581.

##### (b) Share Purchase Warrants

A summary of share purchase warrants activity for the period from January 1, 2017 to September 30, 2018 is as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2016	5,000,000	\$0.05
Exercised	(5,000,000)	\$0.05
Balance, December 31, 2017	-	-
<b>Balance, September 30, 2018</b>	<b>-</b>	<b>-</b>

As at September 30, 2018, there were no share purchase warrants outstanding

#### 10. SHARE-BASED PAYMENTS

##### Option Plan Details

The Company has in place a stock option plan (the "Plan"), which allows the Board of Directors to grant incentive stock options to the Company's officers, directors, employees and consultants. The exercise price of stock options granted is determined by the Board of Directors at the time of the grant in accordance with the terms of the Plan and the policies of the TSX-V. Options vest on the date of granting unless stated otherwise. Options granted to investor relations consultants vest in accordance with TSX-V regulation. The options are for a maximum term of ten years.

##### Share Purchase Options

There was no stock option activity during the nine month period ended September 30, 2018.

As at September 30, 2018, the following stock options were outstanding:

Expiry date	Number of options	Exercise price
July 19, 2022	245,000	\$0.75

The weighted average remaining contractual life of the options outstanding at September 30, 2018 is 3.80 years (December 31, 2017: 4.55).

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

#### 11. RELATED PARTY TRANSACTIONS

The Company had transactions during the periods ended September 30, 2018 and 2017 with related parties consisting of directors, officers and the following companies with common directors:

<u>Related party</u>	<u>Nature of transactions</u>
Gold Group Management Inc. ("Gold Group")	Shared office and administrative related charges
Mill Street Services Ltd. ("Mill Street")	Management services

Balances and transactions with related parties are as follows:

- (a) During the periods ended September 30, 2018 and 2017, the Company reimbursed Gold Group for the following costs:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
General and administrative expenses:				
Office and administration	\$ 6,024	\$ 6,996	\$ 22,002	\$ 22,111
Salaries and benefits	6,358	2,485	18,741	9,435
Transfer agent and regulatory fees	-	500	1,853	2,896
Travel and accommodation	75	248	665	642
	<b>\$ 12,457</b>	<b>\$ 10,229</b>	<b>\$ 43,261</b>	<b>\$ 35,084</b>

Gold Group, a company controlled by the Chief Executive Officer of the Company, is reimbursed by the Company for certain shared costs and other business related expenses paid by Gold Group on behalf of the Company. Salaries and benefits costs paid to Gold Group include those for the Chief Financial Officer and Corporate Secretary.

- (b) Deposits as of September 30, 2018 consist of \$61,000 (December 31, 2017: \$61,000) paid to Gold Group and are related to the shared office and administrative services agreement with Gold Group. Upon termination of the agreement, the deposits, less any outstanding amounts owing to Gold Group, are to be refunded to the Company.
- (c) Amounts due to related parties as of September 30, 2018 consist of \$10,058 (December 31, 2017: \$112,255) due to Gold Group and \$128,625 (December 31, 2017: \$95,550) owed to Mill Street, a company controlled by the Chief Executive Officer of the Company, for management fees. The balance due to Gold Group is collateralized by a deposit and the balance due to Mill Street is unsecured, non-interest bearing and due on demand.
- (d) During the period ended September 30, 2018, an amount of \$16,245 owed to the President of the Company for geological fees and expense reimbursement was settled with the issuance of 162,450 common shares of the Company (Note 9(a)).

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

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#### 11. RELATED PARTY TRANSACTIONS (cont'd)

##### Key management compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management compensation comprises:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Geological fees	\$ -	\$ -	\$ 9,000	\$ -
Management fees	10,500	10,500	31,500	31,500
Salaries and benefits	1,375	459	3,209	1,899
	<b>\$ 11,875</b>	<b>\$ 10,959</b>	<b>\$ 34,709</b>	<b>\$ 33,399</b>

#### 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these condensed interim financial statements.

##### General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management. The Board of Directors receives periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

##### (a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market prices affecting the Company are comprised of the following types of risk: interest rate risk and equity price risk. The Company is not exposed to the risk related to the fluctuation of foreign currency rates.

##### Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to not be significant.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

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#### **12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

##### (a) Market Risk (cont'd)

###### *Equity Price Risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company's equity investments are exposed to equity price risk due to the potentially volatile and speculative nature of the businesses in which the equity investments are held. The common shares held in Damara and Voyager are monitored by management with decisions on sale taken at Board level. A 10% decrease in fair value of the shares would result in a \$337 increase or decrease in net loss and comprehensive loss.

##### (b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and equity investments. The Company limits exposure to credit risk by maintaining its cash with chartered Canadian financial institutions. The Company does not have cash or equity investments that are invested in asset-based commercial paper.

##### (c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At September 30, 2018, the Company had cash of \$119,100 (December 31, 2017: \$245,217) available to apply against short-term business requirements and current liabilities of \$139,038 (December 31, 2017: \$225,230). All of the Company's financial liabilities have contractual maturities of less than 45 days and are subject to normal trade terms.

#### **Determination of Fair value**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. All financial instruments at September 30, 2018 are carried at amortized cost, apart from the equity investments of \$3,376 (December 31, 2017: \$4,501), which is carried at fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The statement of financial position carrying amounts for cash, accounts payables and accrued liabilities, and due to related parties approximates fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

The Company has made the following designations of its financial instruments: cash measured at FVTPL, equity investments measured at FVOCI, and receivables, accounts payable and accrued liabilities and due to related parties measured at amortized cost.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months ended September 30, 2018

(Expressed in Canadian Dollars)

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#### **12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(cont'd)*

##### **Fair Value Hierarchy**

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2	Inputs other than quoted prices included in Level 1 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 for the asset or liability that are not based on observable market data (unobservable inputs).

The equity investment for Damara is based on a quoted price and is therefore considered to be Level 1.

The equity investment in Voyager was recorded at fair value when it was received and assessed for impairment as at September 30, 2018 and December 31, 2017. This investment is considered to be Level 3.

#### **13. 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 advance its mineral properties. The Company defines its capital as all components of equity. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will spend its existing capital resources and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the Company's approach to capital management during the year. As at September 30, 2018, the Company is not subject to any externally imposed capital requirements. The Company does not expect its capital resources to be sufficient to cover its corporate operating costs and future exploration expenditures through the next twelve months. As such, the Company will seek to raise additional capital and believes it will be able to do so, but recognizes the uncertainty attached thereto.

#### **14. SEGMENTED REPORTING**

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities. All of the Company's long-term assets and operations are in Canada.