



(An Exploration Stage Company)

CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2020

(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, 2020. 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)

As at:	September 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	\$ 128,342	\$ 13,979
Equity investments (Note 5)	4,876	2,251
Taxes receivable	3,596	3,120
Prepaid expenses	363	-
	<u>137,177</u>	<u>19,350</u>
Non-current assets		
Deposit (Note 11)	61,000	61,000
Exploration and evaluation assets (Note 7)	1	1
	<u>61,001</u>	<u>61,001</u>
TOTAL ASSETS	\$ 198,178	\$ 80,351
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 53,836	\$ 40,320
Due to related parties (Note 11)	13,223	268,027
Total liabilities	<u>67,059</u>	<u>308,347</u>
Shareholders' equity (deficiency)		
Share capital (Note 9)	8,315,280	7,819,280
Other equity reserves	124,922	125,325
Accumulated other comprehensive loss	(54,874)	(57,499)
Deficit	(8,254,209)	(8,115,102)
Total shareholders' equity (deficiency)	<u>131,119</u>	<u>(227,996)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 198,178	\$ 80,351

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON NOVEMBER 24, 2020:

"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,	
	2020	2019	2020	2019
EXPLORATION EXPENDITURES (Note 8)	\$ 50,301	\$ -	\$ 50,301	\$ 61,627
GENERAL AND ADMINISTRATIVE EXPENSES				
Amortization (Note 6)	-	612	-	1,836
Legal and audit fees	-	-	611	2,082
Management fees (Note 11)	10,500	10,500	29,750	31,500
Office and administrative (Note 11)	5,606	7,501	19,245	20,087
Salaries and benefits (Note 11)	4,931	11,137	21,557	28,692
Share-based payments (Note 10)	-	-	3,253	49,033
Shareholder communications (Note 11)	703	2,483	4,061	3,659
Transfer agent and regulatory fees (Note 11)	735	1,324	9,888	11,067
Travel and accommodation (Note 11)	384	629	4,097	1,421
	22,859	34,186	92,462	149,377
Net loss for the period	\$ (73,160)	\$ (34,186)	\$ (142,763)	\$ (211,004)
Other comprehensive income (loss)				
Fair value gain (loss) on equity investments (Note 5)	2,250	(1,125)	2,625	(1,125)
Total comprehensive loss	\$ (70,910)	\$ (35,311)	\$ (140,138)	\$ (212,129)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	25,261,308	20,261,308	24,476,636	20,261,308

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

RACKLA METALS INC.

(An Exploration Stage Company)

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

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

	Number of common shares	Share capital	Other equity reserve - share-based payments	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2018	20,261,308	\$ 7,819,280	\$ 128,023	\$ (56,374)	\$ (7,893,786)	\$ (2,857)
Loss for the period	-	-	-	-	(211,004)	(211,004)
Fair value loss on equity investments	-	-	-	(1,125)	-	(1,125)
Fair value of expired options	-	-	(51,731)	-	51,731	-
Share-based payments	-	-	49,033	-	-	49,033
Balance, September 30, 2019	20,261,308	7,819,280	125,325	(57,499)	(8,053,059)	(165,953)
Loss for the period	-	-	-	-	(62,043)	(62,043)
Balance, December 31, 2019	20,261,308	7,819,280	125,325	(57,499)	(8,115,102)	(227,996)
Loss for the period	-	-	-	-	(142,763)	(142,763)
Shares issued for private placement	5,000,000	500,000	-	-	-	500,000
Share issuance costs	-	(4,000)	-	-	-	(4,000)
Fair value gain on equity investments	-	-	-	2,625	-	2,625
Fair value of expired options	-	-	(3,656)	-	3,656	-
Share-based payments	-	-	3,253	-	-	3,253
Balance, September 30, 2020	25,261,308	\$ 8,315,280	\$ 124,922	\$ (54,874)	\$ (8,254,209)	\$ 131,119

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,	
	2020	2019	2020	2019
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net loss for the period	\$ (73,160)	\$ (34,186)	\$ (142,763)	\$ (211,004)
Items not involving cash:				
Amortization	-	612	-	1,836
Share-based payments	-	-	3,253	49,033
	(73,160)	(33,574)	(139,510)	(160,135)
Changes in non-cash working capital items:				
Taxes receivable	(2,342)	1,380	(476)	(196)
Prepaid expenses	(363)	-	(363)	-
Accounts payable and accrued liabilities	33,782	783	13,516	2,907
Due to related parties	463	12,909	(254,804)	79,559
	(41,620)	(18,502)	(381,637)	(77,865)
FINANCING ACTIVITIES				
Proceeds from issuance of capital stock	-	-	500,000	-
Share issuance costs	-	-	(4,000)	-
	-	-	496,000	-
Increase (decrease) in cash	(41,620)	(18,502)	114,363	(77,865)
Cash, beginning of period	169,962	32,904	13,979	92,267
Cash, end of period	\$ 128,342	\$ 14,402	\$ 128,342	\$ 14,402

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, 2020

(Expressed in Canadian Dollars)

1. CORPORATE INFORMATION

Rackla Metals Inc. (the “Company”) is engaged in the acquisition and exploration of mineral 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 Suite 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. 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, 2020, the Company had not yet achieved profitable operations, has accumulated losses of \$8,254,209 (December 31, 2019: \$8,115,102) 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.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2020

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (cont'd)

Nature of Operations and Ability to Continue as a Going Concern (cont'd)

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has continued to result 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 physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

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.
- 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.

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

- i) In estimating the fair value of share-based payments, using the Black-Scholes option pricing model, management is required to make certain assumptions and estimates. Changes in assumptions used to estimate fair value could result in materially different results.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2020

(Expressed in Canadian Dollars)

4. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

The Company will be required to adopt the following standard and amendments issued by the IASB as described below.

IFRS 17, *Insurance Contracts*

IFRS 17 is a new standard that requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4, *Insurance Contracts*, and related interpretations.

This standard will be effective for the Company's annual period beginning January 1, 2021. The Company has assessed that the impact of IFRS 17 on its financial statements would not be significant.

5. EQUITY INVESTMENTS

As of September 30, 2020, equity 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, 2020, the carrying amount for the equity investments was \$4,876 (December 31, 2019: \$2,251).

During the period ended September 30, 2020, there was an increase in fair value of the Damara shares by \$2,625 (2019: decrease in fair value by \$1,125). This amount was recorded as a fair value gain in other comprehensive income.

	Damara	Voyager	Total
Balance, December 31, 2018	\$ 3,375	\$ 1	\$ 3,376
Change in fair value	(1,125)	-	(1,125)
Balance, December 31, 2019	2,250	1	2,251
Change in fair value	2,625	-	2,625
Balance, September 30, 2020	\$ 4,875	\$ 1	\$ 4,876

6. PROPERTY AND EQUIPMENT

	Leasehold improvements
Cost	
Balance, December 31, 2019 and September 30, 2020	\$ 19,060
Accumulated amortization	
Balance, December 31, 2018	\$ 16,900
Charge for the period	2,160
Balance, December 31, 2019 and September 30, 2020	\$ 19,060
Carrying amounts	
At December 31, 2019 and September 30, 2020	\$ -

RACKLA METALS INC.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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7. EXPLORATION AND EVALUATION ASSETS

As at September 30, 2020, the Company has capitalized \$1 (December 31, 2019: \$1) as acquisition cost on its Rivier mineral property interest.

Rivier Property – Yukon Territory

The Rivier Property consists of 116 claims located in the Watson Lake Mining District which are 100% owned by the Company. 100 of the claims were previously 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.

Pursuant to an agreement entered into in April 2018, as amended in April 2020 (the “Rivier and Sixty Mile Agreement”) with the Rivier Owner, the Company acquired 100% ownership of the 100 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 2021 (for as long as the Company owns the Rivier Property), and granting to the Rivier Owner a 2% net smelter return royalty.

Expo Property – Yukon Territory

Subsequent to September 30, 2020, the Company was granted the exclusive right to assess the Expo Property located in the Watson Lake Mining District, and if the Company elects, to be granted an option to acquire a 100% interest in the Expo Property. To exercise the option, the Company must make cash payments totaling \$535,000 and, subject to stock exchange approval, issue common shares of the Company with a total value of \$525,000 over a period of five years. An initial exclusivity cash payment of \$10,000 was made upon signing of the agreement.

8. EXPLORATION EXPENDITURES

During the nine-month period ended September 30, 2020, the Company incurred \$50,301 on exploration of the Rivier Property, of which \$49,096 was for geophysical services (2019: \$61,627 on general maintenance and property investigation costs).

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES

(a) Common Shares

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

During nine-month period ended September 30, 2020, the Company closed a placement of 5,000,000 units at \$0.10 per unit for gross proceeds of \$500,000. Each unit consists of one common share and one full share purchase warrant entitling the holder to purchase an additional common share exercisable for one year at a price of \$0.15. The Company paid \$250 cash as finders' fees in connection with the financing. Other share issuance costs associated with this financing totalled \$3,750.

(b) Share Purchase Warrants

The following is a summary of changes in share purchase warrants from December 1, 2019 to September 30, 2020:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2018 and 2019	-	-
Issued	5,000,000	\$0.15
Balance, September 30, 2020	5,000,000	\$0.15

As at September 30, 2020, the following share purchase warrants were outstanding:

Expiry date	Number of warrants	Exercise price
February 11, 2021	5,000,000	\$0.15

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

The following is a summary of changes in options for the period ended September 30, 2020:

Expiry date	Exercise price	Opening balance	During the period			Closing balance	Vested and exercisable
			Granted	Exercised	Expired / forfeited		
Jul 19, 2022	\$0.75	146,000	-	-	(5,000)	141,000	141,000
May 2, 2029	\$0.10	470,000	-	-	(10,000)	460,000	460,000
May 27, 2030	\$0.14	-	25,000	-	-	25,000	25,000
		616,000	25,000	-	(15,000)	626,000	626,000
Weighted average exercise price		\$0.25	\$0.14	-	\$0.32	\$0.25	\$0.25

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For the nine months ended September 30, 2020

(Expressed in Canadian Dollars)

10. SHARE-BASED PAYMENTS *(cont'd)*

Fair Value of Options Issued During the Period

The weighted average fair value at grant date of options granted during the period ended September 30, 2020 was \$0.13 per option (2019: \$0.08 per option).

The weighted average remaining contractual life of the options outstanding at September 30, 2020 is 7.10 years (December 31, 2019: 7.73).

Options Issued to Employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Options Issued to Non-Employees

Options issued to non-employees are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted using the Black-Scholes option pricing model.

The model inputs for options granted during the period ended September 30, 2020 included:

Share price at grant date	Exercise price	Risk-free interest rate	Expected life	Volatility factor	Dividend yield
\$0.14	\$0.14	0.59%	10 years	113%	0%

The expected volatility is based on the historical volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. The risk-free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Expenses Arising from Share-based Payments Transactions

Total expenses arising from the share-based payment transactions related to the granting of stock options and recognized as part of share-based payments expense during the period ended September 30, 2020 was \$3,253 (2019: \$49,033).

As of September 30, 2020, there was no unrecognized costs related to share-based payment awards not yet exercisable.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2020

(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS

The Company had transactions during the periods ended September 30, 2020 and 2019 with related parties consisting of directors, officers and the following companies with common directors:

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

Balances and transactions with related parties not disclosed elsewhere in these condensed interim financial statements are as follows:

- (a) During the periods ended September 30, 2020 and 2019, the Company reimbursed Gold Group for the following costs:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
General and administrative expenses:				
Office and administration	\$ 5,575	\$ 7,011	\$ 18,845	\$ 19,502
Salaries and benefits	4,931	11,137	21,557	28,692
Shareholder communications	250	254	1,005	254
Transfer agent and regulatory fees	100	-	2,378	3,253
Travel and accommodation	384	629	1,764	1,421
	\$ 11,240	\$ 19,031	\$ 45,549	\$ 53,122
Exploration expenditures	\$ -	\$ -	\$ -	\$ 13,085

Gold Group 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, 2020 consist of \$61,000 (December 31, 2019: \$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, 2020 consist of \$11,802 (December 31, 2019: \$26,206) due to Gold Group, \$376 (December 31, 2019: \$183,750) owed to Mill Street, a company controlled by the Chief Executive Officer of the Company for management fees, \$Nil (December 31, 2019: \$50,626) due to the President of the Company for geological fees and expense reimbursement, and \$1,045 (December 31, 2019: \$7,445) to Radius for geological services reimbursement. The balance due to Gold Group is collateralized by a deposit and the balances due to Mill Street and Radius are unsecured and due on demand. The amounts due do not bear interest.

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(Expressed in Canadian Dollars)

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,	
	2020	2019	2020	2019
Geological fees recorded as exploration expenditures	\$ -	\$ -	\$ -	\$ 35,900
Management fees	10,500	10,500	29,750	31,500
Salaries and benefits	1,375	3,208	5,683	8,708
Value of stock option grants recorded as share-based compensation	-	-	-	12,519
	\$ 11,875	\$ 13,708	\$ 35,433	\$ 88,627

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.

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For the nine months ended September 30, 2020

(Expressed in Canadian Dollars)

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

(a) Market Risk (cont'd)

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.

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% change in fair value of the shares would result in a \$488 increase or decrease in 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, 2020, the Company had cash of \$128,342 (December 31, 2019: \$13,979) available to apply against short-term business requirements and current liabilities of \$67,059 (December 31, 2019: \$308,347). 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, 2020 are carried at amortized cost, apart from the equity investment in a public company with shares in an active market of \$4,875 (December 31, 2019: \$2,250), 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 FVTOCI, and receivables, accounts payable and accrued liabilities and due to related parties measured at amortized cost.

RACKLA METALS INC.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended September 30, 2020

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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 in 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, 2020 and December 31, 2019. 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 aim to 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 period. As at September 30, 2020, the Company is not subject to any externally imposed capital requirements. The Company expects its current capital resources to be sufficient to cover its corporate operating costs but not potential future mineral property acquisitions or 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.

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15. EVENTS AFTER THE REPORTING DATE

Subsequent to September 30, 2020, the following events which have not been disclosed elsewhere in these financial statements have occurred:

The Company has announced a proposed non-brokered private placement consisting of up to 7.5 million units at \$0.12 per unit for gross proceeds of up to \$900,000. Each unit consists of one common share of the Company and one share purchase warrant, each warrant entitling the holder to purchase one additional common share of the Company at \$0.15 for one year from closing. The placement is subject to stock exchange approval.