



FINANCIAL REVIEW

Second Quarter Ended June 30, 2019



(An Exploration Stage Company)

CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended June 30, 2019

(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 six months ended June 30, 2019. 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)

	June 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash	\$ 32,904	\$ 92,267
Equity investments (Note 5)	3,376	3,376
Taxes receivable	2,945	1,369
	39,225	97,012
Non-current assets		
Deposit (Note 11)	61,000	61,000
Property and equipment (Note 6)	936	2,160
Exploration and evaluation assets (Note 7)	1	1
	61,937	63,161
TOTAL ASSETS	\$ 101,162	\$ 160,173
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 19,624	\$ 17,500
Due to related parties (Note 11)	212,180	145,530
Total liabilities	231,804	163,030
Shareholders' equity (deficiency)		
Share capital (Note 9)	7,819,280	7,819,280
Other equity reserves	125,325	128,023
Accumulated other comprehensive loss	(56,374)	(56,374)
Deficit	(8,018,873)	(7,893,786)
Total shareholders' deficiency	(130,642)	(2,857)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 101,162	\$ 160,173

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON JULY 30, 2019:

"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 June 30,		Six months ended June 30,	
	2019	2018	2019	2018
EXPLORATION EXPENDITURES (Notes 8 and 11)	\$ 29,689	\$ 18,001	\$ 61,627	\$ 18,001
GENERAL AND ADMINISTRATIVE EXPENSES				
Amortization (Note 6)	612	612	1,224	1,224
Legal and audit fees	-	1,280	2,082	1,655
Management fees (Note 11)	10,500	10,500	21,000	21,000
Office and administrative (Note 11)	6,257	8,658	12,586	15,371
Salaries and benefits (Note 11)	7,156	6,197	17,555	12,387
Share-based payments (Note 10)	49,033	-	49,033	-
Shareholder communications	706	907	1,176	1,720
Transfer agent and regulatory fees (Note 11)	1,823	2,493	9,743	8,334
Travel and accommodation (Note 11)	522	141	792	590
	76,609	30,788	115,191	62,281
	(106,298)	(48,789)	(176,818)	(80,282)
Loss on disposal of exploration and evaluation assets	-	(3)	-	(3)
Net loss for the period	\$ (106,298)	\$ (48,792)	\$ (176,818)	\$ (80,285)
Other comprehensive income (loss)				
Fair value loss on equity investments (Note 5)	-	(375)	-	(1,125)
Total comprehensive loss	\$ (106,298)	\$ (49,167)	\$ (176,818)	\$ (81,410)
Basic and diluted loss per share	\$(0.01)	\$(0.00)	\$(0.01)	\$(0.00)
Weighted average number of common shares outstanding	20,261,308	20,098,858	20,261,308	20,098,858

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 six months ended June 30, 2019 and 2018

(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, 2017	20,098,858	\$ 7,799,555	\$ 128,023	\$ 1,500	\$ (7,787,834)	\$ 141,244
Impact of adopting IFRS 9 on January 1, 2018	-	-	-	(56,749)	56,749	-
Balance, January 1, 2018	20,098,858	7,799,555	128,023	(55,249)	(7,731,085)	141,244
Loss for the period	-	-	-	-	(80,285)	(80,285)
Fair value loss on equity investments	-	-	-	(1,125)	-	(1,125)
Balance, June 30, 2018	20,098,858	7,799,555	128,023	(56,374)	(7,811,370)	59,834
Loss for the period	-	-	-	-	(82,416)	(82,416)
Shares issued for debt settlement	162,450	20,306	-	-	-	20,306
Share issuance costs	-	(581)	-	-	-	(581)
Balance, December 31, 2018	20,261,308	7,819,280	128,023	(56,374)	(7,893,786)	(2,857)
Loss for the period	-	-	-	-	(176,818)	(176,818)
Fair value of expired options	-	-	(51,731)	-	51,731	-
Share-based payments	-	-	49,033	-	-	49,033
Balance, June 30, 2019	20,261,308	\$ 7,819,280	\$ 125,325	\$ (56,374)	\$ (8,018,873)	\$ (130,642)

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 June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net loss for the period	\$ (106,298)	\$ (48,792)	\$ (176,818)	\$ (80,285)
Items not involving cash:				
Amortization	612	612	1,224	1,224
Loss on disposal of exploration and evaluation assets	-	3	-	3
Share-based payments	49,033	-	49,033	-
	(56,653)	(48,177)	(126,561)	(79,058)
Changes in non-cash working capital items:				
Taxes receivable	(269)	(723)	(1,576)	(1,143)
Accounts payable and accrued liabilities	(221)	1,620	2,124	1,419
Due to related parties	20,661	(87,504)	66,650	(62,064)
	(36,482)	(134,784)	(59,363)	(140,846)
INVESTING ACTIVITIES				
Proceeds from sale of exploration and evaluation assets	-	50,000	-	50,000
	-	50,000	-	50,000
Decrease in cash	(36,482)	(84,784)	(59,363)	(90,846)
Cash, beginning of period	69,386	239,155	92,267	245,217
Cash, end of period	\$ 32,904	\$ 154,371	\$ 32,904	\$ 154,371

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 six months ended June 30, 2019

(Expressed in Canadian Dollars)

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 June 30, 2019, the Company had not yet achieved profitable operations, has accumulated losses of \$8,018,873 (December 31, 2018: \$7,893,786) 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 six months ended June 30, 2019

(Expressed in Canadian Dollars)

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 condensed interim 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.

4. ADOPTION OF NEW ACCOUNTING STANDARD

On January 1, 2019, the Company adopted IFRS 16 – *Leases* ("IFRS 16"), which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 *Leases*. The adoption of IFRS 16 did not have a material impact on the Company's condensed interim financial statements.

RACKLA METALS INC.

(An Exploration Stage Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2019

(Expressed in Canadian Dollars)

5. EQUITY INVESTMENTS

As of June 30, 2019, 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 June 30, 2019, the carrying amount for the equity investments was \$3,376 (December 31, 2018: \$3,376).

During the period ended June 30, 2019, there was no change in fair value of the Damara shares.

	Damara	Voyager	Total
Balance, December 31, 2017	\$ 4,500	\$ 1	\$ 4,501
Change in fair value	(1,125)	-	(1,125)
Balance, December 31, 2018	3,375	1	3,376
Balance, June 30, 2019	\$ 3,375	\$ 1	\$ 3,376

6. PROPERTY AND EQUIPMENT

	Leasehold improvements
Cost	
Balance, December 31, 2017	\$ 19,060
Additions	-
Balance, December 31, 2018	19,060
Additions	-
Balance, June 30, 2019	\$ 19,060
Accumulated amortization	
Balance, December 31, 2017	\$ 14,452
Charge for the period	2,448
Balance, December 31, 2018	16,900
Charge for the period	1,224
Balance, June 30, 2019	\$ 18,124
Carrying amounts	
At December 31, 2018	\$ 2,160
At June 30, 2019	\$ 936

RACKLA METALS INC.

(An Exploration Stage Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2019

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition costs of its mineral property interests as at June 30, 2019:

	Rivier	Scarlet	Sixty Mile	Face	Total
Balance, December 31, 2017	\$ 1	\$ 41,001	\$ 1	\$ 9,001	\$ 50,004
Disposal of assets	-	(41,001)	(1)	(9,001)	(50,003)
Balance, December 31, 2018	1	-	-	-	1
Balance, June 30, 2019	\$ 1	\$ -	\$ -	\$ -	\$ 1

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.

During the 2018 fiscal year, the Company entered into an agreement (the “Rivier and Sixty Mile Agreement”) with the Rivier Owner whereby 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 2020 (for as long as the Company owns the Rivier Property), and granting to the Rivier Owner a 2% net smelter return royalty.

8. EXPLORATION EXPENDITURES

During the six month period ended June 30, 2019, the Company incurred \$61,627 (2018: \$18,001) on property investigation costs.

RACKLA METALS INC.

(An Exploration Stage Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2019

(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.

There was no share capital activity during the six month period ended June 30, 2019.

(b) Share Purchase Warrants

As at June 30, 2019, 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

The following is a summary of changes in options for the period ended June 30, 2019:

Expiry date	Exercise price	Opening balance	During the period			Closing balance	Vested and exercisable
			Granted	Exercised	Expired / forfeited		
Jul 19, 2022	\$0.75	245,000	-	-	(99,000)	146,000	146,000
May 02, 2029	\$0.10	-	470,000	-	-	470,000	470,000
		245,000	470,000	-	(99,000)	616,000	616,000
Weighted average exercise price		\$0.75	\$0.10	-	\$0.75	\$0.25	\$0.25

Fair Value of Options Issued During the Period

The weighted average fair value at grant date of options granted during the period ended June 30, 2019 was \$0.08 per option.

The weighted average remaining contractual life of the options outstanding at June 30, 2019 is 8.24 years (December 31, 2018: 3.55).

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.

RACKLA METALS INC.

(An Exploration Stage Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2019

(Expressed in Canadian Dollars)

10. SHARE-BASED PAYMENTS (cont'd)

Fair Value of Options Issued During the Period (cont'd)

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 June 30, 2019 included:

Share price at grant date	Exercise price	Risk-free interest rate	Expected life	Volatility factor	Dividend yield
\$0.11	\$0.10	1.80%	10 years	119%	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 June 30, 2019 was \$49,033 (2018: \$Nil).

As of June 30, 2019, there was no unrecognized costs related to share-based payment awards not yet exercisable.

11. RELATED PARTY TRANSACTIONS

The Company had transactions during the periods ended June 30, 2019 and 2018 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
Mill Street Services Ltd. ("Mill Street")	Management services

RACKLA METALS INC.

(An Exploration Stage Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2019

(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS (cont'd)

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

- (a) During the periods ended June 30, 2019 and 2018, the Company reimbursed Gold Group for the following costs:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
General and administrative expenses:				
Office and administration	\$ 6,400	\$ 8,894	\$ 12,491	\$ 15,978
Salaries and benefits	7,156	6,193	17,555	12,383
Transfer agent and regulatory fees	1,400	1,853	3,253	1,853
Travel and accommodation	522	141	792	590
	\$ 15,478	\$ 17,081	\$ 34,091	\$ 30,804
Exploration expenditures	\$ 13,085	\$ -	\$ 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 June 30, 2019 consist of \$61,000 (December 31, 2018: \$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 June 30, 2019 consist of \$5,022 (December 31, 2018: \$4,373) due to Gold Group and \$161,700 (December 31, 2018: \$139,650) owed to Mill Street, a company controlled by the Chief Executive Officer of the Company for management fees, and \$45,458 (December 31, 2018: \$1,507) due to the President of the Company for geological fees and expense reimbursement. The balance due to Gold Group is collateralized by a deposit and the balances due to Mill Street and the President of the Company are unsecured and due on demand. The amounts due do not bear interest.

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 June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Geological fees recorded as exploration expenditures	\$ 9,500	\$ 9,000	\$ 35,900	\$ 9,000
Management fees	10,500	10,500	21,000	21,000
Salaries and benefits	1,375	917	5,500	1,834
Value of stock option grants recorded as share-based compensation	12,519	-	12,519	-
	\$ 33,894	\$ 11,417	\$ 74,919	\$ 31,834

RACKLA METALS INC.

(An Exploration Stage Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2019

(Expressed in Canadian Dollars)

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.

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 \$337 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.

RACKLA METALS INC.

(An Exploration Stage Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2019

(Expressed in Canadian Dollars)

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

(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 June 30, 2019, the Company had cash of \$32,904 (December 31, 2018: \$92,267) available to apply against short-term business requirements and current liabilities of \$231,804 (December 31, 2018: \$163,030). 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 June 30, 2019 are carried at amortized cost, apart from the equity investment in a public company with shares in an active market of \$3,375 (December 31, 2018: \$3,375), 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.

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 June 30, 2019 and December 31, 2018. This investment is considered to be Level 3.

RACKLA METALS INC.

(An Exploration Stage Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2019

(Expressed in Canadian Dollars)

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 June 30, 2019, 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.



(the “Company”)

INTERIM MANAGEMENT’S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS

For the Six Months Ended June 30, 2019

General

This interim Management’s Discussion and Analysis (“Interim MD&A”) supplements, but does not form part of, the unaudited condensed interim financial statements of the Company for the six months ended June 30, 2019. The following information, prepared as of July 30, 2019, should be read in conjunction with the Company’s unaudited condensed interim financial statements for six months ended June 30, 2019 and the related notes contained therein. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards (“IFRS”). In addition, the following should be read in conjunction with the financial statements of the Company for the year ended December 31, 2018 and the related MD&A. All amounts are expressed in Canadian dollars unless otherwise indicated. The June 30, 2019 financial statements have not been reviewed by the Company’s auditors.

Additional information relevant to the Company’s activities can be found on SEDAR at (www.sedar.com).

Forward-looking Information

This Interim MD&A contains certain statements which constitute forward-looking information within the meaning of applicable Canadian securities legislation (“Forward-looking Statements”). All statements included herein, other than statements of historical fact, are Forward-looking Statements and are subject to a variety of known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the Forward-looking Statements. The Forward-looking Statements in this Interim MD&A include, without limitation, statements relating to the Company’s plans for exploration of its properties; the sufficiency of the Company’s cash position; and its ability to raise equity capital or access debt facilities. Often, but not always, these Forward-looking Statements can be identified by the use of words such as “anticipates”, “believes”, “plans”, “estimates”, “expects”, “forecasts”, “scheduled”, “targets”, “possible”, “strategy”, “potential”, “intends”, “advance”, “goal”, “objective”, “projects”, “budget”, “calculates” or statements that events, “will”, “may”, “could” or “should” occur or be achieved and similar expressions, including negative variations.

Forward-looking Statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any results, performance or achievements expressed or implied by the Forward-looking Statements. Such uncertainties and factors include, among others:

- risks associated with mineral exploration;
- fluctuations in commodity prices, foreign exchange rates, and interest rates;
- credit and liquidity risks;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- reliance on key personnel;
- property title matters and local community relationships;
- risks associated with potential legal claims generally or with respect to environmental matters;

- dilution from further equity financing;
- competition; and
- uncertainties relating to general economic conditions;

as well as those factors referred to in the “Risks and Uncertainties” section in this Interim MD&A.

Forward-looking Statements contained in this Interim MD&A are based on the assumptions, beliefs, expectations and opinions of management, including but not limited to:

- all required third party contractual, regulatory and governmental approvals will be obtained for the exploration and development of the Company’s properties;
- there being no significant disruptions affecting operations, whether relating to labor, supply, power, damage to equipment or other matters;
- exploration activities proceeding on a basis consistent with the Company’s current expectations;
- expected trends and specific assumptions regarding commodity prices and currency exchange rates; and
- prices for and availability of fuel, electricity, equipment and other key supplies remaining consistent with current levels.

These Forward-looking Statements are made as of the date hereof and the Company disclaims any obligation to update any Forward-looking Statements, whether as a result of new information, future events or results or otherwise, except as required by law. There can be no assurance that Forward-looking Statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, investors should not place undue reliance on Forward-looking Statements.

Business of the Company

The Company is a Vancouver-based mineral exploration company engaged in the acquisition and exploration of precious and base metals properties. Management is focusing its efforts towards actively seeking prospective projects for acquisition by the Company, as well as possible joint ventures or other transactions for the Company’s Rivier Property described below.

Rivier Property

The Company has held a 100% interest in 16 Rivier claims for some years, and until late 2017, had an option to acquire an additional 100 Rivier claims. In April 2018, the Company entered into an agreement (the “Rivier and Sixty Mile Agreement”) with the owner (the “Rivier Owner”) of the 100 Rivier claims, to acquire such claims in consideration for transferring 63 of the Company’s Sixty Mile claims to the Rivier Owner, 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 currently consists of 116 claims owned by the Company and which are in good standing until 2024.

The Rivier claims are located 90 kilometres southeast of Ross River, Yukon and are targets for lode gold mineralization of the Motherlode type. Geochemical results from soil sample programs identified three zones of anomalous gold values adjacent to a structurally controlled ultramafic body indicating the potential for significant gold mineralization. Each of the three zones includes at least one soil sample that contained over 2 grams per tonne gold.

Qualified Person: Bruce Smith, M.Sc., M.Eng., a member of the Australian Institute of Geoscientists, is the Company’s Qualified Person as defined by National Instrument 43-101, and is responsible for the accuracy of the technical information in this Interim MD&A.

Quarterly Information

The following table provides quarterly information for the eight fiscal quarters ended June 30, 2019:

Quarter Ended	Jun. 30, 2019 (\$)	Mar. 31, 2019 (\$)	Dec. 31, 2018 (\$)	Sep. 30, 2018 (\$)	Jun. 30, 2018 (\$)	Mar. 31, 2018 (\$)	Dec. 31, 2017 (\$)	Sep. 30, 2017 (\$)
Exploration expenditures	29,689	31,938	7,788	-	18,001	-	7,602	-
General and administrative expenses	76,609	38,582	45,837	24,730	30,788	31,493	40,259	26,774
Net income (loss)	(106,298)	(70,520)	(53,625)	(28,791)	(48,792)	(31,493)	2,139	(26,774)
Basic and diluted income (loss) per share	(0.01)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	0.00	(0.00)

The net income for the quarter ended December 31, 2017 was a result of the reversal of impairment of exploration and evaluation properties of \$50,000. Exploration expenditures for the quarters presented were mostly related to the investigation of new property opportunities.

Results of Operations

Quarter ended June 30, 2019

The quarter ended June 30, 2019 had a net loss of \$106,298, compared to \$48,792 for the quarter ended June 30, 2018, an increase of \$57,506. The net loss for the current quarter included exploration expenditures totaling \$29,689 compared to \$18,001 for the comparative quarter, an increase of \$11,688. Exploration costs for both periods consisted primarily of costs for investigating new property opportunities. General and administrative expenses for the current quarter totaled \$76,609 compared to \$30,788 for the comparative quarter, an increase of \$45,821. This increase is mostly due to a share-based payments expense of \$49,033 relating to the granting of stock options during the current quarter whereas there was no such expense for the comparative quarter. Other general and administrative costs for the current and comparative quarters were fairly similar, except for office and administration costs and legal and audit fees being less by \$2,401 and \$1,280, respectively, for the current quarter.

Six months ended June 30, 2019

The net loss for the six month period ended June 30, 2019 was \$176,818 compared to \$80,285 for the six month period ended June 30, 2018, an increase of \$96,533. Exploration expenditures for the current period totaled \$61,627 compared to \$18,001 for the comparative period, an increase of \$43,626. Exploration expenditures for both periods consisted mostly of new property investigation costs.

General and administrative expenses for the current six month period totaled \$115,191 compared to \$62,281 for the comparative six month period, an increase of \$52,910. As in the quarterly comparison, the current period included a share-based payments expense of \$49,033 compared to none for the comparative period. Most other general and administrative costs were fairly similar for both the current and comparative periods except for an increase of \$5,168 in salaries and benefits costs in the current period due to the Company's portion of shared personnel costs increasing since the comparative period.

Liquidity and Capital Resources

The Company is in the exploration stage and therefore has no cash flow from operations. The Company no longer has option agreements relating to the Rivier Property that had cash and share payments scheduled to be paid and received, although for as long as the Company owns the Rivier Property, the Company has a commitment to make annual advance royalty payments of \$10,000 to the former property owner commencing in April 2020.

As at June 30, 2019, current assets were \$39,225 of which \$32,904 was cash and \$3,376 was the fair value of equity investments. Current liabilities were \$231,804, resulting in a working capital deficiency of \$192,579. The current liabilities balance includes \$212,180 owing to related parties, of which the majority has been accrued since 2015. The Company's last equity financing was in 2015. During the 2018 fiscal year, the Company received proceeds of \$50,000 upon the sale of its Scarlet East and Face properties. Current funds are being used for new project investigations and for general working capital purposes.

The Company has primarily funded its operations through the issuance of equity financing. 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. Actual funding requirements may vary from those planned due to a number of factors, including the progress of property acquisition and exploration activity.

Related Party Transactions

There were no significant related party transactions during the current period. See Note 11 of the condensed interim financial statements for the six months ended June 30, 2019 for details of related party transactions which occurred in the normal course of business.

Other Data

Additional information related to the Company is available for viewing at www.sedar.com.

Share Position and Outstanding Options

As at July 30, 2019, the Company had 20,261,308 common shares issued and outstanding and the following incentive stock options are currently outstanding:

<u>STOCK OPTIONS</u>		
No. of options	Exercise price	Expiry date
146,000	\$0.75	July 19, 2022
470,000	\$0.10	May 2, 2029
616,000		

Accounting Policies and Basis of Presentation

The Company's significant accounting policies and future changes in accounting policies are presented in the audited financial statements for the year ended December 31, 2018. The following outlines the new accounting standard adopted by the Company effective January 1, 2019:

IFRS 16 Leases

IFRS 16 Leases requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The adoption of IFRS 16 did not have a material impact on the Company's condensed interim financial statements.

Risks and Uncertainties

Mineral Property Exploration and Mining Risks

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that option agreements, claims and leases are in good standing; and obtaining permits for drilling and other exploration activities.

Joint Venture Funding Risk

The Company's strategy includes seeking partners through joint ventures to fund exploration and project development. The main risk of this strategy is that funding partners may not be able to raise sufficient capital in order to satisfy exploration and other expenditure terms in a particular joint venture agreement. As a result, exploration and development of one or more of the Company's property interests may be delayed depending on whether the Company can find another partner or has enough capital resources to fund the exploration and development on its own.

Commodity Price Risk

The Company is exposed to commodity price risk. Declines in the market price of gold, base metals and other minerals may adversely affect the Company's ability to raise capital or attract joint venture partners in order to fund its ongoing operations. Commodity price declines could also reduce the amount the Company would receive on the disposition of one of its mineral properties to a third party.

Financing and Share Price Fluctuation Risks

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Securities markets have at times in the past experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be exploration stage companies such as the Company, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on the Company's ability to raise additional funds through equity issues.

Political and Regulatory Risks

The Company is currently operating in Canada which has a stable political and regulatory environment. However, changing political aspects may affect the regulatory environment in which the Company operates.

Insured and Uninsured Risks

In the course of exploration, development and production of mineral properties, the Company is subject to a number of hazards and risks in general, including adverse environmental conditions, operational accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in damage to the Company's properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability and result in increased costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

Environmental and Social Risks

The activities of the Company are subject to environmental regulations issued and enforced by government agencies. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present. Social risks are considered low in Canada, the principal country of operation of the Company, but a change in social expectations could add new layers of risk to the viability of exploration and development properties.

Competition

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.