



# **Western Metallica Resources Corp.**

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## **Consolidated Financial Statements**

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**For the years ended December 31, 2022 and 2021**

**(Expressed in Canadian Dollars)**

*Audit. Tax. Advisory.*

## **Independent Auditor's Report**

To the Shareholders of Western Metallica Resources Corp.

### **Opinion**

We have audited the consolidated financial statements of Western Metallica Resources Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis for opinion**

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

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there were no key audit matters to communicate in our report.

### **Other information**

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

**McGovern Hurley LLP**



**Chartered Professional Accountants  
Licensed Public Accountants**

Toronto, Ontario  
April 28, 2023

# Western Metallica Resources Corp.

## Consolidated Statements of Financial Position

Expressed in Canadian Dollars

As at:		December 31, 2022	December 31, 2021
	Note	\$	\$
<b>ASSETS</b>			
Current			
Cash and cash equivalents		1,172,622	659,280
Short-term investments	4	4,000,000	-
Restricted cash	7	-	6,767,939
Amounts receivable	11	261,441	52,155
Prepaid expenses		27,504	46,021
Prepaid finance expenses		-	742,560
<b>Total current assets</b>		<b>5,461,567</b>	<b>8,267,955</b>
Long-term			
Reclamation deposit		68,936	13,528
<b>Total assets</b>		<b>5,530,503</b>	<b>8,281,483</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	10,11	315,026	374,265
Other liabilities	7	-	8,000,100
<b>Total liabilities</b>		<b>315,026</b>	<b>8,374,365</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
Common shares	7	8,120,480	509,786
Warrant reserve	8	2,207,346	390,951
Option reserve	8	622,452	-
Deficit		(5,734,801)	(993,619)
<b>Total shareholders' equity (deficiency)</b>		<b>5,215,477</b>	<b>(92,882)</b>
<b>Total liabilities and shareholders' equity</b>		<b>5,530,503</b>	<b>8,281,483</b>
Nature of operations and going concern	1		
Commitments and contingencies	6,14		

These consolidated financial statements were authorized for issue by the Board of Directors on April 28, 2023.

Approved on behalf of the Board of Directors:

Signed: "Gregory Duras", Director

Signed: "Joaquin Merino", Director

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

**Western Metallica Resources Corp.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
*Expressed in Canadian Dollars*

	Note	Year ended December 31,	
		2022	2021
		\$	\$
<b>Expenses</b>			
Project evaluation expenses	5,6	1,903,651	78,497
Salaries and benefits	11	305,434	-
Consulting and management fees	11	320,749	-
Professional fees		103,911	-
Transaction costs	7(iv)	1,514,931	-
Share-based compensation	8	652,390	-
Office and general		109,269	135,830
<b>(Loss) for the year before other items</b>		<b>(4,910,335)</b>	<b>(214,327)</b>
<b>Other items</b>			
Interest income		105,888	-
Foreign exchange gain		19,105	3,847
<b>Net loss and comprehensive loss</b>		<b>(4,785,342)</b>	<b>(210,480)</b>
<b>Basic and diluted (loss) per share</b>			
		\$ (0.12)	\$ (0.02)
<b>Weighted average number of common shares outstanding</b>			
Basic and Diluted		41,468,805	9,725,000

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

## Western Metallica Resources Corp.

### Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

Expressed in Canadian Dollars

	Number of shares #	Common Shares \$	Number of warrants #	Warrant Reserve \$	Number of options #	Option Reserve \$	Deficit \$	Shareholders' equity / (deficiency) \$
<b>Balance, December 31, 2020</b>	<b>15,299,998</b>	<b>509,786</b>	<b>2,930,206</b>	<b>208,951</b>	-	-	<b>(783,139)</b>	<b>(64,402)</b>
Broker warrants	-	-	1,213,870	182,000	-	-	-	182,000
Loss and comprehensive loss	-	-	-	-	-	-	(210,480)	(210,480)
<b>Balance, December 31, 2021</b>	<b>15,299,998</b>	<b>509,786</b>	<b>4,144,076</b>	<b>390,951</b>	-	-	<b>(993,619)</b>	<b>(92,882)</b>
Acquisition of Asminarq SL	2,000,000	470,000	-	-	-	-	-	470,000
Reverse takeover transaction	6,500,000	1,527,500	400,000	83,040	605,000	124,015	-	1,734,555
Subscription receipts	26,667,000	6,266,745	13,333,500	1,733,355	-	-	-	8,000,100
Share issue costs	-	(941,938)	-	-	-	-	-	(941,938)
Sierra Alta option extension	786,632	141,594	-	-	-	-	-	141,594
Share-based compensation	-	-	-	-	4,750,000	652,390	-	652,390
Options exercise	475,000	146,793	-	-	(475,000)	(109,793)	-	37,000
Options expired	-	-	-	-	(300,000)	(44,160)	44,160	-
Loss and comprehensive loss for the year	-	-	-	-	-	-	(4,785,342)	(4,785,342)
<b>Balance, December 31, 2022</b>	<b>51,728,630</b>	<b>8,120,480</b>	<b>17,877,576</b>	<b>2,207,346</b>	<b>4,580,000</b>	<b>622,452</b>	<b>(5,734,801)</b>	<b>5,215,477</b>

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

# Western Metallica Resources Corp.

## Consolidated Statements of Cash Flows

Expressed in Canadian Dollars

		Year ended December 31,	
	Note	2022	2021
		\$	\$
<b>Cash (used in)/provided by:</b>			
<b>Operating activities</b>			
(Loss) for the year		(4,785,342)	(210,480)
Items not involving cash:			
Acquisition of Asminarq SL	5,6	470,000	-
Acquisition of Orcus Resources Ltd.	7(iv)	1,514,931	-
Sierra Alta option extension	7(i)	141,594	-
Share-based compensation	8	652,390	-
Foreign exchange		-	596
Changes in non cash working capital		(275,664)	185,389
<b>Net cash (used in) operating activities</b>		<b>(2,282,091)</b>	<b>(24,495)</b>
<b>Investing activities</b>			
Decrease (increase) in restricted cash		6,767,939	(6,767,939)
Short-term investment	4	(4,000,000)	-
Reclamation deposit		(55,408)	(6,476)
<b>Net cash provided by (used in) investing activities</b>		<b>2,712,531</b>	<b>(6,774,415)</b>
<b>Financing activities</b>			
Proceeds from subscription receipt issuance	7	-	8,000,100
Subscription receipt issuance costs	7	(199,378)	(560,560)
Cash received from reverse takeover transaction	7(iv)	245,280	-
Options exercised	8	37,000	-
<b>Net cash provided by financing activities</b>		<b>82,902</b>	<b>7,439,540</b>
<b>Change in cash</b>		<b>513,342</b>	<b>640,630</b>
<b>Cash, beginning of year</b>		<b>659,280</b>	<b>18,650</b>
<b>Cash, end of year</b>		<b>1,172,622</b>	<b>659,280</b>

### SUPPLEMENTAL INFORMATION

Broker warrants issued	7(iii)	-	182,000
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The accompanying notes are an integral part of these consolidated financial statements.

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# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Expressed in Canadian Dollars

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Western Metallica Resources Corp. (the "Company", or "Western Metallica") was incorporated on September 28, 2020 as a Province of British Columbia registered corporation pursuant to the *Business Corporations Act of British Columbia*. The Company commenced trading as a Tier 2 Mining Issuer on the TSX Venture Exchange ("TSXV") on April 19, 2022 under the new trading symbol "WMS".

The Company is currently engaged in the acquisition, exploration, and development of mineral properties in Spain. The head office and principal address of the Company is 93 Ridley Blvd., Toronto, Ontario, M5M 3L6.

The Company owns the following subsidiaries:

- A 100% interest in Western Metallica Corp., a company incorporated on September 18, 2018 as a Province of Ontario registered corporation pursuant to the *Business Corporations Act of Ontario*. Western Metallica Corp. owns 100% of Western Metallica Espana, a company incorporated on May 18, 2016 in Spain, which in turn owns 100% of Asminaq S.L. ("Asminarq"), a company incorporated on February 12, 2013 in Spain.

On April 13, 2022, the Company closed its previously announced reverse takeover transaction (the "Transaction") with Western Metallica Corp. (the "Target"). The Transaction was completed by way of a "three-cornered" amalgamation pursuant to the provisions of the *Business Corporations Act (Ontario)*. Prior to the completion of the Transaction, the Company changed its name from "Orcus Resources Ltd." to "Western Metallica Resources Corp." (the "Name Change") and the Target completed a share split on a 1:1.5732646 basis (the "Share Split"). Pursuant to the Transaction, all common shares of the Company were exchanged on a one-for-one basis for common shares of Western Metallica and Western Metallica Corp. and 1000055944 Ontario Inc., a wholly owned subsidiary of the Company newly incorporated under the *Business Corporations Act (Ontario)* for the sole purpose of effecting the Transaction, amalgamated with the resulting entity continuing as a wholly owned subsidiary of the Company under the name "Western Metallica Holdings Corp." See Note 7(iv). These financial statements present the continuation of the Target and the acquisition of Orcus Resources Ltd. by Western Metallica Corp. as a reverse acquisition for accounting purposes.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration programs will result in profitable operations.

The Company is in the process of exploring its mineral exploration properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The recoverability of exploration and evaluation expenditures is dependent upon the establishment of a sufficient quantity of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition of these assets.

Although the Company has taken steps to verify title to the properties on which it is conducting its exploration activities, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

As at December 31, 2022, the Company had working capital of \$5,146,541 (December 31, 2021: deficiency of \$106,410) and an accumulated deficit of \$5,734,801 (December 31, 2021: \$993,619). The Company has a need for equity financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

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# **Western Metallica Resources Corp.**

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

**For the years ended December 31, 2022 and 2021**

*Expressed in Canadian Dollars*

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These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such adjustments could be material.

### ***Approval of the consolidated financial statements***

These consolidated financial statements of the Company for the years ended December 31, 2022 and 2021 were reviewed, approved and authorized for issue by the Board of Directors of the Company on April 28, 2023.

## **2. BASIS OF PRESENTATION**

### ***Statement of compliance***

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The policies set out were consistently applied to all the periods presented unless otherwise noted below.

### ***Basis of presentation***

These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information, and have been prepared using the historical cost basis.

### ***Functional and presentation currency***

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

### ***Subsidiaries***

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

These consolidated financial statements include the accounts of Western Metallica Resources Corp. and its wholly owned subsidiaries, Western Metallica Corp., Western Metallica Espana and Asminarq. All material intercompany transactions and balances between the subsidiaries have been eliminated on consolidation.

### ***Contingencies***

Refer to Notes 6 and 14.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies followed by the Company as set out below have been consistently followed in the preparation of these financial statements.

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# **Western Metallica Resources Corp.**

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

**For the years ended December 31, 2022 and 2021**

*Expressed in Canadian Dollars*

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### **a) Cash and cash equivalents**

Cash includes deposits held with banks which may be settled on demand or an original maturity of less than 90 days. Restricted cash consists of cash balances which are restricted as to withdrawal or usage. This includes cash collateral for credit cards and cash held in escrow related to subscription receipts.

### **b) Short term investments**

Short term investments consist of Guaranteed Investment Certificates held to maturity with an original maturity of less than one year.

### **c) Exploration and evaluation expenditures**

Mineral property acquisition costs are expensed as incurred. Exploration expenditures are the costs incurred in the initial search for mineral deposits with economic potential. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, drilling and other work involved in searching for ore. All exploration expenditures are expensed as incurred.

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures incurred subsequent to this date related to development and construction are capitalized as construction-in-process and classified as a component of property, plant and equipment.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Mining properties and process facility assets are amortized upon commencement of commercial production either on a unit-of-production basis over measured and indicated resources included in the mine plan or the life of mine.

### **d) Impairment of non-financial assets**

The carrying values of non-financial assets are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Company evaluating its non-financial assets on a geographical basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is charged to loss to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case,

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## **Western Metallica Resources Corp.**

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2022 and 2021**

*Expressed in Canadian Dollars*

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the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in loss.

#### **e) Rehabilitation provisions**

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed, or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. If incurred while exploration and evaluation activities were taking place, amounts are expensed. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in operations as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in loss.

The Company does not currently have any such significant legal or constructive obligations and therefore, no rehabilitation provision has been recorded as at December 31, 2022 and 2021.

#### **f) Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity. Common shares issued to non-employees for consideration other than cash are measured at the fair value of goods or services received or the fair value of the common shares issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods and services are received. The fair value of the common shares is generally determined based on their quoted market value at the date of issuance.

#### **g) Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve. On exercise, the value recorded in reserves is reclassified to share capital. Upon expiry, the recorded value is transferred to deficit.

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# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements For the years ended December 31, 2022 and 2021

*Expressed in Canadian Dollars*

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Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### **h) Warrants**

The Company issues warrants either as part of a financing, whereby the investor acquires a unit which is comprised of a common share and a warrant, or for services. Warrants allow the holder to acquire common shares of the Company. Where the warrant is issued for services received by the Company as consideration which cannot be specifically identified, they are measured at the fair value of the warrant. Otherwise, warrants are measured at the fair value of the amount settled or goods or services received. Warrants issued as part of a unit financing are allocated a value relative to the estimated fair value of the components of the units issued. The fair value of the warrant is valued using the Black-Scholes pricing model. On exercise, the value recorded in reserves is reclassified to share capital. Upon expiry, the recorded value is transferred to deficit.

### **i) Financial Assets and Liabilities**

#### Financial assets

##### *Initial recognition and measurement*

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either fair value through profit or loss (“FVPL”) or fair value through other comprehensive income (“FVOCI”), and “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

##### *Subsequent measurement- financial assets at amortized cost*

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the statements of loss. The Company’s cash, restricted cash, and amounts receivable are recorded at amortized cost.

##### *Subsequent measurement – financial assets at FVPL*

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statements of financial position with changes in fair value recognized in other income or expense in the statements of (loss). The Company’s cash equivalents and short-term investments are measured at FVPL.

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## **Western Metallica Resources Corp.**

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

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*Expressed in Canadian Dollars*

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#### *Subsequent measurement – financial assets at FVOCI*

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the statements of comprehensive (loss). When the investment is sold, the cumulative gain or loss is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the statements of (loss) when the right to receive payments is established.

#### *Derecognition*

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

#### *Impairment of financial assets*

The Company's only financial assets subject to impairment are amounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, amounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases, and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

### Financial Liabilities

#### *Initial recognition and measurement*

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. All financial liabilities are recognized initially at fair value.

#### *Subsequent measurement – financial liabilities at amortized cost*

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the statements of loss. The Company's accounts payable and accrued liabilities, other liabilities are recorded at amortized cost.

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the statement of loss.

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## **Western Metallica Resources Corp.**

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2022 and 2021**

*Expressed in Canadian Dollars*

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#### **j) Foreign currency translation**

The presentation and functional currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Exchange differences are recognized in operations in the period in which they arise.

#### **k) Income taxes**

Any income tax on profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income/loss, in which case the income tax is recognized in equity or other comprehensive income/loss.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, on a non-discounted basis using tax rates at the end of the reporting period applicable to the period of expected realization. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

#### **l) Loss per share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share calculation assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive. All the Company's outstanding options and warrants were anti-dilutive for the years ended December 31, 2022 and 2021.

#### **m) Future accounting changes**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2023. Updates that are not applicable or are not consequential to the Company have been excluded thereof. The following have not yet been adopted and are being evaluated to determine their impact on the financial statements.

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# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements For the years ended December 31, 2022 and 2021

*Expressed in Canadian Dollars*

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IAS 1 – In February 2021, the IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was revised in January 2020 and July 2020 to (i) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only rights in place “at the end of the reporting period” should affect the classification of a liability; (ii) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

IAS 8 – In February 2021, the IASB issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 12 – In May 2021, the IASB issued ‘Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction’ that clarifies how entities account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for year ends beginning on or after January 1, 2023.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

### ***Critical judgements and estimation uncertainties***

The preparation of financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results may differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

#### ***Share-based payments and warrants***

Management determines costs for share-based payments and warrants issued in financing transactions using market-based valuation techniques. The fair value of the market-based share awards is determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

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# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Expressed in Canadian Dollars

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### Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

### Rehabilitation provisions

The Company records management's best estimate of the present value of the future cash requirements of any rehabilitation obligation as a long-term liability in the period in which the related environmental disturbance occurs based on the net present value of the estimated future costs. This obligation is adjusted at each period end to reflect the passage of time and any changes in the estimated future costs underlying the obligation. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and discount rate to be used. The actual future expenditures may differ from the amounts currently provided if the estimates made are significantly different than actual results or if there are significant changes in environmental and/or regulatory requirements in the future.

## 4. SHORT TERM INVESTMENTS

	December 31, 2022	December 31, 2021
	\$	\$
Guaranteed investment certificate ("GIC"), bearing interest rate of 4.00%, and maturing January 11, 2023	4,000,000	-
	<b>4,000,000</b>	-

## 5. ACQUISITION OF ASMINARQ SL

On February 14, 2022, the Company completed its acquisition of Asminarq SL ("Asminarq"). At the acquisition date, Asminarq held the mining rights to the Penedela Property (Note 6). As Asminarq did not meet the definition of a business as per IFRS 3, the acquisition was treated as an asset acquisition. Details of the allocation of the estimated fair values of identifiable assets acquired and liabilities assumed, and price consideration are as follows:

	2022	2021
Consideration paid:		
Issuance of 2,000,000 common shares	\$ 470,000	\$ -
Cash payment (EUR105,000)	128,090	19,330
	<b>\$ 598,090</b>	<b>\$ 19,330</b>
Purchase price allocation:		
Project acquisition expense	\$ 598,090	\$ 19,330

The value of 2,000,000 shares issued was the estimated fair value based on the subscription receipt financing price completed by the Company prior to acquisition at \$0.235 per share.

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# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements For the years ended December 31, 2022 and 2021

Expressed in Canadian Dollars

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### 6. PROJECT EVALUATION EXPENSES

The Company holds certain property interests for gold exploration in Asturias, Spain and for polymetallic exploration in the Autonomous Region of Andalusia, Spain.

#### a) Penedela Property

During 2019, the Company entered into an option agreement with Asminarq, to earn up to 100% of the rights to the Penedela Property. Asminarq is the company that currently owns the mining rights. The property is located in the west of Asturias, Spain, in the council area of Ibias, and was granted by the Asturian Mines (Minas de Asturias) authority to cover the exploration for gold, silver, lead and zinc.

On February 14, 2022, Western Metallica entered into a purchase agreement (the "Purchase Agreement") with Asminarq, superseding the above-mentioned agreement whereby Western Metallica acquired 100% of Asminarq pursuant to the following terms:

- Payment from Western Metallica to the Asminarq shareholders in the amount of €105,000 (\$147,420) upon signature of the Purchase Agreement, including €5,000 to extend the agreement (€13,000 (\$19,330) paid in 2021 and €92,000 (\$128,090) paid on March 4, 2022);
- The issuance of 2,000,000 post-share split Western Metallica common shares to the Asminarq shareholders (1,271,242 pre-share split Western Metallica common shares, issued on April 13, 2022) (Note 7(ii));
- If Western Metallica completes a NI43-101-compliant resource of one million ounces of gold in a defined target area, Western Metallica will pay Asminarq €500,000, plus an additional €0.50 per additional ounce, over and above the one million ounces of gold, up to two million ounces of gold; and
- Asminarq will retain a 2% NSR (Net Smelter Return), of which 1% (half) of the NSR may be purchased by Western Metallica for €400,000 at any time.

Exploration expenditures incurred are detailed in the table below.

#### b) Berta Property

On September 16, 2019, the Berta Property prospecting license was requested from the Directorate general of Mining with the licensing fees being paid on September 19, 2019. The Company is waiting for the prospecting license to be submitted for public consultation which is expected to lead to the granting of the prospecting license. The property is located in the west of Asturias, Spain, in the council area of Ibias. No exploration expenditures have been incurred to date on the Berta property.

#### c) Sierra Alta Property

On May 4, 2020, the Company entered into an option agreement (the "Option Agreement") with Emerita Resources Corp. ("Emerita"), pursuant to which Western Metallica held an option to acquire 55% of the Sierra Alta Gold Project (the "Sierra Alta Project").

To earn a 55% interest, Western Metallica must:

1. Pay \$50,000 in cash to the Company (paid during 2020);
2. Issue 500,000 shares of Western Metallica to the Company upon the renewal of the license for the Sierra Alta project;
3. Spend \$500,000 on mineral exploration of the project within 24 months of the signing of the definitive agreement, and;
4. Enter into a binding joint venture agreement with the Company.

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## **Western Metallica Resources Corp.**

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

**For the years ended December 31, 2022 and 2021**

*Expressed in Canadian Dollars*

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The Sierra Alta Project is in the “Navelgas Gold Belt” in Asturias, Spain. Emerita applied for the permit on November 18, 2013 and received notice that the property had been granted on July 8, 2015. The concession was valid for a three-year term and was renewable for equal and successive periods of three years. An application for the permit to be extended was submitted and an extension was granted whereby the permit expires on October 19, 2023 and can be renewed upon expiration date.

On June 30, 2022, Western Metallica entered into an amendment (the “Extension”) to the Option Agreement with Emerita, superseding the above-mentioned agreement whereby Western Metallica held an option to acquire 55% of the Sierra Alta Project pursuant to the following terms:

1. Issue 786,632 common shares of the Company to Emerita (issued on September 30, 2022. See Note 7(i)); and
2. Spend at least \$500,000 in mineral exploration expenditures on the Sierra Alta Project prior to December 31, 2022 (all expenditures incurred prior to December 31, 2022).

On December 21, 2022, the Company acquired 55% of the Sierra Alta Property by fulfilling the terms of the Option Agreement.

The acquisition of the interest is a non-arm’s length transaction as the CEO of the Company acts as the CFO of Emerita and a director of the Company is a director of Emerita.

#### **d) Valledor Property**

The Valledor Property is located in the west of Asturias, Spain, in the municipality of Allende. On September 30, 2019, the prospecting license was applied by the Company and was admitted. The public consultation process was completed in 2020 and the Company is currently waiting for the final approval of the prospecting license. No exploration expenditures have been incurred to date on the Valledor property.

#### **e) Nueva Celti Property**

The Nueva Celti Property is located in the autonomous region of Andalucia, Spain. On January 30, 2019, the application for the Nueva Celti prospecting license was registered with the Seville mining office in the municipality of Penaflor. The Company is waiting for the final approval and issuance of the license. No exploration expenditures have been incurred to date on the Nueva Celti property.

# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Expressed in Canadian Dollars

Project evaluation expenses are detailed in the following table:

For the year ended December 31, 2022	Penedela	Sierra Alta	Total
Acquisition expense	\$ 598,090	141,595	\$ 739,685
Drilling	167,338	100,000	267,338
Labour	68,387	159,300	227,687
Technical	406,369	60,850	467,219
Project overhead costs	132,104	69,618	201,722
Total project evaluation expenses	\$ 1,372,288	\$ 531,363	\$ 1,903,651

For the year ended December 31, 2021	Penedela	Sierra Alta	Total
Acquisition expense	\$ 19,330	\$ -	\$ 19,330
Drilling	-	-	-
Labour	-	26,576	26,576
Technical	10,599	11,409	22,008
Project overhead costs	3,320	7,263	10,583
Total project evaluation expenses	\$ 33,249	\$ 45,248	\$ 78,497

## 7. COMMON SHARES

In connection with the Transaction, on April 13, 2022, the Company completed a share split on a 1 for 1.5732646 basis. All share and per share amounts have been updated in these consolidated financial statements to reflect the share split.

### Authorized

As at December 31, 2022, the authorized share capital consisted of an unlimited number of common shares without par value.

### Common Shares Issued

	Number of shares outstanding	Amount
<b>Balance, December 31, 2021 and 2020</b>	<b>15,299,998</b>	<b>\$ 509,786</b>
Acquisition of Asminarq SL (ii)	2,000,000	470,000
Reverse takeover transaction (Note 1 and (iv))	6,500,000	1,527,500
Subscription receipts (iii)	26,667,000	8,000,100
Sierra Alta option extension (i)	786,632	141,594
Warrant valuations (iii)	-	(1,733,355)
Broker warrant valuations (iii)	-	(182,000)
Share issue costs	-	(759,938)
Exercise of options (v)	475,000	37,000
Valuation allocation of exercise of options	-	109,793
<b>Balance, December 31, 2022</b>	<b>51,728,630</b>	<b>\$ 8,120,480</b>

- (i) On September 22, 2022, the Company issued 786,632 shares to Emerita Resources as part of the Sierra Alta option agreement (Note 6(c)). The shares were valued based on the quoted market price.
- (ii) In connection with the acquisition of Asminarq (Note 5), the Company issued 2,000,000 post-share split Western Metallica common shares to Asminarq owners (1,271,242 pre-share split Western

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# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Expressed in Canadian Dollars

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Metallica common shares). The shares were valued at \$470,000, based on the price of the subscription receipts (Note 7(iii)).

- (iii) On November 23, 2021, the Company closed a brokered private placement of subscription receipts ("Subscription Receipts") by issuing 26,667,000 Subscription Receipts at a price of \$0.30 each, for gross proceeds to the Company of \$8,000,100. Management and directors subscribed to 767,500 units of the offering for proceeds of \$230,250.

Immediately prior to the closing of the reverse takeover transaction (Note 1), each Subscription Receipt was converted into one common share of the Company and one-half of one share purchase warrant of the Company. Each whole warrant entitles the holder to acquire one Western Metallica common share at a price of \$0.45 for a period of 24 months. The value of the warrants was estimated to be \$1,733,355 based on a proration of the unit proceeds between common shares based on their estimated relative fair value. The fair value of the warrants was estimated using a Black-Scholes model and the following assumptions: expected dividend yield of 0%, expected volatility of 135% based on the volatility of entities in the same industry, risk free interest rate of 1%, share price of \$0.235 based on the pricing of the subscription receipts, and an expected life of 2 years.

A total of 1,213,870 broker warrants, each exercisable to acquire one common share at a price of \$0.30 for a period of 24 months, were issued in connection with the offering. The fair value of the broker warrants issued was estimated at \$182,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 135% based on volatilities of comparable companies; risk-free interest rate of 1%, share price of \$0.235 based on the pricing of the subscription receipts, and an expected life of 2 years.

- (iv) In connection with the Transaction, the Company issued 6,500,000 common shares to acquire Orcus. The value of the shares was based on the price of the subscription receipts (Note 7(iii)). As part of the acquisition, the Company acquired working capital of \$219,624. Transaction costs, being the excess of the value of the shares issued over net assets, were \$1,514,931.

Details of the allocation of the estimated fair values of identifiable assets acquired and liabilities assumed, and price consideration are as follows:

Consideration paid:	
Issuance of Common Shares (6,500,000 @ \$0.235)	\$ 1,527,500
Issuance of Warrants (400,000 @ \$0.2076) (Note 8)	83,040
Issuance of Options (210,000 @ \$0.2317) (Note 8)	48,657
Issuance of Options (265,000 @ \$0.2307) (Note 8)	61,136
Issuance of Options (130,000 @ \$0.1094) (Note 8)	14,222
	<u>\$ 1,734,555</u>
Purchase price allocation:	
Cash	\$ 245,280
Accounts receivable	8,963
Accounts payable	(34,619)
Transaction costs	1,514,931
	<u>\$ 1,734,555</u>

- (v) During the year ended December 31, 2022, 475,000 of the Company's stock options were exercised at a weighted-average price of \$0.08 per common share, generating proceeds of \$37,000. Directors of the Company exercised 270,000 options at a weighted-average price of \$0.07, generating proceeds of \$20,000.

# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Expressed in Canadian Dollars

### 8. EQUITY RESERVES

In connection with the Transaction, on April 13, 2022, the Company completed a share split on a 1 for 1.5732646 basis. All warrant/option and per warrant/option amounts have been updated in these consolidated financial statements to reflect the share split.

#### Warrants

The changes in warrants issued during the years ended December 31, 2022 and 2021 are as follows:

	Number of warrants	Weighted average exercise price	Value of warrants vested
<b>Balance, December 31, 2020</b>	<b>2,930,206</b>	<b>\$ 0.19</b>	<b>\$ 208,951</b>
Granted, November 2021 - Broker warrants	1,213,870	0.30	182,000
<b>Balance, December 31, 2021</b>	<b>4,144,076</b>	<b>\$ 0.22</b>	<b>\$ 390,951</b>
Exchanged, April 2022 - Reverse takeover transaction	400,000	0.10	83,040
Granted, April 2022 - Subscription receipts	13,333,500	0.45	1,733,355
<b>Balance, December 31, 2022</b>	<b>17,877,576</b>	<b>\$ 0.39</b>	<b>\$ 2,207,346</b>

The following table summarizes the warrants outstanding as of December 31, 2022:

Number of warrants outstanding	Number of warrants exercisable	Grant date	Expiry date	Exercise price	Share price	Estimated fair value at grant date	Volatility	Risk-free interest rate	Expected life	Expected dividend yield
#	#			\$	\$	\$			Years	
2,930,206	2,930,206	24-Oct-19	19-Apr-24	0.19	0.09	208,951	135%	1.00%	4.49	0%
13,333,500	13,333,500	23-Nov-21	23-Nov-23	0.45	0.24	1,733,355	135%	1.00%	2.00	0%
1,213,870	1,213,870	23-Nov-21	23-Nov-23	0.30	0.24	182,000	135%	1.00%	2.00	0%
400,000	400,000	12-Apr-22	5-Oct-26	0.10	0.24	83,040	122%	2.52%	4.48	0%
<b>17,877,576</b>	<b>17,877,576</b>					<b>2,207,346</b>				

The weighted-average remaining contractual life of the warrants as of December 31, 2022 is 1.03 years (December 31, 2021: 2.30 years).

#### Share-based payments

The changes in stock options issued during the years ended December 31, 2022 and 2021 are as follows:

	Number of options	Weighted average exercise price	Value of options vested
<b>Balance, December 31, 2021 and 2020</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>
Exchanged, April 2022 - Reverse takeover transaction	210,000	0.05	48,657
Exchanged, April 2022 - Reverse takeover transaction	265,000	0.10	61,136
Exchanged, April 2022 - Reverse takeover transaction	130,000	0.30	14,222
Exercised, April 2022	(210,000)	0.05	(48,657)
Exercised, April 2022	(265,000)	0.10	(61,136)
Granted, May 2022	4,250,000	0.20	618,240
Granted, October 2022	500,000	0.20	34,150
Expired, December 2022	(300,000)	0.20	(44,160)
<b>Balance, December 31, 2022</b>	<b>4,580,000</b>	<b>\$ 0.20</b>	<b>\$ 622,452</b>

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## **Western Metallica Resources Corp.**

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2022 and 2021**

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On April 13, 2022, the Company exchanged 210,000 Orcus stock options into 210,000 Western Metallica stock options pursuant to the Transaction. The options vested immediately and may be exercised at a price of \$0.05 per option until May 7, 2031. The fair value of the stock options issued was estimated at \$48,657 using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%, share price of \$0.235, expected volatility of 139% based on volatilities of comparable companies, risk-free rate of 2.64% and expected average life of 9.07 years. Directors were granted 140,000 options with a fair value of \$32,438.

On April 13, 2022, the Company exchanged 265,000 Orcus stock options into 265,000 Western Metallica stock options pursuant to the Transaction. The options vested immediately and may be exercised at a price of \$0.10 per option until October 5, 2031. The fair value of the stock options issued was estimated at \$61,136 using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%, share price of \$0.235, expected volatility of 139% based on volatilities of comparable companies, risk-free rate of 2.64% and expected average life of 9.48 years. Directors were granted 130,000 options with a fair value of \$29,991.

On April 13, 2022, the Company exchanged 130,000 Orcus stock options into 130,000 Western Metallica stock options pursuant to the Transaction. The options vested immediately and may be exercised at a price of \$0.30 per option until October 20, 2023. The fair value of the stock options issued was estimated at \$14,222 using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%, share price of \$0.235, expected volatility of 114% based on volatilities of comparable companies, risk-free rate of 2.34% and expected average life of 1.52 year.

On May 25, 2022, the Company granted a total of 4,150,000 stock options to directors, management, and consultants of the Company pursuant to its stock option plan. The options vested immediately and may be exercised at a price of \$0.20 per option until May 5, 2027. The fair value of the stock options issued was estimated at \$610,880 using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%, share price of \$0.18, expected volatility of 119% based on volatilities of comparable companies, risk-free rate of 2.60% and expected average life of 5 years. Directors and officers were granted 2,900,000 options with a fair value of \$426,880.

On May 25, 2022, the Company granted a total of 100,000 stock options to a consultant of the Company pursuant to its stock option plan. The options vest in equal tranches every three months over a period of twelve months and may be exercised at a price of \$0.20 per option until May 5, 2027. The fair value of the stock options issued was estimated at \$14,720 using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%, share price of \$0.18, expected volatility of 119% based on volatilities of comparable companies, risk-free rate of 2.60% and expected average life of 5 years.

On October 20, 2022, the Company granted a total of 500,000 stock options to a director and officer of the Company pursuant to its stock option plan. The options vested immediately and may be exercised at a price of \$0.20 per option until October 20, 2027. The fair value of the stock options issued was estimated at \$34,150 using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%, share price of \$0.09, expected volatility of 120% based on volatilities of comparable companies, risk-free rate of 3.84% and expected average life of 5 years.

On April 26, 2022, 475,000 of the Company's options were exercised at a weighted-average exercise price of \$0.08 generating proceeds of \$37,000 (year ended December 31, 2021: no options exercised). Directors of the Company exercised 270,000 options, generating proceeds of \$20,000.

On December 22, 2022, 300,000 of the Company's options granted May 25, 2022 expired unexercised.

As at December 31, 2022, \$652,390 (December 31, 2021 - \$nil) in share-based compensation has been recognized in the consolidated statements of loss.

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# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements

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Options outstanding as of December 31, 2022 are as follows:

Number of options outstanding	Number of options exercisable	Grant date	Expiry date	Exercise price	Share price	Estimated fair value at grant date	Volatility	Risk-free interest rate	Expected life	Expected dividend yield
#	#			\$	\$	\$			Years	
130,000	130,000	12-Apr-22	20-Oct-23	0.30	0.24	14,222	114%	2.34%	1.52	0%
3,950,000	3,900,000	25-May-22	25-May-27	0.20	0.18	581,440	119%	2.60%	5.00	0%
500,000	500,000	20-Oct-22	20-Oct-27	0.20	0.09	34,150	120%	3.84%	5.00	0%
<b>4,580,000</b>	<b>4,530,000</b>					<b>629,812</b>				

The weighted-average remaining contractual life of the options as of December 31, 2022 is 4.34 years (December 31, 2021: no options outstanding).

## 9. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mineral properties. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to consist of common shares, warrants and options.

The properties in which the Company currently has an interest are in the exploration and evaluation stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out planned exploration and evaluation and pay for administrative costs, the Company must raise additional amounts.

The Company may continue to assess new properties and may 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 were no significant changes in the Company's approach to capital management during the years ended December 31, 2022 and 2021.

The Company and its subsidiaries are not subject to any capital requirements imposed by a lending institution or regulatory body, other than the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required to maintain operations and cover general and administrative expenses for a period of 6 months.

## 10. FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- Level 3 - Inputs for assets and liabilities that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

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# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements For the years ended December 31, 2022 and 2021

Expressed in Canadian Dollars

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The Company's financial instruments include cash and cash equivalents, short-term investments, amounts receivable, and accounts payable and accrued liabilities. The carrying values of these financial instruments reported in the statement of financial position approximate their respective fair values due to the relatively short-term nature of these instruments. As at December 31, 2022, the Company's financial instruments that are carried at fair value, being cash equivalents and short-term investments are classified as Level 2 within the fair value hierarchy.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) *Credit risk*

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

*Trade credit risk*

The Company is not exposed to significant trade credit risk.

*Cash and cash equivalents and short-term investments*

In order to manage credit and liquidity risk the Company's policy is to invest only in highly rated, investment grade instruments. Limits are also established based on the type of investment, the counterparty, and the credit rating.

(b) *Currency risk*

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's foreign currency risk arises primarily with respect to the Euro from its property interests in Spain, and US dollars from operations. Fluctuations in the exchange rates between these currencies and the Canadian dollar could have a material effect on the Company's business, financial condition, and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

As at December 31, 2022 and 2021, the Company had the following financial instruments denominated in foreign currency (expressed in Canadian dollars):

<b>December 31, 2022</b>				
	<b>Euros</b>		<b>US Dollars</b>	
Cash	\$	520,636	\$	67,520
Amounts receivable		174,248		-
Accounts payable and accrued liabilities		(209,370)		(10,000)
	\$	485,514	\$	57,520
<b>December 31, 2021</b>				
Cash	\$	6,704	\$	-
Amounts receivable		28,896		-
Accounts payable and accrued liabilities		(321,275)		-
	\$	(285,675)	\$	-

A 10% strengthening (weakening) of the Canadian dollar against the Euro would decrease (increase) net loss by approximately \$48,600 (December 31, 2021 - (\$28,600)).

A 10% strengthening (weakening) of the Canadian dollar against the US dollar would decrease (increase) net loss by approximately \$5,800 (December 31, 2021 - \$nil).

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# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Expressed in Canadian Dollars

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(c) *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2022, the Company had a cash balance of \$1,172,622 (December 31, 2021 - \$659,280) to settle current liabilities of \$315,026 (December 31, 2021 - \$374,265, excluding other liabilities). The Company's trade payables have contractual maturities of less than 30 days and are subject to normal trade terms.

(d) *Commodity / equity price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Commodity price risk is remote as the Company is not a producing entity.

### 11. RELATED PARTY TRANSACTIONS

As at December 31, 2022, \$nil is included in accounts payable as an advance from a shareholder, who is also a director and officer of the Company (December 31, 2021 - \$107,019).

As at December 31, 2022, an amount of \$27,650, included in accounts payable and accrued liabilities, was owed to directors and officers of the Company (December 31, 2021 - \$nil). The amounts outstanding on fees are unsecured, non-interest bearing, with no fixed terms or repayment.

As at December 31, 2022, amounts receivable included an amount of \$7,952 owing from a director of the Company (December 31, 2021- \$15,110).

As at December 31, 2022, accounts payable included an amount of \$127,467 owing to an entity with a common director and officer of the Company (December 31, 2021- \$126,876). As at December 31, 2022, amounts receivable included an amount of \$36,207 owing from the same entity (December 31, 2021- \$31,722).

#### *Compensation of key management personnel of the Company*

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. During the year ended December 31, 2022 and 2021, the remuneration of directors and other key management personnel is as follows:

	Year ended December 31,	
	2022	2021
Salaries and benefits	\$ 315,374	\$ -
Consulting fees	240,908	-
Share-based compensation	461,030	-
<b>Total</b>	<b>\$ 1,017,312</b>	<b>\$ -</b>

See also Notes 6, 7 and 8

# Western Metallica Resources Corp.

## Notes to the Consolidated Financial Statements For the years ended December 31, 2022 and 2021

Expressed in Canadian Dollars

### 12. SEGMENT INFORMATION

The Company conducts its business as a single operating segment, being mineral exploration and evaluation in Spain. The following table summarizes the total assets and liabilities by geographic segment as at December 31, 2022 and December 31, 2021:

<b>December 31, 2022</b>	<b>Spain</b>	<b>Canada</b>	<b>Total</b>
Cash	\$ 520,636	\$ 651,986	\$ 1,172,622
Short-term investments	-	4,000,000	4,000,000
Amounts receivable	174,248	87,193	261,441
Prepaid expenses	20,844	6,660	27,504
Reclamation deposit	68,936	-	68,936
<b>Total Assets</b>	<b>\$ 784,664</b>	<b>\$ 4,745,839</b>	<b>\$ 5,530,503</b>

Accounts payable and accrued liabilities	\$ 211,592	\$ 103,434	\$ 315,026
<b>Total liabilities</b>	<b>\$ 211,592</b>	<b>\$ 103,434</b>	<b>\$ 315,026</b>

<b>December 31, 2021</b>	<b>Spain</b>	<b>Canada</b>	<b>Total</b>
Cash	\$ 6,704	\$ 652,576	\$ 659,280
Restricted cash	-	6,767,939	6,767,939
Amounts receivable	28,896	23,259	52,155
Prepaid expenses	46,021	-	46,021
Prepaid finance expenses	-	742,560	742,560
Reclamation deposit	13,528	-	13,528
<b>Total Assets</b>	<b>\$ 95,149</b>	<b>\$ 8,186,334</b>	<b>\$ 8,281,483</b>

Accounts payable and accrued liabilities	\$ 321,274	\$ 52,991	\$ 374,265
Other liabilities	-	8,000,100	8,000,100
<b>Total liabilities</b>	<b>\$ 321,274</b>	<b>\$ 8,053,091</b>	<b>\$ 8,374,365</b>

The following table summarizes the loss by geographic segment for the years ended December 31, 2022 and 2021:

<b>December 31, 2022</b>	<b>Spain</b>	<b>Canada</b>	<b>Total</b>
Other income	\$ -	\$ (105,888)	\$ (105,888)
Project evaluation expenses	1,762,057	141,594	1,903,651
General and administrative expenses	-	3,006,684	3,006,684
Foreign exchange loss	(16,260)	(2,845)	(19,105)
<b>Loss</b>	<b>\$ 1,745,797</b>	<b>\$ 3,039,545</b>	<b>\$ 4,785,342</b>

<b>December 31, 2021</b>	<b>Spain</b>	<b>Canada</b>	<b>Total</b>
Project evaluation expenses	78,497	-	78,497
General and administrative expenses	-	135,830	135,830
Foreign exchange (gain)	(3,847)	-	(3,847)
<b>Loss</b>	<b>\$ 74,650</b>	<b>\$ 135,830</b>	<b>\$ 210,480</b>

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**Western Metallica Resources Corp.****Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021***Expressed in Canadian Dollars*

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**13. INCOME TAXES***Provision for income taxes*

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021 - 26.5%) to the effective tax rate is as follows:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
(Loss) before income taxes	(4,785,342)	(210,480)
Expected income tax recovery based on statutory rate	(1,268,000)	(56,000)
Adjustment to expected income tax recovery:		
Share based compensation	173,000	-
Other	652,000	(188,000)
Change in benefit of tax assets not recognized	443,000	244,000
Deferred income tax provision (recovery)	-	-

*Deferred income taxes*

Deferred taxes are a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities.

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Non-capital loss carry-forwards (Canada)	1,279,000	281,000
Non-capital loss carry-forwards (Spain)	1,458,000	794,000
Share issue costs	605,000	594,000
Total temporary differences	3,342,000	1,669,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

Non-capital losses of \$1,279,000 in Canada expire between 2039 and 2042. Non-capital losses of €1,061,000 (\$1,458,000) in Spain expire between 2037 and 2040.

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# **Western Metallica Resources Corp.**

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

**For the years ended December 31, 2022 and 2021**

*Expressed in Canadian Dollars*

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### **14. COMMITMENTS AND CONTINGENCIES**

#### **Environmental**

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company expects to make expenditures to comply with such laws and regulations.

#### **General**

The Company may be subject to various claims, lawsuits and other complaints arising in the ordinary course of business. The Company records provisions for losses when claims become probable, and the amounts are estimable.

#### **Management Contracts**

The Company is party to certain employment and consulting contracts. These contracts contain minimum commitments of approximately \$360,000 with regards to termination pay and additional contingent payments of up to approximately \$870,000 upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

#### **Other**

See Note 6.