

METALLIS RESOURCES INC.
Condensed Interim Financial Statements
September 30, 2017
(Expressed in Canadian Dollars)

METALLIS RESOURCES INC.
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For the nine month period ended September 30, 2017
(Expressed in Canadian Dollars)

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MANAGEMENT'S RESPONSIBILITY FOR UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS AND NOTICE OF NO AUDITOR REVIEW

The accompanying condensed interim financial statements of Metallis Resources Inc. (the "Company") are the responsibility of management, and have not been reviewed by the Company's auditors.

These condensed interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the financial position date. In the opinion of management, these condensed interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

The Company has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the condensed interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the condensed interim financial statements and (ii) the condensed interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the condensed interim financial statements.

The Board of Directors is responsible for reviewing and approving the condensed interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the condensed interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the condensed interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

METALLIS RESOURCES INC.

Condensed Interim Statements of Financial Position

(Expressed in Canadian Dollars)

| | September 30, 2017 <i>(unaudited)</i> | December 31, 2016 <i>(audited)</i> |
|---|---|--|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,734,230 | \$ 17,302 |
| Receivables <i>(Note 3)</i> | 50,766 | 3,699 |
| Deposits and prepaid expenses <i>(Note 4)</i> | 1,510 | 1,510 |
| Marketable securities <i>(Note 5)</i> | 78,750 | 66,375 |
| Total current assets | 1,865,256 | 88,886 |
| Equipment <i>(Note 6)</i> | 668 | 983 |
| Exploration and evaluation assets <i>(Notes 7 and 10)</i> | 1,148,461 | 330,955 |
| Total assets | \$ 3,014,385 | \$ 420,824 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities <i>(Note 8)</i> | \$ 195,224 | \$ 132,317 |
| Due to related parties <i>(Note 10)</i> | 151,575 | 238,335 |
| Flow through premium liability <i>(Note 9(e))</i> | 115,845 | - |
| Indemnification provision <i>(Note 8)</i> | 68,750 | 68,750 |
| Total liabilities | 531,394 | 439,402 |
| EQUITY (DEFICIENCY) | | |
| Share capital <i>(Note 9)</i> | 7,999,900 | 5,443,528 |
| Equity reserves | 2,440,462 | 2,160,009 |
| Share subscriptions | 4,861 | - |
| Commitment to issue shares <i>(Note 14)</i> | 1,004,102 | - |
| Deficit | (8,966,334) | (7,622,115) |
| Total equity (deficiency) | 2,482,991 | (18,578) |
| Total liabilities and equity (deficiency) | \$ 3,014,385 | \$ 420,824 |

Nature and Continuance of Operations and Going Concern *(Note 1)*
Events After the Reporting Period *(Note 14)*

Approved and authorized on behalf of the Board on November 14, 2017

Fiore Aliperti *Director*

Michael Sikich *Director*

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

METALLIS RESOURCES INC.

Condensed Statements of Operations and Comprehensive Loss
For the three and nine months ended September 30, 2017

(Unaudited- Expressed in Canadian Dollars)

| | <i>Three Months Ended September 30, 2017</i> | <i>Three Months Ended September 30, 2016</i> | <i>Nine Months Ended September 30, 2017</i> | <i>Nine Months Ended September 30, 2016</i> |
|---|--|--|---|---|
| Operating Expenses: | | | | |
| Consulting fees (<i>Note 10</i>) | \$ 78,900 | \$ 42,850 | \$ 198,620 | \$ 123,850 |
| Depreciation (<i>Note 6</i>) | 105 | 104 | 315 | 312 |
| Advertising, marketing, promotion | 15,600 | 1,641 | 31,128 | 3,649 |
| Investor relations fees | - | 4,500 | 4,500 | 12,000 |
| Office and general | 4,958 | 2,472 | 9,986 | 8,767 |
| Professional fees | 331 | 2,390 | 10,620 | 9,625 |
| Regulatory and transfer agent fees | 3,830 | 6,121 | 19,967 | 17,970 |
| Rent | 5,541 | 5,093 | 16,008 | 15,278 |
| Share-based compensation (<i>Note 9</i>) | 295,895 | - | 295,895 | 153,639 |
| Travel | 2,642 | - | 2,642 | - |
| Total operating expenses | (407,802) | (65,171) | (589,681) | (345,090) |
| Net interest income | 73 | - | 73 | 169 |
| Gain on settlement of accounts payable | 44,601 | - | 44,601 | - |
| Other income on settlement of flow-through premium liability | 14,700 | - | 14,700 | - |
| Unrealized gain (loss) on marketable securities (<i>Note 5</i>) | 9,000 | (6,750) | 12,375 | (26,250) |
| Loss on commitment to issue shares (<i>Note 14</i>) | (826,287) | - | (826,287) | - |
| Gain on sale of exploration and evaluation asset | - | - | - | 16,249 |
| Other income from property option | - | - | - | 11,201 |
| Loss and comprehensive loss for the period | \$(1,165,715) | \$ (71,921) | \$(1,344,219) | \$ (343,721) |
| Basic and diluted loss per common share | \$ (0.05) | \$ (0.00) | \$ (0.07) | \$ (0.02) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 22,375,798 | 17,673,884 | 20,074,707 | 16,157,102 |
| Diluted | 23,501,762 | 17,673,884 | 20,301,322 | 16,157,102 |

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

METALLIS RESOURCES INC.

Condensed Interim Statements of Changes in Equity (Deficiency)

(Unaudited - Expressed in Canadian Dollars)

| | <i>Share Capital</i> | | <i>Share Subscriptions</i> | <i>Commitment to issue shares</i> | <i>Equity Reserves</i> | <i>Deficit</i> | <i>Total Equity (Deficiency)</i> |
|---------------------------------------|-------------------------|---------------------|----------------------------|-----------------------------------|------------------------|-----------------------|----------------------------------|
| | <i>Number of Shares</i> | <i>Amount</i> | | | | | |
| Balance at December 31, 2015 | 14,501,058 | \$ 5,087,435 | \$ - | \$ - | \$ 1,991,766 | \$ (7,215,914) | \$ (136,713) |
| Share capital issued for cash | 3,525,000 | 356,750 | - | - | - | - | 356,750 |
| Share issuance costs | - | (5,360) | - | - | - | - | (5,360) |
| Fair value of stock options exercised | - | 2,451 | - | - | (2,451) | - | - |
| Share subscriptions | - | - | - | - | - | - | - |
| Share-based compensation | - | - | - | - | 153,639 | - | 153,639 |
| Loss for the period | - | - | - | - | - | (343,721) | (343,721) |
| Balance at September 30, 2016 | 18,026,058 | \$ 5,441,276 | \$ - | \$ - | \$ 2,142,954 | \$ (7,559,635) | \$ 24,595 |
| Fair value of stock options exercised | - | 2,252 | - | - | (2,252) | - | - |
| Share-based compensation | - | - | - | - | 19,307 | - | 19,307 |
| Loss for the period | - | - | - | - | - | (62,480) | (62,480) |
| Balance at December 31, 2016 | 18,026,058 | \$ 5,443,528 | \$ - | \$ - | \$ 2,160,009 | \$ (7,622,115) | \$ (18,578) |
| Share capital issued for cash, net | 8,294,916 | 2,671,475 | - | - | - | - | 2,671,475 |
| Flow-through share premium liability | - | (130,545) | - | - | - | - | (130,545) |
| Fair value of stock options exercised | - | 15,442 | - | - | (15,442) | - | - |
| Share issuance commitment | - | - | - | 1,004,102 | - | - | 1,004,102 |
| Share subscriptions | - | - | 4,861 | - | - | - | 4,861 |
| Share-based compensation | - | - | - | - | 295,895 | - | 295,895 |
| Loss for the period | - | - | - | - | - | (1,344,219) | (1,344,219) |
| Balance at September 30, 2017 | 26,320,974 | \$ 7,999,900 | \$ 4,861 | \$ 1,004,102 | \$ 2,440,462 | \$ (8,966,334) | \$ 2,482,991 |

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

METALLIS RESOURCES INC.

Condensed Statements of Cash Flows

For the nine months ended September 30, 2017

(Unaudited- Expressed in Canadian Dollars)

| | <i>Nine months ended September 30, 2017</i> | <i>Nine months ended September 30, 2016</i> |
|--|---|---|
| Cash flows provided by (used in) operating activities | | |
| Loss for the period | \$ (1,344,219) | \$ (343,721) |
| Items not affecting operating cash: | | |
| Depreciation | 315 | 312 |
| Unrealized (gain) loss on marketable securities | (12,375) | 26,250 |
| Gain on settlement of accounts payable | (44,601) | - |
| Other income on settlement of flow-through premium liability | (14,700) | - |
| Loss on share issuance | 826,287 | - |
| Share-based compensation | 295,895 | 153,639 |
| Gain on sale of exploration and evaluation asset | - | (16,249) |
| Other income on property option | - | (11,201) |
| Changes in non-cash working capital items: | | |
| Receivables | (47,067) | 9,454 |
| Advances and deposits | - | 414 |
| Accounts payable and accrued liabilities | 117,229 | (57,040) |
| Due to related parties | (86,760) | 22,025 |
| Net cash used in operating activities | <u>(309,996)</u> | <u>(216,117)</u> |
| Cash flows provided by (used in) investing activities | | |
| Investment in exploration and evaluation assets | (674,440) | (137,672) |
| Proceeds from property option | - | 11,201 |
| Proceeds from sale of exploration and evaluation assets | - | 5,000 |
| Reimbursement of exploration and evaluation asset costs | 25,028 | 32,081 |
| Net cash provided used in investing activities | <u>(649,412)</u> | <u>(89,390)</u> |
| Cash flows provided by (used in) financing activities | | |
| Share capital issued | 2,731,620 | 356,750 |
| Share issuance costs | (60,145) | (5,360) |
| Share subscriptions | 4,861 | - |
| Loan repayment | - | (5,000) |
| Net cash provided by financing activities | <u>2,676,336</u> | <u>346,390</u> |
| Net increase in cash and cash equivalents during the period | 1,716,928 | 40,883 |
| Cash and cash equivalents, beginning of period | 17,302 | 21,403 |
| Cash and cash equivalents, end of period | <u><u>\$ 1,734,230</u></u> | <u><u>\$ 62,286</u></u> |

Supplemental Disclosure with Respect to Cash Flows (Note 11)

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

METALLIS RESOURCES INC.**Notes to the Condensed Interim Financial Statements
For the nine month period ended September 30, 2017
(Expressed in Canadian Dollars)**

1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN

Metallis Resources Inc. (“the Company”) was incorporated under the Business Corporations Act (British Columbia) on June 19, 2007. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “MTS”. The Company’s head office and registered office is located at Suite #515 – 850 West Hastings Street, Vancouver, British Columbia, Canada, V6C 1E1.

The Company is engaged in the exploration of mineral properties and has not yet determined whether any of its properties contain economically recoverable reserves. To date, the Company has not earned any operating revenues and is considered to be in the exploration stage. The mining exploration business involves a high degree of risk. The recoverability of the amounts expended on mineral interests by the Company is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its mineral properties and upon future profitable production or proceeds from disposition of its mineral interests.

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

Going Concern of Operations

These financial statements have been prepared on the basis that the Company will continue as a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. As an exploration stage company, the Company has incurred net operating losses since its inception and the ability of the Company to continue as a going concern depends upon its ability to raise adequate financing and to ultimately develop profitable operations.

In 2017, the Company raised financing from investors and shareholders and expects these funds to provide for its exploration and working capital needs through the ensuing year. Additional fundraising may involve further private placements, convertible debentures, third party earn-ins or joint ventures using debt or equity financing structures, to ensure the continuation of the Company’s operations. To the extent future financing is not available, future working capital commitments may not be satisfied and future exploration programs may face curtailment and could result in a loss of property ownership or earning opportunities for the Company.

There can be no assurance that the Company will be able to raise the funds necessary to continue future operations beyond 2018. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statements of financial position. These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES**Statement of compliance**

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

METALLIS RESOURCES INC.

**Notes to the Condensed Interim Financial Statements
For the nine month period ended September 30, 2017
(Expressed in Canadian Dollars)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

These condensed interim financial statements have been prepared on a historical cost basis, except for certain financial instruments which are classified as fair value through profit or loss. In addition, they have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2016. These condensed interim financial statements do not include all disclosures required in annual financial statements but rather are prepared in accordance with recommendations for condensed interim financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These statements follow the same accounting policies and methods of their application as those followed in the December 31, 2016 annual financial statements.

All amounts on the financial statements are presented in Canadian dollars which is the functional currency of the Company.

New accounting standards:

There were no new IFRS or IAS accounting standards that became effective in 2016 or 2017 that had a material impact on the Company's financial statements.

Future accounting standards:

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 Financial Instruments: Recognition and Measurement. This new standard is tentatively effective for annual periods beginning on or after January 1, 2018, and is intended to reduce the complexity in the classification and measurement of financial instruments.

The Company has not early adopted the new standard and is currently assessing the impact that it will have on its 2018 financial statements.

3. RECEIVABLES

| | <i>September 30, 2017</i> | <i>December 31, 2016</i> |
|----------------------------------|-------------------------------|------------------------------|
| Recoverable sales taxes - Canada | \$ 36,319 | \$ 3,699 |
| Other receivables | 14,447 | - |
| Total receivables | \$ 50,766 | \$ 3,699 |

METALLIS RESOURCES INC.

**Notes to the Condensed Interim Financial Statements
For the nine month period ended September 30, 2017
(Expressed in Canadian Dollars)**

4. DEPOSITS AND PREPAID EXPENSES

The deposits and prepaid expenses of the Company are comprised as follows:

| | <i>September 30, 2017</i> | <i>December 31, 2016</i> |
|-------------------------------------|-------------------------------|------------------------------|
| Rental deposit | \$ 1,510 | \$ 1,510 |
| Total deposits and prepaid expenses | \$ 1,510 | \$ 1,510 |

5. MARKETABLE SECURITIES

As at September 30, 2017, the Company holds 225,000 shares of Seahawk Ventures Inc. (“Seahawk”), a public company trading on the CSE Exchange under the symbol “SHV”.

During the year ended December 31, 2016, the Company received 75,000 Seahawk shares as partial compensation on the sale of the Company’s MMICP project (Note 7). The balance of 150,000 shares has been held since 2012, when the Company received 300,000 Seahawk shares as partial consideration for the sale of certain mineral claims, of which one-half, or 150,000 shares, were sold in 2015. The fair value of the 225,000 SHV shares held at September 30, 2017 is \$78,750 (December 31, 2016 - \$66,375). During the three and nine month periods ended September 30, 2017, the Company recorded unrealized gains on marketable securities of \$9,000 (2016 - unrealized loss of \$6,750) and \$12,375 (2016 - unrealized loss of \$26,250), respectively.

6. EQUIPMENT

| Cost: | <i>Computers</i> |
|---|------------------|
| Balance, December 31, 2015 and 2016 and September 30, 2017 | \$ 5,626 |
| Accumulated depreciation: | |
| Balance, December 31, 2015 | 4,227 |
| Depreciation for the year | 416 |
| Balance, December 31, 2016 | \$ 4,643 |
| Depreciation for the period | 315 |
| Balance, September 30, 2017 | \$ 4,958 |
| Net book values | |
| As at December 31, 2016 | \$ 983 |
| As at September 30, 2017 | \$ 668 |

METALLIS RESOURCES INC.

**Notes to the Condensed Interim Financial Statements
For the nine month period ended September 30, 2017
(Expressed in Canadian Dollars)**

7. EXPLORATION AND EVALUATION ASSETS

| | <i>Kirkham Property</i> | <i>Mackenzie Mountains Iron- Copper Project</i> | |
|--------------------------------------|-----------------------------|---|---------------------|
| Balance, December 31, 2015 | \$ 210,745 | \$ 1 | \$ 210,746 |
| License and claim fees | 500 | 26,651 | 27,151 |
| Professional fees | 1,104 | - | 1,104 |
| Fieldwork | 94,037 | - | 94,037 |
| Geological | 30,000 | - | 30,000 |
| Recovery of expenses | (5,431) | (26,651) | (32,082) |
| Sale of property | - | (1) | (1) |
| Balance, December 31, 2016 | 330,955 | - | 330,955 |
| Accommodation, camp costs and travel | 125,177 | - | 125,177 |
| Drilling | 338,440 | - | 338,440 |
| Geological | 61,333 | - | 61,333 |
| Helicopters | 271,064 | - | 271,064 |
| Licenses, claim fees and permits | 44,945 | - | 44,945 |
| Professional fees | 1,575 | - | 1,575 |
| Recovery of expenses | (25,028) | - | (25,028) |
| Balance, September 30, 2017 | \$ 1,148,461 | \$ - | \$ 1,148,461 |

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Kirkham Property – British Columbia, Canada

The Kirkham Property (the “Property”) is comprised of 30 mineral claims forming a contiguous block of 10,610 hectares situated in the “Golden Triangle” region of north-western British Columbia, Canada. The Property was assembled through a series of transactions between 2013 and 2015 including staking, restaking and acquisitions from third parties.

22 of the 30 claims are subject to third party Net Smelter Return (“NSR”) royalties as follows:

- a) In July 2013, the Company acquired a 100% interest in a group of claims, known as the Kirkham Property. Terms of the purchase were \$25,000 cash (paid), 80,000 common shares of the Company (issued) and a 2% NSR royalty in favor of the vendor. The Company is entitled to purchase each 1% increment of the NSR royalty for \$500,000. There are 20 mineral claims subject to this NSR.

METALLIS RESOURCES INC.

**Notes to the Condensed Interim Financial Statements
For the nine month period ended September 30, 2017
(Expressed in Canadian Dollars)**

7. EXPLORATION AND EVALUATION ASSETS (continued)

Kirkham Property – British Columbia, Canada (continued)

- b) In November 2013, the Company acquired 2 mineral claims contiguous to the Kirkham Property for consideration of \$15,000 (paid) and 200,000 common shares (issued). These 2 claims are subject to a pre-existing 2% NSR royalty.

No impairments on the Property were observed during the nine-month periods ended September 30, 2017 or 2016.

Mackenzie Mountains Iron-Copper Project – Northwest Territories, Canada

The Mackenzie Mountains Iron-Copper Project (“MMICP”) consisted of a 100% interest in a group of 27 mineral claims in an area defined by the Mackenzie Valley, located in the Northwest Territories. On May 25, 2016, 9 claims were sold to Seahawk (Note 5), while the remaining claims expired prior to December 31, 2016. Consideration received for the sale consisted of \$5,000 cash and 75,000 common shares of Seahawk, valued at \$9,750 for a total of \$14,750, recording a gain on sale of \$14,749. The Company also received reimbursements of \$26,651 to cover the Company’s cost of renewing the claims, and retains a 2% Net Smelter Returns royalty on the 9 claims sold. Seahawk can purchase the NSR from the Company for \$500,000 per each 0.5% interest, for a maximum amount of \$2,000,000 until two years after the commencement of commercial operations.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND INDEMNIFICATION PROVISION

Accounts payable and accrued liabilities for the Company are composed of the following:

| | <i>September 30, 2017</i> | <i>December 31, 2016</i> |
|---------------------|-------------------------------|------------------------------|
| Accounts payable | \$ 174,224 | \$ 112,317 |
| Accrued liabilities | 21,000 | 20,000 |
| | \$ 195,224 | \$ 132,317 |

Indemnification provision:

The Company is exposed to potential indemnification costs to certain shareholders who participated in a 2011 flow-through financing of \$900,000 which was audited by the Canada Revenue Agency in early 2016. The indemnification provision is estimated to be \$68,750, and arose due to the Company incurring less than \$900,000 on qualifying resource property expenditures. To estimate the potential indemnification liability, management used a combined tax rate of 43% on unspent flow-through funds raised. The accrued amounts are subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreements, which will not be known until potentially affected subscribers are identified and reassessed, if at all, for their tax positions by the CRA.

METALLIS RESOURCES INC.**Notes to the Condensed Interim Financial Statements
For the nine month period ended September 30, 2017
(Expressed in Canadian Dollars)**

9. SHARE CAPITAL

Authorized: Unlimited common shares, without par value

Issued: 26,320,974 common shares

Transactions in 2017:

- a) In February 2017, 125,000 options were exercised at \$0.10 per share, for proceeds of \$12,500. The fair value of the options exercised was \$15,442, recorded as an increase to share capital and a decrease to equity reserves.
- b) On May 8, 2017, the Company closed the first tranche of a private placement in the amount of \$338,980. The Company issued 1,591,559 units at \$0.18 per unit for proceeds of \$286,480 and 210,000 flow-through units at \$0.25 per flow-through unit, for proceeds of \$52,500. Each unit consists of one common share and ½ of one non-transferable share purchase warrant (“Warrant”). Each flow-through unit consists of one flow-through common share and ½ Warrant. Each whole Warrant is exercisable into one common share at \$0.35 for a two year period. The Warrants are subject to an acceleration clause under which the expiry date becomes 30 days after the last of 10 consecutive days if and whereby the closing price of the Company’s shares are greater than or equal to \$0.50 per share, contingent upon the Company issuing a new release announcing the triggering of the acceleration provision. A flow-through premium liability of \$14,700 was recorded in respect of the flow-through units issued, as a deduction to share capital. No fair value was assigned to the warrant component of the units. As at September 30, 2017, 429,112 warrants had been exercised for proceeds of \$150,189.
- c) On June 26, 2017, the Company closed the second and final tranche of the above noted private placement, issuing an additional 874,000 units for proceeds of \$157,320. No fair value was assigned to the warrant component of the Units. Issuance costs of \$2,482 were recorded on the private placement.
- d) In August and September 2017, 385,000 warrants were exercised at \$0.35 per share for total proceeds of \$134,750. These warrants are from a private placement completed July 29, 2016. As of September 30, 2017, 540,000 of those warrants remain outstanding.
- e) On August 14, 2017, the Company closed a private placement in the amount of \$626,750, by the issuance of 2,507,000 units at \$0.25 per unit. Each unit consists of one common share and ½ of one non-transferable share purchase warrant (“Warrant”). Each Warrant is exercisable into one common share at a price of \$0.40 per share for a two year period. The Warrants are subject to an acceleration clause under which the expiry date becomes 30 days after the last of 10 consecutive days if and whereby the closing price of the Company’s shares are greater than or equal to \$0.50 per share, contingent upon the Company issuing a new release announcing the triggering of the acceleration provision. No fair value was assigned to the warrant component of the units. Issuance costs of \$14,556 were incurred on the private placement, including finders’ fees of \$9,500.

METALLIS RESOURCES INC.**Notes to the Condensed Interim Financial Statements
For the nine month period ended September 30, 2017
(Expressed in Canadian Dollars)**

9. SHARE CAPITAL (continued)

Transactions in 2017: (continued)

- f) On September 22, 2017, the Company closed a private placement in the amount of \$1,311,130. The Company issued 1,400,945 units at \$0.55 per unit for proceeds of \$770,520 and 772,300 flow-through Units at \$0.70 per flow-through unit, for proceeds of \$540,610. Each unit consists of one common share and ½ of one non-transferable share purchase warrant (“Warrant”). Each flow-through unit consists of one flow-through common share and ½ Warrant. Each whole Warrant is exercisable into one common share at a price of \$0.80 per share for a two year period. The Warrants are subject to an acceleration clause under which the expiry date becomes 30 days after the last of 10 consecutive days if and whereby the closing price of the Company’s shares are greater than or equal to \$1.20 per share, contingent upon the Company issuing a new release announcing the triggering of the acceleration provision. A flow-through premium liability of \$115,845 was recorded in respect of the flow-through Units issued, as a deduction to share capital. No fair value was assigned to the warrant component of the units. Issuance costs of \$43,107 were incurred on the private placement, including finders’ fees of \$35,801.

Transactions in 2016:

- a) In April 2016, the Company completed a non-brokered private placement of 2,100,000 shares at a price of \$0.06 per share for gross proceeds of \$126,000. Issuance costs of \$1,980 were incurred. No finder’s fees were incurred.
- b) In June 2016, 450,000 warrants were exercised at \$0.085 per share for total proceeds of \$38,250.
- c) In July 2016, 50,000 options were exercised at \$0.15 per share, for proceeds of \$7,500.
- d) In August 2016, the Company completed a private placement consisting of 925,000 units at a price of \$0.20 per unit for gross proceeds of \$185,000, with each unit composed of one common share and one non-transferable share purchase warrant exercisable at \$0.35 per share for two years. An acceleration clause could force the expiry to a date 30 days after any trading period of 10 consecutive days whereby the price of the shares exceeds \$0.50 per share. Finders’ fees of \$2,660 were paid. No value was assigned to the warrant component of the units. For the period ended September 30, 2017, 385,000 warrants were exercised for proceeds of \$134,750.

Stock options:

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants. At the Company’s Annual General Meeting held on May 15, 2017, the shareholders approved the adoption of a 10% Rolling Stock Option Plan. The exercise price of each stock option equals the market price of the Company’s stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years and vest at the discretion of the Board of Directors at the time of grant.

Stock options granted to employees or consultants in respect of investor relations activities must follow the vesting provisions of the TSX-V, which allow for vesting of options as to no more than 25% of the grant vesting each three months, as measured from the date of grant.

METALLIS RESOURCES INC.

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9. SHARE CAPITAL (continued)

Stock options: (continued)

Stock option transactions are summarized as follows:

| | Number of options outstanding | Weighted average exercise price |
|-----------------------------|----------------------------------|------------------------------------|
| Balance, December 31, 2015 | 447,857 | \$ 0.34 |
| Options exercised | (50,000) | 0.15 |
| Options expired | (397,857) | 0.36 |
| Options granted | 1,400,000 | 0.10 |
| Balance, December 31, 2016 | 1,400,000 | \$ 0.10 |
| Options exercised | (125,000) | 0.10 |
| Options granted | 1,000,000 | 0.39 |
| Options cancelled | (50,000) | 0.10 |
| Balance, September 30, 2017 | 2,225,000 | \$ 0.23 |

As at September 30, 2017, the following incentive stock options are outstanding and exercisable:

| Expiry Date | Number of Options | Vested and Exercisable | Exercise Price | Weighted Remaining Life (Years) |
|---------------------------|----------------------|---------------------------|-------------------|---------------------------------------|
| April 23, 2021 | 1,225,000 | 1,225,000 | \$ 0.10 | 3.56 |
| August 18, 2022 | 1,000,000 | 1,000,000 | 0.39 | 4.88 |
| Total outstanding options | 2,225,000 | 2,225,000 | \$ 0.23 | 4.16 |

Share-based compensation:

On August 18, 2017, the Company granted 1,000,000 stock options to its directors, management and consultants, exercisable at a price of \$0.39 per share for five years. The fair value of the 1,000,000 options pursuant to the Black-Scholes option pricing model was \$295,895, recorded as share-based compensation in the current period. The following parameters were used for determination of fair value of the option grant:

| | |
|-------------------------|-----------|
| Risk-free interest rate | 1.39% |
| Expected life | 2.5 years |
| Annualized volatility | 147% |
| Forfeiture rate | 0% |
| Dividends | 0% |

METALLIS RESOURCES INC.

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9. SHARE CAPITAL (continued)

Warrants:

Through certain unit offerings that completed, as described above, the Company has issued warrants in addition to shares. Warrant transactions are summarized as follows:

| | Number of Warrants | Weighted average exercise price |
|-------------------------------|-----------------------|------------------------------------|
| Balance at December 31, 2015 | 1,214,134 | \$ 0.16 |
| Warrants issued | 925,000 | 0.35 |
| Warrants exercised | (450,000) | 0.085 |
| Warrants expired | (234,134) | 0.20 |
| Balance at December 31, 2016 | 1,455,000 | \$ 0.30 |
| Warrants issued | 3,677,902 | 0.50 |
| Warrants exercised | (814,112) | 0.35 |
| Warrants expired | (530,000) | 0.20 |
| Balance at September 30, 2017 | 3,788,790 | \$ 0.50 |

As at September 30, 2017, the following share purchase warrants are outstanding:

| Expiry Date | Number of warrants | Exercise price | Weighted remaining contractual life (years) |
|-----------------------------------|-----------------------|-------------------|--|
| August 2, 2018 | 540,000 | \$ 0.35 | 0.84 |
| May 9, 2019 | 471,668 | 0.35 | 1.61 |
| June 28, 2019 | 437,000 | 0.35 | 1.74 |
| August 16, 2019 | 1,253,500 | 0.40 | 1.88 |
| September 22, 2019 | 1,086,622 | 0.80 | 1.98 |
| Total outstanding warrants | 3,788,790 | | 1.71 |

METALLIS RESOURCES INC.

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10. RELATED PARTY TRANSACTIONS

The following related parties for the periods presented include directors and key management personnel, including those entities in which such individuals may hold positions that result in them having control or significant influence over the financial or operation policies of these entities:

- a) Avanti Consulting Inc. (“Avanti”), a company controlled by the current CEO and director, provides consulting services to the Company.
- b) Lever Capital Corp., a company owned by the current CFO and director, provides consulting services to the Company.
- c) The Company’s Corporate Secretary provides general administrative services, bookkeeping and corporate secretarial services.
- d) D. G. Dupre and Associates Inc. (“Dupre”), a company that is controlled by the Vice President of Exploration, provides geological consulting services to the Company, the amounts of which are capitalized as geological costs under exploration and evaluation assets.

The aggregate value of fee-based transactions (exclusive of share-based compensation) and outstanding balances relating to the above-noted related parties are as follows:

| | | Transactions for the nine-month period ended September 30, 2017 | Transactions for the year ended December 31, 2016 | Balance payable as at September 30, 2017 | Balance payable as at December 31, 2016 |
|--------------------------------|-----|--|--|---|--|
| Avanti Consulting Inc. | (a) | \$ 63,000 | \$ 84,000 | \$ 50,175 | \$ 109,100 |
| Lever Capital Corp. | (b) | 22,500 | 30,000 | 55,868 | 57,643 |
| Corporate secretary | (c) | 36,000 | 48,000 | 765 | 12,450 |
| D.G. Dupre and Associates Inc. | (d) | 22,500 | 30,000 | 44,767 | 59,142 |
| Total | | \$ 144,000 | \$ 192,000 | \$ 151,575 | \$ 238,335 |

Other transactions with related parties

Executive officers and directors participate in the Company’s stock option plan. During the period ended September 30, 2017, 600,000 stock options were granted to directors and officers having a fair value on issue of \$177,537, as part of a larger option grant totalling 1,000,000 shares which had a fair value on issue of \$295,895, recorded as share-based compensation.

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11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash investing and financing transactions during the nine-month period ended September 30, 2017 are as follows:

- a) As at September 30, 2017, a total of \$42,600 of exploration and evaluation asset costs were included in amounts due to related parties and \$168,094 of exploration and evaluation asset costs were included in accounts payable and accrued liabilities;
- b) The fair value of 125,000 options exercised during the period was \$15,442, recorded as an increase to share capital and a reduction from equity reserves;
- c) A total flow-through share premium liability of \$130,545 was recorded as a deduction from share capital, in respect of flow-through shares issued by the Company;

The significant non-cash investing and financing transactions during the year ended December 31, 2016 are as follows:

- d) As at December 31, 2016 a total of \$59,142 of exploration and evaluation asset costs were included in amounts due to related parties and \$10,000 of exploration and evaluation asset costs were included in accounts payable and accrued liabilities;
- e) The B.C mineral exploration tax credit receivable was applied against income taxes payable of \$12,174;
- f) The fair value of 50,000 options exercised during the year was \$4,703, recorded as an increase to share capital and a reduction from equity reserves; and
- g) A gain on the sale of an exploration and evaluation asset of \$14,749 was recorded, of which \$9,750 represents the fair value of marketable securities received, being 75,000 shares of Seahawk.

12. FINANCIAL AND CAPITAL RISK MANAGEMENT

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

Credit Risk

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. The Company is normally exposed to credit risk through its cash and receivables. The Company manages credit risk associated with its cash by using reputable financial institutions, from which management believes the risk to be remote. Receivables consist of recoverable Canadian sales taxes, Canadian mineral exploration tax credits and other receivables from third parties, and management believes the collectability of these amounts to be assured.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. The Company's approach to managing this risk is to forward plan its cash flows and maintain transparency with its creditors. As at September 30, 2017, the Company has a cash balance of \$1,734,230 (December 31, 2016 - \$17,302) and current liabilities of \$531,394 (December 31, 2015 - \$439,402). The Company has adequate financial resources to settle its current liabilities as at September 30, 2017.

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12. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The Company has historically relied on equity and debt financings and asset sales to satisfy its capital requirements and will continue to depend upon equity capital or debt to further explore the Kirkham Property. Metallis may also enter into earn-in arrangements or the sale of certain property interests. There can be no assurance the Company will be able to obtain its required financings in the future on acceptable terms. The ability of the Company to continue on this course will depend, in part, on the prevailing market conditions and continued investor interest in further financings.

Interest rate risk

The Company is not exposed to risk in the event of interest rate fluctuations. The Company has no material interest-bearing debt, has not entered into any interest rate swaps or other financial arrangements that mitigate the exposure to interest rate fluctuations, nor are current interest rates onerous.

Market risk

The Company is exposed to market risk because of the fluctuating values of its publicly-traded marketable securities which the Company does not control. Based on the September 30, 2017 portfolio values, every 10% increase or decrease in the share price of marketable securities held would have impacted profit (loss) for the period, up or down, by approximately \$7,875 (December 31, 2015 - \$6,638) before income taxes.

Foreign currency risk

The Company's functional currency is the Canadian dollar comprising most financial transactions. Management believes the foreign exchange risk derived from currency conversions is not significant, and therefore, does not hedge its foreign exchange risk.

Fair value hierarchy

The three levels of the fair value hierarchy are:

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

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

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

The fair values of cash and marketable securities are measured based on level 1 inputs of the fair value hierarchy.

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13. CAPITAL MANAGEMENT

Capital is comprised of shareholders' equity. The Company's objectives when managing capital are to fund critical exploration work, meet its on-going liabilities, continue as a going concern, maintain creditworthiness and to ultimately maximize returns for shareholders over the long term. There were no changes in the Company's approach to its capital management objectives during the period ended September 30, 2017. The Company has no long-term debt and is not subject to externally imposed capital requirements.

Meeting current and future liabilities and obligations as a non-revenue early stage developer requires mid-term financial planning and consideration of the Company's current and expected risks with respect to its internal operations, exploration activities, and future financings. The capital for operations and property exploration has historically come from proceeds from the issuance of common shares and the sale of non-core assets. The net proceeds raised from financings and the sale of assets during 2015 and 2016 were sufficient to complete early stage exploration programs and meet general day-to-day obligations related to corporate overhead. Further financings completed in 2017 have occurred at consecutively higher prices, mitigating the dilutive effect to shareholders, and have provided the capital necessary for the Company's operations and exploration programs over the ensuing year.

14. EVENTS AFTER THE REPORTING PERIOD

On October 6, 2017, the Company closed a private placement, raising gross proceeds of \$2,200,000. The Company issued 1,000,000 Units at a price of \$1.10 per Unit. Each Unit consists of one common share and ½ of one non-transferable share purchase warrant ("Warrant"). Each full Warrant is exercisable into one common share at \$1.50 per share for a two year period. Proceeds from the financing will be used for further exploration of the Kirkham Property, and for general working capital. No fair value was assigned to the warrant component of the private placement. Total issuance costs of \$144,250 were incurred in connection with the private placement, including a finder's fee of \$132,000.

Subsequent to September 30, 2017, three consultants exercised a total of 190,000 stock options for proceeds of \$59,600.

Subsequent to September 30, 2017, 662,890 warrants were exercised for proceeds of \$232,012.

On October 25, 2017, the Company issued 454,345 common shares to settle \$177,815 of debt pursuant to a drilling services agreement entered into in June 2017. The shares were issued at the allowable discounted market price as at the dates of billing, in accordance with TSX-V policy and upon approval by the TSX-V. The Company accrued the fair value of the commitment to issue shares at September 30, 2017 in the amount of \$1,004,102 being the fair value of the shares at the time of issuance, recording a loss on issuance of \$826,287 for the period ending September 30, 2017.