

**METALLIS RESOURCES INC.**  
**Annual Financial Statements**  
**December 31, 2022 and 2021**

**(Expressed in Canadian Dollars)**

**METALLIS RESOURCES INC.**  
**Index to Annual Financial Statements**  
**For the years ended December 31, 2022 and 2021**  
**(Expressed in Canadian Dollars)**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Metallis Resources Inc.

### *Opinion*

We have audited the accompanying financial statements of Metallis Resources Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its 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 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 financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the financial statements, which indicates that the Company incurred a net loss of \$736,347 during the year ended December 31, 2022 and, as of that date, the Company's total deficit was \$13,205,334. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Key Audit Matters*

Key audit matters ("KAMs") are those matters that in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. The below KAMs will be included within our auditor's report that accompanies the financial statements.

The following KAMs required significant auditor attention in performing the audit:

#### *Valuation and Impairment of E&E Assets*

As described in Note 6 to the consolidated financial statements, the carrying amount of the Company's E&E assets was \$14,180,927 as of December 31, 2022. As more fully described in Note 2 to the financial statements, management uses estimates in determining the recoverable amount of E&E assets. Management believes that the Company will be able to continue to obtain the necessary regulatory approval and financial resources to develop its E&E projects.



The principal considerations for our determination that the assessment of impairment indicators of the E&E Assets is a key audit matter are that there was judgment made by management when assessing whether there were indicators of impairment for the E&E Assets, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue to explore and evaluate these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the E&E Assets.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Evaluating management's assessment of impairment indicators.
- Evaluating the intent for the E&E Assets through discussion and communication with management.
- Reviewing the Company's recent expenditure activity.
- Obtaining, on a test basis through government websites, confirmation of title to ensure mineral rights underlying the E&E Assets are in good standing.

### ***Other Information***

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements***

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

In preparing the 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 to 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 Financial Statements***

Our objectives are to obtain reasonable assurance about whether the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 risk 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 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 financial statements, including the disclosures, and whether the 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.

The engagement partner on the audit resulting in this independent auditor's report is Grant P. Block.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 19, 2023

**METALLIS RESOURCES INC.**

**Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

	<i>December 31,</i> <i>2022</i>	<i>December 31,</i> <i>2021</i>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 578,522	\$ 800,793
Receivables ( <i>Note 3</i> )	55,970	174,365
Deposits and prepaid expenses ( <i>Note 4</i> )	44,898	21,206
Loans due from related parties ( <i>Note 10</i> )	-	48,420
Due from related party ( <i>Note 10</i> )	51,725	496
Total current assets	731,115	1,045,280
Equipment ( <i>Note 5</i> )	3,979	3,591
Right-of-use assets ( <i>Note 5</i> )	44,384	10,138
Exploration and evaluation assets ( <i>Notes 6 and 10</i> )	14,180,927	12,696,192
Net investment in sublease ( <i>Note 7</i> )	45,556	9,958
<b>Total assets</b>	<b>\$ 15,005,961</b>	<b>\$ 13,765,159</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities ( <i>Note 7</i> )	\$ 166,171	\$ 48,314
Lease liability ( <i>Note 7</i> )	33,222	19,918
Due to related party ( <i>Note 10</i> )	1,540	-
Total current liabilities	200,933	68,232
Lease liability ( <i>Note 7</i> )	57,892	-
<b>Total liabilities</b>	<b>258,825</b>	<b>68,232</b>
<b>EQUITY</b>		
Share capital ( <i>Note 9</i> )	23,533,854	22,006,727
Equity reserves	4,418,616	4,159,187
Deficit	(13,205,334)	(12,468,987)
<b>Total equity</b>	<b>14,747,136</b>	<b>13,696,927</b>
<b>Total liabilities and equity</b>	<b>\$ 15,005,961</b>	<b>\$ 13,765,159</b>

Nature and Continuation of Operations and Going Concern (*Note 1*)  
Events after the reporting period (*Note 15*)

Approved and authorized on behalf of the Board on April 19, 2022

"Fiore Aliperti" Director

"Michael Sikich" Director

**METALLIS RESOURCES INC.**  
**Statements of Loss and Comprehensive Loss**  
**For the years ended December 31, 2022 and 2021**  
**(Expressed in Canadian Dollars)**

	2022	2021
<b>Operating Expenses:</b>		
Communications	\$ 23,782	\$ 568,114
Consulting fees <i>(Note 10)</i>	377,800	533,594
Depreciation <i>(Note 5)</i>	21,036	22,886
Investor relations	56,000	87,500
Office and general	64,500	67,771
Professional fees	61,981	49,510
Regulatory and transfer agent fees	39,059	47,665
Rent	16,378	10,789
Share-based compensation <i>(Notes 9,10)</i>	259,429	647,580
Travel	4,738	-
Total operating expenses	<b>(924,703)</b>	<b>(2,035,409)</b>
Interest income	27,384	13,288
Finance income on sublease <i>(Note 7)</i>	2,586	1,484
Amortization of discount <i>(Note 7)</i>	(5,172)	(2,970)
Other income on settlement of flow-through share premium liability <i>(Note 8)</i>	163,558	344,861
Gain on settlement of accounts payable <i>(Note 7)</i>	-	31,000
<b>Loss and comprehensive loss for the year</b>	<b>\$ (736,347)</b>	<b>\$ (1,647,746)</b>
Basic and diluted loss per common share	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>
Weighted average number of common shares outstanding-		
Basic and Diluted	<b>57,106,903</b>	49,971,394

**METALLIS RESOURCES INC.**

**Statements of Changes in Equity**

**For the years ended December 31, 2022 and 2021**  
**(Expressed in Canadian Dollars)**

	<i>Share Capital</i>		<i>Equity Reserves</i>	<i>Deficit</i>	<i>Total</i>
	<i>Number of Shares</i>	<i>Amount</i>			
<b>Balance at December 31, 2020</b>	<b>44,060,433</b>	<b>\$ 18,363,770</b>	<b>\$ 3,650,552</b>	<b>\$ (10,821,241)</b>	<b>\$ 11,193,081</b>
Proceeds from private placement	7,604,445	3,726,500	-	-	3,726,500
Share issuance costs	-	(41,695)	6,207	-	(35,488)
Flow-through share premium liability	-	(304,500)	-	-	(304,500)
Proceeds from exercise of stock options	1,175,000	117,500	-	-	117,500
Fair value of options exercised	-	145,152	(145,152)	-	-
Share-based compensation	-	-	647,580	-	647,580
Loss for the year	-	-	-	(1,647,746)	(1,647,746)
<b>Balance at December 31, 2021</b>	<b>52,839,878</b>	<b>\$ 22,006,727</b>	<b>\$ 4,159,187</b>	<b>\$ (12,468,987)</b>	<b>\$ 13,696,927</b>
Proceeds from private placement	7,704,434	1,704,445	-	-	1,704,445
Share issuance costs	-	(13,760)	-	-	(13,760)
Flow-through share premium liability	-	(163,558)	-	-	(163,558)
Share-based compensation	-	-	259,429	-	259,429
Loss for the year	-	-	-	(736,347)	(736,347)
<b>Balance at December 31, 2022</b>	<b>60,544,312</b>	<b>\$ 23,533,854</b>	<b>\$ 4,418,616</b>	<b>\$ (13,205,334)</b>	<b>\$ 14,747,136</b>

**METALLIS RESOURCES INC.**

**Statements of Cash Flows**  
**For the years ended December 31, 2022 and 2021**  
**(Expressed in Canadian Dollars)**

	2022	2021
<b>Cash flows provided by (used in) operating activities</b>		
Loss for the year	\$ (736,347)	\$ (1,647,746)
Items not affecting operating cash:		
Amortization of discount	5,172	2,970
Depreciation	21,036	22,886
Interest income	(27,384)	(13,288)
Finance income	(2,586)	(1,484)
Gain on settlement of accounts payable and accrued liabilities	-	(31,000)
Other income on settlement of flow-through share premium liability	(163,558)	(344,861)
Share-based compensation	259,429	647,580
Changes in non-cash working capital items:		
Receivables	8,110	(9,424)
Deposits and prepaid expenses	(23,692)	114,224
Accounts payable and accrued liabilities	657	(10,743)
Due from related party	(51,229)	(496)
Due to related party	1,540	(210)
Net cash used in operating activities	<u>(708,852)</u>	<u>(1,271,592)</u>
<b>Cash flows provided by (used in) investing activities</b>		
Investment in exploration and evaluation assets	(1,367,535)	(4,090,327)
Loans to related parties	-	(48,420)
Loans and interest repaid from related parties	48,572	-
Purchase of equipment	(2,408)	(2,165)
Tax credits received	110,285	114,304
Interest received	27,232	13,551
Proceeds from investment in sublease	20,250	20,250
Net cash used in investing activities	<u>(1,163,604)</u>	<u>(3,992,807)</u>
<b>Cash flows provided by (used in) financing activities</b>		
Proceeds from shares issued	1,704,445	3,844,000
Share issuance costs	(13,760)	(35,488)
Lease payments	(40,500)	(40,500)
Net cash provided by financing activities	<u>1,650,185</u>	<u>3,768,012</u>
Decrease in cash and cash equivalents during the year	(222,271)	(1,496,387)
Cash and cash equivalents, beginning of year	800,793	2,297,180
<b>Cash and cash equivalents, end of year</b>	<u>\$ 578,522</u>	<u>\$ 800,793</u>

Supplemental Disclosure with Respect to Cash Flows (Note 11)

## METALLIS RESOURCES INC.

### Notes to the Financial Statements For the years ended December 31, 2022 and 2021 (Expressed in Canadian Dollars)

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#### 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” and on the OTCQB Venture Market under the symbol “MTLFF”. The Company’s registered and head office is located at Suite #604 - 850 West Hastings Street, Vancouver, British Columbia, Canada, V6C 1E1, and its website is at [www.metallisresources.com](http://www.metallisresources.com).

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 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.

The Company operates in a single jurisdiction in the single business activity of exploration and evaluation assets.

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 operating for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

The Company incurred a loss of \$736,347 during the year ended December 31, 2022 and as of that date the Company’s total deficit is \$13,205,334. The ability of the Company to continue as a going concern depends upon i) its ability to raise adequate financing on reasonable terms from lenders, shareholders and other investors and ii) its ability to develop a mine and/or commence commercially profitable operations. The aforementioned factors indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. 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.

Fundraising may be undertaken from time to time, and may include private placements, convertible debentures, third party earn-ins or joint ventures using debt or equity financing structures. In recent years, the Company has successfully raised funds from equity investors to provide for its exploration and working capital needs. The most recent private placements were completed in 2022 and 2021, raising \$1.7 million and \$3.7 million respectively. To the extent future financing is not available, future working capital commitments beyond 2022 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. In addition, 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.

## METALLIS RESOURCES INC.

### Notes to the Financial Statements For the years ended December 31, 2022 and 2021 (Expressed in Canadian Dollars)

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#### 1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN (continued)

##### Covid-19

The nature of the COVID-19 pandemic has evolved with new variants still arising and certain jurisdictions declaring that the pandemic is now an endemic disease. There is no certainty that our vaccination successes to date can be duplicated in the future against those new variants. Operating and supply chain disruptions and volatile price changes may still occur, and government regulations may change at any time, impacting operating procedures and business activity.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies have been applied consistently to all periods presented in these financial statements.

##### Basis of presentation

These 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").

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

##### Foreign currencies

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar. The functional currency determination was conducted through an analysis of the consideration factors identified in International Accounting Standard ("IAS") 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in foreign currencies are initially recorded in the Company's functional currency using the exchange rate at the time of the transaction. Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated using the exchange rate at the end of each reporting period. Non-monetary assets and liabilities are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined. Exchange gains and losses arising on translation are included in profit or loss.

##### Cash and cash equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents consists of short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. As at December 31, 2022, the Company's cash equivalents includes money market investments of \$411,685 (2021 - \$754,356), primarily in the form of Canadian tier-one bank interest bearing money market funds that are fully redeemable.

## METALLIS RESOURCES INC.

### Notes to the Financial Statements For the years ended December 31, 2022 and 2021 (Expressed in Canadian Dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Receivables

Receivables are recorded at face value less any provisions for uncollectible accounts. For the years ended December 31, 2022 and 2021, the Company did not record any provisions for uncollectible accounts.

##### Financial instruments:

##### IFRS 9, Financial Instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value along with, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

The Company classifies its financial assets and financial liabilities as those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and those to be measured at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit or loss or other comprehensive income.

Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). Any fair value changes attributable to changes in credit risk for liabilities designated at fair value through profit or loss are recorded in other comprehensive income and any fair value change in excess of the amount attributable to changes in credit risk is recognized in profit or loss.

The Company's financial instruments consist of cash and cash equivalents, receivables, deposits, net investment in sublease, accounts payable, lease liability and due to or due from related parties. Except for cash and cash equivalents, all financial instruments held by the Company are measured at amortized cost. Nevertheless, the fair values of these financial instruments approximate their carrying value due to their short-term maturities. The fair values of cash and cash equivalents are measured at fair value through profit or loss and any changes to fair value subsequent to initial recognition are recorded in profit or loss for the period in which they occur.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

##### Impairment of financial assets

The Company uses a three-stage expected credit loss model for calculating impairment for financial assets. Expected credit losses are recognized at inception and updated for the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments.

## METALLIS RESOURCES INC.

### Notes to the Financial Statements For the years ended December 31, 2022 and 2021 (Expressed in Canadian Dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Impairment of financial assets (continued)

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods, if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

##### Equipment

Equipment is recorded at historical cost less accumulated depreciation and impairment charges. Equipment is depreciated on a declining balance basis over the estimated useful lives of the individual assets. The Company provides for depreciation computed under the declining balance method for computers and software at 55% per annum, and furniture and fixtures at 20% per annum. Depreciation for right-of-use ("ROU") assets is computed on a straight-line basis over the terms of the underlying leases.

The Company's equipment is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated. Impairment losses are recognized in profit or loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

The cost of replacing part of equipment is recognized in the carrying amount of the equipment if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of the equipment are recognized in profit or loss as incurred.

##### Impairment of tangible and intangible assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is evaluated at the cash generating unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of the CGU is the greater of fair value less costs to sell and value in use. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**METALLIS RESOURCES INC.**

**Notes to the Financial Statements  
For the years ended December 31, 2022 and 2021  
(Expressed in Canadian Dollars)**

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets

*Pre-exploration costs*

Pre-exploration costs are expensed in the period in which they are incurred.

*Exploration and evaluation expenditures*

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the transferee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess proceeds accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is first tested for impairment and then considered to be a mine under development and is classified as "mines under construction."

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in a private placement to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the issue date. The balance, if any, is allocated to the attached warrants. Any value attributed to the warrants is recorded as equity reserves.

## METALLIS RESOURCES INC.

### Notes to the Financial Statements For the years ended December 31, 2022 and 2021 (Expressed in Canadian Dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Flow-through shares

The Company may, from time to time, issue flow-through common shares to finance a portion of its exploration programs. Pursuant to the terms of flow-through share agreements, the tax deductibility of qualifying resource expenditures is transferred to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income on settlement of flow-through share premium liability and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares or units are to be used only for Canadian resource property exploration expenditures within a two-year period. The Company may also be subject to Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as an expense until paid.

##### Rehabilitation provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

##### Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. The fair value of the options is recognized as an operating expense with a corresponding increase in equity (deficiency) over the vesting period on a graded basis. The fair value of stock options is measured on the date of grant using the Black-Scholes option pricing model, considering the terms and conditions upon which the options were granted. Consideration paid for the shares on the exercise of stock options is credited to share capital and the related share-based payments originally recorded as equity reserves are also transferred to share capital at the time of exercise. When vested options are not exercised as of the expiry date the amount previously recognized in equity reserves is transferred to deficit.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Warrants issued for compensation of services are valued using the Black-Scholes option pricing model.

## METALLIS RESOURCES INC.

### Notes to the Financial Statements For the years ended December 31, 2022 and 2021 (Expressed in Canadian Dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Income taxes

Income tax expense 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. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing 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 goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

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. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is not recorded.

##### Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. In periods where a loss is reported, diluted loss per share is the same as basic loss per share as the effects of potentially dilutive common shares would be anti-dilutive.

##### Leases

At inception, the Company assesses whether a contract is or contains a lease. The assessment involves the exercise of judgment about what constitutes a lease, whether the lease depends on a specified asset, whether the Company obtains substantially all the economic benefits for the use of that asset during the lease term, whether the Company has the right to direct the use of the asset, and the likelihood of exercising a lease extension option, if applicable. Lease payments may include fixed and variable components, but variable payments are generally excluded.

The Company recognized a right-of-use (“ROU”) asset and a lease liability at the commencement of the lease. The lease liability recognized upon lease inception represents the present value of the net remaining lease payments, discounted at an interest rate otherwise required if the asset was acquired through a financing arrangement, using the effective interest method. The ROU assets are depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU assets are subject to testing for impairment if there is an indicator for impairment.

## METALLIS RESOURCES INC.

### Notes to the Financial Statements For the years ended December 31, 2022 and 2021 (Expressed in Canadian Dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Leases (continued)

When a company subleases a ROU asset, it classifies the sublease as an operating lease if the head lease is a short-term lease; otherwise, the sublease is classified as a finance lease. The lessor derecognizes the ROU asset pertaining to the head lease that it transfers to the sublessee at the sublease commencement date but continues to account for the original lease liability. The sublessor recognizes a net investment in sublease and evaluates it for impairment and may use the discount rate in the head lease to measure the net investment in sublease. The Company recognizes finance income on the net investment in the lease, and also records income relating to variable lease payments not included in the measurement of the net investment in the lease.

##### Use of significant judgements and estimates

In preparing these financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

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

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- a) The Company capitalizes its exploration and evaluation costs on the statement of financial position. The recoverability of the carrying value requires assumptions and judgements as does the verification of property title. The Company takes steps to verify title to exploration and evaluation assets in which it has an interest, but these procedures do not guarantee the Company's title. Properties may be subject to prior agreements or transfers and title may be affected by undetected defects;
- b) The Company uses the Black-Scholes valuation model to determine the fair value of stock option grants and certain warrants issued under private placements. The inputs used in the model require estimates of the fair value of the shares, expected life of options, volatility, expected dividend yield, forfeiture rates and the risk-free interest rate. These estimates impact share-based compensation expense in the profit or loss and share capital and shareholder's equity on statements of financial position;
- c) The values of right-of-use assets and lease liabilities require judgements to determine the lease term, the likelihood of an extension option being exercised and the incremental borrowing rate. Such judgements, estimates and assumptions affect the present value of the lease liabilities, the value of the right-of-use assets, the value of the net investment in sublease and the amounts recognized in profit or loss, including depreciation, rent expense, finance expense and finance income;

**METALLIS RESOURCES INC.**

**Notes to the Financial Statements  
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of significant judgements and estimates (continued)

- d) Significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made;
- e) The Company raises financing by issuing equity comprised of flow-through shares and/or non-flow-through shares. When flow-through shares are issued, a flow-through premium liability is recognized and that recognition requires estimations of the fair value of the non-flow-through and flow-through shares; and
- f) The assumption that the Company is a going concern and will continue operating for the foreseeable future, being one year, is a judgment.

New accounting standards

There were no new or amended IFRS policies or pronouncements adopted by the Company during the year ended December 31, 2022. New policies with an adoption date of January 1, 2023 and after are as follows:

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended effective for annual periods beginning on or after January 1, 2023, to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument.

IAS 1 also includes amendments requiring companies to disclose their material accounting policies instead of their significant accounting policies and clarifies the disclosure of material and immaterial transactions.

IAS 8 clarifies changes in accounting policies (which are applied retrospectively) from changes in accounting estimates (which are applied prospectively).

IAS 12 Income taxes clarify the treatment of deferred income taxes on leases and decommissioning obligations.

No material impacts to the Company are expected from the adoption on January 1, 2023 of the above noted accounting standards.

**METALLIS RESOURCES INC.**

**Notes to the Financial Statements  
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3. RECEIVABLES

	<b>December 31, 2022</b>	December 31, 2021
BC Mineral Exploration Tax Credit	\$ -	\$ 99,273
GST/ HST recoverable taxes	<b>22,333</b>	75,092
CRA Payroll credit	<b>26,549</b>	-
Other receivables	<b>7,088</b>	-
Total receivables	<b>\$ 55,970</b>	\$ 174,365

4. DEPOSITS AND PREPAID EXPENSES

The deposits and prepaid expenses of the Company consist of the following:

	<b>December 31, 2022</b>	December 31, 2021
Prepaid insurance	\$ 7,333	\$ 11,376
Prepaid storage	<b>6,525</b>	3,790
Rental deposit	<b>6,040</b>	6,040
Deposit on 2023 helicopter contract	<b>25,000</b>	-
	<b>\$ 44,898</b>	\$ 21,206

**METALLIS RESOURCES INC.**

**Notes to the Financial Statements  
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5. EQUIPMENT AND RIGHT-OF-USE ASSETS

*Equipment:*

	<i>Furniture &amp; fixtures</i>	<i>Computers and software</i>	<i>Total</i>
<b>Cost:</b>			
Balance, December 31, 2020	\$ 3,692	\$ 19,296	\$ 22,988
Additions	-	2,165	2,165
Balance, December 31, 2021	3,692	21,461	25,153
Additions	-	2,408	2,408
<b>Balance, December 31, 2022</b>	<b>\$ 3,692</b>	<b>\$ 23,869</b>	<b>\$ 27,561</b>
<b>Accumulated depreciation:</b>			
Balance, December 31, 2020	\$ 1,108	\$ 17,844	\$ 18,952
Additions	516	2,094	2,610
Balance, December 31, 2021	1,624	19,938	21,562
Additions	412	1,608	2,020
<b>Balance, December 31, 2022</b>	<b>\$ 2,036</b>	<b>\$ 21,546</b>	<b>\$ 23,582</b>
<b>Net Book Value:</b>			
<b>December 31, 2022</b>	<b>\$ 1,656</b>	<b>\$ 2,323</b>	<b>\$ 3,979</b>
December 31, 2021	\$ 2,068	\$ 1,523	\$ 3,591

METALLIS RESOURCES INC.

Notes to the Financial Statements  
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5. EQUIPMENT AND RIGHT-OF-USE ASSETS

*Right-of-Use assets:*

<b>Cost:</b>	
Balance, December 31, 2020	\$ 60,828
Additions	-
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Balance, December 31, 2021	60,828
Additions- lease commenced July 1, 2022	106,524
Derecognize- sublease July 1, 2022	(53,262)
Disposal- lease maturity June 30, 2022	(60,828)
<hr/>	
<b>Balance, December 31, 2022</b>	<b>\$ 53,262</b>
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<b>Accumulated depreciation:</b>	
Balance, December 31, 2020	\$ 30,414
Additions	20,276
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Balance, December 31, 2021	50,690
Additions	19,016
Disposal- lease maturity June 30, 2022	(60,828)
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<b>Balance, December 31, 2022</b>	<b>\$ 8,878</b>
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<b>Net Book Value:</b>	
<b>December 31, 2022</b>	<b>\$ 44,384</b>
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December 31, 2021	\$ 10,138
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**METALLIS RESOURCES INC.**

**Notes to the Financial Statements  
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6. EXPLORATION AND EVALUATION ASSETS – Kirkham Property

	Balance, December 31, 2020	Additions	Balance, December 31, 2021	Additions	Balance, December 31, 2022
Drilling	\$ 3,207,734	\$ 1,279,820	\$ 4,487,554	\$ 450,962	\$ 4,938,516
Helicopters and aircraft support	2,557,962	1,148,736	3,706,698	437,973	4,144,671
Geological and geophysical	1,898,428	626,373	2,524,801	261,910	2,786,711
Accommodations and camp	1,309,440	673,268	1,982,708	180,481	2,163,189
Assays and lab analysis	301,512	157,127	458,639	82,065	540,704
Acquisition costs	495,801	-	495,801	-	495,801
Licenses, claim fees and permits	158,862	27,014	185,876	31,211	217,087
Community relations	121,872	40,000	161,872	40,500	202,372
Field expenses and core shack	79,968	19,293	99,261	11,136	110,397
Recovery of expenses	(1,204,234)	(118,917)	(1,323,151)	(11,503)	(1,334,654)
Write-downs	(83,867)	-	(83,867)	-	(83,867)
	<u>\$ 8,843,478</u>	<u>\$ 3,852,714</u>	<u>\$ 12,696,192</u>	<u>\$ 1,484,735</u>	<u>\$ 14,180,927</u>

**Kirkham Property – Golden Triangle, Skeena Mining Division, British Columbia, Canada**

The Kirkham Property (the “Property”) is comprised of certain mineral claims situated in the “Golden Triangle” region of north-western British Columbia, Canada. The Property was assembled by the Company through a series of transactions between 2013 and 2015 including staking, re-staking and acquisitions from third parties.

A portion of the mineral claims are subject to third-party Net Smelter Return (“NSR”) royalties of 2%. The Company is entitled to purchase each 1% increment of the NSR royalty for \$500,000.

Recovery of expenses is primarily composed of BC Mineral Exploration tax credits receivable but may also include provincial tax recoveries or vendor credits.

No impairments on the Property were observed during the years ended December 31, 2022 or 2021.

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. To the best of its knowledge, the Company's title to all of its mineral claims and properties are in good standing.

**METALLIS RESOURCES INC.**

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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND LEASE LIABILITY

*Accounts payable and accrued liabilities for the Company are comprised as follows:*

	<b>December 31, 2022</b>	December 31, 2021
Accounts payable	<b>\$ 136,171</b>	\$ 18,314
Accrued liabilities	<b>30,000</b>	30,000
	<b>\$ 166,171</b>	\$ 48,314

During the year ended December 31, 2021, \$31,000 of accounts payable carried forward from the prior year was determined not to be payable and was written off with the amount recognized as a gain on settlement of accounts payable and accrued liabilities. There were no accounts payable settlement gains or losses in 2022.

*Lease liability:*

The Company entered into a three-year premises lease on July 1, 2022 following the maturity on June 30, 2022 of its prior 3-year lease agreement. The office location did not change. The monthly fixed lease costs remain the same as the prior lease for the first two years at \$3,375 per month, rising to \$3,488 per month for the third year. The fair value estimate of the new lease and initial lease liability was \$106,524 using an incremental borrowing rate of 10%. The following schedule shows recent changes in lease liabilities:

Lease liability:	<b>Lease: 7/1/19 – 6/30/22</b>	<b>Lease: 7/1/22 – 6/30/25</b>	<b>Total</b>
Balance, December 31, 2020	\$ 57,448	\$ -	\$ 57,448
Lease payments	(40,500)	-	(40,500)
Accretion of lease liability discount	2,970	-	2,970
Balance, December 31, 2021	19,918	-	19,918
Additions	-	106,524	106,524
Lease payments	(20,250)	(20,250)	(40,500)
Accretion of lease liability discount	332	4,840	5,172
<b>Balance, December 31, 2022</b>	<b>\$ -</b>	<b>\$ 91,114</b>	<b>\$ 91,114</b>

*Lease liability allocation:*

Short-term portion of lease liability	<b>\$ 33,222</b>
Long-term portion of lease liability	<b>57,892</b>
Balance, December 31, 2022	<b>\$ 91,114</b>

**METALLIS RESOURCES INC.**

**Notes to the Financial Statements  
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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND LEASE LIABILITY (continued)

*Lease payments for next five years:*

(including variable lease costs estimated by landlord)

Year ended December 31, 2023	\$ 75,492
Year ended December 31, 2024	76,164
Year ended December 31, 2025	38,418
Year ended December 31, 2026	-
Year ended December 31, 2027	-
<b>Total</b>	<b>\$ 190,074</b>

*Net investment in sublease:*

On July 1, 2022 the Company entered into a 3-year sublease agreement with related party Etruscus Resources Corp. (“ETR”) for ½ of its premises at a per square foot cost equal to the head lease. ETR pays fixed lease costs of \$1,688 per month for the first two years and \$1,744 per month for the third year. At commencement of the sublease, the Company recognized a net investment in sublease of \$53,262, and derecognized ROU assets by the same amount. The reconciliation of the Company’s net investment in sublease is as follows (*Refer to Note 10*):

	<b>Year ended December 31, 2022</b>	Year ended December 31, 2021
Balance, beginning of year	<b>\$ 9,958</b>	\$ 28,724
Additions- sublease July 1, 2022	<b>53,262</b>	-
Finance income	<b>2,586</b>	1,484
Lease payments received	<b>(20,250)</b>	(20,250)
 Balance, end of year	 <b>\$ 45,556</b>	 \$ 9,958

Maturity analysis of lease payments receivable and reconciliation to net investment in sublease:

	2023	2024	2025	Total
Undiscounted lease payments receivable	\$ 37,334	\$ 37,672	\$ 19,005	\$ 94,011
Variable cost portion	(17,084)	(17,084)	(8,543)	(42,711)
 Undiscounted finance lease payments	 20,250	 20,588	 10,462	 51,300
Finance income	(3,639)	(1,890)	(215)	(8,744)
 Net investment in sublease	 \$16,611	 \$18,698	 \$10,247	 \$ 45,556

**METALLIS RESOURCES INC.**

**Notes to the Financial Statements  
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8. FLOW-THROUGH PREMIUM LIABILITY

<i>Changes in Flow-through premium liability:</i>	Year ended December 31, 2022	Year ended December 31, 2021
Balance, beginning of year	\$ -	\$ 40,361
Liability incurred on flow-through shares issued	163,558	304,500
Settlement of flow-through share premium liability upon incurring eligible expenditures	(163,558)	(344,861)
Balance, end of year	\$ -	\$ -

During the year ended December 31, 2022, the Company issued 5,451,934 flow-through shares at a price of \$0.23 per share for gross proceeds of \$1,253,945 (the “Financing”) and recognized a flow-through share premium liability of \$163,558 as the difference between the flow-through share price and the non-flow-through share price in the concurrent offering of flow-through and non-flow-through units. The incurrence of qualifying exploration expenses reduces the flow-through share premium liability, which the Company recognizes as other income on settlement of flow-through share premium liability on a pro-rated basis. The Company incurred sufficient qualifying exploration expenses in 2022, subsequent to the Financing, to fully meet its obligations and consequently, no flow-through premium liability exists at December 31, 2022.

9. SHARE CAPITAL

Authorized: Unlimited common shares, without par value

Issued: 60,544,312 common shares (December 31, 2021 – 52,839,878 common shares)

*Transactions in 2022:*

On June 23, 2022, the Company closed a two-tranche private placement for total proceeds of \$1,704,445, consisting of 2,252,500 non-flow-through units at a price of \$0.20 per unit for proceeds of \$450,500 and 5,451,934 flow-through units at a price of \$0.23 per flow-through unit for proceeds of \$1,253,945.

Each non-flow-through unit consisted of one common share and one-half of a non-flow-through, non-transferable share purchase warrant. Each whole warrant allows the holder to purchase one additional common share at a price of \$0.30 per share for a 3-year period.

Each flow-through unit consisted of one flow-through common share and one-half of a non-flow-through, non-transferable share purchase warrant. Each whole warrant allows the holder to purchase one additional common share at a price of \$0.33 per share for a 3-year period.

The Company paid filing fees and transfer agent fees totalling \$13,760 in connection with the financing.

**METALLIS RESOURCES INC.**

**Notes to the Financial Statements  
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9. SHARE CAPITAL (continued)

*Transactions in 2021:*

- a) On May 10, 2021, the Company closed a two-tranche private placement for total proceeds of \$3,726,500, consisting of 1,514,445 non-flow-through units at a price of \$0.45 per unit for proceeds of \$681,500 and 6,090,000 flow-through units at a price of \$0.50 per flow-through unit for proceeds of \$3,045,000. The Company paid a total of \$13,800 in cash finders' fees and issued 27,600 finder's warrants exercisable at \$0.50 per share for two years from the date of issuance. The finders warrants were valued at \$6,207. Other filing and transfer agent fees totalling \$21,688 were incurred in connection with the financing.

Each non-flow-through unit consisted of one common share and one-half of a non-flow-through, non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$0.65 per share for a 2-year period.

Each flow-through unit consisted of one flow-through common share and one-half of a non-flow-through, non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$0.70 per share for a 2-year period.

- b) 1,175,000 stock options were exercised for total proceeds of \$117,500. Directors and officers exercised 850,000 of these options for proceeds of \$85,000. The fair value of the exercised options was \$145,152, recorded as an increase to share capital and a deduction from equity reserves.

*Stock options:*

The Company has a stock option plan in place under which it is authorized to grant options to its directors, executive officers, employees and consultants. At the Company's Annual and Special Meeting held on October 29, 2021, the shareholders re-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 10 years and vest at the discretion of the Board of Directors at the time of grant. However, stock options granted to employees or consultants in respect of investor relations activities 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, measured from the date of grant.

During the year ended December 31, 2022, the Company recorded share-based compensation of \$259,429 from grant and vesting of 1,800,000 stock options to its directors, officers and consultants, exercisable at \$0.20 per share for a five-year period. The Company's investor relations consultant received 150,000 of the stock options which vest over a one-year period. The other stock options vested upon grant.

During the year ended December 31, 2021, the Company recorded share-based compensation of \$647,580 as follows:

- i) \$21,618 in respect of the portion of 100,000 investor relations options granted in 2020 which vested during 2021;
- ii) \$194,735 in respect of 550,000 stock options granted to consultants, exercisable at \$0.50 per share for a five-year period;
- iii) \$27,545 in respect of 120,000 stock options granted to a consultant, exercisable at \$0.45 per share for a two-year period; and
- iv) \$403,682 in respect of 1,900,000 stock options granted to directors, officers and consultants, exercisable at \$0.39 per share for a five-year period.

**METALLIS RESOURCES INC.**

**Notes to the Financial Statements  
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9. SHARE CAPITAL (continued)

*Stock options: (continued)*

The following weighted average parameters were used in the Black-Scholes option model to determine the fair value of the option grants described above:

	2022	2021
Risk-free interest rate	3.29%	0.64%
Expected life	5 years	4 years
Annualized volatility	97.1%	102.8%
Forfeiture rate	0%	0%
Dividends	0%	0%
Weighted average fair value of options	\$0.15	\$0.26

Stock option transactions are summarized as follows:

	Number of stock options outstanding	Weighted average exercise price
Balance, December 31, 2020	3,485,000	\$ 0.59
Options granted	2,570,000	0.42
Options exercised	(1,175,000)	0.10
Balance, December 31, 2021	4,880,000	\$ 0.62
Options granted	1,800,000	0.20
Options expired	(760,000)	0.39
Options terminated	(375,000)	0.81
Balance, December 31, 2022	5,545,000	\$ 0.50

As at December 31, 2022, the following incentive stock options are outstanding and exercisable:

Expiry Date	Number of Options	Vested and exercisable	Exercise Price	Weighted remaining contractual life (years)
April 23, 2023	120,000	120,000	\$ 0.45	0.31
July 13, 2023	900,000	900,000	1.35	0.53
August 9, 2023	25,000	25,000	1.05	0.61
October 6, 2025	450,000	450,000	0.40	2.77
April 12, 2026	450,000	450,000	0.50	3.28
September 27, 2026	1,800,000	1,800,000	0.39	3.74
August 31, 2027	1,800,000	1,687,500	0.20	4.67
Total outstanding options	5,545,000	5,432,500		3.32

**METALLIS RESOURCES INC.**

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9. SHARE CAPITAL (continued)

Warrants:

Warrant transactions are summarized as follows:

	Number of Warrants outstanding	Weighted average exercise price
Balance at December 31, 2020	8,906,903	\$ 0.73
Warrants issued	3,829,822	0.69
Warrants expired	(948,571)	1.60
Balance at December 31, 2021	11,788,154	\$ 0.65
Warrants issued	3,852,217	0.32
Balance at December 31, 2022	15,640,371	\$ 0.57

As at December 31, 2022, the following warrants are outstanding:

Expiry Date	Number of Warrants	Exercise Price ( \$ )	Weighted average remaining contractual life (years)
April 30, 2023	380,555	0.65	0.33
April 30, 2023	2,985,000	0.70	0.33
April 30, 2023	24,000	0.50	0.33
May 7, 2023	376,667	0.65	0.35
May 7, 2023	60,000	0.70	0.35
May 7, 2023	3,600	0.50	0.35
October 7, 2023	4,805,000	0.60	0.77
October 7, 2023	2,383,000	0.68	0.77
October 7, 2023	7,000	0.40	0.77
October 16, 2023	50,000	0.60	0.79
October 16, 2023	666,666	0.68	0.79
October 16, 2023	46,666	0.40	0.79
June 10, 2025	663,750	0.30	2.44
June 10, 2025	2,640,750	0.33	2.44
June 23, 2025	462,500	0.30	2.48
June 23, 2025	85,217	0.33	2.48
Total	15,640,371		1.08

**METALLIS RESOURCES INC.**

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10. RELATED PARTY TRANSACTIONS

The following related parties, for the years presented, include directors and key management personnel, being officers and directors of the Company, 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., a company controlled by the current Chief Executive Officer of the Company, provides consulting services to the Company;
- b) Lever Capital Corp., a company owned by the Company’s Chief Financial Officer, provides consulting services to the Company;
- c) D. G. Dupre and Associates Inc., is a company that is controlled by the Vice-President of Exploration of the Company which provides the Company with geological consulting services, the amounts of which are capitalized under exploration and evaluation assets;
- d) DRW Geological Consultants Ltd. is a company controlled by a director of the Company and which provides occasional geological consulting services to the Company, the amounts of which are capitalized under exploration and evaluation assets;
- e) Magma Geosciences Inc. is a company controlled by the former Vice-President of Geoscience Services, and which provided geological consulting services to the Company up to his date resignation on March 1, 2022, the amounts of which were capitalized as geological costs under exploration and evaluation assets; and
- f) Etruscus Resources Corp. (“ETR”), a public company related through two common directors and a common officer, subleases office space from the Company, shares certain administrative expenses and also shares an exploration camp with the Company, resulting in occasional related party receivables or payables at the end of each period.

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

	<b>Transactions for the year ended December 31, 2022</b>	Transactions for the year ended December 31, 2021	<b>Balance receivable (payable) as at December 31, 2022</b>	Balance receivable as at December 31, 2021
Avanti Consulting Inc.	(a) \$ 144,000	\$ 149,000	\$ -	\$ -
Lever Capital Corp.	(b) 84,000	89,000	-	-
D.G. Dupre and Associates Inc.	(c) 60,000	63,500	-	-
DRW Geological Consultants Ltd (i)	(d) -	-	(1,540)	-
Magma Geosciences Inc.	(e) 22,000	77,000	-	-
Etruscus Resources Corp. (ii)	(f) -	-	51,725	496
<b>Total</b>	<b>\$ 310,000</b>	<b>\$ 378,500</b>	<b>\$ 50,185</b>	<b>\$ (496)</b>

Notes:

- (i) Amount relates to share-based compensation and is not for services rendered in 2022.
- (ii) Amounts owing to the Company are detailed in the following table:

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10. RELATED PARTY TRANSACTIONS (continued)

During the year ended December 31, 2022, the company entered into transactions with ETR as follows:

	Due from ETR, December 31, 2021	Invoiced	Paid	Due from ETR, December 31, 2022
Rent	\$ -	\$ 28,189	\$ 28,076	\$ 113
Office expenses, net	496	5,367	2,926	2,937
Exploration costs	-	56,175	7,500	48,675
<b>Total</b>	<b>\$ 496</b>	<b>\$ 89,731</b>	<b>\$ 38,502</b>	<b>\$ 51,725</b>

During 2022, certain exploration costs that were invoiced and billed to the Company had amounts that related to work done on behalf of ETR and were promptly re-billed to ETR. Subsequent to December 31, 2022, ETR repaid the full amount outstanding.

The aggregate value of share-based compensation during the year for directors and officers is as follows:

	2022	2021
Share based compensation to directors and officers	<b>\$ 148,399</b>	\$ 223,088

Loans to related parties:

On May 15, 2022, related party loans of \$48,119 and interest of \$453 were repaid to the Company. During the year ended December 31, 2021, directors and officers exercised 850,000 stock options for cash proceeds of \$85,000. The Company made a payroll remittance to the Canada Revenue Agency ("CRA"), and recorded the amounts as loans receivable, totalling \$48,119. The loans were payable on demand and had a one-year term at CRA prescribed interest rates, and were repaid in May 2022.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash investing and financing transactions during the year ended December 31, 2022 are as follows:

- a) A total flow-through share premium liability of \$163,558 was recorded as a deduction from share capital, in respect of flow-through shares issued by the Company;
- b) Qualifying exploration expenditures incurred during the period resulted in a \$163,558 reduction of the flow-through share premium liability, recorded as other income on settlement of flow through premium liability; and
- c) As at December 31, 2022, exploration and evaluation asset costs of \$135,519 were included in accounts payable and accrued liabilities.

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11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (continued)

The significant non-cash investing and financing transactions during the year ended December 31, 2021 were as follows:

- d) A total flow-through share premium liability of \$304,500 was recorded as a deduction from share capital, in respect of flow-through shares issued by the Company;
- e) Qualifying exploration expenditures incurred during the year resulted in a \$344,861 reduction of the flow-through premium liability, recorded as other income on settlement of flow through premium liability;
- f) The Company issued 27,600 finders' warrants valued at \$6,207 shown on the statements of changes in equity as an issuance cost;
- g) As at December 31, 2021, exploration and evaluation asset cost recoveries of \$99,273 were included in receivables; and
- h) As at December 31, 2021, exploration and evaluation asset costs of \$18,314 were included in accounts payable and accrued liabilities.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, deposits, net investment in sublease, accounts payable, lease liability and due from/to related parties. All financial instruments held by the Company are measured at amortized cost. Nevertheless, the fair values of these financial instruments approximate their carrying value due to their short-term maturities.

Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values, as follows:

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 cash equivalents are measured based on Level 1 inputs of the fair value hierarchy.

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

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 cash equivalents, receivables and net investment in sublease. The Company manages credit risk associated with its cash and cash equivalents by using reputable financial institutions, from which management believes the risk to be remote. Receivables primarily consist of recoverable Canadian sales and payroll taxes, Canadian mineral exploration tax credits and accrued interest, for which management assesses the collectability of these amounts to be assured.

Liquidity Risk

Liquidity risk is the risk that the Company will not meet its obligations associated with its financial liabilities as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's operations do not currently generate positive cash flows, and historically the Company has relied on equity financings, and to a lesser extent non-core asset sales, for its capital requirements. As at December 31, 2022, the Company has working capital of \$530,182. The existing liquidity will finance some of the 2023 exploration programs and the Company's working capital over the ensuing months, but additional financing will be required in 2023 to provide sufficient working capital and exploration funding for the balance of the year.

The Company will continue to depend upon equity capital as required and may also enter into convertible debentures, earn-in arrangements, joint ventures or the sale of certain property interests. However, there can be no assurance the Company will be able to complete future financings on acceptable terms. The ability of the Company to continue this course will depend, in part, on the prevailing market conditions and the market interest in financing the Company's mineral property exploration programs.

The following are the contractual maturities of financial liabilities as at December 31, 2022:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
Accounts payable and accrued liabilities	\$ 166,171	\$ 166,171	\$ 166,171	\$ -	\$ -
Lease liabilities	91,114	102,600	40,500	41,175	20,925
Due to related party	1,540	1,540	1,540	-	-
<b>Total</b>	<b>\$ 258,825</b>	<b>\$ 270,311</b>	<b>\$ 208,211</b>	<b>\$ 41,175</b>	<b>\$ 20,925</b>

Interest rate risk

The Company is not exposed to risk in the event of interest rate fluctuations. The Company has no long-term debt other than a lease liability and accordingly has not needed to enter into any interest rate swaps or other financial arrangements to mitigate exposure to interest rate fluctuations. The Company considers it is not subject to material risks should interest rates rise further.

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign currency risk

The Company's functional currency is the Canadian dollar and nominal amounts are in other currencies. To date, the Company has had no exposure to any foreign currency through its cash and cash equivalents, receivables, payables, or equity transactions. Management therefore considers the foreign exchange risk derived from currency conversions to be immaterial.

13. CAPITAL MANAGEMENT

The Company endeavors to maintain appropriate levels of capital and liquidity. Sufficient liquidity is required to meet liabilities and financial obligations as they become due. The Company has no commercial operations or source of revenue, no long-term debt other than a lease liability, and no externally imposed capital requirements other than those specified under continuous listing requirements. The Company's capital is its issued share capital. The capital required for operations and property exploration is expected to continue to come from the issuance of common shares or units, for the foreseeable future. The Company's objectives of capital and liquidity management are to fund critical exploration work, meet on-going liabilities, maintain creditworthiness, minimize shareholder dilution and to ultimately maximize returns for shareholders over the long term.

There were no changes in the Company's capital management objectives during the year ended December 31, 2022.

The Company is not subject to externally imposed capital requirements.

14. INCOME TAXES

*A reconciliation of income taxes at statutory rates with the reported taxes is as follows:*

	Years ended December 31,	
	2022	2021
Loss for the year	\$ (736,347)	\$ (1,647,746)
Expected income tax (recovery)	\$ (199,000)	\$ (445,000)
Change in statutory, foreign tax, foreign exchange rates and other	25,000	23,000
Permanent difference	26,000	83,000
Impact of flow-through shares	339,000	920,000
Share issuance costs	(4,000)	(10,000)
Adjustment to prior year provision verses statutory tax returns	(39,000)	(205,000)
Expiry of non-capital losses	-	-
Change in unrecognized deductible temporary differences	(148,000)	(366,000)
Total income tax expense (recovery)	\$ -	\$ -

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14. INCOME TAXES (continued)

*The significant components of the Company's deferred tax assets and liabilities are as follows:*

	2022	2021
Deferred Tax Assets (Liabilities):		
Exploration and evaluation assets	\$ (2,212,000)	\$ (1,905,000)
Non-capital losses	2,212,000	1,905,000
Net deferred tax liability	\$ -	\$ -

*The significant components of the Company's deferred tax assets and liabilities that have not been included on the statements of financial position are as follows:*

	2022	2021
Deferred Tax Assets (Liabilities):		
Exploration and evaluation assets	\$ -	\$ -
Property and equipment	(2,000)	6,000
Share issue costs	14,000	18,000
Allowable capital losses	28,000	28,000
Sublease and lease liability	(3,000)	2,000
Non-capital losses available for future periods	415,000	546,000
Unrecognized deferred tax assets	452,000 (452,000)	600,000 (600,000)
Net deferred tax assets	\$ -	\$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the statements of financial position are as follows:

	2022	Expiry dates	2021	Expiry dates
Temporary Differences:	\$		\$	
Exploration and evaluation assets	-	No expiry date	-	No expiry date
Investment tax credit	-	2021 to 2041	-	2021 to 2041
Property and equipment	(9,000)	No expiry date	23,000	No expiry date
Share issuance costs	53,000	2042 to 2045	66,000	2042 to 2045
Allowable capital losses	102,000	No expiry date	102,000	No expiry date
Sublease and lease liability	(13,000)	No expiry date	10,000	No expiry date
Non-capital losses available for future periods	1,536,000	2029 to 2041	2,023,000	2029 to 2041
Canada	1,536,000	2029 to 2041	2,023,000	2029 to 2041

Tax attributes are subject to review, and potential adjustment, by tax authorities.

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15. EVENTS AFTER THE REPORTING PERIOD

ETR repaid the Company \$51,725 owing as at December 31, 2022.