

**CMC METALS LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended September 30, 2015 and 2014**  
**(Expressed in Canadian Dollars)**



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CMC Metals Ltd.

We have audited the accompanying consolidated financial statements of CMC Metals Ltd., which comprise the consolidated statements of financial position as at September 30, 2015 and 2014, and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CMC Metals Ltd. as at September 30, 2015 and 2014, and its financial performance and its cash flow for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about CMC Metals Ltd's ability to continue as a going concern.

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
January 28, 2016

**CMC METALS LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars)

	Note	September 30, 2015	September 30, 2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 6,923	\$ 45,421
Receivables		2,552	4,786
Prepays		42,707	31,238
		<u>52,182</u>	<u>81,445</u>
<b>Non-current assets</b>			
Reclamation bonds	3	274,186	214,046
Exploration and evaluation assets	4	-	2,291,751
Property, plant and equipment	5	-	1,039,098
		<u>274,186</u>	<u>3,544,895</u>
<b>TOTAL ASSETS</b>		<b>\$ 326,368</b>	<b>\$ 3,626,340</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables and accrued liabilities	6	\$ 291,058	\$ 194,848
Due to related parties	12	52,675	16,571
Promissory note	7	929,762	740,657
Loans	8	842,092	834,883
Preferred shares	9	500,000	-
Provision for restoration and environmental obligations	10	50,000	-
		<u>2,665,587</u>	<u>1,786,959</u>
<b>Non-current liabilities</b>			
Preferred shares	9	-	500,000
Provision for restoration and environmental obligations	10	14,000	14,000
		<u>14,000</u>	<u>514,000</u>
<b>TOTAL LIABILITIES</b>		<b>2,679,587</b>	<b>2,300,959</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
Share capital	11	15,968,086	14,095,753
Obligation to issue shares	4	300,000	300,000
Share-based payment reserve		482,626	353,246
Deficit		(19,103,931)	(13,423,618)
<b>TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		<b>(2,353,219)</b>	<b>1,325,381</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		<b>\$ 326,368</b>	<b>\$ 3,626,340</b>

Commitments and contingency - Notes 4, 7, 8, 9, and 10

Subsequent events - Note 16

Approved on behalf of the Board:

*Jack Bal - Director*

Jack Bal - Director

*Michael C. Scholz - Director*

Michael C. Scholz - Director

See accompanying notes to the consolidated financial statements.

**CMC METALS LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars)

	Note	Year Ended September 30 2015	Year Ended September 30 2014
<b>EXPENSES</b>			
Consulting fees	12	\$ 225,265	\$ 195,422
Filing and transfer agent		38,766	33,123
Financing fee	8	10,000	-
Flow-through share related taxes and expenses		148,089	-
Interest expense	7, 8, 9	146,445	140,801
Investor communications		124,694	32,300
Office and miscellaneous	12	131,459	164,946
Professional fees		50,316	48,665
Property investigation costs		-	3,150
Rent	12	18,000	18,000
Stock-based compensation	11, 12	196,993	339,034
Travel		15,262	37,414
Wages		177,000	-
Impairment of exploration and evaluation assets	4	2,813,170	3,808,262
Impairment of property, plant, and equipment	5	1,562,925	-
		<u>(5,658,384)</u>	<u>(4,821,117)</u>
<b>OTHER ITEMS</b>			
Interest income		180	203
Miscellaneous income		3,637	-
Loss on foreign exchange		(103,108)	(113,468)
Reversal of flow-through share premium liabilities		19,325	-
		<u>(79,966)</u>	<u>(113,265)</u>
<b>COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>\$ (5,738,350)</b>	<b>\$ (4,934,382)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING -</b>			
<b>BASIC AND DILUTED</b>		<b>109,750,899</b>	<b>82,766,769</b>
<b>LOSS PER SHARE - BASIC AND DILUTED</b>		<b>\$ (0.05)</b>	<b>\$ (0.06)</b>

See accompanying notes to the consolidated financial statements.

**CMC METALS LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**  
(Expressed in Canadian dollars)

	Notes	Share capital		Subscription received (receivable)	Obligation to issue shares	Share-based payment reserve	Deficit	Total
		Number of shares	Amount					
<b>Balance at September 30, 2013</b>		63,273,646	\$ 12,687,835	\$ 252,000	\$ 300,000	\$ 49,182	\$ (8,538,418)	\$ 4,750,599
Comprehensive loss:								
Loss for the year		-	-	-	-	-	(4,934,382)	(4,934,382)
Total comprehensive loss for the year		-	-	-	-	-	(4,934,382)	(4,934,382)
Transactions with owners, in their capacity as owners, and other transfers:								
Shares issued for cash - private placement	11	21,315,000	1,117,250	(252,000)	-	-	-	865,250
Shares issued for cash - warrant exercise	11	8,110,000	405,500	-	-	-	-	405,500
Share issuance costs	11	-	(48,582)	-	-	14,212	-	(34,370)
Stock-based compensation	11	-	-	-	-	339,034	-	339,034
Reallocation of cancelled and expired options	11	-	-	-	-	(49,182)	49,182	-
Flow-through share liability	11	-	(66,250)	-	-	-	-	(66,250)
Total transactions with owners and other transfers		29,425,000	1,407,918	(252,000)	-	304,064	49,182	1,509,164
<b>Balance at September 30, 2014</b>		92,698,646	\$ 14,095,753	\$ -	\$ 300,000	\$ 353,246	\$ (13,423,618)	\$ 1,325,381
<b>Balance at September 30, 2014</b>		92,698,646	\$ 14,095,753	\$ -	\$ 300,000	\$ 353,246	\$ (13,423,618)	\$ 1,325,381
Comprehensive loss:								
Loss for the year		-	-	-	-	-	(5,738,350)	(5,738,350)
Total comprehensive loss for the year		-	-	-	-	-	(5,738,350)	(5,738,350)
Transactions with owners, in their capacity as owners, and other transfers:								
Shares issued for cash - private placement	11	35,247,500	1,631,500	-	-	-	-	1,631,500
Shares issued for cash - warrants exercise	11	2,420,000	128,200	-	-	-	-	128,200
Shares issued for cash - stock option exercise	11	2,750,000	193,043	-	-	(45,543)	-	147,500
Shares issued as bonus payment	8	200,000	10,000	-	-	-	-	10,000
Share issuance costs - cash	11	-	(54,443)	-	-	-	-	(54,443)
Share issuance costs - brokers' warrants	11	-	(35,967)	-	-	35,967	-	-
Reallocation of cancelled and expired options	11	-	-	-	-	(58,037)	58,037	-
Stock-based compensation	11	-	-	-	-	196,993	-	196,993
Total transactions with owners and other transfers		40,617,500	1,872,333	-	-	129,380	58,037	2,059,750
<b>Balance at September 30, 2015</b>		133,316,146	\$ 15,968,086	\$ -	\$ 300,000	\$ 482,626	\$ (19,103,931)	\$ (2,353,219)

See accompanying notes to the consolidated financial statements.

**CMC METALS LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars)

	Year ended September 30 2015	Year ended September 30 2014
<b>Operating activities</b>		
Net loss for the year	\$ (5,738,350)	\$ (4,934,382)
Adjustments for non-cash items:		
Accrued interest on promissory note	56,860	44,732
Accrued interest on loans	60,127	55,417
Amortization of preferred shares discount	-	40,652
Flow-through share related tax	148,089	-
Stock-based compensation	196,993	339,034
Loss on foreign exchange	72,105	-
Impairment of exploration and evaluation assets	2,813,170	3,808,264
Impairment of property, plant and equipment	1,562,925	-
Settlement of flow-through share premium liabilities	19,325	-
Financing Fee	10,000	-
Changes in non-cash working capital items:		
Receivables	2,234	(4,584)
Prepays	(11,469)	(20,821)
Trade payables and accrued liabilities	(103,321)	(94,556)
Due to related parties	36,074	(50,987)
<b>Net cash flows used in operating activities</b>	<b>(875,238)</b>	<b>(817,231)</b>
<b>Investing activities</b>		
Expenditures on exploration and evaluation assets	(467,122)	(396,205)
Property, plant and equipment	(495,396)	(361,807)
Reclamation bonds	-	(41,299)
<b>Net cash flows used in investing activities</b>	<b>(962,518)</b>	<b>(799,311)</b>
<b>Financing activities</b>		
Issuance (repayment) of loans	(53,499)	127,500
Proceeds on issuance of common shares - net of share issue costs	1,577,057	1,170,130
Proceeds on exercise of warrants	128,200	-
Proceeds on exercise of options	147,500	-
<b>Net cash flows provided by financing activities</b>	<b>1,799,258</b>	<b>1,297,630</b>
<b>Effect of foreign exchange</b>	<b>-</b>	<b>42,726</b>
Decrease in cash	(38,498)	(276,186)
Cash, beginning	45,421	321,607
<b>Cash, ending</b>	<b>\$ 6,923</b>	<b>\$ 45,421</b>

Supplemental disclosure with respect to cash flows - Note 15

See accompanying notes to the consolidated financial statements.

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

CMC Metals Ltd. (the “Company”) is incorporated in the Province of British Columbia and its principal activity is the acquisition and exploration of mineral properties in Canada and the United States of America. The Company is listed on the TSX Venture Exchange (“TSX-V”).

The head office, principal address and records office of the Company are located at 605 – 369 Terminal Avenue, Vancouver, British Columbia, Canada, V6A 4C4.

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at September 30, 2015, the Company had not advanced its properties to commercial production. The Company’s continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These uncertainties indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors, by continuing to pursue additional sources of financing through equity offerings, seeking joint venture partners to fund exploration, monitoring exploration activity and reducing overhead costs.

As a result of the Company not making the required principal, interest and extension fee on the Promissory Note (Note 7), the Promissory Note is in default as at September 30, 2015 and the date of the approval of these consolidated financial statements. The promissory Note is secured by a deed of trust related to the Radcliff Property (Note 4), the Company’s primary project. Within the going concern assertion it is presumed that the Company will be able to remedy the loan default and retain its interest in the Radcliff Property.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

The financial statements were authorized for issue on January 28, 2016 by the directors of the Company.

### **Statement of compliance**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

### **Basis of preparation**

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 0877887 B.C. Ltd. (“0877887 B.C.”), incorporated under the Business Corporations Act of British Columbia and CMC Metals Corp. which is incorporated in the State of California and is inactive.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

**CMC METALS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the years ended September 30, 2015 and 2014

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont'd)**

**Significant estimates and assumptions**

The preparation of consolidated financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of the carrying value of exploration and evaluation assets, and property, plant and equipment, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

**Significant judgments**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, apart from those requiring estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- The classification / allocation of expenditures as exploration and evaluation expenditures or operating expenses;
- The classification of financial instruments; and
- The determination of the functional currency of the parent company and its subsidiaries.

**Foreign currency translation**

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiaries.

*Transactions and balances:*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the exchange rate prevailing at the statement of financial position date. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.



**CMC METALS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the years ended September 30, 2015 and 2014

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont'd)**

**Exploration and evaluation assets**

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

**Restoration and environmental obligations**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the relating exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss. The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont'd)**

**Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment charges. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss in the period incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. Depreciation of the Bishop Mill will commence once the mill is capable of operating in a manner intended by management.

The Company's property, plant and equipment are 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 depreciation, if no impairment loss had been recognized.

**Share-based compensation**

Share-based payments to employees are measured at the fair value of the stock options granted and recognized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably estimated. The fair value of stock options is determined using the Black-Scholes Option Pricing Model, taking into account the terms and condition upon which stock options are granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options are expected to vest.

The share-based payment reserve records items recognized as share-based compensation expense such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options are forfeited or expired, the amount recorded is transferred to deficit.

**Financial instruments**

The Company initially recognizes loans and receivables, debt securities issued and subordinated liabilities on the date that they are originated. All other financial instruments (including assets and liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies its financial instruments into one of the five following categories: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont'd)

### Financial instruments (cont'd)

#### *Financial assets*

##### Fair value through profit or loss ("FVTPL")

Financial assets are classified at FVTPL when they are either held for trading or they are designated as FVTPL. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or, (iii) it is a derivative that is not designated and effective as a hedging instrument. Such assets are measured at fair value with changes in carrying value being included in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial assets. As at September 30, 2015, the Company does not have any financial assets classified as FVTPL.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method (the "EIM") less any allowance for impairment. Loans and receivables with maturities of 12 months or less are included in current assets; loans and receivables with maturities greater than 12 months after the end of the reporting period are classified as non-current assets. The EIM is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. As at September 30, 2015 the Company classifies cash and reclamation bond as loans and receivable.

##### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. Such assets are initially recognized at fair value, including transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the EIM less any allowance for impairment. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. As at September 30, 2015, the Company does not have any financial assets classified as held-to-maturity investments.

##### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not suitable to be classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments and are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for impairment losses and foreign currency differences on available-for-sale equity instruments. Available-for-sale assets are included in current assets. The Company does not have any financial assets classified as available-for-sale.

#### *Financial liabilities*

The Company classifies its financial liabilities into one of two categories:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities: This category includes promissory note, loans, preferred shares, amounts due to related parties and trade payables, all of which are recognized at amortized cost.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont'd)**

**Financial instruments (cont'd)**

***Derecognition of financial assets and liabilities***

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity are recognized as profit or loss.

Financial liabilities are derecognized when its contractual obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

***Impairment of financial assets***

The Company assesses at the end of each reporting period whether a financial asset is impaired.

***Assets carried at amortized cost***

For financial assets carried at amortized cost, except for trade and other receivables, where there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment and the amount of the loss is recognized in profit or loss.

Objective evidence of impairment includes, but is not limited to: (i) significant financial difficulty of the issuer or counter party, (ii) default or delinquency in interest or principal payments, or, (iii) the probability that the borrower will enter bankruptcy or financial re-organization.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

For trade and other receivables, where there is objective evidence that an impairment loss has been incurred, the loss amount is recognized through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. When the receivable amount is assessed as uncollectible, the impaired debt is written off against the allowance account.

***Available-for-sale***

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to profit or loss in the period. Evidence that impairment exists occurs when there is a significant or prolonged decline in the value of the financial asset.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont'd)

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

The carrying amount of the Company's tangible assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount is the greater of: (i) an asset's fair value less cost to sell, and (ii) its value in use. 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. For an individual asset that does not generate cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### **Share capital**

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

Proceeds received on the issuance of units, consisting of common shares and share purchase warrants are allocated between the common share and warrant component. The fair value of the common shares issued in the private placement was determined to be the more easily measurable component and was valued at its fair value, as determined by the closing bid price on the issuance date. The remaining proceeds, if any, would be allocated to the attached warrants. Any fair value attributed to the warrants is recorded as share-based payment reserved.

If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount is transferred to deficit. If and when the expiration date of such warrants is extended or the exercise price decreases, the Company does not record a charge for the incremental increase in fair value.

### **Loss per share**

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are 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.

### **Income tax**

#### ***Current income tax***

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont'd)**

**Income tax (cont'd)**

***Deferred income tax***

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

***Flow-through shares***

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through tax liability"). Upon renouncement by the Company of the tax benefits associated with the related expenditures, a flow-through share premium liability is recognized and the liability will be reversed as eligible expenditures are made. If such expenditures are capitalized, a deferred tax liability is recognized. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability.

**Accounting standards issued but not yet effective**

At the date of the approval of the consolidated financial statements, a number of standards and interpretations were in issue but not effective. The Company considers that these new standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

**3. RECLAMATION BONDS**

The reclamation bonds are held in trust for the Company at the Bank of Montreal and Bureau of Land Management. As at September 30, 2015, the reclamation bonds consist of deposits made by the Company for indemnification of site restoration as follows:

- \$14,000 (2014 - \$14,000) on the CK Property (a property terminated during the year ended September 30, 2009);
- \$4,000 (2014 - \$4,000) on the Wheelbarrow Property (a property terminated during the year ended September 30, 2010); and
- \$256,186 (2014 - \$196,046) on the Bishop Mill Property (Note 5).

**CMC METALS LTD.**

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**4. EXPLORATION AND EVALUATION ASSETS**

	Silver Hart Property	Radcliff Property	Total
<b>Acquisition costs</b>			
Balance, September 30, 2013	\$ 760,000	\$ 1,381,473	\$ 2,141,473
Impairment	(355,000)	-	(355,000)
Balance, September 30, 2014	405,000	1,381,473	1,786,473
<b>Exploration costs</b>			
Balance, September 30, 2013	3,400,342	146,995	3,547,337
Costs incurred during the year:			
Assaying	1,284	-	1,284
Contractors	59,094	199,042	258,136
Equipment rental	4,096	12,237	16,333
Field office	9,243	31,419	40,662
Other	-	21,829	21,829
Transportation and supplies (recovery)	(20,798)	93,756	72,958
	52,920	358,283	411,203
Impairment	(3,453,262)	-	(3,453,262)
Balance, September 30, 2014	-	505,278	505,278
<b>Total - September 30, 2014</b>	<b>\$ 405,000</b>	<b>\$ 1,886,751</b>	<b>\$ 2,291,751</b>
<b>Acquisition costs</b>			
Balance, September 30, 2014	\$ 405,000	\$ 1,381,473	\$ 1,786,473
Impairment	(405,000)	(1,381,473)	(1,786,473)
Balance, September 30, 2015	-	-	-
<b>Exploration costs</b>			
Balance, September 30, 2014	-	505,278	505,278
Costs incurred during the year:			
Assaying	-	2,169	2,169
Contractors	5,825	258,022	263,847
Environmental charges	50,000	-	50,000
Equipment rental	-	22,887	22,887
Field office (recovery)	(4,169)	29,356	25,187
Other	-	62,929	62,929
Transportation and supplies	2,541	91,859	94,400
	54,197	467,222	521,419
Impairment	(54,197)	(972,500)	(1,026,697)
Balance, September 30, 2015	-	-	-
<b>Total - September 30, 2015</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CMC METALS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**4. EXPLORATION AND EVALUATION ASSETS (cont'd)**

**Silver Hart Property**

On February 21, 2005, as amended on March 1, 2007, September 24, 2013, September 24, 2014 and September 24, 2015, the Company acquired a 100% interest in certain claims comprising the Silver Hart Property located in the Watson Lake Mining District, Yukon Territories from an arm's length individual who subsequently became a director and officer of the Company for a total of \$995,000 of which US\$270,000 remains unpaid as at September 30, 2015 (Note 8).

The Company was further required to issue 1,000,000 common shares by July 5, 2007. The Company did not issue the shares by the due date and the fair value of the shares at the time of \$300,000 was recorded as an obligation to issue shares, with a corresponding entry to exploration and evaluation assets. As at September 30, 2015, the Company has not yet issued these shares.

During the year ended September 30, 2014, the Company further impaired the Silver Hart Property to its estimated recoverable amount of \$405,000.

During the year ended September 30, 2015, the Company fully impaired the Silver Hart Property.

The Silver Hart Property is security for a loan due to a director of the Company (Note 8).

**Radcliff Property**

On March 1, 2011, and as amended November 15, 2011, the Company entered into a letter of intent with Pruett Ballart Inc. ("PBI"), to acquire up to a 50% interest in certain claims, comprising the Radcliff Property located in Inyo County, California. The Company acquired a 50% interest through cash payments of US\$400,000 (CDN\$394,158) and US\$50,000.

On December 19, 2011, the Company and PBI entered into an Acquisition Agreement (the "Acquisition Agreement") with WB Radcliff Inc. to acquire certain claims, located in California, which would comprise additions to the Company's Radcliff Property, for the following consideration:

- US\$100,000 (CDN\$100,000) (paid) upon execution of the Acquisition Agreement; and
- US\$900,000 upon closing of the Acquisition Agreement on April 16, 2012.

The Company and PBI agreed that the Company will pay for all of the consideration to acquire the additional claims. In consideration, the Company will be reimbursed the funds in excess of their required contribution from any future revenues which may be generated from the Radcliff Property.

On April 11, 2012, the Company paid US\$100,000 (CDN\$100,000) of the US\$900,000 due. The Company entered into a promissory note agreement (the "Promissory Note Agreement") to pay off the remaining \$800,000 (the "Promissory Note") (Note 7) and the Acquisition Agreement closed and the claims were title registered 50% to the Company.

The claims are subject to a 5% net smelter royalty ("NSR") upon receipt of net smelter returns from the commercial production of valuation minerals on the Radcliff Property. The Company and PBI shall pay the NSR on the commercial production on the Radcliff Property.

During the year ended September 30, 2015, the Company fully impaired the Radcliff Property.

The Radcliff Property is security for the Promissory Note, which is in default at September 30, 2015 and the date of the approval of these financial statements..



**CMC METALS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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For the years ended September 30, 2015 and 2014

**5. PROPERTY, PLANT AND EQUIPMENT**

Cost	Silver Hart equipment	Mill Property and related equipment	Total
Balance, September 30, 2013	\$ -	\$ 677,291	\$ 677,291
Additions	8,800	353,007	361,807
Balance, September 30, 2014	8,800	1,030,298	1,039,098
Additions	-	523,827	523,827
Impairment	(8,800)	(1,554,125)	(1,562,925)
Balance, September 30, 2015	\$ -	\$ -	\$ -

**Bishop Mill Property**

On March 19, 2010, and as completed on April 15, 2010, the Company entered into a sale and purchase agreement and acquired a 100% interest in certain claims, buildings, water rights and machinery, comprising the Bishop Mill Property located near Bishop, California. Subsequent to the purchase of the Bishop Mill Property, the Company has incurred additional costs to in order to bring the mill and equipment to use. As at September 30, 2015, the Bishop Mill was not capable of operating in a manner intended by management.

During the year ended September 30, 2015, the Company fully impaired the Bishop Mill Property.

**6. TRADE PAYABLES AND ACCRUED LIABILITIES**

	September 30, 2015	September 30, 2014
Trade payables	\$ 60,877	\$ 98,090
Accrued liabilities	35,167	31,833
Flow-through share related provision	148,089	-
Flow-through share premium liabilities (Note 11)	46,925	64,925
	\$ 291,058	\$194,848

During the year ended September 30, 2014, the Company issued flow-through shares for proceeds of \$331,250. The Company is required to use the proceeds on qualifying exploration activities in Canada. As of September 30, 2015, the Company has incurred qualifying expenditures of \$96,623 and the remainder was to be spent no later than December 31, 2014. As of September 30, 2015, the Company recorded a provision of \$148,089 (2014 - \$Nil) in connection with the non-compliance of the qualifying expenditure requirement.

**7. PROMISSORY NOTE**

On April 18, 2012, the Company entered into a Promissory Note Agreement (Note 4), whereby the Company agreed to pay the Promissory Note of US\$800,000 by June 15, 2012 subject to an interest rate of 7% per annum. On September 14, 2012, the Promissory Note was amended and the Company paid US\$150,000 (CDN\$150,150) towards the Promissory Note. On November 16, 2012, the Promissory Note was further amended as follows:

- US\$50,000 (CDN\$50,050 paid) due on execution of the amendment on November 16, 2012;
- US\$50,000 (CDN\$50,000 paid) due on or before February 28, 2013;
- US\$50,000 (CDN\$50,050 paid) due on or before April 30, 2013; and
- US\$500,000, and all accrued interest due on or before August 31, 2013.

In consideration of the amendments, the Company was required to pay a US\$50,000 (CDN\$50,775) extension fee (the "Extension Fee"), which was recorded in profit or loss during the year ended September 30, 2013. As at August 31, 2013, the Company did not make the payment of US\$50,000, and as a result the extension fee commenced bearing interest.

**CMC METALS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

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**7. PROMISSORY NOTE (cont'd)**

As of September 30, 2015, the outstanding Promissory Note includes a principal balance of US\$500,000 (CDN\$669,700) (2014 - US\$500,000 (CDN\$ 560,400)), an extension fee of US\$50,000 (CDN\$66,970) (2014 - US\$50,000 (CDN\$ 56,040)) and accrued interest of US\$158,087 (CDN\$193,092) (2014 - US\$110,829 (CDN\$124,217)). During the year ended September 30, 2015, the Company recorded interest expense of \$56,860 (2014 - \$46,820).

The Promissory Note is secured by a deed of trust covering the Radcliff Property.

As at September 30, 2015, the Promissory Note is in default. However, the Company has not been served with a default notice by the note holder and the note holder has not taken action to reclaim title to the Radcliff Property.

**8. LOANS**

As at September 30, 2015, pursuant to the acquisition of the Silver Hart Property (Note 5), a principal balance of \$270,000 (2014 - \$270,000) and extension fees totaling \$85,000 (2014 - \$85,000) is owing to a director of the Company. This amount is interest bearing at 8.5% per year. During the year ended September 30, 2015, the Company recorded interest expense of \$60,127 (2014 - \$55,417). Included in the loans, at September 30, 2015 is accrued interest of \$412,511 (2014 - \$352,383). The principal, extension fees and accrued interest are due on September 30, 2016 pursuant to an amendment agreement dated September 24, 2015. The Company has granted a first charge on the Silver Hart Property as security for the payments.

During the year ended September 30, 2014, a company controlled by a director of the Company advanced \$127,500 to the Company, which was payable on demand, bearing interest of 12% per annum. The Company repaid this amount during the year ended September 30, 2015.

During the year ended September 30, 2015, a company controlled by a director of the Company advanced \$304,300 to the Company of which \$74,000 plus accrued interest of \$581 is still outstanding as at September 30, 2015. Of the total outstanding \$62,500 is secured by a promissory note dated August 20, 2015, payable on demand and bearing interest at 15% per annum and \$11,500 is due on demand and is unsecured. During the year ended September 30, 2015, the Company recorded interest expense of \$26,250. In connection with the repayment terms of the loan, a bonus is payable to the company controlled by the director of 200,000 common shares of the Company an aggregate fair value of \$10,000.

During the year ended September 30, 2015, a company with a common director of the Company advanced \$160,000 to the Company of which the full amount was repaid as of September 30, 2015. The loans were payable on demand and bearing interest rate of 12% per annum. During the year ended September 30, 2015, The Company recorded interest expenses of \$3,207.

**9. PREFERRED SHARES**

The Company's subsidiary issued 5,000 Class A non-voting preferred shares (the "Class A preferred shares") at a price of \$100 per share, for total proceeds of \$500,000. Attached to these preferred shares is an annual non-cumulative preferred cash dividend of 4.5% of the total, payable annually on March 31 of each year. As at September 30, 2015, no dividends have been declared.

During the year ended September 30, 2015, the Company recorded interest expense of \$Nil (2014 - \$40,652).

**CMC METALS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**9. PREFERRED SHARES (cont'd)**

After April 9, 2015, redemption may be effected in whole or any number of the Class A preferred shares, if the Company is not insolvent at such time and that the redemption would not render the Company insolvent, as follows:

- Company: Upon giving no less than 10 days notice to the holders. If notice to redemption is given by the Company and holders of the Class A preferred shares fail to present and surrender the share certificates representing the shares called for redemption, the Company may deposit an amount sufficient to redeem the shares with any trust company or chartered bank of Canada and the holder will have no rights against the Company in respect of such shares except upon the surrender of certificates for such shares to receive payment; and
- Holder: Upon giving notice to the Company. The Company shall pay the holder within 30 days a redemption amount, in respect of each of the shares specified in the notice.

**10. RESTORATION AND ENVIRONMENTAL OBLIGATIONS**

The Company's provision for restoration and environmental obligations consists of costs accrued based on the current best estimate of reclamation activities that will be required on the CK Property terminated during the year ended September 30, 2009 and the Silver Hart Property fully impaired during the year ended September 30, 2015. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the reporting date and known legal requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

The asset retirement obligation for the CK Property is calculated as the net present value of the estimated future cash flows which are required to satisfy the obligation of \$14,000.

The asset retirement obligation for the Silver Hart Property is calculated as the estimated cost required to satisfy a current environmental obligation. As at September 30, 2015, the estimated cost required to settle the obligation is \$50,000.

**11. SHARE CAPITAL**

**Authorized**

Unlimited common shares, without par value

Unlimited Class A preferred share, non-voting, without par value

**Issued common shares**

On July 3, 2015, the Company issued 12,000,000 units, pursuant to a non-brokered private placement at \$0.05 per unit for gross proceeds of \$600,000. Each unit consisted of one common share and one share purchase warrant to purchase one additional common share of the Company at \$0.07 per share for a two year period expiring July 3, 2017. In connection with the private placement, the Company paid share issuance costs of \$33,788 and issued 675,750 brokers' warrants on the same terms and conditions as the 12,000,000 units. The fair value of the brokers' warrants of \$20,798 was allocated to the share-based payment reserve. The weighted average assumptions used for the Black-Scholes option pricing valuation of warrants were annualized volatility of 138.10%, risk-free interest rate of 0.48%, expected life of 2 years, and a dividend rate of Nil.

On June 15, 2015, the Company issued 300,000 common shares pursuant to the exercise of 300,000 warrants at \$0.05 per share for proceeds of \$15,000.

**CMC METALS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**11. SHARE CAPITAL (cont'd)****Issued common shares (cont'd)**

On June 8, 2015, the Company issued 10,160,000 units pursuant to a non-brokered private placement at \$0.05 per unit for gross proceeds of \$508,000. Each unit consisted of one common share and one share purchase warrant to purchase one additional common share of the Company at \$0.06 per share for a two year period expiring June 8, 2017. In connection with the private placement, the Company paid share issuance costs of \$13,175 and issued 263,500 brokers' warrants on the same terms and conditions as the 10,160,000 units. The fair value of the brokers' warrants of \$10,240 was allocated to the share-based payment reserve. The weighted average assumptions used for the Black-Scholes option pricing valuation of warrants were annualized volatility of 136.97%, risk-free interest rate of 0.63%, expected life of 2 years, and a dividend rate of Nil.

On May 21, 23 and June 10, 2015, the Company issued a total of 1,750,000 common shares pursuant to the exercise of 1,750,000 stock options at \$0.05 per share for proceeds of \$97,500.

On May 13, 2015, the Company issued 250,000 common shares pursuant to the exercise of 250,000 warrants at \$0.06 per share for proceeds of \$15,000.

On April 11, 2015, the Company issued 370,000 common shares pursuant to the exercise of 370,000 warrants at \$0.06 per share for proceeds of \$22,200.

On March 23, 2015, the Company issued 100,000 common shares pursuant to the exercise of 100,000 warrants at \$0.06 per share for proceeds of \$6,000.

On February 24, 2015, the Company issued 13,087,500 units pursuant to a non-brokered private placement at \$0.04 per unit for gross proceeds of \$523,500. Each unit consisted of one common share and one share purchase warrant to purchase one additional common share of the Company at \$0.05 per share during for a two year period expiring February 24, 2017. In connection with the private placement, the Company paid share issuance costs of \$7,480 and issued 187,000 brokers' warrants on the same terms and conditions as the 13,087,500 units. The fair value of the brokers' warrants of \$4,929 was allocated to the share-based payment reserve. The weighted average assumptions used for the Black-Scholes option pricing valuation of warrants were annualized volatility of 144.36%, risk-free interest rate of 0.46%, expected life of 2 years, and a dividend rate of Nil.

On February 24, 2015, the Company issued 1,000,000 common shares pursuant to the exercise of stock options at \$0.05 per share for proceeds of \$50,000.

On December 19, 2014, the Company issued 200,000 common shares with a fair value of \$10,000 pursuant to the issuance of bonus shares in connection with a related party loan (Note 8).

On October 30, 2014, the Company issued 1,000,000 common shares pursuant to the exercise of 1,000,000 warrants at \$0.05 per share for proceeds of \$50,000.

On October 16, 2014, the Company issued 400,000 common shares pursuant to the exercise of 400,000 warrants at \$0.05 per share for proceeds of \$20,000.

On September 25, 2014, the Company issued 500,000 common shares pursuant to the exercise of 500,000 warrants at \$0.05 per share for proceeds of \$25,000.

On September 9, 2014, the Company issued 1,210,000 common shares pursuant to the exercise of 1,210,000 warrants at \$0.05 per share for proceeds of \$60,500.

**CMC METALS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**11. SHARE CAPITAL (cont'd)****Issued common shares (cont'd)**

On July 16, 2014, the Company issued 1,800,000 common shares pursuant to the exercise of 1,800,000 warrants at \$0.05 per share for proceeds of \$90,000.

On July 9, 2014, the Company issued 2,000,000 common shares pursuant to the exercise of 2,000,000 warrants at \$0.05 per share for proceeds of \$100,000.

On June 10, 2014, the Company issued 100,000 common shares pursuant to the exercise of 100,000 warrants at \$0.05 per share for proceeds of \$5,000.

On April 10, 2014, the Company issued 5,150,000 units pursuant to a non-brokered private placement at \$0.06 per unit, for gross proceeds of \$309,000. Each unit consisted of one common share and one transferrable share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.10 per share during year one, and \$0.10 per share for a period of two years expiring April 10, 2016. No value has been allocated to the warrants. In connection with the private placement, the Company paid share issuance costs of \$18,720 and issued 288,000 brokers' warrants exercisable at \$0.10 per share for a two year period expiring April 10, 2016. The fair value of the brokers' warrants of \$14,212 was allocated to the share-based payment reserve. The weighted average assumptions used for the Black-Scholes option pricing valuation of warrants were annualized volatility of 146.37%, risk-free interest rate of 1.05%, expected life of 2 years, and a dividend rate of Nil.

On March 12, 2014, the Company issued 2,500,000 common shares pursuant to the exercise of 2,500,000 warrants at \$0.05 per share for proceeds of \$125,000.

On December 27, 2013, the Company issued 1,165,000 units pursuant to a non-brokered private placement at \$0.05 per unit for gross proceeds of \$58,250. Each unit consisted of one flow-through common share and one transferrable share purchase warrant entitling the holder thereof to purchase one additional common share of the Company at \$0.05 per share during year one, and \$0.10 per share during year two, expiring December 27, 2015. No value has been allocated to the warrants. A flow-through share premium liability of \$11,650 has been recorded in connection with the issuance of the flow-through shares.

On October 30, 2013, the Company issued 15,000,000 units pursuant to a non-brokered private placement at \$0.05 per unit, for gross proceeds of \$750,000, of which \$252,000 was received during the year ended September 30, 2013. 9,540,000 of the units consisted of one common share and one transferrable share purchase warrant and 5,460,000 of the units consisted of one flow-through common share and one transferrable share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.05 per share during year one, and \$0.10 per share during year two expiring October 30, 2015. No value has been allocated to the warrants. In connection with the private placement, the Company paid share issuance costs of \$15,650 and issued 40,000 brokers' warrants exercisable at \$0.05 per share during year one, and \$0.10 per share during year two expiring October 30, 2015. The fair value of the brokers' warrants was estimated to be immaterial. A flow-through share premium liability of \$54,600 has been recorded in connection with the issuance of the flow-through shares.

**Basic and diluted loss per share**

Diluted loss per share did not include the effect of shares to be issued for exercise of 8,950,000 stock options and 52,376,750 warrants as the effect would be anti-dilutive.

**11. SHARE CAPITAL (cont'd)**

**Stock options**

The Company follows the policies of the TSX-V under which it would be authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the policies, the exercise price of each option equals the market price or a discounted price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years. The Company calculated the fair value of all stock-based compensation awards as determined using the Black-Scholes Option Pricing Model.

During the year ended September 30, 2015, the Company granted 5,000,000 stock options, 1,000,000 of which exercisable at \$0.05 per share expiring February 24, 2017, an additional 1,000,000 of which exercisable at \$0.06 per share expiring June 10, 2017, and 3,000,000 of which exercisable at \$0.05 per share expiring April 15, 2017.

The 1,000,000 options exercisable at \$0.065 per share and the 1,000,000 options exercisable at \$0.06 per share were both immediately exercised. Management determined that the grant date fair value of these options was \$30,000 based on their implicit value as their expected life was zero. The fair value of the 3,000,000 options exercisable at \$0.05 per share was estimated to be \$131,741 using the Black-Scholes option pricing model.

During the year ended September 30, 2014, the Company granted 7,900,000 stock options exercisable at \$0.065 per share expiring no later than 2 years past the date of grant.

During the year ended September 30, 2015, the Company recognized \$196,933 (2014 - \$339,034) of share-based compensation which include the stock options of \$35,252 (2014- \$Nil) that were granted in the prior year and vested during the year.

The weighted average fair value of stock options granted during the year ended September 30, 2015 was \$0.047 and the weighted average life was 0.80 years. The following weighted average assumptions were used for the Black-Scholes Option Pricing Model in the valuation of stock options granted:

	September 30, 2015	September 30, 2014
Risk-free interest rate	0.56%	1.07%
Expected life	1.51 years	1.32 years
Annualized volatility	134%	147%
Dividend yield	0.00%	0.00%

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**11. SHARE CAPITAL (cont'd)**

**Stock options (cont'd)**

Stock option transactions are summarized as follows:

	Number of options	Weighted average exercise price
Balance, September 30, 2013	725,000	\$ 0.19
Options granted	7,900,000	0.065
Options expired	(725,000)	0.21
Options forfeited	(1,000,000)	0.065
Balance, September 30, 2014	6,900,000	\$0.065
Options granted	5,000,000	0.055
Options expired	(200,000)	0.065
Options forfeited	(2,750,000)	0.06
Number of options outstanding at September 30, 2015	8,950,000	\$ 0.06

As at September 30, 2015, the following stock options were exercisable:

Number of options	Exercise Price	Expiry Date
5,600,000	\$0.065	March 20, 2016
1,100,000	\$0.065	September 22, 2016
2,250,000	\$0.05	April 15, 2017
8,950,000		

**Warrants**

Warrant transactions are summarized as follows:

	Number of warrants	Number of shares receivable	Weighted average exercise price
Balance, September 30, 2013	4,900,000	4,900,000	\$0.12
Warrants exercised	(8,110,000)	(8,110,000)	0.05
Warrants issued	21,643,000	21,643,000	0.09
Balance, September 30, 2014	18,433,000	18,433,000	\$0.10
Warrants exercised	(2,420,000)	(2,420,000)	0.08
Warrants issued	36,373,750	36,373,750	0.06
Balance, September 30, 2015	52,386,750	52,376,750	\$0.07

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**11. SHARE CAPITAL (cont'd)****Warrants (cont'd)**

On November 5, 2014, the Company received TSX-V approval to amend the terms of the 4,900,000 the exercise price to \$0.06 per share from \$0.12 per share, with the expiration date being extended to the earlier November 30, 2015 or a 30 day period from the seventh calendar day after the Company's shares have closed with a trading price of \$0.08 per share for a consecutive 10 day period.

As at September 30, 2015, the following warrants were exercisable and outstanding:

Number of warrants	Exercise Price	Expiry Date
5,530,000	\$0.10	October 30, 2015 (subsequently expired, unexercised)
4,180,000	\$0.06	November 30, 2015 (subsequently expired, unexercised)
1,165,000	\$0.10	December 27, 2015 (subsequently expired, unexercised)
5,438,000	\$0.10	April 10, 2016
12,974,500	\$0.05	February 24, 2017
10,423,500	\$0.06	June 10, 2017
12,675,750	\$0.07	July 3, 2017
52,386,750		

As at September 30, 2015, the weighted average life of warrants is 1.19 years (2014 – 1.23 years).

**12. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- incurred management fees of \$Nil (2014 - \$30,000) to a former director of the Company which were recorded in exploration and evaluation assets;
- incurred rent of \$18,000 (2014 – \$18,000) to a company controlled by a director and officer of the Company;
- incurred secretarial fees of \$42,000 (2014 – \$45,059) to a company controlled by a director and officer of the Company which was recorded in office and miscellaneous;
- incurred consulting fees of \$60,000 (2014 - \$96,625) to directors of the Company;
- incurred interest expense of \$60,127 (2014 - \$55,417) to a director and officer of the Company, pursuant to the Silver Hart Property (Notes 4 and 7);
- incurred interest expenses of \$26,250 (2014- \$Nil) to a company controlled by a director and senior officer of the Company;
- incurred interest expenses of \$3,207 (2014 - \$Nil) to a company with a common director of the Company;
- issued Nil (2014 – 500,000) common shares of the Company to a former director of the Company for gross proceeds of \$Nil (2014 - \$25,000);
- issued 9,425,000 (2014 – 6,010,000) common shares of the Company to a director and officer of the Company for gross proceeds of \$400,500 (2014- \$315,500);
- issued 3,750,000 (2014 – 1,500,000) common shares of the Company to a company controlled by a director and officer of the Company for gross proceeds of \$187,500 (2014 – \$78,000), and
- issued 950,000 (2014 – Nil) common shares of the Company to a spouse of a director and officer of the Company for gross proceeds of \$38,000 (2014 – \$Nil).

At September 30, 2015, a total of \$52,645 (2014 - \$16,571) was owing to directors of the Company.

At September 30, 2015, \$74,000 (2014- \$127,500), was owing to a company controlled by a director and senior officer of the Company, payable on demand and bearing interest at 15% per annum.



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**12. RELATED PARTY TRANSACTIONS (cont'd)**

Amounts due to or from related parties are non-interest bearing, unsecured and have no fixed terms of repayment unless specifically disclosed.

The Company incurred the following key management compensation charges:

	September 30, 2015	September 30, 2014
Management fees – exploration and evaluation assets	\$ -	\$ 30,000
Consulting fees	60,000	77,950
Stock-based compensation	182,641	212,862
	<u>\$ 242,641</u>	<u>\$ 320,812</u>

**13. FINANCIAL RISK AND CAPITAL MANAGEMENT**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with one major bank in Canada. As most of the Company's cash is held in one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's secondary exposure to risk is on its other receivables and reclamation bonds. This risk is minimal as receivables consist primarily of refundable government goods and services taxes and the reclamation bonds are held with government authorities.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The Company has a working capital deficiency and the contractual maturities of all financial liabilities is less than one year.

***Foreign exchange risk***

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's is exposed to foreign exchange risk as it US subsidiary incurs expenditures that are denominated in US\$. US\$707,087 (2014 – US\$660,829) of the Company's loans are denoted in US\$. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fair value of the Company's cash accounts are relatively unaffected by changes in short term interest rates. The Company's debt has a fixed interest rate and is not affected by changes in interest rates.

**CMC METALS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**13. FINANCIAL RISK AND CAPITAL MANAGEMENT (cont'd)*****Classification of financial instruments***

Financial assets included in the statement of financial position are as follows:

	September 30, 2015	September 30, 2014
Loans and receivables:		
Cash	\$ 6,923	\$ 45,421
Reclamation bonds	274,186	214,046
	<u>\$ 281,109</u>	<u>\$ 259,467</u>

Financial liabilities included in the statement of financial position are as follows:

	September 30, 2015	September 30, 2014
Non-derivative financial liabilities:		
Trade payables	\$ 60,877	\$ 98,090
Due to related parties	52,675	16,571
Promissory note	929,762	740,657
Loans	842,092	834,883
Preferred shares	500,000	500,000
	<u>\$ 2,385,406</u>	<u>\$ 2,190,201</u>

***Capital Management***

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

**14. INCOME TAXES**

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	Year ended September 30, 2015	Year ended September 30, 2014
Loss before income taxes	\$ (5,738,350)	\$ (4,934,382)
Statutory tax rate	26.00%	26.00%
Expected income tax recovery	(1,491,971)	(1,282,939)
Permanent differences	883,682	88,149
Other differences	754,513	(342,010)
Impact of tax rate changes	-	-
Change in valuation allowance	(146,224)	1,536,800
Deferred income tax recovery	<u>\$ -</u>	<u>\$ -</u>

**CMC METALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**14. INCOME TAXES (cont'd)**

The Company has the following significant deductible temporary differences for which no deferred tax asset has been recognized:

	Year ended September 30, 2015	Year ended September 30, 2014
Exploration and evaluations assets	\$ 526,806	\$ 407,488
Other assets	551,674	410,218
Loss carry-forwards	1,061,597	1,489,772
Share issuance costs	19,992	14,882
	<u>2,160,069</u>	<u>2,322,360</u>
Valuation allowance	(2,160,069)	(2,322,360)
Deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

The tax pools relating to these deductible temporary differences expire as follows:

	Other assets	Exploration and evaluation assets	Loss carry-forwards	Share issuance costs
2016	\$ -	\$ -	\$ -	\$ 22,565
2017	-	-	125,235	22,565
2018	-	-	-	20,605
2019	-	-	-	10,889
2027	-	-	166,147	-
2028	-	-	212,533	-
2029	-	-	345,278	-
2030	-	-	617,625	-
2031	-	-	166,149	-
2032	-	-	274,078	-
2033	-	-	350,983	-
2034	-	-	752,898	-
2035	-	-	1,072,140	-
No expiry	<u>2,122,000</u>	<u>1,974,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,122,000</u>	<u>\$ 1,974,000</u>	<u>\$ 4,083,066</u>	<u>\$ 76,624</u>

**15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the year ended September 30, 2015 consisted of:

- a) The Company issued the brokers' warrants in relation to the private placements closed during the year and the fair value of the brokers' warrants of \$35,968 was allocated to share-based payment reserve.
- b) The Company reallocated \$45,543 from share-based payment reserve to share capital for the stock options that were exercised.
- c) The Company reallocated \$58,037 from share-based payment reserve to deficit for the forfeited stock options.

No significant non-cash transactions occurred for the year ended September 30, 2014.

**16. SUBSEQUENT EVENTS**

During the period October 1<sup>st</sup>, 2015 to October 22, 2015, a director of the Company advanced a further \$96,000 to the Company which is unsecured and due on demand.