

**CMC METALS LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended September 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CMC Metals Ltd.

### Opinion

We have audited the consolidated financial statements of CMC Metals Ltd. (the "Company"), which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### 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 is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or condition that 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.

### Other Information

Management is responsible for the other information. The other information comprises the information included in 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 identified above 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. 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 International Financial Reporting Standards, 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.

(cont'd...)

## **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 Rakesh Patel.

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**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, Canada  
January 26, 2021



An independent firm  
associated with Moore  
Global Network Limited

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

	Note	September 30, 2020	September 30, 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 300,610	\$ 344,635
Receivables	4, 17	105,421	10,078
Prepays and deposit		30,508	31,450
		<u>436,539</u>	<u>386,163</u>
<b>Non-current assets</b>			
Reclamation bond	3	258,228	256,370
Equipment	5	-	4,380
		<u>258,228</u>	<u>260,750</u>
<b>TOTAL ASSETS</b>		<b>\$ 694,767</b>	<b>\$ 646,913</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables and accrued liabilities	7	\$ 228,739	\$ 102,389
Due to related parties	12	61,604	141,833
Loans - current	8, 12	-	1,091,175
Preferred shares	9	500,000	500,000
Provision for restoration and environmental obligation	10, 16	146,070	146,000
Deferred premium on flow-through shares	7, 11	-	37,865
		<u>936,413</u>	<u>2,019,262</u>
<b>Non-Current liabilities</b>			
Loan - non-current	8	21,065	-
<b>TOTAL LIABILITIES</b>		<u>957,478</u>	<u>2,019,262</u>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	11	20,654,620	19,220,318
Subscriptions received in advance	11	2,500	-
Share-based payment reserve	11	611,437	300,972
Deficit		(21,531,268)	(20,893,639)
<b>TOTAL SHAREHOLDERS' DEFICIENCY</b>		<u>(262,711)</u>	<u>(1,372,349)</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		<b>\$ 694,767</b>	<b>\$ 646,913</b>

**Nature and continuance of operations** - Note 1

**Commitments** - Note 4

**Subsequent events** - Note 17

**Approved on behalf of the Board:**

*"Kevin Brewer"*

Kevin Brewer - President/CEO

*"Morgan Pickering"*

Morgan Pickering - Chief Financial Officer

See accompanying notes to the consolidated financial statements.

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

		Year Ended September 30,	
	Note	2020	2019
<b>EXPENSES</b>			
Amortization	5	\$ 4,508	\$ 3,192
Consulting fees		123,653	1,320
Exploration expenditures, net	4, 12	659,757	483,876
Filing and transfer agent		23,706	34,143
Financing fee		1,461	910
Flow-through share related tax		-	2,566
Interest expense	8	1,586	86,133
Marketing		9,000	(4,633)
Office and miscellaneous	12	104,800	64,186
Professional fees		31,501	23,480
Rent	12	18,000	18,000
Stock-based compensation	11	-	75,000
Travel		10,765	24,589
		<u>(988,737)</u>	<u>(812,762)</u>
<b>OTHER ITEMS</b>			
Investment income (loss)	6	-	(18,463)
Other income (loss)		(55)	28,108
Gain (loss) on foreign exchange		1,534	(6,052)
Flow-through share premium reversal		-	32,355
Recovery of flow-through related provision	7	37,865	298,003
		<u>39,344</u>	<u>333,951</u>
<b>COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>\$ (949,393)</b>	<b>\$ (478,811)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING -</b>			
<b>BASIC AND DILUTED</b>		<b>51,085,037</b>	<b>19,049,688</b>
<b>NET LOSS PER SHARE - BASIC AND DILUTED</b>		<b>\$ (0.02)</b>	<b>\$ (0.03)</b>

See accompanying notes to the consolidated financial statements.

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

	Notes	Share capital		Subscriptions received in advance	Share-based payment reserve	Deficit	Total
		Number of shares	Amount				
<b>Balance at September 30, 2018</b>		18,128,055	\$ 18,608,267	\$ -	\$ 129,400	\$ (20,414,828)	\$ (1,677,161)
Comprehensive Loss:							
Net loss for the year		-	-	-	-	(478,811)	(478,811)
Total comprehensive loss for the year		-	-	-	-	(478,811)	(478,811)
Transactions with owners, in their capacity as owners, and other transfers:							
Shares issued for cash	11	13,922,000	801,430	-	-	-	801,430
Share issuance costs	11	-	(22,587)	-	-	-	(22,587)
Stock-based payments compensation	11	1,500,000	75,000	-	-	-	75,000
Flow-through share premium	11	-	(70,220)	-	-	-	(70,220)
Fair value allocated to warrants	11	-	(171,572)	-	171,572	-	-
Total transactions with owners and other transfers		15,422,000	612,051	-	171,572	-	783,623
<b>Balance at September 30, 2019</b>		33,550,055	19,220,318	-	300,972	(20,893,639)	(1,372,349)
Comprehensive Loss:							
Net loss for the year		-	-	-	-	(949,393)	(949,393)
Total comprehensive loss for the year		-	-	-	-	(949,393)	(949,393)
Transactions with owners, in their capacity as owners, and other transfers:							
Gain on settlement of debts	8,11	-	-	-	-	311,764	311,764
Share issuance for settlement of debts	8, 11	15,588,210	779,411	-	-	-	779,411
Share issuance for cash	11	17,207,120	965,356	-	-	-	965,356
Subscriptions received in advance	11	-	-	2,500	-	-	2,500
Fair value allocated to warrants	11	-	(410,355)	-	410,355	-	-
Reallocation on exercise of warrants	11	-	99,890	-	(99,890)	-	-
Total transactions with owners and other transfers		32,795,330	1,434,302	2,500	310,465	311,764	2,059,031
<b>Balance at September 30, 2020</b>		66,345,385	\$ 20,654,620	\$ 2,500	\$ 611,437	\$ (21,531,268)	\$ (262,711)

See accompanying notes to the consolidated financial statements.

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

	Year Ended September 30, 2020	Year Ended September 30, 2019
<b>Operating activities</b>		
Net loss for the year	\$ (949,393)	\$ (478,811)
Adjustments for non-cash items:		
Amortization	4,508	3,192
Accrued interest on promissory note and loans	1,586	86,133
Recover of flow-through share related provision	-	(298,003)
Gain on marketable securities	-	18,463
Stock-based compensation	-	75,000
Flow-through share premium reversal	(37,865)	(32,355)
Changes in non-cash working capital items:		
Receivables	(75,864)	(6,931)
Prepays and deposit	942	(7)
Trade payables and accrued liabilities	126,350	(23,256)
Due to related parties	(80,229)	59,055
<b>Net cash used in operating activities</b>	<u>(1,009,965)</u>	<u>(597,520)</u>
<b>Financing activities</b>		
Issuance of debts	-	121,472
Sales proceeds on disposal of marketable securities	-	42,537
Proceeds on issuance of common shares	965,356	778,843
Subscriptions received in advance	2,500	-
<b>Net cash provided by financing activities</b>	<u>967,856</u>	<u>942,852</u>
Effect of foreign exchange	(1,916)	(4,800)
Change in cash	(44,025)	340,532
Cash, beginning	344,635	4,103
<b>Cash, ending</b>	<u>\$ 300,610</u>	<u>\$ 344,635</u>

Supplemental disclosure with respect to cash flows- Note 15

See accompanying notes to the consolidated financial statements.

**CMC METALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
For the years ended September 30, 2020 and 2019

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**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 of September 30, 2020, 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations cannot be reasonably estimated at this time. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about by the pandemic’s impact on its business, results of operations, financial position and cash flows in the future.

The financial statements were authorized for issue on January 26, 2021 by the directors of the Company.

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

**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.



## **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 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.

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 expensed as incurred.

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

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

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

### Restoration and environmental obligations (cont'd)

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.

### 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 expensed as incurred.

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

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.

### Equipment

Equipment is 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.

Amortization for the Equipment is calculated as below:

	Rate	Method
Vehicle	Straight line	Over 4 years

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 depreciation, if no impairment loss had been recognized.

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

**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 following is the Company’s accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL. The Company’s financial instruments are classified as follows:

<u>Financial Instruments</u>	<u>Classification</u>
Cash	Amortized cost
Receivables	Amortized cost
Reclamation bond	Amortized cost
Trade payables	Amortized cost
Due to related parties	Amortized cost
Loans	Amortized cost

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in Other Comprehensive Income (“OCI”). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

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

### **Financial instruments (cont'd)**

#### (iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

#### (iv) Derecognition

##### Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

##### Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in profit or loss.

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 in the share-based payment reserve.

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. The calculation of basic and diluted earnings per share for all periods presented is adjusted retrospectively when the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split.

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

### **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.

#### ***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.

### **Contingent liabilities**

Provisions are recognized when a present obligation exists (legal or constructive), as a result of a past event, for which it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the consolidated balance sheet date, measured using the expected cash flows discounted for the time value of money. The increase in provision (accretion) due to the passage of time is recognized as a finance cost in the consolidated statements of income. Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the entity's control, or present obligations that are not recognized because it is not probable that an outflow of economic benefits would be required to settle the obligation or the amount cannot be measured reliably. Contingent liabilities are not recognized but are disclosed and described in the notes to the consolidated financial statements, including an estimate of their potential financial effect and uncertainties relating to the amount or timing of any outflow, unless the possibility of settlement is remote.

### **Recent accounting pronouncements**

The following new standards are effective during the year ended September 30, 2020:

IFRS 16 *Leases* requires entities to recognize lease assets and lease obligations on the balance sheet. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead leases are "capitalized" by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligations to make future lease payments. This standard is effective for reporting periods beginning on or after January 1, 2019. The Company does not have any leases.

There are no other standards, amendments to standards and interpretations that are expected to have a material impact on the Company.

**CMC METALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
For the years ended September 30, 2020 and 2019

**3. RECLAMATION BOND**

The Company has a reclamation bond held in trust by the Bureau of Land Management. As of September 30, 2020, the reclamation bond consists of a deposit of \$258,228 (2019 - \$256,370) made by the Company for indemnification of site restoration of the Company's Bishop Mill Property (Note 4).

**4. EXPLORATION AND EVALUATION ASSETS**

	Silver Hart Property	Bishop Mill Property	Blue Heaven Property	Total
<b>Acquisition costs</b>				
Balance, September 30, 2018, 2019 and 2020	\$ -	\$ -	\$ -	\$ -
<b>Exploration costs</b>				
Balance, September 30, 2018	\$ -	\$ -	\$ -	\$ -
Costs incurred during the year:				
Assaying	18,472	-	-	18,472
Contractors (Note 12)	96,231	-	-	96,231
Clean up costs	-	115,236	-	115,236
Field office	28,975	-	-	28,975
Drilling	175,491	-	-	175,491
Transportation and supplies	11,359	-	-	11,359
Travel expenses	38,112	-	-	38,112
	368,640	115,236	-	483,876
Exploration expenditures	(368,640)	(115,236)	-	(483,876)
Balance - September 30, 2019	\$ -	\$ -	\$ -	\$ -
Costs incurred during the year:				
Assaying	25,715	-	-	25,715
Contractors (Note 12)	435,295	-	7,500	442,795
Clean up costs	-	78,545	-	78,545
Drilling	(44,865)	-	-	(44,865)
Field office	44,947	-	-	44,947
Travel expenses	5,616	-	-	5,616
Road construction and exploration trenching	127,358	-	-	127,358
Transportation and supplies	40,167	-	-	40,167
	634,233	78,545	7,500	720,278
Government credit	(40,000)	-	-	(40,000)
Government loan (Note 8)	(20,521)	-	-	(20,521)
Exploration expenditures	(573,712)	(78,545)	(7,500)	(659,757)
<b>Balance - September 30, 2020</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Silver Hart Property**

On February 21, 2005, 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 individual who subsequently became a director and officer of the Company for a total of \$995,000. The Company's remaining and additional obligation for the consideration was settled by the issuance of a loan (the "Silver Hart Property Loan") (Note 8).

The Company fully impaired the Silver Hart Property in previous years and all ongoing exploration costs are expensed as incurred.

During the year ended September 30, 2020, the Company entered into a Yukon Mineral Exploration Transfer Payment Program Agreement with the Yukon Geological Survey ("YG") for a one-time financial assistance to assist with the costs of an exploration program related to the Silver Hart Property. The YG agreed to contribute up to a maximum of \$40,000 (the "Government Credit") towards eligible exploration expenditures which are, in the opinion of YG, reasonable and directly attributable to the Silver Hart

#### **4. EXPLORATION AND EVALUATION ASSETS (Cont'd)**

##### **Silver Heart Property**

Property project and incurred from April 1, 2020 until March 31, 2020. During the year ended September 30, 2020, the Company incurred the eligible exploration expenditures and, therefore, recorded the \$40,000 Government Credit in receivables and as a reduction to the cumulative costs incurred on the Silver Hart Property. Subsequent to September 30, 2020, the Government Credit was received in full.

The Contribution was made available on certain terms and conditions, and in reliance on attestations made by the Company in the agreement. Non-compliance with the terms and conditions may result in termination, withholding by the YG of some or all of the Government Credit or repayment of all or part of the Government Credit. The amount demanded for repayment shall bear interest beginning on the due date and ending on the day before the day on which payment is received by YG. To September 30, 2020 and subsequently, the Company has not received notification of non-compliance.

##### **Blue Heaven Property**

On June 1, 2020, the Company entered into a Property Option Agreement with Strategic Metals Ltd. ("Strategic") to acquire up to a 100% interest in certain claims comprising the Blue Heaven Property located in the Rancheria Silver District, Yukon Territories.

The Company has the option to acquire an 80% interest (the "First Option") for the following consideration payments:

- \$7,500 upon execution of the Agreement (paid);
- An additional \$30,000 on or before June 1, 2021;
- An additional \$62,500 on or before June 1, 2022;
- An additional \$125,000 on or before June 1, 2023; and
- An additional \$175,000 on or before June 1, 2024.

Upon completion of the First Option payments, the Company and Strategic will enter into a joint venture to pursue the exploration, development, construction and mining of the Blue Heaven Property. The Company will be the initial operator of the joint venture and remain for as long as its interest is equal to or exceeds 50%.

The Company has the option to acquire a further 20% interest (the "Second Option") by payment of \$500,000 on or before November 28, 2024. Upon completion of the Second Option payment, the Company will be deemed to have acquired a 100% interest in the Blue Heaven Property.

The Blue Heaven Property is subject to a 2% net smelter royalty ("NSR"). The Company has the option to acquire one-half, being 1%, of the NSR for \$1,000,000.

##### **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 continued to incur additional costs in order to bring the mill and equipment to use. As at September 30, 2020, the Bishop Mill was not capable of operating in a manner intended by management. During the year ended September 30, 2020, the Company incurred \$78,545 (2019 - \$115,236) in clean-up costs on the Bishop Mill Property.

The Company fully impaired the Bishop Mill Property in previous years and all ongoing exploration costs are expensed as incurred.

**CMC METALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
For the years ended September 30, 2020 and 2019

**5. EQUIPMENT**

	Vehicle
Balance, September 30, 2018	\$ 8,543
Amortization for the year	(3,192)
Foreign exchange	(971)
Balance, September 30, 2019	4,380
Amortization for the year	(4,508)
Foreign exchange	128
Balance, September 30, 2020	\$ -

**6. INVESTMENT**

During the year ended September 30, 2018, the Company received a total of 200,000 common shares of MGX Minerals Ltd. ("MGX") in consideration for the rental of a floatation plant on the Silver Hart Property up to April 30, 2019. The investment was initially measured at a fair value of \$183,000 at initial recognition and recorded as a recovery of exploration and evaluation costs. During the year ended September 30, 2019, the Company sold its remaining investment of 100,000 MGX shares with a fair value of \$61,000 for proceeds of \$42,537 and realized a loss on sale of \$18,463.

**7. TRADE PAYABLES AND ACCRUED LIABILITIES**

	September 30, 2020	September 30, 2019
Trade payables	\$ 228,739	\$ 102,389

During the year ended September 30, 2019, the Company satisfied all previously recorded flow-through share related provisions and recorded a recovery of \$298,003.

**8. LOANS**

***Silver Hart Property Loan***

As consideration for the Silver Hart Property, a balance of \$270,000 remained unpaid as at September 30, 2019 to a significant shareholder of the Company (Note 4). The unpaid balance was secured by a loan, as last amended on September 24, 2018, was due on September 30, 2019 and was interest bearing at a rate of 8.5% per annum. On September 30, 2019, the principal balance, accrued interest and extension fees for amendments amounted to \$917,000.

On November 20, 2019, the Company extinguished the Silver Hart Property Loan by issuance of common shares (Note 11).

***Promissory Notes***

During the year ended September 30, 2019, the Company entered into Promissory Notes totalling \$155,500 with a company controlled by a former director and officer of the Company, which Notes are payable on demand with interest at 18% per annum. To September 30, 2019 the principal balance and accrued interest amounted to \$174,175.

On November 20, 2019, the Company settled the Promissory Notes by issuance of a common shares (Note 11).



**CMC METALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
For the years ended September 30, 2020 and 2019

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**8. LOANS (Cont'd)**

***Regional Relief and Recovery Fund Loan***

During the year ended September 30, 2020, the Company applied for a \$40,000 loan from Her Majesty the Queen in Right of Canada as represented by the Minister responsible for Western Economic Diversification Canada (the "Minister"), pursuant to the Regional Relief and Recovery Fund ("RRRF") program (the "RRRF Loan"). The RRRF Loan was made available on certain terms and conditions, and in reliance on attestations made by the Company in the loan agreement and received in full subsequent to year end.

The RRRF Loan is an interest-free loan, available to the Company until December 31, 2020. On January 1, 2021, the RRRF Loan will be converted to a 3-year, 0% interest term loan, to be repaid by December 31, 2022. If the Company repays \$30,000 by December 31, 2022, a balance of \$10,000 will be forgiven. If on December 31, 2022, the Company has not repaid the \$30,000, it may exercise the option for a 3-year term extension and, accordingly, a 5% interest rate will be applied during this extension period on any balance remaining.

The funds from the RRRF Loan may only be used by the Company to pay non-deferrable operating expenses including, without limitation, payroll, rent, utilities, insurance, property tax and regularly scheduled debt service, and may not be used to fund any payments or expenses such as prepayment/refinancing of existing indebtedness, payments of dividends, distributions and increases in management compensation. As such, the government grant was amortized and recognized in the statement of loss and comprehensive loss over the year ending September 30, 2020; the period in which the Company recognized the related expenditures for which the balances were intended to compensate.

Upon initial receipt, the Company recorded the RRRF Loan at a fair value of \$19,478, based on a prevailing market rate of 17%. The Company recorded the result of the benefit received from the interest-free RRRF Loan of \$10,522 as a government grant. The portion of the forgivable RRRF Loan of \$10,000 was also treated as a government grant, given reasonable assurance that the Company will meet the terms for forgiveness of the loan.

During the year ended September 30, 2020, the government grant of \$10,522 has been amortized and recognized in the statement of loss and comprehensive loss. To September 30, 2020, the Company has recorded \$1,586 in interest on the RRRF Loan.

**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. To September 30, 2020, no dividends have been declared.

After April 9, 2015, redemption may be affected 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-day 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 Bishop Mill Property (Note 3) and Silver Hart Property (Note 4), which properties were both fully impaired during the year ended September 30, 2015.

The Company is subject to a claim made by the Government of the Yukon Territory related to the remediation of the Silver Hart mineral property pursuant to its exploration program. 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 Company has accrued a provision of \$146,070 (2019 - \$146,000) by way of estimating its obligation to remediate the claim. This liability is secured by a Letter of Credit ("LOC") guaranteed by a third party (Note 12).

**CMC METALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
For the years ended September 30, 2020 and 2019

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**11. SHARE CAPITAL**

**Authorized**

Unlimited common shares, without par value

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

**Issued common shares**

As at September 30, 2020 - 66,345,385 (2019 – 33,550,055) common shares are issued and outstanding.

*Year ended September 30, 2020*

On November 20, 2019, the Company issued a total of 15,588,210 common shares at a fair value of \$779,411 for settlement of debt totaling \$1,091,175, to a significant shareholder of the Company, in settlement of the Silver Hart Property Loan and Promissory Notes (Note 8). Accordingly, the Company recorded a gain on settlement of debt of \$311,764.

On June 4, 2020, the Company completed a non-brokered private placement of a total of 8,000,000 units at \$0.0375 per unit, for gross proceeds of \$300,000. Each unit consists of one common share and one transferrable share purchase warrant exercisable for a one-year period at \$0.05 per share expiring June 4, 2021. A fair value of \$253,330 was allocated to the 8,000,000 warrants using the Black-Scholes Option Pricing Model with the following assumptions: risk free interest rate – 0.27%; annual dividends - nil; expected life - 12 months; expected stock price volatility- 129%.

On July 27, 2020, the Company completed a non-brokered flow-through private placement of a total of 6,000,000 units at \$0.08 per unit, for gross proceeds of \$480,000. Each unit consists of one common share and one transferrable share purchase warrant exercisable on a 2:1 basis for a one-year period at \$0.10 per share expiring July 27, 2021. A fair value of \$157,025 was allocated to the 6,000,000 warrants using the Black-Scholes Option Pricing Model with the following assumptions: risk free interest rate – 0.27%; annual dividends - nil; expected life - 12 months; expected stock price volatility- 119%. On issuance, the Company determined there was no flow-through share premium.

During the year ended September 30, 2020, the Company issued 3,207,120 common shares for proceeds of \$185,356 pursuant to the exercise of warrants. Accordingly, the Company reallocated \$99,890 from share-based payment reserve to share capital upon exercise of such warrants.

To September 30, 2020, the Company received \$2,500 in advance for warrants exercised subsequent to year end (Note 17).

*Year ended September 30, 2019*

On September 5, 2019, the Company completed a non-brokered private placement of a total of 8,400,000 units at \$0.05 per unit, for gross proceeds of \$420,000. Each unit consists of one common share and one transferrable share purchase warrant exercisable for a two-year period at \$0.075 per share expiring September 5, 2021. A fair value of \$171,572 was allocated to the 8,400,000 warrants using the Black-Scholes Option Pricing Model with the following assumptions: risk free interest rate – 1.05%; annual dividends - nil; expected life - 24 months; expected stock price volatility- 130%.

On September 9, 2019, the Company completed a non-brokered flow-through private placement of a total of 7,022,000 common shares at \$0.065 per share, for gross proceeds of \$456,430. On issuance, the Company bifurcated the flow-through shares into i) a flow-through share premium of \$70,220 that investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital of \$386,210. To September 30, 2019, the Company expensed \$210,308 in eligible exploration expenditures and accordingly, the flow-through liability was reduced to \$37,865. During the year ended September 30, 2020, the Company has expensed a further \$246,122 in eligible exploration expenditures and accordingly, the flow-through liability was reduced to \$Nil.

The Company paid finders fees of \$22,587 relating to the private placements.

Included in the private placement financings completed during the year ended September 30, 2019 were 1,500,000 common shares with an aggregate value of \$75,000 that were issued to consultants and recorded to stock-based compensation.

**CMC METALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
For the years ended September 30, 2020 and 2019

**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 years ended September 30, 2020 and 2019, the Company did not grant any stock options and there were no options issued and outstanding.

**Share-based payment reserve:**

The share-based payment reserve records items recognized as share-based payments, expenses, and other share-based payments until such time that the stocks options or warrants are exercised at which time the corresponding amount will be transferred to share capital.

**Warrants**

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercised price
Balance, September 30, 2018	-	\$ -
Warrants issued	8,400,000	0.075
Balance, September 30, 2019	8,400,000	0.075
Warrant issued	14,000,000	0.071
Warrants exercised	(3,207,120)	0.058
Balance, September 30, 2020	19,192,880	\$0.075

As of September 30, 2020, there were 7,400,000 warrants exercisable at \$0.075 expiring on September 5, 2021, 5,792,880 warrants exercisable at \$0.05 expiring on June 4, 2021, and 6,000,000 warrants on a 2:1 basis exercisable at \$0.10 expiring on July 27, 2021 remained unexercised.

**12. RELATED PARTY TRANSACTIONS**

The Company entered the following transactions with related parties:

- a) incurred rent of \$18,000 (2019 – \$18,000) to a company controlled by a significant shareholder of the Company.
- b) incurred secretarial fees of \$34,800 (2019 – \$46,800) to a company controlled by a significant shareholder of the Company which was recorded in office and miscellaneous.
- c) incurred consulting fees in contractors of the exploration and evaluation expenditures of \$244,265 (2019 - \$18,500) to a director or a company controlled by a director and officer of the Company.

On September 30, 2020, a total of \$56,073 (2019 - \$141,833) was owing to directors of the Company.

On September 30, 2020, a total of \$5,531 (2019 - \$1,091,175) was owing to a significant shareholder of the Company.

On September 30, 2020, the LOC secured for the provision for restoration and environmental obligation (Note 10) is guaranteed by companies controlled by a significant shareholder of the Company.

### **13. FINANCIAL RISK AND CAPITAL MANAGEMENT**

The fair value of the Company's financial assets and liabilities approximates its carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. 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 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 bond. This risk is minimal as receivables consist primarily of refundable government goods and services taxes and the reclamation bond 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 at September 30, 2020 and the contractual maturities of all financial liabilities is less than one year. Liquidity risk is assessed as high.

#### ***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 does not hedge its exposure to fluctuations in foreign exchange rates. Foreign exchange risk is assessed as low.

#### ***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.

#### ***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.

**CMC METALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
For the years ended September 30, 2020 and 2019

**14. INCOME TAXES**

*Provision for deferred tax*

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

As of September 30, 2020, the Company has approximately \$4,730,000 (2019 -\$4,140,000) in non-capital losses, which expire commencing with the fiscal year ended September 30, 2026 and ending with the fiscal year ended September 30, 2039.

*Flow-through shares*

Under the IFRS framework, the increase to share capital when flow-through shares are issued is measured based on the current market price of common shares. The incremental proceeds, or “premium”, are recorded as deferred income.

Flow-through common shares require the Company to spend an amount equivalent to the proceeds of the issued flow-through common shares on Canadian qualifying exploration expenditures. The Company may be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made the required exploration expenditures.

During the year ended September 30, 2020, the Company received \$480,000 from the issue of flow-through shares and has fully incurred the qualifying expenditures during the year ended September 30, 2020.

During the year ended September 30, 2019, the Company received \$456,430 from the issue of flow-through shares and incurred \$210,308 in eligible expenditures during the year ended September 30, 2019. During the year ended September 30, 2020, the Company incurred the remaining \$246,122 in qualifying expenditures.

	Year ended September 30, 2020	Year ended September 30, 2019
Loss before income taxes	\$ (949,393)	\$ (478,811)
	27.00%	27.00%
Expected income tax recovery	(256,000)	(129,000)
Non-deductible expenses	1,000	24,000
Impact of changes in the tax rate	-	21,000
Other differences	(31,000)	(34,000)
Change in valuation allowance	286,000	118,000
Deferred income tax recovery	\$ -	\$ -

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

	Year ended September 30, 2020	Year ended September 30, 2019
Exploration and evaluations assets	\$ 1,000,000	\$ 1,016,000
Other assets	927,000	757,000
Loss carry forwards	1,434,000	1,296,000
Share issuance costs	11,000	17,000
	3,372,000	3,086,000
Valuation allowance	(3,372,000)	(3,086,000)
Deferred tax liabilities	\$ -	\$ -

**CMC METALS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian dollars)  
For the years ended September 30, 2020 and 2019

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

Significant non-cash transactions for the year ended September 30, 2020 as follows: -

	<b>Year ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>
Non-cash financing and investing activities:		
Issuance of common shares for settlement of debt	\$ 1,091,175	\$ -
Allocated to warrants	410,355	171,572
Reallocation on exercise of warrants	(99,890)	-

**16. CONTINGENT LIABILITY**

The Company is subject to a claim made by the Government of the Yukon Territory related to the remediation of the Silver Hart Property (Note 4) pursuant to its exploration program. The Company has accrued a provision of \$146,070 by way of estimating its obligation to remediate the claims but the actual amount of any economic outflow related to this contingency is dependent upon future events and cannot be reliably measured as at September 30, 2020.

**17. SUBSEQUENT EVENTS**

Subsequent to September 30, 2020, the Company:

- (a) Issued 3,469,973 common shares for proceeds of \$173,499 pursuant to the exercise of warrants expiring June 4, 2021 at \$0.05 per share, and issued 625,000 common shares for proceeds of \$62,500 pursuant to the exercise of warrants expiring July 27, 2021 at \$0.10 per share (Note 15).
- (b) On October 21, 2020, the Company received \$33,418 of a total \$40,000 grant from the Yukon Mineral Exploration Assistance Program ("YMEP") to support exploration activities on the Silver Hart claims for 2020 (Note 4). YMEP is a program administered by the Yukon Department of Energy, Mines and Resources designed to support individuals and companies exploring mineral occurrences and advanced exploration projects in Yukon. The Company is required to file a report with YMEP by the end of January, 2021 and upon receipt, the Company will receive the balance of the grant money. The \$40,000 YMEP grant has been recorded as a receivable at September 30, 2020.
- (c) On October 22, 2020, the Company entered into a mineral property option agreement to acquire a 100% working interest in the Bridal Veil Property located in the Gander Subzone in Central Newfoundland, for consideration comprised of cash and the issuance of common shares of the Company, subject to TSX-V approval, which was received by letter dated December 11, 2020, and the Company paid \$16,000 cash and issued 120,000 common shares to the Optionors on December 15, 2020. Pursuant to this agreement, the Company is required to make the following additional payments: \$24,000 plus issue 100,000 common shares or pay \$10,000 in cash and issue 200,000 common shares at the first anniversary date; \$20,000 plus 100,000 common shares or \$10,000 and 200,000 common shares on each of the second and third anniversary dates. There is a 2.5% NSR of which 1.5% can be purchased at any time by the Company from the Optionors for \$1,000,000 per 1%.
- (d) On October 22, 2020, the Company entered into a mineral property option agreement to earn up to a 100% working interest in the Terra Nova Property located in the Gander Subzone in Central Newfoundland, for consideration of cash only, \$5,000 (paid) which was due on signing, and subsequent payments of \$10,000 on the first anniversary date, \$20,000 on the second anniversary date, and \$30,000 on the third anniversary date. On the fifth anniversary date, an advance royalty is to be paid of \$5,000 per year to the Optionors and a NSR of 2.0% of which 1.0% can be purchased at any time by the Company for \$1,000,000.
- (e) On November 2, 2020, the Company entered into a mineral property option agreement to earn up to a 100% working interest in the Rancheria South mineral property located in the Rancheria Silver District in the Yukon, for consideration of the issuance of a total of 1,500,000 common shares of the Company over a period of three years from the date of the agreement, subject to TSX-V approval which was received by letter dated December 11, 2020. The Company issued 100,000 common shares to the Optionor on December 15, 2020 and will issue 250,000 common shares on the first anniversary date, 400,000 common shares on the second anniversary date and 750,000 common shares on the third anniversary date. There is a 2% NSR which can be reduced to 1% upon the payment of \$1,000,000.

**CMC METALS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the years ended September 30, 2020 and 2019

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**17. SUBSEQUENT EVENTS (Cont'd)**

- (f) On December 10, 2020, as amended on December 22, 2020, the Company announced the entering into of a 4,800,000 unit non-brokered private placement at \$0.125 per unit, with each unit consisting of one common share and one transferrable share purchase warrant exercisable on a 2:1 basis at \$0.20 per share, for a two year term. This placement closed January 13, 2021, having received TSX-V final approval by letter dated January 13, 2021, and issued 4,800,000 common shares and 4,800,000 warrants exercisable into 2,400,000 common shares at \$0.20 per share expiring January 13, 2023.
- (g) On January 13, 2021, the Company announced the granting of 2,010,000 incentive stock options at \$0.20 per share, for a period of five years. The granting of the stock options are subject to TSX-V approval.
- (h) On January 22, 2021, the Company received \$40,000 from the Minister, pursuant to the RRRF program after entering into an agreement with the Minister dated January 15, 2021 (Note 8).
- (i) On January 25, 2021, the Company received \$50,000 in advance for the exercise of 1,000,000 warrants at \$0.05 per share pursuant to the Company's 8,000,000 unit private placement which closed June 4, 2020. As of the time of filing of these financial statements, the common shares have not been issued pursuant to the exercise of the warrants.