



**CANADIAN METALS INC.**

**Financial Statements**

**Years ended  
July 31, 2016 and 2015**

# CANADIAN METALS INC.

## Financial Statements

Years ended July 31, 2016 and 2015

---

<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements</b>	
Statements of Financial Position .....	3
Statements of Comprehensive Loss .....	4
Statements of Changes in Equity .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements	
1 Reporting entity .....	7
2 Nature of operations and going concern .....	7
3 Basis of preparation .....	7
4 Significant accounting policies .....	9
5 Cash and cash equivalents .....	15
6 Other receivables .....	16
7 Property and equipment .....	16
8 Mining properties .....	16
9 Exploration and evaluation assets .....	18
10 Convertible debentures .....	18
11 Share capital and warrants .....	19
12 Share-based compensation .....	22
13 Finance expense .....	25
14 Income taxes .....	25
15 Supplemental cash flow information .....	27
16 Related party transactions .....	28
17 Capital management policies and procedures .....	28
18 Financial Instrument Risks .....	29
19 Subsequent event .....	29
20 Reclassification .....	30



# Raymond Chabot Grant Thornton

## Independent Auditor's Report

To the Shareholders of  
Canadian Metals Inc.

**Raymond Chabot Grant Thornton LLP**

Suite 2000  
National Bank Tower  
600 De La Gauchetière Street West  
Montréal, Quebec H3B 4L8

Telephone: 514-878-2691  
Fax: 514-878-2127  
[www.rcgt.com](http://www.rcgt.com)

We have audited the accompanying financial statements of Canadian Metals Inc., which comprise the statements of financial position as at July 31, 2016 and 2015 and the statements of comprehensive loss, the statements of changes in equity and the statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Metals Inc. as at July 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### **Emphasis of matter**

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

*Raymond Chabot Grant Thornton LLP<sup>1</sup>*

Montréal  
November 27, 2016

---

<sup>1</sup> CPA auditor, CA public accountancy permit no. A115879

**CANADIAN METALS INC.**  
**Statements of Financial Position**

As at July 31, 2016 and 2015  
(in Canadian dollars)

	Note	July 31 2016	July 31 2015
		\$	\$
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	5	201,001	428,485
Other receivables	6	90,159	181,070
Prepaid expenses		23,192	40,420
<b>Total current assets</b>		<b>314,352</b>	<b>649,975</b>
<b>Non-current assets:</b>			
Property and equipment	7	-	494
Mining properties	8	152,000	171,968
Exploration and evaluation assets	9	753,684	513,815
<b>Total non-current assets</b>		<b>905,684</b>	<b>686,277</b>
<b>Total assets</b>		<b>1,220,036</b>	<b>1,336,252</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable and accrued liabilities		137,796	328,581
<b>Non-current liabilities:</b>			
Convertible debentures	10	567,452	513,781
<b>Total liabilities</b>		<b>705,248</b>	<b>842,362</b>
<b>Equity:</b>			
Share capital	11	2,663,943	1,832,444
Warrants	11	473,770	238,738
Share options	12	501,456	271,307
Equity component of the convertible debentures	10	77,640	77,640
Contributed surplus		465,735	307,807
Deficit		(3,667,756)	(2,234,046)
<b>Total equity</b>		<b>514,788</b>	<b>493,890</b>
<b>Total liabilities and equity</b>		<b>1,220,036</b>	<b>1,336,252</b>

Nature of operations and going concern, see Note 2.

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

These financial statements were approved and authorized for issue by the Board of Directors on November 27 2016.

(S) Stéphane Leblanc  
Director

(S) Victor Cantore  
Director

**CANADIAN METALS INC.**  
**Statements of Comprehensive Loss**

Years ended July 31, 2016 and 2015  
(in Canadian dollars)

	Note	July 31 2016	July 31 2015
		\$	\$
General and administrative expenses :			
Management and consulting fees		518,846	377,452
Rent and office expenses		49,683	39,924
Professional fees		35,129	53,963
Registration, listing fees and shareholders information		36,956	51,505
Travel and promotion		97,892	57,472
Share-based compensation	12	312,647	116,525
Depreciation of property and equipment		494	1,699
General exploration expenditures		-	266,599
Write-down of mining properties	8	19,968	1,173
Write-down of exploration and evaluation assets	9	168,117	-
Loss on settlement of accounts payable		73,691	-
<b>Loss from operating activities</b>		<b>1,313,423</b>	<b>966,312</b>
Finance income		(202)	(1,081)
Finance expense	13	121,467	3,222
<b>Total net finance expense</b>		<b>121,265</b>	<b>2,141</b>
<b>Loss before income taxes</b>		<b>1,434,688</b>	<b>968,453</b>
Deferred income tax expense (recovery)	14	-	(57,638)
<b>Net loss and comprehensive loss</b>		<b>1,434,688</b>	<b>910,815</b>
<b>Weighted average number of common shares outstanding</b>		<b>35,755,306</b>	<b>26,111,641</b>
<b>Basic and diluted loss per share</b>		<b>0.040</b>	<b>0.035</b>

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

**CANADIAN METALS INC.**  
**Statements of Changes in Equity**

Years ended July 31, 2016 and 2015  
(in Canadian dollars)

	Note	Number of shares outstanding	Share capital	Warrants	Share options	Equity component of the convertible debentures	Contributed surplus	Deficit	Total equity
			\$	\$	\$	\$	\$	\$	\$
<b>Balance as at July 31 2015</b>		32,607,971	1,832,444	238,738	271,307	77,640	307,807	(2,234,046)	493,890
Shares issued:									
Private placements	11	5,334,000	495,908	304,192					800,100
As settlement of accounts payable and payment of expenses	11	2,268,571	274,921	6,270					281,191
As a settlement of interest payment on the debentures	11	469,540	70,000						70,000
Share issuance costs			(9,330)						(9,330)
Share options expired					(82,498)		82,498		-
Warrants expired				(75,430)			75,430		-
Convertible debentures issuance costs								978	978
Share-based compensation	12				312,647				312,647
Transactions with owners		8,072,111	831,499	235,032	230,149	-	157,928	978	1,455,586
Net loss and comprehensive loss for the year								(1,434,688)	(1,434,688)
<b>Balance as at July 31 2016</b>		40,680,082	2,663,943	473,770	501,456	77,640	465,735	(3,667,756)	514,788
<b>Balance as at July 31 2014</b>		21,627,580	1,214,591	510,182	154,782	-	25,055	(1,297,660)	606,950
Shares issued:									
Private placements	11	10,833,333	600,000						600,000
As a settlement of amounts due to suppliers	11	147,058	25,000						25,000
Share issuance costs			(7,147)						(7,147)
Warrants issued to brokers				11,308				(11,308)	-
Warrants expired				(282,752)			282,752		-
Convertible debentures issued net of a deferred tax liability of \$28,571						77,640			-
Convertible debentures issuance costs								(14,263)	(14,263)
Share-based compensation	12				116,525				116,525
Transactions with owners		10,980,391	617,853	(271,444)	116,525	77,640	282,752	(25,571)	797,755
Net loss and comprehensive loss for the year								(910,815)	(910,815)
<b>Balance as at July 31 2015</b>		32,607,971	1,832,444	238,738	271,307	77,640	307,807	(2,234,046)	493,890

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

# CANADIAN METALS INC.

## Statements of Cash Flows

Years ended July 31, 2016 and 2015

(in Canadian dollars)

	July 31 2016	July 31 2015
	\$	\$
<b>Operating activities:</b>		
Net loss	(1,434,688)	(910,815)
Adjustments for:		
Expenses paid through issuance of shares	90,000	-
Share-based compensation	312,647	116,525
Depreciation of property and equipment	494	1,699
Effective interest costs on convertible debentures	48,183	-
Interests on convertible debentures paid through issuance of shares	70,000	-
Write-down of mining properties	19,968	1,173
Write-down of exploration and evaluation assets	168,117	-
Loss on settlement of accounts payable	73,691	-
Income tax recovery	-	(57,638)
Operating activities before changes in working capital items	(651,588)	(849,056)
Change in other receivables	33,084	(43,018)
Change in prepaid expenses	17,228	365
Change in trade accounts payable and accrued liabilities	(52,185)	223,387
	(1,873)	180,734
<b>Cash flows used for operating activities</b>	(653,461)	(668,322)
<b>Financing activities:</b>		
Proceeds from convertible debenture issued	5,000	695,000
Convertible debentures issuance costs	6,467	(94,271)
Proceeds from issuance of shares	800,100	586,785
Share issuance costs	1,142	(7,147)
<b>Cash flows from financing activities</b>	812,709	1,180,367
<b>Investing activities:</b>		
Mining tax received	1,370	-
Tax credit related to resources received	52,532	61,339
Increase in exploration and evaluation assets	(440,634)	(266,025)
<b>Cash flows used for investing activities</b>	(386,732)	(204,686)
<b>Net change in cash and cash equivalents</b>	(227,484)	307,359
<b>Cash and cash equivalents, beginning of year</b>	428,485	121,126
<b>Cash and cash equivalents, end of year</b>	201,001	428,485

Additional disclosures of cash flows information (Note 15).

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



# CANADIAN METALS INC.

## Notes to Financial Statements

Years ended July 31, 2016 and 2015

(in Canadian dollars)

---

### 1. Reporting entity:

Canadian Metals Inc. (the "Company" or "Canadian Metals" or "CME") is a company domiciled in Canada. Canadian Metals was incorporated on August 17, 2012 under the *Québec Business Corporations Act*. Canadian Metals is a public company listed on the Canadian Securities Exchange ("CSE") and its trading symbol is "CME".

The Company's head office, which is also the main establishment is located at 1 Place Ville-Marie, suite 1670, Montréal, Québec, Canada H3B 2B6 and its web site is [www.canadianmetalsinc.com](http://www.canadianmetalsinc.com).

The Company specializes in the acquisition, exploration and evaluation of mineral properties. The Company is focused on the exploration of its Langis Project, a high-purity silica deposit located in Matane area.

### 2. Nature of operations and going concern:

The accompanying financial statements have been prepared on the basis of the a going concern assumption meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period.

Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a significant doubt on the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

For the year ended July 31, 2016, the Company recorded a net loss of \$1,434,688 (\$910,815 in 2015) and has an accumulated deficit of \$3,667,756 as at July 31, 2016 (\$2,234,046 as at July 31, 2015). Besides the usual needs for working capital, the Company must obtain funds to enable it to meet the timelines of its exploration programs and to pay its overhead and administrative costs. As at July 31, 2016, the Company had a working capital of \$176,556 (\$321,394 as at July 31, 2015) consisting of cash and cash equivalents of \$201,001 (\$428,485 as at July 31, 2015). Management believes that these funds will not be sufficient to meet the obligations and liabilities of the Company. These uncertainties cast significant doubt regarding the Company's ability to continue as a going concern. Any funding shortfall may be met in the future in a number of ways, including but not limited to, the issuance of new equity instruments. Given that the Company has not yet determined whether its mineral properties contain mineral deposits that are economically recoverable, the Company has not yet generated income nor cash flows from its operations. The recovery of the cost of exploration and evaluation assets as well as other tangible and intangible assets, is subject to certain conditions: the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to continue the exploration, evaluation, development, construction and ultimately disposal of these assets. During the year ended July 31, 2016, the Company has raised \$800,100 from private placements to fund exploration works and working capital. While management has been successful in raising financing in the past, there is no assurance that it will succeed in obtaining additional financing in the future.

### 3. Basis of preparation:

#### 3.1 Statement of compliance:

These annual financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to the preparation of annual financial statements. The accounting policies applied in these financial statements are based on IFRS issued and in effect as at year end. On November 27, 2016 the Board of Directors approved, for issuance, these financial statements.

#### 3.2 Basis of measurement:

These financial statements have been prepared on the historical cost basis.

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 3. Basis of preparation (continued):

#### 3.3 Functional and presentation currency:

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

#### 3.4 Use of estimates and judgements:

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### (a) Significant management judgment:

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effects on the financial statements.

##### *Recognition of deferred income tax assets and measurement of income tax expense*

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period (see Note 4).

##### *Going concern*

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meets its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances. See Note 2 for more information.

#### (b) Estimation uncertainty:

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities and expenses is provided below. Actual results may be substantially different.

##### *Impairment of exploration and evaluation assets*

Determining if there are any facts or circumstances indicating an impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases (see Note 4).

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash-generating units must be estimated.

In assessing impairment, the Company must make some estimates and assumptions regarding future circumstances, in particular, whether a technically or economically viable extraction operation can be established, the probability that the expense will be recovered from either future exploitation or sale when the activities have not reached a stage that permits a reasonable assessment of existence of reverses, the Company's capacity to obtain financial resources necessary to complete the evaluation and development and to renew permits. Estimates and assumptions may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written down in profit or loss in the period when the new information become available.

##### *Share-based compensation*

The estimation of share-based compensation costs requires the selection of an appropriate valuation model and data and consideration as to the volatility of the Company's own share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model (see Note 12).

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 3. Basis of preparation (continued):

#### 3.4 Use of estimates and judgements (continued):

##### (b) Estimation uncertainty (continued):

###### *Tax credits receivable*

Tax calculation of the Company's refundable tax credit on qualified exploration expenditure incurred and refundable tax credit involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until a notice of assessment has been issued by the relevant taxation authority and payment has been received. Difference arising between the actual results following final resolution of some of these items and the assumptions made could necessitate adjustments to the refundable tax credit, exploration and evaluation assets, and income tax expense in future periods (see Note 4).

### 4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements and in preparing the statements of financial position, unless otherwise indicated.

#### 4.1 Financial instruments:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs.

Financial assets and financial liabilities are measured subsequently as described below.

##### (a) Financial assets:

For the purpose of subsequent measurement, financial assets are classified as loans and receivables upon initial recognition.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance expenses or financial income, if applicable.

- *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 recognized initially 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, less any impairment losses. Discounting is omitted if its effect is not significant.

Loans and receivables comprise cash and cash equivalents and other receivables (excluding sales tax, tax credits receivable and mining tax receivable).

###### *Impairment of financial assets*

All financial assets are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is an objective evidence that a financial asset or a group of financial assets is impaired.

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015  
(in Canadian dollars)

---

### 4. Significant accounting policies (continued):

#### 4.1 Financial instruments (continued):

##### (a) Financial assets (continued):

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

##### (b) Financial liabilities:

The Company's financial liabilities include accounts payable and accrued liabilities, and convertible debentures.

Financial liabilities are measured subsequently at amortized cost using the effective interest method. All interest related charges are reported within finance expenses, if applicable.

#### 4.2 Basic and diluted loss per share:

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting loss attributable to common shareholders of the Company, and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares which include options and warrants. Dilutive potential common shares are deemed to have been converted into common shares at the average market price at the beginning of the period or, if later, at the date of issue of the potential common shares.

#### 4.3 Cash and cash equivalents:

Cash and cash equivalent consist of cash and demand deposits, as well as other highly-liquid short-term investments, easily convertible in a known amount of cash and subject to negligible risk of value impairment.

#### 4.4 Refundable tax credits:

The Company is entitled to a refundable tax credit on qualified exploration expenditures incurred and a refundable credit on duties for losses under the Mining Tax Act. These tax credits are recognized as a reduction of the exploration costs incurred based on estimates made by management. The Company records these tax credits when there is reasonable assurance with regards to collections and assessments and that the Company will comply with the conditions associated to them.

#### 4.5 Property and equipment:

Property and equipment are held at cost less accumulated depreciation and accumulated impairment losses.

Cost includes all costs incurred initially to acquire or construct an item of property and equipment, costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and costs incurred subsequently to add to or replace part thereof.

Recognition of costs in the carrying amount of an item of property and equipment ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is recognized on a straight-line basis to write down the cost to its estimated residual value, with a constant charge over the useful life of the asset. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 4. Significant accounting policies (continued):

#### 4.5 Property and equipment (continued):

The estimated useful lives and the method of depreciation for the current and comparative years are as follows:

Asset	Method	Period
Computer equipment	Straight-line	3 years

The residual value, depreciation method and useful life of each asset are reviewed at least at each financial year-end.

The carrying amount of an item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property and equipment is included in profit or loss when the item is derecognized.

#### 4.6 Mining properties and exploration and evaluation assets:

Mining properties correspond to acquired interests in mining exploration permits / claims which include the rights to explore for mine, extract and sell all minerals from such claims.

Exploration and evaluation expenditures are costs incurred in the course of initial search for mineral deposits with economic potential. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred.

Once the legal right to undertake exploration and evaluation activities has been obtained, all costs of acquiring mineral rights or options to acquire such rights (option agreement) are capitalized as mining properties and the expenses related to the exploration and evaluation of mining properties, less refundable tax credits related to these expenses, are capitalized as exploration and evaluation assets.

Expenses related to exploration and evaluation include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource.

The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are recognized as intangible assets and are carried at cost less any accumulated impairment losses. No depreciation expenses are recognized for these assets during the exploration and evaluation phase.

Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts; the difference is then immediately recognized in profit or loss.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets related to the mining property are transferred to property and equipment in Mining assets under construction. Before the reclassification, exploration and evaluation assets are tested for impairment and any impairment loss is recognized in profit or loss before reclassification.

Although the Company has taken steps to verify title to the mining properties in which it holds an interest, in accordance with industry practices for the current stage of exploration and development of such properties, these procedures do not guarantee the validity of the Company's titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

#### 4.7 Disposal of interest in connection with option agreement:

On the disposal of interest in connection with the option agreement, the Company does not recognize expenses related to the exploration and evaluation performed on the property by the acquirer. In addition, the cash consideration received directly from the acquirer is credited against the costs previously capitalized to the property, and the surplus is recognized as a gain on the disposal of exploration and evaluation assets in profit or loss.

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 4. Significant accounting policies (continued):

#### 4.8 Impairment of exploration and evaluation assets and property and equipment:

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment.

Impairment reviews for exploration and evaluation assets are carried out on a project-by-project basis, with each project representing a potential single cash-generating unit. An impairment review is undertaken when indicators of impairment arise, but typically when one of the following circumstances apply:

- the right to explore the areas has expired or will expire in the near future with no expectation of renewal;
- no further exploration or evaluation expenditures in the area are planned or budgeted;
- no commercially viable deposits have been discovered, and the decision has been made to discontinue exploration in the area;
- sufficient work has been performed to indicate that the carrying amount of the expenditure carried as an asset will not be fully recovered.

Additionally, when technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the exploration and evaluation assets of the related mining property are tested for impairment before these items are transferred to property and equipment.

An impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use.

An impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

#### 4.9 Provisions, contingent liabilities and contingent assets:

Provisions are recognized when present legal or constructive obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes, decommissioning, restoration and similar liabilities, or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

The Company's operations are governed by government environment protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable and impact. As of the reporting date, management believes that the Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible, given that the Company's operations are still in the exploration and evaluation stage, and are capitalized to the cost of exploration and evaluation assets as incurred. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

As at July 31, 2016 and 2015 the Company had no contingent liabilities and therefore no provision was recorded in the annual financial statements.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

---

### 4. Significant accounting policies (continued):

#### 4.10 Income taxes

When applicable, tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized directly in equity.

However, since the Company is in the exploration phase and has no taxable income, tax expense recognized in profit or loss is currently comprised only of deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax in profit or loss, except where they relate to items that are recognized directly in equity, in which case the related deferred tax is also recognized in equity.

Under the provisions of tax legislation relating to flow-through shares, the Company is required to renounce its right to tax deductions for expenses related to exploration activities to the benefit of the investors. When the Company has renounced to its tax deductions and has incurred its admissible expenditures, the sale of tax deductions is recognized in profit or loss as a reduction to deferred tax expense and a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of admissible expenditures capitalized as an asset and its tax base.

#### 4.11 Equity:

Share capital represents the amount received on the issue of shares, less issuance costs, net of any underlying income tax benefit from these issuance costs.

If shares are issued following the exercise of share options, or warrants, this account also includes the charge previously accounted to the warrants and stock options accounts. Furthermore, if shares are issued following the acquisition of mining property or other non-financial assets, shares are valued at fair value of mining property on the day the agreement was concluded.

#### 4.12 Unit placements:

The funds from unit placement are allocated between shares and warrants using the relative fair value method. The fair value of the common shares is recognized in equity based on the share price at the date of issue. The fair value of the warrants is determined using the Black-Scholes valuation model and is recorded separately under "warrants".

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 4. Significant accounting policies (continued):

#### 4.13 Flow-through placements:

Issuance of flow-through shares represents in substance an issue of ordinary shares and the sale of the right to tax deductions to the investors. When the flow-through shares are issued, the sale of the right to tax deductions is deferred and presented as other liabilities in the statement of financial position. The proceeds received from flow-through placements are allocated between share capital and other liabilities using the residual method. Proceeds are first allocated to shares according to the quoted price of shares at the time of issuance and the residual proceeds, if any, are allocated to other liabilities. The liability component recorded initially on the issuance of shares is reversed on renouncement of the right to tax deductions to the investors and when eligible expenses are incurred and recognized in profit or loss in reduction of deferred income tax expense.

The proceeds received from flow-through units are allocated between share capital, warrants and the liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and the residual proceeds are allocated to warrants and to the liability, allocating a first amount to warrant measured at fair value using Black-Scholes model.

#### 4.14 Compound financial instruments:

The component parts of compound financial instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity component in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

At the date of issue, the liability component is recognized at fair value, which is estimated using the borrowing rate available for similar non convertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest method until extinguished upon conversion or at maturity.

The value of the conversion option classified as equity component is determined at the date of issue by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of income tax effects, and is not subsequently remeasured. When and if the conversion option is exercised, the equity component of convertible debentures will be transferred to share capital. If the conversion option remains unexercised at the maturity date of the convertible debentures, the equity component of the convertible debentures will be transferred to contributed surplus. No gain or loss is recognized upon conversion or expiration of the conversion option.

Transaction costs related to the issue of convertible debentures are allocated to the liability and equity component in proportion to the initial carrying amounts. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the term of the convertible debenture using the effective interest method.

#### 4.15 Other elements of equity:

Warrants and share options accounts include unrealized charges related to share options and warrants until they are exercised, if applicable. Contributed surplus includes compensation expense related to share options and warrants not exercised.

Deficit includes all current and prior year retained losses.

#### 4.16 Equity-settled share-based compensation:

The Company has an equity-settled share-based compensation plan for its eligible directors, employees and consultants. The Company's plans is not cash-settled.

All goods and services received in exchange for the grant of any share-based compensations are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it must measure their value indirectly by reference to the fair value of the equity instruments granted.

For transactions with employees and with parties providing similar services, the Company evaluates the fair value of services received by reference to the fair value of equity instruments granted.



# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 4. Significant accounting policies (continued):

#### 4.16 Equity-settled share-based compensation (continued):

All equity-settled share-based compensation (except warrants to brokers) are ultimately recognized as an expense in the profit or loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment with a corresponding credit to the Share options account. Equity-settled share-based compensation to brokers, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to Share options, in equity.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting year, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if share options ultimately exercised are different to that estimated on vesting.

#### 4.17 Segmental reporting:

The Company presents and discloses segmental information based on information that is regularly reviewed by the chief operating decision-maker, i.e. the Chairman and the Board of Directors. The Chairman and the Board of Directors have joint responsibility for allocating resources to the Company's operating segments and assessing their performance.

The Company has determined that there was only one operating segment being the sector of exploration and evaluation of mineral resources.

#### 4.18 New standards and interpretations that have not yet been adopted:

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have an impact on the Company's financial statements.

The following new standards, interpretations and amendments have been issued but are not yet effective and therefore have not been applied in preparing these financial statements:

##### (i) IFRS 9 - Financial Instruments:

In July 2014, the IASB published IFRS 9 which replaces IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has yet to assess the impact of this new standard on its financial statements.

### 5. Cash and cash equivalents:

	July 31 2016	July 31 2015
	\$	\$
Cash	201,001	418,350
Cash used as guarantee for credit card	-	10,135
	201,001	428,485

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 6. Other receivables:

	July 31 2016	July 31 2015
	\$	\$
Sales tax receivable	43,022	76,760
Subscriptions receivable	-	13,215
Balance receivable related to convertible debentures	-	5,000
Tax credits receivable and mining tax receivable	46,337	86,095
Other	800	-
	90,159	181,070

### 7. Property and equipment:

	Computer equipment	Total
	\$	\$
<b>Cost</b>		
As at July 31, 2014	5,095	5,095
Acquisitions	-	-
As at July 31, 2015	5,095	5,095
Acquisitions	-	-
As at July 31, 2016	5,095	5,095
<b>Accumulated depreciation</b>		
As at July 31, 2014	2,902	2,902
Depreciation	1,699	1,699
As at July 31, 2015	4,601	4,601
Depreciation	494	494
As at July 31, 2016	5,095	5,095
<b>Net book value</b>		
As at July 31, 2015	494	494
As at July 31, 2016	-	-

### 8. Mining properties:

Mining properties can be detailed as follows:

			July 31 2015	Acquisition	Disposition	Impairment	July 31 2016
	Royalties	Interest	\$	\$	\$	\$	\$
	%	%					
Québec:							
Massicotte <sup>(1)</sup>	2	100	19,968	-	-	(19,968)	-
Langis <sup>(2)</sup>	-	100	152,000	-	-	-	152,000
			171,968	-	-	(19,968)	152,000

			July 31 2014	Acquisition	Disposition	Impairment	July 31 2015
	Royalties	Interest	\$	\$	\$	\$	\$
	%	%					
Québec:							
Massicotte <sup>(1)</sup>	2	100	21,141	-	-	(1,173)	19,968
Langis <sup>(2)</sup>	-	100	152,000	-	-	-	152,000
			173,141	-	-	(1,173)	171,968

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 8. Mining properties (continued):

#### 1) Massicotte Property:

On August 31, 2012, the Company entered into an agreement with two private companies, one of which is controlled by an officer and director of the Company and an individual for the acquisition of 403 mining rights (claims) consisting of Blocks "A, B, C, D", located in the Matagami area, province of Quebec. Block "A" consists of 111 claims, block "B" 54 claims, block "C" 90 claims and block "D" 148 claims. As per the agreement, the Company agreed to issue 1,500,000 common shares to the vendors. The Company determined the value of these shares at the fair value of mining properties which were estimated at \$31,500. Furthermore, the vendor is entitled to a net smelter return (NSR) of 1.4% (revised from 2% following the waiver of the NSR by the company controlled by an officer), when commercial production is to begin. If this situation were happened, the Company would have had the option to redeem the seller, 0.7% (revised from 1%) of the royalty for a cash consideration of \$700,000 (revised from 1.0M) payable to the seller. As at July 31, 2015, the Company held only 32 claims of the block "A". On January 7, 2014, the Company transferred 40% of a property consisting of 172 mining rights to a public company controlled by an officer and director, in exchange for the payment of up to \$80,000 for an airborne campaign which took place during the year 2014. The exploration and evaluation expenditures were paid directly to the supplier and therefore have not been recorded as exploration and evaluation assets in the financial statements of the Company. Subsequent expenditures on the property will be made accordance with the proportion of the participation held by each company in the project.

During the year ended July 31, 2015, the Company identified 28 mining rights that were not renewed or that were not to be renewed. Consequently, the fair value of these mining rights and exploration costs was estimated at \$0 and an impairment loss of \$1,173 on mining properties was recorded in net earnings.

During the year ended July 31, 2016, the Company wrote down to \$Nil the cost of the Massicotte property, as it no longer fit the Company's development strategy. Consequently, an impairment loss of \$19,968 on mining properties and \$168,117 on exploration and evaluation assets was recorded in net earnings.

#### 2) Langis Property :

On September 16, 2013, the Company acquired from a private company controlled by an officer and director of the Company, the mining rights on the Langis property located in Matane area (Quebec) for a consideration of 2.5 million warrants, estimated at \$152,000 at the signing of the agreement and 3% of a Net Smelter Return ("NSR") on mining claims in the event of commercial production of a deposit on the property. The Company was committed, on or before August 1, 2014, to appoint a firm of qualified consultants to conduct an environmental study and a preliminary economic assessment of the property. The economic evaluation report was to be made available within six months following the date of the mandate and the environmental study report but no later than twelve (12) months following the date on which the mandate was given. The Company had to appoint a qualified firm to conduct a feasibility study on the property or engineering report within six months of receipt of the preliminary economic assessment report that was to be completed and filed no later than twelve (12) months following the date on which the mandate was given. Finally, the Company had to obtain the necessary permits, including an operating lease to carry out exploration and exploitation work on the property; in the event of termination of the agreement or non-compliance of the obligations mentioned above, the Company had agreed to pay an amount of \$200,000 as a penalty. No monetary consideration was paid to the seller in connection with this acquisition. Because the agreement was not respected, an amount of \$200,000 was paid by the Company during the year ended July 31, 2015 and was recorded in general exploration expenditures.

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 9. Exploration and evaluation assets:

Exploration and evaluation assets by nature are detailed as follows:

	July 31 2016	July 31 2015
	\$	\$
<b>Exploration and evaluation costs:</b>		
Drilling	19,215	80,954
Geology	27,109	16,953
Geochemistry	-	89,535
Metallurgy	1,789	57,519
Technical Reports	335,656	15,884
Environment	38,506	8,537
Supervision	-	24,685
	422,275	294,067
<b>Other items:</b>		
Tax credit related to resources and mining tax	(14,289)	(75,543)
Write-down of exploration and evaluation assets	(168,117)	-
	(182,406)	(75,543)
<b>Balance at the beginning</b>	513,815	295,291
<b>Balance at the end</b>	753,684	513,815

Exploration and evaluation assets by properties are detailed as follows:

	July 31 2015	Exploration costs	Tax credits and mining tax	Disposition	Impairment	July 31 2016
	\$	\$	\$	\$	\$	\$
<b>Québec:</b>						
Massicotte <sup>(1)</sup>	163,253	7,231	(2,367)	-	(168,117)	-
Langis <sup>(2)</sup>	350,562	415,044	(11,922)	-	-	753,684
	513,815	422,275	(14,289)	-	(168,117)	753,684

	July 31 2014	Exploration costs	Tax credits and mining tax	Disposition	Impairment	July 31 2015
	\$	\$	\$	\$	\$	\$
<b>Québec:</b>						
Massicotte <sup>(1)</sup>	159,349	6,006	(2,102)	-	-	163,253
Langis <sup>(2)</sup>	135,942	288,061	(73,441)	-	-	350,562
	295,291	294,067	(75,543)	-	-	513,815

### 10. Convertible debentures:

	July 31 2016	July 31 2015
	\$	\$
<b>Convertible debentures</b>		
Convertible debentures bearing interest at 10% payable semi-annually and maturing in July 2018. <sup>(a)</sup>	567,452	513,781
	567,452	513,781

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 10. Convertible debentures (continued):

(a) Debentures from related parties:

	July 31 2016	July 31 2015
	\$	\$
Director	12,166	11,010
Companies under control of directors	48,638	44,038
Company under control of an officer and director	12,166	11,010

On July 27, 2015, the Company completed a convertible debentures financing of \$700,000. The maturity of the convertible debentures is three years and bear interest at 10% per year. Interest is payable on June 30 and December 31 of each year. The first year, the Company has the option to pay interest in cash or in shares. The second and third year, interest will be paid in cash. If payment are in shares, the conversion price in number of shares will be equal at 85% of the average of the last twenty (20) trading days ending five (5) trading days preceding the payment date.

A commission of 8.5% of the amount was paid in cash for a total amount of \$ 94,271. Of this amount, \$80,008 was recorded as a reduction of liabilities and \$14,263 as a reduction of equity. Warrants representing 5% of the investment were granted to brokers. The 175,000 warrants issued to brokers are valid for a period of 24 months and exercisable at a price of \$0.20 per warrant. These warrants were recorded at a value of \$11,308 using the Black-Scholes option pricing model under the assumptions described below (note 11 (c)).

For purposes of determining the fair value of the liability component, an effective interest rate of 15% was used which is the estimated market rate that the Company would have obtained for a similar financing without the conversion option. The liability component is accreted up to the face value of the debenture over the term of the debentures as an interest expense. As at July 31, 2016, the equity component is \$106,211 and is presented net of income tax in the amount of \$28,571.

### 11. Share capital and warrants:

(a) Authorized:

The Company is authorized to issue an unlimited number of common shares without par value. The share capital comprises only of fully paid common shares.

(b) Issued and outstanding:

	Number	Amount
		\$
Balance as at July 31, 2014	21,627,580	1,214,591
Issued for cash:		
Private placements (common shares)	10,833,333	592,853
Issued as a settlement of amount due to supplier	147,058	25,000
Balance as at July 31, 2015	32,607,971	1,832,444
		\$
Balance as at July 31, 2015	32,607,971	1,832,444
Issued for cash:		
Private placement (common shares)	5,334,000	486,578
Issued as settlement of accounts payable and payment of expenses	2,268,571	274,921
Issued as a settlement of interest payment on the debentures	469,540	70,000
Balance as at July 31, 2016	40,680,082	2,663,943

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015  
(in Canadian dollars)

### 11. Share capital and warrants (continued):

#### (b) Issued and outstanding (continued):

##### 2016:

On December 15, 2015, the Company concluded a private placement by issuing 1,440,666 units at a price of \$0.15 per unit for total of \$216,100. From the 1,440,666 units issued, 140,000 units were issued in settlement of accounts payable for an amount of \$21,000. The remaining 1,300,666 units were issued for net proceeds of \$194,166 after deducting share issuance costs of \$934. No commission was paid in connection with this private placement. Each unit consists of one common share and one warrant for a total of 1,440,666 common shares and 1,440,666 warrants. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.25 until June 15, 2017. These warrants have been recorded at a value of \$71,096 based on the Black-Scholes option pricing model using the assumptions described below (Note 11 (c)). An amount of \$64,826 has been allocated to the units issued in consideration of cash and the remaining balance of \$6,270 has been allocated to the units issued in settlement of accounts payable. The difference between the value of the 140,000 shares as per the agreement and the value of the shares on the issuance day resulted in a gain of \$2,130 in loss on settlement of accounts payable recognized in earnings.

On January 8, 2016, the Company issued 361,515 common shares for interests payable of \$35,000 on convertible debentures. The interests were payable on December 31, 2015. No commission was paid in connection with this transaction. As at July 31, 2016, 58,654 common shares remain to be issued on this interest payment.

On March 23, 2016, the Company issued 1,378,571 common shares with a fair value of \$172,321 in settlement of accounts payable in the amount of \$96,500. No commission was paid in connection with this transaction. These settlements resulted in a loss of \$75,821 on settlement of accounts payable, in earnings. Furthermore, the Company issued to a director and an officer 750,000 common shares valued at \$90,000 for management and consulting fees.

On April 6, 2016, the Company concluded a private placement by issuing 3,433,335 units at a price of \$0.15 per unit for net proceeds of \$507,777 after deducting share issuance costs of \$7,223. No commission was paid in connection with this private placement. Each unit consists of one common share and one warrant for a total of 3,433,335 common shares and 3,433,335 warrants. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.25 until October 6, 2017. These warrants have been recorded at a value of \$202,079 based on the Black-Scholes option pricing model using the assumptions described below (Note 11 (c)).

On April 15, 2016, the Company concluded a private placement by issuing 599,999 units at a price of \$0.15 per unit for net proceeds of \$88,827 after deducting share issuance costs of \$1,173. No commission was paid in connection with this private placement. Each unit consists of one common share and one warrant for a total of 599,999 common shares and 599,999 warrants. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.25 until October 15, 2017. These warrants have been recorded at a value of 37,287 based on the Black-Scholes option pricing model using the assumptions described below (Note 11 (c)).

On July 25, 2016, the Company issued 108,025 common shares for interests payable of \$35,000 on convertible debentures. The interests were payable on June 30, 2016. No commission was paid in connection with this transaction. As at July 31, 2016, 16,187 common shares remain to be issued on this interest payment.

##### 2015 :

On February 13, 2015, the Company concluded a private placement by issuing 1,500,000 common shares at a price of \$0.05 per share for net proceeds of \$75,000. No commission was paid in connection with this private placement.

On February 26, 2015, the Company concluded a private placement by issuing 7,300,000 common shares at a price of \$0.05 per share for net proceeds of \$365,000. No commission was paid in connection with this private placement.

On March 5, 2015, the Company concluded a private placement by issuing 1,200,000 common shares at a price of \$0.05 per share for net proceeds of \$56,042 after deducting share issuance costs of \$3,958. No commission was paid in connection with this private placement.

On April 15, 2015, the Company concluded a private placement by issuing 833,333 common shares at a price of \$0.12 per share for net proceeds of \$96,811 after deducting share issuance costs of \$3,189. No commission was paid in connection with this private placement.

On June 4 2015, the Company issued 147,058 common shares at a price of \$0.17 per share in settlement of a trade payable in the amount of \$25,000. No commission was paid in connection with this transaction.

**CANADIAN METALS INC.**  
**Notes to Financial Statements (continued)**

Years ended July 31, 2016 and 2015  
(in Canadian dollars)

**11. Share capital and warrants (continued):**

**(c) Warrants:**

The changes to the number of outstanding warrants granted by the Company and their weighted average exercise price are as follows:

	July 31 2016		July 31 2015	
	Number of outstanding warrants	Weighted average exercise price	Number of outstanding warrants	Weighted average exercise price
		\$		\$
Outstanding at beginning	4,781,334	0.20	10,406,166	0.23
Granted	5,474,000	0.25	175,000	0.20
Expired	(2,106,334)	0.25	(5,799,832)	0.25
Outstanding at end	8,149,000	0.22	4,781,334	0.20

The following table provides outstanding warrants information as at July 31, 2016:

Expiry date	Outstanding warrants		
	Number of outstanding warrants	Exercise price	Remaining life
		\$	(years)
June 15, 2017	1,440,666	0.25	0.9
July 27, 2017	175,000	0.20	1.0
October 6, 2017	3,433,335	0.25	1.2
October 15, 2017	599,999	0.25	1.2
September 15, 2018	2,500,000	0.15	2.1
	8,149,000	0.22	1.4

The following table provides outstanding warrants information as at July 31, 2015:

Expiry date	Outstanding warrants		
	Number of outstanding warrants	Exercise price	Remaining life
		\$	(years)
October 16, 2015	1,773,000	0.25	0.2
November 21, 2015	333,334	0.25	0.3
July 27, 2017	175,000	0.20	2.0
September 15, 2018	2,500,000	0.15	3.1
	4,781,334	0.20	1.8

**2016:**

On December 15, 2015, the Company issued 1,440,666 warrants to shareholders who subscribed to 1,440,666 units offering. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.25 per share until June 15, 2017. The value of the warrants was estimated at \$71,096 at the grant date using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.09
Expected volatility <sup>(1)</sup>	161.06%
Risk-free interest rate	0.52%
Expected life	1.5 years

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015  
(in Canadian dollars)

### 11. Share capital and warrants (continued):

#### (c) Warrants (continued):

##### 2016 (continued):

On April 6, 2016, the Company issued 3,433,335 warrants to shareholders who subscribed to 3,433,335 units offering. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.25 per share until October 6, 2017. The value of the warrants was estimated at \$202,079 at the grant date using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.175
Expected volatility <sup>(1)</sup>	169.31%
Risk-free interest rate	0.54%
Expected life	1.5 years

On April 15, 2016, the Company issued 599,999 warrants to shareholders who subscribed to 599,999 units offering. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.25 per share until October 15, 2017. The value of the warrants was estimated at \$37,287 at the grant date using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.250
Expected volatility <sup>(1)</sup>	171.39%
Risk-free interest rate	0.59%
Expected life	1.5 years

##### 2015:

As part of the debentures financing in July 2015 (Note 10), the Company issued 175,000 warrants to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.20 per share until July 27, 2017. The value of the warrants was estimated at \$11,308 at the grant date using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	0.13\$
Expected volatility <sup>(2)</sup>	100.00%
Risk-free interest rate	0.41%
Expected life	2.0 years

(1) The volatility was determined by reference to historical data of the Company shares.

(2) The volatility was determined in comparison with the volatility of comparable publicly traded companies.

### 12. Share-based compensation:

#### (a) Share option plan:

The Company has a share option plan whereby the Board of Directors, may grant to directors, officers, employees and consultants of the Company, options to acquire common shares. The Board of Directors has the authority to determine the terms and conditions relating to the granting of options. The maximum number of shares that can be issued under the share-based compensation plan is 10% of the Company's shares issued at the time of the option grant, with a vesting period of up to eighteen months at the directors' discretion. All share-based compensation shall be settled in equity instruments. The number of share options granted to a beneficiary are determined by the Board of Directors.



**CANADIAN METALS INC.**  
**Notes to Financial Statements (continued)**

Years ended July 31, 2016 and 2015  
(in Canadian dollars)

**12. Share-based compensation (continued):**

**(a) Share option plan (continued):**

The exercise price of any option granted under the Plan is determined by the Board of Directors at the time of the grant and cannot be less than the market price per common share the day before the grant. The term of an option will not exceed five years from the date of grant. Options are not transferable and can be exercised under the plan terms when a beneficiary who is a director, officer, employee or consultant of the Company ceases to occupy his functions, according to the terms of the Company's share-based compensation plan.

The options issued during the year ended July 31, 2016, were issued at a price equal to the closing price the day before the grant.

The changes to the number of outstanding share options granted by the Company and their weighted average exercise price are as follows:

	July 31 2016		July 31 2015	
	Number of outstanding share options	Weighted average exercise price	Number of outstanding share options	Weighted average exercise price
		\$		\$
Outstanding at beginning	2,875,000	0.12	1,800,000	0.12
Granted	2,000,000	0.18	1,325,000	0.12
Forfeited	(795,000)	0.11	(250,000)	0.10
Outstanding at end	4,080,000	0.15	2,875,000	0.12
Exercisable at end	4,080,000	0.15	2,875,000	0.12

The following table provides outstanding share options information as at July 31, 2016:

Expiry date	Share options outstanding			
	Number of granted share options	Number of exercisable share options	Exercise price	Remaining life
			\$	(years)
February 20, 2018	200,000	200,000	0.10	1.6
July 22, 2018	200,000	200,000	0.19	2.0
October 2, 2018	450,000	450,000	0.12	2.2
April 8, 2019	80,000	80,000	0.14	2.7
February 25 2020	650,000	650,000	0.10	3.6
March 6, 2020	300,000	300,000	0.135	3.6
June 12, 2020	200,000	200,000	0.17	3.9
February 26, 2021	1,400,000	1,400,000	0.10	4.6
May 7, 2021	600,000	600,000	0.37	4.8
	4,080,000	4,080,000	0.15	3.8

The following table provides outstanding warrants information as at July 31, 2015:

Expiry date	Share options outstanding			
	Number of granted share options	Number of exercisable share options	Exercise price	Remaining life
			\$	(years)
February 20, 2018	500,000	500,000	0.10	2.6
July 22, 2018	220,000	220,000	0.19	3.0
October 2, 2018	750,000	750,000	0.12	3.2
April 8, 2019	80,000	80,000	0.14	3.7
February 25 2020	750,000	750,000	0.10	4.6
March 6, 2020	375,000	375,000	0.135	4.6
June 12, 2020	200,000	200,000	0.17	4.9
	2,875,000	2,875,000	0.12	3.7

**CANADIAN METALS INC.**  
**Notes to Financial Statements (continued)**

Years ended July 31, 2016 and 2015  
(in Canadian dollars)

**12. Share-based compensation (continued):**

**(a) Share option plan (continued):**

**2016 :**

On February 26, 2016, the Company granted 1,400,000 share options to officers, directors and consultants. The options are fully vested on the day of granting, in accordance with the share option plan. The options issued are exercisable at an exercise price of \$0.10 per share and expire on February 26, 2021. The fair value of the options was estimated at \$129,587 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.115
Expected volatility <sup>(2)</sup>	111.37%
Risk-free interest rate	0.67%
Expected life	5.0 years

On May 7, 2016, the Company granted 600,000 share options to directors. The options are fully vested on the day of granting, in accordance with the share option plan. The options issued are exercisable at an exercise price of \$0.37 per share and expire on May 7, 2021. The fair value of the options was estimated at \$183,060 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.380
Expected volatility <sup>(2)</sup>	113.79%
Risk-free interest rate	0.72%
Expected life	5.0 years

**2015 :**

On February 25, 2015, the Company granted 750,000 share options to directors and consultants. The options are fully vested on the day of granting, in accordance with the share option plan. The options issued are exercisable at an exercise price of \$0.10 per share and expire on February 25, 2020. The fair value of the options was estimated at \$54,000 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.06
Expected volatility <sup>(2)</sup>	100.00%
Risk-free interest rate	0.73%
Expected life	5.0 years

On March 6, 2015, the Company granted 375,000 share options to an officer and consultants. The options are fully vested on the day of granting, in accordance with the share option plan. The options issued are exercisable at an exercise price of \$0.135 per share and expire on March 6, 2020. The fair value of the options was estimated at \$40,125 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.14
Expected volatility <sup>(2)</sup>	100.00%
Risk-free interest rate	0.94%
Expected life	5.0 years

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015  
(in Canadian dollars)

### 12. Share-based compensation (continued):

#### (a) Share option plan (continued):

##### 2015 (continued):

On June 12, 2015, the Company granted 200,000 share options to consultants. The options are fully vested on the day of granting, in accordance with the share option plan. The options issued are exercisable at an exercise price of \$0.17 per share and expire on June 12, 2020. The fair value of the options was estimated at \$22,400 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.17
Expected volatility <sup>(2)</sup>	100.00%
Risk-free interest rate	1.01%
Expected life	5.0 years

(1) The volatility was determined by reference to historical data of the Company shares.

(2) The volatility was determined in comparison with the volatility of comparable publicly traded companies.

For the year ended July 31, 2016, the share-based compensation recognized in the statement of comprehensive loss is \$312,647 (\$116,525 for the year ended July 31, 2015).

### 13. Finance expense:

Finance expense recognized in the net loss of the year is as follows:

	July 31 2016	July 31 2015
	\$	\$
Bank charges	3,091	1,170
Part XII.6 tax related to flow-through shares	-	21
Fines and penalties	173	-
Interest on convertible debentures	118,183	-
Exchange loss	20	2,031
<b>Finance expense</b>	<b>121,467</b>	<b>3,222</b>

### 14. Income taxes:

#### (a) Relationship between expected tax expense and accounting profit or loss:

The effective income tax rate of the Company differs from the combined federal and provincial income tax rate in Canada. This difference results from the following items:

	July 31 2016	July 31 2015
	\$	\$
Loss before income taxes	(1,434,688)	(968,453)
Expected tax recovery calculated using the combined federal and provincial income tax rate in Canada	26.90%	26.90%
Expected income tax recovery	(385,931)	(260,514)
Share-based compensation	84,102	31,345
Changes in unrecorded temporary differences	279,619	170,013
Issuance of flow-through shares	-	28,544
Recovery of liabilities related to flow-through shares	-	(29,067)
Other non-deductible expenses	22,210	2,041
<b>Deferred income tax expense (recovery)</b>	<b>-</b>	<b>(57,638)</b>

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 14. Income taxes (continued):

#### (b) Composition of deferred income taxes expense (recovery) in the statement of comprehensive loss:

	July 31 2016	July 31 2015
	\$	\$
Inception and reversal of temporary differences	(277,647)	(227,138)
Issuance of flow-through shares	-	28,554
Changes in unrecorded temporary differences	279,619	170,013
Prior years deferred tax adjustment	(1,972)	-
Recovery of liabilities related to flow-through shares	-	(29,067)
<b>Deferred income tax expense (recovery)</b>	<b>-</b>	<b>(57,638)</b>

#### (c) Movement in recognized deferred tax assets and liabilities during the year:

	July 31 2015	Recognized in profit or loss	Recognized in equity	July 31 2016
	\$	\$	\$	\$
Exploration and evaluation assets	-	1,297	-	1,297
Tax credits for resources	-	(2,605)	-	(2,605)
Debentures	(28,571)	12,962	-	(15,609)
Non-capital losses	28,571	(11,654)	-	16,917

	-	-	-	-
Recovery of liabilities related to flow-through shares	-	-	-	-
	-	-	-	-

	July 31 2014	Recognized in profit or loss	Recognized in equity	July 31 2015
	\$	\$	\$	\$
Exploration and evaluation assets	(15,895)	15,895	-	-
Tax credits for resources	(7,306)	7,306	-	-
Debentures	-	-	(28,571)	(28,571)
Non-capital losses	23,201	5,370	-	28,571
	-	28,571	(28,571)	-
Recovery of liabilities related to flow-through shares	-	29,067	-	-
	-	57,638	-	-

#### (d) Unrecognized deductible temporary differences:

Unrecognized deductible differences for which the Company has not recognized a deferred tax asset are presented in the following tables. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize benefits therefrom.

	Federal	Québec
	\$	\$
Property and equipment	19,534	19,534
Share issuance costs	109,443	109,443
Non-capital losses carryforwards	2,776,668	2,750,233
	2,905,645	2,879,210

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 14. Income taxes (continued):

#### (d) Unrecognized deductible temporary differences (continued):

	Federal	Québec
	\$	\$
Exploration and evaluation assets	149,788	149,788
Property and equipment	19,040	19,040
Share issuance costs	159,553	159,553
Non-capital losses carryforwards	1,531,813	1,512,484
	1,860,194	1,840,865

#### (e) Non-capital losses:

The non-capital losses expire as follows:

	Federal	Québec
	\$	\$
2032	276,533	272,854
2033	82,667	82,322
2034	586,299	576,247
2035	629,606	624,353
2036	1,201,563	1,194,457
	2,776,668	2,750,233

### 15. Supplemental cash flow information:

The Company entered into the following transactions which had no impact on the cash flows:

	July 31 2016	July 31 2015
	\$	\$
Non-cash financing activities:		
Subscription receivable from issuance of shares	-	13,215
Share capital issued in settlement of trade accounts payables	117,500	25,000
Convertible debentures issuance costs paid through the issuance of warrants	-	11,308
Share issuance costs in trade accounts payable and accrued liabilities	10,473	-
Non-cash investing activities:		
Exploration and evaluation assets in trade accounts payable and accrued liabilities	9,684	28,042

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 16. Related party transactions:

In addition to the related party transactions presented elsewhere in these financial statements, the following is a summary of other transactions:

During the year ended July 31, 2016, companies controlled by directors and officers have billed a total \$23,500 for the rental of office space (\$14,000 for the year ended July 31, 2015).

On September 20, 2013, CME acquired a right of first refusal ("ROFR") on the Colline Tortue Property, a silica property, belonging to a private company controlled by an officer and director, located in the area near the Langis property. The terms of the ROFR include a payment of \$25,000 at the signing of the agreement, \$3,000 per month for the first 12 months following the signing of the agreement and \$7,500 per month for the subsequent 24 months. For failure to exercise its right before maturity in 26 months or in the case of cancellation of the ROFR by CME, a payment of \$50,000 becomes payable to the private company. During the period of right of refusal, if the private company receives a purchase offer for the property by a third party, it is then obligated to provide CME 30 days to decide whether it wants to match the offer received. If CME refuses to exercise its ROFR and therefore, does not acquire the property, it will be refunded all amounts already paid marked up by 20%, up to the amounts received by the private company from the third party as payments on the property.

In December 2014, CME terminated its right of first refusal on the property. As a result, the Company paid the penalty in the amount of \$50,000 to and will no longer have to pay the monthly fees associated with this right.

During the year ended July 31, 2015, an amount of \$ 63,500 was paid by CME to the private company controlled by an officer and director in connection with this right of refusal and was recorded in general exploration expenditures.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

#### Key management personnel remuneration:

Key management personnel of the Company are members of the Board of Directors, as well as the President, the Chief Financial Officer, the Vice-President Development and a special advisor to the Board of Directors. Key management personnel remuneration includes the following expenses:

	July 31 2016	July 31 2015
	\$	\$
Management and consulting fees	364,276	309,387
Share-based compensation	301,077	84,300
	665,353	393,687

### 17. Capital management policies and procedures:

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern;
- to increase the value of the assets of the business; and
- to provide an adequate return to shareholders of the Company.

These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through to production or sale and cash flow, either with partners or by the Company's own means.

The Company monitors capital on the basis of the carrying amount of equity. Capital for the reporting periods are presented in the statement of changes in equity.

The Company is not exposed to any externally imposed capital requirements except when the Company issues flow-through shares for which the amount should be used for exploration work. Currently, the Company has no such requirements.

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 17. Capital management policies and procedures (continued):

The Company sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Company finances its exploration and evaluation activities principally by raising additional capital either through private placements or public offerings. When financing conditions are not optimal, the Company may enter into option agreements or other solutions to continue its exploration and evaluation activities or may slow its activities until conditions improve. No changes were made in the objectives, policies and processes for managing capital during the reporting periods.

### 18. Financial Instrument Risks:

The Company is exposed to various risks in relation to financial instruments. The main types of risks the Company is exposed to are credit risk and liquidity risk.

The Company manages risks in close cooperation with the board of directors. The Company focuses on actively securing short- to medium-term cash flows by minimizing the exposure to financial markets.

#### (a) Credit risk:

Credit risk is the risk that the other party to a financial instrument fails to honour one of its obligations and, therefore, causes the Company to incur a financial loss.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date.

The Company's management considers that all of the above financial assets that are not impaired or past due for each of the reporting dates are of good credit quality.

Credit risk of cash and cash equivalents is considered negligible, since the counterparty is a reputable bank with excellent external credit rating.

None of the Company's financial assets are secured by collateral or other credit enhancements.

#### (b) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources such as private and public investments for a sufficient amount.

During the year, the Company has financed its acquisitions of mining rights, exploration costs and working capital needs through private financings (issuance of shares and convertible debentures in 2015).

The accounts payable and accrued liabilities have contractual maturities less than twelve months. The convertible debentures have a maturity of 36 months. An amount of \$70,000 will be payable in 2017 and an amount of \$770,000 will be payable in 2018.

### 19. Subsequent event:

On November 8, 2016 the Company has selected the Municipality of Baie-Comeau in the Northern region of Québec to conduct its pre-feasibility study for its Hybrid Flex plant. The Company entered into an agreement with Innovation and Development Manicouagan (IDM) for a financial contribution in the amount of \$340,000 via its business and development fund. The non-reimbursable financial contribution from IDM is conditional upon the Company making a minimum financial commitment of \$390,000 towards the advancement of the project. The total investment of \$730,000 will thus allow the Company to complete the pre-feasibility study on the development of its Hybrid Flex project in the industrial port zone of Baie-Comeau

# CANADIAN METALS INC.

## Notes to Financial Statements (continued)

Years ended July 31, 2016 and 2015

(in Canadian dollars)

### 20. Reclassification:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year, mainly a reclassification from operating expenses to selling and administrative expenses. The reclassification has been done to increase the clarity and usefulness of information presented in the financial statements.

	<b>July 31</b>
	<b>2015</b>
<b>General and administrative expenses :</b>	<b>\$</b>
<b>Professional fees</b>	
Initial balance	162,459
Adjustments:	(108,496)
<b>Balance after reclassification:</b>	<b>53,963</b>
<b>General and administrative expenses :</b>	
<b>Management and consulting fees</b>	
Initial balance	268,956
Adjustments:	108,496
<b>Balance after reclassification:</b>	<b>377,452</b>
	<b>July 31</b>
	<b>2015</b>
<b>General and administrative expenses :</b>	<b>\$</b>
<b>Rent and office expenses</b>	
Initial balance	41,115
Adjustments:	(1,191)
<b>Balance after reclassification:</b>	<b>39,924</b>
<b>Net finance expense :</b>	
<b>Finance expense</b>	
Initial balance	2,031
Adjustments:	1,191
<b>Balance after reclassification:</b>	<b>3,222</b>