



CANADIAN METALS INC.

Financial Statements

**Years ended
July 31, 2018 and 2017**

CANADIAN METALS INC.

Financial Statements

Years ended July 31, 2018 and 2017

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Financial Statements

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Independent Auditor's Report

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To the Shareholders of
Canadian Metals Inc.

We have audited the accompanying financial statements of Canadian Metals Inc., which comprise the statements of financial position as at July 31, 2018 and 2017 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 in 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, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Raymond Cholet Grant Thornton LLP¹

Montréal
November 19, 2018

¹ CPA auditor, CA public accountancy permit no. A115879

CANADIAN METALS INC.

Statements of Financial Position

As at July 31, 2018 and 2017
(in Canadian dollars)

	Note	July 31 2018 \$	July 31 2017 \$
Assets			
Current assets:			
Cash and cash equivalents	5	3,494,947	334,630
Other receivables	6	257,152	56,640
Prepaid expenses		20,454	16,969
Total current assets		3,772,553	408,239
Non-current assets:			
Property and equipment		1,136	-
Mining properties	7	1,670,072	152,000
Exploration and evaluation assets	8	2,517,621	1,134,604
Total non-current assets		4,188,829	1,286,604
Total assets		7,961,382	1,694,843
Liabilities and Equity			
Current liabilities:			
Trade accounts payable and accrued liabilities		760,211	149,866
Other liability related to flow-through financings		-	23,309
Current portion of convertible debentures	9	35,000	626,704
Unearned grants		70,044	-
Total current liabilities		865,255	799,879
Non-current liabilities:			
Convertible debentures	9	931,923	334,388
Total non-current liabilities		931,923	334,388
Total liabilities		1,797,178	1,134,267
Equity:			
Share capital	10	8,084,852	3,197,247
Warrants	10	1,532,105	506,451
Share options	11	901,585	500,627
Equity component of the convertible debentures	9	562,455	258,707
Contributed surplus		1,227,580	617,706
Deficit		(6,144,373)	(4,520,162)
Total equity		6,164,204	560,576
Total liabilities and equity		7,961,382	1,694,843

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 19, 2018.

(S) René Boisvert
President

(S) Michel Gagnon
Director and President of the audit committee

CANADIAN METALS INC.
Statements of Comprehensive Loss

Years ended July 31, 2018 and 2017
(in Canadian dollars)

	Note	July 31 2018	July 31 2017
		\$	\$
General and administrative expenses:			
Management and consulting fees		619,976	422,421
Share-based compensation	11	580,712	68,738
Registration, listing fees and shareholders information		87,887	54,197
Professional fees		80,910	72,787
Rent and office expenses		48,698	40,955
Travel and promotion		48,519	98,078
Loss on settlement of convertible debentures		35,522	-
Development cost		3,186	-
Part XII.6 income taxes		1,296	-
Depreciation of property and equipment		184	-
General exploration expenditures		-	513
Write-off of receivables		-	484
Loss from operating activities		1,506,890	758,173
Finance income		(138)	(47)
Finance expense	12	278,275	195,033
Total net finance expense		278,137	194,986
Loss before income taxes		1,785,027	953,159
Deferred income tax recovery	13	(160,816)	(100,753)
Net loss and comprehensive loss		1,624,211	852,406
Weighted average number of common shares outstanding		79,613,256	43,029,457
Basic and diluted loss per share		0.02	0.02

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

CANADIAN METALS INC.

Statements of Changes in Equity

Years ended July 31, 2018 and 2017

(in Canadian dollars)

	Note	Number of shares outstanding	Share capital	Warrants	Share options	Equity component of the convertible debentures	Contributed surplus	Deficit	Total equity
			\$	\$	\$	\$	\$	\$	\$
Balance as at July 31 2017		46,499,481	3,197,247	506,451	500,627	258,707	617,706	(4,520,162)	560,576
Shares issued:									
Private placements	10	49,066,666	3,030,543	1,281,957	-	-	-	-	4,312,500
Private placements of flow-through shares	10	6,213,816	683,520	-	-	-	-	-	683,520
As payment of mining properties	7	11,000,000	1,315,000	-	-	-	-	-	1,315,000
As a settlement of interest payment on the debentures	10	1,832,874	142,381	-	-	-	-	-	142,381
Share issuance costs		-	(283,839)	-	-	-	-	-	(283,839)
Warrants issued to brokers		-	-	96,177	-	-	-	-	96,177
Warrants expired		-	-	(352,480)	-	-	352,480	-	-
Convertible debentures issued net of a deferred tax liability of \$137,507	9	-	-	-	-	381,388	-	-	381,388
Convertible debenture expired		-	-	-	-	(77,640)	77,640	-	-
Share options expired		-	-	-	(179,754)	-	179,754	-	-
Share-based compensation	11	-	-	-	580,712	-	-	-	580,712
Transactions with owners		68,113,356	4,887,605	1,025,654	400,958	303,748	609,874	-	7,227,839
Net loss and comprehensive loss for the year		-	-	-	-	-	-	(1,624,211)	(1,624,211)
Balance as at July 31 2018		114,612,837	8,084,852	1,532,105	901,585	562,455	1,227,580	(6,144,373)	6,164,204
Balance as at July 31 2016		40,680,082	2,663,943	473,770	501,456	77,640	465,735	(3,667,756)	514,788
Shares issued:									
Private placements	10	2,369,998	242,386	113,114	-	-	-	-	355,500
Private placements net of a liability of flow-through shares of \$49,800	10	1,660,000	199,200	-	-	-	-	-	199,200
As payment of expenses	10	100,000	20,000	-	-	-	-	-	20,000
As a settlement of interest payment on the debentures	10	1,689,401	100,500	-	-	-	-	-	100,500
Share issuance costs		-	(28,782)	-	-	-	-	-	(28,782)
Warrants issued to brokers		-	-	1,971	-	-	-	-	1,971
Warrants expired		-	-	(82,404)	-	-	82,404	-	-
Convertible debentures issued net of a deferred tax liability of \$74,262	9	-	-	-	-	181,067	-	-	181,067
Share options expired		-	-	-	(69,567)	-	69,567	-	-
Share-based compensation	11	-	-	-	68,738	-	-	-	68,738
Transactions with owners		5,819,399	533,304	32,681	(829)	181,067	151,971	-	898,194
Net loss and comprehensive loss for the year		-	-	-	-	-	-	(852,406)	(852,406)
Balance as at July 31 2017		46,499,481	3,197,247	506,451	500,627	258,707	617,706	(4,520,162)	560,576

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

CANADIAN METALS INC.

Statements of Cash Flows

Years ended July 31, 2018 and 2017

(in Canadian dollars)

	July 31 2018	July 31 2017
	\$	\$
Operating activities:		
Net loss	(1,624,211)	(852,406)
Adjustments for:		
Expenses paid through issuance of shares	-	20,000
Share-based compensation	580,712	68,738
Depreciation of property and equipment	184	-
Effective interest costs on convertible debentures	134,922	93,181
Interests on convertible debentures paid through issuance of shares	142,534	100,500
Loss on settlement of convertible debentures	35,522	-
Write-off of receivables	-	484
Deferred income tax recovery	(160,816)	(100,753)
Operating activities before changes in working capital items	(891,153)	(670,256)
Change in other receivables	(202,807)	1,477
Change in prepaid expenses	(3,485)	6,223
Change in trade accounts payable and accrued liabilities	174,655	(71,181)
	(31,637)	(63,481)
Cash flows used for operating activities	(922,790)	(733,737)
Financing activities:		
Proceeds from convertible debenture issued	400,000	610,000
Convertible debentures issuance costs	(26,700)	(52,241)
Proceeds from issuance of shares	4,996,020	604,500
Share issuance costs	(210,870)	(33,130)
Cash flows from financing activities	5,158,450	1,129,129
Investing activities:		
Property and equipment	(1,320)	-
Mining tax received	568	-
Tax credit related to resources received	13,727	-
Government grants applied against exploration and evaluation assets	537,000	-
Acquisition of mining properties	(203,072)	-
Increase in exploration and evaluation assets	(1,422,246)	(261,763)
Cash flows used for investing activities	(1,075,343)	(261,763)
Net change in cash and cash equivalents	3,160,317	133,629
Cash and cash equivalents, beginning of year	334,630	201,001
Cash and cash equivalents, end of year	3,494,947	334,630

Additional disclosures of cash flows information (Note 14).

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

CANADIAN METALS INC.

Notes to Financial Statements

Years ended July 31, 2018 and 2017

(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 866, 3ième Avenue, Val-d'Or, Québec, Canada, J9P 1T1 and its web site is www.canadianmetalsinc.com.

The Company specializes in the acquisition, exploration and evaluation of mineral properties in Quebec and New Brunswick. The Company is focused on the exploration and the development 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 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 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, 2018, the Company recorded a net loss of \$1,624,211 (\$852,406 in 2017) and has an accumulated deficit of \$6,144,373 as at July 31, 2018 (\$4,520,162 as at July 31, 2017). 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, 2018, the Company had a working capital of \$2,907,298 (working capital deficiency of \$391,640 as at July 31, 2017) consisting of cash and cash equivalents of \$3,494,947 (\$334,630 as at July 31, 2017). These uncertainties cast 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, 2018, the Company has raised \$5,396,020 (\$1,214,500 in 2017) from private placements consisting of common shares, flow-through shares and convertible debentures 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.

3.2 Basis of measurement:

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

3.3 Functional and presentation currency:

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

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

3. Basis of preparation (continued):

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.

Phase of a mining project

The Company evaluates the potential of each project to determine when the project should progress from the exploration and evaluation phase to the development phase. Once management has determined that a project has demonstrated a potential for development based on a number of judgmental criteria and once approved by the Board of Directors, the project moves into the development phase.

(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.

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

3. Basis of preparation (continued):

3.4 Use of estimates and judgements (continued):

(b) Estimation uncertainty (continued):

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 11).

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. 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).

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

4. Significant accounting policies (continued):

4.1 Financial instruments (continued):

(a) Financial assets (continued):

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.

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 trade 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 Grants:

Grants are recognized as a reduction of the related expenses or assets. The Company records these grants when there is reasonable assurance with regards to collections and assessments and that the Company will comply with the conditions associated to them.

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

4. Significant accounting policies (continued):

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 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.

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

4. Significant accounting policies (continued):

4.7 Impairment of exploration and evaluation assets and property and equipment (continued):

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.

4.8 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, 2018 and 2017 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.

4.9 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 comprise 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.

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

4. Significant accounting policies (continued):

4.9 Income taxes (continued):

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.

4.10 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.

4.11 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".

4.12 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.

4.13 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.

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

4. Significant accounting policies (continued):

4.13 Compound financial instruments (continued):

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.

4.14 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.

4.15 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 plan 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.

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.

4.16 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.

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

4. Significant accounting policies (continued):

4.17 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:*

The IASB issued IFRS 9 in November 2009 with the long-term goal of replacing IAS 39, Financial Instruments: Recognition and Measurement. Several amendments have been made to this standard since that date including amendments made in July and August 2014 relating to the classification of financial assets and the use of a single impairment model for all financial instruments.

These amendments, along with the adoption of the standard, are effective for annual reporting periods beginning on or after January 1, 2018 with no significant impact on its financial statements.

(iii) *IFRS 16 - Leases:*

In January 2016, IASB issued the new standard IFRS 16 - Leases which replaces the previous standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer/lessee and the supplier/lessor. More specifically, IFRS 16 is requiring assessing whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time. In such cases, leases are capitalised as "right-of-use assets" or as "property, plant and equipment". Therefore, the new requirement eliminates the classification of leases as either operating leases or finance leases for a lessee.

The new standard is effective for the annual period beginning on January 1, 2019 with no significant impact on its financial statements.

5. Cash and cash equivalents:

	July 31 2018	July 31 2017
	\$	\$
Cash	3,494,947	324,130
Cash in trust	-	10,500
	3,494,947	334,630

Funds reserved for E&E expenditures

On December 28 and 29, 2017, the Company completed a flow-through private placement of \$683,520. The Company has until December 31, 2018 to incur eligible exploration and evaluation expenditures in order to comply with the requirements of flow-through private placement. As at July 31, 2018, the Company has the obligation to incur an amount of \$681,109 in exploration and evaluation expenditures until December 31, 2018.

There is no guarantee that the Company's exploration and evaluation expenditures will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities could have a negative tax impact for investors.

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

6. Other receivables:

	July 31 2018	July 31 2017
	\$	\$
Sales tax receivable	244,338	42,345
Grant receivable	12,000	-
Other	814	-
Tax credits receivable and mining tax receivable	-	14,295
	257,152	56,640

7. Mining properties:

Mining properties can be detailed as follows:

	Interest	July 31 2017	Acquisition	Disposition	Impairment	July 31 2018
	%	\$	\$	\$	\$	\$
Québec:						
Langis ⁽¹⁾	100	152,000	52	-	-	152,052
Lac La Chesnaye ⁽²⁾	100	-	427,500	-	-	427,500
New Brunswick						
Chisholm Brook ⁽³⁾	100	-	47,900	-	-	47,900
Blackshale ⁽⁴⁾	100	-	478,721	-	-	478,721
Mountain Brook ⁽⁴⁾	100	-	408,239	-	-	408,239
TV Tower ⁽⁴⁾	100	-	155,660	-	-	155,660
		152,000	1,518,072	-	-	1,670,072

	Interest	July 31 2016	Acquisition	Disposition	Impairment	July 31 2017
	%	\$	\$	\$	\$	\$
Québec:						
Langis ⁽¹⁾	100	152,000	-	-	-	152,000
		152,000	-	-	-	152,000

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

7. Mining properties (continued):

1) Langis Property (silicon):

On September 16, 2013, the Company acquired the mining rights on the Langis property located in Matane area (Quebec). It is subject to a 3% NSR Royalty.

2) Lac La Chesnaye Property (silica):

On November 12, 2017, the Company entered into a mineral property purchase agreement to acquire a 100% interest in 10 claims located in the Lac La Chesnaye Property (Québec) from SiO2 Canada Ltd. by issuing 4,500,000 common shares and granting a 1.5% NSR Royalty to 21ALPHA Resources Inc., a related of SiO2 Canada Ltd. The Company shall have the right to purchase 50% of the NSR at any time by paying \$1,000,000 to 21ALPHA Resources Inc. On November 24 2017, Canadian Metals issued 4,500,000 common shares at a fair value of \$0.095 for a total value of \$427,500 as payment for the acquisition of 10 claims.

3) Chisholm Brook Property (silica):

On November 12, 2017, the Company entered into a mineral property purchase agreement to acquire 100% interest in 20 claims located in the Chisholm Brook Property (New Brunswick) from SiO2 Canada Ltd. by issuing 500,000 common shares and granting a 1.5% NSR Royalty to 21ALPHA Resources Inc., a related of SiO2 Canada Ltd. The Company shall have the right to purchase 50% of the NSR at any time by paying \$1,000,000 to 21ALPHA Resources Inc. On November 24 2017, Canadian Metals issued 500,000 common shares at a fair value of \$0.095 for a total value of \$47,500 as payment for the acquisition of 20 claims.

4) TV Tower Property, Mountain Brook Property and Blackshale Property (zinc):

On March 16, 2018, the Company entered into an option agreement with NBZINC Inc., over which a company controlled by an officer and a director of the Company exercises a significant influence, to acquire an undivided 100% interest in the three following properties located in New Brunswick: TV Tower, Mountain Brook and Blackshale properties. The Blackshale property is composed of 163 claims covering approximately 5,479 hectares, the Mountain Brook property is composed of 139 claims covering approximately 4,233 hectares and the TV Tower property is composed in 53 claims covering approximately 1,157 hectares. The claims are subject to a 2% NSR.

To earn its 100% interest, the Company must make cash payments, issue common shares and incur exploration expenses in the following timelines:

	Cash payments	Shares	Exploration expenses
	\$		\$
On March 16, 2018	200,000 ⁽¹⁾	6,000,000 ⁽²⁾	-
On or before October 15, 2018	-	-	300,000
On or before November 1, 2018	200,000	5,000,000	-
On or before November 1, 2019	-	5,000,000	-
	400,000	16,000,000	300,000

(1) This cash payment was made on March 16, 2018. (\$50,000 for the company controlled by an officer and director of the Company).

(2) These common shares were issued on March 16, 2018 at a \$0.14 per share for a consideration of \$840,000 (1,500,000 common shares issued for a consideration of \$210,000 to a company controlled by an officer and director of the Company).

The Company shall be required to make a payment of US\$4,000,000 for each of the three properties for which it has acquired 100% of undivided interests, provided that the Company has made a public disclosure of a mineral resource estimate of 1,000,000 ounces of gold or gold-equivalent resources in the aggregate and in any and all categories for such property, for a total possible maximum payment of US\$12,000,000 for all three properties.

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

8. Exploration and evaluation assets:

Exploration and evaluation assets by nature are detailed as follows:

	July 31 2018	July 31 2017
	\$	\$
Exploration and evaluation costs:		
Technical Reports	1,294,474	108,576
Drilling	219,864	127,057
Geology	149,072	5,400
Surveys	99,440	-
Environment	47,491	89,899
Supervision	25,756	18,431
Excavator	12,099	-
Core Library	5,100	-
Lodging	3,200	-
Maintenance and field supplies	3,021	-
Assays	2,456	-
	1,861,973	349,363
Other items:		
Tax credit related to resources and mining tax	-	31,557
Grants	(478,956)	-
	(478,956)	31,557
Balance at the beginning	1,134,604	753,684
Balance at the end	2,517,621	1,134,604

Exploration and evaluation assets by properties are detailed as follows:

	July 31 2017	Exploration costs	Tax credits and mining tax	Disposition	Grant	July 31 2018
	\$	\$	\$	\$	\$	\$
Québec:						
Langis	1,134,604	1,414,160	-	-	(466,956)	2,081,808
Lac La Chesnaye	-	62,722	-	-	-	62,722
New Brunswick						
Chisholm Brook	-	-	-	-	-	-
Blackshale	-	41,007	-	-	-	41,007
Mountain Brook	-	31,222	-	-	-	31,222
TV Tower	-	312,862	-	-	(12,000)	300,862
	1,134,604	1,861,973	-	-	(478,956)	2,517,621
	July 31 2016	Exploration costs	Tax credits and mining tax	Disposition	Impairment	July 31 2017
	\$	\$	\$	\$	\$	\$
Québec:						
Langis	753,684	349,363	31,557	-	-	1,134,604
	753,684	349,363	31,557	-	-	1,134,604

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

9. Convertible debentures:

	July 31 2018	July 31 2017
	\$	\$
Convertible debentures (1)		
Convertible debentures bearing interest at 10% payable semi-annually and maturing in December 2022. ^(a)	390,452	626,704
Convertible debentures (2)		
Convertible debentures bearing interest at 10% payable semi-annually and maturing in December 2020. ^(b)	388,241	334,388
Convertible debentures (3)		
Convertible debentures bearing interest at 10% payable semi-annually and maturing in December 2022.	188,230	-
	966,923	961,092
Current portion of convertible debentures	35,000	626,704
Non-current portion of convertible debentures	931,923	334,388

(a) Debentures (1) from related parties:

	July 31 2018	July 31 2017
	\$	\$
Director	15,000	13,429
Companies under control of an officer and director	15,000	40,288
	30,000	53,717

(b) Debentures (2) from related parties:

	July 31 2018	July 31 2017
	\$	\$
Directors	12,729	16,446
Officers	-	10,964
Company under control of a director	13,366	11,512
Companies under control of an officer and director	9,547	13,705
	35,642	52,627

The changes in the Company's liabilities arising from financing activities are as follows:

	July 31 2018
	\$
Balance at the beginning	961,092
Cash-flows	
Proceeds	400,000
Transaction costs	(13,455)
Share-based compensation	
Non-Cash:	
Equity component of convertible debenture (3)	(196,240)
Effective interest costs on convertible debentures	134,922
Extinguishment	(665,000)
Fair value of amended debenture (1)	355,362
Transaction costs	(9,758)
Balance end of year	966,923

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

9. Convertible debentures (continued):

Convertible debentures (1)

On July 27, 2015, the Company completed a convertible debentures financing of \$700,000. The maturity of the convertible debentures is three years (June 30, 2018) and bear interest at 10% per year. Interest is payable on June 30 and December 31 of each year. \$35,000 was repaid subsequent to year end. On July 30, 2018, amending agreements were signed with debenture holders representing a nominal amount of \$665,000. Under the terms of the amending agreement, the debenture matures in December 2022 and has a conversion price of \$0.15. Furthermore, the Company has a forced conversion option if 10% of the Company's common shares are traded over 21 consecutive days, with a minimum of 0.47% per day.

For accounting purposes, the amendment was accounted as a debt extinguishment of the initial debenture with a loss of \$35,522 recorded in net loss. The amended debenture has three components, the liability, the conversion option and the forced conversion option.

For purposes of determining the fair value of the liability component, an effective interest rate of 30% was used which is the estimated market rate that the Company would have obtained for a similar financing without the conversion option. The fair value of the Forced conversion option is not significant considering the low probability of occurrence. At issuance, the equity component is \$345,160 and is presented net of income tax in the amount of \$91,467.

The fair value of the conversion options was estimated using the Black-Scholes evaluation model using the following assumptions:

Expected dividend yield	0.0%
Share price at grant date	\$0.085
Expected volatility ⁽¹⁾	174.00%
Risk-free interest rate	2.1%
Expected life	4.5 years

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

Convertible debentures (2)

On December 12, 2016, the Company completed a convertible debentures financing of \$610,000. The maturity of the convertible debentures is four years (December 31, 2020) and bear interest at 10% per year. At the conversion date, both the capital and unpaid interest is convertible using a conversion price of \$0.20. Interest is payable on June 30 and December 31 of each year. The second, third and fourth year, interest will be paid in cash or shares. If a minimum of 66.6% of the debentures holders (in terms of amounts of dollars) vote in favor of either a payment in cash or shares, the Company will pay all debentures holders the same way. 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, subject to a minimum price of \$0.05.

Commission of 4.0% to 8.5% of the amount and legal fees were paid in cash for a total amount of \$52,241. Of this amount, \$28,241 was recorded as a reduction of liabilities and \$24,000 as a reduction of equity. In addition, a number of 25,950 warrants were granted to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.20 per share until December 12, 2018. These warrants were recorded at a value of \$1,971 using the Black-Scholes option pricing model under the assumptions described below (note 10 (c)). Of this amount, \$1,066 was recorded as a reduction of liabilities and \$905 as a reduction of equity.

For purposes of determining the fair value of the liability component, an effective interest rate of 28.43% 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. At issuance, the equity component was \$280,234 and is presented net of income tax in the amount of \$74,262.

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

9. Convertible debentures (continued):

Convertible debentures (3)

On March 20, 2018, the Company completed a convertible debentures financing of \$400,000. The maturity of the convertible debentures is December 31, 2022 and bear interest at 10% per year. At the conversion date, both the capital and unpaid interest is convertible using a conversion price of \$0.20. Interest is payable on June 30 and December 31 of each year. The Company has the option to pay interest in cash or in shares. 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, subject to a minimum price of 0.05\$. Furthermore, the Company has an early redemption option to convert the debentures if the Company's common shares are traded over \$0.40 for 20 consecutive days or if the Company closes a financing exceeding \$0.40. In this event, the conversion price will be adjusted to the value of the financing or the average over 20 days, using a 10% discount.

Commission of 5.0% of the amount and legal fees were paid in cash for a total amount of \$26,700. Of this amount, \$13,590 was recorded as a reduction of liabilities and \$13,110 as a reduction of equity. In addition, a number of 290,910 warrants were granted to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until March 20, 2020. These warrants were recorded at a value of \$19,172 using the Black-Scholes option pricing model under the assumptions described below (note 10 (c)). Of this amount, \$9,758 was recorded as a reduction of liabilities and \$9,414 as a reduction of equity.

For accounting purposes, the debenture has three components, the liability, the conversion option and the early redemption option. For purposes of determining the fair value of the liability component, an effective interest rate of 30% was used which is the estimated market rate that the Company would have obtained for a similar financing without the conversion option. The fair value of the Early redemption conversion option is not significant considering the low probability of occurrence. The liability component is accreted up to the face value of the debenture over the term of the debentures as an interest expense. At issuance, the equity component was \$196,240 and is presented net of income tax in the amount of \$46,040.

10. 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

2018:

On October 16, 2017, the Company concluded a private placement by issuing 1,201,667 units at a price of \$0.075 per unit for net proceeds of \$86,340 after deducting share issuance costs of \$3,785. A commission of \$1,500 was paid in connection with this transaction. Each unit consists of one common share and one-half warrant for a total of 1,201,667 common shares and 600,834 warrants. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.15 until April 16, 2019. These warrants have been recorded at a value of \$15,590 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)). As part of this private placement, the Company also issued a total of 20,000 broker warrants. Each broker warrant entitles its holder to purchase one common share at \$0.15 per share until April 16, 2019. These warrants have been recorded at a value of \$586 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)). As a result, the broker warrants were recorded under warrants and as share issuance costs as a reduction of share capital in the statement of changes in equity. Share issuance costs amounted to \$4,371 including the fair value of the broker warrants of \$586.

On November 24 2017, as per the mineral property purchase agreement of November 12, 2017 (Note 7), the Company issued 5,000,000 common shares at a fair value of \$0.095 for a total value of \$475,000 as payment for the acquisition of 10 claims of Lac La Chesnaye Property located in Québec and 20 claims of Chisholm Brook Property located in New-Brunswick.

On December 12, 2017, the Company concluded a private placement by issuing 5,208,333 units at a price of \$0.075 per unit for net proceeds of \$389,177 after deducting share issuance costs of \$1,448. No commission was paid in connection with this transaction. Each unit consists of one common share and one warrant for a total of 5,208,333 common shares and 5,208,333 warrants. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.15 until December 12, 2019. These warrants have been recorded at a value of \$152,461 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)).

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

10. Share capital and warrants (continued):

(b) Issued and outstanding (continued)

2018:

On December 28, 2017, the Company concluded a private placement by issuing 3,363,636 flow-through common shares at a price of \$0.11 per share for net proceeds of \$326,624 after deducting share issuance costs of \$43,376. A commission of \$29,600 was paid in connection with this transaction. As part of this private placement, the Company also issued a total of 269,091 broker warrants. Each broker warrant entitles its holder to purchase one common share at \$0.15 per share until December 28, 2019. These warrants have been recorded at a value of \$36,898 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)). As a result, the broker warrants were recorded under warrants and as share issuance costs as a reduction of share capital in the statement of changes in equity. Share issuance costs amounted to \$80,274 including the fair value of the broker warrants of \$36,898. No liability related to flow-through shares has been recorded based on the residual value method.

On December 29, 2017, the Company concluded a private placement by issuing 2,850,180 flow-through common shares at a price of \$0.11 per share for net proceeds of \$283,857 after deducting share issuance costs of \$29,663. A commission of \$20,093 was paid in connection with this transaction. As part of this private placement, the Company also issued a total of 182,665 broker warrants. Each broker warrant entitles its holder to purchase one common share at \$0.15 per share until December 29, 2019. These warrants have been recorded at a value of \$23,314 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)). As a result, the broker warrants were recorded under warrants and as share issuance costs as a reduction of share capital in the statement of changes in equity. Share issuance costs amounted to \$52,977 including the fair value of the broker warrants of \$23,314. No liability related to flow-through shares has been recorded based on the residual value method.

On December 29, 2017, the Company concluded a private placement by issuing 350,000 units at a price of \$0.075 per unit for net proceeds of \$24,412 after deducting share issuance costs of \$1,838. A commission of \$1,838 was paid in connection with this transaction. Each unit consists of one common share and one warrant for a total of 350,000 common shares and 350,000 warrants. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.15 until December 29, 2019. These warrants have been recorded at a value of \$11,071 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)). As part of this private placement, the Company also issued a total of 24,500 broker warrants. Each broker warrant entitles its holder to purchase one common share at \$0.15 per share until December 29, 2019. These warrants have been recorded at a value of \$3,127 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)). As a result, the broker warrants were recorded under warrants and as share issuance costs as a reduction of share capital in the statement of changes in equity. Share issuance costs amounted to \$4,965 including the fair value of the broker warrants of \$3,127.

On December 29, 2017, the Company issued 793,939 common shares for interests payable of \$65,500 on convertible debentures. No commission was paid in connection with this transaction. The interests were payable as follows:

Convertible debentures (1)

424,242 common shares issued for interests of \$35,000 payable on December 31, 2017

Convertible debentures (2)

369,697 common shares issued for interests of \$30,500 payable on December 31, 2017

As at December 31, 2017, following the issuance of 6,213,816 flow-through common shares on December 28 and 29, 2017, the Company has the obligation to incur \$683,520 in exploration expenditures no later than December 31, 2018. As at July 31, 2018, the Company incurred \$2,411 in eligible exploration and therefore had the obligation to incur \$681,109 in exploration expenditures.

On January 19, 2018, the Company concluded a private placement by issuing 17,006,666 units at a price of \$0.075 per unit for net proceeds of \$1,258,682 after deducting share issuance costs of \$16,818. A commission of \$10,050 was paid in connection with this transaction. Each unit consists of one common share and one warrant for a total of 17,006,666 common shares and 17,006,666 warrants. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.15 until January 19, 2020. These warrants have been recorded at a value of \$523,984 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)). As part of this private placements, the Company also issued a total of 134,000 broker warrants. Each broker warrant entitles its holder to purchase one common share at \$0.15 per share until January 19, 2020. These warrants have been recorded at a value of \$13,080 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)). As a result, the broker warrants were recorded under warrants and as share issuance costs as a reduction of share capital in the statement of changes in equity. Share issuance costs amounted to \$29,898 including the fair value of the broker warrants of \$13,080.

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

10. Share capital and warrants (continued):

(b) Issued and outstanding (continued)

2018 (continued):

On March 13, 2018, the Company concluded a private placement by issuing 25,300,000 units at a price of \$0.10 per unit for net proceeds of \$2,421,957 after deducting share issuance costs of \$108,043. A commission of \$101,500 was paid in connection with this transaction. Each unit consists of one common share and one-half warrant for a total of 25,300,000 common shares and 12,650,000 warrants. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.15 until March 13, 2020. These warrants have been recorded at a value of \$578,851 based on the Black-Scholes option pricing model using the assumptions described below (Note 10 (c)).

On March 16, 2018, as per the mineral property purchase agreement of March 16, 2018 (Note 7), the Company issued 6,000,000 common shares at a fair value of \$0.14 for a total value of \$840,000 as the first timeline scheduled as per the agreement for the acquisition of 100% undivided interest in TV Tower, Mountain Brook and Blackshale properties, all located in New-Brunswick.

On July 31, 2018, the Company issued 1,038,935 common shares for interests payable of \$76,881 on convertible debentures. No commission was paid in connection with this transaction. The interests were payable as follows:

Convertible debentures (1)

472,973 common shares issued for interests of \$35,000 payable on June 30, 2018

Convertible debentures (2)

412,162 common shares issued for interests of \$30,500 payable on June 30, 2018

Convertible debentures (3)

153,800 common shares issued for interests of \$11,381 payable on June 30, 2018

2017:

On October 31, 2016, the Company issued to a service provider 100,000 common shares valued at \$20,000 for promotion fees.

On December 29, 2016, the Company concluded a private placement by issuing 1,660,000 flow-through common shares at a price of \$0.15 per share for net proceeds of \$225,204 after deducting share issuance costs of \$23,796. A liability related to flow-through shares has been recorded at a value of \$49,800 based on the residual value method.

On February 3, 2017, the Company concluded a private placement by issuing 2,369,998 units at a price of \$0.15 per unit for net proceeds of \$350,514 after deducting share issuance costs of \$4,986. No commission was paid in connection with this private placement. Each unit consists of one common share and one warrant for a total of 2,369,998 common shares and 2,369,998 warrants. Each warrant will entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.20 until February 3, 2018. These warrants have been recorded at a value of \$113,114 based on the Black-Scholes option pricing model using the assumptions described below (Note 11 (c)).

On July 3, 2017, the Company issued 1,689,401 common shares for interests payable of \$100,500 on convertible debentures. No commission was paid in connection with this transaction. The interests were payable as follows:

Convertible debentures (1)

58,654 common shares issued remaining on the interests paid on January 8, 2016

16,187 common shares issued remaining on the interests paid on July 25, 2016

328,022 common shares issued for interests of \$35,000 payable on December 31, 2016

700,000 common shares issued for interests of \$35,000 payable on June 30, 2017

Convertible debentures (2)

586,538 common shares issued for interests of \$30,500 payable on June 30, 2017

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

10. 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 2018		July 31 2017	
	Number of outstanding warrants	Weighted average exercise price	Number of outstanding warrants	Weighted average exercise price
		\$		\$
Outstanding at beginning	8,929,282	0.21	8,149,000	0.22
Granted	36,736,999	0.15	2,395,948	0.20
Expired	(6,403,332)	(0.23)	(1,615,666)	0.24
Outstanding at end	39,262,949	0.15	8,929,282	0.21

The following table provides outstanding warrants information as at July 31, 2018:

Expiry date	Outstanding warrants		
	Number of outstanding warrants	Exercise price	Remaining life
		\$	(years)
September 15, 2018	2,500,000	0.15	0.1
December 12, 2018	25,950	0.20	0.4
April 16, 2019	620,834	0.15	0.7
December 12, 2019	5,208,333	0.15	1.4
December 28, 2019	269,091	0.15	1.4
December 29, 2019	557,165	0.15	1.4
January 19, 2020	17,140,666	0.15	1.5
March 13, 2020	12,650,000	0.15	1.6
March 20, 2020	290,910	0.15	1.6
	39,262,949	0.15	1.4

The following table provides outstanding warrants information as at July 31, 2017:

Expiry date	Outstanding warrants		
	Number of outstanding warrants	Exercise price	Remaining life
		\$	(years)
October 6, 2017	3,433,335	0.25	0.2
October 15, 2017	599,999	0.25	0.2
February 3, 2018	2,369,998	0.20	0.5
September 15, 2018	2,500,000	0.15	1.1
December 12, 2018	25,950	0.20	1.4
	8,929,282	0.21	0.5

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

10. Share capital and warrants (continued):

(c) Warrants (continued):

2018:

On October 16, 2017, the Company issued 600,834 warrants to shareholders who subscribed to 1,201,667 units offering. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until April 16, 2019. The value of the warrants was estimated at \$15,590 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	\$0.07
Expected volatility ⁽¹⁾	131.23%
Risk-free interest rate	1.52%
Expected life	1.5 years

As part of the private placement financing on October 16, 2017, the Company issued 20,000 warrants to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until April 16, 2019. The value of the warrants was estimated at \$586 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	\$0.07
Expected volatility ⁽¹⁾	131.23%
Risk-free interest rate	1.52%
Expected life	1.5 years

On December 12, 2017, the Company issued 5,208,333 warrants to shareholders who subscribed to 5,208,333 units offering. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until December 12, 2019. The value of the warrants was estimated at \$152,461 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	\$0.085
Expected volatility ⁽¹⁾	152.86%
Risk-free interest rate	1.52%
Expected life	2.0 years

As part of the flow-through private placement financing on December 28, 2017, the Company issued 269,091 warrants to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until December 28, 2019. The value of the warrants was estimated at \$36,898 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	\$0.18
Expected volatility ⁽¹⁾	157.27%
Risk-free interest rate	1.69%
Expected life	2.0 years

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

10. Share capital and warrants (continued):

(c) Warrants (continued):

2018 (continued):

On December 29, 2017, the Company issued 350,000 warrants to shareholders who subscribed to 350,000 units offering. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until December 29, 2019. The value of the warrants was estimated at \$11,071 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 ⁽¹⁾	147.19%
Risk-free interest rate	1.68%
Expected life	2.0 years

As part of the flow-through private placement financing on December 29, 2017, the Company issued 182,665 warrants to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until December 29, 2019. The value of the warrants was estimated at \$23,314 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 ⁽¹⁾	147.19%
Risk-free interest rate	1.68%
Expected life	2.0 years

As part of the private placement financing on December 29, 2017, the Company issued 24,500 warrants to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until December 29, 2019. The value of the warrants was estimated at \$3,127 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 ⁽¹⁾	147.19%
Risk-free interest rate	1.68%
Expected life	2.0 years

On January 19, 2018, the Company issued 17,006,666 warrants to shareholders who subscribed to 17,006,666 units offering. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until January 19, 2020. The value of the warrants was estimated at \$523,984 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	\$0.14
Expected volatility ⁽¹⁾	147.23%
Risk-free interest rate	1.80%
Expected life	2.0 years

As part of the private placement financing on January 19, 2018, the Company issued 134,000 warrants to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until January 19, 2020. The value of the warrants was estimated at \$13,080 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	\$0.14
Expected volatility ⁽¹⁾	147.23%
Risk-free interest rate	1.80%
Expected life	2.0 years

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

10. Share capital and warrants (continued):

(c) Warrants (continued):

2018 (continued):

On March 13, 2018, the Company issued 12,650,000 warrants to shareholders who subscribed to 25,300,000 units offering. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until March 13, 2020. The value of the warrants was estimated at \$578,851 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	\$0.105
Expected volatility ⁽¹⁾	132.46%
Risk-free interest rate	1.79%
Expected life	2.0 years

As part of the debentures financing on March 20, 2018 (Note 9), the Company issued 290,910 warrants to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.15 per share until March 20, 2020. The value of the warrants was estimated at \$19,172 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	\$0.11
Expected volatility ⁽¹⁾	131.77%
Risk-free interest rate	1.81%
Expected life	2.0 years

2017:

As part of the debentures financing in December 2016 (Note 9), the Company issued 25,950 warrants to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.20 per share until December 12, 2018. The value of the warrants was estimated at \$1,971 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	\$0.125
Expected volatility ⁽¹⁾	141.53%
Risk-free interest rate	0.76%
Expected life	2.0 years

On February 3, 2017, the Company issued 2,369,998 warrants to shareholders who subscribed to 2,369,998 units offering. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$0.20 per share until February 3, 2018. The value of the warrants was estimated at \$113,114 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	\$0.10
Expected volatility ⁽¹⁾	170.75%
Risk-free interest rate	0.77%
Expected life	1.0 year

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

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

11. 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.

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 years ended July 31, 2018 and 2017, were issued at a price higher or 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 2018		July 31 2017	
	Number of outstanding share options	Weighted average exercise price	Number of outstanding share options	Weighted average exercise price
		\$		\$
Outstanding at beginning	3,905,000	0.16	4,080,000	0.15
Granted	5,900,000	0.14	625,000	0.14
Forfeited	(930,000)	(0.24)	(800,000)	(0.11)
Outstanding at end	8,875,000	0.14	3,905,000	0.16
Exercisable at end	8,875,000	0.14	3,905,000	0.16

The following table provides outstanding share options information as at July 31, 2018:

Expiry date	Share options outstanding			
	Number of granted share options	Number of exercisable share options	Exercise price	Remaining life
			\$	(years)
October 2, 2018	400,000	400,000	0.12	0.2
February 25, 2020	450,000	450,000	0.10	1.6
June 12, 2020	200,000	200,000	0.17	1.9
February 26, 2021	1,150,000	1,150,000	0.10	2.6
May 7, 2021	200,000	200,000	0.37	2.8
June 20, 2021	125,000	125,000	0.26	2.9
February 21, 2022	450,000	450,000	0.105	3.6
October 3, 2022	400,000	400,000	0.075	4.2
February 5, 2023	1,250,000	1,250,000	0.140	4.5
June 27, 2023	4,250,000	4,250,000	0.15	4.9
	8,875,000	8,875,000	0.14	3.9

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017
(in Canadian dollars)

11. Share-based compensation (continued):

(a) Share option plan (continued):

The following table provides outstanding warrants information as at July 31, 2017:

Expiry date	Number of granted share options	Number of exercisable share options	Share options outstanding	
			Exercise price	Remaining life (years)
July 22, 2018	200,000	200,000	\$ 0.19	1.0
October 2, 2018	400,000	400,000	0.12	1.2
April 8, 2019	80,000	80,000	0.14	1.7
February 25, 2020	450,000	450,000	0.10	2.6
June 12, 2020	200,000	200,000	0.17	2.9
February 26, 2021	1,350,000	1,350,000	0.10	3.6
May 7, 2021	600,000	600,000	0.37	3.8
June 20, 2021	125,000	125,000	0.26	3.9
February 21, 2022	500,000	500,000	0.105	4.6
	3,905,000	3,905,000	0.16	3.2

2018:

On October 2, 2017, the Company granted 400,000 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 \$0.075 per share and expire on October 2, 2022. The fair value of the options was estimated at \$18,520 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 ⁽¹⁾	111.37%
Risk-free interest rate	1.78%
Expected life	5.0 years

On February 5, 2018, the Company granted 1,250,000 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 \$0.14 per share and expire on February 5, 2023. The fair value of the options was estimated at \$128,125 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.13
Expected volatility ⁽¹⁾	110.99%
Risk-free interest rate	2.08%
Expected life	5.0 years

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

11. Share-based compensation (continued):

(a) Share option plan (continued):

2018:

On June 27, 2018, the Company granted 4,250,000 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 \$0.15 per share and expire on June 27, 2023. The fair value of the options was estimated at \$580,712 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.11
Expected volatility ⁽²⁾	165.45%
Risk-free interest rate	1.93%
Expected life	5.0 years

2017:

On August 1, 2016, the Company granted 125,000 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 \$0.26 per share and expire on June 20, 2021. The fair value of the options was estimated at \$26,088 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.260
Expected volatility ⁽¹⁾	114.43%
Risk-free interest rate	0.66%
Expected life	5.0 years

On February 21, 2017, the Company granted 500,000 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 \$0.105 per share and expire on February 21, 2022. The fair value of the options was estimated at \$42,650 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Share price at grant date	\$0.105
Expected volatility ⁽¹⁾	116.37%
Risk-free interest rate	1.17%
Expected life	5.0 years

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

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

For the year ended July 31, 2018, the share-based compensation recognized in the statement of comprehensive loss is \$580,712 (\$68,738 for the year ended July 31, 2017).

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

(in Canadian dollars)

12. Finance expense:

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

	July 31 2018	July 31 2017
	\$	\$
Bank charges	502	777
Fines and penalties	38	-
Interest on convertible debentures	277,457	193,681
Exchange loss	278	575
Finance expense	278,275	195,033

13. 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 2018	July 31 2017
	\$	\$
Loss before income taxes	(1,785,029)	(953,159)
Expected tax recovery calculated using the combined federal and provincial income tax rate in Canada	26.74%	26.90%
Expected income tax recovery	(477,346)	(256,400)
Difference between deferred and statutory tax rates	2,801	3,499
Change in deferred income tax rate	-	10,607
Share-based compensation	155,292	18,491
Changes in unrecorded temporary differences	114,857	91,428
Issuance of flow-through shares	58,559	35,101
Recovery of liabilities related to flow-through shares	(23,309)	(26,491)
Other non-deductible expenses	8,330	23,012
Deferred income tax recovery	(160,816)	(100,753)

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

	July 31 2018	July 31 2017
	\$	\$
Inception and reversal of temporary differences	(313,724)	(235,407)
Difference between deferred and statutory tax rates	2,801	3,499
Change in deferred income tax rate	-	10,607
Issuance of flow-through shares	58,559	35,101
Changes in unrecorded temporary differences	114,857	91,428
Prior years deferred tax adjustment	-	20,510
Recovery of liabilities related to flow-through shares	(23,309)	(26,491)
Deferred income tax expense (recovery)	(160,816)	(100,753)

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017
(in Canadian dollars)

13. Income taxes (continued):

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

	July 31 2017	Recognized in profit or loss	Recognized in equity	July 31 2018
	\$	\$	\$	\$
Exploration and evaluation assets	(94,833)	(366,499)	-	(461,332)
Debentures	(92,460)	33,051	(137,507)	(196,916)
Non-capital losses	187,293	470,955	-	658,248
	-	137,507	(137,507)	-
Recovery of liabilities related to flow-through shares	-	23,309	-	-
	-	160,816	-	-

	July 31 2016	Recognized in profit or loss	Recognized in equity	July 31 2017
	\$	\$	\$	\$
Exploration and evaluation assets	1,297	(96,130)	-	(94,833)
Tax credits for resources	(2,605)	2,605	-	-
Debentures	(15,609)	(2,589)	(74,262)	(92,460)
Non-capital losses	16,917	170,376	-	187,293
	-	74,262	(74,262)	-
Recovery of liabilities related to flow-through shares	-	26,491	-	-
	-	100,753	-	-

(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.

As at July 31, 2018, the Company has the following temporary differences for which no deferred tax asset has been recognized.

	Federal	Québec
	\$	\$
Property and equipment	20,650	21,970
Share issuance costs	333,812	333,812
Non-capital losses carryforwards	3,740,762	3,704,550
	4,095,224	4,060,332

CANADIAN METALS INC.
Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017
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13. Income taxes (continued):

(d) Unrecognized deductible temporary differences (continued):

As at July 31, 2017, the Company has the following temporary differences for which no deferred tax asset has been recognized.

	Federal	Québec
	\$	\$
Property and equipment	21,786	21,786
Share issuance costs	121,286	121,286
Non-capital losses carryforwards	3,209,967	3,178,645
	3,353,039	3,321,717

(e) Non-capital losses:

The non-capital losses expire as follows:

	Federal	Québec
	\$	\$
2036	355,747	329,317
2037	1,077,035	1,072,144
2038	2,307,980	2,303,089
	3,740,762	3,707,550

14. Supplemental cash flow information:

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

	July 31 2018	July 31 2017
	\$	\$
Non-cash financing activities:		
Convertible debentures issuance costs paid through the issuance of warrants	19,172	1,971
Share issuance costs in trade accounts payable and accrued liabilities	2,088	6,125
Non-cash investing activities:		
Exploration and evaluation assets in trade accounts payable and accrued liabilities	537,011	97,284

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Notes to Financial Statements (continued)

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15. Related party transactions:

Related parties include the Company's key management personnel. Unless otherwise stated, balances are usually settled in cash. Key management includes directors and senior executives. The remuneration of key management personnel includes the following expenses:

	July 31 2018	July 31 2017
	\$	\$
Management and consulting fees	549,352	369,674
Share-based compensation	544,910	60,208
	1,094,262	429,882

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

These transactions, entered into the normal course of operations, are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

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.

The company has consulting agreements with certain management personnel ending at various dates until February 2021. These agreements are for payments of \$635,000 in 2019, \$543,333 in 2020 and \$130,000 in 2021. Some agreements require payment in case of a change of control of the company or if the company sells or leases substantially all of its assets or activities. One agreement requires a payment in case of termination of this agreement by the company or the consultant.

As at July 31, 2018, trade accounts payable and accrued liabilities include \$124,883 (\$11,310 as at July 31, 2017) payable to key management personnel.

16. Financial assets and liabilities:

The carrying amount and fair value of financial instruments presented in the statements of financial position related to the following classes of assets and liabilities:

	July 31 2018		July 31 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Loans and receivables				
Cash and cash equivalents	3,494,947	3,494,947	334,630	334,630
Other receivables ⁽¹⁾	12,814	12,814	-	-
	3,507,761	3,507,761	334,630	334,630
Financial liabilities				
Financial liabilities measured at amortized cost				
Trade accounts payable and accrued liabilities	760,211	760,211	149,866	149,866
Convertible debentures	966,923	966,923	961,092	961,092
	1,727,134	1,727,134	1,110,958	1,110,958

(1) Excluding sales tax receivable, tax credits receivable and mining tax receivable.

The fair value of cash and cash equivalents, other receivables, trade accounts and accrued liabilities is comparable to its carrying amount given the short period to maturity, i.e. the time value of money is not significant.

CANADIAN METALS INC.

Notes to Financial Statements (continued)

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16. Financial assets and liabilities (continued):

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (that is, derived from prices).
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The convertible debentures were classified under level 2 in 2018 (level 2 in 2017).

The techniques and evaluation methods used to measure fair value were not changed compared to previous years. The fair value of the convertible debentures was determined by discounting the future cash flows using an interest rate estimated to reflect a rate that the Company would have obtained for similar financings without the conversion option.

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 and convertible debentures. 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. On December 28, 2017 and December 29, 2017, the Company completed flow-through private placements of \$370,000 and \$313,520. As at July 31, 2018, the Company incurred \$2,411 in eligible exploration and evaluation expenditures and consequently the Company has the obligation to incur a remaining balance of \$681,109 in exploration and evaluation expenditures no later than December 31, 2018.

The Company sets the amount of capital in proportion to its overall financing structure, i.e. equity and convertible debentures. 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.

	July 31 2018	July 31 2017
	\$	\$
Convertible debentures	966,923	961,092
Equity	6,164,204	560,576
	7,131,127	1,521,668

CANADIAN METALS INC.

Notes to Financial Statements (continued)

Years ended July 31, 2018 and 2017

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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.

Over the past and 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 2018 and 2017).

Contractual maturities of financial liabilities (including capital and interest) are as follows:

	July 31 2018			
	Less than 1 year	1-5 years	More than 5 years	Total
	\$	\$	\$	\$
Trade accounts payable and accrued liabilities	760,211	-	-	760,211
Convertible debentures (1)	101,500	897,750	-	999,250
Convertible debentures (2)	61,000	701,500	-	762,500
Convertible debentures (3)	40,000	540,000	-	580,000
	962,711	2,139,250	-	3,101,961

	July 31 2017			
	Less than 1 year	1-5 years	More than 5 years	Total
	\$	\$	\$	\$
Trade accounts payable and accrued liabilities	149,866	-	-	149,866
Convertible debentures (1)	770,000	-	-	770,000
Convertible debentures (2)	61,000	762,500	-	823,500
	980,866	762,500	-	1,743,366

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Notes to Financial Statements (continued)

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19. Subsequent event:

On August 7, 2018, the Company signed an option agreement with Osisko Metals Incorporated to acquire three additional base metal properties in Bathurst, New Brunswick, with a company in which a director of the Company is an officer.

The three additional base metal exploration properties are located in an area known as the Bathurst Mining Camp ("BMC"). This region of north central New Brunswick was home to the Brunswick #12 orebody, one of the largest underground zinc mines in the world. The district is globally recognized for discoveries of numerous mineable base metal deposits including iron, copper, lead and zinc, all found in this volcanogenic hosted mineral rich area.

Pursuant to the Option Agreement, the Company may earn a 50% interest in the Project by funding an aggregate of \$250,000 in exploration expenditures before December 31, 2018.

Furthermore, on August 1, 2018, the Company entered into a purchase agreement with Osisko Metals Incorporated to purchase a silica property in exchange for 1,000,000 shares of the Company.