



## **CANADIAN METALS INC.**

### **UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JANUARY 31, 2020**

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These condensed interim financial statements for the six-month period ended January 31, 2020 have not been reviewed by the Company's external auditors.

# CANADIAN METALS INC.

## Condensed Interim Statements of Financial Position

As at January 31, 2020 and 2019

(in Canadian dollars)

	Note	January 31 2020	July 31 2019
		\$	\$
<b>Assets</b>			
<b>Current assets:</b>			
Cash		185,859	435,823
Accounts receivable	6	31,505	90,467
Prepaid expenses		8,043	67,645
Current portion of balance of purchase price receivable		280,645	122,963
<b>Total current assets</b>		<b>506,052</b>	<b>716,898</b>
<b>Non-current assets:</b>			
Property and equipment		1,242	1,679
Mining properties	7	2,397,386	2,364,659
Exploration and evaluation assets	8	590,279	552,475
Balance of purchase price receivable	9	1,017,018	1,250,988
<b>Total non-current assets</b>		<b>4,005,925</b>	<b>4,169,801</b>
<b>Total assets</b>		<b>4,511,977</b>	<b>4,886,699</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable and accrued liabilities		530,319	427,941
Unearned grants		70,044	70,044
<b>Total current liabilities</b>		<b>600,363</b>	<b>497,985</b>
<b>Non-current liabilities:</b>			
Convertible debentures	10	1,169,022	1,078,529
<b>Total non-current liabilities</b>		<b>1,169,022</b>	<b>1,078,529</b>
<b>Total liabilities</b>		<b>1,769,385</b>	<b>1,576,514</b>
<b>Equity:</b>			
Share capital	11	9,267,229	9,183,479
Warrants	11	764,961	1,528,896
Share options	11	396,867	636,332
Equity component of the convertible debentures	10	562,455	562,455
Contributed surplus		2,704,780	1,701,380
Deficit		(10,953,700)	(10,302,357)
<b>Total equity</b>		<b>2,742,592</b>	<b>3,310,185</b>
<b>Total liabilities and equity</b>		<b>4,511,977</b>	<b>4,886,699</b>

Nature of operations and going concern, see Note 2.

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

These financial statements were approved and authorized for issue by the Board of Directors on March 26, 2020.

(S) Patsie Ducharme  
VP Finance and Chief Financial Officer

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

# CANADIAN METALS INC.

## Condensed Interim Statements of Comprehensive Loss

Six-month periods ended January 31, 2020 and 2019

(in Canadian dollars)

	Note	Three-month period ended		Six-month period ended	
		January 31 2020	January 31 2019	January 31 2020	January 31 2019
		\$	\$	\$	\$
General and administrative expenses:					
Management and consulting fees	13	99,121	184,249	235,635	373,670
Professional fees		84,139	35,164	153,639	124,128
Investor's relations		-	-	52,476	-
Registration, listing fees and shareholders information		16,689	12,586	33,806	26,293
Travel, promotion and events		-	77,818	25,648	123,335
Insurance and office expenses		8,340	18,577	25,374	34,927
Depreciation of property and equipment		219	212	437	322
General exploration expenses		217	44,308	217	486,308
Industrial feasibility study		-	525,446	-	525,446
Share-based compensation		-	38,400	-	38,400
Development costs		-	-	-	6,557
<b>Loss from operating activities</b>		<b>208,725</b>	<b>936,760</b>	<b>527,232</b>	<b>1,739,386</b>
Finance income	9	(49,170)	(158)	(50,500)	(773)
Finance expense		89,515	78,146	174,611	156,719
<b>Total net finance expense</b>		<b>40,345</b>	<b>77,988</b>	<b>124,111</b>	<b>155,946</b>
<b>Loss before income taxes</b>		<b>249,070</b>	<b>1,014,748</b>	<b>651,343</b>	<b>1,895,332</b>
Deferred income tax recovery		-	-	-	-
<b>Net loss and comprehensive loss</b>		<b>249,070</b>	<b>1,014,748</b>	<b>651,343</b>	<b>1,895,332</b>
<b>Weighted average number of common shares outstanding</b>		<b>13,437,032</b>	<b>11,561,284</b>	<b>13,333,069</b>	<b>11,556,392</b>
<b>Basic and diluted loss per share</b>		<b>0.02</b>	<b>0.09</b>	<b>0.05</b>	<b>0.16</b>

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

# CANADIAN METALS INC.

## Condensed Interim Statements of Changes in Equity

Six-month periods ended January 31, 2020 and 2019

(in Canadian dollars)

	Note	Number of shares outstanding	Share capital	Warrants	Share options	Equity component of the convertible debentures	Contributed surplus	Deficit	Total equity
			\$	\$	\$	\$	\$	\$	\$
<b>Balance as at July 31, 2019</b>		13,229,106	9,183,479	1,528,896	636,332	562,455	1,701,380	(10,302,357)	3,310,185
Shares issued:									
As a settlement of interest payment on the debentures		597,787	83,750	-	-	-	-	-	83,750
Share options expired	11	-	-	-	(239,465)	-	239,465	-	-
Warrants expired	11	-	-	(763,935)	-	-	763,935	-	-
Net loss and comprehensive loss for the period		-	-	-	-	-	-	(651,343)	(651,343)
<b>Balance as at January 31, 2020</b>		13,826,893	9,267,229	764,961	396,867	562,455	2,704,780	(10,953,700)	2,742,592

	Note	Number of shares outstanding	Share capital	Warrants	Share options	Equity component of the convertible debentures	Contributed surplus	Deficit	Total equity
			\$	\$	\$	\$	\$	\$	\$
<b>Balance as at July 31 2018</b>		11,461,270	8,084,852	1,532,105	901,585	562,455	1,227,580	(6,144,373)	6,164,204
Shares issued:									
As payment of mining properties		650,000	447,500	192,500	-	-	-	-	640,000
As a settlement of interest payment on the debentures		151,997	83,750	-	-	-	-	-	83,750
Share issuance costs		-	(1,050)	-	-	-	-	-	(1,050)
Warrants expired		-	-	(153,971)	-	-	153,971	-	-
Share options expired		-	-	-	(103,855)	-	103,855	-	-
Share-based compensation		-	-	-	38,400	-	-	-	38,400
Net loss and comprehensive loss for the period		-	-	-	-	-	-	(1,895,332)	(1,895,332)
<b>Balance as at January 31, 2019</b>		12,263,267	8,615,052	1,570,634	836,130	562,455	1,485,406	(8,039,705)	5,029,972

(1) Adjusted to reflect the September 16, 2019, 10-to-1 share consolidation (Note 11)

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

# CANADIAN METALS INC.

## Condensed Interim Statements of Cash Flows

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

	Three-month period ended		Six-month period ended	
	January 31 2020	January 31 2019	January 31 2020	January 31 2019
	\$	\$	\$	\$
<b>Operating activities:</b>				
Net loss	(249,070)	(1,014,748)	(651,343)	(1,895,332)
Adjustments for:				
Share-based compensation	-	38,400	-	38,400
Depreciation of property and equipment	219	212	437	322
Effective interest costs on convertible debentures	89,344	77,434	174,243	154,856
Effective interest income on balance of purchase price receivable	(49,170)	-	(50,500)	-
Operating activities before changes in working capital items	(208,677)	(898,702)	(527,163)	(1,701,754)
Change in grant receivable	-	(408,469)	-	(408,469)
Change in accounts receivable	132,764	73,182	58,962	115,707
Change in prepaid expenses	6,396	(5,104)	59,602	1,208
Change in trade accounts payable and accrued liabilities	(34,718)	(20,866)	102,378	(437,870)
Change in current portion of convertible debentures	-	-	-	(35,000)
	104,442	(361,257)	220,942	(764,424)
<b>Cash flows used for operating activities</b>	<b>(104,235)</b>	<b>(1,259,959)</b>	<b>(306,221)</b>	<b>(2,466,178)</b>
<b>Financing activities:</b>				
Share issuance costs	-	(84)	-	(1,050)
<b>Cash flows used for financing activities</b>	<b>-</b>	<b>(84)</b>	<b>-</b>	<b>(1,050)</b>
<b>Investing activities:</b>				
Proceeds from balance of purchase price receivable	82,465	-	126,788	-
Government grant applied against exploration and evaluation assets	-	-	-	118,000
Acquisition of property and equipment	-	(1,301)	-	(1,301)
Acquisition of mining properties	(3,350)	(201,710)	(32,727)	(203,170)
Increase in exploration and evaluation assets	(1,500)	(70,244)	(37,804)	(211,147)
<b>Cash flows (used for) from investing activities</b>	<b>77,615</b>	<b>(273,255)</b>	<b>56,257</b>	<b>(297,618)</b>
<b>Net change in cash and cash equivalents</b>	<b>(26,620)</b>	<b>(1,533,298)</b>	<b>(249,964)</b>	<b>(2,764,846)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>212,479</b>	<b>2,263,399</b>	<b>435,823</b>	<b>3,494,947</b>
<b>Cash and cash equivalents, end of period</b>	<b>185,859</b>	<b>730,101</b>	<b>185,859</b>	<b>730,101</b>

Additional disclosures of cash flows information (Note 12).

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

# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

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### 1. Statutes of incorporation and nature of activities:

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 Companies 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](http://www.canadianmetalsinc.com).

The Company specializes in the acquisition, exploration, evaluation and development of mineral properties in Quebec and New Brunswick. The Company focuses in two main areas: the development of a high-purity silica project, with a proposed downstream integration into silicon production in the province of Quebec; and the exploration and development of iron and base metal properties, located in the province of Quebec and New Brunswick.

### 2. Going concern assumption:

The accompanying condensed interim 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 significant doubt on the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

For the six-month period ended January 31, 2020, the Company recorded a net loss of \$651,343 (\$1,895,332 in 2019) and has an accumulated deficit of \$10,953,700 as at January 31, 2020 (10,302,357 as at July 31, 2019). 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 January 31, 2020, the Company had a working capital deficiency of \$94,311 (working capital of \$218,913 as at July 31, 2019) and cash and cash equivalents of \$185,859 (\$435,823 as at July 31, 2019). 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.

### 3. Basis of preparation:

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The unaudited condensed interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended July 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

The condensed interim financial statements must be read in conjunction with the most recent annual financial statements and the accompanying notes as at July 31, 2019 and for the period then ended.

The condensed interim financial statements for the reporting period ended January 31, 2020 (including comparatives) were approved and authorized for issue by the Board of Directors on March 26, 2020.

# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

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

#### 3.1 Basis of measurement:

These unaudited and unreviewed condensed interim financial statements have been prepared on the historical cost basis.

#### 3.2 Functional and presentation currency:

These unaudited and unreviewed condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

### 4. Changes in significant accounting policies:

These condensed interim financial statements were prepared in accordance with standard IAS 34 – Interim Financial Reporting and do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). They, however, include specific complimentary notes in order to provide information necessary to assess the financial situation of the Company at period end since its last annual financial statements dated July 31, 2019.

Except for the changes below, the accounting policies used to prepare these condensed interim unaudited financial statements are those described in the last annual financial statements of the Company and have been applied throughout the period unless otherwise stated. Changes to significant accounting policies are described hereinafter.

#### IFRS 16 - Leases

In January 2016, the IASB published IFRS 16 which replaces IAS 17 Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statements of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. The Company adopted IFRS 16 on August 1, 2019. There was no material impact from its adoption.

These condensed interim financial statements have been prepared following the same accounting policies used in the audited financial statements for the year ended July 31, 2019.

### 5. Critical accounting judgments and key sources of estimation uncertainty:

In preparing these condensed interim financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, which are described above.

### 6. Accounts receivable:

	January 31 2020	July 31 2019
Sales tax receivable	\$ 31,505	\$ 67,233
Accounts receivable	-	23,234
	31,505	90,467

# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

### 7. Mining properties:

Mining properties can be detailed as follows:

	Interest	July 31 2019	Acquisition	January 31 2020
	%	\$	\$	\$
Québec:				
Lac La Chesnaye <sup>(a)</sup>	100	428,153	-	428,153
Langis East <sup>(b)</sup>	100	90,000	-	90,000
Baie Trinité <sup>(d)</sup>	20	1,892	261	2,153
Silicate Brutus <sup>(d)</sup>	20	2,545	23,680	26,225
La Robot <sup>(d)</sup>	20	2,414	-	2,414
Seignelay <sup>(d)</sup>	20	5,285	5,436	10,721
New Brunswick				
Blackshale <sup>(c)</sup>	100	839,206	1,660	840,866
Mountain Brook <sup>(c)</sup>	100	714,490	1,410	715,900
TV Tower <sup>(c)</sup>	100	272,424	-	272,424
Frenette <sup>(e)</sup>	100	8,250	280	8,530
		2,364,659	32,727	2,397,386

#### a) 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 450,000 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, the Company issued 450,000 common shares at a fair value of \$0.95 for a total value of \$427,500 as payment for the acquisition of 10 claims.

#### b) Langis East Property (silica):

On August 1, 2018, the Company entered into a mineral property purchase agreement to acquire a 100% interest in 10 claims located in the Matane and Matapedia area (Québec) from Osisko Metals Incorporation by issuing 100,000 common shares. On August 10, 2018, the Company issued 100,000 common shares at a fair value of \$0.90 for a total value of \$90,000 as payment for the acquisition of 10 claims.

#### c) 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 166 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.



# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

### 7. Mining properties (Continued):

#### c) TV Tower Property, Mountain Brook Property and Blackshale Property (zinc) (Continued):

To earn its 100% interest, the Company made \$400,000 cash payments, issued 1,600,000 common shares and incurred \$300,000 in exploration expenses.

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.

#### d) Silicate Brutus, Seignelay, Lac Robot, Baie-Trinité and Mouchalagane Properties:

On February 26, 2019, the Company entered into a related party subscription agreement with FeTiV Minerals Inc. ("FeTiV") to acquire a direct 20% interest in the Silicate Brutus, Seignelay, Lac Robot, Baie-Trinité and Mouchalagane properties for a consideration of \$440,000, subject to a 2% NSR.

#### e) Frenette Property (zinc):

On April 3, 2019 the Company entered into an arm's length option agreement to acquire an undivided 100% interest in 12 mining claims adjacent to its Blackshale property located west of the Brunswick 12 mine.

Pursuant to the terms and conditions of the option, the Company will issue 45,000 common shares of the Company as follows:

- 15,000 Shares at \$0.55 per share for a total value of \$8,250 on the execution of the option (condition fulfilled);
- 15,000 Shares on or before April 3, 2020; and
- 15,000 Shares on or before April 3, 2021.

Upon exercise of the option, the Company will grant the optionees a 2% Net Smelter Returns (NSR) Royalty, subject to the right to purchase a 1% NSR royalty for \$1,000,000.

### 8. Exploration and evaluation assets:

Exploration and evaluation assets by properties are detailed as follows:

	July 31 2019	Exploration costs	January 31 2020
	\$	\$	\$
Québec			
Lac La Chesnaye	107,073	-	107,073
Silicate Brutus	300	17,610	17,910
Mouchalagane	300	15,521	15,821
La Robot	-	750	750
Seignelay	-	250	250
New Brunswick			
Blackshale	44,987	-	44,987
Mountain Brook	21,862	-	21,862
TV Tower	373,576	-	373,576
Frenette	4,377	3,673	8,050
	552,475	37,804	590,279

# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

### 8. Exploration and evaluation assets (Continued):

Exploration and evaluation assets by nature are detailed as follows:

	January 31 2020	July 31 2019
	\$	\$
<b>Exploration and evaluation costs:</b>		
Geology	25,346	49,954
Surveys	5,425	-
Maintenance and field supplies	3,726	10,292
Travel and entertainment	1,807	3,679
Technical reports	1,500	80,750
Sampling	-	63,199
Drilling	-	41,880
Assays	-	17,364
Excavator	-	2,200
Taxes and permits	-	2,131
Transportation	-	1,869
Consultant	-	1,239
	37,804	274,557
<b>Other items:</b>		
Grants	-	(128,000)
Other revenue	-	(39,058)
Impairment	-	(494,919)
Proceeds from disposal of exploration and evaluation assets	-	(1,577,726)
	-	(2,239,703)
<b>Balance at the beginning</b>	552,475	2,517,621
<b>Balance at the end</b>	590,279	552,475

### 9. Balance of purchase price receivable

The purchase price receivable of \$2,250,000 does not bear interest and has been discounted using 7.54% reflecting the estimated credit risk of the buyer and collateral against the balance of purchase price at time of disposal.

	\$
Balance at the beginning	1,373,951
Effective interest income	50,500
Reimbursement	(126,788)
Balance as at January 31, 2020	1,297,663
Current portion	280,645
Non-current portion	1,017,018

# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

### 10. Convertible debentures:

	January 31 2020	July 31 2019
	\$	\$
<b>Convertible debentures (1)</b>		
Convertible debentures bearing interest at 10% payable semi-annually and maturing in December 2022.	423,217	397,166
<b>Convertible debentures (2)</b>		
Convertible debentures bearing interest at 10% payable semi-annually and maturing in December 2020.	508,563	461,691
<b>Convertible debentures (3)</b>		
Convertible debentures bearing interest at 10% payable semi-annually and maturing in December 2022.	237,242	219,672
Non-current portion of convertible debentures	1,169,022	1,078,529

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

	Januar 31 2020	July 31 2019
	\$	\$
Balance at the beginning	1,078,529	966,923
Cash-flows		
Reimbursement	-	(35,000)
Non-Cash:		
Effective interest costs on convertible debentures	90,493	146,606
Balance end of year	1,169,022	1,078,529

#### 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 during the year. 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 \$1.50. 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 in 2018. 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.

# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

### 10. Convertible debentures (Continued):

#### Convertible debentures (1) (Continued):

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	\$0.85
Expected volatility <sup>(1)</sup>	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 \$2.00. 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 payments 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 \$0.50.

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 2,595 warrants were granted to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$2.00 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 12 (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.

#### 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 \$2.00. 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 \$0.50. Furthermore, the Company has an early redemption option to convert the debentures if the Company's common shares are traded over \$4.00 for 20 consecutive days or if the Company closes a financing exceeding \$4.00. 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 29,091 warrants were granted to brokers. Each warrant entitles the holder to subscribe to one common share at an exercise price of \$1.50 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 12 (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.

# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

### 11. Share capital, warrants and options:

#### (a) Share capital:

##### 2019:

On September 16, 2019, the Company consolidated its common shares on a ten (10) for one (1) basis with the record date of September 17, 2019. Post consolidation the Company has 13,229,106 new shares outstanding.

On December 31, 2019, the Company issued 597,787 common shares for interests payable of \$83,750 on convertible debentures. No commission was paid in connection with this transaction. The interests were payable as follows:

##### Convertible debentures (1)

237,330 common shares issued for interests of \$33,250 payable on December 31, 2019

##### Convertible debentures (2)

217,702 common shares issued for interests of \$30,500 payable on December 31, 2019

##### Convertible debentures (3)

142,755 common shares issued for interests of \$20,000 payable on December 31, 2019.

#### (b) Warrants:

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

	January 31 2020		July 31 2019	
	Number of outstanding warrants	Weighted average exercise price	Number of outstanding warrants	Weighted average exercise price
		\$		\$
Outstanding at beginning	4,086,617	1.50	3,926,295	1.50
Granted	-	-	475,000	1.50
Expired	(2,317,526)	1.50	(314,678)	(1.50)
Outstanding at end	1,769,091	1.50	4,086,617	1.50

The following table provides outstanding warrants information as at January 31, 2020:

Expiry date	Outstanding warrants		
	Number of outstanding warrants	Exercise price	Remaining life
		\$	(years)
March 13, 2020	1,265,000	1.50	0.11
March 20, 2020	29,091	1.50	0.13
September 1, 2020	125,000	1.50	0.59
November 28, 2023	350,000	1.50	3.82
	1,769,091	1.50	0.84

# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

### 11. Share capital, warrants and options (Continued):

#### (c) Share option plan:

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

	January 31 2020		July 31 2019	
	Number of outstanding share options	Weighted average exercise price	Number of outstanding share options	Weighted average exercise price
		\$		\$
Outstanding at beginning	677,500	1.40	887,500	1.40
Granted	-	-	60,000	1.50
Forfeited	(240,000)	1.42	(270,000)	(1.50)
Outstanding at end	437,500	1.35	677,500	1.40
Exercisable at end	437,500	1.35	677,500	1.40

The following table provides outstanding share options information as at January 31, 2020:

Expiry date	Share options outstanding			
	Number of granted share options	Number of exercisable share options	Exercise price \$	Remaining life (years)
February 25, 2020	35,000	35,000	1.00	0.07
February 26, 2021	57,500	57,500	1.00	1.07
October 3, 2022	20,000	20,000	0.75	2.67
February 5, 2023	35,000	35,000	1.40	3.01
June 27, 2023	230,000	230,000	1.50	3.40
November 5, 2023	60,000	60,000	1.50	3.76
	437,500	437,500	1.35	2.82

### 12. Supplemental cash flow information:

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

	Three-month period ended		Six-month period ended	
	January 31 2020	January 31 2019	January 31 2020	January 31 2019
	\$	\$	\$	\$
Non-cash financing activities:				
Acquisition of mining properties through issuance of shares	-	357,500	-	447,500
Non-cash investing activities:				
Exploration and evaluation assets in trade accounts payable and accrued liabilities	-	149,713	-	149,713

# CANADIAN METALS INC.

## Notes to Condensed Interim Financial Statements (continued)

Six-month period ended January 31, 2020 and 2019

(in Canadian dollars)

### 13. 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:

	Three-month period ended		Six-month period ended	
	January 31 2020	January 31 2019	January 31 2020	January 31 2019
	\$	\$	\$	\$
Management and consulting fees	94,746	184,249	228,246	365,998
Share-based compensation	-	38,400	-	38,400
	94,746	222,649	228,246	404,398

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

As at January 31, 2020, trade accounts payable and accrued liabilities include \$nil (\$25,542 as at July 31, 2019) payable to key management personnel.

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.

### 14. Subsequent event:

#### Shares for Debt Settlement

On March 18, 2020, the Company entered into debt settlement agreements with arms-length parties to settle an aggregate \$141,975 in debt. In settlement of the debt, the Company will issue an aggregate of 567,901 common shares in the capital of the Company at a deemed price of \$0.25 per debt share. The debt will be completely satisfied and extinguished upon the issuance of the debt shares.