

**CMC METALS LTD.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**

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

	Notes	December 31, 2013 (Unaudited)	September 30, 2013 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 340,023	\$ 321,607
Receivables		2,967	202
Loan receivable	4, 10	8,244	15,000
Prepays		-	10,417
		<u>351,234</u>	<u>347,226</u>
<b>Non-current assets</b>			
Reclamation bonds	5	214,046	154,747
Exploration and evaluation assets	6	5,788,200	5,688,810
Property, plant and equipment	7	718,874	677,291
		<u>6,721,120</u>	<u>6,520,848</u>
<b>TOTAL ASSETS</b>		<b>\$ 7,072,355</b>	<b>\$ 6,868,074</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables and accrued liabilities	8	\$ 4,462	\$ 289,404
Due to related parties	14	67,558	67,558
Promissory note	9	646,181	635,199
Current debt	10, 14	665,820	651,966
		<u>1,384,021</u>	<u>1,644,127</u>
<b>Non-current liabilities</b>			
Preferred shares	11	459,349	459,348
Provision for restoration and environmental activities	12	14,000	14,000
		<u>473,349</u>	<u>473,348</u>
<b>TOTAL LIABILITIES</b>		<b>1,857,370</b>	<b>2,117,475</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	13,480,434	12,687,835
Subscription received	19	(13,250)	252,000
Obligation to issue shares	6	300,000	300,000
Share-based payment reserve	13	49,183	49,182
Deficit		(8,601,383)	(8,538,418)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>5,214,985</b>	<b>4,750,599</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 7,072,355</b>	<b>\$ 6,868,074</b>

Going concern - Note 1

Commitments and contingency - Notes 6, 9, 10 and 15

Subsequent events - Note 19

Approved on behalf of the Board:

*"Jack Bal"*

Jack Bal - Director

*"Michael C. Scholz"*

Michael C. Scholz - Director

See accompanying notes to the consolidated financial statements.

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

		For the 3 Month Period Ended	
		December 31	
	Notes	2013	2012
		(Unaudited)	(Unaudited)
<b>EXPENSES</b>			
Consulting fees	14	\$ 3,200	\$ 27,000
Filing and transfer agent		7,992	5,036
Interest expense	9, 10, 11	24,837	33,500
Investor communications		5,000	1,400
Office and miscellaneous	14	11,237	13,946
Professional fees		(4,485)	5,137
Rent	14	1,500	4,500
Stock-based compensation	13	-	1,286
Travel		4,072	522
		<u>(53,352)</u>	<u>(92,327)</u>
<b>OTHER ITEMS</b>			
Interest income		9	13
Loss on foreign exchange		(8,953)	(9,560)
		<u>(8,944)</u>	<u>(9,547)</u>
<b>LOSS BEFORE INCOME TAXES</b>		(62,296)	(101,874)
Deferred income tax recovery		(669)	-
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR</b>		\$ (62,965)	\$ (101,874)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING -</b>			
<b>BASIC AND DILUTED</b>		73,608,700	61,196,068
<b>LOSS PER SHARE - BASIC AND DILUTED</b>		\$ (0.00)	\$ (0.00)

See accompanying notes to the consolidated financial statements.

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

	Share capital						
	Notes	Number of shares	Amount	Subscription received (receivable)	Obligation to issue shares	Share-based payment reserve	Total
<b>Balance at September 30, 2012</b>		57,823,646	\$ 12,132,476	\$ -	\$ 300,000	\$ 483,462	\$ (5,584,858) \$ 7,333,080
Comprehensive loss:							
Loss for the period		-	-	-	-	-	(101,874) (101,874)
Total comprehensive loss for the period		-	-	-	-	-	(101,874) (101,874)
Transactions with owners, in their capacity as owners, and other transfers:							
Shares issued for cash - private placement	13	4,900,000	490,000	(40,000)	-	-	450,000
Shares issued for cash - warrants exercise	13	550,000	66,000	-	-	-	66,000
Share issuance costs	13	-	(9,800)	-	-	-	(9,800)
Stock-based compensation	13	-	-	-	-	1,286	1,286
Flow-through liability	13	-	-	-	-	12,904	(12,904)
Total transactions with owners and other transfers		5,450,000	546,200	(40,000)	-	14,190	(12,904) 507,486
<b>Balance at December 31, 2012 (Unaudited)</b>		63,273,646	\$12,678,676	-\$40,000	\$300,000	\$499,652	-\$5,699,636 \$7,738,692
<b>Balance at September 30, 2013 (Audited)</b>		63,273,646	\$ 12,687,835	\$ 252,000	\$ 300,000	\$ 49,182	\$ (8,538,418) \$ 4,750,599
Comprehensive loss:							
Loss for the period		-	-	-	-	-	(62,965) (62,965)
Total comprehensive loss for the period		-	-	-	-	-	(62,965) (62,965)
Transactions with owners, in their capacity as owners, and other transfers:							
Shares issued for cash - private placement	13	16,165,000	808,250	-	-	-	808,250
Shares issued for cash - warrants exercise	13	-	-	-	-	-	-
Share issuance costs	13	-	(15,650)	-	-	-	(15,650)
Subscriptions received in advance	20	-	-	(265,250)	-	-	(265,250)
Stock-based compensation	13	-	-	-	-	-	-
Reallocation of cancelled and expired options	13	-	-	-	-	-	-
Modification of warrants	13	-	-	-	-	-	-
Reallocation of exercised warrants	13	-	-	-	-	-	-
Reallocation of expired warrants	13	-	-	-	-	-	-
Total transactions with owners and other transfers		16,165,000	792,600	(265,250)	-	-	- 527,350
<b>Balance at December 31, 2013 (Unaudited)</b>		79,438,646	13,480,435	(13,250)	300,000	49,182	(8,601,383) 5,214,984

See accompanying notes to the consolidated financial statements.

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

	For the 3 Month Period Ended	
	December 31	
	2013	2012
	(Unaudited)	(Unaudited)
<b>Operating activities</b>		
Net loss for the year	\$ (62,965)	\$ (101,874)
Adjustments for non-cash items:		
Accrued interest on promissory note	10,983	11,103
Accrued interest on current debt	13,854	12,769
Amortization of preferred shares discount	-	8,998
Stock-based compensation	-	1,286
Changes in non-cash working capital items		
Receivables	(2,765)	(13,693)
Loan receivable	6,756	-
Prepays	10,417	-
Trade payables and accrued liabilities	(284,942)	(87,650)
Due to related parties	-	(15,313)
<b>Net cash flows used in operating activities</b>	<u>(308,661)</u>	<u>(184,374)</u>
<b>Investing activities</b>		
Expenditures on exploration and evaluation assets	(99,390)	(235,076)
Property, plant and equipment	(41,583)	-
Reclamation bond	(59,300)	-
<b>Net cash flows used in investing activities</b>	<u>(200,273)</u>	<u>(235,076)</u>
<b>Financing activities</b>		
Repayment of promissory note	-	(50,050)
Proceeds on issuance of common shares - net of share issue costs	527,350	506,200
Subscription received in advance	-	-
<b>Net cash flows provided by financing activities</b>	<u>527,350</u>	<u>456,150</u>
<b>Effect of foreign exchange</b>	<u>-</u>	<u>7,910</u>
Change in cash	18,416	44,610
Cash, beginning	<u>321,607</u>	<u>28,246</u>
<b>Cash, ending</b>	<u>\$ 340,023</u>	<u>\$ 72,856</u>

Non-cash transactions - Note 18

See accompanying notes to the consolidated financial statements.

## 1. NATURE AND CONTINUANCE OF OPERATIONS

CMC Metals Ltd. (the "Company") was incorporated under the laws of the Province of Alberta and continued into the Province of British Columbia and its principal activity is the acquisition and exploration of mineral properties in Canada and the United States of America. The Company is listed on the TSX Venture Exchange ("TSX-V").

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

These condensed consolidated interim financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

As at December 31, 2013 the Company had not advanced its properties to commercial production. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These uncertainties may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors, by continuing to pursue additional sources of financing through equity offerings, seeking joint venture partners to fund exploration, monitoring exploration activity and reducing overhead costs.

## 2. BASIS OF PRESENTATION

The financial statements were authorized for issue on March 3, 2014 by the directors of the Company.

### Statement of compliance

The condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). Therefore, these condensed consolidated interim financial statements comply with International Accounting Standard ("IAS") 34, Interim Financial Statements.

These condensed consolidated interim financial statements do not include all of the information required of a full annual financial report and are intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual consolidated financial statements of the Company for the year ended September 30, 2012.

### Basis of preparation

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

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, 0877887 B.C. Ltd. ("0877887 B.C."), incorporated under the Business Corporations Act of British Columbia. On April 12, 2012, the Company incorporated in the State of California, a wholly-owned subsidiary, CMC Metals Corp. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

### Significant accounting judgments, estimates and assumptions

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

## 2. BASIS OF PRESENTATION (cont'd)

### Significant accounting judgments, estimates and assumptions (cont'd)

judgments applying to the Company's financial statements include:

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

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

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

### Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

## 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

- IFRS 9, Financial Instruments.
- IFRS 10, Consolidated Financial Instruments
- IFRS 11, Joint Arrangement.
- IFRS 12, Disclosure of Interests in Other Entities
- IFRS 13, Fair Value Measurement
- IAS 32, Financial Instruments: Presentation

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

## 4. LOAN RECEIVABLE

On May 17, 2013, the Company provided a loan of US\$15,000 to a Director and Senior Officer bearing interest at six per cent (6%) per annum commencing on May 17, 2013, payable on demand. As of December 18, 2013, this loan was repaid in full by an offset of fees incurred under exploration and evaluation assets.

## 5. RECLAMATION BONDS

The reclamation bonds are held in trust for the Company at the Bank of Montreal and Bureau of Land Management. As at December 31, 2013 the reclamation bonds consist of deposits made by the Company for indemnification of site restoration as follows:

- \$14,000 (2012 - \$14,000) on the CK Property (a property terminated during the year ended September 30, 2009);
- \$4,000 (2012 - \$4,000) on the Wheelbarrow Property (a property terminated during the year ended September 30, 2010); and
- \$196,046 (2012 - \$136,747) on the Bishop Mill Property (Notes 6).

CMC METALS LTD.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2013  
(Expressed in Canadian dollars)  
(Unaudited)

6. EXPLORATION AND EVALUATION ASSETS

	Logan Property	Silver Hart Property	Black Horse/ Chesno Claims	Radcliff Property	Total
<b>Acquisition costs</b>					
Balance, September 30, 2012	\$ 8,500	\$ 1,010,000	\$ 51,629	\$ 1,654,451	\$ 2,724,580
Additions	-	-	-	-	-
Write-off	(8,500)	(250,000)	(51,629)	(272,978)	(583,107)
Balance, September 30, 2013	-	760,000	-	1,381,473	2,141,473
<b>Exploration costs</b>					
Balance, September 30, 2012	27,679	5,749,426	-	248,339	6,025,444
Costs incurred during the period:					
Assaying	-	4,274	-	-	4,274
Contractors (recovery)	-	(5,670)	-	20,169	14,499
Equipment rental	-	59,500	-	-	59,500
Field office	3,360	15,274	2,133	12,511	33,278
Management fees - Note 14	-	54,000	-	-	54,000
Other	-	-	-	-	-
Transportation and supplies	-	35,979	-	-	35,979
	31,039	5,912,783	2,133	281,019	6,226,974
Write-off	(31,039)	(2,445,582)	(2,133)	(134,024)	(2,612,778)
Sale of bulk sample	-	(66,859)	-	-	(66,859)
Balance, September 30, 2013	-	3,400,342	-	146,995	3,547,337
<b>Total - September 30, 2013</b>	<b>\$ -</b>	<b>\$ 4,160,342</b>	<b>\$ -</b>	<b>\$ 1,528,468</b>	<b>\$ 5,688,810</b>
<b>Acquisition costs</b>					
Balance, September 30, 2013	\$ -	\$ 760,000	\$ -	\$ 1,381,473	\$ 2,141,473
Additions	-	8,800	-	-	8,800
Write-off	-	-	-	-	-
Balance, September 30, 2013	-	768,800	-	1,381,473	2,150,273
<b>Exploration costs</b>					
Balance, September 30, 2013	-	3,400,342	-	146,995	3,547,337
Costs incurred during the period:					
Assaying	-	1,284	-	-	1,284
Contractors (recovery)	-	97,644	-	2,098	99,742
Equipment rental	-	-	-	-	-
Field office	-	8,250	-	6,797	15,047
Management fees - Note 14	-	-	-	-	-
Other	-	-	-	922	922
Transportation and supplies	-	(26,406)	-	-	(26,406)
	-	80,773	-	9,817	90,590
Write-off	-	-	-	-	-
Sale of bulk sample	-	-	-	-	-
Balance, December 31, 2013	-	3,481,115	-	156,812	3,637,927
<b>Total - December 31, 2013</b>	<b>\$ -</b>	<b>\$ 4,249,915</b>	<b>\$ -</b>	<b>\$ 1,538,285</b>	<b>\$ 5,788,200</b>



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

**Logjam Property**

On May 30, 2006, and as completed during the year ended September 30, 2010, the Company entered into an option agreement to acquire a 100% interest in certain claims, comprising the Logjam Property located in the Watson Lake Mining District, Yukon Territories.

The Company will pay an additional amount of \$100,000 or issue 100,000 common shares if an assessment is made that the Logjam Property contains not less than 350,000 tons of economic grade ore.

As at September 30, 2013, the Company had no current plan for the property; therefore, the Company wrote-down the exploration and evaluation assets costs related to the Logjam property by \$39,539 to \$Nil. Future property maintenance fees related to this property will be expensed in the statement of comprehensive loss.

**Silver Hart Property**

On February 21, 2005, as amended on March 1, 2007 and September 24, 2013, the Company acquired a 100% interest in certain claims comprising the Silver Hart Property located in the Watson Lake Mining District, Yukon Territories from an arm's length individual who subsequently became a director and officer of the Company for a total of \$995,000, of which \$270,000 remains unpaid (Note 10).

The Company was further required to issue 1,000,000 common shares on the earlier of 24 months from July 5, 2005 and the date of completion of the property payments. In 2005, the estimated fair value of \$300,000 was recorded as an obligation to issue shares to a director of the Company, with a corresponding entry to exploration and evaluation assets. As at December 31, 2013, the Company has not yet issued these shares and the director has not demanded the Company to issue these shares.

During the year ended September 30, 2013, the Company reviewed the carrying amount the Silver Hart Property to determine whether there is any indication of impairment. An impairment loss of \$2,695,582 was recognized in the statement comprehensive loss.

The Silver Hart Property is security for a loan due to a director of the Company (Note 10).

**Black Horse Mine / Chesco Claims – Joint Venture**

On November 2, 2010, the Company entered into a Letter of Intent ("LOI") to enter in a Joint Venture Agreement (the "Joint Venture") with Pruett Ballarat Inc. ("PBI") to progress mine and mill developments in California and Nevada.

Pursuant to the Joint Venture, property acquisitions into the Joint Venture will be owned and operated on a 50/50 proportionate basis. Such Joint Venture will not limit the Company nor PBI from acquiring mineral properties for their sole interest.

To September 30, 2013, the total payment of US\$50,000 (CDN\$51,629) made by the Company constitutes the Company's purchase of a 50% interest in the Black Horse Mine / Chesco Property. A further contribution of US\$50,000 to the Joint Venture is required by the Company on or before 30 days from the signing date of the Joint Venture Agreement, which to September 30, 2013 had not been signed.

As at September 30, 2013, the Company had no current plan for the property; therefore, the Company wrote-down the exploration and evaluation assets costs related to the Black Horse Mine / Chesco property by \$53,762 to \$Nil. Future property maintenance fees related to this property will be expensed on the statement of comprehensive loss.

**Radcliff Property**

On March 1, 2011, the Company entered into a Letter of Intent with PBI, to acquire up to a 50% interest in certain claims, comprising the Radcliff Property located in Inyo County, California. The Company acquired a 50% interest through cash payments of US\$400,000 (CDN\$394,158) and US\$50,000 was deemed by PBI to have been considered paid through performance of services on behalf of the Company.

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

**Radcliff Property (cont'd)**

To September 30, 2012, the Company paid an additional US\$271,000 (CDN \$271,063) to complete its contribution towards an agreement with PBI.

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

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

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

The claims are subject to a 5% net smelter royalty ("NSR") upon receipt of net smelter returns from the commercial production of valuation minerals on the Radcliff Property. The NSR can be purchased by the Company and PBI for \$1,000,000 until April 16, 2013 (expired). The Company and PBI shall pay the NSR on the commercial production on the Radcliff Property.

On April 16, 2012, the transaction pursuant to the Acquisition Agreement closed and the claims were title registered 50% to the Company, after payment of an additional US\$100,000 (CDN \$100,000) (paid) on April 11, 2012. On April 18, 2012, as last amended on November 16, 2012, the Company entered into a promissory note agreement (the "Promissory Note" agreement), whereby the Company agreed to pay the remaining US\$800,000 (Note 9). To December 31, 2013, US\$300,000 has been paid towards the Promissory Note. As at September 30, 2013 and as of the date that these condensed consolidated interim financial statements were approved, the Promissory Note, including interest and extension fee, of \$635,199 was in default. As a result of being in default, the Promissory Note is due on demand. The principal and interest relating to this Promissory Note is secured by a deed of trust related to the Radcliff Property. As at the date of the board of directors approved these condensed consolidated interim financial statements, the lender has not taken action to obtain control of the Radcliff Property.

During the year ended September 30, 2013, the Company reviewed the carrying amount the Radcliff Property to determine whether there was any indication of impairment. As a result an impairment loss of \$407,002 was recognized in the statement of comprehensive loss. In addition, during the year ended September 30, 2013, the Company recorded in the statement of comprehensive loss, property investigation costs of \$93,426 (2012 - \$Nil) related to the Radcliff Property.

CMC METALS LTD.  
 NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2013  
 (Expressed in Canadian dollars)  
 (Unaudited)

7. **PROPERTY, PLANT AND EQUIPMENT**

	Bishop mill & equipment
Cost	
Balance, September 30, 2013	\$ 677,291
Additions	41,582
Balance, December 31, 2013	718,873
Accumulated depreciation	
Balance, September 30, 2013	-
<b>Net book value as at December 31, 2013</b>	<b>\$ 718,873</b>
Cost	
Balance, September 30, 2012	\$ 616,853
Additions	60,438
Balance, September 30, 2013	677,291
Accumulated depreciation	
Balance, September 30, 2013 and 2012	-
<b>Net book value as at September 30, 2013</b>	<b>\$ 677,291</b>

All depreciation of exploration and evaluation equipment used for specific projects is capitalized as exploration and evaluation assets.

**Bishop Mill Property**

On March 19, 2010, and as completed on April 15, 2010, the Company entered into a sale and purchase agreement and acquired a 100% interest in certain claims, buildings, water rights and machinery, comprising the Bishop Mill Property located near Bishop, California. Subsequent to the purchase of the Bishop Mill Property, the Company has incurred additional costs to in order to bring the mill and equipment to use. As at December 31, 2013, the Bishop Mill was not in use.

To December 31, 2013, the Company holds a reclamation bond with the United States Department of Interior Bureau of Land Management ("BLM") of \$196,046 (US\$191,269) (2012 - \$136,747 – US\$132,663) for indemnification of site restoration on the Bishop Mill Property (Note 5).

On November 13, 2013, the Company increased the reclamation bond to US\$191,269 from US\$132,663 as required by BLM. As a result of increasing in the reclamation bond and obtaining the required permits, the Company received approval from BLM for its Plan of Operations and Reclamation Plan for the Bishop Mill Property and has commenced construction of a tailing pond.

8. **TRADE PAYABLES AND ACCRUED LIABILITIES**

	December 31, 2013	December 31, 2012
Trade payables	\$ 41,626	\$ 268,577
Accrued liabilities	30253	7,991
	<b>\$ 71,879</b>	<b>\$ 276,568</b>

## 9. PROMISSORY NOTE

On April 18, 2012, the Company entered into a Promissory Note Agreement (Note 6), whereby the Company agreed to pay the remaining US\$800,000 Promissory Note by June 15, 2012 subject to an interest rate of 7% per annum. On September 14, 2012, the Promissory Note was amended and the Company paid US\$150,000 (CDN\$150,150) towards the Promissory Note. On November 16, 2012, the Promissory Note was further amended as follows:

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

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

As of December 31, 2013, the outstanding Promissory Note includes a principal balance of US\$500,000 (2012 - US\$650,000 and Extension Fee of US\$50,000 (2012 - \$Nil)). During the three month period ended December 31, 2013, the Company recorded \$10,983 in interest owing pursuant to the Promissory Note (2012 - \$11,103).

The Promissory Note is secured by a Deed of Trust covering the Radcliff Property.

As at December 31, 2013, the Promissory Note and accrued interest of \$646,181 was in default. However, the Company has not been served with a default notice by the note holder and the note holder has not taken action to reclaim title to the Radcliff Property.

## 10. CURRENT DEBT

As at December 31, 2013, pursuant to the acquisition of the Silver Hart Property (Note 6), a principal balance of \$270,000 (2012 - \$270,000) and extension fees totaling \$85,000 (2012 - \$85,000) is owing to a director of the Company. This amount is interest bearing at 8.5% per year. During the quarter ended December 31, 2013, the Company recorded interest expense of \$13,854 (2012 - \$12,769). Included in the obligation at December 31, 2013 is accrued interest of \$310,820 (September 30, 2013 - \$296,966). The principal, extension fees and accrued interest are due on September 30, 2014 pursuant to an amendment agreement dated September 24, 2013.

The Company has granted a first charge on the Silver Hart Property as security for the payments.

## 11. PREFERRED SHARES

The Company's subsidiary issued 5,000 Class A non-voting preferred shares (the "Class A preferred shares") at a price of \$100 per share, for total proceeds of \$500,000. Attached to these preferred shares is an annual non-cumulative preferred cash dividend of 4.5% of the total, payable annually on March 31 of each year. To December 31, 2013 and September 30, 2013, no dividends have been declared.

On issuance of the preferred stock, the Company recognized a discount of \$140,372 as equity and an equivalent discount which will be expensed over the term to the date of redemption. During the year ended September 30, 2013, the Company recorded interest expense of \$35,987 (2012 - \$33,167).

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

- Company: Upon giving no less than 10 days notice to the holders. If notice to redemption is given by the Company and holders of the Class A preferred shares fail to present and surrender the share certificates representing the shares called for redemption, the Company may deposit an amount sufficient to redeem the shares with any trust company or chartered bank of Canada and the holder will have no rights against the

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

- Company in respect of such shares except upon the surrender of certificates for such shares to receive payment; and
- Holder: Upon giving notice to the Company. The Company shall pay the holder within 30 days a redemption amount, in respect of each of the shares specified in the notice.

**12. RESTORATION AND ENVIRONMENTAL OBLIGATIONS**

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

The asset retirement obligation is calculated as the net present value of the estimated future cash flows which are required to satisfy the obligation of \$20,000. During the year ended September 30, 2012, \$6,000 of the balance has been returned to the Company and remaining \$14,000 for restoration of this property will stay in place until the reclamation work has been completed. As at December 31, 2013, no additional amount has been returned to the Company.

**13. SHARE CAPITAL**

**Authorized**

Unlimited common shares, without par value

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

**Issued common shares**

On December 27, 2013, the Company issued 1,165,000 flow-through common shares pursuant to a 1,165,000 Unit non-brokered private placement at \$0.05 per Unit. Each Unit consisted of one flow-through common share and one transferrable share purchase warrant entitling the holder thereof to purchase one additional common share of the Company at \$0.05 per share during year one, and \$0.10 per share during year two, expiring December 27, 2015.

On October 30, 2013, the Company issued 9,540,000 common shares and 5,460,000 flow-through common shares pursuant to a 15,000,000 Unit non-brokered private placement at \$0.05 per Unit. 9,540,000 Units consisted of one common share and one transferrable share purchase warrant and 5,460,000 Units consisted of one flow-through common share and one transferrable share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.05 per share during year one, and \$0.10 per share during year two expiring October 30, 2015. The Company paid share issuance costs of \$15,650 relating to the private placement.

On November 30, 2012, the Company completed a private placement of 4,900,000 units at \$0.10 per unit for proceeds of \$490,000. Each unit consisted of one common share and one transferrable share purchase warrant entitling the holder to purchase one additional common share of the Company at \$0.12 per share expiring on November 30, 2014. The Company paid share issuance costs of \$9,800 relating to the private placement.

**Stock options**

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

During the year ended September 30, 2013, and three month period ended December 31, 2013, the Company granted no new options.

CMC METALS LTD.  
 NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2013  
 (Expressed in Canadian dollars)  
 (Unaudited)

13. SHARE CAPITAL (cont'd)

**Stock Options (cont'd)**

The weighted average fair value of stock options granted during the three month period ended December 31, 2013 was \$Nil (2012 - \$Nil) and the weighted average life was Nil years (2012 Nil years). The following assumptions were used for the Black-Scholes Option Pricing Model in the valuation of stock options:

	December 31, 2013	September 30, 2013	
	Issued	Issued	Modified
Risk-free interest rate	-	-	-
Expected life	-	-	-
Annualized volatility	-	-	-
Dividend yield	-	-	-

The changes in stock options during the three month ended December 31, 2013 are as follows:

	Number of options	Weighted average exercise price
Balance, September 30, 2012	3,930,000	\$ 0.25
Options exercised	(3,150,000)	0.26
Options forfeited	(55,000)	0.21
Balance, September 30, 2013	725,000	0.19
Options expired	Nil	0.00
Options forfeited	Nil	0.00
Balance, December 31, 2013	725,000	\$ 0.19
Number of options exercisable at December 31, 2013	725,000	\$ 0.19

As at December 31, 2013, the following stock options were outstanding:

Number of options	Exercise Price	Expiry Date
505,000	\$0.21	February 7, 2014
275,000	\$0.15	June 12, 2014
780,000		

**Stock option reserve**

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

CMC METALS LTD.  
 NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2013  
 (Expressed in Canadian dollars)  
 (Unaudited)

13. SHARE CAPITAL (cont'd)

**Warrants**

The changes in warrants during the three month period ended December 31, 2013 are as follows:

	Number of warrants	Number of shares receivable	Weighted average exercise price
Balance, September 30, 2012	2,750,000	1,875,000	\$ 0.41
Warrants exercised <sup>(1)</sup>	(550,000)	(550,000)	0.12
Warrants expired <sup>(1)</sup>	(2,200,000)	(1,325,000)	0.44
Warrants issued	4,900,000	4,900,000	0.12
Balance, September 30, 2013	4,900,000	4,900,000	0.12
Warrants exercised	Nil	Nil	0.00
Warrants expired	Nil	Nil	0.00
Warrants issued	16,165,000	16,165,000	0.075
Balance, December 31, 2013	21,065,000	21,065,000	\$ 0.085

<sup>(1)</sup> On November 19, 2012, upon TSX-V approval, the exercise price of a total of 775,000 warrants, of which 550,000 were exercised during the year ended September 30, 2013 and 225,000 subsequently expired, was modified from \$0.25 to \$0.12. The Company calculated the fair value of the modification to warrants to be \$12,904 using the Black-Scholes Option Pricing Model using the following weighted average assumptions: expected dividend yield – 0%; expected stock price volatility – 106.49%; risk-free interest rate – 1.10%; expected life – 0.07 years. The Company recorded the fair value of the modification to warrants as a charge to deficit and a credit to the share-based payment reserve.

As at December 31, 2013, the following warrants were exercisable and outstanding:

Number of warrants	Exercise Price	Expiry Date
4,900,000	\$0.12	November 30, 2014
15,000,000	\$0.05 / \$0.10	October 31, 2015
1,165,000	\$0.05 / \$0.10	December 27, 2015
21,065,000		

As at December 31, 2013, the weighted average life of warrant is 1.63 years (2012 – 1.92 years).

14. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- incurred management fees of \$60,000 (September 2013 - \$52,500) to a director of the Company which were recorded in exploration and evaluation assets;
- incurred rent of \$1,500 (December 31, 2012 – \$4,500) to a company controlled by a director and officer of the Company;
- incurred secretarial fees of \$3,500 (December 31, 2012 – \$9,949) to a company controlled by a director and officer of the Company which was recorded in office and miscellaneous;
- accrued interest of \$13,854 (December 31, 2012 - \$12,769) to a director and officer of the Company, pursuant to the Silver Hart Property (Notes 6 and 10);

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

- e) incurred administrative fees of \$Nil (December 31, 2012 - \$6,432) to a company controlled by a director and officer of the Company which was recorded in office and miscellaneous.

At December 31, 2013, a total of \$67,558 (September 30, 2013 - \$67,558) was owing to directors of the Company.

At September 30, 2013, a total of \$15,000 (2012 - \$Nil) in loan receivable bearing interest of 6% per annum was due from a director of the Company (Note 4), which loan was repaid in full on December 18, 2013.

At December 31, 2013, a total of \$665,820 (2012 - \$613,659) was owing to a director and officer of the Company (Note 10). Including in current debt at December 31, 2013 was principal balance of \$270,000 (2012 - \$270,000), accrued interest of \$310,820 (2012 - \$258,659) and extension fees of \$85,000 (2012 - \$85,000).

Amounts due to or from related parties are non-interest bearing, unsecured and have no fixed terms of repayment. The fair value of amounts due to related parties is not determinable as they have no specified repayment terms.

The Company incurred the following key management compensation charges:

	December 31, 2013	December 31, 2012
Management fees – exploration and evaluation assets	\$ 60,000	\$ 22,500

**15. COMMITMENTS**

Effective February 10, 2010, the Company entered into a Services Agreement for financial consulting and investor relation services, pursuant to which the Company was obligated to pay the consultant a fee of \$6,500 per month and the Services Agreement can be terminated with 120 days notice. As of February 1, 2013, the Company and the consultant agreed to reduce the fee being paid pursuant to the Service Agreement to \$2,500 per month. During the three month period ended December 31, 2013, included in consulting expenses is \$5,000 (December 31, 2012 - \$19,500) to the consultant.

**16. FINANCIAL RISK AND CAPITAL MANAGEMENT**

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

***Credit risk***

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



**16. FINANCIAL RISK AND CAPITAL MANAGEMENT (cont'd)**

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

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

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at December 31, 2013:

	Within one year	Between one and five years	More than five years
Trade payables	\$ 4,462	\$ -	\$ -
Due to related parties	67,558	-	-
Promissory note	646,181	-	-
Current debt	665,820	-	-
Total	\$ 1,384,021	\$ -	\$ -

***Foreign exchange risk***

The Company is subject to normal risks including fluctuations in foreign exchange rates. While the Company manages its operations in order to minimize exposure to these risks, it has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure. The Company has significant operating expenditures which are denominated in United States dollars ("USD"). The Company's exposure to exchange rate fluctuations arises mainly on foreign currencies against the Canadian dollar functional currency of the relevant business entities.

***Financial assets:***

The Canadian dollar equivalent of the amounts denominated in foreign currencies are as follows:

	December 31, 2013	September 30, 2013
Cash	\$ 340,023	\$ 2,802
Reclamation bonds	214,046	136,747
	\$ 554,069	\$ 139,549

***Financial liabilities:***

The exposure of the Company's financial liabilities to currency risk is as follows:

	December 31, 2013	September 30, 2013
Non-derivative financial liabilities:		
Trade payables	\$ 3,702	\$ 5,362
Promissory note	646,181	635,100
	\$ 649,883	\$ 640,561

**16. FINANCIAL RISK AND CAPITAL MANAGEMENT (cont'd)**

***Sensitivity analysis:***

The Company is exposed to foreign currency risk on fluctuations related to cash, reclamation bond, trade payables and promissory that are denominated in USD. As at December 31, 2013, net assets totalling \$3,094,609 (2012 - \$3,555,215) were held in USD.

Based on the above net exposure as at December 31, 2013 and assuming all other variables remain constant, a 2% depreciation or appreciation of the USD against the Canadian dollar would result in an increase or decrease of approximately \$61,821 (2012 - \$71,104) in the Company's loss and comprehensive loss.

***Interest rate risk***

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

***Fair value***

The fair value of the Company's financial assets and liabilities approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

At December 31, 2013, the fair value of the Company's financial instruments are measured based on Level 1 inputs.

**Capital Management**

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

**17. SEGMENTED INFORMATION**

***Operating segments***

The Company operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties.

CMC METALS LTD.  
 NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2013  
 (Expressed in Canadian dollars)  
 (Unaudited)

17. **SEGMENTED INFORMATION (cont'd)**

*Geographic segments*

The Company's non-current assets are located in the following countries:

	As at December 31, 2013		
	Canada	United States	Total
Reclamation deposits	\$ 18,000	\$ 196,046	\$ 214,046
Exploration and evaluation assets	4,249,915	1,538,285	5,788,200
Property, plant and equipment	-	718,874	718,874
	\$ 4,267,915	\$ 2,453,205	\$ 6,721,120

  

	As at September 30, 2013		
	Canada	United States	Total
Reclamation deposits	\$ 18,000	\$ 136,747	\$ 154,747
Exploration and evaluation assets	4,160,342	1,528,468	5,688,810
Property, plant and equipment	-	677,291	677,291
	\$ 4,178,342	\$ 2,342,506	\$ 6,520,848

18. **NON-CASH TRANSACTIONS**

The Company incurred the following non-cash transactions that are not reflected in the statements of cash flows:

	Three month period ended	
	December 31, 2013	December 31, 2012
Property, plant and equipment and exploration and evaluation asset expenditures in trade payables and accrued liabilities	\$ -	\$ 227,214
Exploration and evaluation asset expenditures in promissory note	\$ -	\$ 50,050
Reallocation from deposits to exploration and evaluation assets	\$ -	\$ -
Modification of warrants	\$ -	\$ 12,904

19. **SUBSEQUENT EVENTS**

- On January 17, 2014, the Company received funds in payment of 265,000 Units at \$0.05 per Unit pursuant to the 1,165,000 flow-through private placement, recorded as a subscription receivable;
- A total of 505,000 incentive stock options at \$0.21 per share expired unexercised on February 7, 2014.