CMC METALS LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2014

(Expressed in Canadian Dollars)

(Unaudited)

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

	Notes	March 31, 2014 (Unaudited)	September 30, 2013 (Audited)
ASSETS			
Current assets			
Cash		$ 196,632	$ 321,607
Receivables		3,533	202
Loan receivable	11	-	15,000
Prepaids	11	57,665	10,417
		257,830	347,226
Non-current assets			
Reclamation bonds	3	214,046	154,747
Exploration and evaluation assets	4	5,782,747	5,688,810
Property, plant and equipment	5	795,956	677,291
		6,792,749	6,520,848
TOTAL ASSETS		$ 7,050,579	$ 6,868,074
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	6	$ 40,996	$ 289,404
Due to related parties	11	5,663	67,558
Promissory note	7	706,588	635,199
Current debt	8	679,675	651,966
		1,432,922	1,644,127
Non-current liabilities			
Preferred shares	9	479,674	459,348
Provision for restoration and environmental activities		14,000	14,000
		493,674	473,348
TOTAL LIABILITIES		1,926,596	2,117,475
SHAREHOLDERS' EQUITY			
Share capital	10	13,539,185	12,687,835
Subscription received		9,000	252,000
Obligation to issue shares	4	300,000	300,000
Share-based payment reserve	10	60,596	49,182
Deficit		(8,784,798)	(8,538,418)
TOTAL SHAREHOLDERS' EQUITY		5,123,983	4,750,599
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 7,050,579	$ 6,868,074

Going concern - Note 1
Commitments and contingency - Notes 4, 7, 8 and 9
Subsequent event - Note 15

Approved on behalf of the Board:

"Jack Bal"
Jack Bal - Director

"Michael C. Scholz"
Michael C. Scholz - Director

See accompanying notes to the condensed consolidated interim financial statements.

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

	Notes	For the 3 Month Period Ended March 31, 2014 (Unaudited)	For the 3 Month Period Ended March 31, 2013 (Unaudited)	For the 6 Month Period Ended March 31, 2014 (Unaudited)	For the 6 Month Period Ended March 31, 2013 (Unaudited)
EXPENSES					
Consulting fees	11	$ 76,687	$ 16,500	$ 79,887	$ 43,500
Filing and transfer agent		12,097	9,868	20,089	14,904
Interest expense	4, 5, 6	46,793	32,747	71,629	66,247
Investor communications (recovery)		(900)	3,500	4,100	4,900
Office and miscellaneous	11	27,941	30,441	39,847	44,387
Professional fees		12,217	1,938	7,732	7,075
Rent	11	7,500	4,500	9,000	9,000
Stock-based compensation	10	41,438	-	41,438	1,286
Travel		9,950	4,097	14,022	4,619
		(233,723)	(103,591)	(287,744)	(195,918)
OTHER ITEMS					
Interest income		168	133	177	146
Loss on foreign exchange		(44,809)	(13,379)	(53,762)	(22,939)
Recovery of flow through liability	10	64,925	-	64,925	-
		20,284	(13,246)	11,340	(22,793)
COMPREHENSIVE LOSS FOR THE PERIOD		$ (213,439)	$ (116,837)	$ (276,404)	$ (218,711)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED		74,201,407	63,273,646	70,973,571	59,604,742
LOSS PER SHARE - BASIC AND DILUTED		$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

See accompanying notes to the condensed consolidated interim financial statements.

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

	Notes	Share capital: Number of shares	Share capital: Amount	Subscription received (receivable)	Obligation to issue shares	Share-based payment reserve	Deficit	Total
Balance at September 30, 2012		57,823,646	$ 12,132,476	$ -	$ 300,000	$ 485,462	$ (5,584,858)	$ 7,333,080
Comprehensive loss:								
Loss for the period		-	-	-	-	-	(218,711)	(218,711)
Total comprehensive loss for the period		-	-	-	-	-	(218,711)	(218,711)
Transactions with owners, in their capacity as owners, and other transfers:								
Shares issued for cash - private placement	10	4,900,000	490,000	-	-	-	-	490,000
Shares issued for cash - warrants exercise	10	550,000	66,000	-	-	-	-	66,000
Share issuance costs	10	-	(9,800)	-	-	-	-	(9,800)
Stock-based compensation	10	-	-	-	-	1,286	-	1,286
Modification of warrants	10	-	-	-	-	12,904	(12,904)	-
Total transactions with owners and other transfers		5,450,000	546,200	-	-	14,190	(12,904)	547,486
Balance at March 31, 2013 (Unaudited)		63,273,646	$ 12,678,676	$ -	$ 300,000	$ 499,652	$ (5,816,473)	$ 7,661,855
Balance at September 30, 2013		63,273,646	$ 12,687,835	$ 252,000	$ 300,000	$ 49,182	$ (8,538,418)	$ 4,750,599
Comprehensive loss:								
Loss for the period		-	-	-	-	-	(276,404)	(276,404)
Total comprehensive loss for the period		-	-	-	-	-	(276,404)	(276,404)
Transactions with owners, in their capacity as owners, and other transfers:								
Shares issued for cash - private placement	10	16,165,000	808,250	(252,000)	-	-	-	556,250
Shares issued for cash - warrants exercise	10	2,500,000	125,000	-	-	-	-	125,000
Share issuance costs	10	-	(15,650)	-	-	-	-	(15,650)
Subscriptions received in advance		-	-	9,000	-	-	-	9,000
Stock-based compensation	10	-	-	-	-	41,438	-	41,438
Reallocation of cancelled and expired options	10	-	-	-	-	(30,024)	30,024	-
Flow-through liability	10	-	(66,250)	-	-	-	-	(66,250)
Total transactions with owners and other transfers		18,665,000	851,350	(243,000)	-	11,414	30,024	649,788
Balance at March 31, 2014 (Unaudited)		81,938,646	$ 13,539,185	$ 9,000	$ 300,000	$ 60,596	$ (8,784,798)	$ 5,123,983

See accompanying notes to the condensed consolidated interim financial statements.

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

	For the 3 Month Period Ended March 31		For the 6 Month Period Ended March 31	
	2014 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2013 (Unaudited)
Operating activities				
Net loss for the period	$ (213,439)	$ (116,837)	$ (276,404)	$ (218,711)
Adjustments for non-cash items:				
Accrued interest on promissory note	12,613	11,612	23,595	22,715
Accrued interest on current debt	13,855	12,769	27,709	25,538
Amortization of preferred shares discount	20,326	8,996	20,326	17,994
Stock-based compensation	41,438	-	41,438	1,286
Reversal of flow-through liability	(64,925)	-	(64,925)	-
Changes in non-cash working capital items:				
Receivables	(566)	10,778	(3,331)	(2,915)
Prepaids	(49,421)	4,176	(47,248)	4,176
Loan receivable	-	-	15,000	-
Trade payables and accrued liabilities	30,494	7,791	(254,447)	(79,859)
Due to related parties	(61,895)	23,575	(61,895)	8,262
Net cash flows used in operating activities	(271,520)	(37,140)	(580,182)	(221,514)
Investing activities				
Expenditures on exploration and evaluation assets	(3,347)	630	(93,937)	(234,446)
Property, plant and equipment	(63,568)	-	(113,951)	-
Reclamation Bond	-	-	(59,299)	-
Net cash flows provided by (used in) investing activities	(66,915)	630	(267,187)	(234,446)
Financing activities				
Repayment of promissory note	-	(50,000)	-	(100,050)
Proceeds on issuance of common shares - net of share issue costs	138,250	40,000	665,600	546,200
Subscription received	9,000	-	9,000	-
Net cash flows provided by (used in) financing activities	147,250	(10,000)	674,600	446,150
Effect of foreign exchange	47,794	13,353	47,794	21,263
Change in cash	(143,391)	(33,157)	(124,975)	11,453
Cash, beginning	340,023	72,856	321,607	28,246
Cash, ending	$ 196,632	$ 39,699	$ 196,632	$ 39,699

Non-cash transactions - Note 14

See accompanying notes to the condensed consolidated interim 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 March 31, 2014 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 May 29, 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, 2013.

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.

2. BASIS OF PRESENTATION (cont'd)

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 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. RECLAMATION BONDS

The reclamation bonds are held in trust for the Company at the Bank of Montreal and Bureau of Land Management. As at March 31, 2014 the reclamation bonds consist of deposits made by the Company for indemnification of site restoration as follows:

- $14,000 (September 30, 2013 - $14,000) on the CK Property (a property terminated during the year ended September 30, 2009);
- $4,000 (September 30, 2013 - $4,000) on the Wheelbarrow Property (a property terminated during the year ended September 30, 2010); and
- $196,046 (September 30, 2013 - $136,747) on the Bishop Mill Property (Note 5).

(Expressed in Canadian dollars)

4. EXPLORATION AND EVALUATION ASSETS

	Silver Hart Property	Radcliff Property	Total
Acquisition costs			
Balance, September 30, 2013 and March 31, 2014	$ 760,000	$ 1,381,473	$ 2,141,473
Exploration costs			
Balance, September 30, 2013	3,400,342	146,995	3,547,337
Costs incurred during the period:			
Assaying	1,284	-	1,284
Contractors (Note 11)	50,644	22,285	72,929
Field office	8,251	10,389	18,640
Transportation and supplies	(26,406)	27,490	1,084
	33,773	60,164	93,937
Balance, March 31, 2014	3,434,115	207,159	3,641,274
Total - March 31, 2014	$ 4,194,115	$ 1,588,632	$ 5,782,747

4. EXPLORATION AND EVALUATION ASSETS (cont'd)

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 8).

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 March 31, 2014, the Company has not yet issued these shares and the director has not demanded the Company to issue these shares.

The Silver Hart Property is security for a loan due to a director of the Company (Note 8).

Radcliff Property

On March 1, 2011, the Company entered into a Letter of Intent with Pruett Ballart Inc. ("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.

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 7). To March 31, 2014, US$300,000 has been paid towards the Promissory Note. As at March 31, 2014 and as of the date that these condensed consolidated interim financial statements were approved, the Promissory Note, including interest and extension fee, of $706,588 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.

(Expressed in Canadian dollars)

5. PROPERTY, PLANT AND EQUIPMENT

Cost	Silver Hart lake equipment	Bishop mill & equipment	Total
Balance, September 30, 2013	$ -	$ 677,291	$ 677,291
Additions	8,800	109,865	118,665
Balance, March 31, 2014	8,800	787,156	795,956

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. As at March 31, 2014, the Bishop Mill was not in use.

To March 31, 2014, the Company holds a reclamation bond with the United States Department of Interior Bureau of Land Management of $196,046 (US$191,269) (September 30, 2013 - $136,747 (US$132,663)) for indemnification of site restoration on the Bishop Mill Property (Note 3).

6. TRADE PAYABLES AND ACCRUED LIABILITIES

	March 31, 2014	September 30, 2013
Trade payables	$ 34,445	$ 257,845
Accrued liabilities	5,226	31,559
Flow-through share liability (Note 10)	1,325	-
	$ 40,996	$ 289,404

7. PROMISSORY NOTE

On April 18, 2012, the Company entered into a Promissory Note Agreement (Note 4), 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 (CND$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 March 31, 2014, the outstanding Promissory Note includes a principal balance of US$500,000 (CDN$552,650) (September 30, 2013 - US$500,000 (CDN$514,250)) and Extension Fee of US$50,000 (CDN$55,265) (September 30, 2013 - US$50,000 (CDN$51,425)). As at March 31, 2014, the Company has recorded US$89,272 (CDN$98,673) (September 30, 2013 - US$68,790 (CDN$69,524)) in accrued interest.

During the six month period ended March 31, 2014, the Company recorded interest expense of $23,595 (March 31, 2013 - $22,715).

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

As at March 31, 2014, the Promissory Note and accrued interest of $706,588 (September 30, 2013 - $635,199) is 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.

8. CURRENT DEBT

As at March 31, 2014, pursuant to the acquisition of the Silver Hart Property (Note 4), a principal balance of $270,000 (September 30, 2013 - $270,000) and extension fees totaling $85,000 (September 30, 2013 - $85,000) is owing to a director of the Company. This amount is interest bearing at 8.5% per year. During the six months ended March 31, 2014, the Company recorded interest expense of $27,709 (March 31, 2013 - $25,538). Included in the obligation at March 31, 2014 is accrued interest of $324,675 (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.

9. PREFERRED SHARES

The Company's subsidiary issued 5,000 Class A non-voting preferred shares (the "Class A preferred shares") at a price of $100 per share, for total proceeds of $500,000. Attached to these preferred shares is an annual non-cumulative preferred cash dividend of 4.5% of the total, payable annually on March 31 of each year. To March 31, 2014, 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 six month period ended March 31, 2014, the Company recorded interest expense of $20,326 (March 31, 2013 - $17,994).

9. PREFERRED SHARES (cont'd)

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

10. SHARE CAPITAL

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

Issued common shares

a) On March 12, 2014, the Company issued 2,500,000 common shares pursuant to the exercise of 2,500,000 warrant at $0.05 per share for proceeds of $125,000.

b) 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 for gross proceeds of $58,250. 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.

c) 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, for gross proceeds of $750,000. 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.

   In connection with the private placement, the Company paid share issuance costs of $15,650 and issued 40,000 finder's warrants exercisable at $0.05 per share during year one, and $0.10 per share during year two expiring October 30, 2015.

   On the issuance of flow-through shares, the Company bifurcates the flow-through share into i) a flow-through share premium, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. On issuance, there was a flow-through share premium of $66,250. To March 31, 2014, the Company expended majority of the required amount in eligible exploration expenditures. During the six months ended March 31, 2014, the net amount of $64,925 was recognized as a reversal of flow-through share liability on the condensed consolidated statement of comprehensive loss and the flow-through share liability, recorded in trade payables and accrued liabilities, was reduced to $1,325 (Note 6).

(Expressed in Canadian dollars)

10. SHARE CAPITAL (cont'd)

Issued common shares (cont'd)

Stock options

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

During the six month period ended March 31, 2014, the Company granted 6,800,000 incentive stock options at $0.065 per share for a two year period expiring March 20, 2016. During the six months ended March 31, 2014, the Company recorded $41,438 in stock based compensation. During the six months ended March 31, 2013, the Company recorded $1,286 in stock based compensation for vested stock options granted during the year ended September 30, 2012.

The following assumptions were used for the Black-Scholes Option Pricing Model in the valuation of stock options:

	March 31, 2014	September 30, 2013
Risk-free interest rate	1.07%	-
Expected life	1.97 years	-
Annualized volatility	147.00%	-
Dividend yield	0.00%	-

The changes in stock options during the six month ended March 31, 2014 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	(450,000)		0.21
Options granted	6,800,000		0.07
Balance, March 31, 2014	7,075,000	$	0.07
Number of options exercisable at March 31, 2014	275,000	$	0.15

(Expressed in Canadian dollars)

10. SHARE CAPITAL (cont'd)

Stock options (cont'd)

As at March 31, 2014, the following stock options were outstanding:

Number of options	Exercise Price	Expiry Date
275,000	$0.15	June 12, 2014
6,800,000	$0.065	March 20, 2016
7,075,000		

The weighted average life remaining of options is 1.90 years.

Share based payment reserve

The share based payment 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.

Warrants

The changes in warrants during the six month period ended March 31, 2014 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 [1]	(550,000)	(550,000)		0.12
Warrants expired [1]	(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	(2,500,000)	(2,500,000)		0.05
Warrants issued	16,205,000	16,205,000		0.08
Balance, March 31, 2014	18,605,000	18,605,000	$	0.07

[1] 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.

(Expressed in Canadian dollars)

10. SHARE CAPITAL (cont'd)

Warrants (cont'd)

As at March 31, 2014, the following warrants were outstanding:

Number of warrants	Exercise Price	Expiry Date
4,900,000	$0.12	November 30, 2014
12,500,000	$0.05 Year 1/ $0.10 Year 2	October 30, 2015
40,000	$0.05 Year 1/ $0.10 Year 2	October 30, 2015
1,165,000	$0.05 Year 1/ $0.10 Year 2	December 27, 2015
18,605,000		

As at March 31, 2014, the weighted average life of warrants is 1.36 years.

11. RELATED PARTY TRANSACTIONS

During the six months ended March 31, 2014, the Company entered into the following transactions with related parties:

a) incurred consulting fees of $30,000 (March 31, 2013 - $45,000) to a director of the Company for geological services rendered, which were recorded in exploration and evaluation assets;
b) incurred consulting fees of $41,500 (March 31, 2013 - $Nil) to directors of the Company for management and consulting services rendered;
c) incurred rent of $9,000 (March 31, 2013 – $9,000) to a company controlled by a director and officer of the Company;
d) incurred secretarial fees of $22,500 (March 31, 2013 – $24,050) to a company controlled by a director and officer of the Company which was recorded in office and miscellaneous;
e) accrued interest of $27,709 (March 31, 2013 - $25,538) to a director and officer of the Company, pursuant to the Silver Hart Property (Notes 4 and 8); and
f) incurred administrative fees of $Nil (March 31, 2013 - $7,504) to a company controlled by a director and officer of the Company which was recorded in office and miscellaneous.

At March 31, 2014, a total of $5,663 (September 30, 2013 - $67,558) was owing to directors of the Company.

At March 31, 2014, a total of $Nil (September 30, 2013 - $15,000) in loan receivable bearing interest of 6% per annum was due from a director of the Company.

At March 31, 2014, a total of $Nil (September 30, 2013 - $3,150) was paid in advance to a director of the Company, which was recorded in prepaids.

At March 31, 2014, a total of $679,675 (September 30, 2013 - $651,966) was owing to a director and officer of the Company (Note 8). Including in current debt at March 31, 2014 was principal balance of $270,000 (September 30, 2013 - $270,000), accrued interest of $324,675 (September 30, 2013 - $296,966) and extension fees of $85,000 (September 30, 2013 - $85,000).

Amounts due to or from related parties are non-interest bearing, unsecured and have no fixed terms of repayment unless specifically disclosed.

(Expressed in Canadian dollars)

11. RELATED PARTY TRANSACTIONS (cont'd)

The Company incurred the following key management compensation charges:

	March 31, 2014	March 31, 2013
Consulting fees – exploration and evaluation assets	$ 30,000	$ 45,000
Consulting fees	41,500	-
	$ 71,500	$ 45,000

12. 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.

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 March 31, 2014:

	Within one year	Between one and five years	More than five years
Trade payables	$ 34,445	$ -	$ -
Due to related parties	5,663	-	-
Promissory note	706,588	-	-
Current debt	679,675	-	-
Total	$ 1,426,371	$ -	$ -

12. FINANCIAL RISK AND CAPITAL MANAGEMENT (cont'd)

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:

	March 31, 2014	September 30, 2013
Cash	$ 12,068	$ 52,877
Reclamation bonds	196,046	136,747
	$ 208,114	$ 189,624

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	$ 5,683	$ 5,362
Promissory note	706,588	635,199
	$ 712,271	$ 640,561

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 March 31, 2014, net assets totalling $(504,157) (September 30, 2013 - $(450,937)) were held in USD.

Based on the above net exposure As at March 31, 2014 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 $10,083 (September 30, 2013 - $9,019) 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.

(Expressed in Canadian dollars)

12. FINANCIAL RISK AND CAPITAL MANAGEMENT (cont'd)

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	March 31, 2014	September 30, 2013
Loans and receivables:		
Cash	$ 196,362	$ 321,607
Loan receivable	-	15,000
Reclamation bonds	214,046	154,747
	$ 410,408	$ 491,354

Financial liabilities included in the statement of financial position are as follows:

	March 31, 2014	September 30, 2013
Non-derivative financial liabilities:		
Trade payables	$ 34,445	$ 257,845
Due to related parties	5,663	67,558
Promissory note	706,588	635,199
Current debt	679,675	651,966
Preferred shares	479,674	459,348
	$ 1,906,045	$ 2,071,916

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 period. The Company is not subject to any externally imposed capital requirements.

13. SEGMENTED INFORMATION

Operating segments

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

Geographic segments

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

	As at March 31, 2014		
	Canada	United States	Total
Reclamation deposits	$ 18,000	$ 196,046	$ 214,046
Exploration and evaluation assets	4,194,115	1,588,632	5,782,747
Property, plant and equipment	8,800	787,156	795,956
	$ 4,220,915	$ 2,571,835	$ 6,792,750

	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

14. NON-CASH TRANSACTIONS

(Expressed in Canadian dollars)

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

	Six month period ended			
	March 31, 2014		March 31, 2013	
Property, plant and equipment and exploration and evaluation asset expenditures in trade payables and accrued liabilities	$	4,714	$	202,422
Exploration and evaluation asset expenditures in promissory note	$	-	$	50,050
Reallocation of expired options to deficit	$	30,024	$	-
Modification of warrants	$	-	$	12,904

15. SUBSEQUENT EVENT

On April 10, 2014, the Company completed a 5,150,000 unit private placement at $0.06 per unit for gross proceeds of $309,000. Each unit consists of one common share and one transferrable share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at $0.10 per share for a two year period expiring April 10, 2016. In connection with the private placement, the Company paid finder's fee of $18,720 and issued 288,000 finder's warrants exercisable at $0.10 expiring April 10, 2016.