CANADA ZINC METALS CORP.

Condensed Consolidated Interim Financial Statements

Nine months ended March 31, 2012 and 2011

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

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NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

May 28, 2012

CANADA ZINC METALS CORP.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian Dollars – Unaudited)

	Notes	**March 31, 2012**	June 30, 2011	July 1, 2010
Assets				
Current assets				
Cash and cash equivalents	3	**$ 14,316,573**	$ 15,501,154	$ 9,281,997
Receivables	4	**162,421**	477,600	67,972
METC recoverable	11	**–**	1,611,149	921,063
Short-term investments	5	**–**	4,609,000	–
Prepaid expenses		**10,624**	378,838	373,081
Marketable securities	6	**1,827,000**	557,260	450,000
		16,316,618	23,135,001	11,094,113
Other assets	7	**312,649**	309,000	89,000
Equipment and leasehold improvements	10	**288,318**	194,994	122,569
Long-term prepaid expenses		**192,145**	192,145	75,000
Resource properties	11	**62,332,785**	57,696,017	52,061,068
		$ 79,442,515	$ 81,527,157	$63,441,750
Liabilities and Shareholders' Equity				
Current liabilities				
Trade payables and accrued liabilities	8	**$ 227,198**	$ 1,189,024	$ 1,295,366
Due to related parties	14	**21,374**	–	61,532
Flow-through premium liability	9	–	242,250	824,160
		248,572	1,431,274	2,181,058
Future income taxes		**6,021,000**	6,021,000	7,040,397
Shareholders' Equity				
Share capital	12	**88,939,986**	90,071,984	71,191,084
Equity reserves		**11,625,785**	11,265,132	8,237,431
Deficit		**(27,793,589)**	(26,848,894)	(25,283,220)
Accumulated other comprehensive income		**400,761**	(413,339)	75,000
		73,172,943	74,074,883	54,220,295
		$ 79,442,515	$ 81,527,157	$63,441,750

Nature and continuance of operations (Note 1)
Subsequent events (Note 16)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

CANADA ZINC METALS CORP.

Condensed Consolidated Interim Statements of Changes in Equity
(Expressed in Canadian Dollars – Unaudited)

	Share Capital					
	Number of Shares	Amount	Equity Reserves	Deficit	Accumulated other comprehensive income	Total Equity
Balance, July 1, 2010	**102,121,414**	**$ 71,191,084**	**$ 8,237,431**	**$ (25,283,220)**	**$ 75,000**	**$ 54,220,295**
Net income for the period	–	–	–	(337,856)	–	(337,856)
Income tax recovery	–	–	–	750,334	–	750,334
Normal Course Issuer Bid	(521,500)	(369,523)	134,535	–	–	(234,988)
Share based compensation	–	–	62,433	–	–	62,433
Exercise of options	75,000	30,603	(11,853)	–	–	18,750
Change in fair value of securities	–	–	–	–	(93,750)	(93,750)
Balance, September 30, 2010	**101,674,914**	**70,852,164**	**8,422,546**	**(24,870,742)**	**(18,750)**	**54,385,218**
Net loss for the period	–	–	–	(1,301,974)	–	(1,301,974)
Income tax recovery	–	–	–	73,826	–	73,826
Private placement, shares	31,386,224	16,006,974	–	–	–	16,006,974
Private placement, warrants	–	–	1,993,026	–	–	1,993,026
Share issuance costs	–	(47,000)	–	–	–	(47,000)
Normal Course Issuer Bid	(271,000)	(190,277)	58,240	–	–	(132,037)
Share based compensation	–	–	696,382	–	–	696,382
Exercise of options	415,000	217,949	(103,699)	–	–	114,250
Change in fair value of securities	–	–	–	–	(3,955)	(3,955)
Balance, December 31, 2010	**133,205,138**	**86,839,810**	**11,066,495**	**(26,098,890)**	**(22,705)**	**71,784,710**
Net loss for the period	–	–	–	(834,619)	–	(834,619)
Flow-through private placement	4,845,000	3,730,650	–	–	–	3,730,650
Flow-through liability	–	(242,250)	–	–	–	(242,250)
Share issuance costs	–	(178,116)	–	–	–	(178,116)
Share based compensation	–	–	152,272	–	–	152,272
Exercise of options	405,000	245,298	(126,747)	–	–	118,551
Change in fair value of securities	–	–	–	–	(105,023)	(105,023)
Balance, March 31, 2011	**138,455,138**	**90,395,392**	**11,092,020**	**(26,933,509)**	**(127,728)**	**74,426,175**
Net loss for the period	–	–	–	(878,478)	–	(878,478)
Income tax recovery	–	56,304	–	963,093	–	1,019,397
Share issuance costs	–	(100)	–	–	–	(100)
Normal Course Issuer Bid	(560,000)	(379,612)	114,233	–	–	(265,379)
Share based compensation	–	–	58,879	–	–	58,879
Change in fair value of securities	–	–	–	–	(285,611)	(285,611)
Balance, June 30, 2011	**137,895,138**	**90,071,984**	**11,265,132**	**(26,848,894)**	**(413,339)**	**74,074,883**
Net loss for the period	–	–	–	(402,546)	–	(402,546)
Normal Course Issuer Bid	(562,000)	(380,221)	163,310	–	–	(216,911)
Share based compensation	–	–	59,686	–	–	59,686
Change in fair value of securities	–	–	–	–	(90,440)	(90,440)
Balance, September 30, 2011	**137,333,138**	**89,691,763**	**11,488,128**	**(27,251,440)**	**(503,779)**	**73,424,672**
Net loss for the period	–	–	–	(502,784)	–	(502,784)
Income tax recovery	–	–	–	242,250	–	242,250
Normal Course Issuer Bid	(1,212,000)	(822,091)	200,380	–	–	(621,711)
Share based compensation	–	–	49,237	–	–	49,237
Change in fair value of securities	–	–	–	–	384,372	384,372
Balance, December 31, 2011	**136,121,138**	**88,869,672**	**11,737,745**	**(27,511,974)**	**(119,407)**	**72,976,036**
Net loss for the period	–	–	–	(281,615)	–	(281,615)
Normal Course Issuer Bid	(163,000)	(103,176)	19,988	–	–	(83,188)
Share based compensation	–	–	14,042	–	–	14,042
Exercise of options	110,000	173,490	(145,990)	–	–	27,500
Change in fair value of securities	–	–	–	–	520,168	520,168
Balance, March 31, 2012	**136,068,138**	**$ 88,939,986**	**$ 11,625,785**	**$ (27,793,589)**	**$ 400,761**	**$ 73,172,943**

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

CANADA ZINC METALS CORP.

Condensed Consolidated Interim Statements of Comprehensive Loss
(Expressed in Canadian Dollars – Unaudited)

	Note	Three months ended March 31, 2012	Three months ended March 31, 2011	Nine months ended March 31, 2012	Nine months ended March 31, 2011
ADMINISTRATION EXPENSES					
Administration	**14**	**$ 15,000**	$ 15,000	**$ 45,000**	$ 45,000
Amortization		**1,024**	1,078	**3,094**	1,981
Bank charges and interest		**552**	937	**3,511**	2,420
Bonuses	**14**	**–**	360,000	**2,500**	360,000
Consulting		**56,250**	136,729	**168,750**	613,498
Directors' fees	**14**	**12,500**	–	**37,500**	–
Investor Relations		**108,346**	14,112	**213,045**	76,574
Management fees	**14**	**73,500**	37,500	**220,500**	112,500
Office and miscellaneous		**8,865**	8,614	**40,034**	40,792
Professional fees		**2,226**	10,554	**36,556**	47,333
Regulatory fees		**12,400**	12,580	**17,395**	32,020
Rent		**15,000**	15,061	**45,000**	45,194
Share based compensation	**12**	**14,042**	152,272	**122,965**	911,087
Transfer agent fees		**968**	2,161	**3,755**	8,470
Travel and promotion		**45,675**	43,529	**166,028**	74,578
Wages and benefits		**105,857**	91,384	**305,478**	276,234
Loss before other items		**(472,205)**	(901,511)	**(1,431,111)**	(2,647,681)
OTHER ITEMS					
Interest and other income		**46,972**	66,892	**187,056**	173,232
Gain on sale of marketable securities	**6**	**143,618**	–	**57,110**	–
		190,590	66,892	**244,166**	173,232
Loss before income taxes		**(281,615)**	(834,619)	**(1,186,945)**	(2,474,449)
Deferred income tax recovery	**9**	**–**	–	**242,250**	824,160
Loss before comprehensive loss		**(281,615)**	(834,619)	**(944,695)**	(1,650,289)
Adjustment for change in fair value of marketable securities	**6**	**520,168**	(105,023)	**814,100**	(202,728)
Comprehensive income (loss) for the period		**$ 238,553**	$ (939,642)	**$ (130,595)**	$ (1,853,017)
Basic and diluted loss per share		**$ (0.002)**	$ (0.006)	**$ (0.007)**	$ (0.014)
Weighted average number of shares outstanding		**134,568,125**	135,165,305	**136,815,423**	117,893,869

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

CANADA ZINC METALS CORP.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian Dollars – Unaudited)

	Three months ended March 31,		Nine months ended March 31,	
	2012	2011	**2012**	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period before comprehensive income or loss	**$ (281,615)**	$ (834,619)	**$ (944,695)**	$ (1,650,289)
Items not affecting cash:				
Amortization	**1,024**	1,078	**3,094**	1,981
Stock-based compensation	**14,042**	152,272	**122,965**	911,087
Loss (gain) on sale of marketable securities	**(143,617)**	–	**(57,110)**	–
Future income tax recovery	–	–	**(242,250)**	(824,160)
Changes in non-cash working capital items:				
(Increase) decrease in receivables	**276,643**	66,364	**315,179**	(103,127)
METC recovered	–	–	**1,611,149**	921,063
Decrease in prepaid expenses	**3,763**	4,045	**368,214**	206,446
Decrease in accounts payable and accrued liabilities	**(59,701)**	(49,805)	**(285,256)**	(734,214)
Increase (decrease) in due to/ from related parties	**(4,901)**	11,129	**15,540**	7,803
Cash provided by (used in) operating activities	**(194,362)**	(649,536)	**906,830**	(1,263,410)
CASH FLOWS FROM INVESTING ACTIVITIES				
Equipment and leasehold improvements	–	(12,322)	**(146,935)**	(15,165)
Long-term prepaid expenses and deposits	–	–	–	(117,145)
Marketable securities costs, net	**1,182,103**	(404,556)	**(398,529)**	(419,136)
Reclamation bond	–	–	**(3,649)**	–
Resource property costs	**(959,259)**	(481,882)	**(5,256,988)**	(5,645,287)
Short-term investments	**4,609,000**	(14,609,000)	**4,609,000**	(14,609,000)
Cash used in investing activities	**4,831,844**	(15,507,760)	**(1,197,101)**	(20,805,733)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of common shares, net	**27,500**	3,671,084	**27,500**	21,757,084
Common shares repurchased	**(83,187)**	–	**(921,810)**	(367,025)
Cash provided by (used in) financing activities	**(55,687)**	3,671,084	**(894,310)**	21,390,059
Change in cash and cash equivalents during the period	**4,581,795**	(12,486,212)	**(1,184,581)**	(679,084)
Cash and cash equivalents, beginning of period	**9,734,778**	21,089,125	**15,501,154**	9,281,997
Cash and cash equivalents, end of period	**$ 14,316,573**	$ 8,602,913	**$ 14,316,573**	$ 8,602,913

Supplemental disclosure with respect to cash flows (Note 13)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Zinc Metals Corp. (the "Company") is incorporated under the laws of the Province of British Columbia. The Company operates in one business segment, that being the exploration and development of resource properties in Canada, and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and upon future profitable production.

The Company's head office and principal address is Suite 2050-1055 West Georgia Street, PO Box 11121, Royal Centre, Vancouver, BC V6E 3P3. The registered and records office is Suite 700-595 Burrard St., PO Box 49290, Vancouver, BC V7X 1S8.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future. To date, the Company has not generated any significant revenues.

These condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of asset and liabilities which might be necessary should the Company be unable to continue in existence.

The Company has never paid dividends.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

The interim financial statements were authorized for issue on May 28, 2012 by the directors of the Company.

Statement of compliance and conversion to International Financial Reporting Standards ("IFRS")

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC"). Therefore, these interim financial statements comply with International Accounting Standards ("IAS") 34 "Interim Financial Reporting".

The Company's transition date to IFRS is July 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, "First-time adoption of International Financial Reporting Standards". In preparing the Company's first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles ("GAAP").

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Historical results and balances have been restated under IFRS.

This condensed consolidated interim financial report does not include all of the information required of a full annual financial report and is 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 Company's audited GAAP annual financial statements for the year ended June 30, 2011 and in consideration of the disclosures regarding the transition from Canadian GAAP to IFRS included in Note 15. Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS are not included in these interim financial statements nor is it in the Company's most current annual GAAP financial statements.

Basis of presentation

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

Principles of consolidation

The interim condensed consolidated financial statements include amounts of the Company and its wholly owned subsidiary Ecstall Mining Corp. ("Ecstall"). On February 23, 2007, the Company acquired 96% of the issued and outstanding capital stock of Ecstall, a company incorporated under the laws of the Province of British Columbia and engaged in the exploration and development of resource properties. During the year ended June 30, 2008, the Company acquired the remaining 4% of the issued and outstanding capital stock of Ecstall, increasing the Company's ownership interest to 100%.

Subsidiaries are corporations in which the Company is able to control the financial operating, investing and financing activities and policies, which is the authority usually connected with holding majority voting rights. The consolidated financial statements include the accounts of the Company and its controlled entity from the date on which control was acquired. Ecstall uses the same reporting period and the same accounting policies as the Company.

All inter-entity balances and transactions, including unrealized profits and losses arising from intra-company transactions, have been eliminated in full on consolidation.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Significant accounting judgements, estimates and assumptions (cont'd)

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the determination of the useful lives of equipment and leasehold improvements, fair value measurements for financial instruments and share-based compensation and other equity-based payments, the recognition and valuation of provisions for restoration and environmental liabilities, impairment of resource properties and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

Financial instruments

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments ("HTM"), and available-for-sale ("AFS"). The Company classifies its financial liabilities as either at FVTPL or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at FVTPL when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. Transaction costs are expensed as incurred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at their fair value including transaction costs and are subsequently measured at amortized cost.

HTM investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. HTM investments are recognized on a trade-date basis and initially measured at fair value using the effective interest method, including transaction costs. They are subsequently measured at amortized cost.

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Financial instruments (cont'd)

AFS financial assets are non-derivative financial assets that are designated as AFS or are not suitable to be classified as financial assets at FVTPL, loans and receivables or HTM investments. AFS financial assets are measured initially at their fair value including transaction costs directly attributable to the acquisition. They are subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses, with interest calculated using the effective interest method and foreign exchange gains and losses.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end.

Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Financial instruments (cont'd)

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

The Company has classified its cash and cash equivalents as at FVTPL. Short-term investments and marketable securities are classified as available-for-sale. Receivables and METC recoverable are classified as loans and receivables. Accounts payable and accrued liabilities, due to related parties and a flow-through premium liability are classified as other financial liabilities, all of which are measured at amortized cost.

The Company does not have any derivative financial assets and liabilities.

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.

Due to the short-term maturity of the Company's existing financial assets and liabilities, the carrying value approximates the fair value and no classification in the hierarchy is made.

Cash and cash equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid short-term investments with remaining maturities of 90 days or less.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost and are amortized over their estimated useful lives at the following rates:

Camp equipment	–	25%	declining balance method
Camp upgrades	–	25%	declining balance method
Computer	–	30-55%	declining balance method
Furniture	–	20%	declining balance method
Office Equipment	–	20%	declining balance method
Leasehold improvements	–	5 years	straight-line method
License	–	55%	declining balance method
Vehicle	–	30%	declining balance method

In the year of acquisition, only one-half of the amortization is recorded.

The amortization of camp equipment and camp upgrades is recorded as expenditure in Resource Properties.

Where an item of equipment and leasehold improvements comprises significant components with different useful lives, the components are accounted for as separate items of equipment and leasehold improvements. The cost of replacing part of an item within equipment and leasehold improvements is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the group and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is expensed. All other costs are recognized as an expense as incurred.

Resource properties

Exploration and evaluation expenditures are capitalized once the legal right to explore a property has been acquired. Exploration and evaluation assets are recorded at cost less accumulated impairment losses. Direct costs related to the acquisition, exploration and evaluation of mineral properties are capitalized until the commercial viability of the asset is established, at which time the capitalized costs are reclassified to mineral properties under development. To the extent that the expenditures are spent to establish ore reserves within the rights to explore, the Company will consider those costs as intangible assets in nature. The depreciation of a capital asset in connection with exploring or evaluating a property of this nature will be included in the cost of the intangible asset.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of the project are deemed to be impaired. As a result, those exploration and expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Resource properties (continued)

Management reviews the facts and circumstances suggesting if the carrying amount of the exploration and evaluation assets exceeds their recoverable amount on a regular basis. If the facts and circumstances suggest the carrying value exceeds the recoverable amount, the Company will perform an impairment test on the property in accordance with the provisions of IAS 36.

METC recoverable

Mining exploration tax credits from the Government of British Columbia for certain exploration expenditures incurred in British Columbia are treated as a reduction of the exploration costs of the respective resource property.

Impairment of long-lived assets

An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Units

The proceeds from the issue of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to capital stock based on the fair value of the common shares and any residual value is allocated to common share purchase warrants.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. While IFRS contains no specific guidance on accounting for flow-through shares, the Company has chosen to adopt the following accounting policy.

At the time of closing a financing involving flow-through shares, the Company allocates the gross proceeds received ("flow-through commitment") as follows:
- Share capital – based on the fair value of the common shares;
- Flow-through share premium –recorded as a liability and equal to the estimated premium, if any, investors pay for the flow-through feature; and
- Warrant reserve – the residual balance, if warrants being issued.

Thereafter, as qualifying expenditures are incurred, these costs are capitalized to resource properties. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as recovery of income taxes in the statement of loss and deficit. Additionally, the Company reverses the liability for the flow-through share premium to income, on a proportional basis, as an offset of deferred tax expense.

As at March 31, 2012, the Company had no outstanding flow-through share commitments.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back rule, in accordance with regulations. When applicable, this tax is accrued as flow-trough tax expense until paid.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation and discount rates. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows discounted for the market discount rate. Over time the discounted liability is increased for the changes in the present value based on the current market discount rates and liability risks. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Provisions (cont'd)

Changes in closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost.

Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred.

Share-based payments

The Company operates an employee share option plan. The fair value of share-based payments to employees is measured at grant date using the Black-Scholes option pricing model, and is recognized over the vesting period using the graded method. The fair value of share-based payments to non-employees is measured at the date the goods or services are received, at either the fair value of the goods or services received or the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value is recognized as an expense with a corresponding increase in contributed surplus. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Loss per share

Loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of share options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding share options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	March 31, 2012	June 30, 2011
Bank deposits	$ 1,540,573	$ 81,513
Guaranteed investment certificates	12,776,000	15,419,641
	$ 14,316,573	$ 15,501,154

Cash equivalents consists of highly liquid Canadian dollar denominated guaranteed investment certificates ("GICs") with a remaining term to maturity at the point of purchase of ninety days or less. As at March 31, 2012, the GICs were earning an average annual interest of approximately 1.35% at variable and fixed rates. Subsequent to March 31, 2012, GICs were redeemed, and funds were re-invested in 30-days redeemable GICs at a fixed rate of 1.45%. The counter-party is a financial institution.

As at March 31, 2012, GICs' interest receivable of $24,077 (June 30, 2011 - $112,378) was accrued and included in receivables (Note 4).

4. RECEIVABLES

	March 31, 2012	June 30, 2011
Harmonized Sales Tax credits	$ 138,344	$ 279,906
Interest accrued on GICs (Note 3)	24,077	112,378
Other receivables	–	85,316
	$ 162,421	$ 477,600

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

5. SHORT-TERM INVESTMENTS

Short-term investments consist of highly liquid Canadian dollar denominated guaranteed investment certificates (GICs) with terms to maturity greater than ninety days, but not more than one year, all of which are classified as available-for-sale. The counter-party is a financial institution.

During the period ended March 31, 2012, all GICs were re-classified as cash equivalents after being re-invested in 30-day redeemable GICs with the original maturity terms of less than 30 days.

6. MARKETABLE SECURITIES

	March 31, 2012			
	Number of shares	Fair value	Cost	Accumulated unrealized holding gains (losses)
Oracle Mining Corp. shares	1,200,000	$ 1,680,000	$ 1,149,156	$ 530,844
International Lithium Corp. shares	175,000	15,750	58,333	(42,583)
TNR Gold Corp. shares	1,875,000	131,250	218,750	(87,500)
		$ 1,827,000	$ 1,426,239	$ 400,761

	June 30, 2011			
	Number of shares	Fair value	Cost	Accumulated unrealized holding gains (losses)
Oracle Mining Corp. shares	248,500	$ 310,625	$ 518,453	$ (207,828)
International Lithium Corp. shares	400,000	90,000	133,333	(43,333)
International Lithium Corp. warrants	400,250	16,010	100,063	(84,053)
TNR Gold Corp. shares	1,875,000	140,625	218,750	(78,125)
		$ 557,260	$ 970,599	$ (413,339)

During the nine months ended March 31, 2012, the Company sold 225,000 shares of International Lithium Corp. (“ILC”) at an average price of $0.13 per share for net cash proceeds of $30,239, and 400,250 ILC share purchase warrants at an average price of $0.03 for net cash proceeds of $11,998. The Company realized a pre-tax loss of $132,825 on the sale of these securities.

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

6. MARKETABLE SECURITIES (cont'd)

The Company received ILC shares and warrants during fiscal 2011 as a part of the plan of arrangement that involved the spin-out of TNR's lithium and rare metals property interests into a separate public company, International Lithium Corp. The costs of the original TNR shares were allocated to new TNR shares and ILC shares based on the distribution ratio and stock prices of new shares after the Spin-Out. ILC warrants were received as dividends in kind and recorded at a fair market value.

During the nine months ended March 31, 2012, the Company invested $1,604,993 by purchasing 1,968,900 shares of Oracle Mining Corp. ("OMN") (former Gold Hawk Resources Inc.) in the open market at an average price of $0.82 per share, and sold 1,017,400 OMN shares at an average price of $1.14 per share for net cash proceeds of $1,164,227 and realized a pre-tax gain of $189,935 on the sale of these securities.

7. OTHER ASSETS

Other assets comprise a reclamation bond of $312,649 (June 30, 2011 – $309,000) posted as a security deposit with the Government of British Columbia in relation to the Akie and Kechika Regional properties.

8. TRADE PAYABLES AND ACCRUED LIABILITIES

	March 31, 2012	June 30, 2011
Trade payables	$ 204,815	$ 1,005,790
Accrued liabilities	22,383	183,234
	$ 227,198	$ 1,189,024

9. FLOW-THROUGH LIABILITY

	March 31, 2012	June 30, 2011
Flow-through premium liability	$ –	$ 242,250

The flow-through premium liability arose in connection with the flow-through private placement of the Company completed during fiscal 2011 (Note 12(b)). The recorded flow-through premium liability of $242,250 was based on an estimated premium of $0.05 per a flow-through share issued. This balance does not represent a cash liability to the Company. This balance is amortized to the statement of comprehensive loss pro-rata with the amount of qualifying flow-through expenditures applicable to the flow-through shares that have been renounced to the flow-through investors.

As at March 31, 2012, the Company incurred $3,730,650 in qualifying resource expenditures and filed regulatory renunciation forms. Accordingly, the Company reversed the flow-through premium liability to income as a deferred income tax recovery.

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

10. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Computers	Office equipment and furniture	Office leasehold improvements	License (1)	Vehicle (1)	Camp equipment and fixtures (1)	Camp upgrades (1)	Total
Cost:								
At July 1, 2010 and June 30, 2011	$ 14,909	$ 4,026	$ 2,522	$ –	$ –	$ 79,482	$ 161,476	$ 262,415
Acquisition	931	14,234	–	19,000	34,400	49,338	3,757	121,660
At June 30, 2011	15,840	18,260	2,522	19,000	34,400	128,820	165,233	**384,075**
Acquisition	–	–	4,616	–	206	31,338	110,775	146,935
Disposal	(3,613)	–	(2,522)	–	–	–	–	(6,135)
At March 31, 2012	12,227	18,260	4,616	19,000	34,606	160,158	276,008	**524,875**
Amortization:								
At July 1, 2010	12,574	2,598	2,312	–	–	40,362	82,000	139,846
Amortization	1,115	1,709	210	5,225	5,160	15,947	19,869	49,235
At June 30, 2011	13,689	4,307	2,522	5,225	5,160	56,309	101,869	**189,081**
Amortization	651	2,097	346	7,852	6,602	16,379	19,684	53,611
Eliminated on disposal	(3,613)	–	(2,522)	–	–	–	–	(6,135)
At March 31, 2012	10,727	6,404	346	13,077	11,762	72,688	121,553	**236,557**
Net book value:								
At July 1, 2010	$ 2,335	$ 1,428	$ 210	$ –	$ –	$ 39,120	$ 79,476	$ 122,569
At June 30, 2011	$ 2,151	$ 13,953	$ –	$ 13,775	$ 29,240	$ 72,511	$ 63,363	$ 194,994
At March 31, 2012	$ 1,500	$ 11,856	$ 4,270	$ 5,923	$ 22,844	$ 87,470	$ 154,455	**$ 288,318**

(1) The net book value of camp equipment and upgrades was reclassified from Resource properties (Note 15).

11. RESOURCE PROPERTIES

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing.

Akie Property, British Columbia

The Company owns a 100% interest in the Akie property, which resulted from Company expenditures and the acquisition of Ecstall Mining Corporation (Note 1).

During fiscal 2007, the Company acquired the following properties pursuant to the acquisition of Ecstall Mining Corporation:

- Kechika South Properties, Omineca Mining Division. The Company owns a 100% interest in two properties,
- Kechika North Properties, Liard Mining Division. The Company owns a 100% interest in three properties of which, certain claims are subject to a 0.5% net smelter royalty.

DA Property, Northwest Territories

On August 1, 2006, the Company entered into a joint venture agreement where by the Company holds 8.2% undivided interest in the mineral claims and three mineral leases, the latter subject to a 10% underlying NPI, a 5% GOR and a 5% NSR. Pursuant to an amended and restated Mineral Property Option Agreement, dated August 30, 1998, the Company has the option to reduce the GOR and NSR interests to 2.25% and 2%, respectively, and eliminate entirely the NPI by completing certain share issuances and cash payments to the original property owner within 90 days of a production decision. The other joint venture participants are Shear Minerals Ltd. (58.2%), the project operator, International Samuel Exploration Corp. (25.4%) and New World Resources Inc. (8.2%).

During the year ended June 30, 2011, the Company wrote-off the carrying amount of $221,560 related to the DA Properties as the Company has no further exploration plans for these properties in the foreseeable future.

The following table summarizes resource property expenses by property:

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

11. RESOURCE PROPERTIES (cont'd)

	Akie Property	Kechika Regional	DA	Total
Acquisition Costs:				
Balance, July 1, 2010	$ 24,175,329	$ 328,432	$ 71,535	$ 24,575,296
Additions	–	348	–	348
Write-off	–	–	(71,535)	(71,535)
Balance, June 30, 2011	24,175,329	328,780	–	24,504,109
Additions	–	1,563	–	1,563
Balance, March 31, 2012	**$ 24,175,329**	**$ 330,343**	**$ –**	**$ 24,505,672**
Deferred Exploration Costs:				
Balance, July 1, 2010	$ 26,281,810	$ 1,172,533	$ 150,025	$ 27,604,368
Less:				
Reclassification of camp equipment (Note 9)	(118,596)	–	–	(118,596)
Adjusted balance, July 1, 2010	26,163,214	1,172,533	150,025	27,485,772
Surface drilling program:				
Camp equipment, amortization	46,201	–	–	46,201
Camp operating	180,951	–	–	180,951
Drilling	4,838,253	15,033	–	4,853,286
Geology	182,085	16,193	–	198,278
Work assessment fees	72,336	18,284	–	90,620
Total surface drilling	5,319,826	49,510	–	5,369,336
Geotechnical program:	631,852	–	–	631,852
Camp operating	314,953	–	–	314,953
Trail construction	600,177	–	–	600,177
Total geotechnical program	1,546,982	–	–	1,546,982
Community consultations	210,000	–	–	210,000
Environmental studies	236,940	–	–	236,940
Underground engineering	88,470	–	–	88,470
Project assessment	8,682	–	–	8,682
Metallurgical analysis	6,900	–	–	6,900
Less:				
Write-off	–	–	(150,025)	(150,025)
METC (2009)	(1,611,149)	–	–	(1,611,149)
Balance, June 30, 2011	31,969,865	1,222,043	–	33,191,908

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

11. RESOURCE PROPERTIES (cont'd)

Balance, June 30, 2011	31,969,865	1,222,043	–	33,191,908
Surface drilling program:				
Camp equipment, amortization	50,517	–	–	50,517
Camp operating	71,693	59,217	–	130,910
Drilling	1,624,841	169,309	–	1,794,150
Geology	159,979	248,803	–	408,782
Total surface drilling	1,907,030	477,329	–	2,384,359
Underground development:				
Engineering	187,254	–	–	187,254
Trail construction	1,705,263	–	–	1,705,263
Total underground development	1,892,517	–	–	1,892,517
Geotechnical program	18,143	–	–	18,143
Community consultations	90,000	–	–	90,000
Environmental studies	211,108	–	–	211,108
Project assessment	32,224	–	–	32,224
Metallurgical analysis	6,854	–	–	6,854
Balance, March 31, 2012	**36,127,741**	**1,699,372**	**–**	**37,827,113**
Total	**$ 60,303,070**	**$ 2,029,715**	**$ –**	**$ 62,332,785**

The Company applies for the 20% British Columbia Mining Exploration Tax Credit ("METC") and the enhanced tax credit of an additional 10% for Mountain Pine Beetle affected areas, on qualified mining exploration costs incurred.

During the period ended March 31, 2012, the Company received the METC refund of $1,611,149 for its fiscal 2009 application.

12. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

During the nine months ended March 31, 2012:

12. SHARE CAPITAL (cont'd)

(b) Issued and outstanding (cont'd)

(i) the Company received TSX Venture Exchange ("TSXV") approval to extend a normal course issuer bid ("NCIB") to purchase at market price up to 6,922,765 common shares, being approximately 5% of the Company's issued and outstanding common shares through the facilities of the TSXV. The new bid commenced on August 1, 2011 and will stay open for 12 months;

(ii) the Company repurchased 1,937,000 of its common shares for a total consideration of $921,810 at a weighted average price of $0.48 per share under the NCIB, of which $1,305,488 was recorded as a reduction to capital stock for the assigned value of the shares, and $383,678 was allocated to contributed surplus.

The purchases are made in accordance with the policies and rules of the TSXV. The Company will pay the market price of the common shares at the time of acquisition and will not purchase more than 2% of the total issued and outstanding common shares within any 30 day period.

(iii) a total of 2,201,500 common shares, of which 560,000 were repurchased during fiscal 2011, were cancelled and returned to the Company's treasury.

(iv) an aggregate of 110,000 share options were exercised at a price of $0.25 per share and 110,000 common shares were issued for total proceeds of $27,500. In addition, a reallocation of $145,990 from contributed surplus to share capital was recorded on the exercise of these options. This amount constitutes the fair value of options recorded at the original grant date and on subsequent re-pricing.

During the year ended June 30, 2011:

(i) the Company completed a non-brokered private placement with Tongling Nonferrous Metals Group Holdings Co. Ltd. ("Tongling") of 31,386,224 units at a price of $0.5735 per unit for total gross proceeds of $18,000,000. Each unit consists of one common share and one half of a common share purchase warrant. Each whole warrant entitles the purchaser to purchase, at any time within 24 months from closing, one additional common share of the Company at a price of $0.675 during the first year and at a price of $0.775 during the second year.

(ii) the Company completed a non-brokered flow-through private placement of 4,845,000 units at a price of $0.77 per unit for gross proceeds of $3,730,650. Each unit consists of one flow-through common share and one-half share purchase warrant of the Company. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.95 for a period of 18 months from closing.

(iii) the Company paid cash share issue costs of $225,216 ($168,912, net of tax effects) in connection with the private placements in (i) and (ii).

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

12. SHARE CAPITAL (cont'd)

(c) Share options

(iv) an aggregate of 895,000 share options were exercised at a weighted average price of $0.28 per share and 895,000 common shares were issued for total proceeds of $251,550. In addition, a reallocation of $242,300 from contributed surplus to share capital was recorded on the exercise of these options.

(v) The Company repurchased 1,352,500 of its common shares for a total consideration of $632,403 at a weighted average price of $0.47 per share under the NCIB, of which $939,412 was recorded as a reduction to capital stock for the assigned value of the shares, and $307,009 was allocated to equity reserves.

The Company has adopted a 20% fixed share option plan whereby the Company has reserved 13,522,821 common shares under the plan. The term of any options granted under the plan is fixed by the Board of Directors and may not exceed ten years from date of grant.

The number of options granted to a consultant in a 12 month period must not exceed 2% of the issued shares of the Issuer from the date of grant. Options issued to consultants performing investor relations activities must vest in stages over 12 months with no more than 1/4 of the options vesting in any three month period. Share options granted to directors, officers and employees of the Company vest immediately.

Share option transactions and the number of share options outstanding are summarized as follows:

	March 31, 2012		June 30, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	8,240,500	$ 0.51	7,225,500	$ 0.47
Granted	–	–	2,020,000	0.55
Exercised	(110,000)	(0.25)	(895,000)	(0.28)
Expired	(280,500)	(0.81)	(110,000)	(0.66)
Options outstanding, end of period	7,850,000	$ 0.50	8,240,500	$ 0.51
Options exercisable, end of period	7,662,500	$ 0.50	7,220,500	$ 0.51

Share options outstanding and exercisable at March 31, 2012 are summarized as follows:

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

12. SHARE CAPITAL (cont'd)

(c) Share options (cont'd)

Number of Options	Exercise Price	Expiry Date	Exercisable
130,000	$0.70	November 14, 2016	130,000
75,000	$0.25	April 10, 2012	75,000
50,000	$0.25	July 3, 2012	50,000
50,000	$1.15	July 3, 2012	50,000
70,000	$1.30	November 28, 2012	70,000
295,000	$1.05	February 11, 2018	295,000
300,000	$0.25	February 11, 2018	300,000
150,000	$0.25	April 1, 2013	150,000
75,000	$1.05	April 29, 2013	75,000
175,000	$0.25	October 21, 2013	175,000
890,000	$0.25	October 31, 2018	890,000
700,000	$0.40	September 22, 2014	700,000
360,000	$0.40	October 9, 2019	360,000
802,500	$0.41	October 13, 2016	802,500
100,000	$0.50	November 16, 2012	100,000
100,000	$0.70	November 16, 2012	100,000
1,215,000	$0.63	January 15, 2020	1,215,000
300,000	$0.50	May 10, 2015	262,500
432,500	$0.53	November 8, 2020	432,500
1,430,000	$0.55	November 24, 2020	1,280,000
150,000	$0.60	January 7, 2015	150,000
7,850,000			7,662,500

During the nine months ended March 31, 2012, under the fair value based method a total of $122,965 (2011 – $911,087) in share-based compensation expense was recorded in the statement of loss for vested share options previously granted to directors, officers, employees and consultants of the Company. No share options were granted during the nine months ended March 31, 2012.

(d) Warrants

The following table summarizes the warrants outstanding at March 31, 2012:

Number of Warrants	Exercise Price	Expiry Date
15,693,112	$ 0.775	November 16, 2012
2,422,500	$ 0.950	August 28, 2012
18,115,612		

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

12. SHARE CAPITAL (cont'd)

(d) Warrants (cont'd)

A summary of the status of warrants outstanding is as follows:

	March 31, 2012		June 30, 2011	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning of period	20,615,612	$ 0.72	2,500,000	$ 0.80
Granted	–	–	18,115,612	0.71
Expired	(2,500,000)	0.80	–	–
Warrants outstanding, end of period	18,115,612	$ 0.80	20,615,612	$ 0.72
Warrants exercisable, end of period	18,115,612	$ 0.80	20,615,612	$ 0.72

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

March 31,	2012	2011
Cash paid during the period for interest	$ 1,107	$ 54,689
Cash paid during the period for income tax	$ –	$ 579,877

During fiscal 2011, the Company filed the amendments to eligible Canadian exploration expenditures previously renounced to the flow-through shareholders that subscribed for the Company's common shares in fiscal 2009. As a result of the expenditure shortfall and the amendment of the previous renunciations of explorations expenditures, the Company paid $Nil (2010 - $579,877) in part XII.6 tax for 2009 and an additional $1,107 (2010 - $54,689) in interest. As at March 31, 2012, the Company fully spent the required amount of the flow-through funds and renounced the expenditures to the flow-through shareholders that subscribed for the Company's common shares in fiscal 2009 and 2011.

Significant non-cash transactions for the period ended March 31, 2012 included:

- resource property expenditures of $123,394 (June 30, 2011 -$799,965) in accounts payable;
- resource property expenditures of $5,834 (June 30, 2011 -$Nil) in due to related parties;
- amortization of camp equipment and upgrades of $50,516 included in resource properties; and
- an allocation of stock-based compensation expense of $145,990 from contributed surplus (Note 12(a)(iv)) upon the exercise of 110,000 stock options; and
- unrealized gain of $814,100 on marketable securities due to changes in fair values, which was allocated to accumulated other comprehensive income.

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd)

Significant non-cash transactions for the period ended March 31, 2011 included:

- resource property expenditures of $718,752 (June 30, 2010 -$450,222) in accounts payable;
- resource property expenditures of $Nil (June 30, 2010 -$56,304) in due to related parties;
- an allocation of stock-based compensation expense of $242,299 from contributed surplus upon the exercise of 895,000 stock options; and
- unrealized loss of $202,728 on marketable securities due to changes in fair value, which was allocated to accumulated other comprehensive income.

14. RELATED PARTIES TRANSACTIONS

The remuneration of directors and other key management personnel during the nine month ended March 31, 2012 and 2011 were as follows:

March 31,		2012		2011
Bonuses	$	2,500	$	360,000
Directors fees		37,500		–
Management salaries		206,232		184,007
Consulting fees (geology)		103,344		40,000
Consulting fees other		11,250		11,250
Management and administration (i)		265,500		157,500
Share-based payments (ii)		95,317		535,682
Total	$	721,643	$	1,288,439

(i) On May 1, 2007, the Company entered into a management and administrative agreement with Varshney Capital Corp. ("VCC"), a company controlled by two common directors, whereby the Company agreed to pay management and administrative fees of $12,500 and $5,000 per month, respectively. Effective July 1, 2011, the agreement was amended to increase the monthly management fee to $24,500.

During the nine months ended March 31, 2012, the Company paid or accrued $220,500 (2011 – $112,500) for management fees and $45,000 (2011 – $45,000) for administrative fees to VCC.

(ii) Share-based payments are the fair value of options that have been granted to directors and key management personnel;

(iii) As at March 31, 2012, $6,421 (June 30, 2011 - $Nil) was due to a company controlled by an officer of the Company for consulting fees and $14,953 (June 30, 2011 - $Nil) was due to a director of the Company for reimbursement of business travel expenses. The amounts were repaid subsequent to March 31, 2012.

15. TRANSITION TO IFRS

IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be June 30, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions from full retrospective application for first time IFRS adoption.

Optional Exemption

The Company has elected under IFRS 1 to not apply IFRS 2 to options that were granted on or before July 1, 2010 or to options that were granted subsequent to July 1, 2010 but vested before the date of transition to IFRS.

Mandatory Exceptions

The Company has applied the following mandatory exception to its opening statement of financial position dated July 1, 2010:

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of July 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Adjustment on transition to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's cash flows, it has resulted in changes to the Company's reported financial position and financial performance. In order to allow the users of the financial statements to better understand these changes, the Company's pre-IFRS consolidated balance sheet, consolidated statement of loss and comprehensive loss and statement of consolidated cash flows have been reconciled to IFRS, with the resulting differences explained below.

Share-based payments

Under IFRS, the fair value of share based awards with graded vesting terms issued in exchange for the receipt of goods and services from non-employees were recalculated on the dates the non-employees rendered services to the Company using the Black-Scholes option pricing model. Typically share-based payments with non-employees are calculated using the fair value of the goods or services received. As no reasonable fair value could be determined for the services provided by the non-employees, an option pricing model was used.

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. TRANSITION TO IFRS (cont'd)

Impact on Consolidated Financial Statements:

	June 30, 2011	March 31, 2011	July 1, 2010
Adjustment to Equity Reserves	$ 471	$ 36,872	$ 11,228
Adjustment to Deficit	(471)	(36,872)	(11,228)

Flow-through shares

Under Canadian GAAP, the entire proceeds from the issuance of flow-through shares were recognized in equity. Under IFRS, on issuance of flow-through shares, the Company allocates the flow-through share into:

i) a flow-through share premium, equal to estimated premium, if any, that investors pay for the flow-through feature, which is recognized as a liability; and

ii) share capital.

Upon expenditures being renounced to shareholders, the Company derecognizes the flow-through liability and premium is recognized as deferred income tax recovery.

The following changes have been made in connection with the flow-through shares issuances on:

- October 31, 2008 - the Company allocated $1,179,567 or $0.15 per share to a flow-through share premium, which was recognized as a liability, and $5,897,833 or $0.75 per share to share capital. As of July 1, 2010, the Company partially amortized the liability pro-rata to the incurred eligible resource expenditures, which were renounced to the investors by filing regulatory forms.

- February 28, 2011 - the Company allocated $242,250 or $0.05 per share to a flow-through share premium, which was recognized as a liability, and $3,488,400 or $0.72 per share to share capital. As of March 31, 2012, the Company fully reversed the liability after incurring the required eligible resource expenditures and filing official renunciation forms.

Impact on Consolidated Financial Statements:

	June 30, 2011	March 31, 2011	July 1, 2010
Adjustment to Share Capital	$ (1,421,817)	$ (1,421,817)	$ (1,179,567)
Adjustment to Flow-through Liability	242,250	242,250	824,160
Adjustment to Deficit	1,179,567	1,179,567	355,406

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. TRANSITION TO IFRS (cont'd)

Warrants

The Company allocated the proceeds from the issue of units on November 2010 private placement between common shares and common share purchase warrants based on the residual value method. The proceeds of $16,006,974 were allocated to capital stock based on the fair market value of the common shares of $0.51 per share on the closing of the private placement and residual value of $1,993,026 to common share purchase warrants.

Impact on Consolidated Financial Statements:

	June 30, 2011	March 31, 2011	July 1, 2010
Adjustment to Share Capital	$ (1,993,026)	$ (1,993,026)	$ –
Adjustment to Equity Reserves	1,993,026	1,993,026	–

Camp Equipment (reclassification)

The Company reclassified the net book value of camp equipment and upgrades from Resource properties to Equipment and Leasehold improvements. Amortization taken on the equipment was recorded as a resource property expense.

Impact on Consolidated Financial Statements:

	June 30, 2011	March 31, 2011	July 1, 2010
Adjustment to Resource Properties	$ (178,890)	$ (134,610)	$ (118,596)
Adjustment to Equipment and Leasehold Improvements	178,890	134,610	118,596

Reconciliation to previously reported financial statements

A reconciliation of the above noted changes is included in the following Consolidated Statements of Financial Position and Consolidated Statements of Operations and Comprehensive Loss for the dates noted below:

- Transitional Consolidated Statement of Financial Position at July 1, 2010;
- Consolidated Interim Statement of Financial Position at March 31, 2011;
- Consolidated Statement of Financial Position at June 30, 2011;
- Consolidated Statements of Operations and Comprehensive Loss for the nine months and the three months ended March 31, 2011;
- Consolidated Statements of Operations and Comprehensive Loss for the year ended June 30, 2011.

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. TRANSITION TO IFRS (cont'd)

The July 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

July 1, 2010	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 9,281,997	$ –	$ 9,281,997
Receivables	67,972	–	67,972
METC recoverable	921,063	–	921,063
Short-term investments	–	–	–
Prepaid expenses	373,081	–	373,081
Marketable securities	450,000	–	450,000
	11,094,113	–	11,094,113
Other assets	89,000	–	89,000
Equipment and leasehold improvements	3,973	118,596	122,569
Long-term prepaid expenses	75,000	–	75,000
Resource properties	52,179,664	(118,596)	52,061,068
	$63,441,750	$ –	$63,441,750
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	$ 1,295,366	$ –	$ 1,295,366
Due to related parties	61,532	–	61,532
Flow-through liability	–	824,160	824,160
	1,356,898	824,160	2,181,058
Future income taxes	7,040,397	–	7,040,397
Shareholders' Equity			
Share capital	72,370,651	(1,179,567)	71,191,084
Equity reserves	8,226,203	11,228	8,237,431
Deficit	(25,627,399)	344,179	(25,283,220)
Accumulated other comprehensive income	75,000	–	75,000
	55,044,455	(824,160)	54,220,295
	$63,441,750	$ –	$63,441,750

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. TRANSITION TO IFRS (cont'd)

The March 31, 2011 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

March 31, 2011	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 8,602,913	$ –	$ 8,602,913
Short-term investments	14,609,000		14,609,000
Receivables	171,099	–	171,099
METC recoverable	–	–	–
Prepaid expenses	166,635	–	166,635
Marketable securities	666,408	–	666,408
	24,216,055	–	24,216,055
Other assets	89,000	–	89,000
Equipment and leasehold improvements	17,157	134,610	151,767
Long-term prepaid expenses	192,145	–	192,145
Resource properties	58,036,998	(134,610)	57,902,388
	$ 82,551,355	$ –	$ 82,551,355
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	$ 829,502	$ –	$ 829,502
Due to related parties	13,031	–	13,031
Flow-through liability	–	242,250	242,250
	842,533	242,250	1,084,783
Future income taxes	7,040,397	–	7,040,397
Shareholders' Equity			
Share capital	93,810,235	(3,414,843)	90,395,392
Equity reserves	9,050,894	2,041,126	11,092,020
Deficit	(28,064,976)	1,131,467	(26,933,509)
Accumulated other comprehensive income	(127,728)	–	(127,728)
	74,668,425	(242,250)	74,426,175
	$ 82,551,355	$ –	$ 82,551,355

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. TRANSITION TO IFRS (cont'd)

The June 30, 2011 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

June 30, 2011	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 15,501,154	$ –	$ 15,501,154
Receivables	477,600	–	477,600
METC recoverable	1,611,149	–	1,611,149
Short-term investments	4,609,000	–	4,609,000
Prepaid expenses	378,838	–	378,838
Marketable securities	557,260	–	557,260
	23,135,001	–	23,135,001
Other assets	309,000	–	309,000
Equipment and leasehold improvements	16,104	178,890	194,994
Long-term prepaid expenses	192,145	–	192,145
Resource properties	57,874,907	(178,890)	57,696,017
	$ 81,527,157	$ –	$ 81,527,157
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	$ 1,189,024	$ –	$ 1,189,024
Flow-through liability	–	242,250	242,250
	1,189,024	242,250	1,431,274
Future income taxes	6,021,000	–	6,021,000
Shareholders' Equity			
Share capital	93,486,827	(3,414,843)	90,071,984
Equity reserves	9,260,407	2,004,725	11,265,132
Deficit	(28,016,762)	1,167,868	(26,848,894)
Accumulated other comprehensive income	(413,339)	–	(413,339)
	74,317,133	(242,250)	74,074,883
	$ 81,527,157	$ –	$ 81,527,157

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. TRANSITION TO IFRS (cont'd)

Reconciliation of Net Loss and Comprehensive Loss

The Canadian GAAP statement of comprehensive loss for the nine months ended March 31, 2011 has been reconciled to IFRS as follows:

Nine months ended March 31, 2011	Canadian GAAP	Effect of transition to IFRS	IFRS
ADMINISTRATION EXPENSES			
Administration	$ 45,000	$ –	$ 45,000
Amortization	1,981	–	1,981
Bank charges and interest	2,420	–	2,420
Bonus	360,000		360,000
Consulting	613,498	–	613,498
Investor Relations	76,574	–	76,574
Management fees	112,500	–	112,500
Office and miscellaneous	40,792	–	40,792
Professional fees	47,333	–	47,333
Regulatory fees	32,020	–	32,020
Rent	45,194	–	45,194
Stock-based compensation	874,215	36,872	911,087
Transfer agent fees	8,470	–	8,470
Travel and promotion	74,578	–	74,578
Wages and benefits	276,234	–	276,234
Loss before other items	(2,610,809)	(36,872)	(2,647,681)
OTHER ITEMS			
Interest and other income	173,232	–	173,232
Loss before income taxes	(2,437,577)	(36,872)	(2,474,449)
Deferred income tax recovery	–	824,160	824,160
Loss before comprehensive loss	(2,437,577)	787,288	(1,650,289)
Adjustment for change in fair value of marketable securities	(202,728)	–	(202,728)
Comprehensive loss for the period	$ (2,640,305)	$ 787,288	$ (1,853,017)

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. TRANSITION TO IFRS (cont'd)

The Canadian GAAP statement of comprehensive loss for the three months ended March 31, 2011 has been reconciled to IFRS as follows:

Three months ended March 31, 2011	Canadian GAAP	Effect of transition to IFRS	IFRS
ADMINISTRATION EXPENSES			
Administration	$ 15,000	$ –	$ 15,000
Amortization	1,078	–	1,078
Bank charges and interest	937	–	937
Bonus	360,000	–	360,000
Consulting	136,729	–	136,729
Investor Relations	14,112	–	14,112
Management fees	37,500	–	37,500
Office and miscellaneous	8,614	–	8,614
Professional fees	10,554	–	10,554
Regulatory fees	12,580	–	12,580
Rent	15,061	–	15,061
Stock-based compensation	140,149	12,123	152,272
Transfer agent fees	2,161	–	2,161
Travel and promotion	43,529	–	43,529
Wages and benefits	91,384	–	91,384
Loss before other items	(889,388)	(12,123)	(901,511)
OTHER ITEMS			
Interest and other income	66,892	–	66,892
Loss before income taxes	(822,496)	(12,123)	(834,619)
Deferred income tax recovery	–	–	–
Loss before comprehensive loss	(822,496)	(12,123)	(834,619)
Adjustment for change in fair value of marketable securities	(105,023)	–	(105,023)
Comprehensive loss for the period	$ (927,519)	$ (12,123)	$ (939,642)

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. TRANSITION TO IFRS (cont'd)

The Canadian GAAP statement of comprehensive loss for year ended June 30, 2011 has been reconciled to IFRS as follows:

June 30, 2011	Canadian GAAP	Effect of transition to IFRS	IFRS
ADMINISTRATION EXPENSES			
Administration	$ 60,000	$ –	$ 60,000
Amortization	3,034	–	3,034
Bonuses	434,613	–	434,613
Consulting	802,042	–	802,042
Directors fees	3,000	–	3,000
Flow through taxes	74,434	–	74,434
Interest and bank charges	16,447	–	16,447
Investor Relations	225,816	–	225,816
Management fees	150,000	–	150,000
Office and miscellaneous	66,321	–	66,321
Professional fees	88,628	–	88,628
Regulatory fees	31,920	–	31,920
Rent	58,795	–	58,795
Stock-based compensation	969,495	471	969,966
Transfer agent fees	10,497	–	10,497
Travel and promotion	105,114	–	105,114
Wages and benefits	378,946	–	378,946
Loss before other items	(3,479,102)	(471)	(3,479,573)
OTHER ITEMS			
Interest and other income	249,033	–	249,033
Dividend income	117,187	–	117,187
Loss on sale of marketable securities	(18,014)	–	(18,014)
Write-off of resource properties	(221,560)	–	(221,560)
	126,646	–	126,646
Loss before income taxes	(3,352,456)	(471)	(3,352,927)
Future income tax recovery	963,093	824,160	1,787,253
Loss for the year	(2,389,363)	823,689	(1,565,674)
Adjustment for change in fair value of marketable securities	(488,339)	–	(488,339)
Comprehensive loss for the year	$ (2,877,702)	$ 823,689	$ (2,054,013)

(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)

15. TRANSITION TO IFRS (cont'd)

Reconciliation of Cash Flows

The changes on transition from Canadian GAAP to IFRS had no effect on the statements of cash flows.

		June 30, 2011		Three months ended March 31, 2011		Nine months ended March 31, 2011
Operating activities per Canadian GAAP	$	(2,247,952)	$	(649,536)	$	(1,263,410)
Adjustments required on adoption of IFRS		–		–		–
Operating activities per IFRS	$	(2,247,952)	$	(649,536)	$	(1,263,410)
Investing activities per Canadian GAAP	$	(12,657,472)	$	(15,507,760)	$	(20,805,733)
Adjustments required on adoption of IFRS		–		–		–
Investing activities per IFRS	$	(12,657,472)	$	(15,507,760)	$	(20,805,733)
Financing activities per Canadian GAAP	$	21,124,581	$	3,671,084	$	21,390,059
Adjustments required on adoption of IFRS		–		–		–
Financing activities per IFRS	$	21,124,581	$	3,671,084	$	21,390,059

16. SUBSEQUENT EVENTS

Subsequent to March 31, 2012, the Company:

(a) purchased 48,500 OMN shares at an average price of $1.13 per share for $54,926 and sold 40,000 OMN shares at a price of $1.29 per share for net cash proceeds of $51,455;

(b) repurchased 322,500 of its common shares for a total consideration of $145,375 at a weighted average price of $0.45 per share under the NCIB;

(c) received the METC refund of $363,165 for its fiscal 2011 application;

(d) filed a revised technical report NI 43-101, dated April 27, 2012, entitled "NI 43-101 Technical Report, Akie Zinc-Lead-Silver Project, British Columbia, Canada", with an effective date of March 14, 2012. This report is authored by Robert Sim, P.Geo., an independent qualified person for the purposes of NI 43-101, and documents the newly reconfigured mineral resource for the Cardiac Creek deposit, situated on the Company's 100% owned Akie property located in northwestern British Columbia, Canada; and

(e) filed a technical report NI 43-101 entitled "NI 43-101 Technical Report on the Pie Property" and dated May 4, 2012. The report is authored by Tanya Strate, P. Geo., an independent qualified person for the purposes of NI 43-101, and highlights the SEDEX Zn-Pb-Ag prospectivity of the Pie property, documents the results of field work completed on the property in 2011, and makes recommendations for further work, including drill testing of several zinc-lead-silver mineralization targets.