

CANADA ZINC METALS CORP.

Consolidated Financial Statements

For the Years Ended June 30, 2013 and 2012

Expressed in Canadian Dollars

CANADA ZINC METALS CORP.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Canada Zinc Metals Corp.

We have audited the accompanying consolidated financial statements of Canada Zinc Metals Corp., which comprise the consolidated statements of financial position as at June 30, 2013 and 2012 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canada Zinc Metals Corp. as at June 30, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

October 21, 2013

CANADA ZINC METALS CORP.

Consolidated Statements of Financial Position

As at June 30, 2013 and 2012

(Expressed in Canadian Dollars)

	Notes	2013	2012
Assets			
Current assets			
Cash and cash equivalents	3	\$ 13,028,707	\$ 13,905,702
Receivables	4	42,809	123,368
METC recoverable	10	826,103	556,085
Prepaid expenses		10,255	9,800
Marketable securities	5	1,078,980	1,253,950
		14,986,854	15,848,905
Other assets	6	332,500	312,656
Equipment and leasehold improvements	9	358,005	297,408
Long-term prepaid expenses		145,287	168,716
Exploration and evaluation assets	10	63,045,377	61,643,910
		\$ 78,868,023	\$ 78,271,595
Liabilities and Equity			
Current liabilities			
Trade payables and accrued liabilities	7	\$ 342,818	\$ 235,085
Due to related parties	14	18,310	6,815
Flow-through premium liability	8	276,493	–
		637,621	241,900
Deferred income tax liability	12	1,761,000	1,466,000
Equity			
Capital stock	11	92,555,610	90,655,694
Reserves	11	11,931,251	11,599,747
Deficit		(27,418,595)	(25,556,729)
Accumulated other comprehensive loss		(598,864)	(135,017)
		76,469,402	76,563,695
		\$ 78,868,023	\$ 78,271,595

Nature and continuance of operations (Note 1)**Subsequent events** (Note 18)

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

Approved on behalf of the Board of Directors:

“Peeyush Varshney”

Director

“Henry Giegerich”

Director

CANADA ZINC METALS CORP.

Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

	Note	Capital Stock				Reserves (Note 11)	Deficit	Accumulated other comprehensive income (loss)	Total Equity
		Number of common shares	Number of treasury Shares	Common shares Amount	Treasury shares Amount				
Balance, July 1, 2011		138,455,138	(560,000)	\$ 92,291,720	\$ (265,380)	\$ 11,150,900	\$ (23,966,073)	\$ (413,339)	\$ 78,797,828
Exercise of options	11	110,000	–	173,490	–	(145,990)	–	–	27,500
Shares repurchased and cancelled	11	(1,641,500)	–	(1,115,759)	–	342,229	–	–	(773,530)
Treasury shares repurchased	11	–	(666,500)	–	(314,145)	–	–	–	(314,145)
Treasury shares cancelled	11	(560,000)	560,000	(379,612)	265,380	114,232	–	–	–
Share-based compensation	11	–	–	–	–	138,376	–	–	138,376
Change in fair value of securities	5	–	–	–	–	–	–	278,322	278,322
Net loss for the year		–	–	–	–	–	(1,590,656)	–	(1,590,656)
Balance, June 30, 2012		136,363,638	(666,500)	90,969,839	(314,145)	11,599,747	(25,556,729)	(135,017)	76,563,695
Flow-through private placement	11	7,500,000	–	3,000,000	–	–	–	–	3,000,000
Flow-through premium liability	8	–	–	(337,500)	–	–	–	–	(337,500)
Share issuance costs	11	–	–	(136,350)	–	–	–	–	(136,350)
Exercise of options	11	150,000	–	185,623	–	(148,123)	–	–	37,500
Shares repurchased and cancelled	11	(1,048,000)	–	(693,648)	–	345,450	–	–	(348,198)
Treasury shares cancelled	11	(666,500)	666,500	(432,354)	314,145	118,209	–	–	–
Share-based compensation	11	–	–	–	–	15,968	–	–	15,968
Change in fair value of securities	5	–	–	–	–	–	–	(463,847)	(463,847)
Net loss for the year		–	–	–	–	–	(1,861,866)	–	(1,861,866)
Balance, June 30, 2013		142,299,138	–	\$ 92,555,610	\$ –	\$ 11,931,251	\$ (27,418,595)	\$ (598,864)	\$ 76,469,402

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

CANADA ZINC METALS CORP.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended June 30,

(Expressed in Canadian Dollars)

	Notes	2013	2012
ADMINISTRATION EXPENSES			
Administration	14	\$ 60,000	\$ 60,000
Bonuses	14	63,000	2,500
Consulting		196,292	225,000
Depreciation	9	5,659	5,386
Directors fees	14	50,000	50,000
Flow-through taxes	12	58,718	-
Interest and bank charges:			
- bank charges		2,718	3,138
- interest		-	1,159
Investor relations		185,094	272,294
Management fees	14	294,000	294,000
Office and miscellaneous		68,072	77,987
Professional fees		72,461	93,862
Regulatory fees		9,895	17,895
Rent		60,000	59,878
Share-based compensation	11	15,968	138,376
Transfer agent fees		7,435	7,887
Travel and promotion		228,674	279,791
Wages and benefits		406,474	411,066
		(1,784,460)	(2,000,219)
Interest and other income		197,038	241,234
Gain (loss) on sale of marketable securities		(40,451)	72,834
Loss on non-recoverable exploration advances		-	(93,072)
Gain on write-off of accounts payable		-	114,937
Write-off of equipment		-	(675)
		156,587	335,258
Loss before income taxes		(1,627,873)	(1,664,961)
Deferred income tax (expense) recovery	12	(233,993)	74,305
Net loss for the year		(1,861,866)	(1,590,656)
Adjustment for change in fair value of marketable securities		(463,847)	278,322
Comprehensive loss for the year		\$ (2,325,713)	\$ (1,312,334)
Basic and diluted loss per common share		\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding		139,564,372	136,575,000

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

CANADA ZINC METALS CORP.

Consolidated Statements of Cash Flows

For the years ended June 30,

(Expressed in Canadian Dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (1,861,866)	\$ (1,590,656)
Items not affecting cash:		
Depreciation	5,659	5,386
Flow-through taxes	58,718	–
Share-based compensation	15,968	138,376
(Gain) loss on sale of marketable securities	40,451	(72,834)
Write-off of accounts payable	–	(114,937)
Write-off of equipment	–	675
Deferred income tax (recovery) expense	233,993	(74,305)
Loss on non-recoverable exploration advances	–	93,072
Changes in non-cash working capital items:		
Decrease in receivables	80,559	354,232
(Increase) decrease in prepaid expenses	(455)	369,038
Increase in due to related parties	4,836	6,815
Decrease in accounts payable and accrued liabilities	(18,690)	(180,125)
Cash used in operating activities	(1,440,827)	(1,065,263)
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities costs, net of proceeds on sale	(329,328)	(345,535)
Long-term prepaid expenses and deposits	23,429	23,429
Short-term investments	–	4,609,000
Other assets	(19,844)	(3,656)
Equipment and leasehold improvements	(142,505)	(178,991)
Exploration and evaluation asset costs	(1,520,872)	(5,092,338)
METC recovered	–	1,611,149
Exploration advance	–	(93,072)
Cash provided by (used in) investing activities	(1,989,120)	529,986
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock, net of issuance costs	2,901,150	27,500
Common shares repurchased	(348,198)	(1,087,675)
Cash provided by (used in) financing activities	2,552,952	(1,060,175)
Change in cash and cash equivalents during the year	(876,995)	(1,595,452)
Cash and cash equivalents, beginning of year	13,905,702	15,501,154
Cash and cash equivalents, end of year	\$ 13,028,707	\$ 13,905,702

Supplemental disclosure with respect to cash flows (Note 13)

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

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

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 evaluation 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 exploration and evaluation assets 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 consolidated financial statements have been prepared on a going concern basis, which presumes 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 Company has incurred losses since its inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing and to commence profitable operations in the future.

While the Company has been successful in obtaining its required financing in the past, mainly through the issuance of equity capital, there is no assurance that such financing will be available or be available on favorable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

At June 30, 2013, the Company has a positive cash working capital position of \$14,625,726 (2012 - \$15,607,005). Management believes the Company has sufficient working capital to maintain its operations and its activities for the next fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These financial statements were authorized for issue on October 21, 2013 by the directors of the Company.

Statement of compliance and conversion to International Financial Reporting Standards

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), as adopted by the Company on July 1, 2011.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

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

Basis of presentation

The consolidated financial statements of the Company have been prepared on an accrual basis except for certain cash flow information and are based on historical costs, except for certain financial instruments classified as financial instruments at fair value through profit and loss or available-for-sale which are stated at their fair value. The consolidated financial statements are presented in Canadian dollars unless otherwise noted, which is also the functional currency of the Company and its subsidiary.

Principles of consolidation

These consolidated financial statements include amounts of the Company and its wholly owned subsidiary Ecstall Mining Corp. ("Ecstall"), a company incorporated under the laws of the Province of British Columbia and engaged in the exploration and evaluation of resource properties.

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 inter-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 expenses during the reporting period.

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.

Critical Judgments

The preparation of our consolidated financial statements requires us to make judgments regarding the going concern of the Company as discussed in Note 1.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

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

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

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our consolidated financial statements include:

Share-based payments

We measure our share-based payment expense by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumption about them. The value of the share-based payment expense for the year along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in note 11.

Financial Instruments

The fair values of financial instruments are estimated based upon market and third party inputs. These estimates are subject to change with fluctuations in commodity prices, interest rates, foreign currency exchange rates and estimates of non-performance risk.

Deferred tax Assets & Liabilities

The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

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

Useful Life of Equipment and Leasehold improvements

Each significant component of an item of Equipment and Leasehold improvements is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand, the potential for technological obsolescence, and regulations.

Financial instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to-maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax. Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

Cash and cash equivalents, and marketable securities have been measured at fair value using Level 1 inputs.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

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

The Company has classified its cash and cash equivalents as at FVTPL. Marketable securities are classified as available-for-sale. Receivables (excluding GST and HST receivable), and METC recoverable are classified as loans and receivables and trade payables and accrued liabilities, and due to related parties are classified as other financial liabilities, all of which are measured at amortized cost.

The Company's financial instruments at June 30, 2013 are as follows:

	<i>Loans & receivables</i>	<i>Available for sale</i>	<i>Fair Value through Profit or Loss</i>	<i>Other financial liabilities</i>
Financial assets				
Cash and cash equivalents	\$ –	\$ –	\$ 13,028,707	\$ –
Receivables	599	–	–	–
Marketable securities	–	1,078,980	–	–
METC recoverable	826,103	–	–	–
Financial liabilities				
Trade payables and accrued liabilities	–	–	–	342,818
Due to related parties	–	–	–	18,310
	\$ 826,702	\$ 1,078,980	\$ 13,028,707	\$ 361,128

Unless otherwise disclosed their carrying values approximate their fair values due to the short term nature of these instruments.

Cash and cash equivalents

The Company considers cash and cash equivalents to include cash, demand deposits and highly liquid interest bearing investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation and impairment charges. Such cost consists of the purchase price, any costs directly attributable to bringing the equipment to the location and condition necessary for its intended use. Depreciation of equipment and leasehold improvements is calculated over the estimated useful lives as follows:

Camp equipment and fixtures	25%	declining balance method
Camp upgrades	25%	declining balance method
Computers	30-55%	declining balance method
Office equipment and furniture	20%	declining balance method
Office leasehold improvements	5 years	straight-line method
License	55%	declining balance method
Vehicle	30%	declining balance method

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

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

Equipment and Leasehold Improvements (cont'd)

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

The depreciation of camp equipment and camp upgrades is capitalized to exploration and evaluation assets.

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.

Exploration and Evaluation Assets

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 exploration and evaluation assets 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 operations and comprehensive loss/income.

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.

Exploration costs renounced to shareholders due to flow-through share subscription agreements remain capitalized; however, for income tax purposes the Company has no right to claim these costs as tax deductible expenses.

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.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

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

Impairment

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.

Flow-through shares

Canadian tax legislation permits a company to issue securities referred as flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. The Company accounts for flow-through shares whereby the premium, if any, paid for the flow-through share in excess of the market value of the shares without flow-through feature at the time of issue is initially recorded to flow-through premium liability and then included in income, as a deferred income tax recovery, at the same time the qualifying expenditures are made.

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.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

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

Provisions (cont'd)

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.

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

The Company has no significant provisions for the period presented.

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 Reserves. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. For share options granted with vesting terms conditional upon the achievement of a performance condition, and the performance condition is not a market condition, the Company revises its estimates of the length of the vesting period, if necessary, when information arises that indicates that the length of the vesting period differs from previous estimates. When this occurs, the change in estimate is accounted for prospectively.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of operations and 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.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

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

Income taxes (cont'd)

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 reporting 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.

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.

Comprehensive loss

Comprehensive loss consists of net loss and other comprehensive income (loss) and represents the change in equity which results from transactions and events from sources other than the Company's shareholders. For the periods presented, comprehensive loss includes holding gains and losses from financial instruments classified as available-for-sale.

Standards and interpretations issued but not yet effective

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

The Company has not early adopted these standards and is currently assessing the impact that these standards will have on its financial statements.

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

Standards and interpretations issued but not yet effective (cont'd)

- (a) IFRS 9: New standard that replaces IAS 39 for classification and measurement of financial assets, effective for annual periods beginning on or after January 1, 2015;
- (b) IFRS 10: New standard to establish principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities, effective for annual periods beginning on or after January 1, 2013;
- (c) IFRS 11: New standard to account for the rights and obligations in accordance with a joint agreement, effective for annual periods beginning on or after January 1, 2013;
- (d) IFRS 12: New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39: Effective for annual periods beginning on or after January 1, 2013;
- (e) IFRS 13: New standard on the measurement and disclosure of fair value, effective for annual periods beginning on or after January 1, 2013;
- (f) IAS 28 (Amendment) : New standard issued that supersedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures, effective for annual periods beginning on or after January 1, 2013;
- (g) IAS 32 Amendment to clarify requirements for offsetting financial assets and financial liabilities, effective for annual periods beginning on or after January 1, 2014.
- (h) IAS 27: As a result of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 27 has been reissued to reflect the change as the consolidation guidance has recently been included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements, for annual periods beginning on or after January 1, 2013; and
- (i) IFRS 7 (Amendment): to enhance disclosure requirements related to offsetting of financial assets and financial liabilities, effective for annual periods beginning on or after January 1, 2013.

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3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	2013	2012
Bank deposits	\$ 13,028,707	\$ 196,702
Guaranteed investment certificate	-	13,709,000
	\$ 13,028,707	\$ 13,905,702

During the year ended June 30, 2013, the Company transferred all of its cash to a treasury account, which earns an annual interest rate of 1.5%.

4. RECEIVABLES

	2013	2012
Government Sales Tax credits	\$ 42,210	\$ 79,955
Interest accrued on GICs (Note 6)	539	43,413
Other	60	-
	\$ 42,809	\$ 123,368

5. MARKETABLE SECURITIES

The Company holds marketable securities that have been designated as available-for-sale as follows:

	2013	2012
Common shares of public companies:		
Cost	\$ 1,677,844	\$ 1,388,967
Less: accumulated unrealized holding losses	(598,864)	(135,017)
Fair Value	\$ 1,078,980	\$ 1,253,950

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6. OTHER ASSETS

Other assets comprise reclamation bonds of \$332,500 (2012 – \$312,656) posted as security deposits with the Government of British Columbia in relation to the Akie and Kechika Regional properties. The reclamation bonds are deposited in GICs through a financial institution and earn an average annual variable interest rate of approximately 1.06%.

7. TRADE PAYABLES AND ACCRUED LIABILITIES

	2013	2012
Trade payables	\$ 283,473	\$ 150,826
Accrued liabilities	59,345	84,259
	\$ 342,818	\$ 235,085

8. FLOW-THROUGH PREMIUM LIABILITY

	2013	2012
Flow-through premium liability	\$ 276,493	\$ –

The flow-through premium liability of \$276,493 arose in connection with the flow-through private placement of the Company completed in November 2012 (Note 11 (b)). The originally recorded flow-through premium liability of \$337,500 was based on an estimated premium of \$0.045 per a flow-through share issued. As at June 30, 2013 the Company incurred \$541,395 in qualifying resource expenditures of the \$3,000,000 raised through the flow-through financing which was renounced with an effective date of December 31, 2012. Accordingly, the Company partially amortized the flow-through premium liability of \$61,007 as a deferred income tax recovery.

The unamortized balance of the flow-through premium liability does not represent a cash liability to the Company and is to be fully amortized to the statement of operations and comprehensive loss pro-rata with the amount of qualifying flow-through expenditures incurred applicable to the flow-through financing completed.

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9. 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 June 30, 2011	\$ 15,840	\$ 18,260	\$ 2,522	\$ 19,000	\$ 34,400	\$ 128,820	\$ 165,233	\$ 384,075
Acquisition	1,730	–	4,616	–	206	31,338	141,101	178,991
Disposal	(3,613)	(3,215)	(2,522)	–	–	–	–	(9,350)
At June 30, 2012	13,957	15,045	4,616	19,000	34,606	160,158	306,334	553,716
Acquisition	4,869	557	–	–	2,420	–	134,659	142,505
At June 30, 2013	\$ 18,826	\$ 15,602	\$ 4,616	\$ 19,000	\$ 37,026	\$ 160,158	\$ 440,993	\$ 696,221
Accumulated depreciation:								
At June 30, 2011	\$ 13,689	\$ 4,307	\$ 2,522	\$ 5,225	\$ 5,160	\$ 56,309	\$ 101,869	\$ 189,081
Depreciation for the year	1,980	2,945	461	10,450	8,803	22,046	29,218	75,903
Eliminated on disposal	(3,614)	(2,540)	(2,522)	–	–	–	–	(8,676)
At June 30, 2012	12,055	4,712	461	15,675	13,963	78,355	131,087	256,308
Depreciation for the year	2,459	2,277	923	1,829	6,556	17,645	50,219	81,908
At June 30, 2013	\$ 14,514	\$ 6,989	\$ 1,384	\$ 17,504	\$ 20,519	\$ 96,000	\$ 181,306	\$ 338,216
Net book value:								
At June 30, 2012	\$ 1,902	\$ 10,333	\$ 4,155	\$ 3,325	\$ 20,643	\$ 81,803	\$ 175,247	\$ 297,408
At June 30, 2013	\$ 4,312	\$ 8,613	\$ 3,232	\$ 1,496	\$ 16,507	\$ 64,158	\$ 259,687	\$ 358,005

- (1) License, vehicles, camp equipment and fixtures and camp upgrades are used for exploration and evaluation activities. Depreciation for these items of \$76,249 for year ended June 30, 2013 (2012 - \$70,517) has been capitalized to Exploration and evaluation assets. Depreciation of the remaining items of \$5,659 (2012 - \$5,386) has been expensed.

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10. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets 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 claims. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its claims are in good standing.

Akie Property, British Columbia

The Akie property is the Company's flagship exploration project and is host to the Cardiac Creek SEDEX Zn-Pb-Ag deposit. The Company owns a 100% interest in the Akie property, which resulted from Company expenditures and the acquisition of Ecstall Mining Corporation.

Kechika Regional project, British Columbia

The Kechika Regional project, represented by a series of contiguous property blocks including Pie and Mt. Alcock, extends northwest from the Akie property. The Company owns a 100% interest in these properties, which were acquired during fiscal 2007 and 2008, including the acquisition of Ecstall. The interest in the Mt. Alcock property is subject to a 1.0 % net smelter royalty.

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.

	Akie Property	Kechika Regional	Total
Acquisition Costs:			
Balance, June 30, 2011	\$ 24,175,329	\$ 328,780	\$ 24,504,109
Additions	–	1,563	1,563
Balance, June 30, 2012	24,175,329	330,343	24,505,672
Additions	–	91	91
Balance, June 30, 2013	\$ 24,175,329	\$ 330,434	\$ 24,505,763

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10. EXPLORATION AND EVALUATION ASSETS (cont'd)

	Akie Property	Kechika Regional	Total
Deferred exploration costs:			
Balance, June 30, 2011	\$ 30,652,160	\$ 2,539,748	\$ 33,191,908
<u>Surface drilling program:</u>			
Camp equipment, amortization	70,517	–	70,517
Camp operating	78,207	59,217	137,424
Drilling	1,624,839	169,309	1,794,148
Geology	198,476	281,013	479,489
Total surface drilling	1,972,039	509,539	2,481,578
<u>Underground development:</u>			
Engineering	187,777	–	187,777
Trail construction	1,705,263	–	1,705,263
Total underground development	1,893,040	–	1,893,040
Geotechnical program	19,550	–	19,550
Community consultations	91,745	–	91,745
Environmental studies	340,589	–	340,589
Project assessment	32,224	–	32,224
Metallurgical analysis	6,854	–	6,854
Less:			
METC	(919,250)	–	(919,250)
Balance, June 30, 2012	34,088,951	3,049,287	37,138,238
Camp equipment, depreciation (Note 9)	76,249	–	76,249
Camp operating	131,900	133,755	265,655
Drilling	30,459	–	30,459
Geology	194,779	87,739	282,518
Geotechnical program	2,244	–	2,244
Underground development	25,580	–	25,580
Community consultations	200,000	–	200,000
Environmental studies	202,364	–	202,364
Airborne survey	80,109	506,216	586,325
Less:			
METC	(270,018)	–	(270,018)
Balance, June 30, 2013	\$ 34,762,617	\$ 3,776,997	\$ 38,539,614
Total June 30, 2012	\$ 58,264,280	\$ 3,379,630	\$ 61,643,910
Total June 30, 2013	\$ 58,937,946	\$ 4,107,431	\$ 63,045,377

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11. CAPITAL STOCK AND RESERVES

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

During the year ended June 30, 2013:

- (i) the Company completed a flow-through private placement of 7,500,000 units at a price of \$0.40 per unit for gross proceeds of \$3,000,000. Each unit consists of one flow-through common share and one-half share purchase warrant of the Company. Each whole warrant will entitle the holder to purchase one additional common share at a price of \$0.60 for a period of 18 months from closing. The Company paid a finder's fee of \$120,000 and regulatory filing fees of \$16,350 in connection with the private placement;
- (ii) the Company received TSXV approval for its new Normal Course Issuer Bid ("NCIB") application to purchase at market price up to 6,825,681 common shares, being approximately 5% of the Company's issued and outstanding common shares through the facilities of the TSXV. The bid commenced on August 1, 2012 and will stay open for another 12 months;
- (iii) the Company repurchased under the NCIB 1,048,000 common shares for a total consideration of \$348,198 at a weighted average price of \$0.33 per share;
- (iv) the Company repurchased a total of 1,714,500 common shares under the NCIB, of which 666,500 were repurchased in fiscal 2012. The common shares were cancelled and returned to the Company's treasury. Upon the cancellation, \$1,126,002 was recorded as a reduction to capital stock for the assigned value of the shares, and \$463,659 was allocated to reserves;
- (v) an aggregate of 150,000 share options were exercised at a price of \$0.25 per share and 150,000 common shares were issued for total proceeds of \$37,500. In addition, a reallocation of \$148,123 from reserves to capital stock 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, 2012:

- (vi) the Company received 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;

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11. CAPITAL STOCK AND RESERVES (cont'd)

(b) Issued and outstanding (cont'd)

- (vii) the Company repurchased under the NCIB 2,308,000 of its common shares for a total consideration of \$1,087,675 at a weighted average price of \$0.47 per share, of which 666,500 shares were held in the Company's treasury at June 30, 2012 and cancelled subsequent to the year end;
- (viii) 2,201,500 common shares repurchased under the NCIB, of which 560,000 were repurchased in fiscal 2011, were cancelled and returned to the Company's treasury. Upon the cancellation, \$1,495,371 was recorded as a reduction to capital stock for the assigned value of the shares, and \$456,461 was allocated to reserves;
- (ix) 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 reserves to capital stock 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.

(c) Share options

The Company has adopted a 20% fixed share option plan whereby the Company has reserved 20,557,283 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:

	Options Outstanding	Weighted Average Exercise Price
Balance, June 30, 2011	8,240,500	\$ 0.51
Exercised	(110,000)	\$ 0.25
Expired	(355,500)	\$ 0.69
Balance, June 30, 2012	7,775,000	\$ 0.50
Exercised	(150,000)	\$ 0.25
Expired	(445,000)	\$ 0.81
Forfeited	(32,500)	\$ 0.53
Outstanding, June 30, 2013	7,147,500	\$ 0.49

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11. CAPITAL STOCK AND RESERVES (cont'd)

(c) Share options (cont'd)

Share options outstanding and exercisable at June 30, 2013 are summarized as follows:

Number of Options	Exercise Price	Expiry Date	Number of Options Exercisable
130,000	\$0.70	November 14, 2016	130,000
295,000	\$1.05	February 11, 2018	295,000
300,000	\$0.25	February 11, 2018	300,000
**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
795,000	\$0.41	October 13, 2016	795,000
1,205,000	\$0.63	January 15, 2020	1,205,000
300,000	\$0.50	May 10, 2015	300,000
417,500	\$0.53	November 8, 2020	417,500
1,430,000	\$0.55	November 24, 2020	1,130,000
150,000	\$0.60	January 7, 2015	150,000
7,147,500			6,847,500

** 50,000 of these share options were exercised, and 125,000 share options expired unexercised on October 21, 2013.

During the year ended June 30, 2013, the Company recorded share-based compensation expense of \$15,968 (2012 – \$138,376) for share options granted in prior years and vested during the year. No share options were granted during the years ended June 30, 2013 and 2012.

Options granted with vesting terms conditional to achievement of certain exploration milestones are recalculated each period to adjust for the changes in the estimates which are accounted for prospectively, if any. The share-based compensation expense for the year ended June 30, 2013 reflects a change in estimated length of the vesting periods for performance-based options.

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11. CAPITAL STOCK AND RESERVES (cont'd)

(d) Warrants

Share purchase warrants transactions and warrants outstanding are summarized as follows:

	Warrants Outstanding	Weighted Average Exercise Price
Balance, June 30, 2011	20,615,612	\$0.72
Expired	(2,500,000)	0.80
Balance, June 30, 2012	18,115,612	0.80
Issued (Note 11 (b))	3,750,000	0.60
Expired	(18,115,612)	0.80
Balance, June 30, 2013	3,750,000	\$0.60

The following table summarizes the warrants outstanding at June 30, 2013:

Number of Warrants	Exercise Price	Expiry Date
3,750,000	\$ 0.60	May 30, 2014
3,750,000		

(e) Reserves

	Options and agent warrants	Finance warrants	Treasury shares	Total
Balance, June 30, 2011	\$ 8,781,518	\$ 1,993,026	\$ 376,356	\$ 11,150,900
Exercise of options	(145,990)	-	-	(145,990)
Normal course issuer bid	-	-	342,229	342,229
Treasury shares cancelled	-	-	114,232	114,232
Share-based compensation	138,376	-	-	138,376
Balance, June 30, 2012	8,773,904	1,993,026	832,817	11,599,747
Exercise of options	(148,123)	-	-	(148,123)
Treasury shares cancelled	-	-	463,659	463,659
Share-based compensation	15,968	-	-	15,968
Balance, June 30, 2013	\$ 8,641,749	\$ 1,993,026	\$ 1,296,476	\$ 11,931,251

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12. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2013	2012
Net loss before income taxes	\$ (1,627,873)	\$ (1,664,961)
Combined Canadian federal and provincial statutory rate	25.25%	25.75%
Expected income tax recovery at statutory tax rates	\$ (411,000)	\$ (429,000)
Non-deductible expenditures and non-taxable revenues	19,000	24,000
Impact of future income tax rates applied versus current statutory rate	6,000	10,000
Impact of flow through shares	76,000	378,000
Share issue costs	(34,000)	–
Change in unrecognized deductible temporary differences	578,000	(57,000)
Total deferred tax expense (recovery)	\$ 234,000	\$ (74,000)

The significant components of the Company's deferred tax assets and liabilities are as follows:

Deferred Tax Assets (Liabilities)	2013	2012
Exploration and evaluation assets	\$ (5,862,000)	\$ (4,579,000)
Share issue costs	64,000	77,000
Allowable Capital losses	3,000	–
Non-Capital losses	3,473,000	2,964,000
Capital assets	117,000	72,000
Marketable securities	78,000	–
Investment tax credits	366,000	–
Total deferred income tax liability	\$ (1,761,000)	\$ (1,466,000)

Significant components of deductible and taxable temporary differences, unused tax losses and unused tax credits that have not been included on the statement of financial position are as follows:

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12. INCOME TAXES (cont'd)

	2013	Expiry dates	2012	Expiry dates
Non-Capital losses	2,599,000	2014 to 2033	2,607,000	2014 to 2032
Capital assets	32,000	No expiry	32,000	No expiry

During the year ended June 30, 2013, the Company issued 7,500,000 flow-through common shares for gross proceeds of \$3,000,000 (2012 - \$Nil). The flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. The Company renounced the full subscription amounts to the flow-through shareholders under the "look-back rule" for the 2012 calendar year, and is required to spend the amounts on eligible exploration expenditures by the end of the 2013 calendar year. As a result of the "look-back" renunciation, the Company accrued \$58,718 (2012 - \$Nil) in flow-through Part XII.6 tax.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2013	2012
Cash paid during the year for interest	\$ -	\$ 1,107
Cash paid during the year for income tax	\$ -	\$ -

Significant non-cash transactions for the year ended June 30, 2013 included:

- exploration and evaluation expenditures of \$208,793 (2012 - \$141,088) in accounts payable;
- exploration and evaluation expenditures of \$6,659 (2012 - \$Nil) in due to related parties;
- reduction in exploration and evaluation expenditures of \$270,018 (2012 - \$556,085) in METC recoverable;
- depreciation of camp equipment and upgrades of \$76,249 (2012 - \$70,517) included in exploration and evaluation assets;
- an allocation of \$148,123 (2012 - \$145,990) from reserves to capital stock upon the exercise of stock options; and
- unrealized loss of \$463,847 (2012 - a gain of \$278,322) on marketable securities due to changes in fair values, which was allocated to accumulated other comprehensive loss.

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14. RELATED PARTIES TRANSACTIONS

The remuneration of directors and other key management personnel during the years ended June 30, 2013 and 2012 were as follows:

		2013		2012
Bonuses (ii)	\$	63,000	\$	2,500
Consulting fees (iii)		15,000		15,000
Directors fees (iv)		50,000		50,000
Exploration and evaluation expenditures (geological consulting) (v)		140,016		138,348
Management and administration (i)		354,000		354,000
Share-based payments (vi)		12,603		93,941
Total	\$	634,619	\$	653,789

- (i) On May 1, 2007, the Company entered into a management and administrative agreement with Varshney Capital Corp. (“VCC”), a company with 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 year ended June 30, 2013, the Company paid or accrued \$294,000 (2012 – \$294,000) for management fees and \$60,000 (2012 – \$60,000) for administrative fees to VCC.

- (ii) the Company paid bonuses totaling \$63,000 (2012 - \$2,500) to companies controlled by directors and officers of the Company.
- (iii) the Company paid or accrued \$15,000 (2012 - \$15,000) for consulting fees to a company controlled by a director;
- (iv) the Company paid or accrued \$50,000 (2012 - \$50,000) in directors fees to five directors of the Company;
- (v) the Company paid or accrued exploration and evaluation costs of \$140,016 (2012 - \$138,348) to a company owned by an officer of the Company.
- (vi) Share-based payments are the fair value of options that have been granted to directors and executive officers and the related compensation expense recognized over the vesting periods.

As at June 30, 2013, \$18,310 (2012 - \$6,815) was due to directors and officers of the Company for consulting fees and reimbursement of business expenses. The amounts were repaid subsequent to June 30, 2013.

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15. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments based on the funds available in order to support continued operation and future business opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to be equity.

The Company's operations are currently not generating positive cash flow; as such, the Company is dependent on external financing to fund its activities. In order to carry out potential expansion and to continue operations, and pay for administrative costs, the Company will spend its existing working capital, and raise additional amounts as needed. Companies in this stage typically rely upon equity and debt financing or joint venture partnerships to fund their operations. The current financial markets are very difficult and there is no certainty with respect to the Company's ability to raise capital. However, the Company feels that it has sufficient working capital to continue with planned activities.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended June 30, 2013. The Company is not subject to externally imposed capital requirements.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Cash and cash equivalents, and marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables, METC recoverable, trade payables and accrued liabilities and due to related parties approximate their fair value because of the short-term nature of these instruments.

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 bank deposits of \$13,028,707. As all bank accounts are held with a major bank in Canada, there is a concentration of credit risk with one bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies.

The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consist primarily of refundable government sales taxes, exploration tax credits and interest accrued on GIC investments.

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents. As at June 30, 2013, the Company was holding cash deposits of \$13,028,707 to settle current cash liabilities of \$361,128. Management believes it has sufficient funds to meet its current obligations as they become due and to fund its exploration projects and administrative costs.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant and the Company, as all other companies in its industry, has exposure to these risks.

a. Interest Rate Risk

The Company is exposed to interest rate risk as its bank treasury account earns interest income at variable rate of prime less 1.5%.

b. Currency Risk

The Company operates in Canada and is therefore not exposed to significant foreign exchange risk arising from transactions denominated in a foreign currency.

c. Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors certain commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

The Company also maintains investments in certain marketable securities. There can be no assurance that the Company can exit these positions if required, resulting in proceeds approximating the carrying value of these securities.

17. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of resource properties in Canada. All of the Company's assets are located in Canada.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

18. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2013:

- a. The Company received TSXV approval for its new NCIB application to purchase at market price up to 7,114,957 common shares, being approximately 5% of the Company's issued and outstanding common shares through the facilities of the TSXV. The bid commenced on August 1, 2013 and will stay open for another 12 months;
- b. The Company repurchased 49,000 of its common shares for a total consideration of \$10,475 at a weighted average price of \$0.21 per share under the NCIB;
- c. 50,000 share options granted to a consultant of the Company in prior years were exercised and 50,000 common shares were issued for total proceeds of \$12,500;
- d. The Company entered into an option agreement (the "Agreement") with Teck Resources Limited ("Teck") that that would see Teck acquire up to a 70% interest in the Company's Pie, Cirque East and Yuen properties (the "Property"), three of the 10 regional properties that make up the Kechika Regional Project.

The Agreement outlines two options (the "Options") that are subject to certain expenditure requirements as outlined below:

- Under the first Option, Teck can earn an undivided 51% interest in and to the Property by incurring a cumulative aggregate of \$3,500,000 in exploration expenditures on the Property on or before September 30, 2017, with \$500,000 in exploration expenditures to be completed on or before September 30, 2014 and \$1,500,000 in cumulative exploration expenditures to be completed on or before September 30, 2015.
- Under the second Option, Teck may elect to acquire an additional 19% interest in the Property for a total of 70%, by incurring an additional \$5,000,000 in exploration expenditures (for a total aggregate of \$8,500,000 in exploration expenditures) on the Property on or before September 30, 2019.

Subject to one or more of the Options being exercised, Teck and the Company will form a Joint Venture to continue with exploration and, if warranted, development of the Property. Thereafter each party will fund its pro-rated share of exploration expenditures on the Property or incur dilution. If a party's Joint Venture interest is reduced below 10% then that party's interest will be converted to a 5% Net Profits Royalty interest in the Property.

- e. The Company completed a private placement, issuing to Teck, 1,250,000 units of the Company at a price of \$0.40 per unit, resulting in a total subscription of \$500,000. Each unit consists of one common share and one share purchase warrant that will entitle Teck to purchase one additional common share of the Company within 24 months at a price of \$0.40 per share. The securities issued under the private placement are subject to resale restrictions expiring on January 17, 2014.