

# **CANADA ZINC METALS CORP.**

Condensed Consolidated Interim Financial Statements

For the Three Months Ended September 30, 2015 and 2014

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

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# CANADA ZINC METALS CORP.

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# **CANADA ZINC METALS CORP.**

## **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.

November 25, 2015

**CANADA ZINC METALS CORP.**

## Condensed Consolidated Interim Statements of Financial Position

As at September 30, 2015 and June 30, 2015

(Expressed in Canadian Dollars - Unaudited)

	Note	September 30, 2015 (unaudited)	June 30, 2015 (audited)
<b>Assets</b>			
Current assets			
Cash		\$ 7,066,132	\$ 9,068,599
Receivables	3	109,452	65,283
Prepaid expenses		50,906	44,280
Marketable securities	4	85,119	48,245
Investment	5	1,021,007	1,016,968
		<b>8,332,616</b>	10,243,375
Other assets	6	332,500	332,500
Equipment and leasehold improvements	9	498,712	496,779
Refundable deposit		98,429	98,429
Exploration and evaluation assets	10	69,704,896	68,240,754
		<b>\$ 78,967,153</b>	\$ 79,411,837
<b>Liabilities and Equity</b>			
Current liabilities			
Trade payables and accrued liabilities	7	\$ 543,355	\$ 621,448
Due to related parties	13	2,015	–
Flow-through premium liability	8	–	136,725
		<b>545,370</b>	758,173
Deferred income tax liability		<b>1,877,000</b>	1,877,000
<b>Equity</b>			
Capital stock	11	97,035,140	97,088,570
Reserves	11	13,052,159	13,004,220
Deficit		(31,843,165)	(31,661,766)
Accumulated other comprehensive loss		(1,699,351)	(1,654,360)
		<b>76,544,783</b>	76,776,664
		<b>\$ 78,967,153</b>	\$ 79,411,837

**Nature and continuance of operations** (Note 1)

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)

	Note	Capital Stock					Reserves (Note 11)	Deficit	Accumulated other comprehensive loss	Total Equity
		Number of common shares	Number of treasury shares	Common shares amount	Treasury shares amount					
<b>Balance, June 30, 2014</b>		148,956,368	(114,500)	\$ 95,404,919	\$ (37,652)	\$ 12,289,609	\$ (29,741,306)	\$ (1,404,661)	\$ <b>76,510,909</b>	
Flow-through private placement	11	1,955,090	–	1,075,300	–	–	–	–	1,075,300	
Flow-through premium liability	8	–	–	(97,754)	–	–	–	–	(97,754)	
Share issuance costs	11	–	–	(50,989)	–	–	–	–	(50,989)	
Exercise of options	11	200,000	–	143,169	–	(63,169)	–	–	80,000	
Treasury shares cancelled	11	(117,000)	117,000	(75,341)	38,482	36,859	–	–	–	
Treasury shares repurchased	11	–	(10,000)	–	(4,195)	–	–	–	(4,195)	
Share-based compensation	11	–	–	–	–	14,188	–	–	14,188	
Change in fair value of securities	4	–	–	–	–	–	–	(86,190)	(86,190)	
Net loss for the period		–	–	–	–	–	(454,846)	–	(454,846)	
<b>Balance, September 30, 2014</b>		150,994,458	(7,500)	96,399,304	(3,365)	12,277,487	(30,196,152)	(1,490,851)	<b>76,986,423</b>	
Private placement	11	580,750	–	290,375	–	–	–	–	290,375	
Flow-through private placements	11	988,220	–	543,521	–	–	–	–	543,521	
Flow-through premium liability	8	–	–	(49,411)	–	–	–	–	(49,411)	
Share issuance costs	11	–	–	(45,346)	–	–	–	–	(45,346)	
Treasury shares repurchased	11	–	(137,500)	–	(46,508)	–	–	–	(46,508)	
Share-based compensation	11	–	–	–	–	726,733	–	–	726,733	
Change in fair value of securities	4	–	–	–	–	–	–	(163,509)	(163,509)	
Net loss for the period		–	–	–	–	–	(1,465,614)	–	(1,465,614)	
<b>Balance, June 30, 2015</b>		152,563,428	(145,000)	97,138,443	(49,873)	13,004,220	(31,661,766)	(1,654,360)	<b>76,776,664</b>	
Treasury shares cancelled	11	(149,000)	149,000	(94,978)	50,808	44,170	–	–	–	
Treasury shares repurchased	11	–	(49,000)	–	(9,260)	–	–	–	(9,260)	
Share-based compensation	11	–	–	–	–	3,769	–	–	3,769	
Change in fair value of securities	4	–	–	–	–	–	–	(44,991)	(44,991)	
Net loss for the period		–	–	–	–	–	(181,399)	–	(181,399)	
<b>Balance, September 30, 2015</b>		<b>152,414,428</b>	<b>(45,000)</b>	<b>\$ 97,043,465</b>	<b>\$ (8,325)</b>	<b>\$ 13,052,159</b>	<b>\$ (31,843,165)</b>	<b>\$ (1,699,351)</b>	<b>\$ 76,544,783</b>	

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

# CANADA ZINC METALS CORP.

## Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars - Unaudited)

		Three months ended September 30,	
	Note	2015	2014
<b>ADMINISTRATION EXPENSES</b>			
Administration	13	\$ 15,000	\$ 15,000
Bonuses	13	–	21,506
Consulting	13	4,375	11,626
Depreciation	9	1,548	985
Directors fees	13	10,000	12,500
Flow-through taxes	8	1,187	–
Interest and bank charges		630	885
Investor relations		759	3,012
Management fees	13	88,500	88,500
Marketing		15,402	204,105
Office and miscellaneous		14,727	16,876
Regulatory fees		5,550	5,250
Rent		28,765	22,895
Share-based compensation	11	3,769	14,188
Transfer agent fees		1,254	4,289
Travel and promotion		42,105	50,004
Wages and benefits		114,371	105,366
		<b>(347,942)</b>	<b>(576,987)</b>
Interest income		29,818	43,458
<b>Loss before income taxes</b>		<b>(318,124)</b>	<b>(533,529)</b>
Deferred income tax recovery	8	136,725	78,683
<b>Net loss for the period</b>		<b>(181,399)</b>	<b>(454,846)</b>
Adjustment for change in fair value of marketable securities	4	(44,991)	(86,190)
<b>Comprehensive loss for the period</b>		<b>\$ (226,390)</b>	<b>\$ (541,036)</b>
<b>Basic and diluted loss per common share</b>		<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding</b>		<b>152,440,341</b>	<b>149,088,597</b>

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 September 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (181,399)	\$ (454,846)
Items not affecting cash:		
Depreciation	1,548	985
Interest accrued on investment	(4,039)	(4,002)
Accrued flow-through taxes	1,187	–
Share-based compensation	3,769	14,188
Deferred income tax recovery	(136,725)	(78,683)
Changes in non-cash working capital items:		
Receivables	(44,169)	42,286
Prepaid expenses	(6,626)	(43,632)
Due to related parties	2,015	27,669
Accounts payable and accrued liabilities	(43,258)	(28,216)
Cash used in operating activities	(407,697)	(524,251)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Marketable securities costs	(81,865)	(39,633)
Equipment and leasehold improvements	(26,697)	–
Exploration and evaluation asset costs	(1,476,948)	(1,087,118)
METC recovered	–	296,846
Cash used in investing activities	(1,585,510)	(829,905)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock, net of issuance costs	–	1,104,311
Common shares repurchased	(9,260)	(4,195)
Cash generated from (used in) financing activities	(9,260)	1,100,116
<b>Change in cash during the period</b>	<b>(2,002,467)</b>	<b>(254,040)</b>
<b>Cash, beginning of period</b>	<b>9,068,599</b>	<b>10,558,472</b>
<b>Cash, end of period</b>	<b>\$ 7,066,132</b>	<b>\$ 10,304,432</b>

Supplemental disclosure with respect to cash flows (Note 12)

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

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended September 30, 2015 and 2014  
(Expressed in Canadian Dollars, unless otherwise stated)  
(Unaudited, prepared by management)

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## 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 September 30, 2015, the Company has a positive working capital position of \$7,787,246 (June 30, 2015 - \$9,485,202). 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 November 25, 2015 by the directors of the Company.

### *Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company’s annual financial statements for the year ended June 30, 2015 except for new standards, interpretations and amendments mandatory effective for the first time from July 1, 2015.

It is therefore recommended that these condensed interim financial statements be read in conjunction with the Company’s audited consolidated financial statements for the year ended June 30, 2015.



# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended September 30, 2015 and 2014  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

### *Basis of Preparation*

These condensed consolidated interim 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 interim financial statements are presented in Canadian dollars unless otherwise noted, which is also the functional currency of the Company and its subsidiary.

The accounting policies chosen by the Company have been applied consistently to all periods presented.

### *Principles of consolidation*

These condensed consolidated interim 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.

### *New standards and interpretations issued but not yet effective*

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.
- IFRS 15 – Revenue from contracts with customers, the standard on revenue from contracts with customers was issued on May 28, 2014 and is effective for annual reporting periods beginning on or after January 1, 2018 for public entities with early adoption permitted.

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

### *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.

### **Key Sources of Estimation Uncertainty**

Significant estimates made by management affecting our consolidated financial statements include:

#### *Share-based compensation*

We measure our share-based compensation 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 compensation 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 Condensed Consolidated Interim Financial Statements  
For the three months ended September 30, 2015 and 2014  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

### *Significant accounting judgements, estimates and assumptions (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.

#### *Carrying value and recoverability of exploration and evaluation assets*

The carrying amount of Company's exploration and evaluation assets does not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

#### *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) available-for-sale financial assets, (4) held-to-maturity financial assets, 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. "Available-for-sale" financial assets are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax. "Held-to-maturity" financial assets, "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

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.

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

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

#### *Financial instruments (cont'd)*

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

The Company has classified its cash and investment as at FVTPL. Marketable securities are classified as available-for-sale. Receivables (excluding GST receivable), and refundable deposit 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 September 30, 2015 are as follows:

	<i>Loans &amp; receivables</i>	<i>Available for sale</i>	<i>Fair Value through Profit or Loss</i>	<i>Other financial liabilities</i>
<b>Financial assets</b>				
Cash	\$ –	\$ –	\$ 7,066,132	\$ –
Receivables	919	–	–	–
Marketable securities	–	85,119	–	–
Investment	–	–	1,021,007	–
Refundable deposit	98,429	–	–	–
<b>Financial liabilities</b>				
Trade payables and accrued liabilities	–	–	–	543,355
Due to related parties	–	–	–	2,015
	\$ 99,348	\$ 85,119	\$ 8,087,139	\$ 545,370

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

## 3. RECEIVABLES

	September 30, 2015	June 30, 2015
Government Sales Tax credits	\$ 108,533	\$ 64,886
Accrued interest (Note 6)	919	397
	\$ 109,452	\$ 65,283

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
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## 4. MARKETABLE SECURITIES

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

	September 30, 2015	June 30, 2015
Common shares of public companies:		
Fair value, beginning of period	\$ 48,245	\$ 255,796
Purchases	81,865	42,148
Unrealized losses	(44,991)	(249,699)
Fair value, end of period	\$ 85,119	\$ 48,245

## 5. INVESTMENT

Investment consists of a highly liquid Canadian dollar denominated non-redeemable guaranteed investment certificate ("GIC") yielding an interest rate of 1.588% per annum maturing December 7, 2015. The investment is classified as a FVTPL financial asset, and includes a principal amount of \$1,000,000 (June 30, 2015 - \$1,000,000) and accrued interest of \$21,007 (June 30, 2015 - \$16,968). The counter-party is a financial institution.

## 6. OTHER ASSETS

Other assets comprise of reclamation bonds totalling \$332,500 (June 30, 2015 – \$332,500) 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 0.71% and reinvested on an annual basis immediately at maturity. Interest accrued on the GICs is included in receivables (Note 3).

## 7. TRADE PAYABLES AND ACCRUED LIABILITIES

	September 30, 2015	June 30, 2015
Trade payables	\$ 463,407	\$ 486,356
Accrued liabilities	79,948	135,092
	\$ 543,355	\$ 621,448

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
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## 8. FLOW-THROUGH PREMIUM LIABILITY

	September 30, 2015	June 30, 2015
Balance, beginning of period	\$ 136,725	\$ 163,498
Recorded	–	147,165
Amortized	(136,725)	(173,938)
Balance, end of period	\$ 5,294	\$ 136,725

During the three months ended September 30, 2015, the Company fully amortised the flow-through liability of \$147,165 after incurring the required exploration expenditures of \$1,618,821 qualifying for the flow-through program. The flow-through liability was recorded in fiscal 2015 in connection with the October 2014 flow-through private placement of 2,943,310 shares (Note 11(b)(iv)) calculated based on an estimated premium of approximately \$0.05 per flow-through share,

The flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. When the Company uses the "look-back" rule to renounce exploration expenditures to investors before the Company actually incurs them, the Company is liable for the flow-through Part XII.6 tax ("FT Tax"). The reconciliations of the accrued and paid FT Tax for the three months ended September 30, 2015 and the year ended June 30, 2015 are as follows:

	September 30, 2015	June 30, 2015
Balance, beginning of period	\$ 8,006	\$ 5,918
Accrued	1,187	8,006
Adjustment of previously accrued FT Tax	–	(3,005)
FT Tax paid	–	(2,913)
Balance, end of period	\$ –	\$ 8,006

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## 9. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Computers and software	Office equipment and furniture	Office leasehold improvements	License <sup>(1)</sup>	Vehicle <sup>(1)</sup>	Camp equipment and fixtures <sup>(1)</sup>	Camp structures and upgrades <sup>(1)</sup>	Total
<b>Cost:</b>								
At June 30, 2014	\$ 18,849	\$ 15,602	\$ 4,616	\$ 19,000	\$ 37,026	\$ 230,558	\$ 474,042	\$ <b>799,693</b>
Acquisition	7,924	2,626	-	-	-	80,120	180,512	271,182
Write-off	(8,556)	-	-	-	-	-	-	(8,556)
At June 30, 2015	18,217	18,228	4,616	19,000	37,026	310,678	654,554	<b>1,062,319</b>
Acquisition	-	-	-	-	-	34,213	-	34,213
At September 30, 2015	\$ 18,217	\$ 18,228	\$ 4,616	\$ 19,000	\$ 37,026	\$ 344,891	\$ 654,554	\$ <b>1,096,532</b>
<b>Accumulated depreciation:</b>								
At June 30, 2014	\$ 16,663	\$ 8,711	\$ 2,308	\$ 18,327	\$ 25,471	\$ 119,548	\$ 263,010	\$ <b>454,038</b>
Depreciation	2,292	1,722	924	823	4,952	23,548	81,704	115,965
Write-off	(143)	-	-	-	-	-	-	(143)
At June 30, 2015	12,186	10,352	3,231	18,697	28,938	153,804	338,332	<b>565,540</b>
Depreciation	920	397	231	42	612	10,152	19,926	32,280
At September 30, 2015	\$ 13,106	\$ 10,749	\$ 3,462	\$ 18,739	\$ 29,550	\$ 163,956	\$ 358,258	\$ <b>597,820</b>
<b>Net book value:</b>								
At June 30, 2015	\$ 6,031	\$ 7,876	\$ 1,385	\$ 303	\$ 8,088	\$ 156,874	\$ 316,222	\$ <b>496,779</b>
At September 30, 2015	\$ 5,111	\$ 7,479	\$ 1,154	\$ 261	\$ 7,476	\$ 180,935	\$ 296,296	\$ <b>498,712</b>

<sup>(1)</sup>License, vehicles, camp equipment and fixtures and camp upgrades are used for exploration and evaluation activities.

Depreciation for these items of \$30,732 for the three months ended September 30, 2015 (2014 - \$21,260) has been capitalized to exploration and evaluation assets (Note 10). Depreciation of the remaining items of \$1,548 (2014 - \$985) 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.

In September 2013, the Company entered into an option agreement (the "Agreement") with Teck Resources Limited ("Teck") 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 terms of the Agreement were amended on September 23, 2015 to revise the dates on which required exploration expenditures had to be incurred.

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 (extended to December 31, 2017), with \$500,000 in exploration expenditures to be completed on or before September 30, 2014 (incurred) and \$1,500,000 (amended to \$1,295,000) in cumulative exploration expenditures to be completed on or before September 30, 2015 (extended to December 31, 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.



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## 10. EXPLORATION AND EVALUATION ASSETS (cont'd)

Portions of the Property fall within the area of interest provisions of the Teck and Korea Zinc joint venture (the "T-KZ JV") on their adjoining Cirque property. Korea Zinc elected to include the Agreement under the T-KZ JV and delivered Notice of Participation in the Agreement to the Company in November of 2013. Teck and Korea Zinc each hold a 50% interest in the T-KZ JV and, as a result of the Notice of Participation, will share any interest which may be acquired under the Agreement.

Summary of exploration expenditures incurred on various properties:

	Akie Property	Kechika Regional	Total
<b>Acquisition Costs:</b>			
<b>Balance, June 30, 2015 and September 30, 2015</b>	<b>\$ 24,165,241</b>	<b>\$ 336,785</b>	<b>\$ 24,502,026</b>
<b>Deferred exploration costs:</b>			
Balance, June 30, 2014	\$ 37,517,569	\$ 4,462,840	\$ 41,980,409
Camp equipment, depreciation	113,415	-	113,415
Airborne geophysical survey	135,744	148,407	284,151
Camp rental	82,839	-	82,839
Drilling	957,002	-	957,002
Geology	64,765	13,183	77,948
Community consultations	223,438	-	223,438
Environmental studies and permit compliance monitoring	63,701	-	63,701
Less:			
METC <sup>1</sup>	(44,175)	-	(44,175)
<b>Balance, June 30, 2015</b>	<b>39,114,298</b>	<b>4,624,430</b>	<b>43,738,728</b>
Camp equipment, depreciation (Note 9)	30,732	-	30,732
Airborne geophysical survey	4,475	3,425	7,900
Drilling	1,403,709	-	1,403,709
Environmental studies and permit compliance monitoring	21,801	-	21,801
<b>Balance, September 30, 2015</b>	<b>\$ 40,575,015</b>	<b>\$ 4,627,855</b>	<b>\$ 45,202,870</b>
<b>Total June 30, 2015</b>	<b>\$ 63,279,539</b>	<b>\$ 4,961,215</b>	<b>\$ 68,240,754</b>
<b>Total, September 30, 2015</b>	<b>\$ 64,740,256</b>	<b>\$ 4,964,640</b>	<b>\$ 69,704,896</b>

<sup>1</sup> During the year ended June 30, 2015, the Company received a METC refund of \$44,175 for exploration expenditures incurred in fiscal 2014 in excess of the amounts renounced to flow-through investors.

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## 11. CAPITAL STOCK AND RESERVES

### (a) Authorized

Unlimited common shares without par value

### (b) Issued and outstanding

During the three months ended September 30, 2015:

- (i) the Company received TSXV approval for its new Normal Course Issuer Bid (“NCIB”) application to purchase at market price up to 7,620,721 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, 2015 and will stay open for another 12 months;
- (ii) the Company repurchased 49,000 of its common shares under the NCIB for total consideration of \$9,260 at a weighted average price of \$0.19 per share; and
- (iii) 149,000 common shares repurchased under the NCIB, of which 145,000 common shares were repurchased in fiscal 2015, were cancelled and returned to the Company’s treasury in July 2015. Upon the cancellation, \$94,978 was recorded as a reduction to capital stock for the assigned value of the shares, and \$44,170 was allocated to reserves.

During the year ended June 30, 2015:

- (iv) the Company completed a flow-through private placement of 2,943,310 flow-through shares at a price of \$0.55 per share for gross proceeds of \$1,618,821. A flow-through premium liability of \$147,165 was recorded in connection with this private placement (Note 8);
- (v) the Company also completed a non-flow-through private placement of 580,750 units at a price of \$0.50 per unit for gross proceeds of \$290,375. Each unit consisted of one 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 \$0.75 for a period of 12 months from closing;
- (vi) the Company paid an aggregate finder’s fee of \$82,622 and incurred regulatory filing fees and other expenses of \$13,713 in connection with the private placements completed during the year;
- (vii) 200,000 share options were exercised at a price of \$0.40 per share, and 200,000 common shares were issued for total proceeds of \$80,000. In addition, a reallocation of \$63,169 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;
- (viii) the Company received TSXV approval for its new Normal Course Issuer Bid (“NCIB”) application to purchase at market price up to 7,441,968 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, 2014 and will stay open for another 12 months;
- (ix) the Company repurchased 147,500 of its common shares under the NCIB for total consideration of \$50,703 at a weighted average price of \$0.34 per share; and
- (x) 117,000 common shares repurchased under the NCIB, of which 114,500 common shares were repurchased in fiscal 2014, were cancelled and returned to the Company’s treasury in July 2014. Upon the cancellation, \$75,341 was recorded as a reduction to capital stock for the assigned value of the shares, and \$36,859 was allocated to reserves.

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## 11. CAPITAL STOCK AND RESERVES (cont'd)

### (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
Outstanding, June 30, 2014	8,007,500	\$ 0.49
Granted	3,785,000	0.23
Exercised	(200,000)	0.40
Expired/ forfeited	(970,000)	0.45
Outstanding, June 30, 2015	10,622,500	0.39
Forfeited	(3,365,000)	0.45
Outstanding, September 30, 2015	7,257,500	\$ 0.32

Share options outstanding and exercisable at September 30, 2015 are summarized as follows:

Number of Options	Exercise Price	Expiry Date	Remaining Life of Options (Years)	Number of Options Exercisable
150,000	\$ 1.05	February 11, 2018	2.37	150,000
95,000	\$ 0.23	February 11, 2018	2.37	95,000
270,000	\$ 0.25	October 31, 2018	3.09	270,000
50,000	\$ 0.40	October 9, 2019	4.03	50,000
240,000	\$ 0.41	October 13, 2016	1.04	240,000
50,000	\$ 0.63	January 15, 2020	4.30	50,000
30,000	\$ 0.23	January 15, 2020	4.30	30,000
42,500	\$ 0.23	November 8, 2020	5.11	42,500
595,000	\$ 0.55	November 24, 2020	5.16	295,000
5,000	\$ 0.23	November 24, 2020	5.16	5,000
1,345,000	\$ 0.39	December 27, 2023	8.25	1,345,000
600,000	\$ 0.35	June 16, 2021	5.72	600,000
3,785,000	\$ 0.23	April 10, 2025	9.53	3,785,000
7,257,500	\$ 0.32		7.73	6,957,500

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## 11. CAPITAL STOCK AND RESERVES (cont'd)

### (c) Share options (cont'd)

During the three months ended September 30, 2015, the Company recorded share-based compensation expense of \$3,769 (2014 – \$14,188) for vested portion of share options granted in prior periods.

### (d) Warrants

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

	Warrants Outstanding	Weighted Average Exercise Price
Balance, June 30, 2014	1,350,000	\$ 0.43
Issued (Note 11 (b)(v))	290,375	0.75
Balance, June 30, 2015	1,640,375	0.48
Expired	(100,000)	0.75
Balance, September 30, 2015	1,540,375	\$ 0.48

The following table summarizes the warrants outstanding at September 30, 2015:

Number of Warrants	Exercise Price	Expiry Date
1,250,000	\$ 0.40	September 16, 2017 <sup>(2)</sup>
290,375	\$ 0.75	October 9, 2015 <sup>(1)</sup>
1,540,375		

<sup>(1)</sup> Warrants expired unexercised subsequent to September 30, 2015.

<sup>(2)</sup> The expiry date of warrants was extended from September 30, 2015 to September 30, 2017. All other terms remain the same.

### (e) Reserves

	Note	Options and agent warrants	Finance warrants	Treasury shares	Total
Balance, June 30, 2014		\$ 8,788,857	\$ 2,204,276	\$ 1,296,476	\$ 12,289,609
Exercise of options	11(b)(vii)	(63,169)	–	–	(63,169)
Share-based compensation		740,921	–	–	740,921
Cancellation of treasury shares	11(b)(x)	–	–	36,859	36,859
Balance, June 30, 2015		9,466,609	2,204,276	1,333,335	13,004,220
Share-based compensation	11(c)	3,769	–	–	3,769
Cancellation of treasury shares	11(b)(iii)	–	–	44,170	44,170
Balance, September 30, 2015		\$ 9,470,378	\$ 2,204,276	\$ 1,377,505	\$ 13,052,159

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## 12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the three months ended September 30, 2015 included:

- Ÿ exploration and evaluation assets of \$400,406 (June 30, 2015 - \$443,944) in accounts payable;
- Ÿ equipment and leasehold improvements of \$7,516 (June 30, 2015 - \$52,032) in accounts payable;
- Ÿ depreciation of camp equipment and upgrades of \$30,732 included in exploration and evaluation assets; and
- Ÿ unrealized loss of \$44,991 on marketable securities due to changes in fair value, which was allocated to accumulated other comprehensive loss (Note 4).

Significant non-cash transactions for the three months ended September 30, 2014 included:

- Ÿ exploration and evaluation assets of \$76,361 (June 30, 2014 - \$605,701) in accounts payable;
- Ÿ depreciation of camp equipment and upgrades of \$21,260 included in exploration and evaluation assets;
- Ÿ an allocation of \$97,754 from capital stock to flow-through premium liability on the issuance of the flow-through shares;
- Ÿ an allocation of \$63,169 from reserves to capital stock upon the exercise of stock options; and
- Ÿ unrealized loss of \$86,190 on marketable securities due to changes in fair value, which was allocated to accumulated other comprehensive loss.

## 13. RELATED PARTY TRANSACTIONS

Key management personnel includes persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. Key management personnel comprise of the directors of the Company, executive and non-executive, and the Vice President of Exploration.

The remuneration of the key management personnel during the three months ended September 30, 2015 and 2014 were as follows:

September 30,		2015		2014
Bonuses (iii)	\$	–	\$	21,506
Consulting fees (iv)		3,750		3,750
Directors fees (ii)		10,000		12,500
Exploration and evaluation expenditures (geological consulting) (v)		37,500		35,004
Management fees (i)		88,500		88,500
Other employment benefits (vii)		7,008		6,485
Share-based compensation (vi)		3,769		9,165
<b>Total</b>	<b>\$</b>	<b>150,527</b>	<b>\$</b>	<b>176,910</b>

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## 13. RELATED PARTY TRANSACTIONS (cont'd)

- (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. The agreement was amended effective July 1, 2011 and May 1, 2014 to increase the monthly management fee to \$24,500 and \$29,500, respectively. During the three months ended September 30, 2015, the Company paid or accrued \$88,500 (2014 – \$88,500) for management fees and \$15,000 (2014 – \$15,000) for administrative fees to VCC;
- (ii) the Company paid or accrued \$10,000 (2014 - \$12,500) in directors' fees to four directors of the Company;
- (iii) the Company paid bonuses of \$Nil (2014 - \$21,506) to a company with common directors and officers;
- (iv) the Company paid or accrued \$3,750 (2014 - \$3,750) for consulting fees to a company controlled by a director;
- (v) the Company paid or accrued exploration and evaluation costs of \$37,500 (2014 - \$35,004) for geological consulting fees to a company owned by an officer of the Company, of which \$36,875 was capitalized as exploration and evaluation costs and \$625 was expensed as consulting fees;
- (vi) share-based compensation is the fair value of options that have been granted to directors and executive officers and the related compensation expense recognized over the vesting periods; and
- (vii) other employment benefits included life insurance and health benefits for the CEO and health benefits for the CFO of the Company.

As at September 30, 2015, \$2,015 (June 30, 2015 - \$Nil) was due to two directors of the Company for reimbursement of business expenses. The amounts were paid subsequent to September 30, 2015.

## 14. 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 three months ended September 30, 2015. The Company is not subject to externally imposed capital requirements.

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## 15. 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, long-term investment, and marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables, refundable deposit, 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 \$7,066,132 and a long-term investment in GIC of \$1,000,000. This risk is managed by using major Canadian banks that are high credit quality financial institutions 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 and interest accrued on GIC.

### *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 September 30, 2015, the Company was holding cash deposits of \$7,066,132 to settle current liabilities of \$545,370. 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 and other assets, consisting of reclamation bonds, earn interest income at variable rates. The effect of a 10% fluctuation in interest rates may result in an increase or decrease in annual net loss of \$250.

#### *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.

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## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

*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.