

# **CANADA ZINC METALS CORP.**

Condensed Consolidated Interim Financial Statements

For the Three Months Ended September 30, 2012 and 2011

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 29, 2012

# CANADA ZINC METALS CORP.

Condensed Consolidated Interim Statements of Financial Position  
As at September 30, 2012, June 30, 2012 and July 1, 2011  
(Expressed in Canadian Dollars - Unaudited)

	Notes	September 30, 2012	June 30, 2012	July 1, 2011
			(Audited)	(Audited)
<b>Assets</b>				
Current assets				
Cash and cash equivalents	3	\$ 12,518,345	\$ 13,905,702	\$ 15,501,154
Receivables	4	231,439	123,368	477,600
METC recoverable	9	556,085	556,085	1,611,149
Short-term investments		–	–	4,609,000
Prepaid expenses		7,283	9,800	378,838
Marketable securities	5	1,416,163	1,253,950	557,260
		<b>14,729,315</b>	15,848,905	23,135,001
Other assets	6	312,664	312,656	309,000
Equipment and leasehold improvements	8	414,795	297,408	194,994
Long-term prepaid expenses		168,716	168,716	192,145
Exploration and evaluation assets	9	62,429,252	61,643,910	57,696,017
		<b>\$ 78,054,742</b>	\$ 78,271,595	\$ 81,527,157
<b>Liabilities and Equity</b>				
Current liabilities				
Trade payables and accrued liabilities	7	\$ 375,559	\$ 235,085	\$ 1,189,024
Due to related parties	13	15,458	6,815	–
Flow-through premium liability	10	–	–	127,305
		<b>391,017</b>	241,900	1,316,329
Deferred income tax liability		<b>1,466,000</b>	1,466,000	1,413,000
Equity				
Capital stock	11	90,485,932	90,655,694	92,026,340
Reserves	11	11,691,665	11,599,747	11,150,900
Deficit		(25,921,227)	(25,556,729)	(23,966,073)
Accumulated other comprehensive loss		(58,645)	(135,017)	(413,339)
		<b>76,197,725</b>	76,563,695	78,797,828
		<b>\$ 78,054,742</b>	\$ 78,271,595	\$ 81,527,157

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

**Subsequent events** (Note 17)

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)

	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				
<b>Balance, July 1, 2011</b>	138,455,138	(560,000)	\$ 92,291,720	\$ (265,380)	\$ 11,150,900	\$ (23,966,073)	\$ (413,339)	<b>\$ 78,797,828</b>
Shares repurchased and cancelled	(356,500)	–	(240,831)	–	101,242	–	–	(139,589)
Treasury shares repurchased	–	(205,500)	–	(77,322)	–	–	–	(77,322)
Treasury shares cancelled	(560,000)	560,000	(379,612)	265,380	114,232	–	–	–
Share based compensation	–	–	–	–	59,686	–	–	59,686
Change in fair value of securities	–	–	–	–	–	–	(90,440)	(90,440)
Net loss for the period	–	–	–	–	–	(275,241)	–	(275,241)
<b>Balance, September 30, 2011</b> (Restated , Note 16)	137,538,638	(205,500)	91,671,277	(77,322)	11,426,060	(24,241,314)	(503,779)	<b>78,274,922</b>
Exercise of options	110,000	–	173,490	–	(145,990)	–	–	27,500
Shares repurchased and cancelled	(1,079,500)	–	(735,539)	–	178,920	–	–	(556,619)
Treasury shares repurchased	–	(666,500)	–	(314,145)	–	–	–	(314,145)
Treasury shares cancelled	(205,500)	205,500	(139,389)	77,322	62,067	–	–	–
Share based compensation	–	–	–	–	78,690	–	–	78,690
Change in fair value of securities	–	–	–	–	–	–	368,762	368,762
Net loss for the period	–	–	–	–	–	(1,315,415)	–	(1,315,415)
<b>Balance, June 30, 2012</b>	136,363,638	(666,500)	90,969,839	(314,145)	11,599,747	(25,556,729)	(135,017)	<b>76,563,695</b>
Exercise of options	150,000	–	185,623	–	(148,123)	–	–	37,500
Shares repurchased and cancelled	(355,000)	–	(237,176)	–	105,213	–	–	(131,963)
Treasury shares cancelled	(666,500)	666,500	(432,354)	314,145	118,209	–	–	–
Share based compensation	–	–	–	–	16,619	–	–	16,619
Change in fair value of securities	–	–	–	–	–	–	76,372	76,372
Net loss for the period	–	–	–	–	–	(364,498)	–	(364,498)
<b>Balance, September 30, 2012</b>	<b>135,492,138</b>	<b>–</b>	<b>\$ 90,485,932</b>	<b>\$ –</b>	<b>\$ 11,691,665</b>	<b>\$ (25,921,227)</b>	<b>\$ (58,645)</b>	<b>\$ 76,197,725</b>

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

# CANADA ZINC METALS CORP.

## Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars - Unaudited)

		Three months ended September 30,	
	Notes	2012	2011
			(Restated) (Note 16)
<b>ADMINISTRATION EXPENSES</b>			
Administration	13	\$ 15,000	\$ 15,000
Consulting		56,250	56,250
Depreciation	8	1,260	1,036
Directors fees	13	12,500	12,500
Interest and bank charges		1,267	756
Investor relations		39,380	8,640
Management fees	13	73,500	73,500
Office and miscellaneous		29,304	21,225
Professional fees		17,449	5,000
Regulatory fees		2,500	2,500
Rent		15,000	15,000
Share-based compensation	11	16,619	59,686
Transfer agent fees		1,235	1,396
Travel and promotion		24,003	30,350
Wages and benefits		105,228	94,034
		<b>(410,495)</b>	<b>(396,873)</b>
Interest and other income		47,989	68,054
Loss on sale of marketable securities	5	(1,992)	(73,727)
		<b>45,997</b>	<b>(5,673)</b>
<b>Loss before income taxes</b>		<b>(364,498)</b>	<b>(402,546)</b>
Deferred income tax recovery	10	-	127,305
<b>Net loss for the period</b>		<b>(364,498)</b>	<b>(275,241)</b>
Adjustment for change in fair value of marketable securities		76,372	(90,440)
<b>Comprehensive loss for the period</b>		<b>\$ (288,126)</b>	<b>\$ (365,681)</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>135,641,551</b>	<b>137,733,763</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,	
	2012	2011
		Restated (Note 16)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (364,498)	\$ (275,241)
Items not affecting cash:		
Depreciation	1,260	1,036
Share-based compensation	16,619	59,686
Loss on sale of marketable securities	1,992	73,727
Deferred income tax recovery	-	(127,305)
Changes in non-cash working capital items:		
Increase in receivables	(108,071)	(103,261)
Decrease in prepaid expenses	2,517	309,768
Increase in due to related parties	8,643	-
Decrease in accounts payable and accrued liabilities	(10,027)	(242,082)
Cash used in operating activities	(451,565)	(303,672)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Marketable securities costs, net of proceeds on sale	(87,833)	(21,187)
Other assets	(8)	(3,649)
Equipment and leasehold improvements	(132,577)	(4,616)
Exploration and evaluation asset costs	(620,911)	(2,702,215)
Cash used in investing activities	(841,329)	(2,731,667)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock, net of issuance costs	37,500	-
Common shares repurchased	(131,963)	(216,911)
Cash used in financing activities	(94,463)	(216,911)
<b>Change in cash and cash equivalents during the period</b>	<b>(1,387,357)</b>	<b>(3,252,250)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>13,905,702</b>	<b>15,501,154</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 12,518,345</b>	<b>\$ 12,248,904</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, 2012 and 2011  
(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, 2012, the Company has a positive working capital position of \$14,338,298. 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 29, 2012 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 interim financial statements do not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period.



# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended September 30, 2012 and 2011  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

### *Statement of compliance (cont'd)*

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, 2012.

### *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.

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

The preparation of interim financial statements in conformity with IAS 34 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.

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended September 30, 2012 and 2011  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

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

#### **Critical Judgments**

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

#### **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 period 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.

#### *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.

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended September 30, 2012 and 2011  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

### *New standards and interpretations*

The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies that are relevant to these interim financial statements will be finalized when the annual IFRS financial statements are prepared for the year ending June 30, 2013.

At the date of authorization of these financial statements, the following Standards were effective:

Standards	Description of Changes	Effective Date
IAS 12	<i>Deferred Tax: Recovery of Underlying Assets</i> - The amendment concerned the determination of deferred tax on investment property measured at fair value.	Effective for annual periods beginning on or after July 1, 2012.
IAS 27	<i>Separate Financial Statements</i> -Accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity prepares separate financial statements.	Effective for annual periods beginning on or after July 1, 2012.

The adoption of the above standards and amendments are not expected to have a significant impact on the accounting policies applied.

In addition, the following Standards were issued but not yet effective at the date of authorization of these financial statements:

Standards	Description of Changes	Effective Date
IFRS 9	<i>Financial Instruments</i> – New Standards that is part of a three phase project to replace IAS 39 Financial Instruments: Recognition and Measurement.	Effective for annual periods beginning on or after January 1, 2015.
IFRS 10	<i>Consolidated Financial Statements</i> - Establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one of more other entities.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 11	<i>Joint Arrangements</i> - Provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangements, rather than its legal form.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 12	<i>Disclosure of Interests in Other Entities</i> - New Standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 13	<i>Fair Value Measurement</i> – New Standard to provide consistency among the IFRS that deal with fair value measurements.	Effective for annual periods beginning on or after January 1, 2013.

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended September 30, 2012 and 2011  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

### *New standards and interpretations*

Standards	Description of Changes	Effective Date
IAS 1	<i>Presentation of Financial Statements</i> – Amendments regarding presentation of items of other comprehensive income.	Effective for annual periods beginning on or after July 1, 2012.
IAS 28	<i>Investments in Associates and Joint Ventures</i> -Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	Effective for annual periods beginning on or after January 1, 2013.
IAS 32	<i>Presentation of financial instrument</i> – Amendment to clarify requirements for offsetting financial assets and financial liabilities.	Effective for annual periods beginning on or after January 1, 2014.

The impact of the initial application of the Standards listed above is not known or reasonably estimable at the time of authorization of these financial statements.

## 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	September 30, 2012	June 30, 2012	July 1, 2011
Bank deposits	\$ 118,345	\$ 196,702	\$ 81,513
Guaranteed investment certificate	12,400,000	13,709,000	15,419,641
	\$ 12,518,345	\$ 13,905,702	\$ 15,501,154

Cash equivalents consists of highly liquid Canadian dollar denominated guaranteed investment certificates (“GICs”), which are readily convertible into a known amount of cash with an insignificant risk of changes in value.

As at September 30, 2012, the GICs were earning an average annual fixed interest rate of 1.45%. The counter-party is a financial institution. The interest accrued on the GICs is included in receivables (Note 4).

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended September 30, 2012 and 2011  
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## 4. RECEIVABLES

	September 30, 2012	June 30, 2012	July 1, 2011
Harmonized Government Sales Tax credits	\$ 146,317	\$ 79,955	\$ 279,906
Interest accrued on GICs (Note 3)	85,122	43,413	112,378
Other receivables	–	–	85,316
	\$ 231,439	\$ 123,368	\$ 477,600

Other receivables as at July 1, 2011 primarily consisted of a refundable security deposit in the amount of \$85,000 posted with the Government of British Columbia in relation to the Akie and Kechika Regional properties and was returned to the Company during the 2012 fiscal year.

## 5. MARKETABLE SECURITIES

Marketable securities as at September 30, 2012 are summarized as follows:

	September 30, 2012			
	Number of securities	Fair value	Cost	Accumulated unrealized holding losses
OMN common shares	1,288,300	\$ 1,236,768	\$ 1,239,200	\$ (2,432)
ILC common shares	175,000	12,250	58,333	(46,083)
TNR common shares	1,519,500	167,145	177,275	(10,130)
		\$ 1,416,163	\$ 1,474,808	\$ (58,645)

During the three months ended September 30, 2012, the Company sold 355,500 shares of TNR Gold Corp. (“TNR”) at an average price of \$0.11 per share for net cash proceeds of \$39,483, and realized a pre-tax loss of \$1,992 on the sale of these securities.

During the three months ended September 30, 2012, the Company invested \$127,316 by purchasing 137,300 shares of Oracle Mining Corp. (“OMN”) at an average price of \$0.93 per share.

During the three months ended September 30, 2011, the Company sold 70,000 shares of International Lithium Corp. (“ILC”) at an average price of \$0.18 per share for net cash proceeds of \$12,591, and 290,000 ILC share purchase warrants at an average price of \$0.03 for net cash proceeds of \$9,515. The Company realized a pre-tax loss of \$73,727 on the sale of these securities.

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended September 30, 2012 and 2011  
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## 5. MARKETABLE SECURITIES (cont'd)

Marketable securities as at June 30, 2012 and 2011 are summarized as follows:

June 30, 2012				
	Number of securities	Fair value	Cost	Accumulated unrealized holding losses
OMN common shares	1,151,000	\$ 1,093,450	\$ 1,111,884	\$ (18,434)
ILC common shares	175,000	10,500	58,333	(47,833)
TNR common shares	1,875,000	150,000	218,750	(68,750)
		\$ 1,253,950	\$ 1,388,967	\$ (135,017)

July 1, 2011				
	Number of securities	Fair value	Cost	Accumulated unrealized holding losses
OMN common shares	248,500	\$ 310,625	\$ 518,453	\$ (207,828)
ILC common shares	400,000	90,000	133,333	(43,333)
ILC warrants	400,250	16,010	100,063	(84,053)
TNR common shares	1,875,000	140,625	218,750	(78,125)
		\$ 557,260	\$ 970,599	\$ (413,339)

## 6. OTHER ASSETS

Other assets comprise reclamation bonds of \$312,664 (June 30, 2011 – \$312,656; July 1, 2011 - \$309,000) 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.

## 7. TRADE PAYABLES AND ACCRUED LIABILITIES

	September 30, 2012	June 30, 2012	July 1, 2011
Trade payables	\$ 346,551	\$ 150,826	\$ 1,005,790
Accrued liabilities	29,008	84,259	183,234
	\$ 375,559	\$ 235,085	\$ 1,189,024

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended September 30, 2012 and 2011  
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## 8. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Computers	Office equipment and furniture	Office leasehold improvements	License <sup>(1)</sup>	Vehicle <sup>(1)</sup>	Camp equipment and fixtures <sup>(1)</sup>	Camp upgrades <sup>(1)</sup>	Total
<b>Cost:</b>								
At July 1, 2011	\$ 15,840	\$ 18,260	\$ 2,522	\$ 19,000	\$ 34,400	\$ 128,820	\$ 165,233	\$ <b>384,075</b>
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	<b>553,716</b>
Acquisition	3,413	–	–	–	–	–	129,164	132,577
At September 30, 2012	\$ 17,370	\$ 15,045	\$ 4,616	\$ 19,000	\$ 34,606	\$ 160,158	\$ 435,498	\$ <b>686,293</b>
<b>Accumulated depreciation:</b>								
At July 1, 2011	\$ 13,689	\$ 4,307	\$ 2,522	\$ 5,225	\$ 5,160	\$ 56,309	\$ 101,869	\$ <b>189,081</b>
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	<b>256,308</b>
Depreciation for the quarter	470	560	230	462	1,561	4,447	7,460	15,190
At September 30, 2012	\$ 12,525	\$ 5,272	\$ 691	\$ 16,137	\$ 15,524	\$ 82,802	\$ 138,547	\$ <b>271,498</b>
<b>Net book value:</b>								
At July 1, 2011	\$ 2,151	\$ 13,953	\$ –	\$ 13,775	\$ 29,240	\$ 72,511	\$ 63,364	\$ 194,994
At June 30, 2012	\$ 1,902	\$ 10,333	\$ 4,155	\$ 3,325	\$ 20,643	\$ 81,803	\$ 175,247	\$ 297,408
At September 30, 2012	\$ 4,845	\$ 9,773	\$ 3,925	\$ 2,863	\$ 19,082	\$ 77,356	\$ 296,951	\$ <b>414,795</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 \$13,930 for the three months ended September 30, 2012 has been capitalized to Exploration and evaluation assets. Depreciation of the remaining items of \$1,260 (2011 - \$1,036) has been expensed.

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## 9. 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.

The following table summarizes exploration and evaluation assets expenditures by property:

	Akie Property	Kechika Regional	Total
<b>Acquisition Costs:</b>			
Balance, July 1, 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
<b>Balance, September 30, 2012</b>	<b>\$ 24,175,329</b>	<b>\$ 330,434</b>	<b>\$ 24,505,763</b>



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

Summary of exploration and evaluation assets expenditures (cont'd):

	Akie Property	Kechika Regional	Total
<b>Deferred exploration costs:</b>			
Balance, July 1, 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, amortization	13,930	–	13,930
Camp operating	57,100	142,135	199,235
Geology	50,371	42,699	93,070
Underground development	21,849	–	21,849
Community consultations	100,000	–	100,000
Environmental studies	114,317	–	114,317
Airborne survey	72,529	170,321	242,850
<b>Balance, September 30, 2012</b>	<b>34,519,047</b>	<b>3,404,442</b>	<b>37,923,489</b>
Total June 30, 2011	\$ 54,827,489	\$ 3,404,442	\$ 57,696,017
Total June 30, 2012	\$ 58,264,280	\$ 3,379,630	\$ 61,643,910
<b>Total September 30, 2012</b>	<b>\$ 58,694,376</b>	<b>\$ 3,734,876</b>	<b>\$ 62,429,252</b>

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## 10. FLOW-THROUGH PREMIUM LIABILITY

	September 30, 2012	June 30, 2012	July 1, 2011
Flow-through premium liability	\$ –	\$ –	\$ 127,305

The flow-through premium liability of \$127,305 arose in connection with the flow-through private placement of the Company completed during fiscal 2011. The recorded flow-through premium liability of \$242,250 was based on an estimated premium of \$0.05 per a flow-through share issued. This balance does not represent a cash liability to the Company. This balance is amortized to the statement of operations and comprehensive loss pro-rata with the amount of qualifying flow-through expenditures applicable to the flow-through shares that have been renounced to the flow-through investors.

As at June 30, 2012, the Company incurred all eligible resource expenditures and filed regulatory renunciation forms. Accordingly, the Company reversed the flow-through premium liability to income as a deferred income tax recovery.

## 11. CAPITAL STOCK AND RESERVES

### (a) Authorized

Unlimited common shares without par value

### (b) Issued and outstanding

During the three months ended September 30, 2012:

- (i) the Company received TSXV approval for its new 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;
- (ii) the Company repurchased under the NCIB 355,000 of its common shares for a total consideration of \$131,963 at a weighted average price of \$0.37 per share.
- (iii) 1,021,500 common shares repurchased under the NCIB, of which 666,500 were repurchased in fiscal 2012, were cancelled and returned to the Company's treasury. Upon the cancellation, \$669,530 was recorded as a reduction to capital stock for the assigned value of the shares, and \$223,422 was allocated to reserves.
- (iv) 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 share capital was recorded on the exercise of these options. This amount constitutes the fair value of options recorded at the original grant date and on subsequent re-pricing.

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

### (b) Issued and outstanding (cont'd)

During the year ended June 30, 2012:

- (v) 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;
- (vi) 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.
- (vii) 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.
- (viii) 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 share capital was recorded on the exercise of these options. This amount constitutes the fair value of options recorded at the original grant date and on subsequent re-pricing.

### (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.

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

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

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

	Options Outstanding	Weighted Average Exercise Price
Balance, July 1, 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	(50,000)	\$ 1.15
Outstanding, September 30, 2012	7,575,000	\$ 0.50
Exercisable, September 30, 2012	7,230,000	\$ 0.50

Share options outstanding and exercisable at September 30, 2012 are summarized as follows:

Number of Options	Exercise Price	Expiry Date	Number of Options Exercisable
130,000	\$0.70	November 14, 2016	130,000
70,000	\$1.30	November 28, 2012 <sup>(1)</sup>	70,000
295,000	\$1.05	February 11, 2018	295,000
300,000	\$0.25	February 11, 2018	300,000
50,000	\$0.25	April 1, 2013	50,000
75,000	\$1.05	April 29, 2013	75,000
175,000	\$0.25	October 21, 2013	175,000
890,000	\$0.25	October 31, 2018	890,000
700,000	\$0.40	September 22, 2014	700,000
360,000	\$0.40	October 9, 2019	360,000
802,500	\$0.41	October 13, 2016	782,500
100,000	\$0.50	November 16, 2012 <sup>(1)</sup>	100,000
100,000	\$0.70	November 16, 2012 <sup>(1)</sup>	100,000
1,215,000	\$0.63	January 15, 2020	1,215,000
300,000	\$0.50	May 10, 2015	300,000
432,500	\$0.53	November 8, 2020	432,500
1,430,000	\$0.55	November 24, 2020	1,105,000
150,000	\$0.60	January 7, 2015	150,000
7,575,000			7,230,000

(1) Expired subsequent to the period ended September 30, 2012

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

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

During the three months ended September 30, 2012, under the fair value based method a total of \$16,619 (2011 – \$59,686) in share-based compensation expense was recorded in the statement of operations and comprehensive loss for vested share options previously granted to directors, officers, employees and consultants of the Company. No share options were granted during the three months ended September 30, 2012 and the year ended June 30, 2012.

The fair value of stock options used to calculate compensation expense for options vested during the year has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Three months ended September 30,	2012	2011
Risk free interest rate	2.88%	2.81%
Expected dividend yield	0%	0%
Stock price volatility	106%	102%
Expected life of options	9.82 years	9.04 years
Weighted average fair value of options	\$ 0.51	\$ 0.46
Forfeiture	0%	0%

### (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
Expired	(2,422,500)	\$0.80
Balance, September 30, 2012	15,693,112	\$0.775

The following table summarizes the warrants outstanding at September 30, 2012:

Number of Warrants	Exercise Price	Expiry Date
15,693,112 <sup>(1)</sup>	\$ 0.775	November 16, 2012
15,693,112		

(1) Expired subsequent to the period ended September 30, 2012.

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

### (e) Reserves

	Options and agent warrants	Finance warrants	Treasury shares	Total
Balance, July 1, 2011	\$ 8,781,518	\$ 1,993,026	\$ 376,356	\$ <b>11,150,900</b>
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	<b>11,599,747</b>
Exercise of options	(148,123)	-	-	(148,123)
Normal course issuer bid	-	-	105,213	105,213
Treasury shares cancelled	-	-	118,209	118,209
Share-based compensation	16,619	-	-	16,619
Balance, September 30, 2012	\$ 8,642,400	\$ 1,993,026	\$ 1,056,239	\$ <b>11,691,665</b>

## 12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Three months ended September 30,	2012	2011
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income tax	\$ -	\$ 74,434

Significant non-cash transactions for the three months ended September 30, 2012 included:

- exploration and evaluation expenditures of \$269,207 ( June 30, 2012 -\$118,706; September 30, 2011 - \$812,686) in accounts payable;
- depreciation of camp equipment and upgrades of \$13,930 (2011 - \$Nil) included in exploration and evaluation assets;
- an allocation of \$148,123 (2011 - \$Nil) from reserves to capital stock upon the exercise of stock options;
- unrealized gain of \$76,372 (2011 - a loss of \$90,440) on marketable securities due to changes in fair values, which was allocated to accumulated other comprehensive income (loss).

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## 13. RELATED PARTIES TRANSACTIONS

The remuneration of directors and executive officers during the three months ended September 30, 2012 and 2011 were as follows:

Three months ended September 30,	2012	2011
Consulting fees (ii) \$	3,750	\$ 3,750
Directors fees (iv)	12,500	12,500
Exploration and evaluation expenditures (geological consulting) (v)	35,004	33,336
Management and administration (i)	88,500	88,500
Share-based payments (vi)	14,321	47,335
Total \$	154,075	\$ 185,421

- (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 three months ended September 30, 2012, the Company paid \$73,500 (2011 – \$73,500) for management fees and \$15,000 (2011 – \$15,000) for administrative fees to VCC.

- (ii) The Company paid \$3,750 (2011 - \$3,750) for consulting fees to a company controlled by a director;
- (iii) The Company paid \$12,500 (2011 - \$12,500) in directors fees to five directors of the Company;
- (iv) The Company paid or accrued exploration and evaluation costs of \$35,004 (2011 - \$33,336) to a company owned by an officer of the Company.
- (v) Share-based payments are the fair value of options that have been granted to directors and executive officers.

As at September 30, 2012, \$15,458 (June 30, 2012 - \$6,815; July 1, 2011 - \$Nil) was due to directors and officers of the Company for consulting fees and reimbursement of business expenses. The amounts were repaid subsequent to September 30, 2012.

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## 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. To maintain or adjust capital structure, management may invest its excess cash in interest bearing accounts of Canadian chartered banks.

There were no changes in the Company's approach to capital management during the year ended June 30, 2012. The Company is not subject to externally imposed capital requirements.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments at September 30, 2012 are as follows:

	<i>Loans &amp; receivables</i>	<i>Available for sale</i>	<i>Fair Value through Profit or Loss ("FVTPL")</i>	<i>Other financial liabilities</i>
<b>Financial assets</b>				
Cash and cash equivalents	\$ –	\$ –	\$ 12,518,345	\$ –
Interest receivable	85,122	–	–	–
Marketable securities	–	1,416,163	–	–
<b>Financial liabilities</b>				
Trade payables	–	–	–	375,559
Due to related parties	–	–	–	15,458
	\$ 85,122	\$ 1,416,163	\$ 12,518,345	\$ 391,017

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



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

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.

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 carrying value of receivables, 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 \$118,345 and GICs classified as cash equivalents of \$12,400,000. GICs earn a fixed annual interest rate of 1.44% and are redeemable at any point of time.

As all bank accounts and GICs 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, mining exploration tax credits and interest accrued on GIC investments.

### *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, 2012, the Company was holding the total of \$12,518,345 in cash and cash equivalents to settle its current liabilities of \$391,017. Management believes it has sufficient funds to meet its current obligations as they become due and to fund its exploration projects and administrative costs.

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

### *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 accounts earn interest income at variable rates. The Company mainly invests in fixed interest rates short-term investments that are considered to be low risk. As at September 30, 2012, all of the Company's GIC investments were earning fixed annual interest rates.

#### *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.

## 16. RESTATEMENT

The consolidated interim financial statements of the Company for the three months ended September 30, 2011, have been restated to adjust for the following:

### *(i) Flow-through shares*

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

- (a) October 31, 2008 - the Company allocated \$1,179,567 or \$0.15 per share to a flow-through share premium, which was recognized as a liability, and \$5,897,833 or \$0.75 per share to capital stock. As of September 30, 2011, the Company fully amortized the liability based on the incurred eligible resource expenditures, which were renounced to the investors by filing regulatory forms;

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## 16. RESTATEMENT (cont'd)

- (b) The Company reversed deferred tax liability of \$1,411,994 recognized under Canadian GAAP in connection with the October 31, 2008 flow-through private placement and adjusted share capital and accumulated deficit accordingly;
- (c) February 28, 2011 - the Company allocated \$242,250 or \$0.05 per share to a flow-through share premium, which was recognized as a liability, and \$3,488,400 or \$0.72 per share to capital stock. The Company determined that the flow-through tax premium liability should have been amortized to \$127,305 at June 30, 2011 and fully reversed at September 30, 2011, after incurring the required eligible resource expenditures and filing official renunciation forms.

Impact on Consolidated Financial Statements:

	September 30, 2011
Adjustment to Capital stock (a)	\$ (1,179,567)
Adjustment to Deficit ( Deferred income tax recovery ) (a)	1,179,565
Adjustment to Capital stock (c)	(242,250)
Adjustment to Deferred income tax recovery (c)	127,305
Adjustment to Deficit ( Deferred income tax recovery ) (c)	114,945
Adjustment to Capital stock (b)	1,840,124
Adjustment to Deferred income tax liability (b)	(1,411,994)
Adjustment to Deficit ( Deferred income tax recovery ) (b)	(428,130)

### (ii) Warrants

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

Impact on Consolidated Financial Statements:

	September 30, 2011
Adjustment to Capital Stock	\$ (1,993,026)
Adjustment to Equity Reserves	1,993,026

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## 16. RESTATEMENT (cont'd)

### *(iii) Camp Equipment (reclassification)*

The Company reclassified the net book value of camp equipment and upgrades from Exploration and Evaluation Assets to Equipment and Leasehold improvements. Depreciation taken on the equipment is recorded as an Exploration and Evaluation assets expenditures.

Impact on Consolidated Financial Statements:

	September 30, 2011
Adjustment to Exploration and Evaluation Assets	\$ (243,398)
Adjustment to Equipment and Leasehold Improvements	243,398

### *(iv) Treasury shares*

The Company reclassified its common shares that were repurchased through the NCIB and not cancelled at the end of reporting period to treasury shares recorded at cost. Treasury shares are shown as a deduction from capital stock until cancelled.

Impact on Consolidated Financial Statements:

	September 30, 2011
Adjustment to Capital Stock	\$ 62,067
Adjustment to Reserves	(62,067)

### *(v) Initial recognition of an asset or liability on acquisition*

Effective February 23, 2007, the Company the Company acquired an aggregate of 53,533,615 common shares of Ecstall. The acquisition of Ecstall is accounted for as an asset purchase under IFRS and does not trigger the IAS 12 recognition criteria for deferred tax liability or asset. Under IFRS, the deferred tax liability would not be recognized, either on acquisition or subsequently.

Impact on Consolidated Financial Statements:

	September 30, 2011
Adjustment to Deferred income tax liability	\$ (3,196,006)
Adjustment to Deficit	3,196,006

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## 16. RESTATEMENT (cont'd)

Condensed Consolidated Interim Statement of Financial Position as at September 30, 2011

September 30, 2011	As previously reported	Adjustments		Restated
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 12,248,904	\$ –		\$ 12,248,904
Receivables	580,861	–		580,861
METC recoverable	1,611,149	–		1,611,149
Short-term investments	4,609,000	–		4,609,000
Prepaid expenses	69,070	–		69,070
Marketable securities	414,280	–		414,280
	19,533,264	–		19,533,264
Other assets				
Equipment and leasehold improvements	19,684	243,398	(iii)	263,082
Long-term prepaid expenses	192,145	–		192,145
Exploration and evaluation assets	60,589,843	(243,398)	(iii)	60,346,445
	\$ 80,647,585	\$ –		\$ 80,647,585
<b>Liabilities and Equity</b>				
Current liabilities				
Trade payables and accrued liabilities	\$ 959,663	\$ –		\$ 959,663
	959,663	–		959,663
Deferred income tax liability	6,021,000	(4,608,000)	(i),(v)	1,413,000
Equity				
Capital stock	93,106,606	(1,512,651)	(i)(ii)(iv)	91,593,955
Reserves	9,495,102	1,930,958	(ii)(v)	11,426,060
Deficit	(28,431,007)	4,189,693	(i)(v)	(24,241,314)
Accumulated other comprehensive income	(503,779)	–		(503,779)
	73,666,922	4,608,000		78,274,922
	\$ 80,647,585	\$ –		\$ 80,647,585

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended September 30, 2012 and 2011  
 (Expressed in Canadian Dollars, unless otherwise stated)  
 (Unaudited, prepared by management)

## 16. RESTATEMENT (cont'd)

### Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

For the three months ended September 30, 2011	As previously reported	Adjustments	IFRS (restated)
<b>ADMINISTRATION EXPENSES</b>			
Administration	\$ 15,000	\$ –	\$ 15,000
Consulting	56,250	–	56,250
Depreciation	1,036	–	1,036
Directors' fees	12,500	–	12,500
Interest and bank charges	756	–	756
Investor relations	8,640	–	8,640
Management fees	73,500	–	73,500
Office and miscellaneous	21,225	–	21,225
Professional fees	5,000	–	5,000
Regulatory fees	2,500	–	2,500
Rent	15,000	–	15,000
Share-based compensation	59,686	–	59,686
Transfer agent fees	1,396	–	1,396
Travel and promotion	30,350	–	30,350
Wages and benefits	94,034	–	94,034
Loss before other items	(396,873)	–	(396,873)
Interest and other income	68,054		68,054
Loss on sale of marketable securities	(73,727)	–	(73,727)
	(5,673)	–	(5,673)
<b>Loss before income taxes</b>	(402,546)	–	(402,546)
Deferred income tax recovery	–	127,305	(i) 127,305
<b>Net loss for the period</b>	(402,546)	127,305	(275,241)
Adjustment for change in fair value of marketable securities	(90,440)	–	(90,440)
<b>Comprehensive loss for the period</b>	(492,986)	127,305	(365,681)

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended September 30, 2012 and 2011  
 (Expressed in Canadian Dollars, unless otherwise stated)  
 (Unaudited, prepared by management)

## 16. RESTATEMENT (cont'd)

### Condensed Consolidated Interim Statements of Cash Flows

For the three months ended September 30, 2011	As previously reported	Adjustments	IFRS (restated)
<b>Cash used in operating:</b>			
Net loss for the year	\$ (402,546)	\$ (127,305)	\$ (275,241)
Items not affecting cash:			
Depreciation	1,036	–	1,036
Share-based compensation	59,686	–	59,686
Loss on sale of marketable securities	73,727	–	73,727
Deferred income tax recovery	–	127,305	127,305
Changes in non-cash working capital items:			
Receivables	(103,261)	–	(103,261)
Prepaid expenses	309,768	–	309,768
Trade payables and accrued liabilities	(242,082)	–	(242,082)
	(303,672)	–	(303,672)
<b>Cash used in operating:</b>			
Equipment and leasehold improvements	(4,616)	–	(4,616)
Marketable securities costs	(21,187)	–	(21,187)
Exploration and evaluation asset costs	(2,702,215)	–	(2,702,215)
Other assets	(3,649)	–	(3,649)
	(2,731,667)	–	(2,731,667)
<b>Cash used in financing:</b>			
Common shares repurchased	(216,911)	–	(216,911)
<b>Change in cash and cash equivalents</b>	(3,252,250)	–	(3,252,250)
<b>Cash and cash equivalents, beginning of period</b>	15,501,154	–	15,501,154
<b>Cash and cash equivalents, end of period</b>	\$ 12,248,904	\$ –	\$ 12,248,904

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2012 and 2011

(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited, prepared by management)

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## 17. SUBSEQUENT EVENTS

Subsequent to the period ended September 30, 2012, the Company announced a flow-through private placement of up to \$3,000,000 at a price of \$0.40 per unit. 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. A finder's fee of 4% will be paid in cash.

The proceeds are to be used for further exploration of the Akie SEDEX zinc-lead property and to explore the Kechika Regional project.

On November 28, 2012, the Company received the TSX Venture Exchange acceptance with respect to the closing of its non-brokered private placement.

Subsequent to the period ended September 30, 2012, the Company repurchased 306,500 of its common shares for a total consideration of \$115,261 at a weighted average price of \$0.38 per share under the NCIB.