

# **CANADA ZINC METALS CORP.**

Condensed Consolidated Interim Financial Statements

Three months ended September 30, 2011 and 2010

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

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# CANADA ZINC METALS CORP.

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Notice of no Auditor Review

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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.

December 29, 2011

# CANADA ZINC METALS CORP.

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

	Notes	September 30, 2011	June 30, 2011	July 1, 2010
<b>Assets</b>				
Current assets				
Cash and cash equivalents	3	\$ 12,248,904	\$ 15,501,154	\$ 9,281,997
Receivables	4	580,861	477,600	67,972
METC recoverable	10	1,611,149	1,611,149	921,063
Short-term investments	5	4,609,000	4,609,000	–
Prepaid expenses		69,070	378,838	373,081
Marketable securities	6	414,280	557,260	450,000
		<b>19,533,264</b>	23,135,001	11,094,113
Other assets				
Other assets	7	312,649	309,000	89,000
Equipment and leasehold improvements	9	19,684	16,104	3,973
Long-term prepaid expenses		192,145	192,145	75,000
Resource properties	10	60,589,843	57,874,907	52,179,664
		<b>\$ 80,647,585</b>	\$ 81,527,157	\$ 63,441,750
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities				
Trade payables and accrued liabilities	8	\$ 959,663	\$ 1,189,024	\$ 1,295,366
Due to related parties		–	–	61,532
		<b>959,663</b>	1,189,024	1,356,898
Future income taxes		<b>6,021,000</b>	6,021,000	7,040,397
Shareholders' Equity				
Share capital	11	93,106,606	93,486,827	72,370,651
Equity reserves		9,495,102	9,272,106	8,237,431
Deficit		(28,431,007)	(28,028,461)	(25,638,627)
Accumulated other comprehensive income		(503,779)	(413,339)	75,000
		<b>73,666,922</b>	74,317,133	55,044,455
		<b>\$ 80,647,585</b>	\$ 81,527,157	\$ 63,441,750

Nature and continuance of operations (Note 1)

Subsequent events (Note 15)

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

# CANADA ZINC METALS CORP.

## Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian Dollars – Unaudited)

	Share Capital		Equity Reserves	Deficit	Accumulated other comprehensive income	Total Equity
	Number of Shares	Amount				
<b>Balance, July 1, 2010</b>	<b>102,121,414</b>	<b>\$ 72,370,651</b>	<b>\$ 8,237,431</b>	<b>\$ (25,638,627)</b>	<b>\$ 75,000</b>	<b>\$ 55,044,455</b>
Net loss for the period	–	–	–	(337,856)	–	(337,856)
Normal Course Issuer Bid	(521,500)	(369,523)	134,535	–	–	(234,988)
Share based compensation	–	–	62,433	–	–	62,433
Exercise of options	75,000	30,603	(11,853)	–	–	18,750
Change in fair value of securities	–	–	–	–	(93,750)	(93,750)
<b>Balance, September 30, 2010</b>	<b>101,674,914</b>	<b>72,031,731</b>	<b>8,422,546</b>	<b>(25,976,483)</b>	<b>(18,750)</b>	<b>54,459,044</b>
Net loss for the period	–	–	–	(1,301,974)	–	(1,301,974)
Private placement	31,386,224	18,000,000	–	–	–	18,000,000
Share issuance costs	–	(47,000)	–	–	–	(47,000)
Normal Course Issuer Bid	(271,000)	(190,277)	58,240	–	–	(132,037)
Share based compensation	–	–	696,382	–	–	696,382
Exercise of options	415,000	217,949	(103,699)	–	–	114,250
Change in fair value of securities	–	–	–	–	(3,955)	(3,955)
<b>Balance, December 31, 2010</b>	<b>132,205,138</b>	<b>90,012,403</b>	<b>9,073,469</b>	<b>(27,278,457)</b>	<b>(22,705)</b>	<b>71,784,710</b>
Net loss for the period	–	–	–	(834,619)	–	(834,619)
Private placement	4,845,000	3,730,650	–	–	–	3,730,650
Share issuance costs	–	(178,116)	–	–	–	(178,116)
Share based compensation	–	–	152,272	–	–	152,272
Exercise of options	405,000	245,298	(126,747)	–	–	118,551
Change in fair value of securities	–	–	–	–	(105,023)	(105,023)
<b>Balance, March 31, 2011</b>	<b>138,455,138</b>	<b>93,810,235</b>	<b>9,098,994</b>	<b>(28,113,076)</b>	<b>(127,728)</b>	<b>74,668,425</b>
Net loss for the period	–	–	–	(878,478)	–	(878,478)
Income tax recovery	–	56,304	–	963,093	–	1,019,397
Share issuance costs	–	(100)	–	–	–	(100)
Normal Course Issuer Bid	(560,000)	(379,612)	114,233	–	–	(265,379)
Share based compensation	–	–	58,879	–	–	58,879
Change in fair value of securities	–	–	–	–	(285,611)	(285,611)
<b>Balance, June 30, 2011</b>	<b>137,895,138</b>	<b>93,486,827</b>	<b>9,272,106</b>	<b>(28,028,461)</b>	<b>(413,339)</b>	<b>74,317,133</b>
Net loss for the period	–	–	–	(402,546)	–	(402,546)
Normal Course Issuer Bid	(562,000)	(380,221)	163,310	–	–	(216,911)
Share based compensation	–	–	59,686	–	–	59,686
Change in fair value of securities	–	–	–	–	(90,440)	(90,440)
<b>Balance, September 30, 2011</b>	<b>137,333,138</b>	<b>\$ 93,106,606</b>	<b>\$ 9,495,102</b>	<b>\$ (28,431,007)</b>	<b>\$ (503,779)</b>	<b>\$ 73,666,922</b>

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

# CANADA ZINC METALS CORP.

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

		Three months ended September 30,	
	Notes	2011	2010
Expenses:			
Administration	13	\$ 15,000	\$ 15,000
Amortization	9	1,036	458
Consulting		56,250	110,275
Directors' fees	13	12,500	–
Interest and bank charges		756	862
Investor relations		8,640	15,958
Management fees	13	73,500	37,500
Office and miscellaneous		21,225	12,036
Professional fees		5,000	33,000
Regulatory fees		2,500	5,695
Rent		15,000	15,077
Share-based compensation	11	59,686	62,433
Transfer agent fees		1,396	1,548
Travel and promotion		30,350	8,717
Wages and benefits		94,034	89,122
Loss before other item		(396,873)	(407,681)
Other item:			
Interest Income		68,054	69,825
Loss on sale of marketable securities	6	(73,727)	–
		(5,673)	69,825
Loss for the period before comprehensive loss		(402,546)	(337,856)
Adjustment for change in fair value of marketable securities		(90,440)	(93,750)
Comprehensive loss for the period		\$ (492,986)	\$ (431,606)
Loss per common share			
Basic and diluted		\$ (0.003)	\$ (0.003)
Weighted average number of common shares outstanding			
Basic and diluted		137,733,763	101,901,691

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)

	Notes	Three months ended September 30,	
		2011	2010
Cash used in:			
Operating:			
Net loss and comprehensive loss		\$ (402,546)	\$ (337,856)
Item not involving cash:			
Amortization	9	1,036	458
Share-based compensation	11	59,686	62,433
Loss on sale of marketable securities	6	73,727	–
Changes in non-cash working capital:			
Receivables		(103,261)	(305,563)
METC recoverable		–	921,063
Prepaid expenses		309,768	260,081
Long term prepaid expenses		–	(117,145)
Trade payables and accrued liabilities		(242,082)	(5,228)
Due to related parties		–	(659,307)
		<b>(303,672)</b>	<b>(181,064)</b>
Investing:			
Equipment and leasehold improvements	9	(4,616)	(932)
Marketable securities	6	(21,187)	–
Resource properties		(2,702,215)	(3,442,889)
Reclamation bond		(3,649)	–
		<b>(2,731,667)</b>	<b>(3,443,821)</b>
Financing:			
Issuance of capital stock		–	18,750
Common shares repurchased	11	(216,911)	(234,988)
		<b>(216,911)</b>	<b>(216,238)</b>
Change in cash and cash equivalents		<b>(3,252,250)</b>	<b>(3,841,123)</b>
Cash and cash equivalents, beginning		<b>15,501,154</b>	<b>9,281,997</b>
Cash and cash equivalents, ending		<b>\$ 12,248,904</b>	<b>\$ 5,440,874</b>
Cash		<b>\$ 77,404</b>	<b>\$ 96,874</b>
Cash equivalents		<b>12,171,500</b>	<b>5,344,000</b>
		<b>\$ 12,248,904</b>	<b>\$ 5,440,874</b>

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  
(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)  
Three months ended September 30, 2011 and 2010

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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 development of resource properties in Canada, and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and upon future profitable production.

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

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

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

The Company has never paid dividends.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

The interim financial statements were authorized for issue on December 29, 2011 by the directors of the Company.

### **Statement of compliance and conversion to International Financial Reporting Standards (“IFRS”)**

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

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



# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)  
Three months ended September 30, 2011 and 2010

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

Historical results and balances have been restated under IFRS.

This condensed consolidated interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the Company's audited GAAP annual financial statements for the year ended June 30, 2011 and in consideration of the disclosures regarding the transition from Canadian GAAP to IFRS included in Note 14. Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS are not included in these interim financial statements nor is it in the Company's most current annual GAAP financial statements.

### *Basis of presentation*

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

### *Principles of consolidation*

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

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

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

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

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

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)  
Three months ended September 30, 2011 and 2010

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

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

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

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

### *Financial instruments*

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

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

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

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

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

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

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

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

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

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

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

Objective evidence of impairment could include the following:

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

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

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

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

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

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)  
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## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

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

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

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

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

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

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

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

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

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

### *Cash and cash equivalents*

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

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)  
Three months ended September 30, 2011 and 2010

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

### *Equipment and Leasehold Improvements*

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

Computer	–	30-55%	declining balance method
Furniture	–	20%	declining balance method
Office Equipment	–	20%	declining balance method
Leasehold improvements	–	5 years	straight-line method

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

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

### *Resource properties*

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

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

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

# 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)

### *METC recoverable*

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

### *Impairment of long-lived assets*

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

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

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

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

### *Flow-through shares*

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as recovery of income taxes in the statement of loss and deficit.

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)  
Three months ended September 30, 2011 and 2010

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

### *Provisions*

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

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

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

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

### *Share-based payments*

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

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

### *Income taxes*

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

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

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

### *Income taxes (cont'd)*

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

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

### *Loss per share*

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

## 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	September 30, 2011	June 30, 2011
Bank deposits	\$ 77,404	\$ 81,513
Guaranteed investment certificates	12,171,500	15,419,641
	<u>\$ 12,248,904</u>	<u>\$ 15,501,154</u>

Cash equivalents consists of highly liquid Canadian dollar denominated guaranteed investment certificates (“GICs”) with a remaining term to maturity at the point of purchase of ninety days or less. As at September 30, 2011, the GICs were earning an average annual interest of approximately 1.33% at variable and fixed rates, mature from November 11, 2011 to March 12, 2012, and allow for early redemption after the first 30 days of investment. The counter-party is a financial institution.

As at September 30, 2011, the GICs accrued \$160,829 (June 30, 2011 - \$112,378) in interest receivable. This amount is included in receivables (Note 4).



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## 4. RECEIVABLES

	September 30, 2011	June 30, 2011
Harmonized Sales Tax credits	\$ 420,032	\$ 279,906
Interest accrued on GICs (Note 3)	160,829	112,378
Other receivables	-	85,316
	<u>\$ 580,861</u>	<u>\$ 477,600</u>

## 5. SHORT-TERM INVESTMENTS

Short-term investments consist of two highly liquid Canadian dollar denominated guaranteed investment certificates with terms to maturity greater than ninety days, but not more than one year, all of which are classified as available-for-sale. The counter-party is a financial institution. At September 30, 2011, the instruments were yielding an average fixed annual interest rate of 1.8% maturing in February 2012. The fair market value of the Company's short-term investments approximates its carrying value at the balance sheet date.

## 6. MARKETABLE SECURITIES

	September 30, 2011		
	Fair value	Cost	Accumulated unrealized holding gains (losses)
Oracle Mining Corp. shares	\$ 261,625	\$ 561,746	\$ (300,121)
International Lithium Corp. shares	37,950	110,000	(72,050)
International Lithium Corp. warrants	2,205	27,563	(25,358)
TNR Gold Corp. shares	112,500	218,750	(106,250)
	<u>\$ 414,280</u>	<u>\$ 918,059</u>	<u>\$ (503,779)</u>

# CANADA ZINC METALS CORP.

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## 6. MARKETABLE SECURITIES (cont'd)

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

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.

## 7. OTHER ASSETS

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

## 8. TRADE PAYABLES AND ACCRUED LIABILITIES

		September 30, 2011	June 30, 2011
Trade payables	\$	547,688	\$1,005,790
Accrued liabilities		411,975	183,234
	\$	959,663	\$1,189,024

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## 9. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Computers	Office equipment and furniture	Office leasehold improvements	Total
<b>Cost:</b>				
At July 1, 2010	\$ 14,909	\$ 4,026	\$ 2,522	\$ 21,457
Acquisition	931	14,234	–	15,165
At June 30, 2011	15,840	18,260	2,522	<b>36,622</b>
Acquisition	–	–	4,616	4,616
Disposal	(3,613)	–	(2,522)	(6,135)
At September 30, 2011	12,227	18,260	4,616	<b>35,103</b>
<b>Amortization:</b>				
At July 1, 2010	12,574	2,598	2,312	17,484
Amortization	1,115	1,709	210	3,034
At June 30, 2011	13,689	4,307	2,522	20,518
Amortization	218	703	115	1,036
Eliminated on disposal	(3,613)	–	(2,522)	(6,135)
At September 30, 2011	10,294	5,010	115	<b>15,419</b>
<b>Net book value:</b>				
At July 1, 2010	\$ 2,335	\$ 1,428	\$ 210	\$ 3,973
At June 30, 2011	\$ 2,151	\$ 13,953	\$ –	\$ 16,104
At September 30, 2011	\$ 1,933	\$ 13,250	\$ 4,501	<b>\$ 19,684</b>

## 10. RESOURCE PROPERTIES

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

### Akie Property, British Columbia

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

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## 10. RESOURCE PROPERTIES (cont'd)

### Kechika Regional, British Columbia

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

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

### DA Property, Northwest Territories

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

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

The following table summarizes resource property expenses by property:

	Akie Property	Kechika Regional	DA	Total
<b>Acquisition Costs:</b>				
Balance, July 1, 2010	\$ 24,175,329	\$ 328,432	\$ 71,535	\$ 24,575,296
Additions	–	348	–	348
Write-off	–	–	(71,535)	(71,535)
Balance, June 30, 2011 and September 30, 2011	\$ 24,175,329	\$ 328,780	–	\$ 24,504,109

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## 10. RESOURCE PROPERTIES (cont'd)

	Akie Property	Kechika Regional	DA	Total
<b>Deferred Exploration Costs:</b>				
Balance, July 1, 2010	\$ 26,281,810	\$ 1,172,533	\$ 150,025	\$ 27,604,368
Surface drilling program:				
Camp equipment, net	102,738	–	–	102,738
Camp operating	180,951	–	–	180,951
Drilling	4,838,253	15,033	–	4,853,286
Geology	182,085	16,193	–	198,278
Work assessment fees	72,336	18,284	–	90,620
Total surface drilling	5,376,363	49,510	–	5,425,873
Geotechnical program:				
Camp operating	631,852	–	–	631,852
Trail construction	314,953	–	–	314,953
Total geotechnical program	600,177	–	–	600,177
Community consultations	1,546,982	–	–	1,546,982
Environmental studies	210,000	–	–	210,000
Underground engineering	236,940	–	–	236,940
Project assessment	92,227	–	–	92,227
Metallurgical analysis	8,682	–	–	8,682
Metallurgical analysis	6,900	–	–	6,900
Less:				
Write-off	–	–	(150,025)	(150,025)
METC (2009)	(1,611,149)	–	–	(1,611,149)
Balance, June 30, 2011	32,148,755	1,222,043	–	33,370,798
Surface drilling program:				
Camp equipment, net	84,173	–	–	84,173
Camp operating	51,031	59,217	–	110,248
Drilling	1,525,227	132,190	–	1,657,417
Geology	42,986	192,933	–	235,919
Total surface drilling	1,703,417	384,340	–	2,087,757
Underground development:				
Engineering	96,895	–	–	96,895
Trail construction	377,736	–	–	377,736
Total underground development	474,631	–	–	474,631
Geotechnical program	18,143	–	–	18,143
Environmental studies	95,646	–	–	95,646
Project assessment	32,224	–	–	32,224
Metallurgical analysis	6,535	–	–	6,535
<b>Balance, September 30, 2011</b>	<b>34,479,351</b>	<b>1,606,383</b>	<b>–</b>	<b>36,085,734</b>
<b>Total</b>	<b>\$ 58,654,680</b>	<b>\$ 1,935,163</b>	<b>–</b>	<b>\$ 60,589,843</b>

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## 10. RESOURCE PROPERTIES (cont'd)

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.

Subsequent to the period ended September 30, 2011, the Company received the METC refund of \$1,611,149 for its fiscal 2009 application.

## 11. SHARE CAPITAL

### (a) Authorized

Unlimited common shares without par value

### (b) Issued and outstanding

During the three months ended September 30, 2011:

- (i) the Company received TSX Venture Exchange (“TSXV”) approval to extend a normal course issuer bid (“NCIB”) to purchase at market price up to 6,922,765 common shares, being approximately 5% of the Company’s issued and outstanding common shares through the facilities of the TSXV. The new bid commenced on August 1, 2011 and will stay open for 12 months;
- (ii) the Company repurchased 562,000 of its common shares for a total consideration of \$216,911 at a weighted average price of \$0.39 per share under the NCIB, of which \$380,221 was recorded as a reduction to capital stock for the assigned value of the shares, and \$163,310 was allocated to contributed surplus.

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

- (iii) a total of 916,500 common shares, of which 560,000 were repurchased during fiscal 2011, were cancelled and returned to the Company’s treasury.

During the year ended June 30, 2011:

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

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## 11. SHARE CAPITAL (cont'd)

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

- (ii) the Company completed a non-brokered flow-through private placement of 4,845,000 units at a price of \$0.77 per unit for gross proceeds of \$3,730,650. Each unit consists of one flow-through common share and one-half share purchase warrant of the Company. Each whole warrant will entitle the holder to purchase one additional common share at a price of \$0.95 for a period of 18 months from closing.
- (iii) the Company paid cash share issue costs of \$225,216 (\$168,912, net of tax effects) in connection with the private placements in (i) and (ii).
- (iv) an aggregate of 895,000 share options were exercised at a weighted average price of \$0.28 per share and 895,000 common shares were issued for total proceeds of \$251,550. In addition, a reallocation of \$242,300 from contributed surplus to share capital was recorded on the exercise of these options.
- (v) The Company repurchased 1,352,500 of its common shares for a total consideration of \$632,403 at a weighted average price of \$0.47 per share under the NCIB, of which \$939,412 was recorded as a reduction to capital stock for the assigned value of the shares, and \$307,009 was allocated to equity reserves.

### (c) Share options

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

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

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

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## 11. SHARE CAPITAL (cont'd)

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

	September 30, 2011		June 30, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	8,240,500	\$ 0.51	7,225,500	\$ 0.47
Granted	–	–	2,020,000	0.55
Exercised	–	–	(895,000)	(0.28)
Expired	(280,500)	(0.81)	(110,000)	(0.66)
Options outstanding, end of period	7,960,000	\$ 0.50	8,240,500	\$ 0.51
Options exercisable, end of period	7,622,500	\$ 0.50	7,220,500	\$ 0.51

Share options outstanding and exercisable at September 30, 2011 are summarized as follows:

Number of Options	Exercise Price	Expiry Date	Exercisable
130,000	\$0.70	November 14, 2016	130,000
175,000	\$0.25	April 10, 2012	175,000
50,000	\$0.25	July 3, 2012	50,000
50,000	\$1.15	July 3, 2012	50,000
70,000	\$1.30	November 28, 2012	70,000
295,000	\$1.05	February 11, 2018	295,000
300,000	\$0.25	February 11, 2018	300,000
150,000	\$0.25	April 1, 2013	150,000
75,000	\$1.05	April 29, 2013	75,000
175,000	\$0.25	October 21, 2013	175,000
900,000	\$0.25	October 31, 2018	900,000
700,000	\$0.40	September 22, 2014	700,000
360,000	\$0.40	October 9, 2019	360,000
802,500	\$0.41	October 13, 2016	802,500
100,000	\$0.50	November 16, 2012	100,000
100,000	\$0.70	November 16, 2012	100,000
1,215,000	\$0.63	January 15, 2020	1,215,000
300,000	\$0.50	May 10, 2015	187,500
432,500	\$0.53	November 8, 2020	432,500
1,430,000	\$0.55	November 24, 2020	1,255,000
150,000	\$0.60	January 7, 2015	100,000
7,960,000			7,622,500



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## 11. SHARE CAPITAL (cont'd)

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

During the three months ended September 30, 2011, under the fair value based method a total of \$59,686 (2010 – \$62,433) in share-based compensation expense was recorded in the statement of loss for vested share options previously granted to directors, officers, employees and consultants of the Company. No share options were granted during the three months ended September 30, 2011 and 2010

### (d) Warrants

The following table summarizes the warrants outstanding at September 30, 2011:

Number of Warrants	Exercise Price	Expiry Date
2,500,000	\$ 0.800 <sup>(2)</sup>	December 7, 2011
15,693,112	\$ 0.675 <sup>(1)</sup>	November 16, 2011
	\$ 0.775 <sup>(1)</sup>	November 16, 2012
2,422,500	\$ 0.950	August 28, 2012
20,615,612		

<sup>(1)</sup> Warrants are exercisable at a price of \$0.675 during the first year and at a price of \$0.775 during the second year.

<sup>(2)</sup> Warrants expired unexercised subsequent to September 30, 2011.

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

	September 30, 2011		June 30, 2011	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning of period	20,615,612	\$ 0.72	2,500,000	\$ 0.80
Granted	–	–	18,115,612	0.71
Warrants outstanding, end of period	20,615,612	\$ 0.72	20,615,612	\$ 0.72
Warrants exercisable, end of period	20,615,612	\$ 0.72	20,615,612	\$ 0.72

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## 12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

September 30	2011	2010
Cash paid during the period for interest	\$ –	\$ 54,689
Cash paid during the period for income tax	\$ 74,434	\$ 579,877

During fiscal 2011, the Company filed the amendments to eligible Canadian exploration expenditures previously renounced to the flow-through shareholders that subscribed for the Company's common shares in fiscal 2009. As a result of the expenditure shortfall and the amendment of the previous renunciations of explorations expenditures, the Company paid \$74,434 (2010 - \$579,877) in part XII.6 tax for 2009 and an additional \$Nil (2010 - \$54,689) in interest.

Significant non-cash transactions for the period ended September 30, 2011 included resource property expenditures of \$812,686 (June 30, 2011 -\$799,965) in accounts payable.

Significant non-cash transactions for the period ended September 30, 2010 included:

- resource property expenditures of \$854,534 (June 30, 2010 -\$450,222) in accounts payable;
- resource property expenditures of \$Nil (June 30, 2010 -\$56,304) in due to related parties;
- an allocation of share-based compensation expense of \$11,853 (June 30, 2010 - \$Nil) from equity reserves to share capital upon the exercise of 75,000 share options.

## 13. RELATED PARTIES TRANSACTIONS

The remuneration of directors and other key management personnel during the three month period ending September 30, 2011 and 2010 were as follows:

September 30,	2011	2010
Directors fees	\$ 12,500	\$ –
Management salaries	67,278	57,125
Consulting fees (geology)	33,336	–
Consulting fees other	3,750	3,750
Management and administration (i)	88,500	52,500
Share-based payments (ii)	58,067	13,933
Total	\$ 263,431	\$ 127,308

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

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## 13. RELATED PARTIES DISCLOSURE (cont'd)

During the three months ended September 30, 2011, the Company paid or accrued \$73,500 (2010 – \$37,500) for management fees and \$15,000 (2010 – \$15,000) for administrative fees to VCC.

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

## 14. TRANSITION TO IFRS

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

### *Optional Exemption*

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

### *Mandatory Exceptions*

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

### *Estimates*

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

### *Adjustment on transition to IFRS*

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

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## 14. TRANSITION TO IFRS (cont'd)

### *Share-based payments*

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

As a result, the Company adjusted share-based compensation expense as follows:

Quarter ended		Adjustment
Total July 1, 2010	\$	11,228
September 30, 2010	\$	4,872
December 31, 2010		19,877
March 31, 2011		12,123
June 30, 2011		(36,401)
Total fiscal 2011	\$	471

The adjustments are reflected in the statement of comprehensive loss, with the same amounts adjusted in the equity reserves account in the statement of shareholders equity.

The July 1, 2010, September 30, 2010 and June 30, 2011 statements of Shareholders' Equity have been reconciled as follows:

July 1, 2010	Canadian GAAP	Effect on transition to IFRS	IFRS
Share capital	\$ 72,370,651	\$ –	\$ 72,370,651
Equity reserves	8,226,203	11,228	8,237,431
Deficit	(25,627,399)	(11,228)	(25,638,627)
Accumulated other comprehensive income	75,000	–	75,000
	\$ 55,044,455	\$ –	\$ 55,044,455

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## 14. TRANSITION TO IFRS (cont'd)

September 30, 2010	Canadian GAAP	Effect on transition to IFRS	IFRS
Share capital	\$ 72,031,731	\$ –	\$ 72,031,731
Equity reserves	8,406,446	16,100	8,422,546
Deficit	(25,960,383)	(16,100)	(25,976,483)
Accumulated other comprehensive income	(18,750)	–	(18,750)
	\$ 54,459,044	\$ –	\$ 54,459,044

June 30, 2011	Canadian GAAP	Effect on transition to IFRS	IFRS
Share capital	\$ 93,486,827	\$ –	\$ 93,486,827
Equity reserves	9,260,407	11,699	9,272,106
Deficit	(28,016,762)	(11,699)	(28,028,461)
Accumulated other comprehensive income	(413,339)	–	(413,339)
	\$ 74,317,133	\$ –	\$ 74,317,133

### *Reconciliation of Assets, Liabilities and Equity*

The below table provides a summary of the adjustments to the Company's statement of financial position at June 30, 2011, September 30, 2010, and July 1, 2010:

	June 30, 2011	September 30, 2010	July 1, 2010
Total assets per Canadian GAAP	\$ 81,527,157	\$ 62,543,339	\$ 63,441,750
Adjustments required on adoption of IFRS	–	–	–
Total assets per IFRS	\$ 81,527,157	\$ 62,543,339	\$ 63,441,750
Total liabilities per Canadian GAAP	\$ 7,210,024	\$ 8,084,295	\$ 8,397,295
Adjustments required on adoption of IFRS	–	–	–
Total liabilities under IFRS	7,210,024	8,084,295	8,397,295
Total equity under Canadian GAAP	74,317,133	54,459,044	54,044,455
Adjustments required on adoption of IFRS	–	–	–
Total equity under IFRS	74,317,133	54,459,044	54,044,455
Total liabilities and equity under IFRS	\$ 81,527,157	\$ 62,543,339	\$ 63,441,750

# CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian Dollars, unless otherwise stated – Unaudited)  
Three months ended September 30, 2011 and 2010

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## 14. TRANSITION TO IFRS (cont'd)

### *Reconciliation of Net Loss and Comprehensive Loss*

The below table provided a summary of the adjustments to the Company's net loss for the year ended June 30, 2011 and the three months ended September 30, 2010:

	June 30, 2011	September 30, 2010
Net loss and comprehensive loss per Canadian GAAP	\$ (2,877,702)	\$ (426,734)
Adjustments required on adoption of IFRS	(471)	(4,872)
Net loss and comprehensive loss per IFRS	\$ (2,878,173)	\$ (431,606)

### *Reconciliation of Cash Flows*

	June 30, 2011	September 30, 2010
Operating activities per Canadian GAAP	\$ (2,247,952)	\$ (181,064)
Adjustments required on adoption of IFRS	–	–
Operating activities per IFRS	\$ (2,247,952)	\$ (181,064)
Investing activities per Canadian GAAP	\$ (12,657,472)	\$ (3,443,821)
Adjustments required on adoption of IFRS	–	–
Investing activities per IFRS	\$ (12,657,472)	\$ (3,443,821)
Financing activities per Canadian GAAP	\$ 21,124,581	\$ (216,238)
Adjustments required on adoption of IFRS	–	–
Financing activities per IFRS	\$ 21,124,581	\$ (216,238)

## 15. SUBSEQUENT EVENTS

Subsequent to September 30, 2011, the Company:

- sold 55,000 ILC share purchase warrants at an average price of \$0.02 for net cash proceeds of \$970;
- invested \$1,555,083 in 1,923,500 common shares of Oracle Mining Corp. (formerly Gold Hawk Resources Inc.) through open market purchases;
- repurchased 1,212,000 of its common shares for a total consideration of \$621,716 at a weighted average price of \$0.51 per share under the NCIB;
- 1,285,000 common shares re-purchased through the NCIB were returned to the Company's treasury for cancellation; and
- received the METC refund of \$1,611,149 for its fiscal 2009 application (Note 10).