

**CANADA ZINC METALS CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**NINE MONTHS ENDED MARCH 31, 2011 AND 2010**

**(UNAUDITED – PREPARED BY MANAGEMENT)**

# CANADA ZINC METALS CORP.

## NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited interim consolidated 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 interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditors.

May 30, 2011

# CANADA ZINC METALS CORP.

CONSOLIDATED BALANCE SHEETS  
AS AT MARCH 31, 2011 AND JUNE 30, 2010

	March 31, 2011		June 30, 2010
	(unaudited)		(audited)
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 8,602,913	\$	9,281,997
Short-term investments (Note 2)	14,609,000		–
Receivables	171,099		67,972
METC recoverable (Note 4)	–		921,063
Prepaid expenses	166,635		373,081
Marketable securities (Note 3)	666,408		450,000
	<b>24,216,055</b>		<b>11,094,113</b>
<b>Other assets</b>	<b>89,000</b>		<b>89,000</b>
<b>Equipment and leasehold improvements</b>	<b>17,157</b>		<b>3,973</b>
<b>Long-term prepaid expenses and deposits</b>	<b>192,145</b>		<b>75,000</b>
<b>Resource properties (Note 4)</b>	<b>58,036,998</b>		<b>52,179,664</b>
	<b>\$ 82,551,355</b>	\$	<b>63,441,750</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 829,502	\$	1,295,366
Due to related parties (Note 7)	13,031		61,532
	<b>842,533</b>		<b>1,356,898</b>
<b>Future income taxes</b>	<b>7,040,397</b>		<b>7,040,397</b>
<b>Shareholders' equity</b>			
Capital stock (Note 5)	93,810,235		72,370,651
Contributed surplus (Note 5)	9,050,894		8,226,203
Deficit	(28,064,976)		(25,627,399)
Accumulated other comprehensive income (loss) (Note 3)	(127,728)		75,000
	<b>74,668,425</b>		<b>55,044,455</b>
	<b>\$ 82,551,355</b>	\$	<b>63,441,750</b>

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

# CANADA ZINC METALS CORP.

CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND DEFICIT  
FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010  
(UNAUDITED – PREPARED BY MANAGEMENT)

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
<b>ADMINISTRATION EXPENSES</b>				
Administration	\$ 15,000	\$ 15,000	\$ 45,000	\$ 45,000
Amortization	1,078	1,349	1,981	2,651
Bank charges	937	775	2,420	2,744
Bonuses	360,000	–	360,000	97,750
Consulting	136,729	145,100	613,498	556,725
Flow-through taxes	–	44,278	–	41,910
Investor Relations	14,112	462	76,574	925
Management fees	37,500	37,500	112,500	112,500
Office and miscellaneous	8,614	5,455	40,792	29,394
Professional fees	10,554	1,241	47,333	28,301
Regulatory fees	12,580	9,880	32,020	14,875
Rent	15,061	15,069	45,194	44,007
Stock-based compensation	140,149	850,232	874,215	1,202,730
Transfer agent fees	2,161	2,281	8,470	5,303
Travel and promotion	43,529	23,518	74,578	57,443
Wages and benefits	91,384	80,335	276,234	286,360
<b>Loss before other items</b>	<b>(889,388)</b>	<b>(1,232,475)</b>	<b>(2,610,809)</b>	<b>(2,528,618)</b>
<b>OTHER ITEMS</b>				
Interest and other income	66,892	5,013	173,232	22,782
Write-off of mineral properties	–	(5,843)	–	(5,843)
	66,892	(830)	173,232	16,939
<b>Loss for the period</b>	<b>(822,496)</b>	<b>(1,233,305)</b>	<b>(2,437,577)</b>	<b>(2,511,679)</b>
<b>Deficit, beginning of period</b>	<b>(27,242,480)</b>	<b>(17,712,667)</b>	<b>(25,627,399)</b>	<b>(16,434,293)</b>
<b>Deficit, end of period</b>	<b>\$(28,064,976)</b>	<b>\$(18,945,972)</b>	<b>\$(28,064,976)</b>	<b>\$(18,945,972)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of shares outstanding</b>	<b>135,165,305</b>	<b>91,504,192</b>	<b>117,893,869</b>	<b>89,561,697</b>

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

## CANADA ZINC METALS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010  
(UNAUDITED – PREPARED BY MANAGEMENT)

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
<b>Loss for the period before comprehensive loss</b>	\$ (822,496)	\$ (827,018)	\$ (2,437,577)	\$ (1,278,374)
Adjustment for the change in fair value of securities during the period (Note 3)	(105,023)	–	(202,728)	–
<b>Comprehensive loss for the period</b>	\$ (927,519)	\$ (827,018)	\$ (2,640,305)	\$ (1,278,374)

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

# CANADA ZINC METALS CORP.

## CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010 (UNAUDITED – PREPARED BY MANAGEMENT)

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period before comprehensive loss	\$ (822,496)	\$ (1,233,305)	\$ (2,437,577)	\$ (2,511,679)
Items not affecting cash:				
Amortization	1,078	1,349	1,981	2,651
Stock-based compensation	140,149	850,232	874,215	1,202,730
Write-off of mineral properties	–	5,843	–	5,843
Changes in non-cash working capital items:				
(Increase) decrease in receivables	66,364	(2,855)	(103,127)	53,737
Decrease in METC recoverable	–	–	921,063	–
(Increase) decrease in prepaid expenses	4,045	2,186	206,446	(862)
Increase (decrease) in accounts payable and accrued liabilities	(49,805)	44,094	(734,214)	3,604
Increase in due to/ from related parties	11,129	–	7,803	47,530
Cash used in operating activities	(649,536)	(332,456)	(1,263,410)	(1,196,446)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Equipment and leasehold improvements	(12,322)	–	(15,165)	–
Long-term prepaid expenses and deposits	–	–	(117,145)	–
Marketable securities costs	(404,556)	–	(419,136)	(375,000)
Resource property costs	(481,882)	(187,720)	(5,645,287)	(1,372,337)
Short-term investments	(14,609,000)	–	(14,609,000)	–
Cash used in investing activities	(15,507,760)	(187,720)	(20,805,733)	(1,747,337)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of common shares, net of issuance costs	3,671,084	696,150	21,757,084	849,400
Common shares repurchased	–	–	(367,025)	(124,193)
Cash provided by financing activities	3,671,084	696,150	21,390,059	725,207
<b>Change in cash and cash equivalents during the period</b>	<b>(12,486,212)</b>	<b>175,974</b>	<b>(679,084)</b>	<b>(2,218,576)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>21,089,125</b>	<b>3,994,844</b>	<b>9,281,997</b>	<b>6,389,394</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 8,602,913</b>	<b>\$ 4,170,818</b>	<b>\$ 8,602,913</b>	<b>\$ 4,170,818</b>
<b>Cash and cash equivalents</b>				
Cash	\$ 90,913	\$ 59,200	\$ 90,913	\$ 59,200
Guaranteed Investment Certificates	\$ 8,512,000	\$ 4,111,618	\$ 8,512,000	\$ 4,111,618

### Supplemental disclosure with respect to cash flows (Note 6)

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

CANADA ZINC METALS CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010  
 (Unaudited – Prepared by Management)

**1. BASIS OF PRESENTATION**

These interim consolidated financial statements have been prepared using Canadian generally accepted accounting principles (Canadian GAAP). The interim consolidated financial statements include normal recurring adjustments, which in management’s opinion, are necessary for a fair presentation of the financial results of the interim period presented.

The disclosures in these statements do not conform in all aspects to the requirements of Canadian GAAP for annual financial statements. These statements follow the same accounting policies and methods of their application as the most recent annual consolidated financial statements. These statements should be read in conjunction with the Company’s June 30, 2010 consolidated financial statements and notes thereto.

**2. SHORT-TERM INVESTMENTS**

Short-term investments consist of 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. At March 31, 2011, the instruments were yielding an average fixed annual interest rate of 1.5%. The fair market value of the Company’s short-term investments approximates its carrying value at the balance sheet date.

**3. MARKETABLE SECURITIES**

During fiscal 2010, the Company invested \$375,000 by subscribing for 1,875,000 units of TNR Gold Corp. (“TNR”) at a price of \$0.20 per unit. The quoted market value of TNR shares as of March 31, 2011 was \$309,375 (June 30, 2010 – \$450,000).

During the period ended March 31, 2011, the Company invested \$419,136 by purchasing 195,100 shares of Gold Hawk Resources Inc. (“GHK”) in the open market at a price of \$2.15 per share. The quoted market value of GHK shares as of March 31, 2011 was \$357,033.

As at March 31, 2011, the marketable securities and accumulated other comprehensive income (loss) are comprised of the following:

	Number of Shares	Cost	Accumulated Other Comprehensive Income (Loss)	Fair Market Value
<i>TNR shares:</i>				
Balance, June 30, 2010	1,875,000	\$ 375,000	\$ 75,000	\$ 450,000
Adjustment for change in fair value of securities during the period	–	–	(140,625)	(140,625)
<b>Balance, March 31, 2011</b>	<b>1,875,000</b>	<b>375,000</b>	<b>(65,625)</b>	<b>309,375</b>
<i>GHK shares:</i>				
Balance, June 30, 2010	–	–	–	–
Additions	195,100	419,136	(62,103)	357,033
<b>Balance, March 31, 2011</b>	<b>195,100</b>	<b>419,136</b>	<b>(62,103)</b>	<b>357,033</b>
<b>Balance, March 31, 2011</b>		<b>\$ 794,136</b>	<b>\$ (127,728)</b>	<b>\$ 666,408</b>

The Company included net unrealized losses for the period on marketable securities of \$202,728 (2010 - \$Nil) in other accumulated comprehensive income (loss) in the shareholders’ equity section of the consolidated balance sheets.

CANADA ZINC METALS CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010  
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**4. 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.

**DA Property, Northwest Territories**

The Company holds an 8.2% interest, subject to a 5% gross overriding royalty (“GOR”) on diamonds, a 5% net smelter returns (“NSR”) royalty on other minerals, and a 10% net profits interest (“NPI”), in certain mineral claims located in the Northwest Territories. 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.

**Kechika Regional, British Columbia**

**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.

In addition to the Akie property, the Company controls a large contiguous group of claims which comprise the Kechika Regional project. These claims are underlain by geology identical to that on the Akie property (Cardiac Creek deposit) and Cirque.

The Company has applied 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 by the Company in fiscal 2009. The METC application for \$1,688,438 has not been recorded by the Company pending receipt of the Notice of Assessment from the Canada Revenue Agency.

During the period ended March 31, 2011, the Company received a refund of \$921,063 of METC for its fiscal 2008 application.

The following table summarizes resource property expenses by property:

	<b>Akie Property</b>	<b>Kechika Regional</b>	<b>DA</b>	<b>Total</b>
<b>Acquisition Costs:</b>				
Balance, June 30, 2010	\$ 24,175,329	\$ 328,432	\$ 71,535	\$ 24,575,296
Additions:	–	348	–	348
Balance, March 31, 2011	\$ 24,175,329	\$ 328,780	\$ 71,535	\$ 24,575,644



CANADA ZINC METALS CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010  
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**4. RESOURCE PROPERTIES (cont'd...)**

**Deferred Exploration Costs:**

Balance, June 30, 2010	\$ 26,281,810	\$ 1,172,533	\$ 150,025	\$ 27,604,368
Additions:				
Surface drilling program:				
Camp equipment	42,688	–	–	42,688
Camp operating	156,951	–	–	156,951
Drilling	4,107,743	–	–	4,107,743
Geology	126,862	–	–	126,862
Work assessment fees	72,336	18,284	–	90,620
Total surface drilling	4,506,580	18,284	–	4,524,864
Geotechnical program:				
Camp operating	414,758	–	–	414,758
Trail construction	216,863	–	–	216,863
Trail construction	371,471	–	–	371,471
Total geotechnical program	1,003,092	–	–	1,003,092
Community consultations	210,000	–	–	210,000
Environmental studies	81,086	–	–	81,086
Underground engineering	37,944	–	–	37,944
Balance, March 31, 2011	32,120,512	1,190,817	150,025	33,461,354
<b>March 31, 2011</b>	<b>\$ 56,295,841</b>	<b>\$ 1,519,597</b>	<b>\$ 221,560</b>	<b>\$ 58,036,998</b>

**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

**(a) Authorized and issued**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Balance, June 30, 2010	102,711,414	\$ 72,794,784	\$ 8,042,623
NCIB shares returned to treasury (iv)	(590,000)	(424,133)	183,580
Balance, June 30, 2010	102,121,414	72,370,651	8,226,203
Private placements (i)(ii)	36,231,224	21,730,650	–
Share issuance costs (i)	–	(225,116)	–
Exercise of options (iii)	895,000	493,850	(242,300)
NCIB shares returned to treasury (iv)	(792,500)	(559,800)	192,776
Stock- based compensation	–	–	874,215
<b>Balance, March 31, 2011</b>	<b>138,455,138</b>	<b>\$ 93,810,235</b>	<b>\$ 9,050,894</b>

**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**(a) Authorized and issued (cont'd...)**

During the period ended March 31, 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. The Company paid \$47,000 in share issuance costs on this private placement.
- 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. The Company paid a cash finder’s fee of \$157,658 and \$20,458 in other share issuance costs on this private placement.
- iii. an aggregate of 895,000 stock 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.
- iv. The Company received TSX Venture Exchange (“TSXV”) approval to extend a normal course issuer bid (“NCIB”) to purchase at market price up to 5,135,570 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, 2010 and will stay open for 12 months.

The Company repurchased 792,500 of its common shares for a total consideration of \$367,025 at a weighted average price of \$0.46 per share under the NCIB, of which \$559,800 was recorded as a reduction to capital stock for the assigned value of the shares, and \$192,776 was allocated to contributed surplus.

The total NCIB purchases are summarized as follows:

	August 1, 2009 to July 31, 2010	August 1, 2010 to March 31, 2011	Total NCIB purchases
Number of shares	744,000	638,500	1,382,500
Purchase price	\$ 311,501	\$ 296,076	\$ 607,577

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.

A total of 1,382,500 common shares, of which 590,000 were repurchased during fiscal 2010, were cancelled and returned to the Company’s treasury.

Subsequent to the period ended March 31, 2011, the Company repurchased 129,500 of its common shares for a total consideration of \$66,535 at a weighted average price of \$0.51 per share under the NCIB.

CANADA ZINC METALS CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)

(b) Stock options

The Company has adopted a 20% fixed stock option plan whereby the Company has reserved 20,557,283 common shares under the amended 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. Stock options granted to directors, officers and employees of the Company vest immediately.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2010	7,225,500	\$ 0.47
Granted	2,020,000	0.54
Exercised	(895,000)	0.28
Expired	(110,000)	0.66
Balance, March 31, 2011	8,240,500	\$ 0.51
Exercisable, March 31, 2011	7,368,000	\$ 0.49

Stock options outstanding and exercisable at March 31, 2011 are summarized as follows:

Number of Options	Exercise Price	Expiry Date	Exercisable
132,500	\$0.70	November 14, 2016	155,000
22,500	\$0.25	November 14, 2011	22,500
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
420,000	\$1.05	February 11, 2018	420,000
303,000	\$0.25	February 11, 2018	318,000
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	200,000
900,000	\$0.25	October 31, 2018	1,130,000
700,000	\$0.40	September 22, 2014	525,000
360,000	\$0.40	October 9, 2019	430,000
817,500	\$0.41	October 13, 2016	720,000
100,000	\$0.50	November 16, 2012	100,000
100,000	\$0.70	November 16, 2012	100,000
1,320,000	\$0.63	January 15, 2020	1,320,000
300,000	\$0.50	May 10, 2015	112,500
440,000	\$0.50	November 8, 2020	440,000

CANADA ZINC METALS CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010  
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5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)

(b) Stock options (cont'd...)

1,430,000	\$0.55	November 24, 2020	780,000
150,000	\$0.60	January 7, 2015	25,000
8,240,500			7,368,000

During the period ended March 31, 2011, under the fair value based method, a total of \$874,215 (2010 – \$1,202,730) in stock-based compensation expense was recorded in the statements of loss and deficit for vested stock options granted to directors, officers, employees and consultants of the Company.

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

March 31,	2011	2010
Risk free interest rate	2.74%	2.95%
Expected dividend yield	0%	0%
Stock price volatility	102%	103%
Expected life of options	9.19 years	9.11 years

The weighted average fair value of options granted during the period ended March 31, 2011 was \$0.46 (2010 – \$0.41) per share.

(c) Warrants

As at March 31, 2011, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Warrants	Exercise Price	Expiry Date
2,500,000	\$ 0.800	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.

Warrant transactions and the number of warrants outstanding and exercisable are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2010	2,500,000	\$ 0.80
Granted (Note 5(a) (i)(ii))	18,115,612	0.71
Balance, March 31, 2011	20,615,612	\$ 0.72

CANADA ZINC METALS CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010  
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**6. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

March 31,	2011	2010
Cash paid during the period for interest	\$ 54,689	\$ –
Cash paid during the period for income tax	\$ 579,877	\$ –

During fiscal 2009, the Company issued 7,863,778 flow-through common shares for gross proceeds of \$7,077,400. The flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. The Company was unable to incur exploration expenditures between the September 2008 flow-through share issuance and December 31, 2009 to the extent it originally anticipated.

During the period ended March 31, 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 \$579,877 in part XII.6 tax for 2009 and an additional \$54,689 in interest.

As at March 31, 2011, the Company fully spent the required amount of the flow-through funds on eligible exploration expenditures, which were renounced to the flow-through shareholders for the 2010 calendar year.

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

- (a) resource property expenditures of \$718,752 (June 30, 2010 -\$450,222) in accounts payable;
- (b) resource property expenditures of \$Nil (June 30, 2010 -\$56,304) in due to related parties;
- (c) an allocation of stock-based compensation expense of \$242,300 from contributed surplus (Note 4(a)(i)) upon the exercise of 895,000 stock options; and
- (d) unrealized loss of \$202,728 (2010 - \$Nil) in marketable securities, which was allocated to accumulated other comprehensive income (Note 2).

Significant non-cash transactions for the period ended March 31, 2010 included:

- (e) resource property expenditures of \$45,850 (June 30, 2009 - \$76,249) in accounts payable;
- (f) offsetting resource property expenditures of \$921,064 (June 30, 2009 - \$Nil) in METC recoverable;
- (g) an allocation of stock-based compensation expense \$1,642,847 from contributed surplus upon the exercise of 3,492,500 stock options.

**7. TRANSACTIONS WITH RELATED PARTIES**

During the period ended March 31, 2011:

- (a) the Company paid or accrued \$112,500 (2010 – \$112,500) for management fees and \$45,000 (2010 – \$45,000) for administrative fees to a company with common directors and officers;
- (b) the Company paid \$11,250 (2010 - \$11,250) for consulting services to a company controlled by a director of the Company;

**7. TRANSACTIONS WITH RELATED PARTIES (cont'd)**

- (c) the Company paid or accrued \$40,000 (2010 - \$Nil) for consulting and geological services fees, included in resource properties, to a company controlled by an officer of the Company;
- (d) the Company paid \$54,600 that was outstanding as at June 30, 2010 to a company controlled by a former director of the Company;
- (e) the Company paid a cash bonus of \$360,000 (2010 - \$97,750) to a company with common directors and officers; and
- (f) as at March 31, 2011, \$13,031 (June 30, 2010 - \$6,932) was due to directors and officers of the Company for reimbursement of business expenses. The amounts were paid subsequent to March 31, 2011.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**8. CAPITAL DISCLOSURE**

The Company's objective is to manage its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of shareholders' equity and working capital.

In order to achieve this objective, the Company makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may invest its excess cash in interest bearing accounts of Canadian chartered banks and/or raise additional funds externally as needed. The Company has no significant debt and is not subject to externally imposed capital requirements. There were no changes to the Company's capital management structure during the period ended March 31, 2011.

**9. FINANCIAL INSTRUMENTS**

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

*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 cash and cash equivalents of \$8,602,913 and short-term investments of \$14,609,000. The Company's cash and cash equivalents consist of bank deposits of \$90,913 and variable rate guaranteed investment certificates ("GIC") of \$8,512,000. The instruments with initial maturity over 90 days are classified as short-term investments. The short-term investments consist of fixed rate GICs that bear a fixed annual interest of 1.5% and mature at various dates up to February 23, 2012. 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 and interest accrued on the short-term investments.

**9. FINANCIAL INSTRUMENTS (cont'd)**

*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.

*Interest Rate Risk*

The Company is exposed to interest rate risk as its bank accounts and GICs earn interest income at variable rates. As at March 31, 2011, the Company had \$8,512,000 in variable rate GIC investments earning an annual rate of 1.2%.

*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 March 31, 2011, the Company was holding the total of \$23,878,321 in cash and cash equivalents and other available-for-sale financial assets to settle its current liabilities of \$842,533. Management believes it has sufficient funds to meet its current obligations as they become due and to fund its exploration projects and administrative costs.

*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.