

**CANADA ZINC METALS CORP.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

March 31, 2013

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## 1.1 Date

This Management Discussion and Analysis (“MD&A”) of Canada Zinc Metals Corp. (“Canada Zinc Metals” or the “Company”) has been prepared by management as of May 30, 2013 and should be read in conjunction with the condensed consolidated interim financial statements and related notes thereto of the Company for the nine months ended March 31, 2013 and 2012, and the consolidated audited financial statements and related notes thereto of the Company for the years ended June 30, 2012 and 2011, which were prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee.

The Company is presently a “Venture Issuer”, as defined in NI 51-102.

This MD&A may contain “forward-looking statements” which reflect the Company’s current expectations regarding the future results of operations, performance and achievements of the issuer, including potential business or mineral property acquisitions and negotiation and closing of future financings. The issuer has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as “anticipate,” “believe,” “estimate,” “expect” and similar expressions. The statements reflect the current beliefs of the management of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Issuer to differ materially from those expressed in, or implied by, these statements.

The Company undertakes no obligation to publicly update or review the forward-looking statements whether as a result of new information, future events or otherwise.

Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

## 1.2 Overall Performance

The Company was incorporated under the laws of the Province of British Columbia on February 10, 1988. The Company operates in one business segment, that being the exploration and development of mineral properties in Canada.

As at the date hereof, the Company has mining interests in properties located in British Columbia.

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The following is a summary of significant events during the nine months ended March 31, 2013:

- the Company completed a flow-through private placement of 7,500,000 units at a price of \$0.40 per unit for gross proceeds of \$3,000,000. Each unit consists of one flow-through common share and one-half share purchase warrant of the Company. Each whole warrant will entitle the holder to purchase one additional common share at a price of \$0.60 for a period of 18 months from closing.
- the Company completed a 1,577 line kilometre airborne Vertical Time Domain EM (VTEM) geophysical survey over the Akie, Pie and Mt. Alcock properties flown with a nominal line spacing of 200 metres and 100 metres over key areas of interest such as the Cardiac Creek deposit. The primary goal of the survey was to obtain lithological and structural information both near surface and at depth across the three properties, as well as define a geophysical response directly from the Cardiac Creek deposit. Additional highlights and details can be found in the “Airborne Geophysical Survey” section below.
- the Company completed a hydro-geochemistry program which was conducted on several properties including Akie, Pie, Mt. Alcock and Yuen. In total, over 100 samples were collected from primary, secondary and select tertiary creeks and streams and analyzed for sulphate and metal concentrations at Acme Analytical Labs Ltd. of Vancouver, British Columbia. Additional highlights and details can be found in the “Hydrogeochemistry” section below.
- the Company received multi-year exploration permits from the British Columbia Ministry of Energy, Mines and Natural Gas for the Yuen property and the North Kechika regional properties and date extensions for its existing multi-year permits for the Akie, Pie and Mt. Alcock properties.
- the Company completed a massive digital compilation program of recent and historical geological data gathered from public exploration assessment reports. The data is stored in a structured database format to be utilized in available GIS software packages. Assessment and targeting is currently underway.

## **Akie Property, Kechika Trough District, BC (zinc, lead, silver)**

The Company holds a 100% interest in the Akie Property, which is located approximately 260 kilometers north-northwest of the town of Mackenzie in northeastern British Columbia.

The Akie zinc-lead-silver property is situated within the Kechika Trough, the southernmost extension of the regionally extensive Paleozoic Selwyn Basin, one of the most prolific sedimentary basins in the world for the occurrence of SEDEX zinc-lead-silver and stratiform barite deposits.

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Drilling on the Akie property by Inmet Mining Corporation during the period 1994 to 1996 and by Canada Zinc Metals since 2005 has identified a significant body of zinc-lead-silver sedimentary exhalative (SEDEX) mineralization named the Cardiac Creek deposit. The deposit is hosted by variably siliceous, fine grained clastic rocks of the Middle to Late Devonian Gunsteel Formation, the same host formation for other known deposits in the district, including Teck Resources/Korea Zinc's Cirque deposit, located about 20 kilometres to the northwest.

## **2012 Updated Resource Calculation: Cardiac Creek Deposit**

In the spring of 2012, the Company re-engaged Rob Sim, P. Geo., to re-evaluate, calculate and produce an updated 43-101 compliant resource on the Cardiac Creek deposit. Robert Sim is an independent consultant and served as the Qualified Person responsible for the preparation of the 2012 NI 43-101 Technical Report on the Akie Project and is responsible for the 2008 and 2012 mineral resource estimates for the Cardiac Creek deposit, situated on the company's 100% owned Akie Property.

The technical report, entitled "NI 43-101 Technical Report Akie Zinc-Lead-Silver Project, British Columbia, Canada" and dated March 14, 2012, can be found on SEDAR ([www.sedar.com](http://www.sedar.com)). The report updated the work done by the Company since May of 2008, the date of the previous 43-101 compliant resource calculation. The new resource builds on surface diamond drilling completed by the Company during the period mid-2008 to the end of 2011 and establishes the Cardiac Creek deposit as one of the premier undeveloped zinc-rich base metal projects in the world.

The mineral resource estimate presented in the report has been generated from drill hole sample assay results and the interpretation of a geologic model which relates to the spatial distribution of zinc, lead and silver. Interpolation characteristics have been defined based on the geology, drill hole spacing and geostatistical analysis of the data. The resources have been classified by their proximity to the sample locations and are reported, as required by NI 43-101, according to the CIM standards on Mineral Resources and Reserves. Extensive analysis of the drill sample database shows that it is sound and reliable for the purposes of resource estimation. The resource model has been developed in accordance with accepted industry standards resulting in a mineral resource defined within the indicated and inferred categories.

The revised estimate consists of an indicated resource of 12.7 Mt grading 8.38% Zn, 1.68% Pb and 13.7g/t Ag, at a cut-off grade of 5% Zn; and an inferred resource of 16.3 Mt grading 7.38% Zn, 1.34% Pb and 11.6g/t Ag, at a cut-off grade of 5% Zn. Using this estimate, the deposit contains 2.4 billion pounds of zinc, 472 million pounds of lead and 5.6 million ounces of silver in the indicated category (at 5% Zn cut-off), and 2.6 billion pounds of zinc, 482 million pounds of lead and 6.1 million ounces of silver in the inferred category (at 5% Zn cut-off).

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The calculated mineral resource estimate, at a series of industry-standard cut-off Zn grades, can be seen in the table below.

Cut-off Grade (Zn %)	ktonnes	Zn (%)	Pb (%)	Ag (gpt)	Combined Zn + Pb (%)
<b>Indicated</b>					
2	20,088	6.59	1.31	11.2	7.90
3	17,683	7.15	1.43	12.0	8.58
4	15,195	7.75	1.56	12.8	9.31
<b>5</b>	<b>12,731</b>	<b>8.38</b>	<b>1.68</b>	<b>13.7</b>	<b>10.06</b>
6	10,342	9.05	1.81	14.6	10.86
7	7,798	9.89	1.98	15.6	11.87
<b>Inferred</b>					
2	48,102	4.62	0.83	8.1	5.63
3	33,016	5.61	1.02	9.4	6.63
4	23,278	6.50	1.19	10.5	7.69
<b>5</b>	<b>16,287</b>	<b>7.38</b>	<b>1.34</b>	<b>11.6</b>	<b>8.72</b>
6	11,026	8.28	1.50	12.5	9.78
7	7,092	9.29	1.67	13.7	10.96

(1) "Base case" cut-off grade of 5% Zn highlighted in table

(2) Mineral resources are not mineral reserves as the economic viability has not been demonstrated

Highlighted in the table is the "base case" cut-off grade of 5% Zn for the sulphide resource, which is based on assumptions derived from operations with similar characteristics, scale and location. The report further states that the resource occurs as a relatively continuous zone which is favourable with respect to selectivity and other factors when considering mining options. This, when combined with the results of previous geological, metal zoning and structural investigations, and the results of drilling completed to date, suggests that the Cardiac Creek deposit has economic potential sufficient to warrant additional expenditures on exploration and development. The potentially economic portion of the deposit occurs over a known strike length of 1,300 metres, extends to at least 800 metres below surface and averages about 20 metres in thickness. The deposit currently remains "open" in all directions.

The report recommends an additional surface drill program of 8 holes (3,000 meters) to be completed to infill the current base case resource (>5% Zn) to approximately 100 metre intervals, allowing at least part of the present inferred resource to be elevated to the indicated category, and to provide more information on continuity of the Cardiac Creek zone mineralization which will be necessary in order to guide the planned underground exploration program. Continued metallurgical testing and environmental base line studies are also recommended.

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Additional exploration drilling is recommended on the GPS showing and North Lead Anomaly targets present on the Akie property. These targets would involve approximately 2,000 metres of drilling in four drill holes.

Further delineation and exploration drilling at the Cardiac Creek deposit is being considered using underground drilling stations located in the footwall of the deposit on the 950 metre elevation. All permitting and engineering designs are complete and in hand in order to commence the underground drill program.

## *Akie Underground Development*

In August 2011, the Company received an underground drill permit from the BC government for the Akie project which will facilitate advanced exploration of the Cardiac Creek deposit. Underground drilling is essentially unaffected by weather and will allow year-round operations. Planned development will initially be confined in the footwall of the deposit. Additional development would allow for a bulk ore sample to be taken providing data for pilot plant test work and marketability studies.

The underground drill permit is valid for a period of three years and is the main provincial permit required to build the surface and underground infrastructure required for a comprehensive diamond drill definition program on the Cardiac Creek deposit. The planned program is comprised of a first phase of 1,600 metres of underground development followed by 16,000 metres of underground diamond drilling, designed to upgrade the current 43-101 compliant resource to the measured and indicated category. Drill core from underground will be used in a systematic metallurgical sampling program intended to ensure metallurgical sampling across the full spectrum of the deposit. Underground development will also provide important engineering and geotechnical data for a second phase of exploration drilling and bulk sampling, and for future mine design.

The 2011 surface construction program included stripping of the planned underground portal site, preparation of the portal pad, construction of the waste rock dump site, and upgrade of the existing lower access road. The Company anticipates resuming surface work construction with an aim to collaring the underground portal. The Company continues to examine tender bids and costs associated with underground development for exploration drilling. Engineering and environmental studies will continue.

## **Kechika Regional Project**

In addition to the Akie property, the Company has 100% ownership of a large contiguous group of mineral claims that aggregate to a total of 10 properties that cover 68,000 hectares. The mineral claims stretch a distance of 140 km from the Pie property on the north boundary of the Akie property to the Thro property, near the northern reaches of the Gataga River. The properties cover the extent of the prospective Gunsteel Formation shale which is the known host of SEDEX mineralization in the Kechika Trough. The southernmost project boundary is located approximately

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260 kilometers north-northwest of the town of Mackenzie. The Kechika project includes several properties with significant historical drill intercepts, including the Mt. Alcock property which has yielded a drill intercept of 8.8 metres grading 9.3% Zn+Pb, numerous zinc-lead-barite occurrences, and several regional base metal anomalies. Historical drilling on the Bear-Spa property returned several drill intercepts of +10 metres grading 2.53 to 2.96% combined Zn+Pb and up to 20.6 g/t Ag. There has been no modern follow-up exploration on many of these properties.

On May 15<sup>th</sup>, 2012 the Company announced it had received a NI 43-101 compliant Technical Report entitled “NI 43-101 Technical Report on the Pie Property”, dated May 4, 2012 and authored by Tanya Strate, P.Geol., an independent qualified person for the purposes of NI 43-101. The Technical Report highlights the SEDEX Zn-Pb-Ag prospectivity of the property, documents the results of field work completed on the property in 2011, and makes recommendations for further work, including drill testing of several Zn-Pb-Ag mineralization targets. The technical report can be found on SEDAR ([www.sedar.com](http://www.sedar.com)).

On June 15<sup>th</sup>, 2012 the Company took receipt of a NI 43-101 compliant technical report entitled “NI 43-101 Technical Report on the Mt Alcock Property” dated May 31, 2012 and authored by Tanya Strate, P.Geol., an independent qualified person for the purposes of NI 43-101. Please refer to SEDAR ([www.sedar.com](http://www.sedar.com)) to review the report. The Technical Report highlights the history of previous exploration on the property since the 1970’s and identifies the prospectivity to host SEDEX Zn-Pb-Ag mineralization. The report documents the results of assessment work completed on the property in 2011, and makes recommendations for further work, including drill testing of the Main barite zone previously drill tested in 1989 and 1990. The property hosts several large soil geochemical anomalies that have never been drill tested and other Zn-Pb-Ag mineralization targets.

## **Regional Exploration Program – 2012**

Regional exploration in 2012 was focused on several properties in the southern Kechika Trough including Akie, Pie, Yuen and Mt. Alcock. Exploration activities consisted of an airborne geophysical survey flown over Akie, Pie and Mt. Alcock and an extensive hydrogeochemistry survey involving water sampling of primary and secondary drainages across several properties. These programs are briefly described below.

### **Airborne Geophysical Survey**

In August 2012, the Company engaged Geotech Ltd. Of Aurora, Ontario to complete a large-scale, 1,526 line kilometre airborne Vertical Time Domain EM (VTEM) geophysical survey over the Akie, Pie and Mt. Alcock properties. The survey had a nominal line spacing of 200 metres but was tightened to 100 metre spacing over key areas of interest such as the Cardiac Creek deposit. The primary goal of the survey was to obtain lithological and structural information near surface and at depth across the three properties, as well as define a geophysical response

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directly from the Cardiac Creek deposit.

Preliminary interpretative results generated from the VTEM data indicate an excellent correlation between the known geological and structural data and the EM conductivity response generated from the survey. The Devonian Gunsteel Formation black shale, known host to the mineralized occurrences in the belt, is easily identified as a conductive trend and can be traced across the Akie and Pie properties. Additionally, the interpreted western thrust panel of rocks, which have been tentatively assigned to the Gunsteel Formation, and which hosts the GPS barite showing, has a similar conductive trend and was also traceable across the two properties. Other key lithological units such as the Kechika Group siltstone and limestone of the Kwadacha Reef are also discernible by variation in conductivity and resistivity.

The results also defined the western panel of Gunsteel Formation shale and associated rocks on the Mt. Alcock property and suggest an increased level of structural complexity compared to the existing mapping. A prominent EM lineation is present along strike to the southeast of the Main Barite showing. Historical drilling on the Main Barite showing intersected 8.8 metres grading 9.3 % combined Zn+Pb and 1.2 opt Ag in drill hole 89-3 and 10.5 metres grading 6.8 % combined Zn+Pb and 0.7 opt Ag in drill hole 89-9. This EM lineation is situated outside of any historical surface work and remains untested and is a high priority target for follow-up work.

To provide a detailed analysis of the VTEM results the company engaged Condor Consulting Inc. of Littleton, Colorado who are recognized experts in the field of airborne electromagnetics. The goal of this work was to utilise existing geological, geophysical, drilling and 3D modeling data and assess the VTEM results from the three properties, with a particular focus on the geophysical response garnered from the Cardiac Creek deposit as well as other mineralized occurrences in an attempt to define a deposit or mineralized signature. These results would be used to generate, define and rank electromagnetic targets on the three properties for follow up ground work. In addition, the analysis would be used to better define and delineate both lithological and structural contacts, particularly in regions where outcrop exposure is limited or not present due to vegetation.

Condor completed a number of processing steps to evaluate the data, including layered-earth, time constant and depth imaging. The result of this detailed analysis has shown that areas of known mineralization such as Cardiac Creek and Mt. Alcock are located along conductive trends and exhibit elevated conductivity and depressed magnetic signatures. Three profiles across the Cardiac Creek deposit show a strong conductor ranging from the surface to about 300 m depth which is about the depth limit that the VTEM survey data can be resolved with confidence.

Despite the strong conductor seen at Cardiac Creek, it is not unique and is only a small portion of a larger conductive lineation seen through the VTEM survey block. Plan view images indicate the conductivity along the Cardiac Creek deposit is slightly lower than along the same conductor just north and south of the deposit. The



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decreased magnetic signature observed around the Cardiac Creek deposit is likely due to magnetite destruction caused by hydrothermal fluids proximal to a source vent. Condor believes that the magnetic lows coincident with elevated conductivity are a significant geophysical signature that may accompany proximal mineralization and can be used as an exploration vector toward finding new zones.

The detailed analysis also generated a series of 25 Target Zones (TZ) on all three properties. The target zones are groupings of conductors (either discrete conductor picks or wide features from depth imaging) that are prioritized based on the degree of correlation of the observed response with the defined target model. The target zones have been referenced against the known geological, structural and drill data.

Several target zones are located along strike of known mineralization, including both north and south of Cardiac Creek. The largest and strongest target zone identified in the survey is east of Cardiac Creek on an eastern panel of Gunsteel Formation that has seen only limited historical soil sampling on reconnaissance line spacing. TZ-17 is a long conductor, possibly positioned along a fold axis, which appears to be dipping east. As with Cardiac Creek, this target has a highly conductive response as part of its geophysical signature.

Another target zone east of Cardiac Creek is coincident with a very large and strong historical zinc-in-soil anomaly (South Zinc Anomaly) that remains largely untested by systematic exploration. Additional targets are present on the eastern side of Silver Creek, located opposite to the Cardiac Creek deposit, and within the prospective Gunsteel Formation. The eastern side of Silver Creek has seen only limited exploration including soil sampling that defined the South Zinc anomaly in 1996. This region was also highlighted in the 2012 hydrogeochemistry sampling program and will continue to be assessed for the upcoming 2013 exploration program.

Several target zones are located in the vicinity of the GPS Zone where a single drill hole was attempted in 2011 to test surface mineralization at depth, but failed to reach the target depth due to poor near-surface ground conditions. This location remains a high priority drill target and will be retested from a new location.

Targets were identified on the Mt. Alcock property located northwest of the Main Zone in rocks interpreted to be Road River Group but which will now be reassessed due to the similar EM conductivity pattern known from the Gunsteel Formation. These targets will be followed up in the field to determine the host lithologies and the possibility of a potential thrust repeat of the Gunsteel Formation shale. Several targets were also identified on the Pie property, most notably on the West Pie target area within the interpreted Gunsteel Formation shale. These targets will be assessed in the upcoming field season.

The report and ranked EM targets defined by Condor Consulting will continue to be reviewed and assessed in conjunction with the digital GIS compilation recently completed on all three properties. It is expected that this work

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will refine the targets to produce high priority field targets for the upcoming field season. Although target zones can be selected from the VTEM data, it is important that they be further investigated with ground geophysics or geochemistry before drilling.

This is the first modern airborne geophysical survey undertaken on the Company's large land holdings. Prospecting, mapping, soil geochemistry and detailed geophysical ground surveys will be considered in 2013 for any anomalies generated by the 2012 VTEM surveys. The survey results on Mt. Alcock and Pie will also help confirm drill targets.

Based on these results the Company has plans to expand the VTEM coverage to include both the Yuen and Cirque East properties, and the northern half of its claim holdings located northwest of Mt. Alcock. A 2013 VTEM survey utilized in conjunction with the ongoing digital compilation of exploration data on the northern properties is expected to yield numerous, and possibly drill ready, high priority targets.

## **Hydrogeochemistry**

Following up on the results of the 2011 baseline hydrogeochemistry, over 100 water samples were collected from primary and secondary drainages on the Akie, Pie, Yuen, and Mt. Alcock properties. For due diligence purposes, additional samples were taken downstream of the GPS showing confirming its anomalous nature. The initial field results identified several areas considered to be anomalous in sulphate concentrations. These included North Pie, West Pie, and drainages from the Mt. Alcock property. The analytical results are summarised below.

### ***Akie Property***

Sampling on the Akie property focused on testing creeks that drain an area underlain by Gunsteel Formation shale as well as the geology on the eastern side of the Silver Creek. Additional samples were taken in the immediate vicinity of the GPS barite showing along the western edges of the Akie property which returned anomalous values in Pb and Zn and other pathfinder elements. A drill hole to test the GPS showing was started in late 2011 but stopped short of its intended depth due to challenging ground conditions. The GPS showing remains a high priority drill target that is located along strike from the Cirque deposit.

Silver Creek has a distinct anomalous Zn signature, with localized increases in Pb, extending from the Central Pie area down to the confluence with the Akie River. This is attributed to the large number of creeks and streams draining known Gunsteel Formation shale to the west where drilling has defined the Cardiac Creek mineralized horizon in 79 drill holes. Of considerable interest are anomalous Zn values originating from the underexplored eastern side of Silver Creek that will require further detailed field evaluation as a potential target for hosting additional Zn-Pb-Ag mineralization. The sampling downstream of the Cardiac Creek deposit has identified a number

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of key elements that can be used as a geochemical signature to guide future sampling programs on the Company's properties.

## ***Pie Property***

Sampling on the Pie property focused on the primary, secondary and select tertiary creeks draining from the West Pie target area and the Central Pie panel of Gunsteel Formation shale. Historical drilling was centered on the Main Pie showing and on a trend towards the south eastern edge of the property. The northern end of the Central Pie area produced a distinct anomalous signature with extremely high concentration of sulphate and high conductivity readings. Additionally, this area is anomalous in Zn, Pb and other key elements. Of particular interest, barite float was found within the creeks and iron seeps were observed within tertiary creeks draining from the Gunsteel Formation shale nearby. Field measurements from follow up sampling in the area continued to record highly anomalous sulphate values and conductivity readings. This area remains untested by drilling and warrants follow up work including detailed mapping of the Gunsteel Formation shale and sampling of the iron seeps.

The West Pie target area returned moderate to anomalous values of sulphate and conductivity measurements and moderate to anomalous values of certain key pathfinder elements towards the center of the area within the interpreted Gunsteel Formation shales.

## ***Mt. Alcock Property***

Sampling on the Mt. Alcock property focused on primary and secondary creeks draining from the Main Zone showing where the historical drilling defined a body of Zn-Pb-Ag-Ba mineralization, and the eastern panel of Gunsteel Formation shale which is known to host several nodular barite showings and iron seeps. Sampling from the eastern panel of Gunsteel Formation shale returned anomalous values of Zn and moderate to elevated values of pathfinder elements. In an attempt to obtain background values for sulphate several samples were taken immediately to the east from creeks draining geology interpreted to be from the Road River Group of rocks that typically underlie the Gunsteel Formation shale. However these creeks unexpectedly returned anomalous concentrations in sulphate. Follow up sampling in these drainages continued to demonstrate anomalous sulphate and Zn values and will require follow up work to reassess the geology and determine the possible source(s) of this anomalism.

Limited historical drilling on the Main Zone showing in 1989 intersected 8.8 metres grading 9.3 % combined Zn+Pb and 1.2 opt Ag in drill hole 89-3. Drill hole 89-9 returned the widest intercept, with 10.5 metres grading 6.8 % combined Zn+Pb and 0.7 opt Ag. This area is a high priority target for follow-up in 2013.

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Future sampling programs on the Akie, Pie and Mt. Alcock properties will focus on tertiary drainages in order to pinpoint the source of the sulphate and elemental anomalies, and the presence of possible Zn- Pb-Ag mineralization.

## **Digital Compilation Program**

In November, 2012 the Company initiated a massive digital compilation program incorporating recent and historical geological data gathered from public exploration assessment reports that represent over 35 years of mineral exploration conducted in the Kechika Trough. The compiled information is stored in a structured database format that can be imported into a number of commonly used GIS and mine software programs. The digital information represents both broad and detailed scale data and includes drilling, geological, geochemical and geophysical data.

The initial phase of work is now complete for the Company's flagship Akie property and key Kechika Regional properties. The historical data has been merged with the Company's recent exploration data to form a comprehensive digital record unavailable to historical workers. The regional properties from south to north include: Pie, Cirque East, Yuen, Mt. Alcock, Kwad, Weiss, Bear/Spa, Driftpile South, Saint and Thro. The second phase of the program will incorporate data from properties adjacent to the Company's claims as well as other data sets including additional assessment reports, government data from both the British Columbia Geological Survey and the Geological Survey of Canada, and historical internal reports obtained by the Company.

Currently, the database exceeds 155 GB in size and includes over 1,250 rock samples, 1,775 silt samples, 24,000 soil samples, and 13,875 metres of drilling, in addition to data from the Akie property.

Advanced targeting utilizing the compiled information is underway and will be implemented in future exploration and drilling programs on the Company's properties.

## **Permitting**

The Company has received two drill permits, one each for Yuen and North Kechika, and three date extensions to the Akie, Pie and Mt. Alcock drill permits, as well as approval to construct a new drill camp on the Mt. Alcock property. These permits will now enable the Company to establish long term exploration goals and carry them out in a time effective manner without having to re-apply or renew existing permits on an annual basis. Collectively, the permits and amendments provide multi-year approval for drill programs on 5 properties and logistical support to follow-up geological and geochemical surveys on intervening properties not yet slated for drilling.

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## Summary of exploration expenditures incurred on various properties:

	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, March 31, 2013</b>	<b>\$ 24,175,329</b>	<b>\$ 330,434</b>	<b>\$ 24,505,763</b>
<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	<b>37,138,238</b>
Camp equipment, depreciation	41,472	–	41,472
Camp operating	93,100	142,135	235,235
Geology	144,245	69,220	213,465
Underground development	22,565	–	22,565
Community consultations	200,000	–	200,000
Environmental studies	168,935	–	168,935
Airborne survey	80,109	193,061	273,170
<b>Balance, March 31, 2013</b>	<b>34,839,377</b>	<b>3,453,703</b>	<b>38,293,080</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 March 31, 2013</b>	<b>\$ 59,014,706</b>	<b>\$ 3,784,137</b>	<b>\$ 62,798,843</b>

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## 1.3 Selected Annual Information

The following is a summary of certain financial information concerning the Company for each of the last three most recently completed financial years. Fiscal 2011 financial results have been restated to IFRS. Please refer to Note 19 in the audited consolidated financial statements for the year ended June 30, 2012.

	Years ended		
	2012	2011	2010
	(IFRS)	(IFRS)	(IFRS)
Interest and other income	\$ 241,234	\$ 249,033	\$ 36,036
Net Loss	\$ (1,590,656)	\$ (3,064,185)	\$ (4,467,595)
Loss per share	(\$0.01)	(\$0.03)	(\$0.05)
Total assets	\$ 78,271,595	\$ 81,527,157	\$ 63,441,750
Total long term liabilities	\$ 1,466,000	\$ 1,413,000	\$ 937,000
Cash dividends declared per share for each class of share	\$ Nil	\$ Nil	\$ Nil

## 1.4 Results of Operations

The following is a discussion of the financial condition, changes in financial condition and results of operations of the Company for the nine months ended March 31, 2013 and 2012. The financial results for the prior periods have been restated to IFRS. Please refer to Note 16 in the condensed consolidated interim financial statements for the three months ended March 31, 2013.

During the nine months ended March 31, 2013, the Company reported a loss before comprehensive loss of \$1,200,775 or \$0.00 per share compared to a loss before comprehensive loss of \$1,059,640 or \$0.00 per share in fiscal 2012, an increase in loss of \$141,135.

The table below details certain non-cash transactions that for the purposes of this discussion have been excluded from the reported net loss to produce an adjusted net loss that forms a better basis for comparing and assessing the Company's period-over-period operating results and requirements.

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Nine months ended March 31,	2013	2012
	(IFRS)	(IFRS)
Net comprehensive loss for the period	\$ (1,406,640)	\$ (245,540)
Adjustment for change in FMV of marketable securities	205,865	(814,100)
Net loss before comprehensive loss	(1,200,775)	(1,059,640)
Deferred income tax recovery	–	(127,305)
Net loss before income taxes	(1,200,775)	(1,186,945)
Depreciation	4,136	3,094
Share-based compensation expense	36,894	122,965
Loss (gain) on sale of marketable securities	40,451	(57,110)
Adjusted net loss for the MD&A discussions (1)	\$ (1,119,294)	\$ (1,117,996)

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(1) Adjusted net loss for the period is not a term recognized under IFRS.

## Interest income

Total interest income for the nine months ended March 31, 2013 was \$143,592 compared to \$187,056 in the same period last year. The decrease in interest income was attributable to lower balances of short-term investments.

## General and administration expenses

Total general and administration expenses decreased by \$127,195 due to decreases in bank charges of \$1,442, consulting fees of \$12,399, investor relations fees of \$59,763, professional fees of \$9,772, regulatory fees of \$9,900, share-based compensation expense of \$86,071, travel and promotions of \$10,624 and wages and benefits of \$2,757, offset by increases in bonuses of \$60,500, depreciation expense of \$1,042, office and miscellaneous expenses of \$3,876 and transfer agent fees of \$115.

During the nine months ended March 31, 2013, the Company paid bonuses totaling \$63,000 (2012 - \$2,500) to companies controlled by directors and officers of the Company.

The decrease in investor relations fees was due to decreased investor relation activities in Europe.

The decrease in professional fees primarily resulted from a decrease in accounting fees of \$6,520 as compared to the same period last year when the Company incurred additional costs related to transition to IFRS.

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The Company recognizes compensation expense for all stock options granted, using the fair value based method of accounting and any cash paid on the exercise of stock options is added to the stated value of common shares. During the nine months ended March 31, 2013, the Company recorded share-based compensation expense of \$36,894 (2012 - \$122,965) on the vested portion of stock options granted to directors, officers and consultants of the Company. The recorded share-based compensation expense was significantly lower as there were less options vested and no new stock options granted during the period.

## 1.5 Summary of Quarterly Results

The following is a summary of certain consolidated financial information concerning the Company for each of the last eight reported quarters:

Quarter ended	Interest Income	Net Loss before comprehensive loss	Earnings (Loss) per share
March 31, 2013	\$ 48,894	\$ (423,693)	\$ (0.01)
December 31, 2012	46,710	(412,584)	(0.00)
September 30, 2012	47,988	(364,498)	(0.00)
June 30, 2012	54,178	(531,016)	(0.01)
March 31, 2012	46,972	(281,615)	(0.00)
December 31, 2011	72,030	(502,784)	(0.00)
September 30, 2011	68,054	(275,241)	(0.00)
June 30, 2011	75,801	(1,413,896)	(0.01)

The financial results for the prior periods have been restated to IFRS.

The significant changes in loss for the quarter ended:

- June 30, 2012 was due to a loss on non-recoverable exploration advances of \$93,072, deferred income tax expense of \$53,000, travel expenses of \$113,763 and professional fees of \$57,306 that primarily consisted of accrued audit fees for fiscal 2012; and
- June 30, 2011 was due to stock-based compensation expense of \$95,280, business development consulting fees of \$188,544, investor relations fees of \$149,433, bonuses of \$74,613, flow-through taxes of \$74,434 and write-off of mineral properties of \$221,560.

### 1.6/1.7 Liquidity and Capital Resources

The Company reported working capital of \$15,603,805 at March 31, 2013 compared to working capital of \$15,607,005 at June 30, 2012, representing a decrease in working capital of \$3,200. The decrease in working capital was a result of exploration and evaluation and general administrative expenditures offset by proceeds from the flow-through financing of \$3,000,000 completed by the Company in November of 2012. Net cash decreased by \$215,147 from \$13,905,702 at June 30, 2012 to \$13,690,555 at March 31, 2013.



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During the nine months ended March 31, 2013, the Company utilized its cash and cash equivalents as follows:

- (a) \$1,224,103 was used in operating activities, consisting primarily of general and administrative expenditures and change in non-cash items;
- (b) \$1,206,329 was used for deferred exploration of resource properties, \$140,085 was used for acquisition of equipment and camp upgrades including renovation of bridges leading to and allowing access to the Akie Property;
- (c) \$387,928 was used for the purchase of marketable securities and \$127,334 was generated on the sale of marketable securities;
- (d) \$308,615 was used for the purchase of 864,000 common shares of the Company at a weighted average price of \$0.36 per share under the Normal Course Issuer Bid ("NCIB"), which commenced on July 31, 2009 and was subsequently extended in August 2010, 2011 and 2012;
- (e) \$2,863,650 was received from the flow-through private placement net of the finder fee of \$120,000 and regulatory filing fees of \$16,350; and
- (f) \$37,500 was received from exercise of 150,000 share options at a price of \$0.25.

The Company is engaging in a NCIB because it believes that the market price of its common shares at times does not properly reflect the underlying value of the Company. The purpose of the bid is to reduce dilution of the Company's shares and to enhance the potential future value of the common shares which remain outstanding, thus increasing long term shareholder value. Purchases connected with this bid will be conducted through Canaccord Genuity Corp.'s offices in Vancouver. 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.

Current assets excluding cash as at March 31, 2013 include receivables of \$218,287, which consisted of HST recoverable of \$54,725 and interest receivable on short-term investments of \$163,562, METC recoverable accrued for fiscal 2012 of \$556,085, prepaid expenses of \$13,038 and marketable securities with a fair market value of \$1,268,228. Current assets excluding cash as at June 30, 2012 include receivables of \$123,368, which consisted of HST recoverable of \$79,955 and interest receivable on short-term investments of \$43,413, METC recoverable accrued for fiscal 2012 of \$556,085, prepaid expenses of \$9,800 and marketable securities with a fair market value of \$1,253,950.

Current liabilities as at March 31, 2013 consisted of trade payables and accrued liabilities of \$135,854 and amounts due to related parties of \$6,534. Current liabilities as at June 30, 2012 consisted of trade payables and accrued liabilities of \$235,085 and amounts due to related parties of \$6,815.

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The other sources of funds potentially available to the Company are through the exercise of outstanding stock options and share purchase warrants. See Item 1.15 – Other Requirements – Summary of Outstanding Share Data. There can be no assurance, whatsoever, that any or all of these outstanding exercisable securities will be exercised.

The Company has and may continue to have capital requirements in excess of its currently available resources. In the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund its future operations, the Company may be required to seek additional financing. Although the Company has been successful in raising the above funds, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

The Company's overall success will be affected by its current or future business activities. The Company is currently in the process of acquiring and exploring its interests in resource properties and has not yet determined whether these properties contain mineral deposits that are economically recoverable. The continued operations of the Company and the recoverability of expenditures incurred in these resource properties are dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to explore and develop the properties, and upon future profitable production or proceeds from disposition of the resource properties.

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 bank deposits of \$90,555 and GICs classified as cash equivalents of \$13,600,000.

Subsequent to the period ended March 31, 2013, the Company redeemed \$13,600,000 from GICs and transferred funds to a treasury bank deposit with a major bank in Canada. This risk is managed by using one 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.

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## *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, 2013, the Company was holding the total of \$13,690,555 in cash and cash equivalents and \$1,268,228 in available for sale marketable securities to settle its current cash liabilities of \$142,388. Management believes it has sufficient funds to meet its current obligations as they become due and to fund its exploration projects and administrative costs.

## *Market risk*

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

## *Interest Rate Risk*

The Company is exposed to interest rate risk as its bank accounts earn interest income at a variable rate of approximately 1.5%.

## *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.

## *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.

## **1.8 Off-Balance Sheet Arrangements**

The Company does not utilize off-balance sheet arrangements.

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## 1.9 Transactions with Related Parties

The remuneration of directors and executive officers during the nine months ended March 31, 2013 and 2012 were as follows:

Nine months ended March 31,		2013		2012
Bonuses	\$	63,000	\$	2,500
Consulting fees (ii)		11,250		11,250
Directors fees (iv)		37,500		37,500
Exploration and evaluation expenditures (geological consulting) (v)		105,012		103,344
Management and administration (i)		265,500		265,500
Share-based payments (vi)		36,894		95,317
Total	\$	519,156	\$	515,411

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 nine months ended March 31, 2013, the Company paid \$220,500 (2012 – \$220,500) for management fees and \$45,000 (2012 – \$45,000) for administrative fees to VCC.

The Company paid \$11,250 (2012 - \$11,250) for consulting fees to a company controlled by a director;

The Company paid \$37,500 (2012 - \$37,500) in directors fees to five directors of the Company;

The Company paid or accrued exploration and evaluation costs of \$105,012 (2012 - \$103,344) to a company owned by an officer of the Company.

Share-based payments are the fair value of options that have been granted to directors and executive officers.

As at March 31, 2013, \$6,534 (June 30, 2012 - \$6,815; July 1, 2011 - \$Nil) was due to a company controlled by an officer of the Company for geological consulting fees.

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## **1.10 Fourth Quarter and Subsequent Events**

Subsequent to the period ended March 31, 2013, the Company:

- received multi-year exploration permits from the British Columbia Ministry of Energy, Mines and Natural Gas for the Yuen property and the North Kechika regional properties and date extensions for its existing multi-year permits for the Akie, Pie and Mt. Alcock properties;
- posted reclamation bonds of \$37,500 as security deposits with the Government of British Columbia in relation with the above permits; and
- repurchased 175,500 of its common shares for a total consideration of \$37,582 at a weighted average price of \$0.21 per share under the NCIB.

## **1.11 Proposed Transactions**

None.

## **1.12 Critical Accounting Estimates**

Not applicable to Venture Issuers.

## **1.13 Changes in Accounting Policies including Initial Adoption**

The financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards. Our significant accounting policies are set out in Note 2 of the audited consolidated financial statements of the Company, as at and for the year ended June 30, 2012.

The standards and interpretations within IFRS are subject to change and accordingly, the new accounting policies that are relevant to the Company will be finalized when the annual IFRS financial statements are prepared for the year ending June 30, 2013. For further discussion of new standards and interpretations, please refer to Note 2 of the condensed consolidated interim financial statements for the nine months ended March 31, 2013 and 2012.

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## 1.14 Financial Instruments and Other Instruments

The Company's financial instruments as at March 31, 2013 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	\$ –	\$ –	\$ 13,690,555	\$ –
Interest receivable	163,562	–	–	–
Marketable securities	–	1,268,228	–	–
<b>Financial liabilities</b>				
Trade payables	–	–	–	123,854
Due to related parties	–	–	–	6,534
	\$ 163,562	\$ 1,268,228	\$ 13,690,555	\$ 130,388

Unless otherwise disclosed their carrying values approximate their fair values due to the short term nature of these instruments. Please also see Note 2 of the audited consolidated financial statements of the Company for the years ended June 30, 2012 and 2011.

## 1.15 Other Requirements

### Summary of outstanding share data as at May 30, 2013:

(1)	Authorized: Unlimited common shares without par value	
	Issued and outstanding:	142,992,138
	Less treasury shares:	(684,500)
(2)	Stock options outstanding:	7,147,500
(3)	Warrants	3,750,000

Additional disclosures pertaining to the Company's technical report, management information circulars, material change reports, press releases and other information are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

On behalf of the Board of Directors, thank you for your continued support.

"Peeyush Varshney"

Peeyush Varshney  
Director  
May 30, 2013