CANADA ZINC METALS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Canada Zinc Metals Corp.

We have audited the accompanying consolidated financial statements of Canada Zinc Metals Corp. which comprise the consolidated balance sheets as at June 30, 2011 and 2010 and the consolidated statements of loss and deficit, comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canada Zinc Metals Corp. as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

October 21, 2011

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CANADA ZINC METALS CORP.

CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30

		2011		2010
ASSETS				
Current				
Cash and cash equivalents	**$**	**15,501,154**	$	9,281,997
Short-term investments (Note 3)		**4,609,000**		–
Receivables		**477,600**		67,972
METC recoverable (Note 7)		**1,611,149**		921,063
Prepaid expenses		**378,838**		373,081
Marketable securities (Note 4)		**557,260**		450,000
		23,135,001		11,094,113
Other assets (Note 5)		**309,000**		89,000
Equipment and leasehold improvements (Note 6)		**16,104**		3,973
Long-term prepaid expenses		**192,145**		75,000
Resource properties (Note 7)		**57,874,907**		52,179,664
	$	**81,527,157**	$	63,441,750
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**$**	**1,189,024**	$	1,295,366
Due to related parties (Note 11)		**–**		61,532
		1,189,024		1,356,898
Future income taxes (Note 9)		**6,021,000**		7,040,397
Shareholders' equity				
Capital stock (Note 8)		**93,486,827**		72,370,651
Contributed surplus (Note 8)		**9,260,407**		8,226,203
Deficit		**(28,016,762)**		(25,627,399)
Accumulated other comprehensive income (loss) (Note 14)		**(413,339)**		75,000
		74,317,133		55,044,455
	$	**81,527,157**	$	63,441,750

Nature and continuance of operations (Note 1)
Subsequent events (Note 16)

On behalf of the Board:

"Peeyush Varshney"

Peeyush Varshney, Director

"Praveen Varshney"

Praveen Varshney, Director

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

CANADA ZINC METALS CORP.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
FOR THE YEARS ENDED JUNE 30

		2011		2010
ADMINISTRATION EXPENSES				
Administration (Note 11)	**$**	**60,000**	$	60,000
Amortization		**3,034**		3,227
Bonuses (Note 11)		**434,613**		226,750
Consulting		**802,042**		677,215
Directors fees (Note 11)		**3,000**		–
Flow through taxes (Notes 7 and 9)		**74,434**		601,595
Interest and bank charges:				
- bank charges		**3,205**		3,369
- interest (Note 8)		**13,242**		54,689
Investor relations		**225,816**		1,388
Management fees (Note 11)		**150,000**		150,000
Office and miscellaneous		**66,321**		51,524
Professional fees		**88,628**		73,863
Regulatory fees		**31,920**		14,975
Rent		**58,795**		61,028
Stock-based compensation (Note 8)		**969,495**		1,279,122
Transfer agent fees		**10,497**		6,841
Travel and promotion		**105,114**		73,647
Wages and benefits		**378,946**		358,252
Loss before other items		**(3,479,102)**		(3,697,485)
OTHER ITEMS				
Interest and other income		**249,033**		36,036
Dividend income (Note 4)		**117,187**		–
Loss on sale of marketable securities (Note 4)		**(18,014)**		–
Write-off of resource properties (Note 7)		**(221,560)**		(5,843)
		126,646		30,193
Loss before income taxes		**(3,352,456)**		(3,667, 292)
Future income tax (expense) recovery (Note 9)		**963,093**		(5,525,814)
Loss for the year		**(2,389,363)**		(9,193,106)
Deficit, beginning of year		**(25,627,399)**		(16,434,293)
Deficit, end of year	**$**	**(28,016,762)**	$	(25,627,399)
Basic and diluted loss per common share	**$**	**(0.02)**	$	(0.10)
Weighted average number of common shares outstanding		**122,986,291**		91,308,065

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

CANADA ZINC METALS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30

		2011		2010
Loss for the year before comprehensive loss	**$**	**(2,389,363)**	$	(9,193,106)
Adjustment for the change in fair value of securities during the year (Note 14)		**(488,339)**		75,000
Comprehensive loss for the year	**$**	**(2,877,702)**	$	(9,118,106)

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

CANADA ZINC METALS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

		2011		2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the year	**$**	**(2,389,363)**	$	(9,193,106)
Items not affecting cash:				
Amortization		**3,034**		3,227
Interest accrued		**13,242**		54,689
Stock-based compensation		**969,495**		1,279,122
Warrants received as dividends in kind (Note 4)		**(117,188)**		–
Loss on sale of marketable securities (Note 4)		**18,014**		–
Write-off of resource properties		**221,560**		5,843
Future income tax expense (recovery) (Note 9)		**(963,093)**		5,525,814
Changes in non-cash working capital items:				
(Increase) decrease in receivables		**(409,628)**		15,758
METC recovered		**921,063**		–
Increase in prepaid expenses		**(5,757)**		(372,388)
Increase (decrease) in due from related parties		**(7,828)**		55,358
Increase (decrease) in accounts payable and accrued liabilities		**(501,503)**		624,724
Cash used in operating activities		**(2,247,952)**		(2,000,959)
CASH FLOWS FROM INVESTING ACTIVITIES				
Marketable securities costs, net of proceeds on sale (Note 4)		**(496,425)**		(375,000)
Long-term prepaid expenses and deposits		**(117,145)**		–
Short-term investments		**(4,609,000)**		–
Other assets (Note 5)		**(220,000)**		–
Equipment and leasehold improvements		**(15,165)**		–
Resource property costs		**(7,199,737)**		(1,558,002)
Cash used in investing activities		**(12,657,472)**		(1,933,002)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of capital stock, net of issuance costs		**21,756,984**		7,067,117
Common shares repurchased (Note 8)		**(632,403)**		(240,553)
Cash provided by financing activities		**21,124,581**		6,826,564
Increase in cash and cash equivalents during the year		**6,219,157**		2,892,603
Cash and cash equivalents, beginning of year		**9,281,997**		6,389,394
Cash and cash equivalents, end of year	**$**	**15,501,154**	$	9,281,997
Cash and cash equivalents				
Cash	**$**	**81,513**	$	65,371
Guaranteed Investment Certificates		**15,419,641**		9,216,626
	$	**15,501,154**	$	9,281,997

Supplemental disclosure with respect to cash flows (Note 10)

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

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.

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

June 30,		2011		2010
Working capital	$	21,945,977	$	9,737,215
Deficit		(28,979,855)		(25,627,399)

On February 23, 2007, the Company acquired 96% of the issued and outstanding capital stock of Ecstall Mining Corp. ("Ecstall"), a company 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%.

Management believes the Company has sufficient working capital to maintain its operations and activities for the next fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its wholly owned subsidiary, Ecstall. All inter-company transactions and balances have been eliminated upon consolidation.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Areas requiring the use of estimates include inputs used in the calculation of stock-based compensation, impairment of resource properties, and the calculation of future income tax liabilities. Actual results could differ from these estimates.

(c) Cash and cash equivalents

The Company considers cash and cash equivalents to include cash on deposit and highly liquid short-term interest bearing fixed and variable rate Guaranteed Investment Certificates. Interest earned is recognized immediately in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(d) Equipment and leasehold improvements

Equipment is recorded at cost less accumulated amortization and is amortized over their estimated useful lives using the declining-balance method at the following annual rates:

Computers	30-45%
Equipment and furniture	20%

Leasehold improvements are amortized over the term of the lease using the straight-line method.

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

(e) Resource properties

The Company records its interests in resource properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Resource properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of resource exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Management evaluates each resource interest on a reporting period basis or as changes in events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs are capitalized or charged to operations. Resource property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

The amounts shown for resource properties and deferred exploration costs represent costs incurred to date, and do not necessarily represent present or future values which are entirely dependent upon the economic recovery from production or from disposal.

(f) 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 mineral property.

(g) Deferred exploration costs

The Company defers all exploration costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(g) Deferred exploration costs (cont'd…)

These costs will be amortized on the basis of units produced in relation to the estimated reserves available on the related property following commencement of production or written-off to operations in the period related properties are abandoned.

(h) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any significant asset retirement obligations for the years presented.

(i) Impairment of long-lived assets

The carrying values of long-lived assets with fixed or determinable lives are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value determinations are based on management's estimates of undiscounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management.

Assets with indefinite or indeterminable lives are not amortized and are reviewed for impairment on a reporting basis using fair value determinations through management's estimate of recoverable value.

(j) 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.

(k) Stock-based compensation

The Company uses the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock using the Black-Scholes option pricing model. Any consideration paid on the exercise of stock options is credited to capital stock.

(l) Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(l) Loss per share (cont'd…)

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year and does not include outstanding options and warrants.

(m)Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash and cash equivalents as held-for-trading. 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 CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments Presentation, revised and enhanced disclosure requirements while carrying forward presentation requirements. These new sections placed increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Disclosure is also required on the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. 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.

The Company has included disclosure recommended by this section in Note 13 to these consolidated financial statements.

(n) Income taxes

Income taxes are accounted for using the asset and liability method. Under this method of tax allocation, future tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences") and losses carried forward. Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(o) Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

(p) Recent accounting pronouncements

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles ("GAAP") with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011.

The Company's IFRS transition plan includes internal training, external consulting on complex issues and Board and Audit Committee oversight. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

3. 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. At June 30, 2011, the instruments were yielding an average fixed annual interest rate of 1.8%. The fair market value of the Company's short-term investments approximates its carrying value at the balance sheet date.

4. 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.

During the year ended June 30, 2011, TSX-V approved TNR's Plan of Arrangement that involved the spin-out of TNR's lithium and rare metals property interests ("Spin-Out") into a separate public company, International Lithium Corp. ("ILC"). The ILC common shares and common share purchase warrants commenced trading on the TSX-V on May 24, 2011. Pursuant to the Plan of Arrangement, the Company exchanged every common share in TNR for one new share of TNR and one-quarter of one common share of ILC, resulting in 1,875,000 new shares of TNR and 468,750 shares of ILC. The Company allocated the costs of the original TNR shares to new TNR shares and ILC shares based on the distribution ratio and stock prices of new shares after the Spin-Out.

In addition, the Company received 468,750 ILC share purchase warrants as a part of the plan of arrangement. Each ILC warrant is exercisable for two years to acquire one additional share of ILC at $0.375. The warrants were issued to ILC shareholders as dividends in kind and recorded by the Company at a fair market value, based on the quoted market price of ILC warrant as at May 24, 2011. The Company recorded dividend income of $117,188 for 468,750 ILC share purchase warrants received in the Spin-Out.

4. MARKETABLE SECURITIES (cont'd…)

June 30,	TNR shares	ILC shares	ILC warrants
Spin-Out distribution ratio	1:1	1:0.25	1:0.25
Stock/ Warrant price at May 24, 2011	$ 0.175	$ 0.500	$ 0.250
Percent allocation of cost base to original TNR shares	58.33%	41.67%	N/A
Adjusted cost base per share	$ 0.117	$ 0.333	$ 0.250
Number of securities received in the Spin-Out	1,875,000	468,750	468,750
Adjusted cost base total	$ 218,750	$ 156,250	$ 117,188

During the year ended June 30, 2011, the Company sold 68,750 ILC shares at an average price of $0.26 per share for net cash proceeds of $17,678, and 68,500 ILC share purchase warrants at an average price of $0.07 for net cash proceeds of $4,350. The Company realized a pre-tax loss of $18,014 on sale of these securities.

As of June 30, 2011, the quoted market value of new TNR shares was $140,625 (2010-$450,000), quoted market value of ILC shares was $90,000 (2010 – $NIL) and quoted value of ILC warrants was $16,010 (2010-$NIL).

During the year ended June 30, 2011, the Company invested $518,453 by purchasing 248,500 shares of Gold Hawk Resources Inc. ("GHK") in the open market at an average price of $2.09 per share. The quoted market value of GHK shares as of June 30, 2011 was $310,625.

The Company included net unrealized losses for the period on marketable securities of $488,339 (2010 –$75,000 unrealized gain) in other accumulated comprehensive income (loss) in the shareholders' equity section of the consolidated balance sheets.

5. OTHER ASSETS

Other assets comprise a reclamation bond of $309,000 (2010 – $89,000) posted as a security deposit with the Government of British Columbia in relation to the Akie and Kechika Regional properties.

6. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computers	$ 15,840	$ 13,689	$ 2,151	$ 14,909	$ 12,574	$ 2,335
Equipment and furniture	18,260	4,307	13,953	4,026	2,598	1,428
Leasehold improvements	2,522	2,522	–	2,522	2,312	210
	$ 36,622	$ 20,518	$ 16,104	$ 21,457	$ 17,484	$ 3,973

7. 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

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.

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).

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.

The following table summarizes resource property expenses by property.

	Akie Property	Kechika Regional	DA	Total
Acquisition Costs:				
Balance, June 30, 2009	$ 24,173,329	$ 328,432	$ 71,535	$ 24,573,296
Additions	2,000	–	–	2,000
Balance, June 30, 2010	24,175,329	328,432	71,535	24,575,296
Additions	–	348	–	348
Write-off	–	–	(71,535)	(71,535)
Balance, June 30, 2011	24,175,329	328,780	–	24,504,109

7. RESOURCE PROPERTIES (cont'd…)

	Akie Property	Kechika Regional	DA	Total
Deferred Exploration Costs:				
Balance, June 30, 2009	25,695,058	702,512	150,025	26,547,595
Additions:				
Geological consulting	495,362	220,047	–	715,409
Camp operating	188,715	249,974	–	438,689
Drilling	487,282	–	–	487,282
Community consultations	159,069	–	–	159,069
Environmental studies	109,072	–	–	109,072
Metallurgical analysis	52,200	–	–	52,200
Road and transportation	21,958	–	–	21,958
Less:				
Write-off of camp equipment	(5,843)	–	–	(5,843)
METC (2008)	(921,063)	–	–	(921,063)
Balance, June 30, 2010	26,281,810	1,172,533	150,025	27,604,368
Surface drilling program:				
Camp equipment	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:	631,852	–	–	631,852
Camp operating	314,953	–	–	314,953
Trail construction	600,177	–	–	600,177
Total geotechnical program	1,546,982	–	–	1,546,982
Community consultations	210,000	–	–	210,000
Environmental studies	236,940	–	–	236,940
Underground engineering	92,227	–	–	92,227
Economical assessment	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
June 30, 2011	**$ 56,324,084**	**$ 1,550,823**	**$ –**	**$ 57,874,907**

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.

During the year ended June 30, 2011, the Company received $921,063 in METC for its fiscal 2008 application.

7. RESOURCE PROPERTIES (cont'd…)

During the year ended June 30, 2011, the Company received the Canada Revenue Agency's ("CRA") assessment and preliminary approval of $1,611,149 in METC for its fiscal 2009 application. The Company recorded this amount in METC recoverable with a corresponding reduction in Resource Properties on the consolidated balance sheet as at June 30, 2011.

In September 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.

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 $601,595 in part XII.6 tax for 2009 and an additional $54,689 in interest.

As at June 30, 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.

During the year ended June 30, 2011, the Company accrued $74,434 in additional part XII.6 tax on flow-through funds raised in 2009 upon receipt of the CRA's flow-through assessment and paid the amount subsequent to the year ended June 30, 2011.

During the year ended June 30, 2010, the Company wrote-off $5,843 of obsolete camp equipment which was no longer in use.

8. 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, 2009	88,468,914	$ 64,084,820	$ 8,406,348
Exercise of options (ii)	3,492,500	2,492,347	(1,642,847)
Exercise of warrants (iii)	5,750,000	3,450,000	–
Private placement (i)	5,000,000	3,000,000	–
Share issuance costs (i)	–	(232,383)	–
Stock- based compensation	–	–	1,279,122
Balance, June 30, 2010	102,711,414	72,794,784	8,042,623

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

(a) Authorized and issued (cont'd…)

	Number of Shares	Amount	Contributed Surplus
Balance, June 30, 2010	102,711,414	72,794,784	8,042,623
Repurchase of capital stock – Normal Course Issuer Bid ("NCIB")(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)	–	(168,912)	–
Exercise of options (iii)	895,000	493,850	(242,300)
Shares repurchased and returned to treasury (iv)	(792,500)	(559,800)	192,776
Stock- based compensation	–	–	969,495
Balance, June 30, 2011	**138,455,138**	**93,866,439**	**9,146,174**
Repurchase of capital stock – NCIB (iv)	(560,000)	(379,612)	114,233
Balance, June 30, 2011	**137,895,138**	**$ 93,486,827**	**$ 9,260,407**

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.

(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 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.

(v) 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 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 contributed surplus.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

(a) Authorized and issued (cont'd…)

The total NCIB purchases are summarized as follows:

	August 1, 2009 to July 31, 2010	August 1, 2010 to June 30, 2011	Total NCIB purchases
Number of shares	744,000	1,198,500	1,942,500
Purchase price	$ 311,501	$ 561,455	$ 872,956

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.

During the year ended June 30, 2010:

(vi) the Company completed a non-brokered private placement of 5,000,000 units at a price of $0.60 per unit for total gross proceeds of $3,000,000. Each unit consists of one common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase, at any time within 18 months from closing, one common share of the Company at a price of $0.80. The Company paid $210,000 as a finder's fee and another $22,383 was paid in regulatory costs on this private placement.

(vii) an aggregate of 3,492,500 stock options were exercised at a price ranging from $0.20 per share to $0.25 per share and a total of 3,492,500 common shares were issued for total proceeds of $849,500. In addition, a reallocation of $1,642,847 from contributed surplus to share capital was recorded on the exercise of these options.

(viii) 5,750,000 share purchase warrants were exercised by Tongling Nonferrous Metals Group Holdings Co. Ltd. ("Tongling") at a price of $0.60 per share and 5,750,000 common shares were issued for total proceeds of $3,450,000.

(ix) the Company received TSX Venture Exchange ("TSXV") approval to commence a normal course issuer bid ("NCIB") to purchase at market price up to 4,423,445 of its common shares, representing approximately 5% of the Company's issued and outstanding common shares as at June 30, 2009. The NCIB commenced on July 31, 2009 and stayed open for 12 months. During the year ended June 30, 2010, the Company had repurchased 590,000 shares of its common shares for a total consideration of $240,553 at a weighted average price of $0.41 per share under the NCIB, of which $424,133 was recorded as a reduction to capital stock for the assigned value of the shares, and $183,580 was allocated to contributed surplus.

8. 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 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. Stock options granted to directors, officers and employees of the Company vest immediately.

Stock options outstanding and exercisable at June 30, 2011 are summarized as follows:

Number of Options	Exercise Price	Expiry Date	Exercisable
155,000	$0.70	November 14, 2016	155,000
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
420,000	$1.05	February 11, 2018	420,000
303,000	$0.25	February 11, 2018	303,000
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	612,500
360,000	$0.40	October 9, 2019	360,000
817,500	$0.41	October 13, 2016	697,500
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	150,000
440,000	$0.53	November 8, 2020	440,000
1,430,000	$0.55	November 24, 2020	855,000
150,000	$0.60	January 7, 2015	62,500
8,240,500			7,220,500

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

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)

(b) Stock options (cont'd…)

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2009	8,198,000	$ 0.46
Granted	3,980,000	0.49
Exercised	(3,492,500)	0.24
Cancelled	(1,460,000)	1.04
Balance, June 30, 2010	7,225,500	0.47
Granted	2,020,000	0.55
Exercised	(895,000)	0.28
Expired	(110,000)	0.66
Balance, June, 2011	8,240,500	$ 0.51
Exercisable, June 30, 2011	7,220,500	$ 0.51

During the year ended June 30, 2011, under the fair value based method a total of $969,495 (2010 – $1,279,122) 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:

June 30,	2011	2010
Risk free interest rate	2.74%	2.81%
Expected dividend yield	0%	0%
Stock price volatility	102%	98%
Expected life of options	9.07 years	8.2 years

The weighted average fair value of options granted during the year ended June 30, 2011 was $0.46 (2010 – $0.41) per share.

(c) Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2009	5,750,000	$ 0.60
Warrants exercised	(5,750,000)	0.60
Warrants granted (Note 7(a) (i))	2,500,000	0.80
Balance, June 30, 2010	2,500,000	0.80
Granted (Note 5(a) (i)(ii))	18,115,612	0.71
Balance, June 30, 2011	20,615,612	$ 0.72

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)

(c) Warrants (cont'd…)

As at June 30, 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[(1)]	November 16, 2011
	$ 0.775[(1)]	November 16, 2012
2,422,500	$ 0.950	August 28, 2012
20,615,612		

[(1)] Warrants are exercisable at a price of $0.675 during the first year and at a price of $0.775 during the second year.

9. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2011	2010
Loss before income tax recovery	$ (3,352,456)	$ (3,667,292)
Expected income tax recovery at statutory rates	(921,925)	(1,072,683)
Net, non-deductible expenses	156,532	202,645
Recognized benefits of non-capital losses carried forward	(197,700)	6,395,852
Total income taxes (recovery)	$ (963,093)	$ 5,525,814

Details of future income tax assets (liabilities) are as follows:

	2011	2010
Equipment	$ 79,000	$ 74,150
Resource properties	(9,323,000)	(9,709,175)
Non-capital losses carried forward	3,080,000	2,368,866
Capital losses	57,000	3,052
Share issuance costs	143,000	222,710
	(5,964,000)	(7,040,397)
Less: Valuation allowance	(57,000)	–
	$ (6,021,000)	$ (7,040,397)

9. INCOME TAXES (cont'd…)

During the year ended June 30, 2011, the Company issued 4,845,000 flow-through common shares for gross proceeds of $3,730,650. The flow-through agreement requires the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties.

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 incurred the exploration expenditures between the September 2008 flow-through share issuance and September 30, 2010.

During fiscal 2010 and 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 or accrued $654,000 in part XII.6 tax for 2009 and an additional $65,000 in interest and penalties

As at June 30, 2011, the Company had fully spent the required amount of the 2008 flow-through funds on eligible exploration expenditures, which were renounced to the flow-through shareholders for the 2010 calendar year.

The Company has non-capital losses of approximately $12,321,000 which may be carried forward and applied against taxable income in future years. These losses, if unutilized, will expire through 2031. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been reflected in these financial statements.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

June 30		**2011**		**2010**
Cash paid during the period for interest (Note 8)	$	54,689	**$**	–
Cash paid during the period for income tax (Note 8)	$	579,877	**$**	–

Significant non-cash transactions for the year ended June 30, 2011 included:

(a) Included in accounts payable is $832,141 (2010 -$450,222) in resource property expenditures.

(b) Included in METC recoverable is $1,611,149 (2010 - $921,063) reduction in resources properties expenditures (Note 7).

(c) Included in due to related parties is $Nil (2010 -$53,704) in resource property expenditures.

(d) Upon the exercise of stock options, $242,300 (2010 - $1,642,847) was allocated to contributed surplus (Note 8(a) (iii)).

(e) Included in marketable securities is $488,339 (2010 - a gain of $75,000) of unrealized loss which was allocated to accumulated other comprehensive income (Note 13).

11. TRANSACTIONS WITH RELATED PARTIES

During the year ended June 30, 2011:

(a) the Company paid or accrued $150,000 (2010 – $150,000) for management fees and $60,000 (2010 – $60,000) for administrative fees to a company partially controlled by a director and an officer of the Company.

(b) the Company paid $15,000 (2010 - $15,000) for consulting services to a company controlled by a director of the Company;

(c) the Company paid or accrued $70,000 (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 or accrued $Nil (2010 - $148,000) for consulting and geological services fees, included in resource properties, to a company controlled by a former director of the Company;

(e) the Company paid $54,600 that was outstanding as at June 30, 2010 to a company controlled by a former director of the Company;

(f) the Company paid $3,000 (2010-$Nil) in directors fees;

(g) the Company paid bonuses totalling $434,613 (2010 - $226,750) to a company partially controlled by a director and an officer of the Company.

(h) as at June 30, 2011, $Nil (June 30, 2010 - $6,932) was due to directors and officers of the Company for reimbursement of business expenses.

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.

12. 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 year ended June 30, 2011.

13. FINANCIAL INSTRUMENTS

Financial Risk Management

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

13. FINANCIAL INSTRUMENTS (cont'd…)

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 $15,501,154 and short-term investments of $4,609,000. The Company's cash and cash equivalents consist of bank deposits of $81,513 and variable rate guaranteed investment certificates ("GIC") of $15,419,641. 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 average annual interest of approximately 1.8% 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.

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 some GICs earn interest income at variable rates. As at June 30, 2011, the Company had $5,412,000 in variable rate GIC investments earning an annual rate of 1.2%,, An increase in interest rates by 10 basis points would result in gain of $5,412. All variable rates GIC were redeemed subsequent to June 30, 2011.

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 June 30, 2011, the Company was holding the total of $20,667,414 in cash and cash equivalents and other available-for-sale financial assets to settle its current liabilities of $1,189,024. 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.

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.

14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is the change in shareholders' equity during a period from transactions and other events from non-owner sources. The Company includes the account "Accumulated other comprehensive income (loss)" in the shareholders' equity section of the consolidated balance sheets.

Accumulated other comprehensive income (loss) is comprised of the following:

Balance, June 30, 2009	$	–
Adjustment for change in fair value of securities during the year		75,000
Balance, June 30, 2010		75,000
Adjustment for change in fair value of securities during the year		(488,339)
Balance, June 30, 2011	$	(413,339)

15. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of resource properties in Canada. All of the Company's assets are located in Canada.

16. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2011, the Company:

(a) sold 70,000 ILC shares 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.

(b) invested $1,571,358 in 1,939,000 common shares of Oracle Mining Corp. (former Gold Hawk Resources Inc.) through open market purchases.

(c) received the TSXV approval to purchase at market price up to 6,922,765 common shares, being approximately 5% of the Company's issued and outstanding common shares, by way of a normal course issuer bid (the "New Bid") through the facilities of the TSXV. The Bid commenced on August 1, 2011 and will stay open for 12 months.

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.

(d) repurchased 835,000 of its common shares for a total consideration of $344,375 at a weighted average price of $0.41 per share under the NCIB.

(e) 916,500 common shares re-purchased through the NCIB were returned to the Company's treasury for cancellation.