

CANADA ZINC METALS CORP.

Consolidated Financial Statements

For the Years Ended June 30, 2012 and 2011

Expressed in Canadian Dollars

CANADA ZINC METALS CORP.

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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 statements of financial position as at June 30, 2012, June 30, 2011 and July 1, 2010 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended June 30, 2012 and June 30, 2011, 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 International Financial Reporting Standards, 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 consolidated 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, 2012, June 30, 2011 and July 1, 2010 and its financial performance and its cash flows for the years ended June 30, 2012 and June 30, 2011 in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

October 24, 2012



CANADA ZINC METALS CORP.

Consolidated Statements of Financial Position
As at June 30, 2012, June 30, 2011 and July 1, 2010
(Expressed in Canadian Dollars)

	Notes	June 30, 2012	June 30, 2011 (Note 19)	July 1, 2010 (Note 19)
Assets				
Current assets				
Cash and cash equivalents	3	\$ 13,905,702	\$ 15,501,154	\$ 9,281,997
Receivables	4	123,368	477,600	67,972
METC recoverable	11	556,085	1,611,149	921,063
Short-term investments	5	–	4,609,000	–
Prepaid expenses		9,800	378,838	373,081
Marketable securities	6	1,253,950	557,260	450,000
		15,848,905	23,135,001	11,094,113
Other assets	7	312,656	309,000	89,000
Equipment and leasehold improvements	10	297,408	194,994	122,569
Long-term prepaid expenses		168,716	192,145	75,000
Exploration and evaluation assets	11	61,643,910	57,696,017	52,061,068
		\$ 78,271,595	\$ 81,527,157	\$ 63,441,750
Liabilities and Equity				
Current liabilities				
Trade payables and accrued liabilities	8	\$ 235,085	\$ 1,189,024	\$ 1,295,366
Due to related parties	15	6,815	–	61,532
Flow-through premium liability	9	–	127,305	706,101
		241,900	1,316,329	2,062,999
Deferred income tax liability	13	1,466,000	1,413,000	937,000
Equity				
Capital stock	12	90,655,694	92,026,340	73,214,788
Reserves	12	11,599,747	11,150,900	8,053,851
Deficit		(25,556,729)	(23,966,073)	(20,901,888)
Accumulated other comprehensive income (loss)		(135,017)	(413,339)	75,000
		76,563,695	78,797,828	60,441,751
		\$ 78,271,595	\$ 81,527,157	\$ 63,441,750

Nature and continuance of operations (Note 1)

Subsequent events (Note 20)

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

Approved on behalf of the board of directors:

“Peeyush Varshney”

Director

“Praveen Varshney”

Director

CANADA ZINC METALS CORP.

Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

	Notes	Capital Stock				Reserves (Note 12)	Deficit	Accumulated other comprehensive income (loss)	Total Equity
		Number of common shares	Number of treasury Shares	Common shares Amount	Treasury shares Amount				
Balance, July 1, 2010	19	102,711,414	(590,000)	\$ 73,455,341	(240,553)	\$ 8,053,851	\$ (20,901,888)	\$ 75,000	\$ 60,441,751
Private placement	12	31,386,224	–	16,006,974	–	1,993,026	–	–	18,000,000
Flow-through private placement	12	4,845,000	–	3,730,650	–	–	–	–	3,730,650
Flow-through premium liability	9	–	–	(242,250)	–	–	–	–	(242,250)
Share issuance costs - cash	12	–	–	(225,216)	–	–	–	–	(225,216)
Tax effect of cash share issuance costs		–	–	56,304	–	–	–	–	56,304
Shares repurchased and cancelled	12	(792,500)	–	(559,800)	–	192,776	–	–	(367,024)
Treasury shares repurchased	12	–	(560,000)	–	(265,380)	–	–	–	(265,380)
Treasury shares cancelled		(590,000)	590,000	(424,133)	240,553	183,580	–	–	–
Share-based compensation	12	–	–	–	–	969,966	–	–	969,966
Exercise of options	12	895,000	–	493,850	–	(242,299)	–	–	251,551
Change in fair value of securities		–	–	–	–	–	–	(488,339)	(488,339)
Net loss for the year		–	–	–	–	–	(3,064,185)	–	(3,064,185)
Balance, June 30, 2011		138,455,138	(560,000)	92,291,720	(265,380)	11,150,900	(23,966,073)	(413,339)	78,797,828
Exercise of options	12	110,000	–	173,490	–	(145,990)	–	–	27,500
Shares repurchased and cancelled	12	(1,641,500)	–	(1,115,759)	–	342,229	–	–	(773,530)
Treasury shares repurchased	12	–	(666,500)	–	(314,145)	–	–	–	(314,145)
Treasury shares cancelled	12	(560,000)	560,000	(379,612)	265,380	114,232	–	–	–
Share based compensation	12	–	–	–	–	138,376	–	–	138,376
Change in fair value of securities		–	–	–	–	–	–	278,322	278,322
Net loss for the year		–	–	–	–	–	(1,590,656)	–	(1,590,656)
Balance, June 30, 2012		136,363,638	(666,500)	\$ 90,969,839	\$ (314,145)	\$ 11,599,747	\$ (25,556,729)	\$ (135,017)	\$ 76,563,695

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

CANADA ZINC METALS CORP.

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

For the years ended June 30,

	Notes	2012	2011 (Note 19)
ADMINISTRATION EXPENSES			
Administration	15	\$ 60,000	\$ 60,000
Bonuses	15	2,500	434,613
Consulting		225,000	802,042
Depreciation	10	5,386	3,034
Directors fees	15	50,000	3,000
Flow through taxes		-	74,434
Interest and bank charges:			
- bank charges		3,138	3,205
- interest		1,159	13,242
Investor relations		272,294	225,816
Management fees	15	294,000	150,000
Office and miscellaneous		77,987	66,321
Professional fees		93,862	88,628
Regulatory fees		17,895	31,920
Rent		59,878	58,795
Share-based compensation	12	138,376	969,966
Transfer agent fees		7,887	10,497
Travel and promotion		279,791	105,114
Wages and benefits		411,066	378,946
		(2,000,219)	(3,479,573)
Interest and other income		241,234	249,033
Dividend income	6	-	117,187
Gain (loss) on sale of marketable securities	6	72,834	(18,014)
Loss on non-recoverable exploration advances		(93,072)	-
Gain on write-off of accounts payable		114,937	-
Write-off of equipment	10	(675)	-
Write-off of exploration and evaluation assets	11	-	(221,560)
		335,258	126,646
Loss before income taxes		(1,664,961)	(3,352,927)
Deferred income tax recovery	13	74,305	288,742
Net loss for the year		(1,590,656)	(3,064,185)
Adjustment for change in fair value of marketable securities	6	278,322	(488, 339)
Comprehensive loss for the year		\$ (1,312,334)	\$ (3,552,524)
Basic and diluted loss per common share		\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding		136,575,000	122,986,291

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

CANADA ZINC METALS CORP.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended June 30,

	2012	2011
		(Note 19)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (1,590,656)	\$ (3,064,185)
Items not affecting cash:		
Depreciation	5,386	3,034
Interest payable accrued	-	13,242
Share-based compensation	138,376	969,966
Warrants received as dividends in kind	-	(117,187)
(Gain) loss on sale of marketable securities	(72,834)	18,014
Write-off of accounts payable	(114,937)	-
Write-off of exploration and evaluation assets	-	221,560
Write-off of equipment	675	-
Deferred income tax recovery	(74,305)	(288,742)
Loss on non-recoverable exploration advances	93,072	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	354,232	(409,628)
(Increase) decrease in prepaid expenses	369,038	(5,757)
Increase (decrease) in due to related parties	6,815	(7,828)
Decrease in accounts payable and accrued liabilities	(180,125)	(501,503)
Cash provided by (used in) operating activities	(1,065,263)	(3,169,014)
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities costs, net of proceeds on sale	(345,535)	(496,426)
Long-term prepaid expenses and deposits	23,429	(117,145)
Short-term investments	4,609,000	(4,609,000)
Other assets	(3,656)	(220,000)
Equipment and leasehold improvements	(178,991)	(121,660)
Exploration and evaluation asset costs	(5,092,338)	(7,093,242)
METC recovered	1,611,149	921,063
Exploration advance	(93,072)	-
Cash provided by (used in) investing activities	529,986	(11,736,410)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock, net of issuance costs	27,500	21,756,984
Common shares repurchased	(1,087,675)	(632,403)
Cash provided by (used in) financing activities	(1,060,175)	21,124,581
Change in cash and cash equivalents during the year	(1,595,452)	6,219,157
Cash and cash equivalents, beginning of year	15,501,154	9,281,997
Cash and cash equivalents, end of year	\$ 13,905,702	\$ 15,501,154

Supplemental disclosure with respect to cash flows (Note 14)

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

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars, unless otherwise stated)
For the years ended June 30, 2012 and 2011

1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Zinc Metals Corp. (the “Company”) is incorporated under the laws of the Province of British Columbia. The Company operates in one business segment, that being the exploration and evaluation of resource properties in Canada, and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and upon future profitable production.

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

These consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses since its inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing and to commence profitable operations in the future.

While the Company has been successful in obtaining its required financing in the past, mainly through the issuance of equity capital, there is no assurance that such financing will be available or be available on favorable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

At June 30, 2012, the Company has a positive working capital position of \$15,607,005. Management believes the Company has sufficient working capital to maintain its operations and its activities for the next fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These financial statements were authorized for issue on October 24, 2012 by the directors of the Company.

Statement of compliance and conversion to International Financial Reporting Standards

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), as adopted by the Company on July 1, 2011. The Company’s transition date is July 1, 2010.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars, unless otherwise stated)
For the years ended June 30, 2012 and 2011

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

These are the Company's first set of annual financial statements prepared in accordance with IFRS. The disclosures concerning the transition from pre-changeover Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS are provided in Note 19.

Basis of presentation

The consolidated financial statements of the Company have been prepared on an accrual basis except for certain cash flow information and are based on historical costs, except for certain financial instruments classified as financial instruments at fair value through profit and loss or available-for-sale which are stated at their fair value. The consolidated financial statements are presented in Canadian dollars unless otherwise noted, which is also the functional currency of the Company and its subsidiary.

Principles of consolidation

These consolidated financial statements include amounts of the Company and its wholly owned subsidiary Ecstall Mining Corp. ("Ecstall"), a company incorporated under the laws of the Province of British Columbia and engaged in the exploration and evaluation of resource properties.

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

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

Significant accounting judgements, estimates and assumptions

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

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

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars, unless otherwise stated)
For the years ended June 30, 2012 and 2011

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

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

Critical Judgements

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

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our consolidated financial statements include:

Share based payments

We measure our share based payment expense by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumption about them. The value of the share based payment expense for the year along with the assumptions and model used for estimating fair value for share based compensation transactions are disclosed in note 12.

Financial Instruments

The fair values of financial instruments are estimated based upon market and third party inputs. These estimates are subject to change with fluctuations in commodity prices, interest rates, foreign currency exchange rates and estimates of non-performance risk.

Deferred tax Assets & Liabilities

The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities.

Useful Life of Equipment and Leasehold improvements

Each significant component of an item of Equipment and Leasehold improvements is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand, the potential for technological obsolescence, and regulations.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars, unless otherwise stated)
For the years ended June 30, 2012 and 2011

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

Financial instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to-maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax. Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

Cash and cash equivalents, and marketable securities have been measured at fair value using Level 1 inputs.

The Company has classified its cash and cash equivalents as at FVTPL. Short-term investments and marketable securities are classified as available-for-sale. Receivables (excluding GST and HST receivable) are classified as loans and receivables and trade payables and accrued liabilities, and due to related parties are classified as other financial liabilities, all of which are measured at amortized cost.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
 (Expressed in Canadian Dollars, unless otherwise stated)
 For the years ended June 30, 2012 and 2011

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

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

	<i>Loans & receivables</i>	<i>Available for sale</i>	<i>Fair Value through Profit or Loss</i>	<i>Other financial liabilities</i>
Financial assets				
Cash and cash equivalents	\$ –	\$ –	\$ 13,905,702	\$ –
Receivables	43,413	–	–	–
Marketable securities	–	1,253,950	–	–
Financial liabilities				
Trade payables	–	–	–	235,085
Due to related parties	–	–	–	6,815
	\$ 43,413	\$ 1,253,950	\$ 13,905,702	\$ 241,900

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

Cash and cash equivalents

The Company considers cash and cash equivalents to include cash, demand deposits and highly liquid interest bearing investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation and impairment charges. Such cost consists of the purchase price, any costs directly attributable to bringing the equipment to the location and condition necessary for its intended use. Depreciation of equipment and leasehold improvements is calculated over the estimated useful lives as follows:

Camp equipment and fixtures	–	25%	declining balance method
Camp upgrades	–	25%	declining balance method
Computers	–	30-55%	declining balance method
Office equipment and furniture	–	20%	declining balance method
Office leasehold improvements	–	5 years	straight-line method
License	–	55%	declining balance method
Vehicle	–	30%	declining balance method

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

The depreciation of camp equipment and camp upgrades is recorded as an expenditure in Exploration and Evaluation Assets.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars, unless otherwise stated)
For the years ended June 30, 2012 and 2011

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

Equipment and Leasehold Improvements (cont'd)

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

Exploration and Evaluation Assets

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

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

Management reviews the facts and circumstances suggesting if the carrying amount of the exploration and evaluation assets exceeds their recoverable amount on a regular basis.

METC recoverable

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

Impairment

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

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars, unless otherwise stated)
For the years ended June 30, 2012 and 2011

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

Impairment

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

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

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

Flow-through shares

Canadian tax legislation permits a company to issue securities referred as flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. The Company accounts for flow-through shares whereby the premium, if any, paid for the flow-through share in excess of the market value of the shares without flow-through feature at the time of issue is initially recorded to flow-through premium liability, and then included in income, as a deferred income tax recovery, at the same time the qualifying expenditures are made.

Provisions

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

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

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

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars, unless otherwise stated)
For the years ended June 30, 2012 and 2011

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

Provisions (cont'd)

The Company has no significant provisions for the period presented.

Share-based payments

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

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

Income taxes

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

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

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

Loss per share

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

Comprehensive loss

Comprehensive loss consists of net loss and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders. For the periods presented, comprehensive loss includes holding gains and losses from financial instruments classified as available-for-sale.

Standards and interpretations issued but not yet effective

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

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

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

Standards and interpretations issued but not yet effective (cont'd)

IAS 1	<i>Presentation of Financial Statements</i> – Amendments regarding presentation of items of other comprehensive income.	Effective for annual periods beginning on or after July 1, 2012.
IAS 27	<i>Separate Financial Statements</i> -Accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity prepares separate financial statements.	Effective for annual periods beginning on or after January 1, 2013.
IAS 28	<i>Investments in Associates and Joint Ventures</i> -Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	Effective for annual periods beginning on or after January 1, 2013.
IAS 32	<i>Presentation of financial instrument</i> – Amendment to clarify requirements for offsetting financial assets and financial liabilities.	Effective for annual periods beginning on or after January 1, 2014.

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	June 30, 2012	June 30, 2011	July 1, 2010
Bank deposits	\$ 196,702	\$ 81,513	\$ 65,371
Guaranteed investment certificate	13,709,000	15,419,641	9,216,626
	<u>\$ 13,905,702</u>	<u>\$ 15,501,154</u>	<u>\$ 9,281,997</u>

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

As at June 30, 2012, the GICs were earning an average annual fixed interest rate of approximately 1.44%. The counter-party is a financial institution. The interest accrued on the GICs is included in receivables (Note 4).

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4. RECEIVABLES

	June 30, 2012	June 30, 2011	July 1, 2010
Harmonized Government Sales Tax credits	\$ 79,955	\$ 279,906	\$ 57,473
Interest accrued on GICs (Note 3)	43,413	112,378	10,499
Other receivables	–	85,316	–
	\$ 123,368	\$ 477,600	\$ 67,972

Other receivables as at June 30, 2011 primarily consisted of a refundable security deposit in the amount of \$85,000 posted with the Government of British Columbia in relation to the Akie and Kechika Regional properties and was returned to the Company during the 2012 fiscal year.

5. SHORT-TERM INVESTMENTS

Short-term investments consisted of highly liquid Canadian dollar denominated GICs with terms to maturity greater than ninety days, but not more than one year, all of which are classified as available-for-sale. The counter-party is a financial institution.

6. MARKETABLE SECURITIES

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

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
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6. MARKETABLE SECURITIES (cont'd)

June 30, 2011				
	Number of securities	Fair value	Cost	Accumulated unrealized holding losses
Oracle Mining Corp. common shares	248,500	\$ 310,625	\$ 518,453	\$ (207,828)
International Lithium Corp. common shares	400,000	90,000	133,333	(43,333)
International Lithium Corp. warrants	400,250	16,010	100,063	(84,053)
TNR Gold Corp. common shares	1,875,000	140,625	218,750	(78,125)
		\$ 557,260	\$ 970,599	\$ (413,339)
July 1, 2010				
	Number of securities	Fair value	Cost	Accumulated unrealized holding gains
TNR Gold Corp. common shares	1,875,000	\$ 450,000	\$ 375,000	\$ 75,000

7. OTHER ASSETS

Other assets comprise reclamation bonds of \$312,656 (June 30, 2011 – \$309,000; July 1, 2010 - \$89,000) posted as security deposits with the Government of British Columbia in relation to the Akie and Kechika Regional properties. The reclamation bonds are deposited in GICs through a financial institution. During the year ended June 30, 2012, the Company received \$2,990 (2011 – \$Nil) in interest from the security deposits.

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8. TRADE PAYABLES AND ACCRUED LIABILITIES

	June 30, 2012	June 30, 2011	July 1, 2010
Trade payables	\$ 150,826	\$ 1,005,790	\$ 1,216,797
Accrued liabilities	84,259	183,234	78,569
	\$ 235,085	\$ 1,189,024	\$ 1,295,366

9. FLOW-THROUGH PREMIUM LIABILITY

	June 30, 2012	June 30, 2011	July 1, 2010
Flow-through premium liability	\$ –	\$ 127,305	\$ 706,101

The flow-through premium liability of \$127,305 arose in connection with the flow-through private placement of the Company completed during fiscal 2011 (Note 12(b)). The recorded flow-through premium liability of \$242,250 was based on an estimated premium of \$0.05 per a flow-through share issued. This balance does not represent a cash liability to the Company. This balance is amortized to the statement of operations and comprehensive loss pro-rata with the amount of qualifying flow-through expenditures applicable to the flow-through shares that have been renounced to the flow-through investors.

The flow-through liability of \$706,101 recognised at July 1, 2010 arose in connection with the flow-through private placement completed during fiscal 2009. The recorded flow-through premium liability of \$1,179,567 was based on an estimated premium of \$0.15 per a flow-through share issued. As of July 1, 2010, the Company partially amortized the liability pro-rata to the incurred eligible resource expenditures, which were renounced to the investors by filing regulatory forms.

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

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10. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Computers	Office equipment and furniture	Office leasehold improvements	License ⁽¹⁾	Vehicle ⁽¹⁾	Camp equipment and fixtures ⁽¹⁾	Camp upgrades ⁽¹⁾	Total
Cost:								
At July 1, 2010	\$ 14,909	\$ 4,026	\$ 2,522	\$ –	\$ –	\$ 79,482	\$ 161,476	\$ 262,415
Acquisition	931	14,234	–	19,000	34,400	49,338	3,757	121,660
At June 30, 2011	15,840	18,260	2,522	19,000	34,400	128,820	165,233	384,075
Acquisition	1,730	–	4,616	–	206	31,338	141,101	178,991
Disposal	(3,613)	(3,215)	(2,522)	–	–	–	–	(9,350)
At June 30, 2012	\$ 13,957	\$ 15,045	\$ 4,616	\$ 19,000	\$ 34,606	\$ 160,158	\$ 306,334	\$ 553,716
Accumulated depreciation:								
At July 1, 2010	\$ 12,574	\$ 2,598	\$ 2,312	\$ –	\$ –	\$ 40,362	\$ 82,000	\$ 139,846
Depreciation for the year	1,115	1,709	210	5,225	5,160	15,947	19,869	49,235
At June 30, 2011	13,689	4,307	2,522	5,225	5,160	56,309	101,869	189,081
Depreciation for the year	1,980	2,945	461	10,450	8,803	22,046	29,218	75,903
Eliminated on disposal	(3,614)	(2,540)	(2,522)	–	–	–	–	(8,676)
At June 30, 2012	\$ 12,055	\$ 4,712	\$ 461	\$ 15,675	\$ 13,963	\$ 78,355	\$ 131,087	\$ 256,308
Net book value:								
At July 1, 2010	\$ 2,335	\$ 1,428	\$ 210	\$ –	\$ –	\$ 39,120	\$ 79,476	\$ 122,569
At June 30, 2011	\$ 2,151	\$ 13,953	\$ –	\$ 13,775	\$ 29,240	\$ 72,511	\$ 63,364	\$ 194,994
At June 30, 2012	\$ 1,902	\$ 10,333	\$ 4,155	\$ 3,325	\$ 20,643	\$ 81,803	\$ 175,247	\$ 297,408

⁽¹⁾ License, vehicles, camp equipment and fixtures and camp upgrades are used for exploration and evaluation activities. Depreciation for these items of \$70,517 for the year ended June 30, 2012 (2011 - \$46,201) has been capitalized to Exploration and evaluation assets. Depreciation of the remaining items of \$5,386 (2011 - \$3,034) has been expensed.

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11. EXPLORATION AND EVALUATION ASSETS

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

Akie Property, British Columbia

The Akie property is the Company's flagship exploration project and is host to the Cardiac Creek SEDEX Zn-Pb-Ag deposit. The Company owns a 100% interest in the Akie property, which resulted from Company expenditures and the acquisition of Ecstall Mining Corporation.

Kechika Regional project, British Columbia

The Kechika Regional project, represented by a series of contiguous property blocks including Pie and Mt. Alcock, extends northwest from the Akie property. The Company owns a 100% interest in these properties, which were acquired during fiscal 2007 and 2008, including the acquisition of Ecstall. The interest in the Mt. Alcock property is subject to a 1.0 % net smelter royalty.

The Company applies for the 20% British Columbia Mining Exploration Tax Credit ("METC") and the enhanced tax credit of an additional 10% for Mountain Pine Beetle affected areas, on qualified mining exploration costs incurred.

DA Property, Northwest Territories

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.

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.

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Notes to Consolidated Financial Statements
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11. EXPLORATION AND EVALUATION ASSETS (cont'd)

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

	Akie Property	Kechika Regional	DA	Total
Acquisition Costs:				
Balance, July 1, 2010	\$ 24,175,329	\$ 328,432	\$ 71,535	\$ 24,575,296
Additions	–	348	–	348
Write-off	–	–	(71,535)	(71,535)
Balance, June 30, 2011	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
Deferred Exploration Costs:				
Balance, July 1, 2010	\$ 24,845,509	\$ 2,490,238	\$ 150,025	\$ 27,485,772
<u>Surface drilling program:</u>				
Camp equipment, depreciation	46,201	–	–	46,201
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	5,319,826	49,510	–	5,369,336
<u>Geotechnical program:</u>				
Camp operating	631,852	–	–	631,852
Trail construction	314,953	–	–	314,953
Total geotechnical program	1,546,982	–	–	1,546,982
Community consultations	210,000	–	–	210,000
Environmental studies	236,940	–	–	236,940
Underground engineering	88,470	–	–	88,470
Project assessment	8,682	–	–	8,682
Metallurgical analysis	6,900	–	–	6,900
Less:				
Write-off	–	–	(150,025)	(150,025)
METC	(1,611,149)	–	–	(1,611,149)
Balance, June 30, 2011	30,652,160	2,539,748	–	33,191,908

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11. EXPLORATION AND EVALUATION ASSETS (cont'd)

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

Balance, June 30, 2011	\$	30,652,160	\$	2,539,748	–	\$	33,191,908
<u>Surface drilling program:</u>							
Camp equipment, amortization		70,517		–	–		70,517
Camp operating		78,207		59,217	–		137,424
Drilling		1,624,839		169,309	–		1,794,148
Geology		198,476		281,013	–		479,489
Total surface drilling		1,972,039		509,539	–		2,481,578
<u>Underground development:</u>							
Engineering		187,777		–	–		187,777
Trail construction		1,705,263		–	–		1,705,263
Total underground development		1,893,040		–	–		1,893,040
Geotechnical program		19,550		–	–		19,550
Community consultations		91,745		–	–		91,745
Environmental studies		340,589		–	–		340,589
Project assessment		32,224		–	–		32,224
Metallurgical analysis		6,854		–	–		6,854
Less:							
METC		(919,250)		–	–		(919,250)
Balance, June 30, 2012		34,088,951		3,049,287	–		37,138,238
Total July, 1, 2010	\$	49,020,838	\$	2,818,670	\$	221,560	\$ 52,061,068
Total June 30, 2011	\$	54,827,489	\$	2,868,528	\$	–	\$ 57,696,017
Total June 30, 2012	\$	58,264,280	\$	3,379,630	\$	–	\$ 61,643,910

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12. CAPITAL STOCK AND RESERVES

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

During the year ended June 30, 2012:

- (i) the Company received TSXV approval to extend a normal course issuer bid (“NCIB”) to purchase at market price up to 6,922,765 common shares, being approximately 5% of the Company’s issued and outstanding common shares through the facilities of the TSXV. The new bid commenced on August 1, 2011 and will stay open for 12 months;
- (ii) the Company repurchased under the NCIB 2,308,000 of its common shares for a total consideration of \$1,087,675 at a weighted average price of \$0.47 per share, of which 666,500 shares were held in the Company’s treasury at June 30, 2012 and cancelled subsequent to the year end.
- (iii) 2,201,500 common shares repurchased under the NCIB, of which 560,000 were repurchased in fiscal 2011, were cancelled and returned to the Company’s treasury. Upon the cancellation, \$1,495,371 was recorded as a reduction to capital stock for the assigned value of the shares, and \$456,461 was allocated to reserves.
- (iv) an aggregate of 110,000 share options were exercised at a price of \$0.25 per share and 110,000 common shares were issued for total proceeds of \$27,500. In addition, a reallocation of \$145,990 from reserves to share capital was recorded on the exercise of these options. This amount constitutes the fair value of options recorded at the original grant date and on subsequent re-pricing.

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 entitles the purchaser to purchase, at any time within 24 months from closing, one additional common share of the Company at a price of \$0.675 during the first year and at a price of \$0.775 during the second year.

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Notes to Consolidated Financial Statements
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12. CAPITAL STOCK AND RESERVES (cont'd)

(b) Issued and outstanding (cont'd)

- (i) 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 consisted of one flow-through common share and one-half share purchase warrant of the Company. Each whole warrant entitled the holder to purchase one additional common share at a price of \$0.95 for a period of 18 months from closing.
- (ii) 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).
- (iii) an aggregate of 895,000 share options were exercised at a weighted average price of \$0.28 per share and 895,000 common shares were issued for total proceeds of \$251,550. In addition, a reallocation of \$242,300 from reserves to share capital was recorded on the exercise of these options.
- (iv) the Company repurchased under the NCIB 1,352,500 of its common shares for a total consideration of \$632,404 at a weighted average price of \$0.47 per share, of which 560,000 shares were held in the Company's treasury at June 30, 2011 and cancelled subsequent to the year end.
- (v) 1,382,500 common shares repurchased under the NCIB, of which 590,000 were repurchased in fiscal 2010, were cancelled and returned to the Company's treasury. Upon the cancellation, \$983,933 was recorded as a reduction to capital stock for the assigned value of the shares, and \$376,356 was allocated to reserves.

(c) Share options

The Company has adopted a 20% fixed share option plan whereby the Company has reserved 20,557,283 common shares under the plan. The term of any options granted under the plan is fixed by the Board of Directors and may not exceed ten years from date of grant.

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

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

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12. CAPITAL STOCK AND RESERVES (cont'd)

(c) Share options (cont'd)

	Options Outstanding	Weighted Average Exercise Price
Balance, July 1, 2010	7,225,500	\$ 0.47
Granted	2,020,000	\$ 0.55
Exercised	(895,000)	\$ 0.28
Expired	(110,000)	\$ 0.66
Balance, June 30, 2011	8,240,500	\$ 0.51
Exercised	(110,000)	\$ 0.25
Expired	(355,500)	\$ 0.69
Outstanding , June 30, 2012	7,775,000	\$ 0.50
Exercisable , June 30, 2012	7,410,000	\$ 0.50

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

Number of Options	Exercise Price	Expiry Date	Number of Options Exercisable
130,000	\$0.70	November 14, 2016	130,000
50,000	\$0.25	July 3, 2012 ⁽¹⁾	50,000
50,000	\$1.15	July 3, 2012 ⁽²⁾	50,000
70,000	\$1.30	November 28, 2012	70,000
295,000	\$1.05	February 11, 2018	295,000
300,000	\$0.25	February 11, 2018	300,000
150,000	\$0.25	April 1, 2013	150,000
75,000	\$1.05	April 29, 2013	75,000
175,000	\$0.25	October 21, 2013	175,000
890,000	\$0.25	October 31, 2018	890,000
700,000	\$0.40	September 22, 2014	700,000
360,000	\$0.40	October 9, 2019	360,000
802,500	\$0.41	October 13, 2016	762,500
100,000	\$0.50	November 16, 2012	100,000
100,000	\$0.70	November 16, 2012	100,000
1,215,000	\$0.63	January 15, 2020	1,215,000
300,000	\$0.50	May 10, 2015	300,000
432,500	\$0.53	November 8, 2020	432,500
1,430,000	\$0.55	November 24, 2020	1,105,000
150,000	\$0.60	January 7, 2015	150,000
7,775,000			7,410,000

(1) Exercised subsequent to the year-ended June 30, 2012

(2) Expired subsequent to the year-ended June 30, 2012

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12. CAPITAL STOCK AND RESERVES (cont'd)

(c) Share options (cont'd)

During the year ended June 30, 2012, under the fair value based method a total of \$138,376 (2011 – \$969,966) in share-based compensation expense was recorded in the statement of operations and comprehensive loss for vested share options previously granted to directors, officers, employees and consultants of the Company. No share options were granted during the year ended June 30, 2012.

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

June 30,	2012	2011
Risk free interest rate	2.70%	2.58%
Expected dividend yield	0%	0%
Stock price volatility	99%	98%
Expected life of options	8.46 years	8.34 years
Weighted average fair value of options	\$ 0.45	\$ 0.45
Forfeiture	0%	0%

(d) Warrants

Share purchase warrants transactions and warrants outstanding are summarized as follows:

	Warrants Outstanding	Weighted Average Exercise Price
Balance, July 1, 2010	2,500,000	\$0.80
Granted	18,115,612	\$0.71
Balance, June 30, 2011	20,615,612	\$0.72
Expired	(2,500,000)	\$0.80
Outstanding, June 30, 2012	18,115,612	\$0.80
Exercisable, June 30, 2012	18,115,612	\$0.80

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12. CAPITAL STOCK AND RESERVES (cont'd)

(d) Warrants (cont'd)

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

Number of Warrants	Exercise Price	Expiry Date
15,693,112	\$ 0.775	November 16, 2012
2,422,500 ⁽¹⁾	\$ 0.950	August 28, 2012
18,115,612		

(1) Expired subsequent to the year ended June 30, 2012.

(e) Reserves

	Options and agent warrants	Finance warrants	Treasury Shares	Total
Balance, July 1, 2010	\$8,053,851	\$ –	\$ –	\$ 8,053,851
Fair value of finance warrants	–	1,993,026	–	1,993,026
Normal course issuer bid	–	–	192,776	192,776
Treasury shares cancelled	–	–	183,580	183,580
Share-based compensation	969,966	–	–	969,966
Exercise of options	(242,299)	–	–	(242,299)
Balance, June 30, 2011	8,781,518	1,993,026	376,356	11,150,900
Exercise of options	(145,990)	–	–	(145,990)
Normal course issuer bid	–	–	342,229	342,229
Treasury shares cancelled	–	–	114,232	114,232
Share-based compensation	138,376	–	–	138,376
Balance, June 30, 2012	\$ 8,773,904	\$ 1,993,026	\$ 832,817	\$ 11,599,747

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13. INCOME TAXES

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

	2012	2011
Net loss before income taxes	\$ (1,664,961)	\$ (3,352,927)
Combined Canadian federal and provincial statutory rate	25.75%	27.5%
Expected income tax recovery at statutory tax rates	\$ (429,000)	\$ (922,000)
Non-deductible expenditures and non-taxable revenues	24,000	242,000
Impact of future income tax rates applied versus current statutory rate	10,000	62,000
Impact of flow through shares	378,000	831,000
Share issue costs	-	(62,000)
Change in unrecognized deductible temporary differences	(57,000)	(440,000)
Total deferred tax recovery	\$ (74,000)	\$ (289,000)

The significant components of the Company's deferred tax assets and liabilities are as follows:

Deferred Tax Assets (Liabilities)	2012	2011	2010
Exploration and evaluation assets	\$ (4,579,000)	\$ (4,032,000)	\$ (2,915,000)
Share issue costs	77,000	143,000	186,000
Allowable Capital losses	-	5,000	3,000
Non-Capital losses	2,964,000	2,418,000	1,767,000
Capital assets	72,000	53,000	41,000
Marketable securities	-	-	(19,000)
	\$ (1,466,000)	\$ (1,413,000)	\$ (937,000)

Significant components of deductible and taxable temporary differences, unused tax losses and unused tax credits that have not been included on the statement of financial position are as follows:

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13. INCOME TAXES (cont'd)

	2012	Expiry dates	2011	Expiry dates	2010	Expiry dates
Share issue costs	\$ –		\$ –		\$ 145,000	2031
Non-Capital losses	2,607,000	2014 to 2032	2,607,000	2014 to 2031	2,469,000	2012 to 2030
Capital assets	32,000	No expiry	32,000	No expiry	32,000	No expiry
Capital assets	1,405,000	No expiry	1,413,000	No expiry	1,413,000	No expiry
Exploration and evaluation assets	135,000	No expiry	413,000	No expiry	–	No expiry

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

June 30,	2012	2011
Cash paid during the year for interest	\$ 1,107	\$ 54,689
Cash paid during the year for income tax	\$ –	\$ 579,877

Significant non-cash transactions for the year ended June 30, 2012 included:

- exploration and evaluation expenditures of \$141,088 (2011 -\$799,965) in accounts payable;
- reduction in exploration and evaluation expenditures of \$556,085 (2011 - \$1,611,149) in METC recoverable;
- depreciation of camp equipment and upgrades of \$70,517 (2011 - \$46,201) included in exploration and evaluation assets;
- an allocation of \$145,990 (2011 - \$242,299) from reserves to capital stock upon the exercise of stock options; and
- unrealized gain of \$278,322 (2011 – a loss of \$488,339) on marketable securities due to changes in fair values, which was allocated to accumulated other comprehensive income (loss).

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15. RELATED PARTIES TRANSACTIONS

The remuneration of directors and other key management personnel during the years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Bonuses (ii) \$	2,500	\$ 434,613
Consulting fees (iii)	15,000	15,000
Directors fees (iv)	50,000	3,000
Exploration and evaluation expenditures (geological consulting) (v)	138,348	70,000
Management and administration (i)	354,000	210,000
Share-based payments (vi)	93,941	529,696
Total \$	653,789	\$ 1,262,309

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

During the year ended June 30, 2012, the Company paid or accrued \$294,000 (2011 – \$150,000) for management fees and \$60,000 (2011 – \$60,000) for administrative fees to VCC.

- (ii) the Company paid bonuses totaling \$2,500 (2011 - \$434,613) to companies controlled by directors and officers of the Company.
- (iii) the Company paid or accrued \$15,000 (2011 - \$15,000) for consulting fees to a company controlled by a director;
- (iv) the Company paid or accrued \$50,000 (2011 - \$3,000) in directors fees to five directors of the Company;
- (v) the Company paid or accrued exploration and evaluation costs of \$138,348 (2011 - \$70,000) to a company owned by an officer of the Company.
- (vi) Share-based payments are the fair value of options that have been granted to directors and executive officers.

As at June 30, 2012, \$6,815 (June 30, 2011 - \$Nil; July 1, 2010 - \$61,532) was due to directors of the Company for director’s fees, consulting fees and reimbursement of business travel expenses. The amounts were repaid subsequent to June 30, 2012.

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16. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments based on the funds available in order to support continued operation and future business opportunities. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to be equity..

The Company's operations are currently not generating positive cash flow; as such, the Company is dependent on external financing to fund its activities. In order to carry out potential expansion and to continue operations, and pay for administrative costs, the Company will spend its existing working capital, and raise additional amounts as needed. Companies in this stage typically rely upon equity and debt financing or joint venture partnerships to fund their operations. The current financial markets are very difficult and there is no certainty with respect to the Company's ability to raise capital. However, the Company feels that it has sufficient working capital to continue with planned activities.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Cash and cash equivalents, short-term investments and marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables, trade payables and accrued liabilities and due to related parties approximate their fair value because of the short-term nature of these instruments.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank deposits of \$196,702 and GICs classified as cash equivalents of \$13,709,000. GICs earn a fixed annual interest rate of 1.44% and are redeemable at any point of time.

As all bank accounts and GICs are held with a major bank in Canada, there is a concentration of credit risk with one bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies.

The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consist primarily of refundable government sales taxes and interest accrued on GIC investments.

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

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, 2012, the Company was holding the total of \$13,905,702 in cash and cash equivalents to settle its current liabilities of \$241,900. 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.

a. Interest Rate Risk

The Company is exposed to interest rate risk as its bank accounts earn interest income at variable rates. The Company mainly invests in fixed interest rates short-term investments that are considered to be low risk. As at June 30, 2012, all of the Company's GIC investments were earning fixed annual interest rates.

b. Currency Risk

The Company operates in Canada and is therefore not exposed to significant foreign exchange risk arising from transactions denominated in a foreign currency.

c. Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors certain commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

The Company also maintains investments in certain marketable securities. There can be no assurance that the Company can exit these positions if required, resulting in proceeds approximating the carrying value of these securities.

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18. 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.

19. TRANSITION TO IFRS

These consolidated financial statements for the year ended June 30, 2012 are the first annual financial statements that comply with IFRS, and these consolidated financial statements were prepared as described in Note 2, including the application of IFRS1, First-time Adoption of International Financial Reporting Standards. IFRS requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement of compliance to IFRS. The Company has made this statement in Note 2.

IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was July 1, 2010 (the "transition date").

IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be July 1, 2010. However, it also provides for certain optional exemptions and certain mandatory exceptions from full retrospective application for first time IFRS adoption.

The Company has elected to take the following optional exception to its opening statement of financial position dated July 1, 2010:

Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to July 1, 2010. IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances.

Estimates

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

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19. TRANSITION TO IFRS (cont'd)

Adjustments on transition to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. The adoption of IFRS has resulted in changes to the Company's reported financial position and financial performance. In order to allow the users of the financial statements to better understand these changes, the Company's pre-IFRS consolidated statements of financial position, consolidated statement of operations and comprehensive loss and statement of consolidated cash flows have been reconciled to IFRS, with the resulting differences explained below.

(i) Share-based payments

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

Impact on Consolidated Financial Statements:

	June 30, 2011	July 1, 2010
Adjustment to Reserves	\$ 11,699	\$ 11,228
Adjustment to Deficit	(11,699)	(11,228)

(ii) Flow-through shares

Under Canadian GAAP, the entire proceeds from the issuance of flow-through shares were recognized in equity. At the time of the filing renunciation of qualifying flow-through expenditures, the Company recorded a deferred income tax liability with a charge directly to equity.

Under IFRS, on issuance of flow-through shares, the Company allocates the flow-through share into:

- i) a flow-through share premium, equal to estimated premium, if any, that investors pay for the flow-through feature, which is recognized as a liability; and
- ii) capital stock.

Upon expenditures being renounced to shareholders, the Company derecognizes the flow-through liability and premium is recognized as deferred income tax recovery.

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19. TRANSITION TO IFRS (cont'd)

(ii) Flow-through shares (cont'd)

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

- Y October 31, 2008 - the Company allocated \$1,179,567 or \$0.15 per share to a flow-through share premium, which was recognized as a liability, and \$5,897,833 or \$0.75 per share to capital stock. As of July 1, 2010, the Company partially amortized the liability pro-rata to the incurred eligible resource expenditures, which were renounced to the investors by filing regulatory forms.
- Y The Company reversed deferred tax liability of \$1,411,994 recognized under Canadian GAAP in connection with the October 31, 2008 flow-through private placement and adjusted share capital and accumulated deficit accordingly.
- Y February 28, 2011 - the Company allocated \$242,250 or \$0.05 per share to a flow-through share premium, which was recognized as a liability, and \$3,488,400 or \$0.72 per share to capital stock. As of March 31, 2012, the Company fully reversed the liability after incurring the required eligible resource expenditures and filing official renunciation forms.

Impact on Consolidated Financial Statements:

	June 30, 2011	July 1, 2010
Adjustment to Share Capital	\$ 418,307	\$ 660,557
Adjustment to Deferred Income Tax Liability	(1,411,994)	(1,411,994)
Adjustment to Flow-through Liability and Deferred Income Tax Recovery	127,305	706,101
Adjustment to Deficit	866,382	45,336

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19. TRANSITION TO IFRS (cont'd)

(iii) Warrants

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

Impact on Consolidated Financial Statements:

	June 30, 2011	July 1, 2010
Adjustment to Share Capital	\$ (1,993,026)	\$ –
Adjustment to Equity Reserves	1,993,026	–

(iv) Camp Equipment (reclassification)

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

Impact on Consolidated Financial Statements:

	June 30, 2011	July 1, 2010
Adjustment to Exploration and Evaluation Assets	\$ (178,890)	\$ (118,596)
Adjustment to Equipment and Leasehold Improvements	178,890	118,596

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19. TRANSITION TO IFRS (cont'd)

(v) Treasury shares (adjustment)

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

Impact on Consolidated Financial Statements:

	June 30, 2011	July 1, 2010
Adjustment to Capital Stock	\$ 114,232	\$ 183,580
Adjustment to Reserves	(114,232)	(183,580)

(vi) Initial recognition of an asset or liability on acquisition

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

	June 30, 2011	July 1, 2010
Adjustment to Deferred income tax liability	\$ (3,196,006)	\$ (4,691,403)
Adjustment to Deficit	3,196,006	4,691,403

Reconciliation to previously reported financial statements

A reconciliation of the above noted changes is included in the following financial statements:

- ÿ Transitional Consolidated Statement of Financial Position at July 1, 2010;
- ÿ Consolidated Statement of Financial Position at June 30, 2011;
- ÿ Consolidated Statements of Operations and Comprehensive Loss for the year ended June 30, 2011;
- ÿ Consolidated Statements of Cash Flows for the year ended June 30, 2011.

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19. TRANSITION TO IFRS (cont'd)

The July 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

July 1, 2010	Canadian GAAP	Effect of transition to IFRS		IFRS
Assets				
Current assets				
Cash and cash equivalents	\$ 9,281,997	\$ –		\$ 9,281,997
Receivables	67,972	–		67,972
METC recoverable	921,063	–		921,063
Prepaid expenses	373,081	–		373,081
Marketable securities	450,000	–		450,000
	11,094,113	–		11,094,113
Other assets	89,000	–		89,000
Equipment and leasehold improvements	3,973	118,596	(iv)	122,569
Long-term prepaid expenses	75,000	–		75,000
Exploration and evaluation assets	52,179,664	(118,596)	(iv)	52,061,068
	\$63,441,750	\$ –		\$63,441,750
Liabilities and Equity				
Current liabilities				
Trade payables and accrued liabilities	\$ 1,295,366	\$ –		\$ 1,295,366
Due to related parties	61,532	–		61,532
Flow-through premium liability	–	706,101	(ii)	706,101
	1,356,898	706,101		2,062,999
Deferred income tax liability	7,040,397	(6,103,397)	(vi)	937,000
Equity				
Capital stock	72,370,651	844,137	(ii)(iii)(v)	73,214,788
Reserves	8,226,203	(172,352)	(i)(iii)(v)	8,053,851
Deficit	(25,627,399)	4,725,511	(i)(iii)(v)(vi)	(20,901,888)
Accumulated other comprehensive income	75,000	–		75,000
	55,044,455	5,397,296		60,441,751
	\$63,441,750	\$ –		\$63,441,750

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19. TRANSITION TO IFRS (cont'd)

The June 30, 2011 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

June 30, 2011	Canadian GAAP	Effect of transition to IFRS		IFRS
Assets				
Current assets				
Cash and cash equivalents	\$ 15,501,154	\$ –		\$ 15,501,154
Receivables	477,600	–		477,600
METC recoverable	1,611,149	–		1,611,149
Short-term investments	4,609,000	–		4,609,000
Prepaid expenses	378,838	–		378,838
Marketable securities	557,260	–		557,260
	23,135,001	–		23,135,001
Other assets	309,000	–		309,000
Equipment and leasehold improvements	16,104	178,890	(iv)	194,994
Long-term prepaid expenses	192,145	–		192,145
Exploration and evaluation assets	57,874,907	(178,890)	(iv)	57,696,017
	\$ 81,527,157	\$ –		\$ 81,527,157
Liabilities and Equity				
Current liabilities				
Trade payables and accrued liabilities	\$ 1,189,024	\$ –		\$ 1,189,024
Flow-through premium liability	–	127,305	(ii)	127,305
	1,189,024	127,305		1,316,329
Deferred income tax liability	6,021,000	(4,608,000)	(vi)	1,413,000
Equity				
Capital stock	93,486,827	(1,460,487)	(ii)(iii)(v)	92,026,340
Reserves	9,260,407	1,890,493	(i)(iii)(v)	11,150,900
Deficit	(28,016,762)	4,050,689	(i)(iii)(v)(vi)	(23,966,073)
Accumulated other comprehensive income	(413,339)	–		(413,339)
	74,317,133	4,480,695		78,797,828
	\$ 81,527,157	\$ –		\$ 81,527,157

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19. TRANSITION TO IFRS (cont'd)

The Canadian GAAP statement of operations and comprehensive loss for year ended June 30, 2011 has been reconciled to IFRS as follows:

June 30, 2011	Canadian GAAP	Effect of transition to IFRS	IFRS
ADMINISTRATION EXPENSES			
Administration	\$ 60,000	\$ –	\$ 60,000
Bonuses	434,613	–	434,613
Consulting	802,042	–	802,042
Depreciation	3,034	–	3,034
Directors fees	3,000	–	3,000
Flow through taxes	74,434	–	74,434
Interest and bank charges	16,447	–	16,447
Investor Relations	225,816	–	225,816
Management fees	150,000	–	150,000
Office and miscellaneous	66,321	–	66,321
Professional fees	88,628	–	88,628
Regulatory fees	31,920	–	31,920
Rent	58,795	–	58,795
Share-based compensation	969,495	471 (i)	969,966
Transfer agent fees	10,497	–	10,497
Travel and promotion	105,114	–	105,114
Wages and benefits	378,946	–	378,946
	(3,479,102)	(471)	(3,479,573)
Interest and other income	249,033	–	249,033
Dividend income	117,187	–	117,187
Loss on sale of marketable securities	(18,014)	–	(18,014)
Write-off of exploration and evaluation assets	(221,560)	–	(221,560)
	126,646	–	126,646
Loss before income taxes	(3,352,456)	(471)	(3,352,927)
Deferred income tax recovery	963,093	(674,351)	288,742
Loss for the year	(2,389,363)	(674,822)	(3,064,185)
Adjustment for change in fair value of marketable securities	(488,339)	–	(488,339)
Comprehensive loss for the year	\$ (2,877,702)	\$ (674,822)	\$ (3,552,524)

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19. TRANSITION TO IFRS (cont'd)

Reconciliation of Cash Flows

Although the changes on transition from Canadian GAAP to IFRS had no effect on the Company's cash flows from operating, investing and financing activities, there were some differences in presentation due to reclassifications of certain items within sections of the statement of cash flows.

The Canadian GAAP statement of cash flows for year ended June 30, 2011 has been reconciled to IFRS as follows:

June 30, 2011	Canadian GAAP	Effect of transition to IFRS	IFRS
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year	\$ (2,389,363)	\$ (674,822)	\$ (3,064,185)
Items not affecting cash:			
Depreciation	3,034	–	3,034
Interest accrued	13,242	–	13,242
Share-based compensation	969,495	471	969,966
Warrants received as dividends in kind	(117,188)	–	(117,188)
Loss on sale of marketable securities	18,014	–	18,014
Write-off of exploration and evaluation assets	221,560	–	221,560
Deferred income tax recovery	(963,093)	674,351	(288,742)
Changes in non-cash working capital items:			
Increase in receivables	(409,628)	–	(409,628)
METC recovered	921,063	(921,063)	–
Increase in prepaid expenses	(5,757)	–	(5,757)
Decrease in due to related parties	(7,828)	–	(7,828)
Decrease in accounts payable and accrued liabilities	(501,503)	–	(501,503)
Cash provided used in operating activities	(2,247,952)	(921,063)	(3,169,015)

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19. TRANSITION TO IFRS (cont'd)

Reconciliation of Cash Flows (cont'd)

CASH FLOWS FROM INVESTING ACTIVITIES			
Marketable securities costs, net of proceeds on sale	(496,425)	–	(496,425)
Long-term prepaid expenses and deposits	(117,145)	–	(117,145)
Short-term investments	(4,609,000)	–	(4,609,000)
Other assets	(220,000)	–	(220,000)
Equipment and leasehold improvements	(15,165)	(106,495)	(121,660)
Exploration and evaluation asset costs	(7,199,737)	106,495	(7,093,242)
METC recovered	–	921,063	921,063
Cash used in investing activities	(12,657,472)	921,063	(11,736,409)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of capital stock, net of issuance costs	21,756,984	–	21,756,984
Common shares repurchased	(632,403)	–	(632,403)
Cash provided by financing activities	21,124,581	–	21,124,581
Change in cash and cash equivalents during the year	6,219,157	–	6,219,157
Cash and cash equivalents, beginning of year	9,281,997	–	9,281,997
Cash and cash equivalents, end of year	\$ 15,501,154	\$ –	\$ 15,501,154

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20. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2012:

- (a) the Company received TSXV approval for its new NCIB application to purchase at market price up to 6,825,681 common shares, being approximately 5% of the Company's issued and outstanding common shares through the facilities of the TSXV. The bid commenced on August 1, 2012 and will stay open for another 12 months;
- (b) the Company repurchased 368,500 of its common shares for a total consideration of \$137,308 at a weighted average price of \$0.37 per share under the NCIB;
- (c) 1,021,500 common shares of the Company repurchased through the NCIB, of which 666,500 were purchased prior to June 30, 2012, were returned to the Company's treasury and cancelled; and
- (d) an aggregate of 150,000 share options granted to consultants of the Company in prior years were exercised and 150,000 common shares were issued for total proceeds of \$37,500.