

CANADA ZINC METALS CORP.

Consolidated Financial Statements

For the Years Ended June 30, 2014 and 2013

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, 2014 and 2013 and the consolidated statements of operations and comprehensive loss, changes in equity, 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 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, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

October 27, 2014

CANADA ZINC METALS CORP.

Consolidated Statements of Financial Position

As at June 30, 2014 and 2013

(Expressed in Canadian Dollars)

	Notes	2014	2013
Assets			
Current assets			
Cash		\$ 10,558,472	\$ 13,028,707
Receivables	3	111,761	42,809
METC recoverable	10	296,846	826,103
Prepaid expenses		33,187	10,255
Marketable securities	4	255,796	1,078,980
		11,256,062	14,986,854
Other assets	6	332,500	332,500
Equipment and leasehold improvements	9	345,655	358,005
Refundable deposit		121,858	145,287
Long-term investment	5	1,001,088	–
Exploration and evaluation assets	10	66,482,435	63,045,377
		\$ 79,539,598	\$ 78,868,023
Liabilities and Equity			
Current liabilities			
Trade payables and accrued liabilities	7	\$ 745,191	\$ 342,818
Due to related parties	14	–	18,310
Flow-through premium liability	8	163,498	276,493
		908,689	637,621
Deferred income tax liability	12	2,120,000	1,761,000
Equity			
Capital stock	11	95,367,267	92,555,610
Reserves	11	12,289,609	11,931,251
Deficit		(29,741,306)	(27,418,595)
Accumulated other comprehensive loss		(1,404,661)	(598,864)
		76,510,909	76,469,402
		\$ 79,539,598	\$ 78,868,023

Nature and continuance of operations (Note 1)**Subsequent events** (Note 18)

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

Approved on behalf of the Board of Directors:

“Peeyush Varshney”

Director

“John Thomas”

Director

CANADA ZINC METALS CORP.

Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

	Note	Capital Stock				Reserves (Note 11)	Deficit	Accumulated other comprehensive loss	Total Equity
		Number of common shares	Number of treasury shares	Common shares Amount	Treasury shares Amount				
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
Flow-through private placement	11	7,500,000	–	3,000,000	–	–	–	–	3,000,000
Flow-through premium liability	8	–	–	(337,500)	–	–	–	–	(337,500)
Share issuance costs	11	–	–	(136,350)	–	–	–	–	(136,350)
Exercise of options	11	150,000	–	185,623	–	(148,123)	–	–	37,500
Shares repurchased and cancelled	11	(1,048,000)	–	(693,648)	–	345,450	–	–	(348,198)
Treasury shares cancelled	11	(666,500)	666,500	(432,354)	314,145	118,209	–	–	–
Share-based compensation	11	–	–	–	–	15,968	–	–	15,968
Change in fair value of securities	4	–	–	–	–	–	–	(463,847)	(463,847)
Net loss for the year		–	–	–	–	–	(1,861,866)	–	(1,861,866)
Balance, June 30, 2013		142,299,138	–	92,555,610	–	11,931,251	(27,418,595)	(598,864)	76,469,402
Private placements	11	1,450,000	–	388,750	–	211,250	–	–	600,000
Flow-through private placements	11	3,852,230	–	1,845,327	–	–	–	–	1,845,327
Flow-through premium liability	8	–	–	(257,228)	–	–	–	–	(257,228)
Share issuance costs	11	–	–	(94,540)	–	–	–	–	(94,540)
Exercise of options	11	1,355,000	–	967,000	–	(566,950)	–	–	400,050
Treasury shares repurchased	11	–	(114,500)	–	(37,652)	–	–	–	(37,652)
Share-based compensation	11	–	–	–	–	714,058	–	–	714,058
Change in fair value of securities	4	–	–	–	–	–	–	(805,797)	(805,797)
Net loss for the year		–	–	–	–	–	(2,322,711)	–	(2,322,711)
Balance, June 30, 2014		148,956,368	(114,500)	\$ 95,404,919	\$ (37,652)	\$ 12,289,609	\$ (29,741,306)	\$ (1,404,661)	\$ 76,510,909

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

CANADA ZINC METALS CORP.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended June 30,

(Expressed in Canadian Dollars)

	Notes	2014	2013
ADMINISTRATION EXPENSES			
Administration	14	\$ 60,000	\$ 60,000
Bonuses	14	50,907	63,000
Consulting		135,229	196,292
Depreciation	9	4,938	5,659
Directors fees	14	50,000	50,000
Flow-through taxes (recovery)		(37,781)	58,718
Interest and bank charges:			
- bank charges		2,100	2,718
- interest		1,523	–
Investor relations		118,477	185,094
Management fees	14	304,000	294,000
Office and miscellaneous		82,607	68,072
Professional fees		71,960	72,461
Regulatory fees		14,704	9,895
Rent		87,560	60,000
Share-based compensation	11	714,058	15,968
Transfer agent fees		7,330	7,435
Travel and promotion		175,935	228,674
Wages and benefits		485,681	406,474
		(2,329,228)	(1,784,460)
Interest income		189,657	197,038
Loss on sale of marketable securities		(56,802)	(40,451)
Recovery of exploration expenditures		63,213	–
Gain on write-off of accounts payable		10,525	–
Settlement of contract	10	(137,401)	–
Write-off of equipment		(377)	–
Write-off of exploration and evaluation assets		(92,281)	–
Other income	10	18,760	–
		(4,706)	156,587
Loss before income taxes		(2,333,934)	(1,627,873)
Deferred income tax recovery (expense)	12	11,223	(233,993)
Net loss for the year		(2,322,711)	(1,861,866)
Adjustment for change in fair value of marketable securities		(805,797)	(463,847)
Comprehensive loss for the year		\$ (3,128,508)	\$ (2,325,713)
Basic and diluted loss per common share		\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding			
– basic and diluted		145,607,600	139,564,372

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

CANADA ZINC METALS CORP.

Consolidated Statements of Cash Flows

For the years ended June 30,

(Expressed in Canadian Dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (2,322,711)	\$ (1,861,866)
Items not affecting cash:		
Depreciation	4,938	5,659
Flow-through taxes accrued	5,918	58,718
Share-based compensation	714,058	15,968
Loss on sale of marketable securities	56,802	40,451
Write-off of accounts payable	(10,525)	–
Write-off of equipment	377	–
Write-off of exploration and evaluation assets	92,281	–
Deferred income tax recovery	(11,223)	233,993
Settlement of contract	137,401	–
Accrued interest on long-term investment	(1,088)	–
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(68,952)	80,559
Increase in prepaid expenses	(22,932)	(455)
Increase (decrease) in due to related parties	(11,651)	4,836
Increase (decrease) in accounts payable and accrued liabilities	10,072	(18,690)
Cash used in operating activities	(1,427,235)	(1,440,827)
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(83,890)	(456,662)
Marketable securities sold	44,475	127,334
Refundable deposit	23,429	23,429
Long-term investments	(1,000,000)	–
Other assets	–	(19,844)
Equipment and leasehold improvements	(67,905)	(142,505)
Exploration and evaluation asset costs	(3,316,900)	(1,520,872)
Settlement of contract	(55,000)	–
METC recovered	699,606	–
Cash used in investing activities	(3,756,185)	(1,989,120)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock, net of issuance costs	2,750,837	2,901,150
Common shares repurchased	(37,652)	(348,198)
Cash provided by financing activities	2,713,185	2,552,952
Change in cash during the year	(2,470,235)	(876,995)
Cash, beginning of year	13,028,707	13,905,702
Cash, end of year	\$ 10,558,472	\$ 13,028,707

Supplemental disclosure with respect to cash flows (Note 13)

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

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2014 and 2013
(Expressed in Canadian Dollars, unless otherwise stated)

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, 2014, the Company has a positive cash working capital position of \$10,510,871 (2013 - \$14,625,726). 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 27, 2014 by the directors of the Company.

Statement of compliance

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”).

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2014 and 2013
(Expressed in Canadian Dollars, unless otherwise stated)

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

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.

Critical judgments

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

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2014 and 2013
(Expressed in Canadian Dollars, unless otherwise stated)

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

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

Key Sources of Estimation Uncertainty

Significant estimates made by management affecting our consolidated financial statements include:

Share-based compensation

We measure our share-based compensation 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 compensation expense for the year along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in Note 11.

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. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

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
For the years ended June 30, 2014 and 2013
(Expressed in Canadian Dollars, unless otherwise stated)

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

Carrying value and recoverability of exploration and evaluation assets

The carrying amount of Company's exploration and evaluation assets does not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

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) available-for-sale financial assets, (4) held-to-maturity financial assets, 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. "Available-for-sale" financial assets are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax. "Held-to-maturity" financial assets, "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.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2014 and 2013
(Expressed in Canadian Dollars, unless otherwise stated)

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

Financial instruments (cont'd)

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

The Company has classified its cash and long-term investment as at FVTPL. Marketable securities are classified as available-for-sale. Receivables (excluding GST receivable), and refundable deposit 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.

The Company's financial instruments at June 30, 2014 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	\$ –	\$ –	\$ 10,558,472	\$ –
Receivables	60,187	–	–	–
Marketable securities	–	255,796	–	–
Long-term investment	–	–	1,001,088	–
Refundable deposit	121,858	–	–	–
Financial liabilities				
Trade payables and accrued liabilities	–	–	–	745,191
	\$ 182,045	\$ 255,796	\$ 11,559,560	\$ 745,191

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

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

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2014 and 2013
(Expressed in Canadian Dollars, unless otherwise stated)

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

Equipment and leasehold Improvements (cont'd)

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

The depreciation of camp equipment and fixtures and camp upgrades is capitalized to exploration and evaluation assets.

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.

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.

Exploration costs renounced to shareholders due to flow-through share subscription agreements remain capitalized; however, for income tax purposes the Company has no right to claim these costs as tax deductible expenses.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2014 and 2013
(Expressed in Canadian Dollars, unless otherwise stated)

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

METC recoverable

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

Impairment

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

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

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

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

Flow-through shares

Canadian tax legislation permits a company to issue 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 a flow-through feature at the time of issue is initially recorded to flow-through premium liability and then included in profit or loss, as a deferred income tax recovery, at the same time the qualifying expenditures are made.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2014 and 2013
(Expressed in Canadian Dollars, unless otherwise stated)

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

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation and discount rates. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows discounted for the market discount rate.

Over time the discounted liability is increased for the changes in the present value based on the current market discount rates and liability risks. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

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

The Company has no significant provisions for the periods presented.

Capital stock

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing market price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
For the years ended June 30, 2014 and 2013
(Expressed in Canadian Dollars, unless otherwise stated)

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

Share-based compensation

The Company operates an employee share option plan. The fair value of share-based compensation to employees is measured at grant date using the Black-Scholes option pricing model, and is recognized over the vesting period using the graded vesting method. The fair value of share-based compensation 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, if the fair value of the goods or services received cannot be readily measured.

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. For share options granted with vesting terms conditional upon the achievement of a performance condition, and the performance condition is not a market condition, the Company revises its estimates of the length of the vesting period, if necessary, when information arises that indicates that the length of the vesting period differs from previous estimates. When this occurs, the change in estimate is accounted for prospectively.

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 loss and represents the change in 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.

New standards adopted during the year

Effective July 1, 2013, the following standards were adopted but have had no material impact on the consolidated financial statements:

- IAS 1 (Amendment): This standard is amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.
- IFRS 7 (Amendment): This standard is amended to enhance disclosure requirements related to offsetting of financial assets and financial liabilities.
- IFRS 10: New standard to establish principles for the presentation and preparation of consolidated financial statements.
- IFRS 11: New standard to account for the rights and obligations in accordance with a joint agreement.
- IFRS 12: New standard for the disclosure of interests in other entities not within the scope of IFRS 9 / IAS 39.
- IFRS 13: New standard on the measurement and disclosure of fair value.
- IAS 27 (Amendment): As a result of the issue of IFRS 10, IFRS 11 and IFRS 12. IAS 27 deals solely with separate financial statements.
- IAS 28 (Amendment): New standard issued that supersedes IAS 28 (2003) to prescribe the application of the equity method to investments in associates and joint ventures.

CANADA ZINC METALS CORP.

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

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IAS 32 (Amendment): Standard amended to clarify requirements for offsetting financial assets and financial liabilities, effective for annual periods beginning on or after January 1, 2015.
- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2018.
- IFRS 9: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.
- IFRS 10 Investment Entities – Amendment: effective for periods beginning on or after January 1, 2014.
- IFRIC 21 Levies: effective for periods beginning on or after January 1, 2014.

3. RECEIVABLES

	2014	2013
Government Sales Tax credits	\$ 51,574	\$ 42,210
Accrued interest (Note 6)	536	539
Other	59,651	60
	<u>\$ 111,761</u>	<u>\$ 42,809</u>

Other receivables consist of a refund of flow-through Part XII.6 tax recorded as a result of the CRA assessment of the “look-back” renunciation on the November 2012 flow-through private placement. The amount was received subsequent to June 30, 2014.

CANADA ZINC METALS CORP.

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4. MARKETABLE SECURITIES

The Company holds marketable securities that have been designated as available-for-sale as follows:

	June 30, 2014	June 30, 2013
Common shares of public companies:		
Fair value, opening	\$ 1,078,980	\$ 1,253,950
Purchases	83,890	456,662
Disposals	(44,475)	(127,334)
Realized losses	(56,802)	(40,451)
Unrealized losses	(805,797)	(463,847)
Fair Value	\$ 255,796	\$ 1,078,980

5. LONG-TERM INVESTMENT

Long-term investment consists of highly liquid Canadian dollar denominated non-redeemable guaranteed investment certificate (“GIC”) yielding an interest rate of 1.588% per annum maturing December 7, 2015. Long-term investment has a term to maturity of greater than one year, classified as a FVTPL financial asset, and includes a principal amount of \$1,000,000 (2013 - \$Nil) and accrued interest of \$1,088 (2013 - \$Nil). The counter-party is a financial institution.

6. OTHER ASSETS

Other assets comprise of reclamation bonds totalling \$332,500 (2013 – \$332,500) 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 and earn an average annual variable interest rate of approximately 1.05% and reinvested on an annual basis immediately at maturity. Interest accrued on the GICs is included in receivables (Note 3).

7. TRADE PAYABLES AND ACCRUED LIABILITIES

	2014	2013
Trade payables	\$ 652,759	\$ 283,473
Accrued liabilities	92,432	59,345
	\$ 745,191	\$ 342,818

CANADA ZINC METALS CORP.

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8. FLOW-THROUGH PREMIUM LIABILITY

	2014		2013	
Balance, beginning of year	\$	276,493	\$	–
Recorded		257,228		337,500
Amortized		(370,223)		(61,007)
Balance, end of year	\$	163,498	\$	276,493

The unamortised balance of the flow-through liability of \$163,498 as of June 30, 2014 consists of the following:

- a. the flow-through liability of \$126,756 recorded in connection with the December 2013 flow-through private placement of 2,112,600 shares (Note 11(b)(ii)) calculated based on an estimated premium of \$0.06 per flow-through share issued less amortization of \$93,730 pro-rata with the qualifying exploration expenditures incurred to June 30, 2014 ; and
- b. the flow-through liability of \$130,472 recorded in connection with the February 2014 flow-through private placement of 1,739,630 shares (Note 11(b)(iii)) calculated based on an estimated premium of \$0.075 per flow-through share issued.

The flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. The flow-through liability of \$337,500 recorded in fiscal 2013 was fully amortized as a deferred income tax recovery as the Company had incurred \$3,000,000 in qualifying resource expenditures by June 30, 2014, in connection with the flow-through private placement completed in November 2012 (Note 11(b)(viii)). As at June 30, 2013, \$541,395 had been spent of the \$3,000,000 flow-through funds raised.

The flow-through premium liability does not represent a cash liability to the Company, and is to be fully amortized to the statement of operations and comprehensive loss pro-rata with the amount of qualifying flow-through expenditures that will be incurred in 2014 and 2015 applicable to the flow-through financing completed.

During the year ended June 30, 2014, the Company paid \$15,019 (2013 - \$Nil) in flow-through Part XII.6 tax as a result of the "look-back" renunciation on the November 2012 flow-through private placement (Note 11(b)(viii)). In addition, the Company accrued \$5,918 in flow-through Part XII.6 tax as a result of the "look-back" renunciation on the flow-through private placement completed by the Company in December 2013 (Note 11(b)(ii)). During the year ended June 30, 2013, the Company accrued \$58,718 in connection with the November 2012 flow-through private placement.

CANADA ZINC METALS CORP.

Notes to Consolidated Financial Statements
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9. 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 June 30, 2012	\$ 13,957	\$ 15,045	\$ 4,616	\$ 19,000	\$ 34,606	\$ 160,158	\$ 306,334	\$ 553,716
Acquisition	4,869	557	–	–	2,420	–	134,659	142,505
At June 30, 2013	18,826	15,602	4,616	19,000	37,026	160,158	440,993	696,221
Acquisition	543	–	–	–	–	67,362	–	67,905
Reclassified from Exploration and Evaluation assets	–	–	–	–	–	3,038	33,049	36,087
Write-off	(520)	–	–	–	–	–	–	(520)
At June 30, 2014	\$ 18,849	\$ 15,602	\$ 4,616	\$ 19,000	\$ 37,026	\$ 230,558	\$ 474,042	\$ 799,693
Accumulated depreciation:								
At June 30, 2012	\$ 12,055	\$ 4,712	\$ 461	\$ 15,675	\$ 13,963	\$ 78,355	\$ 131,087	\$ 256,308
Depreciation	2,459	2,277	923	1,829	6,556	17,645	50,219	81,908
At June 30, 2013	14,514	6,989	1,384	17,504	20,519	96,000	181,306	338,216
Depreciation	2,292	1,722	924	823	4,952	23,548	81,704	115,965
Write-off	(143)	–	–	–	–	–	–	(143)
At June 30, 2014	\$ 16,663	\$ 8,711	\$ 2,308	\$ 18,327	\$ 25,471	\$ 119,548	\$ 263,010	\$ 454,038
Net book value:								
At June 30, 2012	\$ 1,902	\$ 10,333	\$ 4,155	\$ 3,325	\$ 20,643	\$ 81,803	\$ 175,247	\$ 297,408
At June 30, 2013	\$ 4,312	\$ 8,613	\$ 3,232	\$ 1,496	\$ 16,507	\$ 64,158	\$ 259,687	\$ 358,005
At June 30, 2014	\$ 2,186	\$ 6,891	\$ 2,308	\$ 673	\$ 11,555	\$ 111,010	\$ 211,032	\$ 345,655

- (1) License, vehicles, camp equipment and fixtures and camp upgrades are used for exploration and evaluation activities. Depreciation for these items of \$111,027 for year ended June 30, 2014 (2013 - \$76,249) has been capitalized to Exploration and evaluation assets. Depreciation of the remaining items of \$4,938 (2013 - \$5,659) has been expensed.

CANADA ZINC METALS CORP.

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10. 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.

In September 2013, the Company entered into an option agreement (the "Agreement") with Teck Resources Limited ("Teck") that would see Teck acquire up to a 70% interest in the Company's Pie, Cirque East and Yuen properties (the "Property"), three of the 10 regional properties that make up the Kechika Regional Project.

The Agreement outlines two options (the "Options") that are subject to certain expenditure requirements as outlined below:

- Under the first Option, Teck can earn an undivided 51% interest in and to the Property by incurring a cumulative aggregate of \$3,500,000 in exploration expenditures on the Property on or before September 30, 2017, with \$500,000 in exploration expenditures to be completed on or before September 30, 2014 (extended to November 30, 2014) and \$1,500,000 in cumulative exploration expenditures to be completed on or before September 30, 2015.
- Under the second Option, Teck may elect to acquire an additional 19% interest in the Property for a total of 70% by incurring an additional \$5,000,000 in exploration expenditures (for a total aggregate of \$8,500,000 in exploration expenditures) on the Property on or before September 30, 2019.

Subject to one or more of the Options being exercised, Teck and the Company will form a joint venture to continue with exploration and, if warranted, development of the Property.

CANADA ZINC METALS CORP.

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10. EXPLORATION AND EVALUATION ASSETS (cont'd)

Portions of the Property fall within the area of interest provisions of the Teck and Korea Zinc joint venture (the "T-KZ JV") on their adjoining Cirque property. Korea Zinc elected to include the Agreement under the T-KZ JV and delivered Notice of Participation in the Agreement to the Company in November of 2013. Teck and Korea Zinc each hold a 50% interest in the T-KZ JV and, as a result of the Notice of Participation, will share any interest which may be acquired under the Agreement.

The Pie, Cirque East and Yuen properties surround T-KZ JV's Cirque deposit to the north and east, and provide extensive coverage of the highly prospective Gunsteel Formation shale, which is the known host rock for SEDEX Zn-Pb-Ag deposits at Cirque and at Canada Zinc Metals' Cardiac Creek deposit.

During the year ended June 30, 2014, the Company carried out exploration activities on behalf of Teck and charged a 10% administration fee recorded as other income of \$18,760 (2013 - \$Nil) on incurred expenditures that were partially related to work completed on the Property. These expenditures were fully reimbursed by Teck and excluded from the Company's exploration costs for the year.

Summary of exploration expenditures incurred on various properties:

	Akie Property	Kechika Regional	Total
Acquisition Costs:			
Balance, June 30, 2012	\$ 24,175,329	\$ 330,343	\$ 24,505,672
Additions	-	91	91
Balance, June 30, 2013	24,175,329	330,434	24,505,763
Additions	-	6,351	6,351
Write-off ⁴	(10,088)	-	(10,088)
Balance, June 30, 2014	\$ 24,165,241	\$ 336,785	\$ 24,502,026
Deferred exploration costs:			
Balance, June 30, 2012	\$ 34,088,951	\$ 3,049,287	\$ 37,138,238
Airborne survey	80,109	506,216	586,325
Camp equipment, depreciation (Note 9)	76,249	-	76,249
Camp operating	131,900	133,755	265,655
Drilling	30,459	-	30,459
Geology	194,779	87,739	282,518
Geotechnical program	2,244	-	2,244
Underground development	25,580	-	25,580
Community consultations	200,000	-	200,000
Environmental studies	202,364	-	202,364
Less:			
METC	(270,018)	-	(270,018)
Balance, June 30, 2013	34,762,617	3,776,997	38,539,614

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10. EXPLORATION AND EVALUATION ASSETS (cont'd)

	Akie Property	Kechika Regional	Total
Balance, June 30, 2013	34,762,617	3,776,997	38,539,614
Airborne survey	–	189,491	189,491
Camp equipment, reclassification ¹ (Note 9)	(36,087)	–	(36,087)
Camp equipment, depreciation ¹ (Note 9)	111,027	–	111,027
Camp supplies, settlement of contract ²	(82,401)	–	(82,401)
Drilling	2,510,831	456,322	2,967,153
Geology	45,961	40,030	85,991
Community consultations	355,367	–	355,367
Environmental studies and permit compliance monitoring	102,796	–	102,796
Less:			
METC ³	(170,349)	–	(170,349)
Write-off ⁴	(82,193)	–	(82,193)
Balance, June 30, 2014	\$ 37,517,569	\$ 4,462,840	\$ 41,980,409
Total June 30, 2012	\$ 58,264,280	\$ 3,379,630	\$ 61,643,910
Total June 30, 2013	\$ 58,937,946	\$ 4,107,431	\$ 63,045,377
Total June 30, 2014	\$ 61,682,810	\$ 4,799,625	\$ 66,482,435

¹ During the year ended June 30, 2014, the Company determined based on new circumstances that assets previously recorded as exploration and evaluation assets were to be reclassified as equipment and leasehold improvements due to the ability to use these assets for multiple purposes. As a result, a cost base of \$36,087 was reclassified to equipment and leasehold improvements and depreciation of \$18,325 capitalized to exploration and evaluation assets.

² During the year ended June 30, 2014, the Company signed a mutual release agreement with a former exploration vendor. As a result, the Company paid \$55,000 in cash and transferred \$82,401 worth of previously purchased supplies.

³ 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, 2014, the Company applied for METC of \$296,846 on qualified exploration expenditures incurred in fiscal 2013. The amount was recorded as METC recoverable and received subsequent to June 30, 2014. In addition, as a result of the CRA’s assessment of the Company’s METC applications for fiscal 2011 and 2012, the Company recorded METC adjustments of \$40,743 and \$85,754, respectively, and received a METC refund of \$699,606 for those years.

⁴ During the year ended December 31, 2014, the Company forfeited Parrish claims (seven contiguous mineral claims located approximately 5 kilometers west of the Company’s exploration camp on the Akie property) and wrote-off acquisition and exploration costs incurred on these claims of \$92,281.

CANADA ZINC METALS CORP.

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11. CAPITAL STOCK AND RESERVES

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

During the year ended June 30, 2014:

- (i) the Company completed a private placement with Teck issuing 1,250,000 units of the Company at a price of \$0.40 per unit, resulting in a total subscription of \$500,000. Each unit consisted of one common share and one share purchase warrant that will entitle Teck to purchase one additional common share of the Company within 24 months at a price of \$0.40 per share. The Company paid \$3,250 in regulatory filing fees in connection with the private placement;

The proceeds from the issue of units were allocated to capital stock based on the fair value of the common shares on the date of the TSXV approval of the transaction, which was estimated at \$288,750. The residual value attributable to the warrants attached to the units was \$211,250, or \$0.169 per share. The Company recorded the residual value in equity reserves (Note 11(e)) until the warrants are exercised or expired unexercised;

- (ii) the Company completed a flow-through private placement of 2,112,600 shares at a price of \$0.40 per common share for gross proceeds of \$845,040. The Company paid a finder's fee of \$33,802 and incurred regulatory filing fees and other expenses of \$6,075 in connection with the private placement. A flow-through premium liability of \$126,756 was recorded in connection with this transaction (Note 8);
- (iii) the Company completed a flow-through private placement of 1,739,630 shares at a price of \$0.575 per common share for gross proceeds of \$1,000,287. The Company paid a finder's fee of \$40,011 and incurred regulatory filing fees and other expenses of \$6,052 in connection with the private placement. A flow-through premium liability of \$130,472 was recorded in connection with this transaction (Note 8);
- (iv) the Company completed a non flow-through private placement of 200,000 units at a price of \$0.50 per unit for gross proceeds of \$100,000. Each unit consists of one common share and one-half share purchase warrant of the Company. Each whole warrant entitles the holder to purchase one additional common share at a price of \$0.75 for a period of 18 months from closing. The Company paid a finder's fee of \$4,000 and incurred regulatory filing fees and other expenses of \$1,350 in connection with the private placement;

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11. CAPITAL STOCK AND RESERVES (cont'd)

(b) Issued and outstanding (cont'd)

- (v) 1,355,000 share options were exercised at a weighted average price of \$0.30 per share, and 1,355,000 common shares were issued for total proceeds of \$400,050. In addition, a reallocation of \$566,950 from reserves to capital stock 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;
- (vi) the Company received TSXV approval for its new Normal Course Issuer Bid ("NCIB") application to purchase at market price up to 7,114,957 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, 2013 and will stay open for another 12 months; and
- (vii) the Company repurchased under the NCIB 114,500 of its common shares for total consideration of \$37,652 at a weighted average price of \$0.33 per share, all of which were held in the Company's treasury at June 30, 2014.

During the year ended June 30, 2013:

- (viii) the Company completed a flow-through private placement of 7,500,000 units at a price of \$0.40 per unit for gross proceeds of \$3,000,000. Each unit consists of one flow-through common share and one-half share purchase warrant of the Company. Each whole warrant will entitle the holder to purchase one additional common share at a price of \$0.60 for a period of 18 months from closing. The Company paid a finder's fee of \$120,000 and regulatory filing fees of \$16,350 in connection with the private placement;
 - (ix) the Company received TSXV approval for its new Normal Course Issuer Bid ("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;
 - (x) the Company repurchased under the NCIB 1,048,000 common shares for a total consideration of \$348,198 at a weighted average price of \$0.33 per share;
 - (xi) a total of 1,714,500 common shares repurchased under NCIB, of which 666,500 common shares repurchased in fiscal 2012, were cancelled and returned to the Company's treasury. Upon the cancellation, \$1,126,002 was recorded as a reduction to capital stock for the assigned value of the shares, and \$463,659 was allocated to reserves; and
 - (xii) an aggregate of 150,000 share options were exercised at a price of \$0.25 per share and 150,000 common shares were issued for total proceeds of \$37,500. In addition, a reallocation of \$148,123 from reserves to capital stock 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.
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11. CAPITAL STOCK AND RESERVES (cont'd)

(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 options outstanding and exercisable at June 30, 2014 are summarized as follows:

Number of Options	Exercise Price	Expiry Date	Remaining Life of Options (Years)	Number of Options Exercisable
130,000	\$0.70	November 14, 2016	2.34	130,000
295,000	\$1.05	February 11, 2018	3.56	295,000
270,000	\$0.25	October 31, 2018	4.27	270,000
700,000	\$0.40	September 22, 2014(*)	0.22	700,000
330,000	\$0.40	October 9, 2019	5.20	330,000
440,000	\$0.41	October 13, 2016	2.25	440,000
1,205,000	\$0.63	January 15, 2020	5.47	1,205,000
300,000	\$0.50	May 10, 2015	0.85	300,000
417,500	\$0.50	November 8, 2020	6.27	417,500
1,430,000	\$0.55	November 24, 2020	6.31	1,130,000
150,000	\$0.60	January 7, 2015	0.51	150,000
1,740,000	\$0.39	December 27, 2023	9.36	1,625,000
600,000	\$0.35	June 16, 2021	6.87	600,000
8,007,500			5.54	7,592,500

(*) Subsequent to the year ended June 30, 2014, 200,000 options were exercised and 500,000 options expired unexercised.

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11. CAPITAL STOCK AND RESERVES (cont'd)

(c) Share options (cont'd)

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

	Options Outstanding	Weighted Average Exercise Price
Balance, June 30, 2012	7,775,000	\$ 0.50
Exercised	(150,000)	0.25
Expired	(445,000)	0.81
Forfeited	(32,500)	0.53
Outstanding, June 30, 2013	7,147,500	0.49
Granted	2,340,000	0.38
Exercised	(1,355,000)	0.30
Expired	(125,000)	0.25
Outstanding, June 30, 2014	8,007,500	\$ 0.49

During the year ended June 30, 2014, the Company recorded share-based compensation expense of \$714,058 (2013 – \$15,968) for 2,340,000 share options (2013 – Nil) granted to directors, officers, employees and consultants of the Company, of which 2,110,000 options vested immediately. No share options were granted during the year ended June 30, 2013.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options granted. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The model requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. The following weighted average assumptions were used to estimate the following weighted average grant date fair values:

	2014	2013
Risk free interest rate	2.31%	N/A
Expected dividend yield	0%	N/A
Stock price volatility	82%	N/A
Expected life of options	9.23 years	N/A
Weighted average fair value of options	\$ 0.31	N/A
Forfeiture	0%	N/A

Options granted with vesting terms conditional upon achievement of certain exploration milestones are recalculated each period to adjust for the changes in the estimates which are accounted for prospectively, if any. The share-based compensation expense for the year ended June 30, 2013 reflects a change in estimated length of the vesting periods for performance-based options. There were no such changes recorded for the year ended June 30, 2014.

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11. CAPITAL STOCK AND RESERVES (cont'd)

(d) Warrants

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

	Warrants Outstanding	Weighted Average Exercise Price
Balance, June 30, 2012	18,115,612	\$ 0.80
Issued (Note 11 (b)(viii))	3,750,000	0.60
Expired	(18,115,612)	0.80
Balance, June 30, 2013	3,750,000	0.60
Issued (Note 11 (b)(i)(iv))	1,350,000	0.43
Expired	(3,750,000)	0.60
Balance, June 30, 2014	1,350,000	\$ 0.43

The following table summarizes the warrants outstanding at June 30, 2014:

Number of Warrants	Exercise Price	Expiry Date
1,250,000	\$ 0.40	September 16, 2015
100,000	\$ 0.75	August 27, 2015
1,350,000		

(d) Reserves

	Note	Options and agent warrants	Finance warrants	Treasury shares	Total
Balance, June 30, 2012		\$ 8,773,904	\$ 1,993,026	\$ 832,817	\$11,599,747
Exercise of options	11(b)(xii)	(148,123)	-	-	(148,123)
Treasury shares cancelled	11(b)(xi)	-	-	463,659	463,659
Share-based compensation	11(c)	15,968	-	-	15,968
Balance, June 30, 2013		8,641,749	1,993,026	1,296,476	11,931,251

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11. CAPITAL STOCK AND RESERVES (cont'd)

(e) Reserves (cont'd)

	Note	Options and agent warrants	Finance warrants	Treasury shares	Total
Balance, June 30, 2013		8,641,749	1,993,026	1,296,476	11,931,251
Exercise of options	11(b)(v)	(566,950)	–	–	(566,950)
Share-based compensation	11(c)	714,058	–	–	714,058
Residual value of warrants attached to units issued to Teck	11(b)(i)	–	211,250	–	211,250
Balance, June 30, 2014		\$ 8,788,857	\$ 2,204,276	\$ 1,296,476	\$ 12,289,609

12. INCOME TAXES

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

	2014	2013
Net loss before income taxes	\$ (2,333,934)	\$ (1,627,873)
Expected income tax recovery at statutory tax rates	\$ (607,000)	\$ (411,000)
Non-deductible expenditures	197,000	19,000
Impact of future income tax rates applied versus current statutory rate and other	33,000	6,000
Impact of flow through shares	810,000	76,000
Share issue costs	(35,000)	(34,000)
Change in unrecognized deductible temporary differences	(409,000)	578,000
Total deferred tax expense (recovery)	\$ (11,000)	\$ 234,000

Deferred tax expense (recovery) comprises the following:

	Note	2014	2013
Deferred tax expense on change in unrecognized deductible temporary differences and other	12	\$ 359,000	\$ 295,000
Deferred tax recovery on amortization of flow-through premium liability	8	(370,223)	(61,007)
Total deferred tax expense (recovery)		\$ (11,223)	\$ 233,993

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12. INCOME TAXES (cont'd)

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

Deferred tax assets (liabilities)	2014	2013
Exploration and evaluation assets	\$ (6,597,000)	\$ (5,862,000)
Share issue costs	53,000	64,000
Allowable Capital losses	9,000	3,000
Non-Capital losses	3,738,000	3,473,000
Capital assets	128,000	117,000
Marketable securities	183,000	78,000
Investment tax credits	366,000	366,000
Total deferred income tax liability	\$ (2,120,000)	\$ (1,761,000)

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:

	2014	Expiry dates	2013	Expiry dates
Non-capital loss carryforward	2,408,000	2015 to 2034	2,599,000	2014 to 2033
Capital assets	32,000	No expiry	32,000	No expiry

During the year ended June 30, 2014, the Company issued 3,852,230 (2013 – 7,500,000) flow-through common shares for gross proceeds of \$1,845,327 (2013 - \$3,000,000). The flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. The Company renounced the December 2013 subscriptions of \$845,040 to the flow-through shareholders under the "look-back rule" for the 2013 calendar year, and is required to spend the amounts on eligible exploration expenditures by December 31, 2014 (incurred).

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13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2014	2013
Cash paid during the year for interest	\$ 1,523	\$ –
Cash paid during the year for income tax	\$ –	\$ –

Significant non-cash transactions for the year ended June 30, 2014 included:

- exploration and evaluation assets of \$605,701 (2013 - \$208,793) in accounts payable;
- exploration and evaluation assets of \$Nil (2013 - \$6,659) in due to related parties;
- reduction in exploration and evaluation assets of \$296,846 (2013 - \$270,018) in METC recoverable;
- increase in exploration and evaluation assets of \$85,754 (2013 - \$Nil) due to the CRA's adjustment of the 2012 METC claim;
- depreciation of camp equipment and upgrades of \$111,027 (2013 - \$76,249) included in exploration and evaluation assets;
- reduction in exploration and evaluation assets of \$36,087 (2013 - \$Nil) on reclassification to equipment and leasehold improvements;
- an allocation of \$211,250 (2013 - \$Nil) from capital stock to equity reserves on the issuance of common shares to Teck (Note 11(b)(i));
- an allocation of \$257,228 (2013 - \$337,500) from capital stock to flow-through premium liability on the issuance of the flow-through shares (Note 8);
- an allocation of \$566,950 (2013 - \$148,123) from reserves to capital stock upon the exercise of stock options; and unrealized loss of \$805,797 (2013 - \$463,847) on marketable securities due to changes in fair value, which was allocated to accumulated other comprehensive loss.

14. RELATED PARTY TRANSACTIONS

The remuneration of directors and other key management personnel during the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Bonuses (ii)	\$ 50,907	\$ 63,000
Consulting fees (iii)	15,000	15,000
Directors fees (iv)	50,000	50,000
Exploration and evaluation expenditures (geological consulting) (v)	140,016	140,016
Management and administration (i)	364,000	354,000
Share-based compensation (vi)	369,038	12,603
Total	\$ 988,961	\$ 634,619

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14. RELATED PARTY TRANSACTIONS (cont'd)

- (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. The agreement was amended effective July 1, 2011 and May 1, 2014 to increase the monthly management fee to \$24,500 and \$29,500, respectively. During the year ended June 30, 2014, the Company paid or accrued \$304,000 (2013 - \$294,000) for management fees and \$60,000 (2013 - \$60,000) for administrative fees to VCC;
- (ii) the Company paid bonuses of \$50,907 (2013 - \$63,000) to companies with common directors and officers;
- (iii) the Company paid or accrued \$15,000 (2013 - \$15,000) for consulting fees to a company controlled by a director;
- (iv) the Company paid or accrued \$50,000 (2013 - \$50,000) in directors' fees to five directors of the Company;
- (v) the Company paid or accrued exploration and evaluation costs of \$140,016 (2013 - \$140,016) for geological consulting fees to a company owned by an officer of the Company; and
- (vi) share-based compensation is the fair value of options that have been granted to directors and executive officers and the related compensation expense recognized over the vesting periods.

During the year ended June 30, 2014, 620,000 (2013 - Nil) share options were exercised by the CEO and CFO of the Company at an average price of \$0.25 per share of for total proceeds of \$155,000 (2013 - \$Nil).

As at June 30, 2014, \$Nil (2013 - \$18,310) was due to a director of the Company for reimbursement of business expenses.

15. 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.

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15. CAPITAL MANAGEMENT (cont'd)

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, 2014. The Company is not subject to externally imposed capital requirements.

16. 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, long-term investment, and marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables, refundable deposit, 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 \$10,558,472 and a long-term investment in GIC of \$1,000,000. This risk is managed by using major Canadian banks that are high credit quality financial institutions 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, exploration tax credits and interest accrued on GIC investments.

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16. 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, 2014, the Company was holding cash deposits of \$10,558,472 to settle current cash liabilities of \$745,191. 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 treasury account, other assets, and long-term investment earn interest income at variable rates. The effect of a 10% fluctuation in interest rates may result in an increase or decrease in net loss of \$17,728.

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.

17. 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.

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18. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2014:

- a. The Company received TSXV approval for its new NCIB application to purchase at market price up to 7,441,968 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, 2014 and will stay open for another 12 months;
- b. The Company repurchased 54,500 of its common shares for the total consideration of \$22,493 at a weighted average price of \$0.41 per share;
- c. The Company cancelled and returned to its treasury, 117,000 common shares of which 114,500 were repurchased by the Company prior to June 30, 2014;
- d. 200,000 share options granted to a consultant of the Company in prior years were exercised and 200,000 common shares were issued for total proceeds of \$80,000; and
- e. The Company completed a private placement of 2,943,310 flow-through shares at a price of \$0.55 per flow-through share for gross proceeds of \$1,618,821, and 580,750 non flow-through units at a price of \$0.50 per unit for gross proceeds of \$290,375. Each unit consists of one common share and one-half share purchase warrant of the Company. Each whole warrant entitles the holder to purchase one additional common share at a price of \$0.75 for a period of 12 months from closing. The Company paid a finder's fee of \$82,622 in connection with the private placement.