# CANADA ZINC METALS CORP.

Consolidated Financial Statements

For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016 and the consolidated statements of changes in equity, operations and comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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, 2017 and 2016 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 Professional Accountants

October 25, 2017

A member of Nexia International

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**CANADA ZINC METALS CORP.**
Consolidated Statements of Financial Position
As at June 30, 2017 and 2016
(Expressed in Canadian Dollars)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash | | **$ 4,464,425** | $ 2,550,103 |
| Receivables | 3 | **43,163** | 14,641 |
| Loan receivable | 4 | **108,466** | – |
| Prepaid expenses | | **146,875** | 54,419 |
| Marketable securities | 5 | **116,442** | 90,400 |
| Investment | 6 | **4,013,023** | 4,019,351 |
| | | **8,892,394** | 6,728,914 |
| Other assets | 7 | **332,500** | 332,500 |
| Equipment and leasehold improvements | 10 | **313,119** | 402,776 |
| Refundable deposit | | – | 75,000 |
| Exploration and evaluation assets | 11 | **70,771,060** | 69,955,137 |
| | | **$ 80,309,073** | $ 77,494,327 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade payables and accrued liabilities | 8 | **$ 633,133** | $ 139,130 |
| Flow-through premium liability | 9 | **308,132** | – |
| | | **941,265** | 139,130 |
| Deferred income tax liability | 13 | **1,603,000** | 1,986,000 |
| **Equity** | | | |
| Capital stock | 12 | **100,711,794** | 97,013,235 |
| Reserves | 12 | **13,700,878** | 13,063,384 |
| Deficit | | **(36,660,295)** | (34,632,982) |
| Accumulated other comprehensive loss (gain) | | **12,431** | (74,440) |
| | | **77,764,808** | 75,369,197 |
| | | **$ 80,309,073** | $ 77,494,327 |

**Nature and continuance of operations** (Note 1)
**Subsequent event** (Note 19)

The accompanying notes form an integral part of these consolidated financial statements.
Approved on behalf of the Board of Directors:

*"John Thomas"*
Director

*"Peeyush Varshney"*
Director

# CANADA ZINC METALS CORP.

Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

| | | Capital Stock | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Number of common shares | Number of treasury shares | Common shares Amount | Treasury shares Amount | Reserves (Note 12) | Deficit | Accumulated other comprehensive gain (loss) | Total Equity |
| **Balance, June 30, 2015** | | **152,563,428** | **(145,000)** | **$ 97,138,443** | **$ (49,873)** | **$ 13,004,220** | **$ (31,661,766)** | **$ (1,654,360)** | **$ 76,776,664** |
| Treasury shares cancelled | 12 | (149,000) | 149,000 | (94,978) | 50,808 | 44,170 | – | – | – |
| Treasury shares repurchased | 12 | – | (202,000) | – | (31,165) | – | – | – | (31,165) |
| Share-based compensation | 12 | – | – | – | – | 14,994 | – | – | 14,994 |
| Change in fair value of securities | 5 | – | – | – | – | – | – | (37,679) | (37,679) |
| Realized losses on marketable securities | 5 | – | – | – | – | – | – | 1,617,599 | 1,617,599 |
| Net loss for the year | | – | – | – | – | – | (2,971,216) | – | (2,971,216) |
| **Balance, June 30, 2016** | | **152,414,428** | **(198,000)** | **97,043,465** | **(30,230)** | **13,063,384** | **(34,632,982)** | **(74,440)** | **75,369,197** |
| Treasury shares repurchased | 12 | – | (581,000) | – | (187,951) | – | – | – | (187,951) |
| Treasury shares cancelled | 12 | (215,000) | 215,000 | (136,956) | 33,800 | 103,156 | – | – | – |
| Private placements | 12 | 6,774,357 | – | 2,644,200 | – | – | – | – | 2,644,200 |
| Flow-through private placements | 12 | 4,588,998 | – | 2,113,048 | – | – | – | – | 2,113,048 |
| Flow-through premium liability | 9 | – | – | (448,218) | – | – | – | – | (448,218) |
| Share issuance costs | 12 | – | – | (370,624) | – | – | – | – | (370,624) |
| Finders' warrants | 12 | – | – | (5,992) | – | 5,992 | – | – | – |
| Exercise of share options | 12 | 45,000 | – | 57,252 | – | (46,902) | – | – | 10,350 |
| Share-based compensation | 12 | – | – | – | – | 575,248 | – | – | 575,248 |
| Change in fair value of securities | 5 | – | – | – | – | – | – | 86,871 | 86,871 |
| Net loss for the year | | – | – | – | – | – | (2,027,313) | – | (2,027,313) |
| **Balance, June 30, 2017** | | **163,607,783** | **(564,000)** | **$ 100,896,175** | **$ (184,381)** | **$ 13,700,878** | **$ (36,660,295)** | **$ 12,431** | **$ 77,764,808** |

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 | | 2017 | | 2016 |
|---|---|---|---|---|---|
| **ADMINISTRATION EXPENSES** | | | | | |
| Administration | 15 | $ | 60,000 | $ | 60,000 |
| Bonuses | 15 | | 128,429 | | 11,067 |
| Consulting | 15 | | 356,250 | | 76,249 |
| Depreciation | 10 | | 3,724 | | 6,295 |
| Directors fees | 15 | | 40,000 | | 40,000 |
| Flow-through taxes | 9 | | 2,037 | | 262 |
| Interest and bank charges | | | 1,845 | | 1,746 |
| Investor relations | | | 41,845 | | 4,038 |
| Management fees | 15 | | 354,000 | | 354,000 |
| Marketing expenses | | | 258,840 | | 15,402 |
| Office and miscellaneous | | | 98,333 | | 83,874 |
| Professional fees | | | 56,008 | | 22,333 |
| Regulatory fees | | | 19,199 | | 12,979 |
| Rent | | | 98,424 | | 114,896 |
| Share-based compensation | 12,15 | | 575,248 | | 14,994 |
| Transfer agent fees | | | 8,943 | | 6,721 |
| Travel and promotion | | | 214,175 | | 125,362 |
| Wages and benefits | | | 364,859 | | 492,192 |
| | | | (2,682,159) | | (1,442,410) |
| Interest income | | | 93,179 | | 93,583 |
| Gain (loss) on sale of marketable securities | 5 | | 38,581 | | (578,629) |
| Write-off of marketable securities | 5 | | – | | (1,071,485) |
| | | | 131,760 | | (1,556,531) |
| **Loss before income taxes** | | | (2,550,399) | | (2,998,941) |
| Deferred income tax recovery | 13 | | 523,086 | | 27,725 |
| **Net loss for the year** | | | (2,027,313) | | (2,971,216) |
| Adjustment for change in fair value of marketable securities | 5 | | 86,871 | | 1,579,920 |
| **Comprehensive loss for the year** | | $ | (1,940,442) | $ | (1,391,296) |
| **Basic and diluted loss per common share** | | $ | (0.01) | $ | (0.02) |
| **Weighted average number of common shares outstanding – basic and diluted** | | | 156,916,487 | | 152,420,942 |

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)

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Net loss for the year | **$** | **(2,027,313)** | $ | (2,971,216) |
| Items not affecting cash: | | | | |
| Depreciation | | **3,724** | | 6,295 |
| Flow-through taxes accrued | | **2,037** | | – |
| Share-based compensation | | **575,248** | | 14,994 |
| Loss (gain) on sale of marketable securities | | **(38,581)** | | 578,629 |
| Write-off of marketable securities | | – | | 1,071,485 |
| Deferred income tax recovery | | **(523,086)** | | (27,725) |
| Accrued interest on investments | | **(55,919)** | | (26,395) |
| Accrued interest on loan | | **(8,466)** | | – |
| Changes in non-cash working capital items: | | | | |
| Receivables | | **(28,522)** | | 50,642 |
| Prepaid expenses | | **(92,456)** | | (10,139) |
| Trade payables and accrued liabilities | | **(18,495)** | | (71,196) |
| Cash used in operating activities | | **(2,211,829)** | | (1,384,626) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Marketable securities, net | | **99,410** | | (112,349) |
| Refundable deposit | | **75,000** | | 23,429 |
| Short-term loan | | **(100,000)** | | – |
| Investments, net | | **62,247** | | (2,975,988) |
| Equipment and leasehold improvements | | **(6,552)** | | (35,687) |
| Exploration and evaluation asset costs | | **(212,977)** | | (2,087,401) |
| METC recovered | | – | | 85,291 |
| Cash used in investing activities | | **(82,872)** | | (5,102,705) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Issuance of capital stock, net of issuance costs | | **4,396,974** | | – |
| Common shares repurchased | | **(187,951)** | | (31,165) |
| Cash provided by (used in) financing activities | | **4,209,023** | | (31,165) |
| **Change in cash during the year** | | **1,914,322** | | (6,518,496) |
| **Cash, beginning of year** | | **2,550,103** | | 9,068,599 |
| **Cash, end of year** | **$** | **4,464,425** | $ | 2,550,103 |

Supplemental disclosure with respect to cash flows (Note 14)
The accompanying notes form an integral part of these consolidated financial statements.

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Zinc Metals Corp. (the "Company") is incorporated under the laws of the Province of British Columbia. The Company operates in one business segment, that being the exploration and 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 400, 725 Granville Street, Vancouver, BC, V7Y 1G5.

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, 2017, the Company has a positive working capital position of $7,951,129 (2016 - $6,589,784). Management believes the Company has sufficient working capital to maintain its operations and its exploration activities for the next fiscal year.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These financial statements were authorized for issue on October 25, 2017 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").

## 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 consolidated financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

## 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 these consolidated financial statements include:

*Share-based compensation*

Share-based compensation expense is measured 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.

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

*Carrying value and recoverability of exploration and evaluation assets*

The carrying amount of the 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.

(Expressed in Canadian Dollars, unless otherwise stated)

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

***Financial instruments*** (cont'd)

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

The Company has classified its cash and investments as at FVTPL. Marketable securities are classified as available-for-sale. Receivables (excluding GST receivable), and loan receivable are classified as loans and receivables and trade payables and accrued liabilities are classified as other financial liabilities, all of which are measured at amortized cost.

The Company's financial instruments at June 30, 2017 are as follows:

| | *Loans & receivables* | *Available for sale* | *Fair Value through Profit or Loss* | *Other financial liabilities* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | $ – | $ – | $ 4,464,425 | $ – |
| Receivables | 292 | – | – | – |
| Loan receivable | 108,466 | – | – | – |
| Marketable securities | – | 116,442 | – | – |
| Investment | – | – | 4,013,023 | – |
| **Financial liabilities** | | | | |
| Trade payables and accrued liabilities | – | – | – | 633,133 |
| | $ 108,758 | $ 116,442 | $ 8,477,448 | $ 633,133 |

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 structures and upgrades | 25% | declining balance method |
| Computers | 55% | declining balance method |
| Computer software | 100% | straight-line 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 |

## 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 evaluation 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.

***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. The Company records METC recoverable when the Company has filed for a refund with the Government of British Columbia.

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

***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 to 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.

***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.

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

***Provisions*** (cont'd)

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.

***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.

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

***Share-based compensation*** (cont'd)

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.

***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.

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

***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.

***Recent accounting pronouncements***

The Company has not early adopted these standards and is currently assessing the impact that these standards will have on its financial statements.

- *IFRS 9, Financial instruments* ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39, Financial instruments: recognition and measurement ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognized in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

- *IFRS 15, Revenue from Contracts and Customers* ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

- *IFRS 16, Leases,* new standard contains a single lessee accounting model, eliminating the distinction between operating and financing leases from the perspective of the lessee. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements, effective for annual reporting periods beginning on or after January 1, 2019.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

(Expressed in Canadian Dollars, unless otherwise stated)

## 3. RECEIVABLES

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Government Sales Tax credits | $ | 42,871 | $ | 14,303 |
| Accrued interest (Note 6) | | 292 | | 338 |
| | $ | 43,163 | $ | 14,641 |

## 4. LOAN RECEIVABLE

During the year ended June 30, 2017, the Company advanced $100,000 to an operating entity of a company, which now has a director in common under a promissory note bearing interest at a rate of 10% per annum for a period of 6 months. The loan is classified as a short-term loan receivable subsequently measured at amortized cost. The loan matured on February 25, 2017 and was extended for an additional 6 month period bearing the same interest rate of 10% per annum. At June 30, 2017, the loan receivable balance was $108,466 (June 30, 2016 - $Nil) including accrued interest of $8,466 (June 30, 2016 - $Nil).

Subsequent to June 30, 2017, the loan was extended an additional 6 months at the same terms.

## 5. MARKETABLE SECURITIES

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

| | | 2017 | | 2016 |
|---|---|---|---|---|
| *Common shares of public companies:* | | | | |
| Fair value, beginning of year | $ | 90,400 | $ | 48,245 |
| Purchases | | 38,334 | | 116,454 |
| Proceeds from sales | | (137,744) | | (4,105) [1] |
| Gains (losses) realized on sale | | 38,581 [1] | | (578,629) [1] |
| Write-off of marketable securities | | – | | (1,071,485) [2] |
| Reclassification of previously recognized unrealized losses | | 3,163 [1] | | 1,617,599 [1,2] |
| Unrealized gains (losses) | | 83,708 | | (37,679) |
| Fair value, end of year | $ | 116,442 | $ | 90,400 |

(1) During the year ended June 30, 2017, the Company realized a gain of $38,581 (2016 – a loss of $578,629) on the sale of marketable securities, which includes a reclassification of previously recognized unrealized losses of $3,163 (2016 - $569,834) from Accumulated Other Comprehensive Loss ("AOCL") to Deficit.

(2) During the year ended June 30, 2016, the Company recorded a $1,071,485 write-off for its holdings in a suspended company. The write-off amount included a reclassification of previously accumulated unrealized losses of $1,047,765 from AOCL to Deficit.

(Expressed in Canadian Dollars, unless otherwise stated)

## 6. INVESTMENTS

Investments consist of highly liquid Canadian dollar denominated non-redeemable guaranteed investment certificates ("GIC") yielding an average fixed interest rate of 1.33% per annum with maturity dates within one year. The investments are classified as FVTPL financial assets. The counter-party is a financial institution.

At June 30, 2017, the Company held two GIC investments with total principal amount of $4,000,000 (2016 - $4,000,000) and accrued interest of $13,023 (2016 - $19,351).

During the year ended June 30, 2017, the Company received an aggregate interest of $62,247 (2016 - $24,012) from its two GIC investments that matured on December 12, 2016 and June 1, 2017. The proceeds were re-invested into new GICs upon maturity.

## 7. OTHER ASSETS

Other assets comprise of reclamation bonds totalling $332,500 (2015 – $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 0.85% and reinvested on an annual basis immediately at maturity. Interest accrued on the GICs is included in receivables (Note 3).

## 8. TRADE PAYABLES AND ACCRUED LIABILITIES

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Exploration payables | $ | 533,283 | $ | 32,822 |
| Other trade payables | | 45,813 | | 64,308 |
| Accrued liabilities | | 54,037 | | 42,000 |
| | $ | 633,133 | $ | 139,130 |

## 9. FLOW-THROUGH PREMIUM LIABILITY

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Balance, beginning of year | $ | – | $ | 136,725 |
| Recorded | | 448,218 | | – |
| Amortized | | (140,086) | | (136,725) |
| Balance, end of year | $ | 308,132 | $ | – |

(Expressed in Canadian Dollars, unless otherwise stated)

## 9. FLOW-THROUGH PREMIUM LIABILITY (cont'd)

On December 15, 2016, the Company completed a flow-through private placement of 1,173,608 shares (Note 12(b)(i)) at a price of $0.52 per flow-through share. The Company recorded a flow-through liability of $140,833 (2016 - $Nil) in connection with the flow-through private placement, which was calculated based on an estimated premium of approximately $0.12 per flow-through share issued.

On April 5, 2017, the Company completed a flow-through private placement of 3,415,390 shares (Note 12(b)(iii)) at a price of $0.44 per flow-through share. The Company recorded a flow-through liability of $307,385 (2016 - $Nil) in connection with the flow-through private placement, which was calculated based on an estimated premium of approximately $0.09 per flow-through share issued.

The flow-through premium liabilities does not represent a cash liability to the Company, and are to be fully amortized to the statement of operations and comprehensive loss pro-rata with the amount of qualifying flow-through expenditures that were incurred in calendar 2017.

The flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. The Company has renounced exploration expenditures of $610,276 to the flow-through subscribers for calendar 2016 using the "look-back" rule and intends to incur the expenditures in the current calendar year. When the Company uses the "look-back" rule to renounce exploration expenditures to investors before the Company actually incurs them, the Company is liable for the flow-through Part XII.6 tax ("FT Tax").

The reconciliations of the accrued and paid FT Tax for the years ended June 30, 2017 and 2016 are as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Balance, beginning of year | $ | – | $ | 8,006 |
| Accrued | | 2,037 | | 262 |
| FT Tax paid | | – | | (8,268) |
| Balance, end of year | $ | 2,037 | $ | – |

(Expressed in Canadian Dollars, unless otherwise stated)

## 10. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

| | Computers and software | Office equipment and furniture | Office leasehold improvements | License(1) | Vehicle(1) | Camp equipment and fixtures(1) | Camp structures and upgrades(1) | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At June 30, 2015 | $ 18,217 | $ 18,228 | $ 4,616 | $ 19,000 | $ 37,026 | $ 310,678 | $ 654,554 | **$ 1,062,319** |
| Acquisition | – | 1,474 | – | – | – | 34,213 | – | 35,687 |
| At June 30, 2016 | 18,217 | 19,702 | 4,616 | 19,000 | 37,026 | 344,891 | 654,554 | **1,098,006** |
| Acquisition | 1,552 | – | – | 15,000 | – | – | – | 16,552 |
| At June 30, 2017 | $ 19,769 | $ 19,702 | $ 4,616 | $ 34,000 | $ 37,026 | $ 344,891 | $ 654,554 | $ **1,114,558** |
| **Accumulated depreciation:** | | | | | | | | |
| At June 30, 2015 | $ 12,186 | $ 10,352 | $ 3,231 | $ 18,697 | $ 28,938 | $ 153,804 | $ 338,332 | $ **565,540** |
| Depreciation | 3,649 | 1,722 | 924 | 303 | 2,426 | 41,611 | 79,055 | 129,690 |
| At June 30, 2016 | 15,835 | 12,074 | 4,155 | 19,000 | 31,364 | 195,415 | 417,387 | **695,230** |
| Depreciation | 1,737 | 1,526 | 461 | 4,125 | 1,699 | 37,369 | 59,292 | 106,209 |
| At June 30, 2017 | $ 17,572 | $ 13,600 | $ 4,616 | $ 23,125 | $ 33,063 | $ 232,784 | $ 476,679 | $ **801,439** |
| **Net book value:** | | | | | | | | |
| At June 30, 2016 | $ 2,382 | $ 7,628 | $ 461 | $ – | $ 5,662 | $ 149,476 | $ 237,167 | **$ 402,776** |
| At June 30, 2017 | $ 2,197 | $ 6,102 | $ – | $ 10,875 | $ 3,963 | $ 112,107 | $ 177,875 | **$ 313,119** |

(1) License, vehicles, camp equipment and fixtures and camp upgrades are used for exploration and evaluation activities. Depreciation for these items of $102,485 for the year ended June 30, 2017 (2016 - $123,395) has been capitalized to exploration and evaluation assets (Note 11). Depreciation of the remaining items of $3,724 (2016 - $6,295) has been expensed.

## 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.

In September 2013, the Company entered into an option agreement (the "Agreement') with Teck Resources Limited ("Teck") pursuant to which Teck can 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 terms of the Agreement were amended on September 23, 2015 to revise the dates on which required exploration expenditures had to be incurred.

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 December 31, 2017 (extended from September 30, 2017), with $500,000 in exploration expenditures to be completed on or before September 30, 2014 (incurred) and $1,295,000 (amended from $1,500,000 and incurred) in cumulative exploration expenditures to be completed on or before December 31, 2015 (extended from 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.

(Expressed in Canadian Dollars, unless otherwise stated)

## 11. EXPLORATION AND EVALUATION ASSETS (cont'd)

The Company received a summary of costs from Teck confirming that during calendar 2016 a total of $1,644,201 was spent on the Property on mapping, sampling, geophysics and drilling. The cumulative expenditures incurred on the Property total $3,034,800 to the end of December 31, 2016.

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.

Summary of exploration expenditures incurred on various properties:

| | Akie Property | Kechika Regional | Total |
|---|---|---|---|
| **Acquisition Costs:** | | | |
| **Balance, June 30, 2016 and 2017** | **$ 24,165,241** | **$ 336,785** | **$ 24,502,026** |
| **Deferred exploration costs:** | | | |
| Balance, June 30, 2015 | $ **39,114,298** | $ **4,624,430** | $ **43,738,728** |
| Camp equipment, depreciation | 123,395 | – | 123,395 |
| Airborne geophysical survey | 6,725 | 6,175 | 12,900 |
| Drilling | 1,440,861 | – | 1,440,861 |
| Geology | 49,517 | 938 | 50,455 |
| Community consultations | 95,937 | – | 95,937 |
| Environmental studies and permit compliance monitoring | 76,126 | – | 76,126 |
| Less: | | | |
| METC* | (85,291) | – | (85,291) |
| **Balance, June 30, 2016** | **40,821,568** | **4,631,543** | **45,453,111** |
| Camp equipment, depreciation (Note 10) | 102,485 | – | 102,485 |
| Airborne geophysical survey | 2,075 | 4,200 | 6,275 |
| Drilling | 577,417 | – | 577,417 |
| Geology | 72,924 | 6,683 | 79,607 |
| Technical review and engineering | 30,258 | – | 30,258 |
| Community consultations | 937 | – | 937 |
| Environmental studies and permit compliance monitoring | 18,944 | – | 18,944 |
| **Balance, June 30, 2017** | **$ 41,626,608** | **$ 4,642,426** | **$ 46,269,034** |
| **Total, June 30, 2016** | **$ 64,986,809** | **$ 4,968,328** | **$ 69,955,137** |
| **Total, June 30, 2017** | **$ 65,791,849** | **$ 4,979,211** | **$ 70,771,060** |

## 11. EXPLORATION AND EVALUATION ASSETS (cont'd)

* 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, 2016, the Company received METC of $85,291 on qualified exploration expenditures incurred in fiscal 2015 in excess of the amounts renounced to flow-through investors. The Company's BC METC application of $175,301 for fiscal 2016 is currently pending an assessment by Canada Revenue Agency and has not been included in the receivables balance as at June 30, 2017.

## 12. CAPITAL STOCK AND RESERVES

### (a) Authorized

Unlimited common shares without par value

### (b) Issued and outstanding

During the year ended June 30, 2017, the Company completed the following equity transactions:

(i) On December 15, 2016, the Company completed a flow-through private placement of 1,173,608 flow-through shares at a price of $0.52 per share for gross proceeds of $610,276. A flow-through premium liability of $140,833 was recorded in connection with this private placement (Note 9);

(ii) On December 15, 2016, the Company also completed a brokered private placement of 3,676,000 units at a price of $0.40 per unit for gross proceeds of $1,470,400, and a non-brokered private placement of 1,787,500 units at a price of $0.40 per unit for gross proceeds of $715,000. Each unit consisted 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 $0.55 for a period of 24 months from closing.

The Company paid an aggregate cash finders' fee of $139,219 and incurred regulatory filing fees, legal fees and other expenses of $99,358 in connection with the December 2016 private placements;

(iii) On April 5, 2017, the Company completed a flow-through private placement of 3,415,390 flow-through shares at a price of $0.44 per share for gross proceeds of $1,502,772. A flow-through premium liability of $307,385 was recorded in connection with this private placement (Note 9);

(iv) On April 5, 2017, the Company also completed a non-brokered private placement of 1,310,857 units at a price of $0.35 per unit for gross proceeds of $458,800. Each unit consisted 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 $0.50 for a period of 24 months from closing.

The Company paid an aggregate cash finders' fee of $114,691 and incurred regulatory filing fees and other expenses of $17,356 in connection with the April 2017 private placements.

The Company also issued 70,071 share purchase warrants to certain finders. Each finder's warrant entitles the holder to purchase one common share of the Company at a price of $0.45 per share for a two-year period from closing. The finder's warrants were recorded at a fair value of $5,992 (Note 12(d));

## 12. CAPITAL STOCK AND RESERVES (cont'd)

### (b) Issued and outstanding (cont'd)

(v) 45,000 share options were exercised at a price of $0.23 per share, and 45,000 common shares were issued for total proceeds of $10,350. In addition, a reallocation of $46,902 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 subsequent repricing;

(vi) The Company received TSX Venture Exchange ("TSX-V") approval for its new Normal Course Issuer Bid ("NCIB") application to purchase at market price up to 7,609,971 common shares, being approximately 5% of the Company's issued and outstanding common shares, through the facilities of the TSX-V. The bid commenced on August 2, 2016 and will stay open for another 12 months;

(vii) The Company repurchased 581,000 of its common shares under the NCIB for total consideration of $187,951 at a weighted average price of $0.32 per share; and

(viii) 215,000 common shares repurchased under the NCIB, of which 198,000 common shares were repurchased in fiscal 2016, were cancelled and returned to the Company's treasury in July 2016. Upon the cancellation, $136,956 was recorded as a reduction to capital stock for the assigned value of the shares, and $103,156 was allocated to reserves.

During the year ended June 30, 2016:

(ix) the Company received TSX-Vapproval for its new Normal Course Issuer Bid ("NCIB") application to purchase at market price up to 7,620,721 common shares, being approximately 5% of the Company's issued and outstanding common shares, through the facilities of the TSX-V. The bid commenced on August 1, 2015 and stayed open for 12 months;

(x) the Company repurchased 202,000 of its common shares under the NCIB for total consideration of $31,165 at a weighted average price of $0.15 per share; and

(xi) 149,000 common shares repurchased under the NCIB, of which 145,000 common shares were repurchased in fiscal 2015, were cancelled and returned to the Company's treasury in July 2015. Upon the cancellation, $94,978 was recorded as a reduction to capital stock for the assigned value of the shares, and $44,170 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.

(Expressed in Canadian Dollars, unless otherwise stated)

## 12. CAPITAL STOCK AND RESERVES (cont'd)

### (c) Share options (cont'd)

Share option transactions are summarized as follows:

| | Options Outstanding | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, June 30, 2015 | 10,622,500 | $ 0.39 |
| Expired | (3,645,000) | 0.55 |
| Outstanding, June 30, 2016 | 6,977,500 | 0.32 |
| Exercised | (45,000) | 0.23 |
| Granted | 2,590,000 | 0.43 |
| Cancelled | (440,000) | 0.42 |
| Outstanding, June 30, 2017 | 9,082,500 | $ 0.34 |

Share options outstanding and exercisable at June 30, 2017 are summarized as follows:

| Number of Options | Exercise Price | Expiry Date | Remaining Life of Options (Years) | Number of Options Exercisable |
|---|---|---|---|---|
| 150,000 | $ 0.39 | February 8, 2018 | 0.61 | 150,000 |
| 50,000 | $ 0.60 | February 8, 2018 | 0.61 | 50,000 |
| 100,000 | $ 1.05 | February 11, 2018 | 0.62 | 100,000 |
| 50,000 | $ 0.23 | February 11, 2018 | 0.62 | 50,000 |
| 220,000 | $ 0.25 | October 31, 2018 | 1.34 | 220,000 |
| 150,000 | $ 0.40 | November 2, 2018 | 1.34 | 150,000 |
| 250,000 | $ 0.40 | February 1, 2019 | 1.59 | 250,000 |
| 125,000 | $ 0.55 | February 1, 2019 | 1.59 | 125,000 |
| 125,000 | $ 0.70 | February 1, 2019 | 1.59 | 125,000 |
| 50,000 | $ 0.40 | October 9, 2019 | 2.28 | 50,000 |
| 25,000 | $ 0.63 | January 15, 2020 | 2.55 | 25,000 |
| 30,000 | $ 0.23 | January 15, 2020 | 2.55 | 30,000 |
| 42,500 | $ 0.23 | November 8, 2020 | 3.36 | 42,500 |
| 545,000 | $ 0.55 | November 24, 2020 | 3.41 | 445,000 |
| 5,000 | $ 0.23 | November 24, 2020 | 3.41 | 5,000 |
| 600,000 | $ 0.35 | June 16, 2021 | 3.96 | 600,000 |
| 90,000 | $ 0.40 | November 2, 2021 | 4.35 | 90,000 |
| 1,290,000 | $ 0.39 | December 27, 2023 | 6.50 | 1,290,000 |
| 3,735,000* | $ 0.23 | April 10, 2025 | 7.78 | 3,735,000 |
| 1,450,000 | $ 0.40 | September 13, 2026 | 9.21 | 1,450,000 |
| 9,082,500 | $ 0.34 | | 6.31 | 8,982,500 |

*subsequent to June 30, 2017, 10,000 options were exercised for proceeds of $2,300.

(Expressed in Canadian Dollars, unless otherwise stated)

## 12. CAPITAL STOCK AND RESERVES (cont'd)

### (c) Share options (cont'd)

During the year ended June 30, 2017, the Company granted an aggregate of 2,590,000 (2016 – Nil) share options to directors, officers, employees and consultants of the Company and recorded share-based compensation expense of $575,248 (2016 – $14,994) for the vested portion of the share options granted.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options granted. 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:

| | 2017 | 2016 |
|---|---|---|
| Number of options granted | 2,590,000 | – |
| Risk free interest rate | 0.85% | – |
| Expected dividend yield | 0% | – |
| Stock price volatility | 69.40% | – |
| Expected life of options | 6.74 years | – |
| Weighted average fair value of options | $ 0.23 | – |
| Forfeiture | 0% | – |

### (d) Warrants

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

| | **Warrants Outstanding** | **Weighted Average Exercise Price** |
|---|---|---|
| Balance, June 30, 2015 | 1,640,375 | $ 0.48 |
| Expired | (390,375) | 0.75 |
| Balance, June 30, 2016 | 1,250,000 | 0.40 |
| Granted (Note 12(b)(ii)(iv)) | 3,457,250 | 0.54 |
| Balance, June 30, 2017 | 4,707,250 | $ 0.50 |

(Expressed in Canadian Dollars, unless otherwise stated)

## 12. CAPITAL STOCK AND RESERVES (cont'd)

### (d) Warrants (cont'd)

The following table summarizes the warrants outstanding at June 30, 2017:

| Number of Warrants | Exercise Price | Expiry Date | Remaining Life of Warrants (Years) |
|---|---|---|---|
| 1,250,000 | $ 0.40 | September 16, 2017(*) | 0.21 |
| 2,731,750 | $ 0.55 | December 15, 2018 | 1.46 |
| 655,429 | $ 0.50 | April 12, 2019 | 1.78 |
| 70,071 | $ 0.45 | April 12, 2019 | 1.78 |
| 4,707,250 | $ 0.50 | | 1.18 |

(*) Warrants expired unexercised subsequent to June 30, 2017.

During the year ended June 30, 2017, the Company recorded $5,992 (2016 - $Nil) in the reserves account for the 70,071 finders' warrants issued in connection with the April 2017 non flow-through private placement (Note 12(b)(iv)). The fair value of the finders' warrants granted was calculated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| | 2017 | 2016 |
|---|---|---|
| Risk free interest rate | 0.74% | – |
| Expected dividend yield | 0% | – |
| Stock price volatility | 68.94% | – |
| Expected life of options | 2 years | – |
| Forfeiture | 0% | – |

### (e) Reserves

| | Note | Options and agent warrants | Finance warrants | Treasury shares | Total |
|---|---|---|---|---|---|
| Balance, June 30, 2015 | | $ 9,466,609 | $ 2,204,276 | $ 1,333,335 | $ 13,004,220 |
| Share-based compensation | 12(c) | 14,994 | – | – | 14,994 |
| Cancellation of treasury shares | 12(b)(xi) | – | – | 44,170 | 44,170 |
| Balance, June 30, 2016 | | 9,481,603 | 2,204,276 | 1,377,505 | 13,063,384 |
| Exercise of options | 12(b)(v) | (46,902) | – | – | (46,902) |
| Finders' warrants | 12(b)(iv) | 5,992 | – | – | 5,992 |
| Share-based compensation | 12(c) | 575,248 | – | – | 575,248 |
| Cancellation of treasury shares | 12(b)(viii) | – | – | 103,156 | 103,156 |
| Balance, June 30, 2017 | | $ 10,015,941 | $ 2,204,276 | $ 1,480,661 | $ 13,700,878 |

(Expressed in Canadian Dollars, unless otherwise stated)

## 13. INCOME TAXES

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

| | 2017 | 2016 |
|---|---|---|
| Net loss before income taxes | $ (2,550,399) | $ (2,998,941) |
| Expected income tax recovery at statutory tax rates | $ (663,000) | $ (780,000) |
| Non-deductible expenditures and other items | 156,000 | 439,000 |
| Impact of future income tax rates applied versus current statutory rate and other | 17,000 | (28,000) |
| Impact of flow through shares | 158,000 | 324,000 |
| Share issue costs | (96,000) | – |
| Adjustment to prior years provision versus statuary returns and expiry of non-capital losses | 45,000 | 154,000 |
| Total deferred tax expense (recovery) | $ (383,000) | $ 109,000 |

Deferred tax expense (recovery) comprises the following:

| | Note | 2017 | 2015 |
|---|---|---|---|
| Deferred tax expense on change in unrecognized deductible temporary differences and other | | (383,000) | 109,000 |
| Deferred tax recovery on amortization of flow-through premium liability | | (140,086) | (136,725) |
| Total deferred tax recovery | | (523,086) | (27,725) |

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

| Deferred tax assets (liabilities) | 2017 | 2016 |
|---|---|---|
| Exploration and evaluation assets | $ (7,568,000) | $ (7,345,000) |
| Share issue costs | 92,000 | 32,000 |
| Allowable capital losses | 218,000 | 223,000 |
| Non-capital losses | 4,912,000 | 4,377,000 |
| Capital assets | 221,000 | 193,000 |
| Marketable securities | (2,000) | 10,000 |
| Investment tax credits | 524,000 | 524,000 |
| Total deferred income tax liability | $ (1,603,000) | $ (1,986,000) |

(Expressed in Canadian Dollars, unless otherwise stated)

## 13. INCOME TAXES (cont'd)

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:

| | 2017 | Expiry dates | 2016 | Expiry dates |
|---|---|---|---|---|
| Non-capital loss carry forward | $ 2,232,000 | 2026 to 2037 | $ 2,232,000 | 2016 to 2035 |
| Capital assets | 32,000 | No expiry | 32,000 | No expiry |

During the year ended June 30, 2017, the Company issued a total of 4,588,998 (2016 - Nil) flow-through common shares for gross proceeds of $2,113,048 (2016 - $Nil). 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 2016 subscriptions of $610,276 to the flow-through shareholders under the "look-back rule" for the 2016 calendar year, and, as of June 30, 2017, spent $607,041 on eligible exploration expenditures for the summer 2017 drilling program.

## 14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

| | 2017 | 2016 |
|---|---|---|
| Cash paid during the year for interest | $ – | $ – |
| Cash paid during the year for income tax | – | – |

Significant non-cash transactions for the years ended June 30, 2017 and 2016 included:

- exploration and evaluation assets of $533,283 (2016 - $32,822) in accounts payable;
- equipment and leasehold improvements of $10,000 (2016 - $Nil) in accounts payable;
- reduction in exploration and evaluation assets of $Nil (2016 - $85,291) in METC recoverable;
- depreciation of camp equipment and upgrades of $102,485 (2016 - $123,395) included in exploration and evaluation assets (Note 10);
- an allocation of $448,218 (2016 - $Nil) from capital stock to flow-through premium liability on the issuance of the flow-through shares (Note 9);
- fair value of finders' warrants of $5,992 (2016 - $Nil) recorded as share issuance costs;
- an allocation of $46,902 (2016 - $Nil) from reserves to capital stock upon the exercise of stock options (Note 12(b)(v));
- unrealized gain of $83,708 (2016 – loss of $37,679) on marketable securities due to changes in fair value, which was allocated to AOCL (Note 5); and
- reclassification of previously recognized unrealized losses on marketable securities of $3,163 (2016 - $1,617,599) from AOCL to deficit (Note 5).

(Expressed in Canadian Dollars, unless otherwise stated)

## 15. RELATED PARTY TRANSACTIONS

Key management personnel includes persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. Key management personnel comprise of the directors of the Company, executive and non-executive, and Vice President of Exploration.

The remuneration of the key management personnel during the years ended June 30, 2017 and 2016 were as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Bonuses (iii) | $ | 128,429 | $ | 11,067 |
| Consulting fees (iv) | | 15,000 | | 15,000 |
| Directors fees (ii) | | 40,000 | | 40,000 |
| Exploration and evaluation expenditures (geological consulting) (v) | | 150,000 | | 150,000 |
| Management fees (i) | | 354,000 | | 354,000 |
| Other employment benefits (vii) | | 27,917 | | 28,105 |
| Share-based compensation (vi) | | 281,758 | | 14,994 |
| Total | $ | 997,104 | $ | 613,166 |

Transactions with key management and other related party transactions:

(i) Pursuant to a management and administrative services agreement amended effective July 1, 2011 and May 1, 2014 with Varshney Capital Corp. ("VCC"), a company with two common directors, the Company agreed to pay management and administrative fees of $29,500 and $5,000, respectively.

During the year ended June 30, 2017, the Company paid $354,000 (2016 – $354,000) for management fees and $60,000 (2016 – $60,000) for administrative fees to VCC;

(ii) the Company paid $40,000 (2016 - $40,000) in directors' fees to four directors of the Company;

(iii) the Company paid bonuses of $128,429 (2016 - $11,067) to VCC;

(iv) the Company paid $15,000 (2016 - $15,000) for consulting fees to a company controlled by a director;

(v) the Company paid or accrued exploration and evaluation costs of $150,000 (2016 - $150,000) for geological consulting fees to a company owned by an officer of the Company, of which $59,375 (2016 - $88,750) was capitalized as exploration and evaluation costs and $90,625 (2016 - $61,250) was expensed as consulting fees;

(vi) share-based compensation is the fair value of share options that have been granted to directors and executive officers and the related compensation expense recognized over the vesting periods; and

(vii) other employment benefits included life insurance and health benefits for the CEO and health benefits for the CFO of the Company.

## 16. CAPITAL MANAGEMENT

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirement on an ongoing basis, continue the development and exploration of its mineral properties, and support any expansionary plans. 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. The Company's overall strategy with respect to capital risk management remained unchanged during the year ended June 30, 2017. The Company is not subject to any 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, investments, and marketable securities are carried at fair value using a level 1 fair value measurement. The carrying value of receivables, loan receivable and trade payables and accrued liabilities 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 $4,464,425 and short-term investments in GICs of $4,013,023. 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 and interest accrued on GIC investments.

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

The Company is exposed to higher credit risk on its loan receivable with the amortized balance of $108,466 (Note 4) as it is issued under unsecured promissory note.

*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, 2017, the Company was holding cash deposits of $4,464,425 to settle current cash liabilities of $633,133. 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, has exposure to these risks.

*a. Interest Rate Risk*

The Company is exposed to interest rate risk as its bank treasury account and other assets 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 $4,400.

*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.

## 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. SUBSEQUENT EVENT

Subsequent to the year ended June 30, 2017, the Company received TSX-V approval for its new NCIB application to purchase at market price up to 8,152,189 common shares, being approximately 5% of the Company's issued and outstanding common shares, through the facilities of the TSX-V. The bid commenced on August 1, 2017 and will stay open for another 12 months. The Company cancelled and returned to its treasury 564,000 common shares of the Company that were repurchased under the NCIB prior to June 30, 2017. After the cancellation, the Company has 163,043,783 common shares issued and outstanding.

The Company repurchased 157,500 of its common shares under the new NCIB for total consideration of $45,994 at a weighted average price of $0.29 per share.