

CANADA ZINC METALS CORP.

Condensed Consolidated Interim Financial Statements

For the Six Months Ended December 31, 2016 and 2015

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

CANADA ZINC METALS CORP.

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CANADA ZINC METALS CORP.

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

February 27, 2017

CANADA ZINC METALS CORP.

Condensed Consolidated Interim Statements of Financial Position

As at December 31, 2016 and June 30, 2016

(Expressed in Canadian Dollars - Unaudited)

| | Note | December 31, 2016 (unaudited) | June 30, 2016 (audited) |
|----------------------------------------|------|----------------------------------|----------------------------|
| Assets | | | |
| Current assets | | | |
| Cash | | \$ 3,729,285 | \$ 2,550,103 |
| Receivables | 3 | 35,579 | 14,641 |
| Prepaid expenses | | 210,953 | 54,419 |
| Loan receivable | 4 | 102,658 | – |
| Marketable securities | 5 | 115,279 | 90,400 |
| Investments | 6 | 4,018,849 | 4,019,351 |
| | | 8,212,603 | 6,728,914 |
| Other assets | 7 | 332,500 | 332,500 |
| Equipment and leasehold improvements | 10 | 351,301 | 402,776 |
| Refundable deposit | | – | 75,000 |
| Exploration and evaluation assets | 11 | 70,066,659 | 69,955,137 |
| | | \$ 78,963,063 | \$ 77,494,327 |
| Liabilities and Equity | | | |
| Current liabilities | | | |
| Trade payables and accrued liabilities | 8 | \$ 102,442 | \$ 139,130 |
| Due to related parties | 14 | 110,999 | – |
| Flow-through premium liability | 9 | 140,833 | – |
| | | 354,274 | 139,130 |
| Deferred income tax liability | | 1,986,000 | 1,986,000 |
| Equity | | | |
| Capital stock | 12 | 99,376,647 | 97,013,235 |
| Reserves | 12 | 13,653,818 | 13,063,384 |
| Deficit | | (36,319,781) | (34,632,982) |
| Accumulated other comprehensive loss | | (87,895) | (74,440) |
| | | 76,622,789 | 75,369,197 |
| | | \$ 78,963,063 | \$ 77,494,327 |

Nature and continuance of operations (Note 1)**Subsequent events** (Note 17)

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

CANADA ZINC METALS CORP.

Condensed Consolidated Interim Statements of Changes in Equity
(Expressed in Canadian Dollars - Unaudited)

| | Note | Capital Stock | | | | Reserves (Note 12) | Deficit | Accumulated other comprehensive loss | Total Equity |
|------------------------------------------|------|----------------------------|------------------------------|-------------------------|---------------------------|-----------------------|------------------------|-----------------------------------------------|----------------------|
| | | Number of common shares | Number of treasury shares | Common shares amount | Treasury shares amount | | | | |
| 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 | - | (127,000) | - | (19,667) | - | - | - | (19,667) |
| Share-based compensation | 12 | - | - | - | - | 7,538 | - | - | 7,538 |
| Change in fair value of securities | 5 | - | - | - | - | - | - | (30,771) | (30,771) |
| Realized losses on marketable securities | 5 | - | - | - | - | - | - | 1,617,599 | 1,617,599 |
| Net loss for the period | | - | - | - | - | - | (2,176,564) | - | (2,176,564) |
| Balance, December 31, 2015 | | 152,414,428 | (123,000) | 97,043,465 | (18,732) | 13,055,928 | (33,838,330) | (67,532) | 76,174,799 |
| Treasury shares repurchased | 12 | - | (75,000) | - | (11,498) | - | - | - | (11,498) |
| Share-based compensation | | - | - | - | - | 7,456 | - | - | 7,456 |
| Change in fair value of securities | 5 | - | - | - | - | - | - | (6,908) | (6,908) |
| Net loss for the period | | - | - | - | - | - | (794,652) | - | (794,652) |
| 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 | - | (27,000) | - | (6,950) | - | - | - | (6,950) |
| Treasury shares cancelled | 12 | (215,000) | 215,000 | (136,956) | 33,800 | 103,156 | - | - | - |
| Private placement | 12 | 5,463,500 | - | 2,185,400 | - | - | - | - | 2,185,400 |
| Flow-through private placements | 12 | 1,173,608 | - | 610,276 | - | - | - | - | 610,276 |
| Flow-through premium liability | 9 | - | - | (140,833) | - | - | - | - | (140,833) |
| Share issuance costs | 12 | - | - | (238,577) | - | - | - | - | (238,577) |
| Exercise of share options | 12 | 45,000 | - | 57,252 | - | (46,902) | - | - | 10,350 |
| Share-based compensation | 12 | - | - | - | - | 534,180 | - | - | 534,180 |
| Change in fair value of securities | 5 | - | - | - | - | - | - | (13,455) | (13,455) |
| Net loss for the period | | - | - | - | - | - | (1,686,799) | - | (1,686,799) |
| Balance, December 31, 2016 | | 158,881,536 | (10,000) | \$ 99,380,027 | \$ (3,380) | \$ 13,653,818 | \$ (36,319,781) | \$ (87,895) | \$ 76,622,789 |

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

CANADA ZINC METALS CORP.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars - Unaudited)

| | Note | Three months ended December 31, | | Six months ended December 31, | |
|--------------------------------------------------------------|------|------------------------------------|---------------------|----------------------------------|---------------------|
| | | 2016 | 2015 | 2016 | 2015 |
| ADMINISTRATION EXPENSES | | | | | |
| Administration | 14 | \$ 15,000 | \$ 15,000 | \$ 30,000 | \$ 30,000 |
| Bank charges and interest | | 425 | 451 | 956 | 1,081 |
| Bonuses | 14 | 89,198 | 11,900 | 89,198 | 11,900 |
| Consulting | | 112,204 | 21,249 | 260,625 | 25,624 |
| Depreciation | 10 | 945 | 1,547 | 1,891 | 3,095 |
| Directors' fees | 14 | 10,000 | 10,000 | 20,000 | 20,000 |
| Flow-through taxes (recovery) | 9 | – | (927) | – | 260 |
| Investor relations | | 15,448 | 1,132 | 34,780 | 1,891 |
| Management fees | 14 | 88,500 | 88,500 | 177,000 | 177,000 |
| Marketing | | 73,002 | – | 131,938 | 15,402 |
| Office and miscellaneous | | 30,446 | 22,993 | 45,841 | 37,720 |
| Professional fees | | 16,008 | 1,720 | 16,008 | 1,720 |
| Regulatory fees | | 9,674 | 3,979 | 13,899 | 9,529 |
| Rent | | 24,233 | 29,068 | 49,962 | 57,833 |
| Share-based compensation | 12 | 76,044 | 3,769 | 534,180 | 7,538 |
| Transfer agent fees | | 2,330 | 1,291 | 3,702 | 2,545 |
| Travel and promotion | | 52,540 | 33,245 | 104,664 | 75,350 |
| Wages and benefits | | 97,215 | 124,271 | 214,711 | 238,642 |
| Loss before other items | | (713,212) | (369,188) | (1,729,355) | (717,130) |
| OTHER ITEMS | | | | | |
| Interest income | | 20,742 | 24,137 | 42,556 | 53,955 |
| Loss on sale of marketable securities | 5 | – | (578,629) | – | (578,629) |
| Write-off of marketable securities | 5 | – | (1,071,485) | – | (1,071,485) |
| | | 20,742 | (1,625,977) | 42,556 | (1,596,159) |
| Loss before income taxes | | (692,470) | (1,995,165) | (1,686,799) | (2,313,289) |
| Deferred income tax recovery | 9 | – | – | – | 136,725 |
| Loss before comprehensive loss | | (692,470) | (1,995,165) | (1,686,799) | (2,176,564) |
| Adjustment for change in fair value of marketable securities | 5 | 14,472 | 1,631,819 | (13,455) | 1,586,828 |
| Comprehensive loss for the period | | \$ (677,998) | \$ (363,346) | \$ (1,700,254) | \$ (589,736) |
| Basic and diluted loss per share | | \$ (0.005) | \$ (0.013) | \$ (0.011) | \$ (0.014) |
| Weighted average number of common shares outstanding | | 153,398,708 | 152,414,428 | 152,824,340 | 152,427,385 |

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

CANADA ZINC METALS CORP.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian Dollars - Unaudited)

| | Six months ended December 31, | |
|--------------------------------------------------------|-------------------------------|---------------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss for the period | \$ (1,686,799) | \$ (2,176,564) |
| Items not affecting cash: | | |
| Depreciation | 1,891 | 3,095 |
| Interest accrued on investment | (32,402) | (8,765) |
| Loss on sale of marketable securities | – | 578,629 |
| Share-based compensation | 534,180 | 7,538 |
| Write-off of marketable securities | – | 1,071,485 |
| Deferred income tax recovery | – | (136,725) |
| Changes in non-cash working capital items: | | |
| Receivables | (20,938) | 27,858 |
| Prepaid expenses | (156,534) | 11,951 |
| Accounts payable and accrued liabilities | (5,777) | (63,025) |
| Due to related parties | 110,999 | 19,025 |
| Cash used in operating activities | (1,255,380) | (665,498) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received on investments | 30,247 | (975,988) |
| Loan receivable | (100,000) | – |
| Marketable securities, net | (38,334) | (110,964) |
| Refundable deposit | 75,000 | – |
| Equipment and leasehold improvements | – | (34,213) |
| Exploration and evaluation asset costs | (92,850) | (2,031,775) |
| Cash used in investing activities | (125,937) | (3,152,940) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of capital stock from private placements, net | 2,557,099 | – |
| Exercise of options | 10,350 | – |
| Common shares repurchased | (6,950) | (19,667) |
| Cash generated from (used in) financing activities | 2,560,499 | (19,667) |
| Change in cash during the period | 1,179,182 | (3,838,105) |
| Cash, beginning of period | 2,550,103 | 9,068,599 |
| Cash, end of period | \$ 3,729,285 | \$ 5,230,494 |

Supplemental disclosure with respect to cash flows (Note 13)
The accompanying notes form an integral part of these condensed consolidated interim financial statements.

CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements
For the six months ended December 31, 2016 and 2015
(Expressed in Canadian Dollars, unless otherwise stated)
(Unaudited, prepared by management)

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 1000-840 Howe St., Vancouver, BC V6Z 2M1.

These condensed consolidated interim 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 December 31, 2016, the Company has a positive working capital position of \$7,858,329 (June 30, 2016 - \$6,589,784). Management believes the Company has sufficient working capital to maintain its operations and fund its exploration activities for the next fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These financial statements were authorized for issue on February 27, 2017 by the directors of the Company.

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's annual financial statements for the year ended June 30, 2016 except for new standards, interpretations and amendments mandatory effective for the first time from July 1, 2016.

It is, therefore, recommended that these condensed interim financial statements be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2016.

Basis of preparation

These condensed consolidated interim 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 interim financial statements are presented in Canadian dollars unless otherwise noted, which is also the functional currency of the Company and its subsidiary.

CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements
For the six months ended December 31, 2016 and 2015
(Expressed in Canadian Dollars, unless otherwise stated)
(Unaudited, prepared by management)

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

The accounting policies chosen by the Company have been applied consistently to all periods presented.

Principles of consolidation

These condensed consolidated interim 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.

New standards and interpretations issued but not yet effective

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

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.
- IFRS 15 – Revenue from contracts with customers, the standard on revenue from contracts with customers was issued on May 28, 2014 and is effective for annual reporting periods beginning on or after January 1, 2018 for public entities with early adoption permitted.

3. RECEIVABLES

| | December 31, 2016 | June 30, 2016 |
|------------------------------|-------------------|---------------|
| Government Sales Tax credits | \$ 34,287 | \$ 14,303 |
| Accrued interest (Note 7) | 1,292 | 338 |
| | \$ 35,579 | \$ 14,641 |

4. LOAN RECEIVABLE

During the six months ended December 31, 2016, the Company advanced \$100,000 to a private company located in Ontario 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.

At December 31, 2016, the loan receivable balance was \$102,658 (June 30, 2016 - \$Nil) including accrued interest of \$2,658 (June 30, 2016 - \$Nil).

CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements
For the six months ended December 31, 2016 and 2015
(Expressed in Canadian Dollars, unless otherwise stated)
(Unaudited, prepared by management)

5. MARKETABLE SECURITIES

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

| | December 31, 2016 | | June 30, 2016 | |
|-------------------------------------------------------------|-------------------|----------|---------------|--------------------------|
| <i>Common shares of public companies:</i> | | | | |
| Fair value, beginning of period | \$ | 90,400 | \$ | 48,245 |
| Purchases | | 38,334 | | 116,454 |
| Proceeds from sales | | – | | (4,105) ¹ |
| Losses realized on sale | | – | | (578,629) ¹ |
| Write-off of marketable securities | | – | | (1,071,485) ² |
| Reclassification of previously recognized unrealized losses | | – | | 1,617,599 ^{1,2} |
| Unrealized losses | | (13,455) | | (37,679) |
| Fair value, end of period | \$ | 115,279 | \$ | 90,400 |

⁽¹⁾During the year ended June 30, 2016, the Company realized an aggregate loss of \$578,629 on the sale of marketable securities, which includes a reclassification of previously recognized unrealized losses of \$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.

6. INVESTMENTS

Investments consist of highly liquid Canadian dollar denominated non-redeemable guaranteed investment certificates (“GIC”) yielding an average fixed interest rate of 1.55% per annum with maturity dates within one year. The investments are classified as FVTPL financial assets. The counter-party is a financial institution.

At December 31, 2016, the Company held two GIC investments with total principal amount of \$4,000,000 (June 30, 2016 - \$4,000,000) and accrued interest of \$18,849 (June 30, 2016 - \$19,351). The GICs earn an average interest rate of 1.3% per annum.

During the six months ended December 31, 2016, one of the Company’s GIC investment with the principal amount of \$2,000,000 matured paying interest of \$30,247. On December 12, 2016, the Company re-invested \$2,000,000 into a new redeemable GIC.

7. OTHER ASSETS

Other assets comprise of reclamation bonds totalling \$332,500 (June 30, 2016 – \$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 1.00% and reinvested on an annual basis immediately at maturity. Interest accrued on the GICs is included in receivables (Note 3).

CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements
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(Expressed in Canadian Dollars, unless otherwise stated)
(Unaudited, prepared by management)

8. TRADE PAYABLES AND ACCRUED LIABILITIES

| | December 31, 2016 | June 30, 2016 |
|---------------------|-------------------|---------------|
| Trade payables | \$ 102,442 | \$ 97,130 |
| Accrued liabilities | – | 42,000 |
| | \$ 102,442 | \$ 139,130 |

9. FLOW-THROUGH PREMIUM LIABILITY

| | December 31, 2016 | June 30, 2016 |
|------------------------------|-------------------|---------------|
| Balance, beginning of period | \$ – | \$ 136,725 |
| Recorded | 140,833 | – |
| Amortized | – | (136,725) |
| Balance, end of period | \$ 140,833 | \$ – |

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 (2015 - \$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.

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 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 intends to use the "look-back" rule to renounce exploration expenditures of \$610,276 to the flow-through subscribers for calendar 2016 and 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 six months ended December 31, 2016 and the year ended June 30, 2016 are as follows:

| | December 31, 2016 | June 30, 2016 |
|------------------------------|-------------------|---------------|
| Balance, beginning of period | \$ – | \$ 8,006 |
| Accrued | – | 262 |
| FT Tax paid | – | (8,268) |
| Balance, end of period | \$ – | \$ – |

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(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited, prepared by management)

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 and December 31, 2016 | \$ 18,217 | \$ 19,702 | \$ 4,616 | \$ 19,000 | \$ 37,026 | \$ 344,891 | \$ 654,554 | \$ 1,098,006 |
| 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 | 661 | 769 | 461 | – | 856 | 18,838 | 29,890 | 51,475 |
| At December 31, 2016 | \$ 16,496 | \$ 12,843 | \$ 4,616 | \$ 19,000 | \$ 32,220 | \$ 214,253 | \$ 447,277 | \$ 746,705 |
| Net book value: | | | | | | | | |
| At June 30, 2016 | \$ 2,382 | \$ 7,628 | \$ 461 | \$ – | \$ 5,662 | \$ 149,476 | \$ 237,167 | \$ 402,776 |
| At December 31, 2016 | \$ 1,721 | \$ 6,859 | \$ – | \$ – | \$ 4,806 | \$ 130,638 | \$ 207,277 | \$ 351,301 |

- (1) License, vehicles, camp equipment and fixtures and camp upgrades are used for exploration and evaluation activities. Depreciation for these items of \$49,584 for the six months ended December 31, 2016 (2015 - \$61,913) has been capitalized to exploration and evaluation assets (Note 11). Depreciation of the remaining items of \$1,891 (2015 - \$3,095) has been expensed.

CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements
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11. EXPLORATION AND EVALUATION ASSETS

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

Akie Property, British Columbia

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

Kechika Regional project, British Columbia

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

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 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.

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.

CANADA ZINC METALS CORP.

Notes to Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars, unless otherwise stated)

(Unaudited, prepared by management)

11. EXPLORATION AND EVALUATION ASSETS (cont'd)

Summary of exploration expenditures incurred on various properties:

| | Akie Property | Kechika Regional | Total |
|---------------------------------------------------------------|----------------------|---------------------|----------------------|
| Acquisition Costs: | | | |
| Balance, June 30, 2015 and 2016, and December 31, 2016 | \$ 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 | 49,584 | – | 49,584 |
| Camp rental | 15,000 | – | 15,000 |
| Engineering review | 30,258 | – | 30,258 |
| Geology | 10,000 | 1,250 | 11,250 |
| Environmental studies and permit compliance monitoring | 5,430 | – | 5,430 |
| Balance, December 31, 2016 | \$ 40,931,840 | \$ 4,632,793 | \$ 45,564,633 |
| Total, June 30, 2016 | \$ 64,986,809 | \$ 4,968,328 | \$ 69,955,137 |
| Total, December 31, 2016 | \$ 65,097,081 | \$ 4,969,578 | \$ 70,066,659 |

* 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 (2015 - \$44,175) on qualified exploration expenditures incurred in fiscal 2015 in excess of the amounts renounced to flow-through investors.

The Company has applied for the BC METC of \$175,301 on qualified mining exploration costs incurred in fiscal 2016, which will be recorded once the Company receives its assessment of the Canada Revenue Agency.

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12. CAPITAL STOCK AND RESERVES

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

During the six months ended December 31, 2016:

- (i) 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 8);
- (ii) the Company also completed a brokered non-flow-through 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 non-flow-through 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;
- (iii) 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 above private placements;
- (iv) 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;
- (v) 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;
- (vi) the Company repurchased 27,000 of its common shares under the NCIB for total consideration of \$6,950 at a weighted average price of \$0.26 per share; and
- (vii) 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:

- (viii) 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 7,620,721 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;
- (ix) 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
- (x) 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.

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12. CAPITAL STOCK AND RESERVES (cont'd)

(c) 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)) | 2,731,750 | 0.55 |
| Balance, December 31, 2016 | 3,981,750 | \$ 0.51 |

The following table summarizes the warrants outstanding at December 31, 2016:

| Number of Warrants | Exercise Price | Expiry Date |
|--------------------|----------------|-----------------------------------|
| 1,250,000 | \$ 0.40 | September 16, 2017 ^(*) |
| 2,731,750 | \$ 0.55 | December 15, 2018 |

(*)The expiry date of warrants was extended from September 16, 2015 to September 16, 2017.
All other terms remain the same.

(d) Share options

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

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

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

| | 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 | 2,090,000 | 0.41 |
| Expired/ forfeited | (240,000) | 0.41 |
| Outstanding, December 31, 2016 | 8,782,500 | \$ 0.34 |

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12. CAPITAL STOCK AND RESERVES (cont'd)

(d) Share options (cont'd)

Share options outstanding and exercisable at December 31, 2016 are summarized as follows:

| Number of Options | Exercise Price | Expiry Date | Remaining Life of Options (Years) | Number of Options Exercisable |
|-------------------|----------------|--------------------|-----------------------------------|-------------------------------|
| 100,000 | \$ 1.05 | February 11, 2018 | 1.12 | 100,000 |
| 50,000 | \$ 0.23 | February 11, 2018 | 1.12 | 50,000 |
| 220,000 | \$ 0.25 | October 31, 2018 | 1.83 | 220,000 |
| 150,000 | \$ 0.40 | November 2, 2018 | 1.84 | 150,000 |
| 300,000 | \$ 0.39 | August 8, 2019 | 2.60 | 75,000 |
| 100,000 | \$ 0.60 | August 8, 2019 | 2.60 | 25,000 |
| 50,000 | \$ 0.40 | October 9, 2019 | 2.77 | 50,000 |
| 25,000 | \$ 0.63 | January 15, 2020 | 3.04 | 25,000 |
| 30,000 | \$ 0.23 | January 15, 2020 | 3.04 | 30,000 |
| 42,500 | \$ 0.23 | November 8, 2020 | 3.86 | 42,500 |
| 545,000 | \$ 0.55 | November 24, 2020 | 3.90 | 445,000 |
| 5,000 | \$ 0.23 | November 24, 2020 | 3.90 | 5,000 |
| 600,000 | \$ 0.35 | June 16, 2021 | 4.46 | 600,000 |
| 90,000 | \$ 0.40 | November 2, 2021 | 4.84 | 90,000 |
| 1,290,000 | \$ 0.39 | December 27, 2023 | 6.99 | 1,290,000 |
| 3,735,000 | \$ 0.23 | April 10, 2025 | 8.28 | 3,735,000 |
| 1,450,000 | \$ 0.40 | September 13, 2026 | 9.71 | 1,450,000 |
| 8,782,500 | \$ 0.34 | | 7.02 | 8,382,500 |

During the six months ended December 31, 2016, the Company granted an aggregate of 2,090,000 share options to directors, officers, employees and consultants of the Company and recorded share-based compensation expense of \$534,180 (2015 – \$7,538) for the vested portion of the share options granted during the period.

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:

| Six months ended December 31, | 2016 | 2015 |
|-------------------------------|------------|----------|
| Number of options vested | 1,976,002 | 14,358 |
| Risk free interest rate | 0.92% | 2.86% |
| Expected dividend yield | 0% | 0% |
| Stock price volatility | 69.35% | 106.28% |
| Expected life of options | 8.43 years | 10 years |
| Forfeiture | 0% | 0% |

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12. CAPITAL STOCK AND RESERVES (cont'd)

(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 | | 14,994 | – | – | 14,994 |
| Cancellation of treasury shares | | – | – | 44,170 | 44,170 |
| Balance, June 30, 2016 | | 9,481,603 | 2,204,276 | 1,377,505 | 13,063,384 |
| Share-based compensation | 12(d) | 534,180 | – | – | 534,180 |
| Cancellation of treasury shares | 12 (b)(ii) | – | – | 103,156 | 103,156 |
| Exercise of options | 12 (b)(iii) | (46,902) | | | (46,902) |
| Balance, December 31, 2016 | | \$ 9,968,881 | \$ 2,204,276 | \$ 1,480,661 | \$ 13,653,818 |

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the six months ended December 31, 2016 included:

- exploration and evaluation assets of \$1,910 (June 30, 2016 - \$32,822) in accounts payable;
- depreciation of camp equipment and upgrades of \$49,584 included in exploration and evaluation assets;
- an allocation of \$46,902 (2015 - \$Nil) from reserves to capital stock upon the exercise of share options (Note 12(b));
- an allocation of \$140,833 (2015 - \$Nil) from capital stock to flow-through premium liability on the issuance of the flow-through shares in December 2016 (Note 12(b)); and
- unrealized loss of \$13,455 on marketable securities due to changes in fair value, which was allocated to AOCL.

Significant non-cash transactions for the six months ended December 31, 2015 included:

- exploration and evaluation assets of \$Nil (June 30, 2015 - \$443,944) in accounts payable;
- reduction in exploration and evaluation assets of \$85,291 (June 30, 2015 - \$Nil) to recognize METC recoverable for fiscal 2015, which is included in receivables;
- equipment and leasehold improvements of \$Nil (June 30, 2015 - \$52,032) in accounts payable;
- depreciation of camp equipment and upgrades of \$61,913 included in exploration and evaluation assets;
- reclassification of refundable deposit of \$23,429 to receivables upon completion of the initial office lease term;
- unrealized loss of \$30,771 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 \$1,617,599 from AOCL to deficit.

14. 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 the Vice President of Exploration.

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14. RELATED PARTY TRANSACTIONS (cont'd)

The remuneration of the key management personnel during the six months ended December 31, 2016 and 2015 was as follows:

| December 31, | | 2016 | | 2015 |
|------------------------------------------------------------------------|----|---------|----|---------|
| Bonuses (iii) | \$ | 89,198 | \$ | 11,900 |
| Consulting fees (iv) | | 7,500 | | 7,500 |
| Directors fees (ii) | | 20,000 | | 20,000 |
| Exploration and evaluation expenditures (geological consulting) (v) | | 75,000 | | 75,000 |
| Management fees (i) | | 177,000 | | 177,000 |
| Other employment benefits (vii) | | 13,958 | | 15,039 |
| Share-based compensation (vi) | | 278,678 | | 7,538 |
| Total | \$ | 661,334 | \$ | 313,977 |

- (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 six months ended December 31, 2016, the Company paid \$177,000 (2015 - \$177,000) for management fees and \$30,000 (2015 - \$30,000) for administrative fees to VCC;
- (ii) the Company paid \$20,000 (2015 - \$20,000) in directors' fees to four directors of the Company;
- (iii) the Company accrued \$89,198 (2015 - \$11,900) in bonus to VCC;
- (iv) the Company paid \$7,500 (2015 - \$7,500) for consulting fees to a company controlled by a director;
- (v) the Company paid \$75,000 (2015 - \$75,000) for geological consulting fees to a company owned by an officer of the Company, of which \$12,500 (2015 - \$56,875) was capitalized as exploration and evaluation costs and \$62,500 (2015 - \$18,125) was expensed as consulting fees;
- (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; and
- (vii) other employment benefits included life insurance and health benefits for the CEO and health benefits for the CFO of the Company.

As at December 31, 2016, \$21,801 (June 30, 2016 - \$Nil) was due to a director of the Company for reimbursement of regulatory fees and business travel expenses, and \$89,198 (June 30, 2016 - \$Nil) was due to VCC. The amounts were paid subsequent to December 31, 2016.

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 six months ended December 31, 2016. 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, loan receivable, 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 \$3,729,285 (June 30, 2016 - \$2,550,103) and short-term investments in GICs of \$4,018,849 (June 30, 2016 - \$4,019,351). 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 investment.

The Company is exposed to higher credit risk on its loan receivable with the amortized balance of \$102,658 (Note 4) as it is unsecured.

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 December 31, 2016, the Company was holding cash deposits of \$3,729,285 to settle current cash liabilities of \$213,441. Management believes it has sufficient funds to meet its current obligations as they become due and to fund its exploration projects and administrative costs in the next 12 months.

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

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.

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 approximately \$3,730.

Currency Risk

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

Price risk

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

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

17. SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the Company granted incentive stock options to a consultant to purchase 500,000 common shares in the capital stock of the Company with the following exercise terms:

- 250,000 exercisable at a price of \$0.40 per share until February 1, 2019;
- 125,000 exercisable at a price of \$0.55 per share until February 1, 2019; and
- 125,000 exercisable at a price of \$0.70 per share until February 1, 2019.