

CANADA ZINC METALS CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 2011

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For the three months ended September 30, 2011

1.1 Date

This Management Discussion and Analysis (“MD&A”) of of Canada Zinc Metals Corp. (“Canada Zinc Metals” or the “Company”) has been prepared by management as of December 29, 2011 and should be read in conjunction with the condensed interim financial statements and related notes thereto of the Company for the three months ended September 30, 2011 and 2010, which were prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”).

The Company is presently a “Venture Issuer”, as defined in NI 51-102.

This MD&A may contain “forward-looking statements” which reflect the Company’s current expectations regarding the future results of operations, performance and achievements of the issuer, including potential business or mineral property acquisitions and negotiation and closing of future financings. The issuer has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as “anticipate,” “believe,” “estimate,” “expect” and similar expressions. The statements reflect the current beliefs of the management of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Issuer to differ materially from those expressed in, or implied by, these statements.

The Company undertakes no obligation to publicly update or review the forward-looking statements whether as a result of new information, future events or otherwise.

Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

1.2 Overall Performance

The Company was incorporated under the laws of the Province of British Columbia on February 10, 1988. The Company operates in one business segment, that being the exploration and development of mineral properties in Canada.

As at the date hereof, the Company has mining interests in properties located in British Columbia..

Akie Property, Kechika Trough District, BC (zinc, lead, silver)

The Company holds a 100% interest in the Akie Property, which is located approximately 260 kilometers north-northwest of the town of Mackenzie in northeastern British Columbia.

The Akie zinc-lead property is situated within the southern-most part (Kechika Trough) of the regionally extensive Paleozoic Selwyn Basin, one of the most prolific sedimentary basins in the world for the occurrence of SEDEX zinc-lead-silver and stratiform barite deposits.

Drilling on the Akie property by Inmet Mining Corporation during the period 1994 to 1996 and by Canada Zinc since 2005 has identified a significant body of baritic-zinc-lead sedimentary exhalative (SEDEX) mineralization named the Cardiac Creek deposit. The deposit is hosted by variably siliceous, fine grained clastic rocks of the Middle to Late Devonian ‘Gunsteel’ Formation.

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In the spring of 2008 the Company engaged Rob Sim and Donald G. MacIntyre to evaluate, calculate and produce a 43-101 compliant resource figure on the Cardiac Creek deposit. This technical report entitled "Geology, Diamond Drilling and Preliminary Resource Estimation, Akie Zinc-Lead-Silver Property, Northeast British Columbia, Canada", which can be found on SEDAR (www.sedar.com), outlined a resource figure of 23.595Mt grading 7.60% zinc, 1.50% lead, and 13.0g/t silver.

2011 Diamond Drill Program – Akie Property

The 2011 diamond drilling program commenced in early June as part of Canada Zinc Metals' exploration program on the Akie property and the regional properties; Pie and Mt. Alcock. The objective of this year's drilling program was focused on several targets located on the Akie property including the Cardiac Creek deposit, the NW Extension and the SE Extension.

A total of 6,028.39 metres of drilling was completed in 15 drill holes. A total of 12 drill holes (5,667.81 metres) reached their intended target depths while 3 (360.58 metres) were abandoned due to poor ground conditions or excessive drill hole deviation. At present, exploration results on two holes are still pending due to an extensive backlog at Acme Analytical Laboratories.

SE Extension

A total of 3 holes (A-11-84 to A-11-86) were completed on the SE Extension target totaling 723.89 metres. Drill holes A-11-84 and A-11-85 were completed as part of the spring 2011 geotechnical program drilled to obtain geotechnical and hydrogeological information related to the underground exploration design. Both drill holes were collared along the newly constructed portal access trail and located approximately 850 metres along strike to the southeast of the known boundary of the Cardiac Creek deposit. As a pleasant surprise, trail construction exposed outcrops of laminated to bedded pyrite and nodular barite at surface in this area. Both drill holes intersected similar mineralization with minor sphalerite enrichment over variable widths. These intersects are similar to the distal and proximal facies associated with the Cardiac Creek deposit and are generally a precursor to high grade zinc mineralization at depth. Mineralization results from A-11-84 and A-11-85 were highly variable, with anomalous zinc in the 100 to 1,000 ppm range.

A-11-86 was the first drill hole of the 2011 summer exploration program and was collared on the portal access trail in order to test the down-dip potential of the newly discovered mineralization. Laminated pyrite and nodular barite mineralization, typical of the distal facies of the Cardiac Creek deposit, was intersected over 54.86 metres, returning nominal values of zinc consistently running above 1,000 ppm and ranging up to 0.64% Zn.

The results indicate that there is an enrichment of zinc progressing down-dip from surface. Additional geological analysis is required in order to assess the viability of future drill targets on the SE Extension.

NW Extension

Drilling at the NW Extension following up on promising proximal facies mineralization encountered in the 2010 drill program, including Cardiac Creek-style zinc mineralization in hole A-10-69 and the newly discovered Nick-style nickel-zinc rich mineralization in A-10-72. This interval appears to be similar in character to the nickel-zinc-lead-PGE (platinum group element) mineralization of the Nick Deposit in the Yukon, which is also anomalous in gold, copper and other elements. A five drill hole program (A-11-87 to A-11-91) totaling 1,708.22m was completed to test these discoveries.

Results have been received from 3 of the 5 holes, A-11-87 to A-11-89. These drill holes tested for the development of proximal facies mineralization in the immediate vicinity of A-10-69, both along strike and up-dip. All three drill holes intersected variable widths of proximal facies mineralization and returned highly anomalous values of zinc and lead. Drill hole A-11-87 was drilled up-dip of A-10-69 and intersected 11.67 metres of proximal facies bedded pyrite mineralization. This mineralization is hosted within a broad envelope of zinc enrichment that returned 24.68 metres of 0.18% Zn. Hole A-11-88 was drilled along strike of A-10-69 to the southeast and intersected 14.16 metres of proximal facies mineralization and a 2.61 metre thick massive sulphide lens situated at the Gunsteel – Road River Group contact. These intervals were associated with 17.54 metres of 0.38% Zn, 0.03% Pb, and 3.02g/t Ag; including zinc values reaching 1.11% Zn and 1.57

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metres of 6.99% Zn, 0.25% Pb, 2.35g/t Ag respectively. The last hole A-11-89 was drilled along strike of A-10-69 to the northwest and intersected two thin intervals of proximal facies mineralization associated with 19.00 metres of 0.16% Zn and 10.89 metres of 0.17% Zn. In addition to these intervals, a broad 29.00 metre zone consisting of distal laminated to bedded pyrite and nodular barite returned anomalous zinc values ranging from <1000 ppm to 1.73% Zn. This zone included an 18.67 metre interval of 0.38% Zn and negligible Pb and Ag. This zinc enriched zone is situated just above the Gunsteel – Road River Group contact. The panel of mineralization present at the NW Extension appears to be bounded, disrupted and offset by brittle faulting along its contacts with the Gunsteel shale. In addition, a large east-west structure was discovered to form the northwest boundary of the NW Extension mineralization. At this time, it appears the mineralization present at the NW Extension remains open to southeast. The results for these drill holes are summarized in the table below. Results for drill holes A-11-90 and A-11-91 are pending.

| Drill Hole | From (m) | To (m) | Est. True Width(m)* | Zn (%) | Pb (%) | Ag (g/t) | Zn+Pb (%) |
|------------|----------|--------|---------------------|--------|--------|----------|-----------|
| A-11-87 | 172.03 | 196.71 | 20.53 | 0.18 | <0.01 | 1.99 | 0.18 |
| A-11-88 | 206.26 | 223.82 | 10.96 | 0.38 | 0.03 | 3.02 | 0.41 |
| and | 240.89 | 242.46 | 0.98 | 6.99 | 0.25 | 2.35 | 7.24 |
| A-11-89 | 218.29 | 237.29 | 13.68 | 0.16 | <0.01 | 1.92 | 0.16 |
| and | 245.06 | 255.95 | 7.85 | 0.17 | <0.01 | 1.01 | 0.17 |
| and | 275.00 | 293.67 | 13.48 | 0.38 | 0.01 | 1.71 | 0.39 |

(*)True width calculations are based upon a deposit orientation striking at 130 degrees and dipping at -70 degrees. As such these are estimates and are subject to revision.

Cardiac Creek Zone

The second half of the diamond drilling program was dominated by drilling along the SE edge of the Cardiac Creek deposit with the intent to expand the deposit both up and down-dip and along strike on approximate 100 metre spacing from existing resource drill holes.

A total of 6 drill holes (A-11-92, A-11-93, A-11-95, A-11-96, A-11-98 and A-11-99) were completed on the Cardiac Creek deposit. These holes provided infill information both up and down-dip as well as testing the strike extent of the high grade trend along the southeastern edges of the deposit. Step-out drilling was also conducted to the southeast designed to expand the known limits of the deposit. At this time, Canada Zinc Metals has received partial assay results from 4 of the 6 Cardiac Creek Zone (CCZ) drill holes, A-11-92, A-11-93, A-11-95 and A-11-96. The pierce point for hole A-11-92 represents an approximate 125 metre step-out along strike from A-95-16, situated 210 metres down-dip from A-94-04. The high grade mineralization intercepted by hole A-11-93, which included 8.60 metres assaying 10.62% Zn+Pb (within which 2.78 metres assayed 17.66% Zn+Pb) is located 100 metres up-dip from A-95-16 and along strike from drill holes A-08-64 and A-08-66.

The pierce point for hole A-11-95 represents an approximate 100 metre step-out along strike from the high grade intercept in A-11-93 to the southeast. It is also situated between the pierce points for A-94-04 and A-11-92. The results from this hole indicate that the mineralization of the deposit remains open to the southeast allowing for further expansion of the deposit. The pierce point for hole A-11-96 is located approximately 100 metres up-dip from A-08-66 in an open area situated below the Cardiac Creek showing. The area remains open for further drilling and continued expansion of the deposit towards the surface and the Cardiac Creek showing.

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The results from these four drill holes are outlined in the table below.

| Drill Hole | From (m) | To (m) | Est .True Width(m)† | Zn (%) | Pb (%) | Ag (g/t) | Zn+Pb (%) |
|-------------------|-----------------|---------------|----------------------------|---------------|---------------|-----------------|------------------|
| A-11-92** | 599.24 | 607.50 | 6.04 | 1.83 | 0.30 | 5.43 | 2.13 |
| Including | 599.24 | 602.46 | 2.35 | 3.41 | 0.58 | 7.72 | 3.99 |
| A-11-93** | 533.61 | 552.02 | 15.22 | 6.61 | 1.45 | 9.84 | 8.06 |
| Including | 538.13 | 548.44 | 8.52 | 8.60 | 2.02 | 11.82 | 10.62 |
| Including | 538.13 | 541.50 | 2.78 | 13.99 | 3.67 | 16.53 | 17.66 |
| A-11-95 | 544.13 | 559.33 | 12.72 | 3.98 | 0.61 | 6.84* | 4.59 |
| Including | 555.59 | 559.33 | 3.13 | 7.40 | 1.28 | 10.13* | 8.68 |
| A-11-96 | 283.73 | 315.36 | 26.12 | 4.80 | 0.84 | 7.7 | 5.64 |
| Including | 296.97 | 313.28 | 13.47 | 7.15 | 1.24 | 11.18 | 8.39 |
| Including | 300.00 | 311.91 | 9.83 | 7.42 | 1.29 | 11.32 | 8.71 |
| Including | 305.52 | 311.91 | 5.28 | 8.59 | 1.42 | 12.43 | 10.01 |

(*) For the purposes of weighted averages values below the detection limit were given a value half the detection limit

(†) True width calculations are based upon a deposit orientation striking at 130 degrees and dipping at -70 degrees. As such these are estimates and are subject to revision.

(**) Previously released December 5th, 2011.

Lab results are expected for the remaining two drill holes within the next several weeks. These holes both intersected the CCZ over variable widths, from 15 meters to 40 meters.

GPS Showing & North Lead Anomaly

The final drill hole of the 2011 diamond drilling program targeted a massive bedded barite occurrence known as the GPS showing located along the western edges of the Akie property. The drilling of hole A-11-100 was abandoned at a depth of 99 metres of a planned 275 metres due to unexpected poor ground conditions within the hanging wall Road River stratigraphy. The target showing is hosted in a panel of recently interpreted prospective Gunsteel Formation stratigraphy situated directly along strike from the Cirque Deposit, which is located on the adjacent Cirque property, owned by Teck Resources Ltd. This showing remains a viable drill target for future exploration and the area will be reassessed to determine the best drilling method for future exploration programs.

The North Lead Anomaly remains a high priority target for future drilling programs. The Company plans to target a new series of drill holes to follow-up on significant mineralized intervals intersected in the 2010 drill program.

Akie Underground Development

In August 2011, the Company received an underground drill permit from the BC government for the Akie project which will facilitate advanced exploration of the Cardiac Creek deposit.

The underground drill permit is valid for a period of three years and is the main construction permit required to build the surface and underground infrastructure required for a comprehensive diamond drill definition program on the Cardiac Creek deposit. The underground exploration program, as currently planned, is comprised of 1,600 metres of underground development and 16,000 metres of underground diamond drilling designed to upgrade the current 43-101 compliant inferred resource to the measured and indicated category. Drill cores from underground would also be used in a systematic metallurgical sampling program intended to ensure metallurgical sampling across the full spectrum of the deposit. Underground development would also provide important engineering data for future mine design.

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The Company concluded the surface construction work tender process and awarded the contract to Falcon Contracting Ltd. of Prince George, BC. Falcon mobilized personnel and equipment to the site in September to commence work. The surface works contract includes tree clearing, grubbing and stripping of the planned underground portal site, preparation of the portal pad, construction of the waste rock dump site, and upgrade of the existing lower access road. This surface work is necessary in order to prepare for construction of the underground portal and exploration decline. Work crews demobilized from the Akie property and the camp was closed in November 2011. The Company continues to examine underground tender bids and costs associated with underground development for exploration drilling. The Company anticipates work to resume in the spring of 2012 to complete preparation of the portal site. Planning and engineering/environmental studies will continue over the winter months with a goal to commence underground development work in the summer of 2012.

2011 and 2010 Geotechnical Programs – Akie Property

Two short technical programs were completed in October 2010 and April 2011. The late 2010 program focused on several key sites near the Cardiac Creek deposit gathering engineering data in support of planned underground development to facilitate diamond drilling. Geotechnical engineering assessments were completed at the planned waste rock dump site and along the access to the planned portal. A portion of the lower access road was constructed to provide tracked access for a drill and an excavator. Preliminary engineering designs were prepared for the portal, decline, laydown area, dump site, settling pond and lower access.

The 2011 spring program involved completion of the access trail to the proposed portal site and additional technical drilling (geotechnical and hydrogeological). The field data provided a basis for detailed engineering and environmental design criteria for final designs for a waste rock dump, access road, portal and underground decline. The final designs were submitted to the BC government for approval.

Underground drilling is essentially unaffected by weather and will allow year-round operations. Planned development will initially be confined in the footwall of the deposit. Additional development would allow for a possible bulk ore sample to be taken providing data for pilot plant test work and marketability studies.

During access construction the surface expression of the Cardiac Creek zone was exposed. Preliminary mapping and sampling of the zone was completed during the summer exploration program. Of the two holes drilled along the access trail, Drill Hole A-11-85, located approximately 825m along strike from the deposit, intersected the Cardiac Creek zone 30 metres below surface from 60.40 metres to 83.40 metres (down hole depth). The interval of interest consisted primarily of interbedded sulphide and shale characteristic of proximal facies mineralization (thickly bedded pyrite +/- nodular barite) with minor sphalerite. Individual sulphide beds are on the order of 10-40 cm thick with an aggregate thickness in excess of 10 metres. Detailed core logging and sampling of this drill holes was completed during the summer exploration program.

2010 Diamond Drill Program – Akie Property

Previously reported drilling in 2010 focused on the three main property targets; the Cardiac Creek deposit, NW Extension and the North Lead Anomaly. A total of 11 diamond drill holes (6,124.51 metres) were completed. Of these, 4 holes (1,464 metres) tested the NW Extension target while a further 4 holes (2,584.79 metres) continued to test the highly prospective North Lead Anomaly. The remaining 3 holes (2,075.72 metres) tested the Cardiac Creek deposit. The results of the 2010 drilling are outlined below. All drill holes have intersected mineralized shales of the Gunsteel Formation, the primary host of the Cardiac Creek deposit. The sulphide mineralization occurs at the same stratigraphic horizon as the deposit.

Cardiac Creek Deposit

Three drill holes (A-10-73B, A-10-74, A-10-75) were completed totaling (2,075.72 metres) testing priority targets along the northwest edge and central area of the Cardiac Creek deposit. All drill holes encountered variable widths of Cardiac Creek style lead-zinc sulphide mineralization. Drill hole A-10-73B continued to demonstrate the homogenous character of the high grade trend within the central area of the deposit. Drill holes A-10-74 and A-10-75 expanded upon the known limits of the deposit to the northwest where it remains open for further expansion.

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| Drill Hole | Width (m) | Zinc (%) | Lead (%) | Silver (g/t) | Zn+Pb (%) |
|------------|-----------|----------|----------|--------------|-----------|
| A-10-73B | 22.79 | 8.34 | 1.69 | 16.03 | 10.03 |
| Including | 12.53 | 10.30 | 2.12 | 18.72 | 12.42 |
| A-10-74 | 17.56 | 5.70 | 0.89 | 8.52 | 6.59 |
| Including | 9.82 | 6.61 | 1.08 | 9.67 | 7.69 |
| A-10-75 | 6.65 | 5.89 | 1.10 | 10.78 | 6.99 |
| Including | 3.04 | 8.08 | 1.50 | 15.42 | 9.58 |
| And | 24.70 | 2.10 | 0.24 | 4.19 | 2.34 |

NW Extension Target

The drilling conducted on the NW Extension in 2010 was designed to test the (NW) strike extent of the Cardiac Creek deposit. Four drill holes (A-10-69, A-10-69A, A-10-71, A-10-72) were completed on approximate 400 metre centers totaling 1,464 metres. All four drill holes intersected variable widths of laminated to thickly bedded pyrite mineralization interbedded with nodular to massive beds of barite and Gunsteel Formation shale. This mineralization occurs at the same stratigraphic position as the Cardiac Creek deposit. Results from three of these drill holes (A-10-69A, A-10-71, A-10-72) returned highly anomalous values of zinc ranging from >1000 ppm to >5000 ppm zinc. The fourth drill hole, A-10-69, intersected 18.47 metres of thickly bedded pyrite and minor sphalerite (zinc sulphide) of identical style and character as the Cardiac Creek deposit. In addition to the mineralization encountered within the Gunsteel Formation shales, drill hole A-10-72 also intersected a 1.17 metre wide sulphide-replaced section of interpreted debris flow. The sulphides are predominantly pyrite with crosscutting sphalerite stringers. The results of this interval are outlined in the table below.

| DRILLHOLE | WIDTH (m) | ZINC (%) | NICKEL (%) | SILVER (g/t) |
|-----------|-----------|----------|------------|--------------|
| A-10-72 | 1.17 | 2.69 | 0.60 | 4.4 |

This interval is also anomalous in gold, lead, copper, molybdenum, antimony, phosphorus, vanadium, thallium and other elements. This mineralization appears to be a unique occurrence within in the Kechika Trough. The character and elemental enrichment suggest possible similarities to the zinc-nickel-PGE mineralization of the Nick deposit in the Yukon.

The results warranted additional drilling in 2011 as described above.

North Lead Anomaly

Additional drilling was completed on the North Lead Anomaly in 2010 following up on the 2008 Canada Zinc Metals and 1996 Inmet Mining drilling programs. Four drill holes (A-10-67, A-10-68, A-10-70, and A-10-76) were completed totaling 2,584.79 metres. All drill holes intersected variable widths of thinly to thickly bedded pyrite mineralization with minor sphalerite (zinc sulphide) however, A-10-68 and A-10-76 intersect significant 125+ metre intervals of interbedded Gunsteel Formation shale and thickly bedded pyrite mineralization discovered 100 metres along strike, northwest of the 2008 drill holes. This mineralization occurs at the same stratigraphic position and is similar in character to that of the pyrite mineralization closely associated with the Cardiac Creek deposit typically referred to as the Proximal facies.

Results from three of these drill holes (A-10-67, A-10-68, A-10-76) returned consistent, highly anomalous, zinc values ranging from >1000 ppm to >70000 ppm. In addition to the anomalous zinc values, drill hole A-10-68 included an interval of higher grade zinc outlined in the table below.

| DRILL HOLE | WIDTH (m) | ZINC (%) | LEAD (%) | SILVER (g/t) | Zn+Pb (%) |
|------------|-----------|----------|----------|--------------|-----------|
| A-10-68 | 2.02 | 1.47% | 0.045 | 5.4 | 1.52 |

The results from the North Lead Anomaly are extremely positive, suggesting that another Zn-rich sulphide system is present on the Akie property. An analysis of the drill hole data in conjunction with the geology, surface sampling and other pertinent geological data is underway in order to determine future drill targets on the Cardiac Creek deposit as well as the North Lead Anomaly and NW Extension targets.

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Though the North Lead Anomaly was not drill tested during the 2011 exploration program. It remains a high priority target and will undergo further analysis of existing surface and drill data in order to determine where best to locate future drill holes.

Kechika Regional

In addition to the Akie property, the Company controls a large contiguous group of claims, some 130 km long, which comprise the Kechika Regional project. These claims are underlain by similar geology to that at the Cardiac Creek deposit and the Cirque deposit. The Kechika project includes the 100% owned Mt. Alcock property, which has yielded a historic drill intercept of 8.8 metres grading 9.3% zinc+lead, numerous zinc-lead-barite occurrences, and several regional base metal anomalies.

The 2009 Kechika regional program was largely directed towards the Pie, Yuen Extension and Yuen claims that extend northwestward from the Akie Property for a distance of some 30 km. These properties encompass the highly prospective geological package(s) of Middle to Late Devonian fine grained sediments (Gunsteel Formation) and associated carbonate rocks that host both the Company's Cardiac Creek deposit and the nearby Cirque deposits owned by Teck Resources Ltd and Korea Zinc. Exploration on the Pie property resulted in identification of two new, significant mineral occurrences and two distinct geochemical targets.

In the western part of the property, prospecting has identified a 70 metre long by 1.5 metre thick occurrence of bedded barite that is associated with iron seeps, silicification and a nearby outcrop of laminated pyrite (collectively referred to as the GPS Showing), all features consistent with SEDEX deposits. This area is along strike from the Cirque SEDEX zinc-lead deposit which is located 18.5 km to the northwest, and is underlain by black shales of the Gunsteel Formation. In addition, approximately 7 km to the northwest, anomalous zinc values have been obtained from a 1 km long cluster of silt (>3,000ppm), soil (>3,000ppm) and rock samples (>1,000ppm) in an area underlain by the same Gunsteel shales.

Prospecting in the central part of the Pie property has resulted in discovery of two outcrops, some 75 metres apart, hosting very distinctive veins of coarse grained, medium brown sphalerite, lesser galena, comb-structure quartz crystals, and very large (to >10 cm long) lath-like crystals of white barite within a hard, black, saccharoidal siliceous matrix (referred to as Black Silica Veins - "Breccia" Showing in previous news releases). Locally, the veins exhibit a breccia texture comprising vuggy, angular fragments, to +6 cm across, of white quartz, carbonate and sphalerite in a similar black matrix. These veins occur within limestone or at the contact between black shales and limestone and range in thickness from 30 cm to >1 metre. Channel sampling along the strike of the basal part of the vein exposed in the largest of the two outcrops has yielded an average zinc grade of 10.19%, with lead (highest individual sample grade - 27.81% zinc, 0.02% lead). Analytical data also indicate that the zinc mineralization is accompanied by copper values, up to 2,172 ppm. This general area of the Pie claims is characterized by the presence of numerous occurrences of galena, sphalerite and/or barite in either carbonate or in the immediate vicinity of the contact between carbonate and black shales. It is possible that the veins could be associated with a nearby, but as yet unrecognized, vent complex or feeder zone typical of a SEDEX environment.

Soil and rock sampling in an area of extensive iron seeps and gossan development in the eastern part of the Pie property, approximately 4 km to the southeast of the aforementioned black silica veins, has returned highly anomalous values of zinc and other metals, the maximums (minimums) reported being >10,000 ppm (5,718) zinc, 9,711 ppm (1442) nickel, 1,384 ppm (66.3) cobalt, 623 ppm (82.98) molybdenum and >10,000 ppm (2,437) manganese. These oxidized features can be traced for several kilometers; field evidence suggests that the underlying rocks may be black shale or limestone, which elsewhere in this area has been noted to host local sphalerite and galena mineralization in veinlets and fractures.

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Summary of exploration expenditures incurred on various properties:

| | Akie Property | Kechika Regional | DA | Total |
|--|---------------|---------------------|------------|---------------|
| Acquisition Costs: | | | | |
| Balance, July 1, 2010 | \$ 24,175,329 | \$ 328,432 | \$ 71,535 | \$ 24,575,296 |
| Additions | – | 348 | – | 348 |
| Write-off | – | – | (71,535) | (71,535) |
| Balance, June 30, 2011 and September 30, 2011 | 24,175,329 | 328,780 | – | 24,504,109 |
| Deferred Exploration Costs: | | | | |
| Balance, July 1, 2010 | \$ 26,281,810 | \$ 1,172,533 | \$ 150,025 | \$ 27,604,368 |
| Surface drilling program: | | | | |
| Camp equipment, net | 102,738 | – | – | 102,738 |
| Camp operating | 180,951 | – | – | 180,951 |
| Drilling | 4,838,253 | 15,033 | – | 4,853,286 |
| Geology | 182,085 | 16,193 | – | 198,278 |
| Work assessment fees | 72,336 | 18,284 | – | 90,620 |
| Total surface drilling | 5,376,363 | 49,510 | – | 5,425,873 |
| Geotechnical program: | | | | |
| Camp operating | 314,953 | – | – | 314,953 |
| Trail construction | 600,177 | – | – | 600,177 |
| Total geotechnical program | 1,546,982 | – | – | 1,546,982 |
| Community consultations | 210,000 | – | – | 210,000 |
| Environmental studies | 236,940 | – | – | 236,940 |
| Underground engineering | 92,227 | – | – | 92,227 |
| Project assessment | 8,682 | – | – | 8,682 |
| Metallurgical analysis | 6,900 | – | – | 6,900 |
| Less: | | | | |
| Write-off | – | – | (150,025) | (150,025) |
| METC (2009) | (1,611,149) | – | – | (1,611,149) |
| Balance, June 30, 2011 | 32,148,755 | 1,222,043 | – | 33,370,798 |

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Summary of exploration expenditures incurred on various properties (cont'd)

| | Akie Property | Kechika Regional | DA | Total |
|------------------------------------|----------------------|---------------------|----------|----------------------|
| Balance, June 30, 2011 | 32,148,755 | 1,222,043 | – | 33,370,798 |
| Surface drilling program: | | | | |
| Camp equipment, net | 84,173 | – | – | 84,173 |
| Camp operating | 51,031 | 59,217 | – | 110,248 |
| Drilling | 1,525,227 | 132,190 | – | 1,657,417 |
| Geology | 42,986 | 192,933 | – | 235,919 |
| Total surface drilling | 1,703,417 | 384,340 | – | 2,087,757 |
| Underground development: | | | | |
| Engineering | 96,895 | – | – | 96,895 |
| Trail construction | 377,736 | – | – | 377,736 |
| Total underground development | 474,631 | – | – | 474,631 |
| Geotechnical program | 18,143 | – | – | 18,143 |
| Environmental studies | 95,646 | – | – | 95,646 |
| Project assessment | 32,224 | – | – | 32,224 |
| Metallurgical analysis | 6,535 | – | – | 6,535 |
| Balance, September 30, 2011 | 34,479,351 | 1,606,383 | – | 36,085,734 |
| Total | \$ 58,654,680 | \$ 1,935,163 | – | \$ 60,589,843 |

1.3 Selected Annual Information

The following is a summary of certain financial information concerning the Company for each of the last three most recently completed financial years. Fiscal 2011 financial results have been restated to IFRS. Please refer to Note 14 in the condensed consolidated interim financial statements for the three months ended September 30, 2011.

| | Years ended | | |
|---|----------------|-------------------------|-------------------------|
| | 2011 (IFRS) | 2010 (Canadian GAAP) | 2009 (Canadian GAAP) |
| Interest and other income | \$249,033 | \$36,036 | \$80,256 |
| Net Loss | (\$2,389,834) | (\$9,193,106) | (\$1,733,051) |
| Loss per share | (\$0.02) | (\$0.10) | (\$0.02) |
| Total assets | \$81,527,157 | \$63,441,750 | \$57,815,908 |
| Total long term liabilities (Future Income Tax Liability) | \$6,021,000 | \$7,040,397 | \$1,514,583 |
| Cash dividends declared per share for each class of share | \$Nil | \$Nil | \$Nil |

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1.4 Results of Operations

The following is a discussion of the financial condition, changes in financial condition and results of operations of the Company for the three month ended September 30, 2011 and 2010. The financial results for the prior periods ending have been restated to IFRS. Please refer to Note 14 in the condensed consolidated interim financial statements for the three months ended September 30, 2011.

During the three month ended September 30, 2011, the Company reported a loss of \$402,546 or \$0.003 per share compared to a loss of \$337,856 or \$0.003 per share during the same period in fiscal 2011, an increase in loss of \$64,690. The increase in loss was primarily due to a loss on sale of marketable securities of \$73,727 during the period.

The Company's consolidated net loss for the three months ended September 30, 2011, not factoring in non-cash transactions of stock-based compensation expense, amortization of office equipment and leasehold improvements and loss on sale of marketable securities, was \$268,097 (2010 - \$274,965), a decrease of \$6,868.

Interest and other income

Total interest and other income for the three months ended September 30, 2011 was \$68,054 compared to \$69,825 during the same period last year.

During the three months ended September 30, 2011, the Company sold 70,000 shares of International Lithium Corp. ("ILC") at an average price of \$0.18 per share for net cash proceeds of \$12,591, and 290,000 ILC share purchase warrants at an average price of \$0.03 for net cash proceeds of \$9,515. The Company realized a loss of \$73,727 on sale of these securities.

General and administration expenses

Total general and administration expenses decreased by \$10,808 due to decreases in consulting fees of \$54,025, investor relations of \$7,318, professional fees of \$28,000 and regulatory fees of \$3,195, offset by increases in amortization expense of \$578, director fees of \$12,500, management fees of \$36,000, office and miscellaneous of \$9,189, travel and promotion of \$21,633 and wages and benefits of \$4,912

Management fees

Increase in management fees was due to amendment of management and administrative services agreement with Varshney Capital Corp. ("VCC"), a company controlled by two common directors, whereby the monthly management fee was increased from \$12,500 to \$24,500.

Office and miscellaneous

Increase in office and miscellaneous expense during was related to increase in a commercial liability insurance premium given the significant underground development activities planned.

Travel and promotion

Increase in travel and promotion expenses was due to higher travel expenses incurred by directors and officers in connection with exploration activities and presentations arranged for various investors.

Consulting fees

The decrease in consulting fees was due to decreased business development consulting and financial advisory services carried out in Europe.

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Professional fees

Professional fees decreased due to fewer legal and tax consulting services retained during the period. The higher professional fees in fiscal 2011 were related to the Company's AGM and tax consultations in connection with the amendment of flow-through renunciations.

Stock-based compensation

The Company recognizes compensation expense for all stock options granted, using the fair value based method of accounting and any cash paid on the exercise of stock options is added to the stated value of common shares. For the three months ended September 30, 2011, the Company recorded stock-based compensation expense of \$59,686 (2010 - \$62,433) on the vested portion of stock options granted to directors, officers and consultants of the Company.

1.5 Summary of Quarterly Results

The following is a summary of certain consolidated financial information concerning the Company for each of the last eight reported quarters:

| Quarter ended | Interest Income | Net Earnings (Loss) | Earnings (Loss) per share |
|--------------------|-----------------|------------------------|------------------------------|
| September 30, 2011 | \$ 68,054 | \$ (402,546) | \$ 0.00 |
| June 30, 2011 | 75,801 | 84,615 | 0.00 |
| March 31, 2011 | 66,892 | (834,619) | (0.01) |
| December 31, 2010 | 36,515 | (1,301,974) | (0.01) |
| September 30, 2010 | 69,825 | (337,856) | (0.00) |
| June 30, 2010 | 13,254 | (6,648,712) | (0.07) |
| March 31, 2010 | 5,013 | (1,256,803) | (0.02) |
| December 31, 2009 | 6,907 | (853,469) | (0.01) |

The financial results for the prior periods have been restated to IFRS. Please refer to Note 14 in the condensed consolidated interim financial statements for the three months ended September 30, 2011.

The significant changes in loss for the quarter ended:

- June 30, 2011 was due to future income tax recovery of \$963,093, stock-based compensation expense of \$58,879 recorded on the vested portion of stock options granted during the prior periods, business development consulting fees of \$188,544, investor relations fees of \$149,243, flow-through taxes of \$74,434, bonuses of \$74,613 and write-off of mineral properties of \$221,560;
- March 31, 2011 was due to stock-based compensation expense of \$152,272 recorded on the 150,000 stock options granted to a consultant of the Company during the period and the vested portion of other stock options granted during the prior periods, business development consulting fees of \$136,729 and bonuses of \$360,000;
- December 31, 2010 was due to stock-based compensation expense of \$696,382 recorded on 1,870,000 stock options granted during the period and business development consulting fees of \$366,494;
- June 30, 2010 was due to future income tax expense of \$5,525,814 resulting from the difference between tax and book values of resource properties, and flow-through taxes of \$559,685 recorded in connection with the amended renunciation of the eligible Canadian exploration expenditures for fiscal 2008;
- March 31, 2010 was due to stock-based compensation expense of \$873,730 recorded on 1,320,000 stock options granted during the period and business development consulting fees of \$145,100; and

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- f) December 31, 2009 was due to stock-based compensation expense of \$339,513 recorded on 2,360,000 stock options granted during the quarter and consulting fees of \$236,812 paid in connection with business development consulting and financial advisory services carried out in Europe and Asia.

1.6/1.7 Liquidity and Capital Resources

The Company reported working capital of \$18,573,601 at September 30, 2011 compared to working capital of \$21,945,977 at June 30, 2011, representing a decrease in working capital of \$3,372,376. Net cash decreased by \$3,252,250 from \$15,501,154 at June 30, 2011 to \$12,248,904 at September 30, 2011.

During the three months ended September 30, 2011, the Company utilized its cash and cash equivalents as follows:

- (a) \$303,672 was used in operating activities, consisting primarily of general and administrative expenditures and change in non-cash items;
- (b) \$2,702,215 was used for deferred exploration of resource properties and \$4,616 was used on office renovations;
- (c) \$21,187 was used for the purchase of marketable securities;
- (d) \$3,649 was posted as a security deposit in connection with the exploration permit; and
- (e) \$216,911 was used for the purchase of 562,000 common shares of the Company at a weighted average price of \$0.39 under the NCIB, which commenced on July 31, 2009 and was subsequently extended for another 12 months on August 1, 2011.

On August 1, 2011, the Company received TSXV approval to purchase at market price up to 6,922,765 common shares, being approximately 5% of the Company's issued and outstanding common shares under the NCIB.

The Company is engaging in a NCIB because it believes that the market price of its common shares at times does not properly reflect the underlying value of the Company. The purpose of the bid is to reduce dilution of the Company's shares and to enhance the potential future value of the Common Shares which remain outstanding, thus increasing long term shareholder value. Purchases connected with this bid will be conducted through Canaccord Genuity Corp.'s offices in Vancouver. The Company will pay the market price of the common shares at the time of acquisition and will not purchase more than 2% of the total issued and outstanding common shares within any 30 day period.

The total NCIB purchases over the past two years are summarized as follows:

| | August 1, 2009 to July 31, 2010 | August 1, 2010 to July 30, 2011 | August 1, 2011 to December 29, 2011 | Total NCIB purchases |
|------------------|------------------------------------|------------------------------------|--|-------------------------|
| Number of shares | 744,000 | 1,227,000 | 1,745,500 | 3,716,500 |
| Purchase price | \$ 311,501 | \$ 574,472 | \$ 825,609 | \$ 1,711,582 |

The purchases are made in accordance with the policies and rules of the TSXV. The Company will pay the market price of the common shares at the time of acquisition and will not purchase more than 2% of the total issued and outstanding common shares within any 30 day period.

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A total of 3,584,000 common shares repurchased since fiscal 2010, were cancelled and returned to the Company's treasury.

Current assets excluding cash as at September 30, 2011 include short-term investments of \$4,609,000, receivables of \$580,861, which consisted of HST recoverable of \$420,032 and interest receivable on short-term investments of \$160,829, METC recoverable of \$1,611,149, prepaid expenses and exploration deposits of \$69,070 and marketable securities with a fair market value of \$414,280. Current assets excluding cash as at June 30, 2011 consisted of short-term investments of \$4,609,000, receivables of \$477,600, which consisted of HST recoverable of \$279,906 and interest receivable on short-term investments of \$179,694, METC recoverable of \$1,611,149, marketable securities of \$557,260 and prepaid expenses of \$378,838.

The Company has applied 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 by the Company in fiscal 2009. Subsequent to the period ended September 30, 2011, the Company received the METC refund of \$1,611,149 for its fiscal 2009 application.

Current liabilities as at September 30, 2011 consisted of trades payable and accrued liabilities of \$959,663 (June 30, 2011 - \$1,189,024).

The other sources of funds potentially available to the Company are through the exercise of outstanding stock options. See Item 1.15 – Other Requirements – Summary of Outstanding Share Data. There can be no assurance, whatsoever, that any or all of these outstanding exercisable securities will be exercised.

The Company has and may continue to have capital requirements in excess of its currently available resources. In the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund its future operations, the Company may be required to seek additional financing. Although the Company has been successful in raising the above funds, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

The Company's overall success will be affected by its current or future business activities. The Company is currently in the process of acquiring and exploring its interests in resource properties and has not yet determined whether these properties contain mineral deposits that are economically recoverable. The continued operations of the Company and the recoverability of expenditures incurred in these resource properties are dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to explore and develop the properties, and upon future profitable production or proceeds from disposition of the resource properties.

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and cash equivalents of \$12,248,904 and short-term investments of \$4,609,000. The Company's cash and cash equivalents consist of bank deposits of \$77,404 and guaranteed investment certificates ("GIC") of \$12,171,500. The instruments with initial maturity over 90 days are classified as short-term investments. The short-term investments consist of fixed rate GICs that bear a fixed average annual interest of approximately 1.8% and mature at various dates up to February 23, 2012. As all bank accounts and GICs are held with a major bank in Canada, there is a concentration of credit risk with one bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consist primarily of refundable government sales taxes and interest accrued on the short-term investments.

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Currency Risk

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

Interest Rate Risk

The Company is exposed to interest rate risk as its bank accounts and some GICs earn interest income at variable rates. As at June 30, 2011, the Company had \$2,171,500 in variable rate GIC investments earning an annual rate of 1.2%. All variable rate GICs were redeemed subsequent to September 30, 2011.

Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents. As at September 30, 2011, the Company was holding the total of \$17,272,184 in cash and cash equivalents and other available-for-sale financial assets to settle its current liabilities of \$959,663. Management believes it has sufficient funds to meet its current obligations as they become due and to fund its exploration projects and administrative costs.

Price risk

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

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

1.8 Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

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1.9 Transactions with Related Parties

The remuneration of directors and other key management personnel during the three month period ending September 30, 2011 were as follows:

| September 30, | 2011 | 2010 |
|-----------------------------------|------------|------------|
| Directors fees | \$ 12,500 | \$ – |
| Management salaries | 67,278 | 57,125 |
| Consulting fees (geology) | 33,336 | – |
| Consulting fees other | 3,750 | 3,750 |
| Management and administration (i) | 88,500 | 52,500 |
| Share-based payments (ii) | 58,067 | 13,933 |
| Total | \$ 263,431 | \$ 127,308 |

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

During the three months ended September 30, 2011, the Company paid or accrued \$73,500 (2010 – \$37,500) for management fees and \$15,000 (2010 – \$15,000) for administrative fees to VCC.

- (ii) Share-based payments are the fair value of options that have been granted to directors and key management personnel.

1.10 Fourth Quarter and Subsequent Events

Subsequent to the period ended September 30, 2011, the Company:

- sold 55,000 ILC share purchase warrants at an average price of \$0.02 for net cash proceeds of \$970;
- invested \$1,555,083 in 1,923,500 common shares of Oracle Mining Corp. (formerly Gold Hawk Resources Inc.) through open market purchases;
- repurchased 1,212,000 of its common shares for a total consideration of \$621,716 at a weighted average price of \$0.51 per share under the NCIB;
- 1,285,000 common shares re-purchased through the NCIB were returned to the Company's treasury for cancellation;
- received the METC refund of \$1,611,149 for its fiscal 2009 application.

1.11 Proposed Transactions

None.

1.12 Critical Accounting Estimates

Not applicable to Venture Issuers.

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1.13 Changes in Accounting Policies including Initial Adoption

The financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards. Our significant accounting policies are set out in Note 2 of the condensed consolidated interim financial statements of the Company, as at and for the period ended September 30, 2011.

International financial reporting standards (IFRS)

The September 30, 2011 condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) and IFRS 1, First-Time Adoption of IFRS (“IFRS 1”). Subject to certain transition elections disclosed in Note 14 from the notes to the condensed interim financial statements for the three months ended September 30, we have consistently applied the same accounting policies in our opening IFRS balance sheet as at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 14 discloses the impact of the transition to IFRS on our reported balance sheet, comprehensive income, changes in equity and cash flows, including the nature and effect of significant changes in accounting policies from those used in our financial statements for the year ended June 30, 2011.

The Company’s conversion plan to transition from Canadian GAAP to IFRS consists of four phases:

Phase 1 (scoping and diagnostic) – Involved a preliminary diagnostic review of the reporting differences between Canadian GAAP and IFRS and the key areas that may be impacted.

Phase 2 (Impact, analysis, quantification and evaluation) – Involved a detailed assessment and technical analysis of each reporting difference identified in Phase 1. IFRS conversion adjustments were quantified, accounting policies and procedures were reviewed and updated, IT systems and software were assessed, training was conducted and outstanding business activities such as budgeting and compensation were assessed.

Phase 3 (Implementation phase) – This phase, was completed in December 2011 and includes the collection of financial information necessary to prepare financial statements for the September 30 interim period and the opening balance sheet as at July 1, 2010 in compliance with IFRS.

Phase 4 (Monitoring phase) – This phase includes monitoring the changes to IFRS, monitoring the regulatory environment for the commentary on the future IFRS changes, commentary on financial reporting trends and analyzing the business plan of the Company to develop accounting policies, systems and internal controls for the evolution of the business.

Accounting Policies and Procedures

Based on the detailed assessment in Phase 2, a number of key accounting areas were identified where IFRS differs from Canadian GAAP. These key areas are explained below and separated into differences expecting to have a quantitative and qualitative difference and those expecting to have only a qualitative differences expecting. Impacts to the fiscal 2011 financial statements have been quantified where applicable.

Quantitative Impact

Management performed a detailed review of the Company’s books and records in order to identify differences between GAAP and IFRS that affect the Company. The adjustments that were posted on the conversion of the Company’s financial reporting to IFRS are disclosed in Note 14 to the condensed interim financial statements for the three months ended September 30, 2011.

Qualitative Impact

The following accounting policy differences are expected to impact the disclosures to the financial statements of the Company or the internal processes and procedures for financial reporting.

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IFRS 1, First-time Adoption of IFRS

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective applications of IFRS. The purpose of the options is to provide relief to companies and simplify the conversion process by not requiring them to recreate information that may not exist or may not have been collected at the inception of the transaction.

The Company has analyzed the exemptions available and has not utilized any of the exemptions.

Business Activities

IFRS are globally expected to result in higher volatility to net earnings and other performance measures, which could lead to effects felt throughout the Company's business activities.

From management's review of the Company's business activities, the conversion to IFRS will not have a material effect. There are not compensation considerations, financial contracts or business contracts that are linked to GAAP based metrics. The expected quantitative impact of the conversion to IFRS will not affect how the Company does business on a day to day basis and will not impact the internal business practices for decision making.

Internal Controls & Disclosure Controls and Procedures over Financial Reporting

The Company has reviewed its internal controls and disclosure controls and procedures over financial reporting and has determined that the impact on IFRS is not going to materially alter how transactions are initiated, recorded, processed and reported.

Financial Expertise

The Company's accounting department, senior management team and Directors have been appropriately trained based on the requirements of their respective roles. The Company has brought in outside consultants to help guide the transition and prepare the Company for future IFRS filings.

Information Technology

The Company's accounting information system comprises of accounting software, spreadsheets, databases and use of document processors. There were no numerical differences between Canadian GAAP and IFRS, limited resources in terms of accounting personnel and the complexity of the accounting information system is low. The accounting information system and size of the department is appropriate for the scale of the operation.

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosures required. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note references. The Company is continuing to assess the level of presentation and disclosures required to its consolidated financial statements.

1.14 Financial Instruments and Other Instruments

Please see Note 2 of the condensed consolidated financial statements of the Company, as at and for the three months ended September 30, 2011 and 2010.

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1.15 Other Requirements

Summary of outstanding share data as at December 29, 2011:

| | | |
|-----|---|-------------|
| (1) | Authorized: Unlimited common shares without par value | |
| | Issued and outstanding: | 136,253,638 |
| (2) | Stock options outstanding: | 7,960,000 |
| (3) | Share purchase warrants | 18,115,612 |

Additional disclosures pertaining to the Company's technical report, management information circulars, material change reports, press releases and other information are available on the SEDAR website at www.sedar.com.

On behalf of the Board of Directors, thank you for your continued support.

"Peeyush Varshney"

Peeyush Varshney
Director
December 29, 2011