

CANADA ZINC METALS CORP.

Interim MD&A - Quarterly Highlights
For the six months ended December 31, 2017 and 2016

The Quarterly Highlights of Canada Zinc Metals Corp. (the “Company” or “CZX”) provide a summary of the activities, results of operations and financial condition of the Company as at and for the six months ended December 31, 2017. The Quarterly Highlights have been prepared by management as of February 27, 2018 and should be read in conjunction with the condensed consolidated interim financial statements and related notes thereto of the Company for the six months ended December 31, 2017 and 2016, the audited consolidated financial statements and related notes thereto of the Company for the years ended June 30, 2017 and 2016, which were prepared in accordance with International Financial Reporting Standards (“IFRS”), and the annual Management Discussion and Analysis (“MD&A”) of the Company prepared by management as of October 25, 2017.

The Company is presently a “Venture Issuer”, as defined in NI 51-102. The Company’s stock is listed on the TSX Venture Exchange (“TSXV”) trading under the symbol “CZX”.

The Company operates in one business segment, that being the exploration and development of mineral properties in British Columbia, Canada. The Company owns 100% of nine, large, contiguous property blocks that comprise the Akie and Kechika Regional projects; and maintains a 49% percent interest in the Pie, Cirque East, and Yuen properties (the “Pie Properties”) that is now subject to a Joint Venture between the Company and Teck Resources Corp. and Korea Zinc Company Ltd.

The Company’s flagship Akie Project is host to the Cardiac Creek deposit. Drilling on the Akie property by CZX since 2005 has identified a significant body of baritic zinc-lead-silver SEDEX mineralization known as the Cardiac Creek deposit. The deposit is hosted by siliceous, carbonaceous, fine-grained clastic rocks of the middle to late Devonian Gunsteel Formation.

In January 2018, the Company announced a revised NI 43-101 compliant mineral resource for the Cardiac Creek deposit on its 100% owned Akie project. The new mineral resource estimate incorporated the results of 8 new drill intercepts from the successful 2017 drill program which totaled approximately 4,700 metres. This includes an indicated resource of 22.7 million tonnes grading 8.32% zinc, 1.61% lead, and 14.1 g/t silver (at a 5% zinc cut-off grade) and an inferred resource of 7.5 million tonnes grading 7.04% zinc, 1.24% lead and 12 g/t silver (at a 5% zinc cut-off grade).

The Kechika Regional Project includes the Pie, Yuen, Cirque East and Mt. Alcock properties extending northwest from the Akie property for approximately 140 kilometres along the strike of the highly prospective Gunsteel Formation shale; the main host rock for known SEDEX zinc-lead-silver deposits in the Kechika Trough of northeastern British Columbia.

The Pie, Yuen and Cirque East properties (known as the “Pie Properties”) are the subject of an option agreement (the “Agreement”) dated September 9, 2013 with Teck Resources Limited (“Teck”) and its JV partner, Korea Zinc Co., Ltd. (“Korea Zinc”). On December 28, 2017, Teck and Korea Zinc exercised the First Option of the Agreement and acquired 51% interest in the Pie Properties by incurring cumulative aggregate exploration expenditures of \$3,500,000. Teck and Korea Zinc informed the Company that they will not be proceeding with the Second Option to earn an additional 19% interest in the Pie Properties. Pursuant to the terms of the Agreement, the parties will continue exploration of the Pie properties under a Joint Venture (the “JV”) arrangement.

Overall performance

Significant events and operating highlights for the six months ended December 31, 2017 and up to the date of these MD&A:

1. 2017 Akie drilling program

The Company concluded its 2017 Akie drilling program in late August. A total of 8 drill holes were successfully drilled on the Cardiac Creek deposit for an approximate total of 4,700 metres. The

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program focused on the expansion of the indicated resource and new target development on the robust and high-grade central core of the deposit.

Program Highlights:

- Drill hole A-17-132 returned 10.38% Zn+Pb and 14.2 g/t Ag over a true width of 28.67 metres which includes 12.39% Zn+Pb and 15.9 g/t Ag over a true width of 19.81 metres.
- Drill hole A-17-133 returned 12.11% Zn+Pb and 16.0 g/t Ag over a true width of 9.42 metres within a broader mineralized interval of 25.63 metres.
- Drill hole A-17-137 returned 11.79% Zn+Pb and 19.1 g/t Ag over a true width of 57.79 metres including 14.51% Zn+Pb and 23.4 g/t Ag over a true width of 37.06 metres as well as 15.44 metres of 22.61% Zn+Pb and 36.2 g/t Ag. The results from hole A-17-137 represents the best intersection ever encountered on the Cardiac Creek deposit.
- Drill hole A-17-138 returned 7.75% Zn+Pb and 10.4 g/t Ag over a true width of 24.96 metres including 10.07% Zn+Pb and 12.3 g/t Ag over a true width of 11.82 metres.
- Drill hole A-17-140 returned 8.99% Zn+Pb and 13.8 g/t Ag over a true-width of 7.51 metres from the Footwall Zone including 10.21% Zn+Pb and 15.5 g/t Ag over a true width of 6.46 metres.
- Drill hole A-17-141 returned 11.89% Zn+Pb and 18.4 g/t Ag over a true width of 18.34 metres from the Cardiac Creek Zone including 22.48% Zn+Pb and 29.3 g/t Ag over a true width of 7.49 metres.
- Drill hole A-17-142 returned an envelope of mineralization grading 11.15% Zn+Pb and 15.5 g/t Ag over a true width of 32.65 metres which includes 23.32% Zn+Pb and 30.9 g/t Ag over a true width of 11.31 metres from the Footwall Zone.
- Drill hole A-17-143 returned 7.77 % Zn+Pb and 9.8 g/t Ag over a true width of 20.49 metres including 10.41% Zn+Pb and 15.0 g/t Ag over a true width of 7.90 metres.

2. Updated Mineral Resource Estimate: Cardiac Creek Deposit

With additional drilling completed in 2017, the Company has updated the estimate of mineral resources at Cardiac Creek, as follows:

5% zinc cut-off grade					Contained metal:		
Category	Tonnes (million)	Zn (%)	Pb (%)	Ag (g/t)	Zn (B lbs)	Pb (B lbs)	Ag (M oz)
Indicated	22.7	8.32	1.61	14.1	4.162	0.804	10.3
Inferred	7.5	7.04	1.24	12.0	1.169	0.205	2.9

Note: Mineral resources are not mineral reserves because the economic viability has not been demonstrated.

The updated mineral resource estimate was prepared by Robert Sim, P.Geo with the assistance of Bruce Davis, FAusIMM. Mr. Sim is an independent Qualified Person within the meaning of NI 43-101 for the purposes of mineral resource estimates and was responsible for the 2008 maiden resource and the 2012 and the 2016 updated mineral resource estimates.

3. The Company has received a 3-year extension to its Akie Underground Exploration Permit to December 31, 2020. Although the Underground Program has not yet commenced, the Company has diligently continued to collect both environmental baseline and monitoring data to ensure compliance with the Mines Act, the Health, Safety and Reclamation Code for Mines in British Columbia, the Mineral Exploration Permit and the Effluent Discharge Permit, as issued from the Ministry of Environment. This work includes surface and groundwater quality sampling data,

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turbidity monitoring, and ongoing rock characterization. In the period from 2011 to 2016, the Company was able to complete certain surface construction tasks, including construction of 2.2 km of the portal access road, clearing of a small, temporary waste dump, and clearing of the proposed portal site.

4. During the second quarter ended December 31, 2017, the Company completed a comprehensive metallurgical testing program on a number of 2017 drill core composites. The objective of the program is to assess the metallurgical performance of the selected samples from the deposit using heavy media pre-concentration followed by conventional flotation processes to recover lead and zinc into saleable concentrates. A total of 16 composites from five drill holes were prepared, totaling approximately 430 kg of material. The composites consist of one global composite and 3 composites per hole: representing the hanging wall, the main Cardiac Creek zone, and the footwall zone for each intercept. The global composite was used for the Phase I program and the composites from each hole for Phase II. The program is intended to generate sufficient metallurgical data to support a Preliminary Economic Assessment (PEA) scheduled for Q2 2018.
5. On December 28, 2017, Teck and Korea Zinc served the First Exercise Notice to the Company confirming that they have incurred cumulative aggregate expenditures of \$3,054,402 on the Property since September 2013 and made a cash payment of \$445,598 to the Company for the shortfall. Therefore, Teck and Korea Zinc have incurred total cumulative expenditures of \$3,500,000, thereby exercising the First Option and earning a 51% interest in the Company's Pie, Cirque East and Yuen properties.

Following the delivery of the First Exercise Notice, the Company and Teck/ Korea Zinc will jointly explore the Pie Properties on a 49-51 joint venture basis. Each party shall be liable for its pro-rata share of costs and liabilities in accordance with its interest in the JV. The Company holds the title to the Pie Properties in trust for the parties until Teck and Korea Zinc request Canada Zinc Metals legally transfer its interest in the properties.

6. The Company received a detailed, satellite imagery based, structural interpretation of the Akie and southern Kechika Regional Project from Murphy Geological Services (Ireland). The report defined the primary structural fabric of the region and generated a total of 41 ranked exploration targets. These targets will be prioritized and assessed using the Company's extensive digital database for use in future exploration efforts.
7. On November 3, 2017, the Company completed a flow-through private placement of 4,112,900 flow-through shares at a price of \$0.37 per share for gross proceeds of \$1,521,773. The Company paid 6% finders' fees of \$91,306 in connection with the private placement. The Company intends to use the proceeds from the sale of the flow-through shares to finance exploration of the Company's Akie and Kechika Regional projects in calendar 2018.
8. 60,000 stock options were exercised by employees of the Company at a price of \$0.23 per share for total proceeds of \$13,800 during the current fiscal year.
9. 1,380,000 incentive stock options were granted to employees and consultants of the Company, exercisable at a price of \$0.30 per common share for a period of ten years commencing on February 9, 2018.
10. In July 2017, the Company received the TSXV approval for its new Normal Course Issuer Bid ("NCIB") application to purchase at market price up to 8,152,189 common shares, being approximately 5% of the Company's issued and outstanding common shares, through the facilities of the TSXV. The bid commenced on August 1, 2017 and will stay open for another 12 months. The Company repurchased a total of 564,000 of its common shares at a weighted average price of \$0.29 per share since August 2017.

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Summary of exploration expenditures incurred on various properties to December 31, 2017:

	Akie Property		Kechika Regional		Total
Acquisition Costs:					
Balance, June 30, 2017 and December 31, 2017	\$	24,165,241	\$	336,785	\$ 24,502,026
Deferred exploration costs:					
Balance, June 30, 2016		40,821,568		4,631,543	45,453,111
Camp equipment, depreciation		102,485		—	102,485
Airborne geophysical survey		2,075		4,200	6,275
Drilling		577,417		—	577,417
Geology		72,924		6,683	79,607
Technical review and engineering		30,258		—	30,258
Community consultations		937		—	937
Environmental studies and permit compliance monitoring		18,944		—	18,944
Balance, June 30, 2017	\$	41,626,608	\$	4,642,426	\$ 46,269,034
Camp equipment, depreciation		39,942		—	39,942
Drilling		1,620,567		—	1,620,567
Geology		63,581		—	63,581
Road repair		75,104		—	75,104
Technical review and deposit appraisal		66,010		—	66,010
Community consultations		220,938		—	220,938
Environmental studies and permit compliance monitoring		35,820		—	35,820
Less:					
Cash in lieu of expenditures		—		(445,598)	(445,598)
Balance, December 31, 2017	\$	43,748,570	\$	4,196,828	\$ 47,945,398
Total, June 30, 2017	\$	65,791,849	\$	4,979,211	\$ 70,771,060
Total, December 31, 2017	\$	67,913,811	\$	4,533,613	\$ 72,447,424

Exploration Objectives

Akie Project:

- Continue definition drilling to expand the known extent of the Cardiac Creek deposit; update the current geological and resource model to NI 43-101 standards with all new drill results; incorporate new metallurgical lab test results from 2017 Cardiac Creek drill core into a preliminary economic assessment (PEA) scheduled for completion in Q2 2018.
- Continue to evaluate outlying coincident geological/geophysical/geochemical targets for drill target definition.
- Continue to refine the design and costs of the planned underground exploration program. The underground exploration permit remains in good standing until December 2020. The underground exploration program was conceived to allow tightly-spaced infill drilling from an underground decline in order to upgrade the current mineral resource to the Measured and Indicated levels of

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confidence. This would provide sufficient data for a pre-feasibility level of economic assessment of the ore body to be completed and investigate future viability of bulk sampling and mining.

- Continue environmental baseline sampling as required to maintain all related exploration permits in good standing.

Kechika Regional Project:

- Continue regional synthesis of all historical and modern exploration data to assist with gap analysis and drill target definition.
- Complete follow-up assessment of airborne gravity anomalies from the 2015 geophysical survey on Mt. Alcock and Yuen North.
- Continue to evaluate high priority greenfield targets.
- Refine target selection to identify drill targets.
- Maintain current drill permits in good standing.

Kechika Regional Project (Pie Option Properties):

- Continue to work closely with Teck to plan ongoing exploration on the properties.
- Monitor field exploration results and expenditures and option agreement commitments.
- The next planned phase of exploration on the optioned properties is expected to include continued drill testing of the highest priority targets.

Results of Operations

Six months ended December 31, 2017

During the six months ended December 31, 2017, the Company reported a net loss before comprehensive loss of \$680,404 or \$0.00 per share compared to a net loss of \$1,686,799 or \$0.01 per share during the same period last year, a decrease in net loss of \$1,006,395. The decrease in net loss was primarily due to a decrease in operating expenses of \$669,764 and a deferred tax recovery of \$308,132.

Income reported for the six months ending December 31, 2017 included interest income earned on the Company's cash deposits and short-term investments of \$52,660 (2016 - \$42,556) and gain on sale of marketable securities of \$18,395 (2016 - \$Nil).

The following expense categories contributed to the decrease in operating expenses by \$669,764 during the six months ended December 31, 2017 as compared to the same period of the previous fiscal year:

- Payment of bonuses in the amount \$42,084 (2016 - \$89,198) to a company with common directors and officers (please see section Transactions with Related Parties below);
- The allocation of geological consulting fees of \$12,500 (2016 - \$62,500) for corporate services provided by the VP of Exploration of the Company. The majority of services provided by the VP of Exploration during the current semi-annual period were directly related to the exploration activities of the Company and were capitalized as exploration and evaluation costs (please see section Transaction with Related Parties below);
- Investor relations fees decreased by \$32,631 as the Company has not retained any IR services provider during the period. In the comparative period in fiscal 2016, the Company had engaged Paradox Public Relations Inc. to provide investor relations services for a monthly fee of \$5,000.
- Marketing expenses decreased by \$56,417 due to a reduction of advertisement and marketing campaigns conducted during the period.
- Office expenses decreased by \$3,123 due to decreased telephone, internet and office supplies expenses.

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- Professional fees decreased by \$9,444 due to a decrease in legal expenses. Higher legal costs incurred in the comparative semi-annual period in fiscal 2016 were associated with the preparation of the Company's AIF.
- Rent expense decreased by \$1,478 as the Company discontinued a separate rental arrangement for a geologists' office effective August 1, 2016.
- Share-based compensation expenses decreased by \$531,050 as there were no stock options granted during the period. 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 for the vested portion of the share options granted using the fair value based method of accounting.

There were no changes in management, administrative and directors' fees during the comparative periods.

The above-noted decreases were partially offset by increases in the following categories:

- Regulatory fees increased by \$2,725 primarily due to costs associated with a foreign search for a potential appointee to the Board of Directors of the Company.
- Transfer agent fees increased by \$1,603 due to the AGM related costs.
- Travel and promotion increased by \$42,458 as a result of an increased number of senior management trips for investor presentations and the Company's participation in promotional events.
- Wages and benefits increased by \$12,580 as a result of higher salary expenses and bonus payments to employees of the Company.

Three months ended December 31, 2017

During the three months ended December 31, 2017, the Company reported a net loss before comprehensive loss of \$555,023 or \$0.00 per share compared to a net loss of \$692,470 or \$0.01 per share during the same quarter last year, a decrease in net loss of \$137,447. The decrease in net loss was primarily due to a decrease in operating expenses of \$131,836 and an increase in interest income of \$5,611.

Income of \$26,353 (2016 - \$20,742) reported for the second quarter ended December 31, 2017 represents interest earned or accrued on the Company's cash deposits and short-term investments.

The decrease in operating expenses was a result of decreases in bonuses of \$47,114, consulting fees of \$63,454, investor relations of \$13,748, marketing of \$49,981, office and miscellaneous of \$4,628, professional fees of \$9,444, regulatory fees of \$2,645 and share-based compensation of \$74,479, offset by increases in travel and promotion of \$68,884 and wages and benefits of \$65,888.

The significant variations in the operating expenses are discussed in Results of Operations for the Six Months ended December 31, 2017 above.

The decrease in consulting fees during the second quarter ended December 31, 2017 was due to reduced financial advisory consulting services used by the Company as compared to the same quarter in the previous fiscal year.

The increase in travel and promotion was a result of the Company participating in various mining investment forums and conferences in North America, Asia and Europe.

Wages and benefits increased by \$65,888 during the quarter as a result of higher salary expenses and bonus payments to employees of the Company.

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Liquidity and capital resources

The Company's working capital position remains strong with cash of \$2,506,371 and GIC investments with a fair value of \$4,228,714 as at December 31, 2017. Management believes that the Company has sufficient funds to meet its current obligations as they become due and to fund its exploration projects and administrative overhead for the next twelve months.

At December 31, 2017, the Company reported working capital of \$6,611,578 compared to working capital of \$7,951,129 at June 30, 2017, representing a decrease in working capital of \$1,339,551.

Net cash used in operating activities during the six months ended December 31, 2017 was \$960,972 (2016 – \$1,255,388) representing general administrative expenses and changes in non-cash items.

Net cash used in investing activities during the six months ended December 31, 2017 was \$2,299,164 (2016 – \$125,937), of which:

- \$2,583,416 (2016 - \$92,850) was spent on exploration expenditures for the 2017 drilling and metallurgical testing programs, environmental monitoring and community consultations;
- \$445,598 received from Teck in lieu of exploration expenditures on the Pie Properties project required to be incurred to exercise the First Option pursuant to the Agreement;
- \$30,363 (2016 - \$Nil) was used for the purchase of drilling core racks;
- \$189,508 (2016 - \$100,000) was invested in a GIC term deposit net of interest received from the matured term deposit; and
- \$58,525 was received from sale of marketable securities (2016 - \$38,334 used for purchases).

Net cash generated from financing activities during the six months ended December 31, 2017 was \$1,302,082 (2016 – \$2,560,499), of which:

- 1,521,773 (2016 - \$2,557,099) was raised in the private placement, all of which committed to flow-through agreements with investors. \$100,903 (2016 - \$238,577) was paid the share issuance costs in connection with the private placements;
- 10,000 share options were exercised by a former employee of the Company for gross proceeds of \$2,300 (2016 - \$10,350); and
- 434,000 (2016 – 27,000) common shares of the Company was repurchased under the NCIB for a total of \$121,088 (2016 - \$6,950).

The Company's current assets excluding cash consisted of the following:

	December 31, 2017	June 30, 2017
Government Sales Tax credits	\$ 21,502	\$ 42,871
Interest accrued on reclamation bonds	2,379	292
Prepaid expenses	55,400	146,875
Loan receivable including interest	113,507	108,466
Marketable securities at fair value	81,875	116,442
GIC investments (*)	4,228,714	4,013,023

The Company's short-term investments consist of highly liquid Canadian dollar denominated non-redeemable guaranteed investment certificates ("GIC") yielding an average fixed interest rate of 1.52% per annum with maturity dates within one year.

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Current liabilities as at December 31, 2017 consisted of trade payables and accrued liabilities of \$93,815 (June 30, 2017 - \$633,133) and the flow-through premium liability of \$304,355 recorded in connection with the November 2017 flow-through private placement. 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 to be incurred in calendar 2018.

The other sources of funds potentially available to the Company are through the exercise of outstanding stock options and share purchase warrants that are summarized below. 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, including price risk with respect to commodity and equity prices. 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. For further discussion of financial risks, please refer to Note 16 of the condensed consolidated interim financial statements for the six months ended December 31, 2017.

Transactions with related parties

The remuneration of directors and other key management personnel during the six months ended December 31, 2017 and 2016 were as follows:

December 31,		2017		2016
Bonuses (iii)	\$	42,084	\$	89,198
Consulting fees (iv)		7,500		7,500
Directors fees (ii)		20,000		20,000
Geological consulting (v)		75,000		75,000
Management fees (i)		177,000		177,000
Other employment benefits (vii)		15,118		13,958
Share-based compensation (vi)		3,130		278,678
Total	\$	339,832	\$	661,334

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- (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, Peeyush Varshney and Praveen Varshney, the Company agreed to pay monthly management and administrative fees of \$29,500 and \$5,000, respectively.

During the six months ended December 31, 2017, the Company paid \$177,000 (2016 – \$177,000) for management fees and \$30,000 (2016 – \$30,000) for administrative fees to VCC;

- (ii) the Company paid \$20,000 (2016 - \$20,000) in directors' fees to the four directors of Company - John Thomas, Marco Strub, Peeyush Varshney and Praveen Varshney;
- (iii) the Company paid \$7,500 (2016 - \$7,500) for consulting fees to Sircon AG, a company controlled by Marco Strub, a director of the Company;
- (iv) the Company accrued \$42,084 (2016 - \$89,198) in bonus to VCC;
- (v) the Company paid geological consulting fees of \$75,000 (2016 - \$75,000) to Ridgeview Resources Ltd., a company controlled by Ken MacDonald, VP of Exploration of the Company, of which \$62,500 (2016 - \$12,500) was capitalized as exploration and evaluation costs and \$12,500 (2016 - \$62,500) 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.

Summary of outstanding share data as at February 27, 2018:

(1)	Authorized: Unlimited common shares without par value	
(2)	Issued and outstanding:	167,216,683
	Less treasury shares:	(569,000)
(3)	Share options outstanding:	10,092,500
(4)	Warrants	3,457,250

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