



Interim Financial Statements

For the three and six month periods ended June 30, 2012

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

(The Company's auditors have not reviewed these Interim Financial Statements for the three and six month periods ended June 30, 2012)

CANADIAN ZINC CORPORATION
Interim Statement of Financial Position

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

	June 30, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 914	\$ 2,975
Short-term investments (Note 4)	12,101	5,407
Marketable securities (Note 5)	5,677	13,707
Other receivables and prepaid expenses	355	101
Total Current Assets	19,047	22,190
Other long-term assets (Note 6)	739	739
Property, plant and equipment (Note 7)	984	1,063
Exploration and evaluation assets (Note 8)	4,709	4,694
Total Assets	\$ 25,479	\$ 28,686
LIABILITIES		
Current		
Accounts payable	\$ 971	\$ 60
Accrued and other liabilities	366	955
Total Current Liabilities	1,337	1,015
Decommissioning liability (Note 9)	1,946	1,907
Total Liabilities	3,283	2,922
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	83,965	77,052
Reserves (Note 11)	12,224	10,750
Deficit	(73,993)	(62,038)
Total Shareholders' Equity	22,196	25,764
Total Liabilities and Shareholders' Equity	\$ 25,479	\$ 28,686
Commitments (Note 17)		

Approved by the Board of Directors:

"John F. Kearney"

Director

"Brian A. Atkins, CA"

Director

CANADIAN ZINC CORPORATION
Interim Statement of Comprehensive Loss

(Unaudited, expressed in thousands of Canadian dollars, except for share information)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Income				
Investment income	\$ 50	\$ 16	\$ 98	\$ 37
Expenses				
Depreciation	5	6	10	11
Exploration and evaluation (Note 12)	2,509	1,600	3,116	2,360
Listing and regulatory	21	20	36	40
Management and directors	153	142	319	295
Office and general	140	147	271	492
Professional	132	66	142	111
Project evaluation	-	23	1	23
Shareholder and investor communications	105	88	223	161
Share-based compensation	11	80	35	144
	3,076	2,172	4,153	3,637
Other income (expenses)				
Finance costs (Note 9)	(12)	(15)	(23)	(29)
Foreign exchange loss	-	(6)	-	(26)
Loss on marketable securities (Note 5)	(6,521)	(8,154)	(8,030)	(21,034)
Tax deduction recovery (Note 13)	136	24	153	138
	(6,397)	(8,151)	(7,900)	(20,951)
Net loss for the period	(9,423)	(10,307)	(11,955)	(24,551)
Other comprehensive income (loss)	-	-	-	-
Comprehensive loss for the period	\$ (9,423)	\$ (10,307)	\$ (11,955)	\$ (24,551)
Net loss per share - basic and diluted	\$ (0.06)	\$ (0.08)	\$ (0.08)	\$ (0.19)
Weighted average number of shares outstanding				
Basic and diluted	156,719,611	130,818,178	155,191,614	130,672,785

CANADIAN ZINC CORPORATION
Interim Statement of Cash Flows

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

	Six months ended June 30,	
	2012	2011
Operating Activities		
Net loss for the period	\$ (11,955)	\$ (24,551)
Adjustment for items not involving cash:		
Accretion and depreciation	109	100
Loss on marketable securities (Note 5)	8,030	21,034
Tax deduction recovery (Note 13)	(153)	(138)
Unrealized foreign exchange	-	26
Share-based compensation	35	144
Change in non-cash working capital items:		
Other receivables and prepaid expenses	(255)	67
Accounts payable and accrued liabilities	597	291
	(3,592)	(3,027)
Financing Activities		
Capital stock issued	9,119	-
Issuance costs	(890)	(35)
Capital stock issued on exercise of stock options	-	109
Capital stock issued on exercise of warrants	2	37
	8,231	111
Investing Activities		
Short-term investments	(6,694)	(430)
Property, plant and equipment	(6)	(8)
	(6,700)	(438)
Impact of exchange rate changes on cash and cash equivalents	-	(26)
Net change in cash and cash equivalents	\$ (2,061)	\$ (3,380)
Cash and cash equivalents, beginning of period	\$ 2,975	\$ 4,464
Net change in cash and cash equivalents	(2,061)	(3,380)
Cash and cash equivalents, end of period	\$ 914	\$ 1,084

CANADIAN ZINC CORPORATION

Interim Statement of Changes in Shareholders' Equity

(Unaudited, expressed in thousands of Canadian dollars, except for share information)

	Common shares		Reserves	Deficit	Total
	Number	Amount			
Balance, January 1, 2011	130,448,492	\$ 70,314	\$ 9,597	\$ (28,676)	\$ 51,235
Exercise of options between \$0.23 and \$0.45 per share	285,000	165	(56)	-	109
Exercise of warrants at \$0.40 per share	90,620	53	(17)	-	37
Share-based compensation	-	-	144	-	144
Net loss for the period	-	-	-	(24,551)	(24,551)
Balance, June 30, 2011	130,824,112	70,532	9,668	(53,227)	26,973
Issue of shares between \$0.67 and \$0.75 per share	12,275,000	8,191	-	-	8,191
Share issuance costs	-	(685)	-	-	(685)
Share purchase warrants	-	(989)	989	-	-
Exercise of options at \$0.23 per share	10,000	3	(1)	-	2
Share-based compensation	-	-	94	-	94
Net loss for the period	-	-	-	(8,811)	(8,811)
Balance, December 31, 2011	143,109,112	77,052	10,750	(62,038)	25,764
Issue of shares at \$0.67 per share	13,610,000	9,119	-	-	9,119
Share issuance costs	-	(768)	-	-	(768)
Share purchase warrants	-	(1,440)	1,440	-	-
Exercise of warrants at \$0.40 per share	4,130	2	(1)	-	1
Share-based compensation	-	-	35	-	35
Net loss for the period	-	-	-	(11,955)	(11,955)
Balance, June 30, 2012	156,723,242	\$ 83,965	\$ 12,224	\$ (73,993)	\$ 22,196

CANADIAN ZINC CORPORATION

Notes to the Interim Financial Statements

June 30, 2012

(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

1. Nature of Operations and Going Concern

Canadian Zinc Corporation (the "Company" or "Canadian Zinc") is incorporated under the laws of the Province of British Columbia, Canada, and its principal business activity is the exploration and development of natural resource properties. The address of the Company's registered office is Suite 1710, 650 West Georgia Street, Vancouver, British Columbia, Canada, V6B 4N9. The Company currently exists under the *Business Corporations Act* (British Columbia) and its common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "CZN" and on the OTCQB under the symbol "CZICF".

The Company is primarily engaged in the exploration, development and permitting of its Prairie Creek Mine property ("Prairie Creek"). The Company is considered to be in the exploration and development stage given that its Prairie Creek property is not yet in production and, to date, has not earned any significant revenues. The recoverability of amounts shown for exploration and evaluation assets is dependent on the existence of economically recoverable reserves, obtaining the necessary permits to operate a mine, obtaining the financing to complete development and future profitable production.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. Management has carried out an assessment of the going concern assumption and has concluded that the Company has sufficient cash and cash equivalents, short-term investments and marketable securities (as well as no debt obligations outside of normal course accounts payable and accrued liabilities) to continue operating at current levels for the ensuing twelve months. Accordingly, these financial statements do not reflect the adjustments to the carrying value of assets and liabilities, or the impact on the Statement of Comprehensive Loss and Statement of Financial Position classifications that would be necessary were the going concern assumption not appropriate.

However, at such time that the Company receives its operating permits for the Prairie Creek Mine (which is not a certain event); it will require significant additional financing to place the mine into operation. There is no guarantee that the Company will be able to obtain such financing to complete the development of the Prairie Creek Mine.

2. Significant Accounting Policies

(a) Statement of Compliance

These unaudited 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 unaudited interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2011 prepared in accordance with IFRS.

(b) Basis of Preparation

These interim financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit and loss which are stated at their fair value. These financial statements are presented in Canadian dollars.

The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these interim financial statements will be finalized only when the annual IFRS financial statements are prepared for the year ending December 31, 2012. The accounting policies chosen by the Company have been applied consistently to all periods presented.

CANADIAN ZINC CORPORATION
Notes to the Interim Financial Statements

June 30, 2012

(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

2. Significant Accounting Policies (continued)

(c) Significant Accounting Judgments, Estimates and Assumptions

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Accounts that require significant estimates as the basis for determining the stated amounts include exploration and evaluation assets, property, plant and equipment, decommissioning liability and share-based compensation. Depreciation and depletion of exploration and evaluation assets and property, plant and equipment assets are dependent upon estimates of useful lives and resource estimates, both of which are determined with the exercise of judgment. The assessment of any impairment of exploration and evaluation assets or property, plant and equipment is dependent upon estimates of fair value that take into account factors such as resources, reserves, economic and market conditions and the useful lives of assets. Decommissioning liabilities are recognized in the period in which they arise and are stated at the best estimate of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. Share-based compensation expense is calculated using the Black-Scholes valuation model which requires significant judgment as to considerations such as stock option lives and stock volatility.

(d) Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the Company has complied with all conditions necessary to receive the grants and collectability is reasonably assured. Government grants relating to costs are accrued as receivable and recognized in the Statement of Comprehensive Loss as a reduction of the related expense. Government grants relating to property, plant and equipment are accrued as receivable and recognized in the Statement of Financial Position as a reduction of the carrying value of the related asset.

(e) IFRS Standards Adopted

IFRS 7 (Amendment)	<i>Financial Instruments: Disclosure</i>
IAS 12 (Amendment)	<i>Income Taxes</i>

(f) IFRS Standards Issued But Not Yet Effective

IFRS 7 (Amendment)	<i>Financial Instruments: Disclosure</i> ⁽²⁾
IFRS 9	<i>Financial Instruments</i> ⁽⁴⁾
IFRS 10	<i>Consolidated Financial Statements</i> ⁽²⁾
IFRS 11	<i>Joint Arrangements</i> ⁽²⁾
IFRS 12	<i>Disclosure of Interests in Other Entities</i> ⁽²⁾
IFRS 13	<i>Fair Value Measurement</i> ⁽²⁾
IAS 1 (Amendment)	<i>Presentation of Financial Statements</i> ⁽¹⁾
IAS 19 (Amendment)	<i>Employee Benefits</i> ⁽²⁾
IAS 27 (Amendment)	<i>Separate Financial Statements</i> ⁽²⁾
IAS 28 (Amendment)	<i>Investments in Associates and Joint Ventures</i> ⁽²⁾
IAS 32 (Amendment)	<i>Financial Instruments: Presentation</i> ⁽³⁾
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ⁽²⁾

⁽¹⁾ For annual periods beginning on or after July 1, 2012

⁽²⁾ For annual periods beginning on or after January 1, 2013

⁽³⁾ For annual periods beginning on or after January 1, 2014

⁽⁴⁾ For annual periods beginning on or after January 1, 2015

The Company anticipates that the application of these standards and amendments will not have a material impact on the results and financial position of the Company.

CANADIAN ZINC CORPORATION
Notes to the Interim Financial Statements

June 30, 2012

(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

3. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and liquid investments which are readily convertible into cash with maturities of three months or less when purchased. The Company's cash and cash equivalents at June 30, 2012 consisted of cash of \$232,000 and cash equivalents of \$682,000 (December 31, 2011 – cash of \$1,951,000 and cash equivalents of \$1,024,000).

4. Short-term Investments

Short-term investments, which consist primarily of investments in Bankers Acceptances and Guaranteed Investment Certificates, are investments with maturities of more than three months and less than one year when purchased. At June 30, 2012, short-term investments were valued at \$12,101,000, earning investment income at a rate of 1.4% (December 31, 2011 - \$5,407,000, earning income at a rate of 1.3%). The market value of these assets is based upon quoted market values and the recorded amounts at June 30, 2012 and December 31, 2011 equal the fair value for these investments.

5. Marketable Securities

	June 30, 2012			December 31, 2011		
	# of Shares	Original Cost	Fair Value	# of Shares	Original Cost	Fair Value
Vatukoula Gold Mines plc	12,573,380	\$ 10,142	\$ 5,677	12,573,380	\$ 10,142	\$ 13,707
		\$ 10,142	\$ 5,677		\$ 10,142	\$ 13,707

6. Other Long-term Assets

As at June 30, 2012, other long-term assets consist of non-interest bearing reclamation security deposits of \$525,000 (December 31, 2011 - \$525,000) and restricted cash equivalents of \$214,000 (December 31, 2011 - \$214,000).

The non-interest bearing reclamation security deposits are lodged with government agencies as security in support of certain reclamation obligations.

The restricted cash equivalents are security for a letter of guarantee issued by a financial institution, to secure performance by the Company of certain obligations pursuant to an authorization to carry out road repairs adjacent to the Prairie Creek Mine Property granted by the Department of Fisheries and Oceans Canada ("DFO").

CANADIAN ZINC CORPORATION
Notes to the Interim Financial Statements

June 30, 2012

(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

7. Property, Plant and Equipment

	Mining Equipment	Office Equipment	Leasehold Improvements	Prairie Creek Plant & Mill	Total
Cost					
at December 31, 2010	\$ 1,623	\$ 151	\$ 60	\$ 500	\$ 2,334
Additions	24	8	-	-	32
Disposals	-	-	-	-	-
at December 31, 2011	1,647	159	60	500	2,366
Additions	6	-	-	-	6
Disposals	-	-	-	-	-
at June 30, 2012	\$ 1,653	\$ 159	\$ 60	\$ 500	\$ 2,372
Accumulated Depreciation					
at December 31, 2010	\$ 907	\$ 113	\$ 42	\$ -	1,062
Depreciation charge	219	11	11	-	241
Disposals	-	-	-	-	-
at December 31, 2011	1,126	124	53	-	1,303
Depreciation charge	75	4	6	-	85
Disposals	-	-	-	-	-
at June 30, 2012	\$ 1,201	\$ 128	\$ 59	\$ -	\$ 1,388
Net Book Value					
at December 31, 2010	\$ 716	\$ 38	\$ 18	\$ 500	\$ 1,272
at December 31, 2011	521	35	7	500	1,063
at June 30, 2012	452	31	1	500	984

CANADIAN ZINC CORPORATION
Notes to the Interim Financial Statements

June 30, 2012

(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

8. Exploration and Evaluation Assets

The Company holds a 100% interest in the Prairie Creek Mine property located in the Northwest Territories, Canada. The Company holds various licences and permits required in order to maintain and perform current activities at the Prairie Creek Mine site.

The decommissioning asset balance (which relates entirely to Prairie Creek) included within exploration and evaluation assets represents amounts recorded to correspond with the decommissioning liability (see Note 9). This asset amount will be amortized over the useful life of the asset to which it relates. To date, no amortization has been recorded.

The Company's exploration and evaluation assets comprise the Prairie Creek Mine Property as follows:

	June 30, 2012	December 31, 2011
Prairie Creek mineral use rights	\$ 3,158	\$ 3,158
Decommissioning asset	1,551	1,536
	\$ 4,709	\$ 4,694

9. Decommissioning Liability

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements and have been measured at the best estimate based on the net present value of future cash expenditures upon reclamation and closure. Reclamation and closure costs are capitalized into exploration and evaluation assets and amortized over the life of the related asset.

At June 30, 2012, the decommissioning liability relates to reclamation and closure costs of the Company's Prairie Creek Mine site. The accretion expense is included in finance costs on the Statement of Comprehensive Loss.

The decommissioning liability at Prairie Creek is calculated as the net present value of estimated future net cash outflows of the reclamation and closure costs, which at June 30, 2012 total \$2,595,000 (December 31, 2011 – \$2,445,000) and are required to satisfy the obligations, discounted at 2.25% per annum (December 31, 2011 – 2.41%). The settlement of the obligations will occur through to 2029.

A summary of the Company's provision for the decommissioning liability is presented below:

	June 30, 2012	December 31, 2011
Balance – beginning of year	\$ 1,907	\$ 1,654
Accretion expense	23	58
Change in estimates	16	195
Balance – end of period	\$ 1,946	\$ 1,907

CANADIAN ZINC CORPORATION
Notes to the Interim Financial Statements

June 30, 2012

(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

10. Share Capital

Authorized: Unlimited common shares with no par value (2011 – unlimited).

Issued and outstanding: 156,723,242 common shares (December 31, 2011 – 143,109,112).

(a) During the period ended June 30, 2012

- i. On January 6, 2012, the Company issued by way of public offering 7,610,000 units ("Units") on a brokered basis at \$0.67 per Unit, for aggregate gross proceeds of \$5,099,000. Each Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share of the Company at any time until January 6, 2014 at a price of \$0.90 per common share. The agent to the private placement was paid a commission of 6.5% of the gross proceeds from the offering and received broker's warrants to acquire 494,650 common shares at any time until July 6, 2013 at a price of \$0.67 per share. Net proceeds from the issuance were \$4,602,000 after issuance costs comprised of the agent's commission of \$331,000 and other issuance costs of \$166,000. The Company also recognized non-cash costs for the fair value of the share purchase warrants issued and broker's warrants granted of \$704,000 and \$108,000 respectively.
- ii. On February 10, 2012, the Company issued by way of non-brokered private placement 6,000,000 units ("Units") to Zhongrun International Mining Co. Ltd. ("Zhongrun") at \$0.67 per Unit, for aggregate gross proceeds of \$4,020,000. Each Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share of the Company at any time until February 10, 2014 at a price of \$0.90 per common share. In connection with the Zhongrun financing the Company paid a finder's fee to an arm's length intermediary. Net proceeds from the issuance were \$3,749,000 after issuance costs comprised of the finder's fee of \$201,000 and other issuance costs of \$70,000. The Company allocated \$628,000 of the gross proceeds to the fair value of the share purchase warrants.
- iii. 4,130 warrants were exercised at a price of \$0.40 per common share for proceeds of \$2,000.

(b) During the year ended December 31, 2011

- i. 295,000 options were exercised at prices between \$0.23 and \$0.45 per common share for proceeds of \$111,000.
- ii. 90,620 warrants were exercised at a price of \$0.40 per common share for proceeds of \$36,000.
- iii. Effective June 1, 2011, the Company did not renew its normal course issuer bid (the "Bid"). During the year to date period ended June 1, 2011, the Company did not purchase any common shares pursuant to the Bid.
- iv. On December 30, 2011, the Company issued by way of private placement 3,275,000 flow-through shares on a brokered basis at \$0.75 per share, for aggregate gross proceeds of \$2,456,000. The agent to the private placement was paid a commission of 6.5% of the gross proceeds from the offering and received broker's warrants to acquire 212,875 non-flow-through shares at any time until June 30, 2013 at a price of \$0.75 per share. Net proceeds from the issuance were \$2,199,000 after issuance costs comprised of the agent's commission of \$160,000 and other issuance costs of \$97,000. The Company also recognized non-cash costs for the fair value of the broker's warrants granted of \$45,000. The sale of tax deductions of \$295,000 is deferred and presented as other liabilities.
- v. On December 30, 2011, the Company issued by way of non-brokered private placement 9,000,000 units ("Units") to Zhongrun International Mining Co. Ltd. ("Zhongrun") at \$0.67 per Unit, for aggregate gross proceeds of \$6,030,000. Each Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share of the Company at any time until December 30, 2013 at a price of \$0.90 per common share. In connection with the Zhongrun financing the Company paid a finder's fee to an arm's length intermediary. Net proceeds from the issuance were \$5,598,000 after issuance costs comprised of the finder's fee of \$302,000 and other issuance costs of \$130,000. The Company allocated \$945,000 of the gross proceeds to the fair value of the share purchase warrants.

CANADIAN ZINC CORPORATION
Notes to the Interim Financial Statements

June 30, 2012

(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

11. Reserves

(a) Stock Options

At June 30, 2012 there were 6,410,000 incentive stock options outstanding all of which, except for the 300,000 issued in 2011, were granted under the 2004 Rolling Stock Option Plan (the "2004 Plan"). At the Annual General Meeting held on June 13, 2012, shareholders approved the adoption of a new incentive stock option plan (the "2012 Plan"). The 2012 Plan is a fixed share stock option plan pursuant to which options on up to 7,500,000 common shares may be issued to directors, officers, employees and service providers of the Company. No new stock options will be granted under the 2004 Plan, which is a 10% rolling stock option plan, but the 6,110,000 stock options currently outstanding under the 2004 Plan will remain outstanding and subject to that plan. Stock options will only be granted under the 2012 Stock Option Plan to the extent that the aggregate number of options outstanding under the 2012 Plan and the 2004 Plan does not exceed 7,500,000.

Under the 2012 Plan, each option granted shall be for a term not exceeding five years from the date of grant and the vesting period is determined at the discretion of the Board. The option exercise price is set at the date of grant and cannot be less than the closing market price of the Company's common shares on the Toronto Stock Exchange on the day of grant.

The 300,000 incentive stock options granted during 2011, which are reflected in the table below, were granted outside of the Corporation's stock option plan and in accordance with the rules of the Toronto Stock Exchange, vest in equal eighths over a two year period, carried an exercise price equal to the market price of the common shares as at the granting date and had a per-share fair value at the date of granting of \$0.38. The fair value of the options was determined under the Black-Scholes option pricing model using a risk-free interest rate of 1.9%, an expected life of options of 2.6 to 3.5 years, an expected volatility of 79% to 85%, no expected dividends and a forfeiture rate of 1%.

Each stock option is exercisable for one ordinary share of the Company. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

A summary of the Company's options at June 30, 2012 and December 31, 2011 and the changes for the periods then ended is presented below:

	Six months ended June 30, 2012		Year ended December 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	6,410,000	\$ 0.41	7,500,000	\$ 0.46
Granted	-	-	300,000	0.71
Exercised	-	-	(295,000)	0.38
Expired	-	-	(870,000)	0.90
Forfeited	-	-	(225,000)	0.45
Outstanding, end of period	6,410,000	\$ 0.41	6,410,000	\$ 0.41

CANADIAN ZINC CORPORATION
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June 30, 2012

(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

11. Reserves (continued)

(a) Stock Options (continued)

As at June 30, 2012, the Company has outstanding and exercisable stock options, with a weighted average remaining contractual life of 2.6 years, to purchase an aggregate 6,410,000 common shares, of which 6,297,500 were exercisable as at that date, as follows:

Expiry Date	Options Outstanding		Options Exercisable	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
October 15, 2012	75,000	0.94	75,000	0.94
March 27, 2014	1,575,000	0.23	1,575,000	0.23
May 12, 2015	4,460,000	0.45	4,460,000	0.45
January 27, 2016	300,000	0.71	187,500	0.71
	6,410,000	\$ 0.41	6,297,500	\$ 0.41

For the three and six month periods period ended June 30, 2012, the Company recorded charges for stock options granted to directors, officers and employees of \$11,000 and \$35,000 respectively versus \$80,000 and \$144,000 respectively for the comparative periods.

The share-based compensation charges were determined using the Black-Scholes option pricing model, based on the following terms and assumptions:

Period of Grant	Six months ended June 30, 2012	Year ended December 31, 2011
Dividend Yield	-	0%
Risk free interest rate	-	1.9%
Expected life	-	2.6 to 3.5 years
Expected volatility ⁽¹⁾	-	79.4% to 85.1%
Weighted average grant date fair value	-	0.38
Forfeiture rate	-	1%

⁽¹⁾ Determined based on historical volatility of the Company's share price.

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(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

11. Reserves (continued)

(b) Warrants

A summary of the Company's share purchase warrants at June 30, 2012 and December 31, 2011 and the changes for the years then ended is presented below:

	Six months ended June 30, 2012		Year ended December 31, 2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	5,054,148	\$ 0.88	431,893	\$ 0.63
Issued	7,299,650	0.88	4,712,875	0.89
Exercised	(4,130)	0.40	(90,620)	0.40
Outstanding, end of period	12,349,668	\$ 0.88	5,054,148	\$ 0.88

As at June 30, 2012, the Company has outstanding exercisable warrants, with a weighted average remaining contractual life of 1.48 years, to purchase an aggregate 12,349,668 common shares, as follows:

Expiry Date	Warrants Outstanding and Exercisable	
	Number of Warrants	Weighted Average Exercise Price
December 23, 2012	337,143	\$ 0.70
June 30, 2013	212,875	0.75
December 30, 2013	4,500,000	0.90
July 6, 2013	494,650	0.67
January 6, 2014	3,805,000	0.90
February 10, 2014	3,000,000	0.90
	12,349,668	\$ 0.88

The fair value of the warrants issued was determined using the Black-Scholes option pricing model, based on the following terms and assumptions:

Year of Grant	Six months ended June 30, 2012	Year ended December 31, 2011
Dividend Yield	0%	0%
Risk free interest rate	0.95%	0.96%
Expected life	1.4 to 1.9 years	1.4 to 1.9 years
Expected volatility ⁽¹⁾	74.5 to 78.2%	77.3%
Weighted average grant date fair value	0.20	0.21

⁽¹⁾ Determined based on historical volatility of the Company's share price.

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Notes to the Interim Financial Statements

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(Unaudited, tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

11. Reserves (continued)

(c) **Summary**

	Options	Warrants	Unexercised Options and Warrants	Normal Course Issuer Bid	Total
Balance, December 31, 2010	1,713	98	7,182	604	9,597
Share-based compensation	238	-	-	-	238
Stock options exercised	(57)	-	-	-	(57)
Stock options expired	(600)	-	600	-	-
Stock options forfeited	(54)	-	54	-	-
Broker warrants issued	-	989	-	-	989
Broker warrants exercised	-	(17)	-	-	(17)
Balance, December 31, 2011	1,240	1,070	7,836	604	10,750
Share-based compensation	35	-	-	-	35
Warrants issued	-	1,440	-	-	1,440
Broker warrants exercised	-	(1)	-	-	(1)
Balance, June 30, 2012	\$ 1,275	\$ 2,509	\$ 7,836	\$ 604	\$ 12,224

12. Exploration and Evaluation Expenses

The Company's exploration and evaluation expenses incurred on the Prairie Creek property for the three and six month periods ended June 30, 2012 and 2011 are detailed below:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Assaying and metallurgical studies	\$ 1	\$ 3	\$ 27	\$ 3
Camp operation and project development	201	90	330	150
Diamond drilling	1,229	440	1,314	443
Feasibility study	575	418	742	741
Insurance, lease and rental	15	12	31	25
Permitting and environmental	406	587	554	923
Transportation and travel	42	15	43	15
	2,469	1,565	3,042	2,300
Depreciation – mining plant and equipment	40	35	75	60
Total exploration and evaluation expenses	\$ 2,509	\$ 1,600	\$ 3,116	\$ 2,360
Exploration and evaluation, beginning of period	\$ 47,994	\$ 42,657	\$ 47,387	\$ 41,897
Total exploration and evaluation expenses	2,509	1,600	3,116	2,360
Exploration and evaluation, end of period	\$ 50,503	\$ 44,257	\$ 50,503	\$ 44,257

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13. Tax Deduction Recovery

During the three month period ended March 31, 2012, the Company renounced exploration and evaluation expenses deductible for Canadian income tax purposes of \$2,456,000 (March 31, 2011 - \$5,000,000) in respect of the flow-through shares issued in 2011 (see Note 10). As at June 30, 2012, the Company has incurred eligible exploration and development costs of \$1,276,000. As at June 30, 2011 the Company had incurred eligible exploration and development costs of \$2,491,000, which included costs incurred in fiscal 2010. Accordingly, the Company reduced the liability to sell the tax deductions, initially recognized at \$295,000 (2011 - \$277,000), and recognized a tax deduction recovery during the three and six month periods ending June 30, 2012 of \$136,000 and \$153,000 respectively versus \$24,000 and \$138,000 respectively for the comparative periods.

14. Government Grants

For the three and six month periods ended June 30, 2012, the Company received \$4,000 and \$113,000 respectively from the Mine Training Society (funded by the Government of Canada (HRSDC)) related to training costs and recorded as a reduction to the related expense.

For the three and six month periods ended June 30, 2012, the Company received \$nil and \$126,000 respectively from the Mine Training Society related to purchase of equipment and recorded as a reduction of the carrying value of the related asset.

15. Capital Management

The Company manages its cash and cash equivalents, short-term investments, marketable securities, common shares, stock options and share purchase warrants as capital. As the Company is in the exploration and evaluation stage, its principal source of funds for its operations is from the issuance of common shares. The issuance of common shares requires approval of the Board of Directors. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its Prairie Creek project for the benefit of its stakeholders. The Company uses stock options primarily to retain and provide future incentives to key employees and members of the management team. The granting of stock options is primarily determined by the Compensation Committee of the Board of Directors.

16. Related Party Transactions

For the three and six month periods ended June 30, 2012, the Company incurred rent expense with a corporation with a common director of the Company in the amount of \$6,000 and \$12,000 respectively versus \$6,000 and \$12,000 respectively for the comparative periods. These transactions were within the normal course of business and have been recorded at amounts agreed to by the transacting parties. At June 30, 2012, \$nil relating to amounts owing to related parties was included in accounts payable and accrued and other liabilities (December 31, 2011 - \$4,000).

For the three and six month periods ended June 30, 2012, the Company incurred short-term employee benefits with officers and directors in the amount of \$153,000 and \$319,000 respectively versus \$142,000 and \$295,000 respectively for the comparative periods. For the three and six month periods ended June 30, 2012, the Company incurred share-based compensation with officers and directors in the amount of \$9,000 and \$27,000 respectively versus \$67,000 and \$123,000 respectively for the comparative periods.

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17. Commitments

The Company has entered into certain operating lease agreements for office space and equipment. These agreements require the Company to make the following lease payments:

Year ending December 31,	Total
2012	\$ 74
2013	150
2014	147
2015	149
2016	151
2017	88
	<hr/> \$ 759

The Company has a letter of guarantee outstanding in the amount of \$214,000 as security for the Company fulfilling certain obligations pursuant to an Authorization granted by DFO relating to road repairs in proximity to the Prairie Creek Mine Site (see Note 6).

18. Subsequent Events

On July 31, 2012, the Company announced that it had entered into a binding arrangement agreement (the "Agreement") to complete a business combination (the "Merger") as well as a non-brokered private placement with Paragon Minerals Corporation (TSXV: PGR). Paragon's flagship project is its 100% interest in the South Tally Pond Property, which includes the Lemarchant deposit, and is located in a proven mining district near Buchans, Newfoundland.

Under the terms of the Agreement, Canadian Zinc will acquire all of the outstanding common shares of Paragon in exchange for common shares of Canadian Zinc on the basis of 0.136 of a share of Canadian Zinc for each share of Paragon. Completion of the Merger will be subject to the favourable vote of two thirds of the votes cast by Paragon shareholders and by a simple majority of the votes cast by "disinterested" Paragon shareholders pursuant to Multilateral Instrument 61-101 "Protection of Minority Shareholders in Special Transactions" at a special meeting called to approve the transaction which is expected to take place in September 2012.

Approval of the Merger will allow Canadian Zinc to issue 7,296,298 common shares in exchange for all 53,649,254 common shares of Paragon currently outstanding. Paragon has 2,693,333 share options and 10,346,825 warrants outstanding along with property agreements providing for the issuance of 160,000 Paragon common shares, all of which will be honored for the same terms and at the same exchange ratio of 0.136 CZN shares for each share of Paragon. Canadian Zinc could potentially issue 1,795,221 common shares assuming consideration is paid as provided under the original option and warrant agreements and the terms of the property agreements are fulfilled. Canadian Zinc will be entitled to an immediate payment by Paragon of a break fee of \$150,000 in the event the Merger is not approved by Paragon shareholders. The expected closing date of this Merger is October 2012.

The Company has also agreed to purchase, in a non-brokered private placement financing, 7,000,000 common shares of Paragon at a price of \$0.07 per share for a total consideration of \$490,000. The completion of the private placement is not conditional upon the completion of the Merger. This transaction has been completed and Canadian Zinc currently holds approximately 11.54% of the issued share capital of Paragon.

19. Approval of the Financial Statements

The Interim Financial Statements of Canadian Zinc Corporation for the three and six month periods ended June 30, 2012 were approved and authorized for issue by the Board of Directors on August 9, 2012.