



## **Canadian Zinc Corporation**

### **Condensed Interim Financial Statements**

For the three month period ended March 31, 2011

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

**CANADIAN ZINC CORPORATION**  
**Condensed Interim Statement of Financial Position**

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

	March 31, 2011	December 31, 2010	January 1, 2010
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents (Note 3)	\$ 2,239	\$ 4,464	\$ 5,197
Short-term investments (Note 4)	3,922	2,900	2,246
Marketable securities (Note 5)	26,520	39,400	15,382
Other receivables and prepaid expenses	244	135	52
<b>Total Current Assets</b>	<b>32,925</b>	<b>46,899</b>	<b>22,877</b>
<b>Other long-term assets</b> (Note 6)	<b>739</b>	<b>739</b>	<b>739</b>
<b>Property, plant and equipment</b> (Note 7)	<b>1,250</b>	<b>1,272</b>	<b>983</b>
<b>Exploration and evaluation assets</b> (Note 8)	<b>4,459</b>	<b>4,498</b>	<b>4,388</b>
<b>Total Assets</b>	<b>\$ 39,373</b>	<b>\$ 53,408</b>	<b>\$ 28,987</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable	\$ 302	\$ 16	\$ 189
Accrued and other liabilities	251	503	212
<b>Total Current Liabilities</b>	<b>553</b>	<b>519</b>	<b>401</b>
<b>Decommissioning liability</b> (Note 9)	<b>1,629</b>	<b>1,654</b>	<b>1,505</b>
<b>Total Liabilities</b>	<b>2,182</b>	<b>2,173</b>	<b>1,906</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 10)	70,519	70,314	65,583
Reserves (Note 11)	9,592	9,597	8,668
Deficit	(42,920)	(28,676)	(47,170)
<b>Total Shareholders' Equity</b>	<b>37,191</b>	<b>51,235</b>	<b>27,081</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 39,373</b>	<b>\$ 53,408</b>	<b>\$ 28,987</b>
<b>Commitments</b> (Note 17)			
<b>Subsequent events</b> (Note 18)			

Approved by the Board of Directors:

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*"John F. Kearney"*

Director

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*"Brian A. Atkins, CA"*

Director

**CANADIAN ZINC CORPORATION**  
**Condensed Interim Statement of Comprehensive Income (Loss)**  
(Unaudited, expressed in thousands of Canadian dollars, except for share information)

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Income</b>		
Investment income	\$ 21	\$ 10
<b>Expenses</b>		
Depreciation	5	5
Exploration and evaluation (Note 12)	760	476
Listing and regulatory	20	15
Management and directors	153	146
Office and general	345	91
Professional	45	17
Project evaluation	-	12
Shareholder and investor communications	73	66
Share-based compensation	64	-
	1,465	828
<b>Other income (expenses)</b>		
Finance costs (Note 9)	(14)	(15)
Foreign exchange gain (loss)	(20)	(17)
Gain (loss) on marketable securities (Note 5)	(12,880)	8,094
Tax deduction recovery (Note 13)	114	-
	(12,800)	8,062
<b>Net income (loss) for the period</b>	<b>(14,244)</b>	<b>7,244</b>
Other comprehensive income (loss)	-	-
<b>Comprehensive income (loss) for the period</b>	<b>\$ (14,244)</b>	<b>\$ 7,244</b>
<b>Net income (loss) per share - basic and diluted</b>	<b>\$ (0.11)</b>	<b>\$ 0.06</b>
<b>Weighted average number of shares outstanding</b>		
Basic	130,525,778	118,900,563
Dilutive effect of stock options and warrants	-	1,258,121
Diluted	130,525,778	120,158,684

**CANADIAN ZINC CORPORATION**  
**Condensed Interim Statement of Cash Flows**

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

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating Activities</b>		
Net income (loss) for the period	\$ (14,244)	\$ 7,244
Adjustment for items not involving cash:		
Accretion and depreciation	44	51
(Gain) loss on marketable securities (Note 5)	12,880	(8,094)
Tax deduction recovery (Note 13)	(114)	-
Unrealized foreign exchange	20	17
Share-based compensation	64	-
Change in non-cash working capital items:		
other receivables and prepaid expenses	(108)	(40)
accounts payable and accrued liabilities	182	39
	<u>(1,276)</u>	<u>(783)</u>
<b>Financing Activities</b>		
Issuance costs	(35)	-
Capital stock issued on exercise of stock options	104	-
Capital stock issued on exercise of warrants	32	-
	<u>101</u>	<u>-</u>
<b>Investing Activities</b>		
Short-term investments	(1,022)	559
Property, plant and equipment	(8)	-
	<u>(1,030)</u>	<u>559</u>
<b>Impact of exchange rate changes on cash and cash equivalents</b>	(20)	(17)
<b>Net change in cash and cash equivalents</b>	<u>\$ (2,225)</u>	<u>\$ (241)</u>
<b>Cash and cash equivalents, beginning of period</b>	\$ 4,464	\$ 5,197
<b>Net change in cash and cash equivalents</b>	(2,225)	(241)
<b>Cash and cash equivalents, end of period</b>	<u>\$ 2,239</u>	<u>\$ 4,956</u>

## CANADIAN ZINC CORPORATION

### Condensed 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			
<b>Balance, January 1, 2010</b>	118,900,563	\$ 65,583	\$ 8,668	\$ (47,170)	\$ 27,081
Net income and comprehensive income for the period	-	-	-	7,244	7,244
<b>Balance, March 31, 2010</b>	118,900,563	65,583	8,668	(39,926)	34,325
Issue of shares between \$0.40 and \$0.70 per share	9,821,429	4,723	-	-	4,723
Share issuance costs	-	(503)	-	-	(503)
Share purchase warrants	-	(195)	195	-	-
Exercise of options between \$0.23 and \$0.45 per share	1,196,250	397	(120)	-	277
Exercise of warrants at \$0.40 per share	530,250	309	(97)	-	212
Share-based compensation	-	-	951	-	951
Net income and comprehensive income for the period	-	-	-	11,250	11,250
<b>Balance, December 31, 2010</b>	130,448,492	70,314	9,597	(28,676)	51,235
Exercise of options between \$0.23 and \$0.45 per share	265,000	158	(54)	-	104
Exercise of warrants at \$0.40 per share	79,850	47	(15)	-	32
Share-based compensation	-	-	64	-	64
Net loss and comprehensive loss for the period	-	-	-	(14,244)	(14,244)
<b>Balance, March 31, 2011</b>	130,793,342	\$ 70,519	\$ 9,592	\$ (42,920)	\$ 37,191

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

# CANADIAN ZINC CORPORATION

## Notes to the Condensed Interim Financial Statements

March 31, 2011

(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 OTCBB 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 condensed interim statement of comprehensive income or loss and condensed interim 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 and Conversion to International Financial Reporting Standards

These condensed 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") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first condensed interim financial statements prepared in accordance with IAS 34 and IFRS using accounting policies consistent with IFRS. The accounting policies have been selected to be consistent with IFRS as is expected to be effective on December 31, 2011, the Company's first annual IFRS reporting date. These condensed interim financial statements do not include all of the information required for full annual financial statements. Previously, the Company prepared its interim and annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

#### (b) Basis of Preparation

These condensed 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 condensed interim financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending December 31, 2011.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented. They also have been applied in the preparation of an opening IFRS statement of financial position as at January 1, 2010 (the "Transition Date"), as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in Note 20.

## CANADIAN ZINC CORPORATION

### Notes to the Condensed Interim Financial Statements

March 31, 2011

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

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#### 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, 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) Financial Assets

Financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as loans and receivables are measured at amortized cost less impairment. The Company has classified its other receivables as loans and receivables.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company has classified its cash and cash equivalents, short-term investments, marketable securities and restricted cash as FVTPL. The Company designated its marketable securities as FVTPL upon initial recognition in accordance with an investment strategy that management uses to evaluate performance on a fair value basis.

Financial assets classified as held-to-maturity are measured at amortized cost. The Company has no financial assets classified as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company has no financial assets classified as available-for-sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

## CANADIAN ZINC CORPORATION

### Notes to the Condensed Interim Financial Statements

March 31, 2011

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

#### 2. Significant Accounting Policies (continued)

##### (e) Impairment of Non-Financial Assets

The Company assesses at each date of the statement of financial position the carrying amounts of non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments for the time value of money and risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

##### (f) 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.

##### (g) Short-term Investments

Short-term investments, which consist primarily of investments in Bankers Acceptances and Guaranteed Investment Certificates ("GIC's"), are investments with maturities of more than three months and less than one year when purchased.

##### (h) Marketable Securities

Marketable securities are recorded at their fair market value on the date of acquisition and are classified as FVTPL. The carrying value of the securities is adjusted at each subsequent reporting period to the then fair value (based upon the market price and the Bank of Canada quoted exchange rate if applicable) with the resulting unrealized gains or losses included in comprehensive income or loss for the period. Transaction costs relating to the purchase of marketable securities are expensed directly to comprehensive income or loss.

##### (i) Foreign Currency Transactions

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which the Company operates. Foreign currency transactions are translated at the rate in effect when the transactions occur. Monetary assets and liabilities denominated in a foreign currency (if any) are translated at the rate in effect at the reporting period date.



# CANADIAN ZINC CORPORATION

## Notes to the Condensed Interim Financial Statements

March 31, 2011

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

### 2. Significant Accounting Policies (continued)

#### (j) Property, Plant and Equipment ("PPE")

PPE is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on a declining-balance basis, less the estimated residual value, at the following annual rates:

Mining equipment (including pilot plant)	30%
Office equipment	20%

Leasehold improvements are recorded at cost, net of accumulated depreciation. Depreciation on leasehold improvements is provided on a straight-line basis over the life of the lease.

Amortization of the Prairie Creek plant and mill is based on the unit-of-production method based upon estimated proven and probable reserves.

#### (k) Exploration and Evaluation Assets

Exploration and evaluation assets include acquired mineral use rights for mineral property held by the Company. The amount of consideration paid (in cash or share value) for mineral use rights is capitalized. The amounts shown for exploration and evaluation assets represent costs of acquisition incurred to date, less recoveries, and do not necessarily reflect present or future values. These costs will be amortized against revenue from future production or written off if the exploration and evaluation assets are abandoned or sold. Included in the cost of exploration and evaluation assets is the cost of the estimated decommissioning liability. The Company has classified exploration and evaluation assets as intangible in nature. Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimated proven and probable reserves.

Ownership in exploration and evaluation assets involves certain inherent risks, including geological, metal prices, operating costs, and permitting risks. Many of these risks are outside the Company's control. The ultimate recoverability of the amounts capitalized for the exploration and evaluation assets is dependent upon the delineation of economically recoverable ore reserves, obtaining the necessary financing to complete their development, obtaining the necessary permits to operate a mine, and realizing profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in its Prairie Creek exploration and evaluation assets have been based on current and expected conditions. However, it is possible that changes could occur which could adversely affect management's estimates and may result in future write downs of exploration and evaluation assets carrying values.

#### (l) Financial Liabilities

Financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or classified as other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method. The Company has classified its accounts payable and accrued liabilities as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income or loss. The Company has no financial liabilities classified as FVTPL.

**CANADIAN ZINC CORPORATION**  
**Notes to the Condensed Interim Financial Statements**

March 31, 2011

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

**2. Significant Accounting Policies (continued)**

**(m) Decommissioning, Restoration and Similar Liabilities**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognized at its present value in the period in which it is incurred, which is generally when an environmental disturbance occurs or a constructive obligation is determined. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using the unit of production method. Following the initial recognition of a decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the decommissioning liability and the decommissioning asset.

**(n) Flow-through Shares**

Current Canadian tax legislation permits mining entities to issue flow-through shares to investors. Flow-through shares are securities issued to investors whereby the deductions for tax purposes related to exploration and evaluation expenditures may be claimed by investors instead of the entity. The issue of flow-through shares is in substance an issue of ordinary shares and the sale of tax deductions. At the time the Company issues flow-through shares, the sale of tax deductions is deferred and presented as other liabilities in the statement of financial position to recognize the obligation to incur and renounce eligible resource exploration and evaluation expenditures. The tax deduction is measured as the difference between the current market price of the Company's common shares and the issue price of the flow-through share. Upon incurring and renouncing eligible resource exploration and evaluation expenditures, the Company recognizes the sale of tax deductions as a tax deduction recovery on the statement of comprehensive income or loss and reduces the other liability.

**(o) Revenue Recognition**

Investment income on cash and cash equivalents and short-term investments is recognized as it is earned.

**(p) Exploration and Evaluation Costs**

Exploration and evaluation costs, other than those described in Note 2 (k), are expensed as incurred until such time as either mineral reserves are proven or probable, or permits to operate the mineral resource property are received and financing to complete development has been obtained. Following confirmation of mineral reserves or receipt of permits to commence mining operations and obtaining necessary financing, exploration and evaluation expenditures are capitalized as deferred development expenditures included within exploration and evaluation assets.

**(q) Share-based Compensation**

The Company follows the fair value method of accounting for the stock option awards granted to employees, directors and consultants. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and an expected life of the options. The number of stock option awards expected to vest are estimated using a forfeiture rate based on historical experience and future expectations. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock. Share-based compensation is amortized to earnings over the vesting period of the related option.

The Company uses graded or accelerated amortization which specifies that each vesting tranche must be accounted for as a separate arrangement with a unique fair value measurement. Each vesting tranche is subsequently amortized separately and in parallel from the grant date.

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measurement of the fair value of the Company's stock options.

## CANADIAN ZINC CORPORATION

### Notes to the Condensed Interim Financial Statements

March 31, 2011

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

#### 2. Significant Accounting Policies (continued)

##### (r) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized in the period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the potential benefit of income tax losses and other deductions carried forward to future years.

Deferred income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. The value of deferred income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount.

##### (s) Earnings (Loss) Per Common Share

Earnings (loss) per share calculations are based on the net income (loss) attributable to common shareholders for the period divided by the weighted average number of common shares issued and outstanding during the period.

Diluted earnings per share calculations are based on the net income attributable to common shareholders for the period divided by the weighted average number of common shares outstanding during the period plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period. The incremental number of common shares that would be issued is included in the calculation of diluted earnings per share.

Diluted loss per share calculations are based on the net loss attributable to common shareholders for the period divided by the weighted average number of common shares issued and outstanding during the period. Stock options and share purchase warrants are not included in the computation of loss per share for the quarter ended March 31, 2011 as such inclusion would be anti-dilutive.

##### (t) IFRS Standards Adopted

IFRS 1 (Amendment)	<i>First-time Adoption of IFRS</i>
IFRS 7 (Amendment)	<i>Financial Instruments: Disclosure</i>
IAS 1 (Amendment)	<i>Presentation of Financial Statements</i>
IAS 24 (Amendment)	<i>Related Party Disclosures</i>
IAS 34 (Amendment)	<i>Interim Financial Reporting</i>

##### (u) IFRS Standards Issued but not yet Effective

IFRS 9	<i>Financial Instruments</i>
IFRS 7 (Amendment)	<i>Financial Instruments : Disclosure</i>
IAS 12 (Amendment)	<i>Income Taxes</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 27 (Amendment)	<i>Separate Financial Statements</i>
IAS 28 (Amendment)	<i>Investments in Associates and Joint Ventures</i>

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 Condensed Interim Financial Statements**

March 31, 2011

(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 March 31, 2011 consisted of cash of \$793,000 and cash equivalents of \$1,446,000 (December 31, 2010 – cash of \$2,126,000 and cash equivalents of \$2,338,000 and January 1, 2010 – cash of \$5,174,000 and cash equivalents of \$23,000).

**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 March 31, 2011, short-term investments were valued at \$3,922,000, earning investment income at a rate of 1.3% (December 31, 2010 - \$2,900,000, earning income at a rate of 1.3% and January 1, 2010 - \$2,246,000 earning income at a rate of 0.5%). The market value of these assets is based upon quoted market values and the recorded amounts at March 31, 2011, December 31, 2010 and January 1, 2010 equal the fair value for these investments.

**5. Marketable Securities**

	March 31, 2011			December 31, 2010			January 1, 2010		
	# of Shares	Original Cost \$	Fair Value \$	# of Shares	Original Cost \$	Fair Value \$	# of Shares	Original Cost \$	Fair Value \$
Rio Tinto	-	-	-	-	-	-	6,000	213	340
Vatukoula Gold Mines	12,573,380	10,142	26,520	12,573,380	10,142	39,400	12,573,380	10,142	14,039
Zazu Metals Corporation	-	-	-	-	-	-	3,400,000	646	1,003
		10,142	26,520		10,142	39,400		11,001	15,382

**6. Other Long-term Assets**

Other long-term assets consist of non-interest bearing reclamation security deposits of \$525,000 (December 31, 2010 and January 1, 2010 - \$525,000) and restricted cash equivalents of \$214,000 (December 31, 2010 and January 1, 2010 - \$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 Condensed Interim Financial Statements**

March 31, 2011

(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 <sup>(1)</sup>	Office Equipment	Leasehold Improvements	Prairie Creek Plant & mill	Total
<b>Cost</b>					
At January 1, 2010	\$ 1,192	\$ 138	\$ 60	\$ 500	\$ 1,890
Additions	431	13	-	-	444
Disposals	-	-	-	-	-
at December 31, 2010	1,623	151	60	500	2,334
Additions	8	-	-	-	8
Disposals	-	-	-	-	-
at March 31, 2011	\$ 1,631	\$ 151	\$ 60	\$ 500	\$ 2,342
<b>Accumulated Depreciation</b>					
at January 1, 2010	\$ 775	\$ 102	\$ 30	\$ -	907
Depreciation charge	132	11	12	-	155
Disposals	-	-	-	-	-
at December 31, 2010	907	113	42	-	1,062
Depreciation charge	25	2	3	-	30
Disposals	-	-	-	-	-
at March 31, 2011	\$ 932	\$ 115	\$ 45	\$ -	\$ 1,092
<b>Net book value:</b>					
at January 1, 2010	\$ 417	\$ 36	\$ 30	\$ 500	\$ 983
at December 31, 2010	716	38	18	500	1,272
at March 31, 2011	699	36	15	500	1,250

<sup>(1)</sup>Includes pilot plant

**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 initially 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:

	March 31, 2011	December 31, 2010	January 1, 2010
Prairie Creek mineral use rights	\$ 3,158	\$ 3,158	\$ 3,158
Decommissioning asset	1,301	1,340	1,230
	\$ 4,459	\$ 4,498	\$ 4,388

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**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 March 31, 2011, the decommissioning liability relates to reclamation and closure costs of the Company's Prairie Creek Mine site.

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 March 31, 2011 total \$2,445,000 (December 31, 2010 – \$2,445,000 and January 1, 2010 - \$2,479,000) and are required to satisfy the obligations, discounted at 3.7% per annum (December 31, 2010 – 3.48% and January 1, 2010 – 4.10%). The settlement of the obligations will occur through to 2021.

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

	March 31, 2011	December 31, 2010
Balance – beginning of year	\$ 1,654	\$ 1,505
Reclamation activity	-	(23)
Accretion expense	14	62
Change in estimates	(39)	110
Balance – end of period	\$ 1,629	\$ 1,654

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**10. Share Capital**

Authorized: Unlimited common shares with no par value (2010 – unlimited).

Issued and outstanding: 130,793,342 common shares (December 31, 2010 – 130,448,492 and January 1, 2010 – 118,900,563).

(a) During the three months ended March 31, 2011:

- i. 265,000 options were exercised at prices between \$0.23 and \$0.45 per common share for proceeds of \$104,000.
- ii. 79,850 warrants were exercised at a price of \$0.40 per common share for proceeds of \$32,000.

(b) During the year ended December 31, 2010:

- i. Effective June 1, 2010, the Company renewed its normal course issuer bid (the "Bid") pursuant to which the Company may purchase up to a maximum of 5,000,000 common shares in the capital of the Company. The Bid may be carried out from June 1, 2010 for a period of up to one year. Pursuant to TSX policies, daily purchases made by the Company under the Bid may not exceed 33,038 common shares, subject to certain prescribed exceptions. All common shares purchased pursuant to the Bid will be cancelled and returned to treasury. During the three month period ended March 31, 2011 and the year ended December 31, 2010, the Company did not purchase any common shares pursuant to the Bid.
- ii. On June 30, 2010, the Company issued by way of private placement 6,250,000 flow-through shares on a brokered basis at \$0.40 per share, for aggregate gross proceeds of \$2,500,000. The agent to the private placement was paid a commission of 7% of the gross proceeds from the offering and received broker's warrants to acquire 625,000 non-flow-through shares at any time until June 30, 2012 at a price of \$0.40 per share. Net proceeds from the issuance were \$2,130,000 after issuance costs comprised of the agent's commission of \$175,000, the fair value of the broker's warrants granted of \$114,000 and other issuance costs of \$81,000.
- iii. On December 23, 2010, the Company issued by way of private placement 3,371,429 flow-through shares on a brokered basis and 200,000 flow-through shares on a non-brokered basis at \$0.70 per share, for aggregate gross proceeds of \$2,500,000. The agent to the private placement was paid a commission of 7% of the gross proceeds from the offering and received broker's warrants to acquire 337,143 non-flow-through shares at any time until December 23, 2012 at a price of \$0.70 per share. Net proceeds from the issuance were \$2,173,000 after issuance costs comprised of the agent's commission of \$165,000, the fair value of the broker's warrants granted of \$81,000 and other issuance costs of \$81,000.

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**11. Reserves**

**(a) Stock Options**

At March 31, 2011 there were 7,310,000 incentive stock options outstanding all of which, except for the 300,000 issued in the three month period ended March 31, 2011, were granted under the 2004 Rolling Stock Option Plan (the "2004 Plan"). At the Annual General Meeting held on June 16, 2010, shareholders approved the adoption of a new incentive stock option plan (the "2010 Plan"). The 2010 Plan is a fixed share stock option plan pursuant to which options on up to 6,000,000 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 7,010,000 stock options currently outstanding under the 2004 Plan will remain outstanding and subject to that plan. Stock options will only be granted under the 2010 Stock Option Plan to the extent that the aggregate number of options outstanding under the 2010 Plan and the 2004 Plan does not exceed 6,000,000. As the Company currently has 7,010,000 options outstanding, the Company will not grant options under the 2010 Plan until such time as the number of options outstanding falls below 6,000,000.

Under the 2010 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.

During the three months ended March 31, 2011, 265,000 stock options with a weighted average exercise price of \$0.39 per share were exercised and 225,000 stock options with a weighted average exercise price of \$0.45 were forfeited. The weighted average share price of exercised options for the three month period ended March 31, 2011 was \$1.18 per share.

The 300,000 incentive stock options granted during the three months ended March 31, 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 March 31, 2011 and December 31, 2010 and the changes for the periods then ended is presented below:

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	7,500,000	\$ 0.46	6,650,000	\$ 0.50
Granted	300,000	0.71	4,930,000	0.45
Exercised	(265,000)	0.39	(1,196,250)	0.23
Expired	-	-	(2,840,000)	0.65
Forfeited	(225,000)	0.45	(43,750)	0.45
Outstanding, end of period	7,310,000	\$ 0.47	7,500,000	\$ 0.46



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**11. Reserves (continued)**

**(a) Stock Options (continued)**

As at March 31, 2011, the Company has outstanding and exercisable stock options, with a weighted average remaining contractual life of 3.42 years, to purchase an aggregate 7,310,000 common shares, of which 5,685,000 were exercisable as at that date, as follows:

Options Outstanding			Options Exercisable		
Number	Weighted Average Exercise Price	Expiry Date	Number	Weighted Average Exercise Price	
70,000	0.89	June 27, 2011	70,000	0.89	
800,000	0.90	December 13, 2011	800,000	0.90	
75,000	0.94	October 15, 2012	75,000	0.94	
1,605,000	0.23	March 27, 2014	1,605,000	0.23	
4,460,000	0.45	May 12, 2015	3,135,000	0.45	
300,000	0.71	January 27, 2016	-	-	
7,310,000	\$ 0.47		5,685,000	0.46	

For the three months ended March 31, 2011, the Company recorded charges of \$64,000, for stock options granted to directors, officers, employees and service providers.

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

Period of Grant	Three months ended March 31, 2011	Year ended December 31, 2010
Dividend Yield	0%	0%
Risk free interest rate	1.9%	2.2% to 2.4%
Expected life	2.6 to 3.5 years	2.5 to 3.5 years
Expected volatility <sup>(1)</sup>	79.4% to 85.1%	79.5% to 87.0%
Weighted average grant date fair value	0.38	0.23
Forfeiture rate	1%	1%

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

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**11. Reserves (continued)**

**(b) Warrants**

A summary of the Company's share purchase warrants at March 31, 2011 and December 31, 2010 and the changes for the periods then ended is presented below:

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	431,893	\$ 0.63	-	\$ -
Issued	-	-	962,143	0.51
Exercised	(79,850)	0.40	(530,250)	0.40
Outstanding, end of period	352,043	\$ 0.69	431,893	\$ 0.63

As at March 31, 2011, the Company has outstanding exercisable warrants, with a weighted average remaining contractual life of 1.7 years, to purchase an aggregate 352,043 common shares, as follows:

Warrants Outstanding and Exercisable		
Number	Exercise Price	Expiry Date
14,900	\$ 0.40	June 30, 2012
337,143	0.70	December 23, 2012
352,043	\$ 0.69	

**(c) Reserves**

A summary of the reserves account is presented below:

	Options	Warrants	Unexercised Options and Warrants	Normal Course Issuer Bid	Total
<b>Balance, January 1, 2010</b>	\$ 2,038	\$ -	\$ 6,026	\$ 604	\$ 8,668
Share-based compensation	951	-	-	-	951
Stock options exercised	(120)	-	-	-	(120)
Stock options expired	(1,144)	-	1,144	-	-
Stock options forfeited	(12)	-	12	-	-
Broker warrants issued	-	195	-	-	195
Broker warrant exercised	-	(97)	-	-	(97)
<b>Balance, December 31, 2010</b>	1,713	98	7,182	604	9,597
Share-based compensation	64	-	-	-	64
Stock options exercised	(54)	-	-	-	(54)
Stock options forfeited	(54)	-	54	-	-
Broker warrants exercised	-	(15)	-	-	(15)
<b>Balance, March 31, 2011</b>	\$ 1,669	\$ 83	\$ 7,236	\$ 604	\$ 9,592

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**12. Exploration and Evaluation Expenses**

The Company's exploration and evaluation expenses incurred on the Prairie Creek property for the three months ended March 31, 2011 and 2010 are detailed below:

	Three months ended March 31,	
	2011	2010
Assaying and metallurgical studies	\$ -	\$ 4
Camp operation and project development	60	63
Drilling and underground exploration	3	-
Feasibility study	323	-
Insurance, lease and rental	13	15
Permitting and environmental	336	363
Transportation and travel	-	-
	735	445
Depreciation – mining plant and equipment	25	31
<b>Total exploration and evaluation expenses</b>	<b>\$ 760</b>	<b>\$ 476</b>
Exploration and evaluation, beginning of period	\$ 41,897	\$ 37,798
Total exploration and evaluation expenses	760	476
Exploration and evaluation, end of period	\$ 42,657	\$ 38,274

**13. Tax Deduction Recovery**

The Company, during the three month period ended March 31, 2011, renounced exploration and evaluation expenses deductible for Canadian income tax purposes of \$5,000,000 in respect of the flow-through shares issued in 2010 (see Note 10). As at March 31, 2011, the Company possessed exploration and development costs eligible for renunciation of \$2,052,000. Accordingly, the Company recognized a tax deduction recovery of \$114,000 and reduced the liability to sell the tax deductions, initially recognized at \$277,000, by the same amount.

**14. 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.

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**15. Related Party Transactions**

For the three months ended March 31, 2011, the Company incurred rent expense with a corporation with a common director of the Company in the amount of \$6,000 versus \$6,000 for the comparative period. These transactions were within the normal course of business and have been recorded at amounts agreed to by the transacting parties. At March 31, 2011, \$4,000 relating to amounts owing to related parties was included in accounts payable and accrued and other liabilities (December 31, 2010 - \$2,000).

For the three months ended March 31, 2011, the Company incurred short-term employee benefits and share-based compensation with officers and directors in the amounts of \$153,000 and \$56,000 respectively versus \$146,000 and \$nil respectively for the comparative period.

**16. Financial Instruments**

**(a) Categories of financial instruments**

	Category	March 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	FVTPL	\$ 2,239	\$ 4,464	\$ 5,197
Short-term investments	FVTPL	3,922	2,900	2,246
Marketable securities	FVTPL	26,520	39,400	15,382
Other receivables	Loans and receivables	108	100	33
Restricted cash	FVTPL	214	214	214
Accounts payable	Other financial liabilities	(302)	(16)	(189)
Accrued and other liabilities	Other financial liabilities	(88)	(226)	(212)

**(b) Fair value measurements**

The following table summarizes the classification of the Company's financial instruments within the fair value hierarchy as at March 31, 2011, December 31, 2010 and January 1, 2010:

March 31, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,239	-	-	\$ 2,239
Short-term investments	3,922	-	-	3,922
Marketable securities	26,520	-	-	26,520
Restricted cash	214	-	-	214
December 31, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,464	-	-	\$ 4,464
Short-term investments	2,900	-	-	2,900
Marketable securities	39,400	-	-	39,400
Restricted cash	214	-	-	214
January 1, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 5,197	-	-	\$ 5,197
Short-term investments	2,246	-	-	2,246
Marketable securities	15,382	-	-	15,382
Restricted cash	214	-	-	214

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**16. Financial Instruments (continued)**

**(c) Market risk**

The Company holds certain marketable securities that will fluctuate in value as a result of trading on global financial markets. Furthermore, as the Company's marketable securities are also in mining companies, market values will fluctuate as commodity prices change. Based upon the Company's portfolio at March 31, 2011, a 10% increase or decrease in the market price of the securities held, ignoring any foreign currency risk which is described below, would have resulted in an increase (or decrease) to net loss of approximately \$2,652,000.

**(d) Interest rate risk**

Included in the loss for the three months ended March 31, 2011 is investment income on the Company's cash and cash equivalents and short-term investments. If interest rates had been 100 basis points (1%) lower (higher) then net loss would have been approximately \$20,000 higher (lower). The Company does not have any debt obligations which expose it to interest rate risk.

**(e) Foreign currency risk**

The Company holds cash and cash equivalents that are denominated in U.S. dollars and which, as FVTPL assets, impact the Company's net loss as a result of being marked to market at each reporting period. The Company estimates that, based upon the cash held at March 31, 2011, for every \$0.01 fluctuation in exchange rate between the Canadian and U.S. dollar, the Company's net income would be \$5,000 higher (or lower). The Company also holds marketable securities denominated in U.K. pounds sterling. Based upon the marketable securities held at March 31, 2011, and assuming no changes in number of shares or stock price, for every \$0.01 fluctuation in exchange rate between the Canadian dollar and U.K. pound sterling, the Company's net income would be \$170,000 higher (or lower).

**(f) Credit risk**

The Company considers that the following financial assets are exposed to credit risk: cash and cash equivalents, short-term investments, marketable securities and restricted cash. The total value of these items at March 31, 2011 is \$32,895,000 (December 31, 2010 - \$46,978,000). 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 does not currently generate any revenues from sales to customers nor does it hold derivative type instruments that would require a counterparty to fulfil a contractual obligation resulting in a credit risk. The Company has never held any asset-backed paper instruments. The Company seeks to place its cash and cash equivalents, short-term investments and restricted cash with reputable financial institutions. Accordingly, the Company believes that it is exposed to minimal credit risks at the current time, although the concerns surrounding financial institutions globally have increased the risk of a credit default by a major bank impacting the Company. At March 31, 2011, the Company's cash and cash equivalents, short-term investments and restricted cash were invested with five financial institutions.

**(g) Liquidity risk**

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations as they fall due. As at March 31, 2011, the Company had positive working capital of \$32,372,000 (December 31, 2010 - \$46,380,000). Accordingly, the Company is able to meet its current obligations and has minimal liquidity risk. However, the Company will require significant additional funding in the future in order to complete the development of the Prairie Creek Mine site and bring the mine into production. Accordingly, there is a risk that the Company may not be able to secure adequate funding on reasonable terms, or at all, at that future date.

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**17. Commitments**

- (a) 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:

	Leases
9 months ending December 31, 2011	\$ 127
Year ending December 31, 2012	87
Year ending December 31, 2013	5
Year ending December 31, 2014	Nil
	\$ 219

- (b) 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**

Subsequent to March 31, 2011:

- (a) On May 11, 2011, the Company announced it had entered into an engagement agreement to raise gross proceeds of \$5,000,000 through the issuance of shares at \$0.90 per share by way of private placement.
- (b) On May 26, 2011, the Company announced it had entered into a revised engagement agreement to raise gross proceeds of \$5,000,000 through the issuance of shares at \$0.80 per share by way of a "bought deal" private placement.

**19. Approval of the Financial Statements**

The Condensed Interim Financial Statements of Canadian Zinc Corporation for the three months ended March 31, 2011 were approved and authorized for issue by the Board of Directors on June 3, 2011.

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**20. First Time Adoption of IFRS**

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 *'First-time Adoption of International Financial Reporting Standards'*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied.

The Company elected to take the following IFRS 1 optional exemptions:

- (a) IFRS 3, *Business Combinations*: Applied prospectively from the Transition Date;
- (b) IFRS 16, *Property, Plant & Equipment* and IFRS 23, *Borrowing Costs*: Borrowing costs related to qualifying assets not capitalized;
- (c) IAS 17, *Leases*: Any IFRIC 4 applicable arrangements not reassessed;
- (d) IFRIC 4, *Determining whether an arrangement contains a lease*: Determination of potential leases prospectively from the Transition Date;
- (e) IFRS 2, *Share-Based Payments*: Not applied retrospectively to fully vested equity settled grants;
- (f) IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*: Decommissioning liability included in the cost of the related asset is not accounted for on a fully retrospective basis;
- (g) IAS 39, *Financial Instruments: Recognition & Measurement*: Financial instrument designated as FVTPL upon the Transition Date.

**Other Disclosures**

The Company designated its cash and cash equivalents, short-term investments, marketable securities and restricted cash as FVTPL upon initial recognition in accordance with an investment strategy that management uses to evaluate performance on a fair value basis. This designation had no impact on the results and financial position of the Company as these financial assets were classified as held-for-trading under Canadian GAAP and recorded at fair value (see Note 16).

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**20. First Time Adoption of IFRS (continued)**

**Notes to Reconciliations**

**(a) Decommissioning liability**

Consistent with IFRS, provisions for the decommissioning liability have been previously measured based on the estimated cost of rehabilitation, discounted to its net present value upon initial recognition. However, adjustments to the discount rate are not reflected in the provisions or the related assets under previous GAAP unless it relates to an upward revision in the future costs estimates. The Company has elected to apply the exemption from full retrospective application as allowed under IFRS 1 for the decommissioning liability included in the cost of exploration and evaluation assets. As such the Company has re-measured the decommissioning liability as at January 1, 2010 under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and estimated the amount to be included in the related asset by discounting the liability to the date in which the liability arose using best estimates of the historical discount rates. Consistent with IFRS, accretion expense is categorized as finance costs under other expenses on the statement of comprehensive income.

**(b) Flow-through shares**

Current Canadian tax legislation permits mining entities to issue flow-through shares to investors. Flow-through shares are securities issued to investors whereby the deductions for tax purposes related to exploration and evaluation expenditures may be claimed by investors instead of the entity. Under Canadian GAAP, in accordance with EIC-146, *Flow-through Shares*, a deferred tax liability is recognized on the date that the Company files renunciation documents with the Canadian tax authorities assuming there is reasonable assurance the expenditures will be made.

Consistent with IFRS, the issue of flow-through shares is in substance an issue of ordinary shares and the sale of tax deductions. At the time the Company issues flow-through shares, the sale of tax deductions is deferred and presented as other liabilities in the statement of financial position to recognize the obligation to incur and renounce eligible exploration and evaluation expenditures. Accordingly, the Company adjusted the flow-through share issuance in fiscal 2010 and recorded a deferral of the sale of tax deductions.

**(c) Share-based Compensation**

Under Canadian GAAP, the Company measured share-based compensation related to share purchase options at the fair value of the options granted using the Black-Scholes option pricing model and recognized this expense over the vesting period of the options. IFRS 2, *Share-based payments*, similar to Canadian GAAP, requires the Company to measure share-based compensation related to share purchase options granted at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, under IFRS 2, the definition of an employee is broader allowing the Company to group employees and others providing similar services together. Adjustments were calculated only for options issued and outstanding after the Transition Date.



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**20. First Time Adoption of IFRS (continued)****Reconciliation of Assets, Liabilities & Equity**

		<b>As at January 1, 2010</b>		
	<b>Note</b>	<b>GAAP</b>	<b>Effect of Transition to IFRS</b>	<b>IFRS</b>
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents		\$ 5,197	\$ -	\$ 5,197
Short-term investments		2,246	-	2,246
Marketable securities		15,382	-	15,382
Other receivables and prepaid expenses		52	-	52
<b>Total Current Assets</b>		<b>22,877</b>	<b>-</b>	<b>22,877</b>
<b>Other long-term assets</b>		<b>739</b>	<b>-</b>	<b>739</b>
<b>Property, plant and equipment</b>		<b>983</b>	<b>-</b>	<b>983</b>
<b>Exploration and evaluation assets</b>	(a)	<b>4,553</b>	<b>(165)</b>	<b>4,388</b>
<b>Total Assets</b>		<b>\$ 29,152</b>	<b>\$ (165)</b>	<b>\$ 28,987</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable		\$ 189	\$ -	\$ 189
Accrued and other liabilities		212	-	212
<b>Total Current Liabilities</b>		<b>401</b>	<b>-</b>	<b>401</b>
<b>Decommissioning liability</b>	(a)	<b>1,238</b>	<b>267</b>	<b>1,505</b>
<b>Total Liabilities</b>		<b>1,639</b>	<b>267</b>	<b>1,906</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital		65,583	-	65,583
Reserves		8,668	-	8,668
Deficit	(a)	(46,738)	(432)	(47,170)
<b>Total Shareholders' Equity</b>		<b>27,513</b>	<b>(432)</b>	<b>27,081</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 29,152</b>	<b>\$ (165)</b>	<b>\$ 28,987</b>

# CANADIAN ZINC CORPORATION

## Notes to the Condensed Interim Financial Statements

March 31, 2011

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

### 20. First Time Adoption of IFRS (continued)

#### Reconciliation of Assets, Liabilities & Equity (continued)

As at March 31, 2010				
	Note	GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents		\$ 4,956	\$ -	\$ 4,956
Short-term investments		1,687	-	1,687
Marketable securities		23,476	-	23,476
Other receivables and prepaid expenses		92	-	92
<b>Total Current Assets</b>		30,211	-	30,211
<b>Other long-term assets</b>				
<b>Property, plant and equipment</b>		739	-	739
<b>Exploration and evaluation assets</b>	(a)	4,553	(145)	4,408
<b>Total Assets</b>		\$ 36,450	\$ (145)	\$ 36,305
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable		\$ 316	\$ -	\$ 316
Accrued and other liabilities		124	-	124
<b>Total Current Liabilities</b>		440	-	440
<b>Decommissioning liability</b>	(a)	1,258	282	1,540
<b>Total Liabilities</b>		1,698	282	1,980
<b>SHAREHOLDERS' EQUITY</b>				
Share capital		65,583	-	65,583
Reserves		8,668	-	8,668
Deficit	(a)	(39,499)	(427)	(39,926)
<b>Total Shareholders' Equity</b>		34,752	(427)	34,325
<b>Total Liabilities and Shareholders' Equity</b>		\$ 36,450	\$ (145)	\$ 36,305

# CANADIAN ZINC CORPORATION

## Notes to the Condensed Interim Financial Statements

March 31, 2011

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

### 20. First Time Adoption of IFRS (continued)

#### Reconciliation of Assets, Liabilities & Equity (continued)

As at December 31, 2010				
	Note	GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents		\$ 4,464	\$ -	\$ 4,464
Short-term investments		2,900	-	2,900
Marketable securities		39,400	-	39,400
Other receivables and prepaid expenses		135	-	135
<b>Total Current Assets</b>		46,899	-	46,899
<b>Other long-term assets</b>				
<b>Property, plant and equipment</b>		739	-	739
<b>Exploration and evaluation assets</b>	(a)	4,553	(55)	4,498
<b>Total Assets</b>		\$ 53,463	\$ (55)	\$ 53,408
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable		\$ 16	\$ -	\$ 16
Accrued and other liabilities	(b)	226	277	503
<b>Total Current Liabilities</b>		242	277	519
<b>Decommissioning liability</b>	(a)	1,300	354	1,654
<b>Total Liabilities</b>		1,542	631	2,173
<b>SHAREHOLDERS' EQUITY</b>				
<b>Share capital</b>	(b)	70,591	(277)	70,314
<b>Reserves</b>	(c)	9,661	(64)	9,597
<b>Deficit</b>	(a), (b) & (c)	(28,331)	(345)	(28,676)
<b>Total Shareholders' Equity</b>		51,921	(686)	51,235
<b>Total Liabilities and Shareholders' Equity</b>		\$ 53,463	\$ (55)	\$ 53,408

**CANADIAN ZINC CORPORATION****Notes to the Condensed Interim Financial Statements**

March 31, 2011

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

**20. First Time Adoption of IFRS (continued)****Reconciliation of Comprehensive Income**

<b>Three months ended March 31, 2010</b>				
	<b>Note</b>	<b>GAAP</b>	<b>Effect of Transition to IFRS</b>	<b>IFRS</b>
<b>Income</b>		\$ 10	-	\$ 10
<b>Expenses</b>		(828)	-	(828)
<b>Other income</b>	(a)	8,057	5	8,062
<b>Net income for the period</b>		7,239	5	7,244
<b>Other comprehensive income</b>		-	-	-
<b>Comprehensive income for the period</b>		\$ 7,239	\$ 5	\$ 7,244

<b>Year ended December 31, 2010</b>				
	<b>Note</b>	<b>GAAP</b>	<b>Effect of Transition to IFRS</b>	<b>IFRS</b>
<b>Income</b>		\$ 48	-	\$ 48
<b>Expenses</b>	(c)	(6,857)	64	(6,793)
<b>Other income</b>	(a)	25,216	23	25,239
<b>Net income for the year</b>		18,407	87	18,494
<b>Other comprehensive income</b>		-	-	-
<b>Comprehensive income for the year</b>		\$ 18,407	\$ 87	\$ 18,494

**CANADIAN ZINC CORPORATION**  
**Notes to the Condensed Interim Financial Statements**

March 31, 2011

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

**20. First Time Adoption of IFRS (continued)**

**Reconciliation of Cash Flows**

		<b>Three months ended March 31, 2010</b>		
	<b>Note</b>	<b>GAAP</b>	<b>Effect of Transition to IFRS</b>	<b>IFRS</b>
<b>Operating Activities</b>				
Net income for the period	(a)	\$ 7,239	\$ 5	\$ 7,244
Adjustment for items not involving cash:				
Accretion and depreciation	(a)	56	(5)	51
(Gain) loss on marketable securities		(8,094)	-	(8,094)
Unrealized foreign exchange		17	-	17
Change in non-cash working capital items		(1)	-	(1)
		(783)	-	(783)
<b>Financing Activities</b>				
		-	-	-
<b>Investing Activities</b>				
		559	-	559
<b>Impact of exchange rate changes on cash and cash equivalents</b>				
		(17)	-	(17)
<b>Decrease in cash and cash equivalents</b>		(241)	-	(241)
<b>Cash and cash equivalents, beginning of period</b>		5,197	-	5,197
<b>Cash and cash equivalents, end of period</b>		\$ 4,956	\$ -	\$ 4,956

		<b>Year ended December 31, 2010</b>		
	<b>Note</b>	<b>GAAP</b>	<b>Effect of Transition to IFRS</b>	<b>IFRS</b>
<b>Operating Activities</b>				
Net income for the year	(a) & (c)	\$ 18,407	\$ 87	\$ 18,494
Reclamation expenditures	(a)	(19)	(4)	(23)
Adjustment for items not involving cash:				
Accretion and depreciation	(a)	235	(19)	216
(Gain) loss on marketable securities		(25,341)	-	(25,341)
Unrealized foreign exchange		44	-	44
Share-based compensation	(c)	1,015	(64)	951
Change in non-cash working capital items		(280)	-	(280)
		(5,939)	-	(5,939)
<b>Financing Activities</b>				
		5,024	-	5,024
<b>Investing Activities</b>				
		226	-	226
<b>Impact of exchange rate changes on cash and cash equivalents</b>				
		(44)	-	(44)
<b>Decrease in cash and cash equivalents</b>		(733)	-	(733)
<b>Cash and cash equivalents, beginning of year</b>		5,197	-	5,197
<b>Cash and cash equivalents, end of year</b>		\$ 4,464	\$ -	\$ 4,464