Siddharth Rajeev, B.Tech, MBA
Analyst

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

June 30, 2009

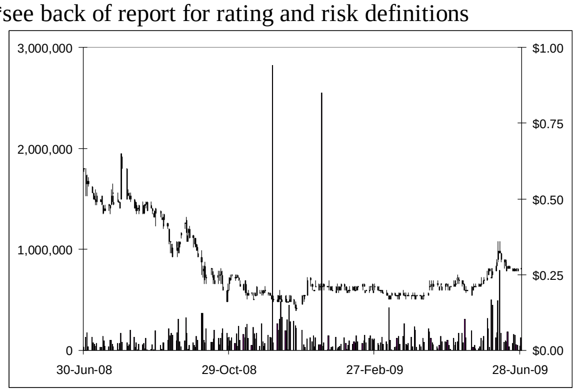
Canadian Zinc Corporation (TSX: CZN, OTC.BB: CZICF) – Proposed expansion of Nahanni Park will allow for the operation of the Prairie Creek Mine

Sector/Industry: Junior Mining **www.canadianzinc.com**

Market Data (as of June 30, 2009)

Current Price	**C$0.265**
Fair Value	**C$0.95 (↓)**
Rating*	**BUY**
Risk*	**5 (Highly Spec)**
52 Week Range	C$0.13 – C$0.65
Shares O/S	118.90 mm
Market Cap	C$31.51 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.14
YoY Return	-51.8%
YoY TSX	-27.0%

*see back of report for rating and risk definitions



Investment Highlights

- On June 9, 2009, the Government of Canada announced its decision that the proposed expansion of the Nahanni National Park Reserve will allow for the operation of the Prairie Creek Mine. In the Canadian Parliament, the *Canada National Parks Act* is now to be amended solely to add provisions necessary to provide full access to the Prairie Creek Mine area via the existing road corridor.
- CZN has recently diversified its portfolio of mine assets by investing in gold projects in Fiji, through a 20% equity investment in gold producer Vatukoula Gold Mines (LSE: VGM), and through an option agreement on the nearby, high-grade, Tuvatu Gold Project. Soon after CZN's investment, VGM announced it received a major investment from Sprott Asset Management. Sprott is now the second largest shareholder in VGM next to CZN. Sprott is also the largest shareholder of CZN.
- The Mackenzie Valley Environmental Impact Review Board (MVEIRB) is currently reviewing the company's applications (Type "A" Water Licence and three Type "A" Land Use Permits) for Environmental Assessment. The MVEIRB expects to complete the assessment by October 2010.
- The only remaining permit needed for CZN to go into production is the Type A Water License. The project can be put into production quickly following the receipt of the final permits.
- CZN continues to be in a strong cash position. As of May 30 2009, CZN had about $12 million ($0.10 per share) in cash, short-term investments, and marketable securities. In May 2009, CZN announced it intends to renew its normal course issuer bid to purchase up to a maximum of 5 million common shares.

Key Financial Data (FYE - December 31)

(C $)	**2007**	**2008**	**2009 3mo**
Cash + Short-term Inv.	28,514,000	22,972,000	22,510,000
Working Capital	27,432,000	22,557,000	22,394,000
Mineral Assets	4,832,000	5,053,000	5,053,000
Total Assets	34,391,000	29,521,000	28,987,000
Net Loss	(9,483,000)	(4,228,000)	(297,000)
Loss per Share	(0.08)	(0.04)	(0.00)

Canadian Zinc owns the Prairie Creek Mine, an advanced stage development project with a large silver, lead, and zinc resource. This property can be put into production quickly upon receipt of final permits. However, the permitting process has caused significant time delays, due, in part to controversy surrounding the project from First Nations and environmental groups and the cumbersome structure of the regulatory process in the Northwest Territories.

Update on Operating Licence/Permit and Environmental Assessment

The only remaining permit for CZN to go into production is a Type A Water License, which will allow the company to produce concentrates and replace tailings back underground, and discharge treated effluent. Highlights of the last 12 months follow:

May 2008 - Applied to the Mackenzie Valley Land and Water Board (MVLWB) for a Type "A" Water Licence and three Type "A" Land Use Permits; one for the operation of the Prairie Creek Mine and the other two for transfer facilities along the road. CZN also submitted a detailed Project Description Report with the MVLWB as part of the permit applications.

August/September 2008 - The MVLWB, following its preliminary screening, determined that the proposed development might have a significant impact on the environment and might be of public concern and referred the applications to the Mackenzie Valley Environmental Impact Review Board (MVEIRB) for Environmental Assessment (EA). MVLWB's concerns were regarding water quality, wildlife, damage to landscape, and long term risk of contamination.

March 2009 - The MVEIRB published its ruling that the existing winter access road and the existing mine site infrastructure will be a part of the scope of development for its EA, even though CZN's stand was that the winter road and the mine site infrastructure should not be part of the assessment since these had been previously assessed, permitted and built.

MVEIRB expects to complete its report of EA by October 2010.

Another major development in the last 12 months was that the company **signed a Memoranda of Understanding with the Liidlii Kue First Nations and Nahanni Butte Dene Band in October 2008.** This is a significant development as maintaining relationships with these parties is very important for the company to advance the Prairie Creek Mine towards production.

Proposed expansion of Nahanni Park will allow for the operation of the Prairie Creek Mine

On June 9, 2009, the Government of Canada announced its decision that the proposed expansion of the Nahanni National Park Reserve will allow for the operation of and access to the Prairie Creek Mine. The Prairie Creek Mine, surrounding area of 300 $km^{2,}$ and the existing access road, will not be part of the expanded Park. We believe the decision reflects the Government's balanced approach to conservation, and to potential economic benefits that development of the Prairie Creek Mine can bring to the people of the Dehcho Region through jobs, benefits, business opportunities and economic stimulus to the Dehcho Region.

In addition, the *Canada National Parks Act* is now to be amended solely for the Nahanni Park to provide access to the Prairie Creek Mine area. An access road to a mine through a National Park is not permitted under the Canada National Parks Act; therefore, the amended act specifically for the Nahanni Park guarantees CZN access to the mine through the enlarged park. **Concerns regarding the Nahanni Park expansion have been troubling the company and its investors for a long time. Therefore, we believe, these positive developments are very assuring for the company's long-term prospects.**

Operations Update

Highlights of CZN's operations in 2008 include:

- Made progress on the reopening, and rehabilitating part of the road (30 km) connecting the Prairie Creek Mine to the Liard Highway (170 km).
- Removed drums of sodium cyanide (stored on the property since 1982) from the site, alleviating the major local environmental concern. The material was moved to Cyanide Destruct Systems in Barrie, Ontario for destruction and disposal.
- Completed a geo-technical drilling program to install water wells to monitor groundwater conditions beneath the mine-site. This monitoring program will assist in the EA process and also with future mine design.
- Completed drill holes in the area of the proposed Water Storage Pond to monitor slope stability.

In order to conserve cash, the site was "winterized" in mid-December 2008, and no activity took place on the site during the three months ended March 31, 2009. CZN re-opened the site in May 2009. CZN's main focus in 2009 will be to continue rehabilitating the winter road connecting the Prairie Creek Mine site to the Liard Highway, as well as advancing the Environmental Assessment.

Capital Investments

While advancing its Prairie Creek project, CZN has been investing in instruments with higher expected return on investment (ROI) to leverage its strong cash position. At the end of March 2009, the company had $9.02 million in cash, $11.14 million in short-term investments (Bankers Acceptances and Guaranteed Investment Certificates earning investment income at rates ranging from 0.48% to 3.15%), and $2.36 in marketable securities (equity investment in large-cap mining companies). Subsequent to March 2009, the company sold approximately 40% of its equity portfolio's fair value at the end of March 2009, for a realized gain of approximately $0.37 million.

In addition to the above investments, the company has plans to use its cash for a normal course issuer bid. CZN announced in May 2009 that, subject to regulatory approval, it intends to renew its normal course issuer bid to purchase up to a maximum of 5 million common shares, representing approximately 4.2% of the outstanding shares. During the course of CZN's normal course issuer bid from May 13, 2008, to May 12, 2009, CZN purchased and cancelled an aggregate of 1.78 million shares at a weighted average price of $0.22 per share.

Focus on gold projects in Fiji

Subsequent to the end of Q1-2009 (quarter ended March 2009), the company, in order to diversify its portfolio of mine and mineral assets, and also to earn a higher expected ROI on its cash, announced it has invested in gold projects in Fiji through an equity investment in a company holding assets in Fiji, and through an option agreement. The following is a discussion on the two investments.

Acquired shares of producing Vatukoula Gold Mines plc (LSE: VGM) - In April 2009, CZN acquired 348 million shares of VGM for £2.54 million ($4.56 million). In addition, in June 2009, CZN bought another 200 million shares for £1.20 million ($2.16 million). CZN now holds 548 million shares of VGM, or approximately 20% of the issued shares. VGM also announced it received a major investment from Sprott Asset Management. Sprott is now the second largest shareholder in VGM next to CZN. Sprott is also the largest shareholder of CZN.

VGM (market capitalization of £28.5 million) is a UK based mining and exploration company with gold projects in Fiji and Brazil, and an exploratory diamond project in Sierra Leone. Its flagship project is the producing Vatukoula Gold Mine in Fiji (formerly known as the Emperor Gold Mine), which has produced seven million ounces of gold and over two million ounces of silver over an operational history of over 70 years. The mine has 0.83 million ounces of gold reserves, and 5.15 million ounces of gold resources. The mine's previous owners suspended production in 2006. VGM acquired the mine and restarted operations in April 2008. Production for the nine months ended May 2009 totaled approximately 26,704 ounces. VGM shares are currently trading at £0.01. Considering that CZN acquired the shares at £0.006 - £0.007 levels, the equity investment in VGM has experienced a good return for CZN so far.

Option on Tuvatu Gold Project, Fiji – In May 2009, CZN announced it entered into an option agreement on the Tuvatu Gold Project in Fiji, currently owned by American Eagle Resources Inc. (OTC: AEIR). CZN made an option payment of $1.8 million to the majority shareholder of AEIR. According to the agreement, CZN has the option, until October 30, 2009, to acquire Tuvatu by issuing 16.25 million shares to the shareholders of AEIR (the value of the shares at the date of the announcement was $3.41 million at $0.21 per share). CZN will maintain the property in good standing during the option period, and continue with the current exploration program at an estimated cost of $0.50 million.

The Tuvatu project is a high grade gold deposit (15 km by road from Nadi International Airport, the main international gateway to Fiji) located 37 km to the southwest of VGM's Vatukoula gold deposit (note that CZN holds 20% of VGM's shares). About $20 million has been spent on this extensively explored property. Exploration was primarily conducted by Emperor Gold Mining Company Limited. A pre-feasibility study completed by Emperor in 2000 determined that the Tuvatu project was economically viable. The combined geological, indicated and inferred resource was estimated to be 1.03 million oz gold.

Outlook on Zn, Pb and Cu

Our long-term zinc and lead price forecasts are US$0.75/lb and US$0.60/lb, respectively. Our long term copper price forecast is US$2.03/lb. Our commodity price forecasts are based on our proprietary regression models on commodity prices and their statistically significant dependent variables.

Financials

At the end of Q1-2009 (quarter ended March 2009), CZN had $22.51 million in cash, short-term investments, and marketable securities. We estimate the company had a burn rate (cash spent on operating and investing activities) of $0.26 million per month in the quarter ended March 2009, versus $0.43 million per month in FY2008 (12 month period). The following table shows the company's cash and liquidity position.

(in C$)	2007	2008	2009 (3mo)
Cash + Short-term Inv.	28,514,000	22,972,000	22,510,000
Working Capital	$27,432,000	$22,557,000	$22,394,000
Current Ratio	22.9	45.1	119.5
LT Debts/ Assets	-	-	-
Burn Rate/Month (incl exploration costs)	($902,250)	($429,333)	($262,000)
Cash from financing activities	$10,184,000	($38,000)	($7,000)

Stock Options and Warrants: We estimate the company has about 6.74 million stock options (weighted average exercise price – $0.50, maturity periods from January 2010 to March 2014), and 5.88 million warrants outstanding. The outstanding warrants (exercise price - $1.20) expire in July 2009.

Valuation

We revised our DCF valuation on the Prairie Creek Mine from $88 million ($0.73 per share) to $86 million ($0.73 per share) as we made the following changes to our valuation model:

- delayed production commencement by one year from 2011 to 2012
- raised capital cost from $60 million to $90 million
- raised copper price forecast from US$1.75/lb to US$2.03/lb
- lowered tax rate from 35% to 29%

The following table shows the sensitivity of our DCF valuation to changes in the model inputs.

Sensitivity	Value ($,mm)	VPS
Base-case	$136	$1.15
1 yr delay in commencement of production	$122	$1.03
2 yr delay in commencement of production	$109	$0.92
NPV @ 10%	$171	$1.44
NPV @ 15%	$86	$0.73
Capital costs increase by 10%	$131	$1.10
Capital costs decrease by 10%	$142	$1.20
Operating costs increase by 10%	$116	$0.97
Operating costs decrease by 10%	$157	$1.32

Our real options valuation on the project dropped from $1.30 to $0.94 per share primarily because of the above mentioned changes.

Adding our valuation on the Prairie Creek Mine to the market value of CZN's equity investment in VGM, the book value of the option on the Tuvatu Gold project, and working capital, we arrived at a revised fair value of $0.93 per share (down from $0.97 per share).

Valuation Summary	
Prairie Creek Mine	$0.727
Investment in Vatukoula Gold Mines	$0.083
Book Value of Option on Tuvatu Gold Project	$0.015
Working Capital - LT Debt	$0.106
Fair Value	**$0.931**

Rating

Therefore, based on our revised valuation models, and review of the company's progress since our initiating report, we reiterate our BUY rating, and lower our fair value to $0.95 per share (from $1.00 per share).

Risks

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- Permitting may be delayed further due to factors beyond the company's control.
- The value of the company depends on commodity prices (primarily zinc, lead and gold)
- The equity investment in a junior gold producer like VGM carries higher risk than the company's other cash investments.

We continue to rate the shares Risk 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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