MicroCap.com
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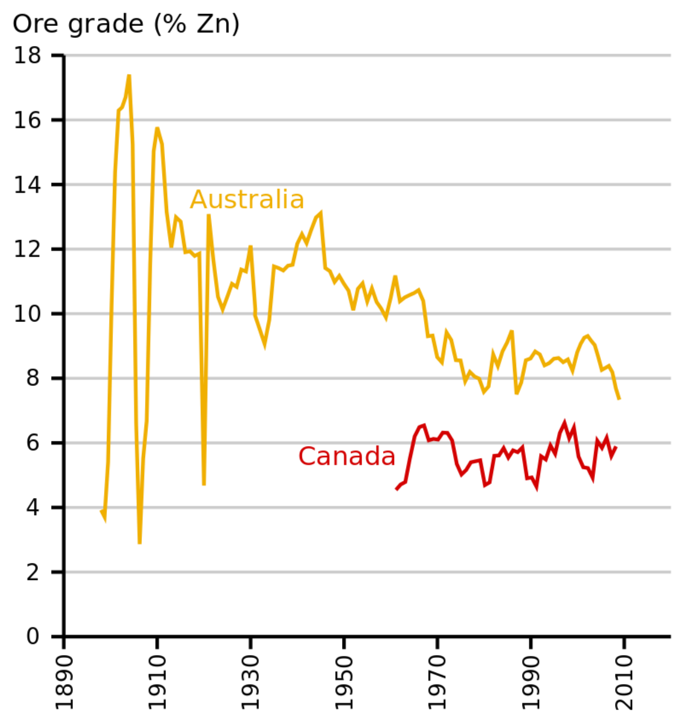
Zinc was up 31% in 2017 and 10% in the past month - but many industry analysts are calling for even stronger gains in 2018 as demand continues to outstrip global supply. Zinc mines have been closing due to economic ore depletion and there is limited new production coming onstream. Forecasts show mine closures over the next two years will result in a further 15% cut in zinc concentrate supply. While the chart below is not fully accurate (because it is a bit dated), the general trend is accurate and paints a very clear picture.

ZINC
http://www.zinc.org/

Sixty percent of zinc is used for galvanizing to protect steel from corrosion. This applies to the majority of buildings, infrastructure, and automobiles. Approximately 15% goes into the production of zinc base alloys, mainly to supply the die casting industry (tools, machinery, and precision shaped metal objects including many electronics we use daily), 14% goes into the production of brass and bronze and 8% into the production of compounds including zinc oxide and zinc sulfate. The remainder is zinc alloys for coinage and architectural applications.

As countries (China and India in particular) continue their economic expansion, the demand for zinc will only grow. Zinc is also critically important for growth and brain development. Zinc strengthens the immune system and helps fight dangerous infection and is a life-saving treatment for diarrhea. Zinc deficiency affects 1.2 billion people worldwide and contributes to the death of nearly 200,000 children under the age of five each year.



Glencore is the world's top zinc miner with companies like Xstrata, Nyrstar, Boliden and Teck being major players.

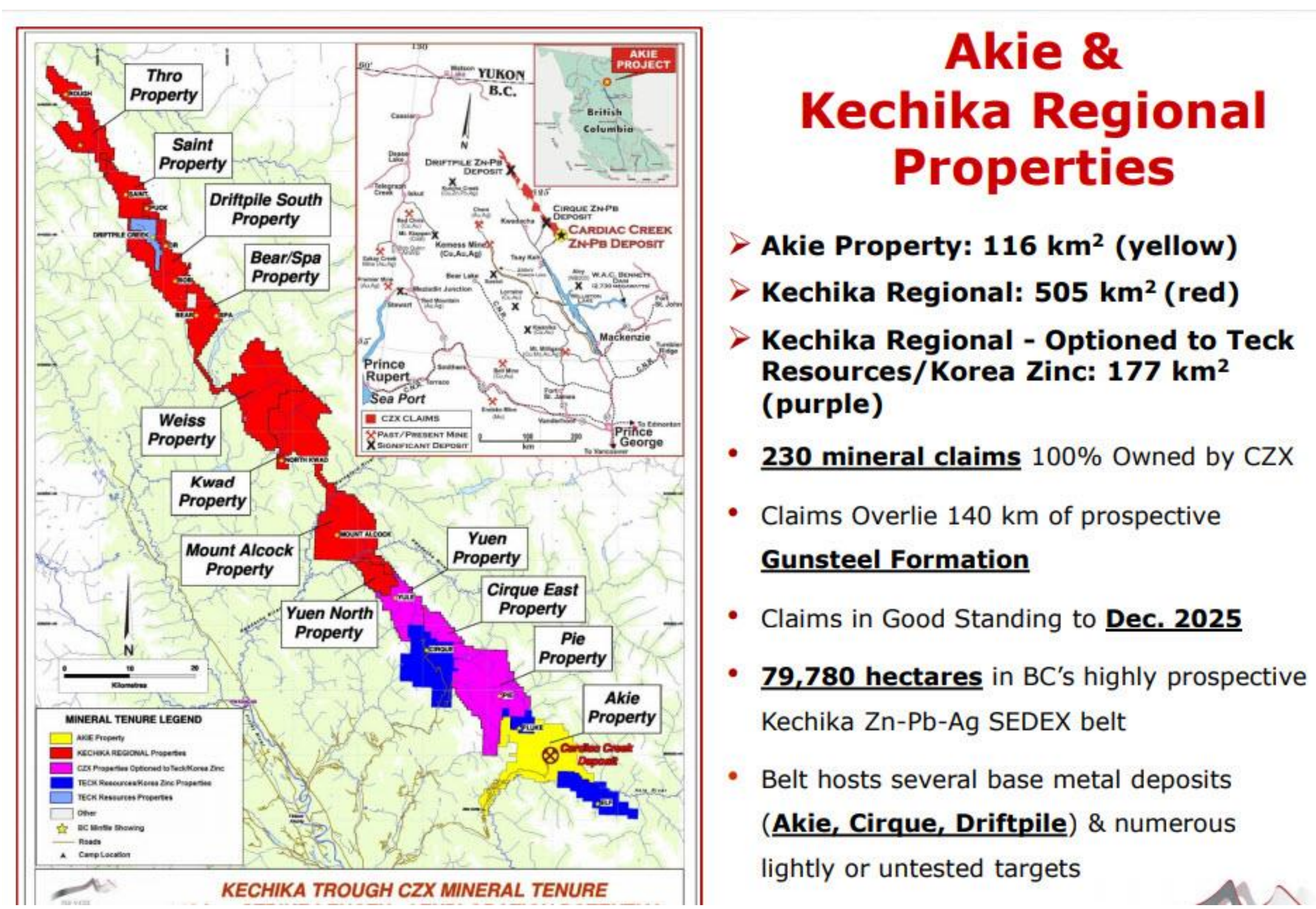
This graphic shows the average mined zinc grade. This is important to our speculation on CZX (as they own a very large, economic grade zinc project in British Columbia). **Note how grade has been declining over the years as large mines / deposits have been "high-graded".** This involves mining the best ore first to generate cash-flow for investors, equipment replacement, and mine expansion.

Canada Zinc Metals (CZX: TSXV 28 cents) - www.canadazincmetals.com

Shares Outstanding: 167 Million
Net Cash: approx. $6 Million

CZX has investors and partners that include Teck, Korea Zinc and Tongling Nonferrous Metals Group (ranked No.2 in China & No.6 in the world for copper cathode production. In 2010 they paid $678M for Corriente Resources' undeveloped copper projects in Ecuador).

As shown by the following graphic, CZX owns a “District Scale” Zinc project in British Columbia. Between 2005 and 2017, 65,000 metres were completed in 143 drill holes.



The following CZX insight was put together by a geologist friend of mine.

I think Canada Zinc Metals' Akie deposit sits in a sweet spot; large enough to attract large operators and with sufficient grade to have very robust economics. Location, grade and tonnage make the difference.

The first Engineering Manager I worked for always told me: "if you start with a high grade deposit, you'll always have better odds of developing it into a mine, and when hunting for deposits, look for elephants, not antelope." A fairly philosophical way of saying look a big deposit, and don't waste your time on marginal grades.

It makes perfect sense now; we've all seen low grade high tonnage operations that end up so sensitive to recovery that the margins can become very thin, or the small ultra-high grade deposits, where capital efficiency becomes a challenge because the deposit will last only a fraction of the time the equipment needed would actually last, accelerating capital depreciation.

Here is a quick summary of their Akie resource:

Indicated plus Inferred Resources:

Tonnage:	**27,700,000 Tonnes**
Zn:	**7.79%**
Pb:	**1.45%**
Ag:	**12.9g/Tonne**

Although not the largest deposit in the world, both the size and the grade are significant, with a total metal value at 80% recovery of $8.3B CAD. Not a bad deposit for a junior with a market cap of only $43M!

1. **<u>How does it measure up against its peers?</u>**
   Firstly, by comparing peers with deposits larger than 10,000,000 Tonnes, when we look at ore value @ 80% recovery, the numbers are impressive.

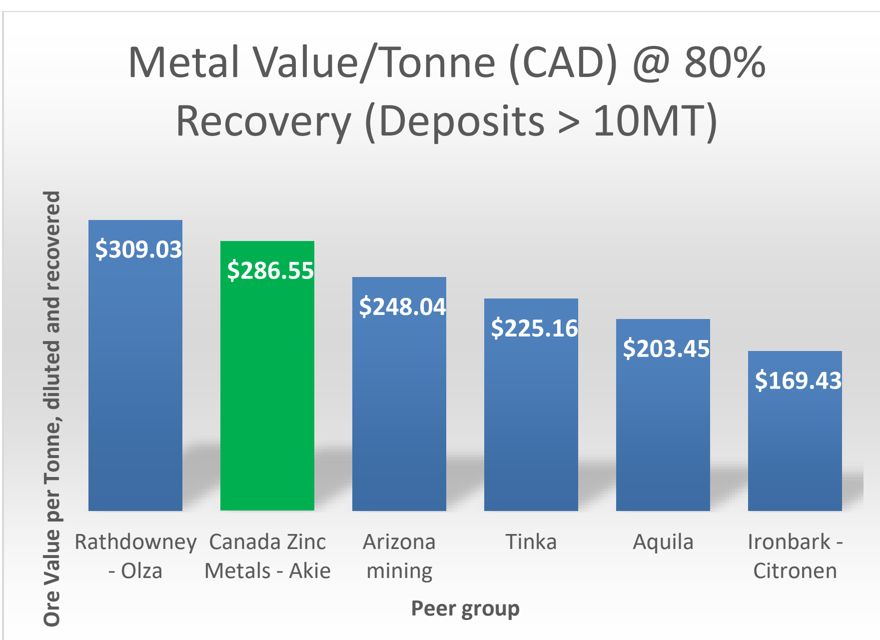


Figure 1. To put that into perspective, if we were to compare ~$285 CAD/Tonne ore to a gold deposit, that would equate to a 5.5 g/Tonne in-situ. 27.7Mt at 5.5g/Tonne is a big deal, and therefore so is Canada Zinc Metals Akie deposit.

The deposit appears to hit the mark on both size and grade, but I think it's worth comparing it to the peers in this group to see how others are currently valued.

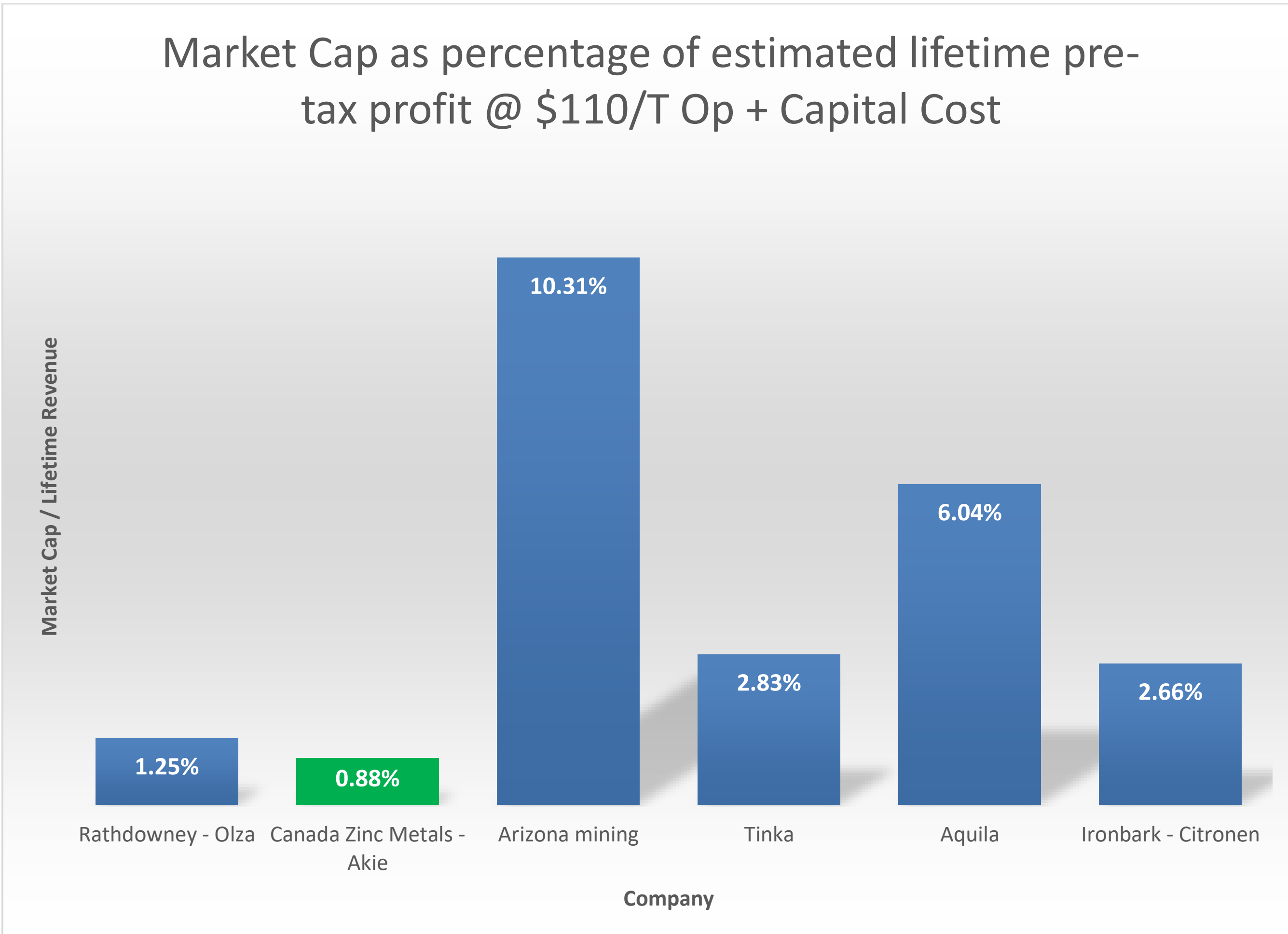


Figure 2. Market cap. as a percentage of projected lifetime pre-tax profit, using $110/T operating and capital cost.

Above is one of several ways we can dig deeper to estimate a comparable value for Canada Zinc Metals. If we look at the above peer group, the average ratio of Market Cap to estimated lifetime pre-tax profit using $110/T operating and capital cost is 3.99% versus only 0.88% for CNX.V. **Using this method, I believe a realistic price, when compared to the peer average, for CZX.V is ~$1.18/share.** That's using the average, if we are to compare to Arizona Mining, the share price would be **~$3.05/share.**

2. <u>Comparing to Osisko's recent Pine Point Mining Acquisition:</u>

Yet another way to compare the value of CZX.V is by way of the recent (December, 2017) acquisition of Pine Point Mining by Osisko for $37M. Pine Point Mining (formerly Darnley Bay Resources) was just recently purchased in a friendly takeover by Osisko and although Pine Point has the tonnage and history to garner a great deal of attention, what's more interesting is that it has less than half of the grade that CZX.V has at Akie and from a total metal value perspective, based on 80% recovery, CZX.V has more than twice the dollar amount sitting in the ground ($3.2B vs. $8.3B).

Ultimately though, it's the grade and resultant mining costs that determine the true value of a property. So to further understand the value of CZX.V versus Pine Point Mining, I looked at the same charts as the previous two that compared to the peer group.

First off, from a grade perspective, Pine Point is low, in fact there's a clear reason why Cominco (now Teck) shut down the operation in 1988. I understand prices have improved and it is an open pit operation but personally I don't understand the logic that Osisko used as the grade is simply too low in my opinion, but obviously they are intelligent miners, and therefore see value for the money invested.

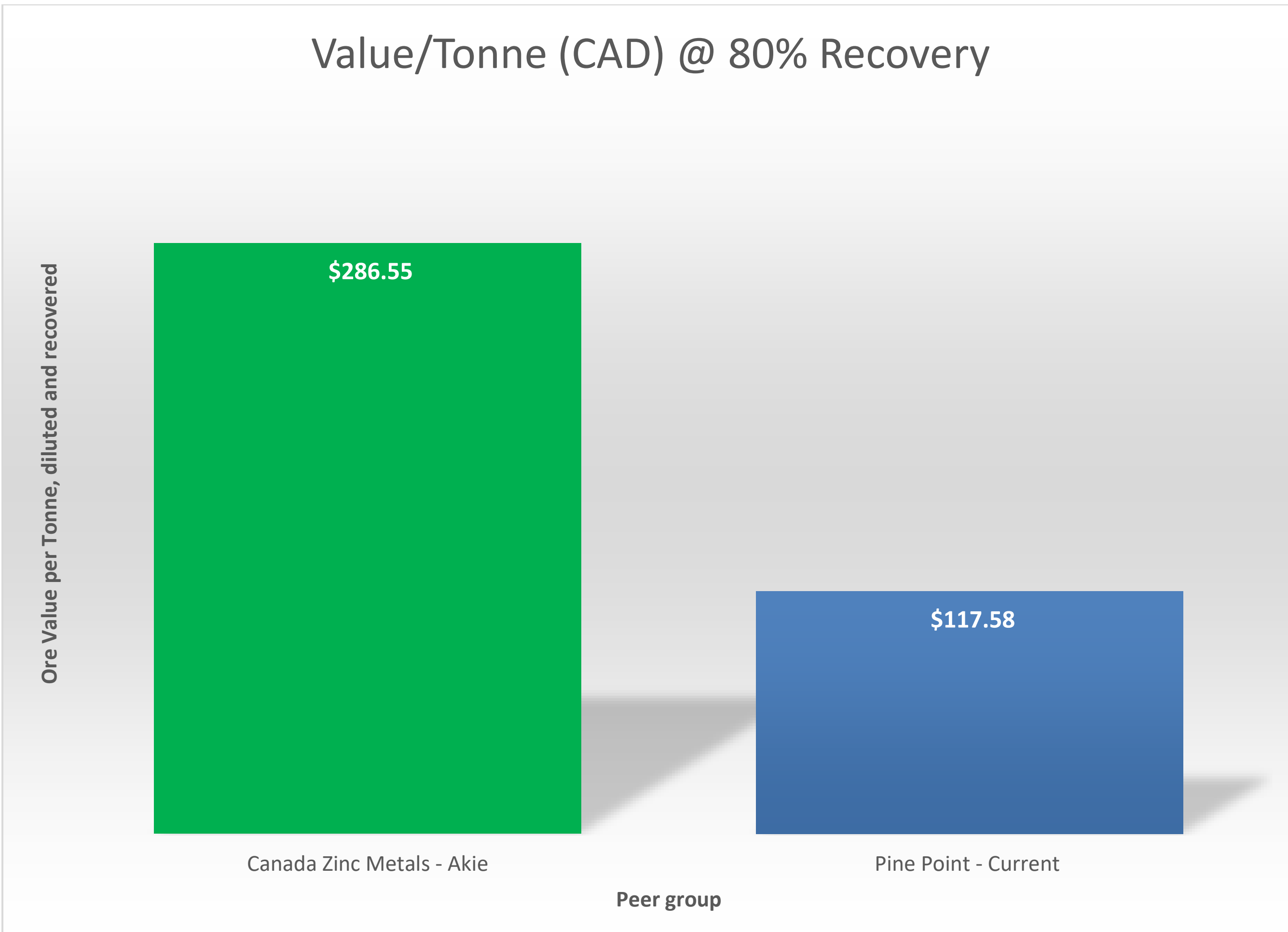


Figure 3. This graph really shows how the increase in Zinc prices as of late has translated into previously uneconomic deposits becoming economic. The Akie property, 2.4X as valuable as the Pine Point property on a per tonne basis highlights this. If we take into account the per tonne cost to operate, and conservatively use Pine Point as a break even cost, The Akie property would generate a lifetime **pre-tax profit of $4.68B.** Now one thing to note is that Pine Point is planned as an open pit mine and Akie would be underground, but at the end of the day, a more concentrated underground deposit, gets me much more excited than a lower grade open pit deposit.

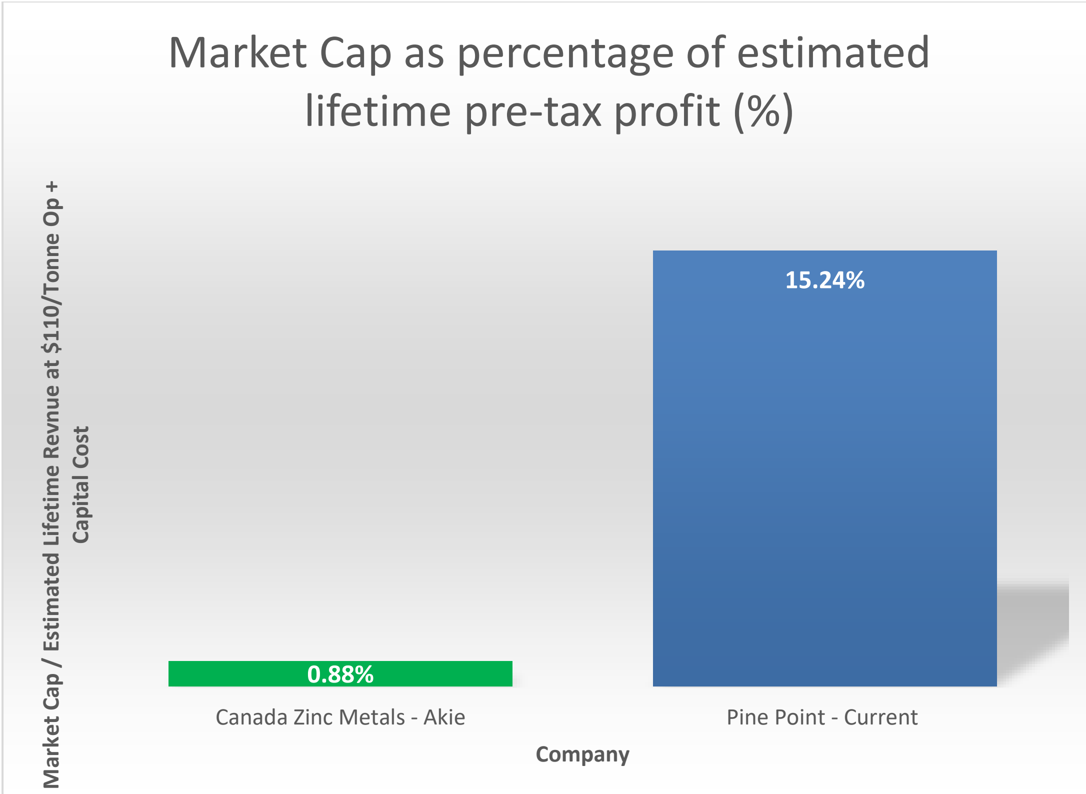


Figure 4. Market Cap as a percentage of potential lifetime profit versus Pine Point Mining, using $110/Tonne for Operating Costs.

Using the above metric to pin a valuation on CZX.V would yield a share price of $4.51/share.

3. Summary

Based on the above metrics, there is little doubt that the current share price of CZX.V presents a significant opportunity. Based on the methods used above, the realistic valuation for CZX.V in my opinion is $1.18-$4.51/share, here is my methodology:

a. **Market Cap as a percentage of potential profit vs. peers greater than 10MT: $1.18/share**
b. **Market Cap as a percentage of potential profit vs. Arizona Mining: $3.05/share**
c. **Market Cap as a percentage of potential profit vs. Pine Point: $4.51/share**
d. **Simple average of the above 3 metrics: $2.91/share**

Although at an early stage, and only reporting Indicated and Inferred resources at this time, CZX.V definitely shows a lot of potential and in my opinion is undervalued compared to its' peers. **Based on the above analysis, a more realistic valuation is ~$2.91/share.**

The steps required to move this resource forward seem to be in place, They have data on more than 65 Km of drilling, have environmental baseline data starting in 2007, engineering baseline studies started in 2010 and they've secured permission to conduct underground drilling, so really at this stage, it's simply a matter of drilling to increase density, to eventually use this for a PEA which will result in resources moving to the proven and probable reserve category. The company has secured permission from the British Columbia government to conduct underground drilling and when we couple that step with the fact that Teck, Korea Zinc and Tongling Nonferrous Metals have already purchased shares, the future is definitely bright for this company.

Looking at the current corporate presentation, an updated resource calculation and PEA is expected in Q2-2018, this should be a very obvious deadline to get invested in CZX.V because in my opinion, from the grade, tonnage, plan for 2018 and existing investors such as Teck, the writing is on the wall.

CZX Corporate Presentation:
http://www.canadazincmetals.com/_resources/presentations/CZX-Corp-Pres-Nov-2017.pdf

- Cardiac Creek (Akie Property) is one of the largest undeveloped zinc-lead-silver deposits in the world & has attracted investment from large base metal mining companies including Tongling Nonferrous Metals, Teck Resources and Korea Zinc – attracted by project's scale, grade, district exploration potential and jurisdiction
- Company has dominating & highly prospective land position in the district with a strong likelihood of discovery of additional deposits: Mt. Alcock, Bear/Spa, Pie
- All mineral claims in good standing until 2025
- Permits for further surface and underground exploration are secured
- Infrastructure in the area is well established with road access to Akie
- Kechika Regional claims – 140 km bluesky district-scale discovery potential – 35 years of historical exploration data – limited drill testing of select targets – follow-up warranted
- Considering "spinout" of regional properties into another publicly traded vehicle for the benefit of existing CZX shareholders
- Significantly undervalued vs. peer group
- Chronic shortage of zinc is occurring; coincidental with depletion of major zinc mines coupled with very limited new mine developments leading to very bullish views on zinc

TSX-V:CZX

CEO of CZX: Video Presentation
https://m.youtube.com/watch?feature=share&v=Oixbj5gUa98

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