

**CANADA ZINC METALS CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**THREE MONTHS ENDED SEPTEMBER 30, 2009 and 2008**

**(UNAUDITED – PREPARED BY MANAGEMENT)**

# CANADA ZINC METALS CORP.

## NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditors.

November 27, 2009

# CANADA ZINC METALS CORP.

CONSOLIDATED BALANCE SHEETS  
AS AT SEPTEMBER 30, 2009 AND JUNE 30, 2009

|   | September 30, 2009   |    | June 30, 2009     |
|---|----------------------|----|-------------------|
|   | (unaudited)          |    | (audited)         |
| <b>ASSETS</b>                               |                      |    |                   |
| <b>Current</b>                              |                      |    |                   |
| Cash and cash equivalents                   | \$ 4,585,521         | \$ | 6,389,394         |
| Receivables                                 | 108,291              |    | 83,730            |
| Prepaid expenses                            | 20,000               |    | 693               |
| Marketable securities (Note 2)              | 375,000              |    | –                 |
| Due from related parties (Note 6)           | 50,000               |    | 50,000            |
|   | <b>5,138,812</b>     |    | <b>6,523,817</b>  |
| <b>Other Assets</b>                         | <b>89,000</b>        |    | <b>89,000</b>     |
| <b>Equipment and leasehold improvements</b> | <b>6,550</b>         |    | <b>7,200</b>      |
| <b>Long-term prepaid expenses</b>           | <b>75,000</b>        |    | <b>75,000</b>     |
| <b>Resource properties (Note 3)</b>         | <b>52,081,370</b>    |    | <b>51,120,891</b> |
|   | <b>\$ 57,390,732</b> | \$ | <b>57,815,908</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                      |    |                   |
| <b>Current</b>                              |                      |    |                   |
| Accounts payable and accrued liabilities    | \$ 308,307           | \$ | 241,980           |
| Due to related parties (Note 6)             | –                    |    | 2,470             |
|   | <b>308,307</b>       |    | <b>244,450</b>    |
| <b>Future income taxes</b>                  | <b>1,514,583</b>     |    | <b>1,514,583</b>  |
| <b>Shareholders' equity</b>                 |                      |    |                   |
| Capital stock (Note 4)                      | 64,084,820           |    | 64,084,820        |
| Contributed Surplus (Note 4)                | 8,368,671            |    | 8,406,348         |
| Deficit                                     | (16,885,649)         |    | (16,434,293)      |
|   | <b>55,567,842</b>    |    | <b>56,056,875</b> |
|   | <b>\$ 57,390,732</b> | \$ | <b>57,815,908</b> |

Nature and continuation of operations (Note 1)  
Subsequent events (Note 9)

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

# CANADA ZINC METALS CORP.

CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND DEFICIT  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008  
(UNAUDITED – PREPARED BY MANAGEMENT)

|   | 2009                   | 2008                   |
|---|------------------------|------------------------|
| <b>ADMINISTRATION EXPENSES</b>                              |                        |                        |
| Administration  | \$ 15,000              | \$ 15,000              |
| Amortization  | 650                    | 978                    |
| Consulting  | 174,813                | –                      |
| Flow through taxes  | 7,821                  | –                      |
| Interest and bank charges                                   | 885                    | 593                    |
| Investor relations  | –                      | 14,000                 |
| Management fees   | 37,500                 | 37,500                 |
| Office and miscellaneous                                    | 9,458                  | 13,764                 |
| Professional fees   | 6,511                  | 20,048                 |
| Regulatory fees   | 2,500                  | 765                    |
| Rent  | 13,863                 | 14,200                 |
| Stock-based compensation                                    | 39,436                 | 183,317                |
| Transfer agent fees   | 1,359                  | 3,192                  |
| Travel and promotion  | 29,258                 | 27,807                 |
| Wages and benefits  | 123,164                | 147,072                |
| <b>Loss before other items</b>                              | <b>(462,218)</b>       | <b>(478,236)</b>       |
| <b>OTHER ITEMS</b>  |                        |                        |
| Interest and other income                                   | 10,862                 | 27,977                 |
| <b>Loss for the period</b>                                  | <b>(451,356)</b>       | <b>(450,259)</b>       |
| <b>Deficit, beginning of period</b>                         | <b>(16,434,293)</b>    | <b>(14,701,242)</b>    |
| <b>Deficit, end of period</b>                               | <b>\$ (16,885,649)</b> | <b>\$ (15,151,501)</b> |
| <b>Basic and diluted loss per common share</b>              | <b>\$ (0.01)</b>       | <b>\$ (0.01)</b>       |
| <b>Weighted average number of common shares outstanding</b> | <b>88,468,914</b>      | <b>69,105,118</b>      |

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

# CANADA ZINC METALS CORP.

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008  
(UNAUDITED – PREPARED BY MANAGEMENT)

|  | 2009                | 2008                |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                        |                     |                     |
| Loss for the period  | \$ (451,356)        | \$ (450,259)        |
| Items not affecting cash:  |                     |                     |
| Amortization   | 650                 | 978                 |
| Stock-based compensation   | 39,436              | 183,317             |
| Changes in non-cash working capital items:                         |                     |                     |
| Increase in receivables  | (24,561)            | (131,688)           |
| (Increase) decrease in prepaid expenses                            | (19,307)            | 118,301             |
| Increase (decrease) in due from related parties                    | (2,470)             | 9,544               |
| Increase (decrease) in accounts payable and accrued liabilities    | 918                 | (12,812)            |
| Cash used in operating activities                                  | (456,690)           | (282,619)           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                        |                     |                     |
| Marketable securities costs  | (375,000)           | –                   |
| Resource property costs  | (895,070)           | (3,444,400)         |
| Cash used in investing activities                                  | (1,270,070)         | (3,444,400)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                        |                     |                     |
| Issuance of capital stock, net of issuance costs                   | –                   | 617,400             |
| Common shares repurchased (Note 4)                                 | (77,113)            | –                   |
| Cash provided by (used in) financing activities                    | (77,113)            | 617,400             |
| <b>Decrease in cash and cash equivalents during the period</b>     | <b>(1,803,873)</b>  | <b>(3,109,619)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>              | <b>6,389,394</b>    | <b>4,313,889</b>    |
| <b>Cash and cash equivalents, end of period</b>                    | <b>\$ 4,585,521</b> | <b>\$ 1,204,270</b> |
| <b>Cash and cash equivalents</b>                                   |                     |                     |
| Cash   | \$ 6,903            | \$ 204,270          |
| Guaranteed Investment Certificates                                 | \$ 4,578,618        | \$ 1,000,000        |
| <b>Supplemental disclosure with respect to cash flows (Note 5)</b> |                     |                     |

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

CANADA ZINC METALS CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008  
 (Unaudited – Prepared by Management)

**1. BASIS OF PRESENTATION**

These consolidated interim financial statements have been prepared using Canadian generally accepted accounting principles (Canadian GAAP). The consolidated interim financial statements include normal recurring adjustments, which in management’s opinion, are necessary for a fair presentation of the financial results of the interim period presented.

The disclosures in these statements do not conform in all aspects to the requirements of Canadian GAAP for annual financial statements. These statements follow the same accounting policies and methods of their application as the most recent annual financial statements. These statements should be read in conjunction with the Company’s June 30, 2009 consolidated financial statements and notes thereto.

**2. MARKETABLE SECURITIES**

During the three months ended September 30, 2009, the Company invested \$375,000 by subscribing for 1,875,000 units of TNR Gold Corp. (“TNR”) at a price of \$0.20 per unit. Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the Company to purchase one common share of TNR at a price of \$0.30 per share until July 28, 2010. The purchased shares are subject to a hold period expiring November 29, 2009. The quoted market value of the marketable securities as of September 30, 2009 was \$581,250 (2008 – \$Nil).

**3. RESOURCE PROPERTIES**

The following table summarizes resource property expenses by property.

|  | Akie Property        | Kechika<br>Regional | DA                | Total                |
|--|----------------------|---------------------|-------------------|----------------------|
| <b>Acquisition Costs:</b>                        |                      |                     |                   |                      |
| Balance, June 30, 2009 and<br>September 30, 2009 | \$ 24,173,329        | \$ 328,432          | \$ 71,535         | \$ 24,573,296        |
| <b>Deferred Exploration Costs:</b>               |                      |                     |                   |                      |
| Balance, June 30, 2009                           | 25,695,058           | 702,512             | 150,025           | 26,547,595           |
| Additions:                                       |                      |                     |                   |                      |
| Geological consulting                            | 275,792              | 216,256             | –                 | 492,048              |
| Camp operating                                   | 65,201               | 249,974             | –                 | 315,175              |
| Environmental studies                            | 131,298              | –                   | –                 | 131,298              |
| Road and transportation                          | 21,958               | –                   | –                 | 21,958               |
| Balance, September 30, 2009                      | 26,189,307           | 1,168,742           | 150,025           | 27,508,074           |
| <b>September 30, 2009</b>                        | <b>\$ 50,362,636</b> | <b>\$ 1,497,174</b> | <b>\$ 221,560</b> | <b>\$ 52,081,370</b> |

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing.

**Akie Property, British Columbia**

The Company owns a 100% interest in the Akie property, which resulted from Company expenditures and the acquisition of Ecstall Mining Corporation.

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**3. RESOURCE PROPERTIES (cont'd...)**

**Kechika Regional, British Columbia**

During fiscal 2007, the Company acquired the following properties pursuant to the acquisition of Ecstall Mining Corporation:

- Kechika South Properties, Omineca Mining Division. The Company owns a 100% interest in two properties,
- Kechika North Properties, Liard Mining Division. The Company owns 100% interest in three properties of which, certain claims are subject to a 0.5% net smelter royalty.

**DA Property, Northwest Territories**

The Company holds an 8.2% interest, subject to a 5% gross overriding royalty (“GOR”) on diamonds, a 5% net smelter returns (“NSR”) royalty on other minerals, and a 10% net profits interest (“NPI”), in certain mineral claims located in the Northwest Territories. Pursuant to an amended and restated Mineral Property Option Agreement, dated August 30, 1998, the Company has the option to reduce the GOR and NSR interests to 2.25% and 2%, respectively, and eliminate entirely the NPI by completing certain share issuances and cash payments to the original property owner within 90 days of a production decision.

**4. CAPITAL STOCK**

**(a) Authorized and issued**

|   | Number of<br>Shares | Amount        | Contributed<br>Surplus |
|---|---------------------|---------------|------------------------|
| Authorized<br>Unlimited common shares without par value |                     |               |                        |
| Balance, June 30, 2009                                  | 88,468,914          | \$ 64,084,820 | \$ 8,406,348           |
| Stock- based compensation                               | –                   | –             | 39,436                 |
| Normal course issuer bid                                | –                   | –             | (77,113)               |
| Balance, September 30, 2009                             | 88,468,914          | \$ 64,084,820 | \$ 8,368,671           |

During the three months ended September 30, 2009, the Company received TSX Venture Exchange (“TSXV”) approval to commence a normal course issuer bid (“NCIB”) to purchase at market price up to 4,423,445 of its common shares, representing approximately 5% of the Company’s issued and outstanding common shares as at June 30, 2009. The NCIB commenced on July 31, 2009 and will stay open for 12 months.

As at September 30, 2009, the Company repurchased 225,500 of its common shares for a total consideration of \$77,113 at a weighted average price of \$0.35 per share under the NCIB.

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4. CAPITAL STOCK (cont'd...)

(b) Stock options

The Company has adopted a 20% fixed stock option plan whereby the Company has reserved 13,522,821 common shares under the plan. The term of any options granted under the plan is fixed by the Board of Directors and may not exceed ten years from date of grant.

The number of options granted to a consultant in a 12 month period must not exceed 2% of the issued shares of the Issuer from the date of grant. Options issued to consultants performing investor relations activities must vest in stages over 12 months with no more than 1/4 of the options vesting in any three month period. Stock options granted to directors, officers and employees of the Company vest immediately.

Stock option transactions and the number of stock options outstanding are summarized as follows:

|                             | Number of Options | Weighted Average Exercise Price |
|-----------------------------|-------------------|---------------------------------|
| Balance, June 30, 2009      | 8,198,000         | \$ 0.46                         |
| Granted                     | 800,000           | 0.39                            |
| Balance, September 30, 2009 | 8,998,000         | \$ 0.46                         |

Stock options outstanding and exercisable at September 30, 2009 are summarized as follows:

| Number of Shares | Exercise Price | Expiry Date        | Exercisable |
|------------------|----------------|--------------------|-------------|
| 572,500          | \$0.20         | July 4, 2010       | 572,500     |
| 100,000          | \$0.30         | August 25, 2010    | 100,000     |
| 100,000          | \$0.64         | October 13, 2010   | 100,000     |
| 152,500          | \$0.25         | January 9, 2011    | 152,500     |
| 10,000           | \$0.81         | January 9, 2011    | 10,000      |
| 100,000          | \$0.25         | February 24, 2011  | 100,000     |
| 155,000          | \$0.70         | November 14, 2016  | 155,000     |
| 242,500          | \$0.25         | November 14, 2011  | 242,500     |
| 325,000          | \$0.25         | April 10, 2012     | 325,000     |
| 50,000           | \$0.25         | May 18, 2012       | 50,000      |
| 200,000          | \$0.25         | July 3, 2012       | 200,000     |
| 50,000           | \$1.15         | July 3, 2012       | 50,000      |
| 400,000          | \$1.00         | September 17, 2012 | 400,000     |
| 350,000          | \$1.05         | September 17, 2012 | 350,000     |
| 100,000          | \$1.15         | September 17, 2012 | 100,000     |
| 100,000          | \$1.15         | September 17, 2012 | 63,233      |
| 400,000          | \$1.20         | September 17, 2012 | 163,068     |
| 70,000           | \$1.30         | November 28, 2012  | 70,000      |
| 420,000          | \$1.05         | February 11, 2018  | 420,000     |
| 323,000          | \$0.25         | February 11, 2018  | 323,000     |
| 150,000          | \$0.25         | April 1, 2013      | 150,000     |
| 225,000          | \$0.25         | April 29, 2013     | 225,000     |



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**4. CAPITAL STOCK (cont'd...)**

**(b) Stock options (cont'd...)**

| Number of Shares | Exercise Price | Expiry Date        | Exercisable |
|------------------|----------------|--------------------|-------------|
| 75,000           | \$1.05         | April 29, 2013     | 75,000      |
| 125,000          | \$0.25         | October 21, 2013   | 93,750      |
| 212,500          | \$0.25         | October 21, 2013   | 212,500     |
| 3,190,000        | \$0.25         | October 31, 2018   | 3,190,000   |
| 100,000          | \$0.35         | August 19, 2012    | –           |
| 700,000          | \$0.40         | September 22, 2014 | –           |
| 8,998,000        |                |                    | 7,893,051   |

During the period ended September 30, 2009, under the fair value based method a total of \$39,436 (2008 – \$183,317) in stock-based compensation expense was recorded in the statements of loss and deficit for stock options granted to directors, officers and consultants of the Company.

The fair value of stock options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| September 30,            | 2009       | 2008       |
|--------------------------|------------|------------|
| Risk free interest rate  | 2.76 %     | 3.75%      |
| Expected dividend yield  | 0%         | 0%         |
| Stock price volatility   | 111%       | 123%       |
| Expected life of options | 4.44 years | 4.46 years |

The weighted average fair value of options granted during the period ended September 30, 2009 was \$0.46 (2008 – \$0.78) per share.

**(c) Warrants**

As at September 30, 2009, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

| Number of Shares | Exercise Price | Expiry Date  |
|------------------|----------------|--------------|
| 5,750,000        | \$0.60         | May 27, 2010 |
|                  | \$0.80         | May 27, 2011 |

Warrant transactions and the number of warrants outstanding and exercisable are as follows:

|   | Number of Shares | Weighted Average Exercise Price |
|---|------------------|---------------------------------|
| Balance, June 30, 2009 and September 30, 2009 | 5,750,000        | \$ 0.60                         |

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**5. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

| September 30                               | 2009 |   | 2008 |   |
|--|------|---|------|---|
| Cash paid during the period for interest   | \$   | – | \$   | – |
| Cash paid during the period for income tax | \$   | – | \$   | – |

Significant non-cash transactions for the period ended September 30, 2009 included:

(a) Included in accounts payable is \$141,657 (June 30, 2009 - \$76,249) in resource property expenditures.

Significant non-cash transactions for the period ended September 30, 2008 included:

(b) Included in accounts payable is \$4,400,402 (June 30, 2008 - \$1,828,136) in resource property expenditures.

**6. TRANSACTIONS WITH RELATED PARTIES**

During the period ended September 30, 2009:

(a) the Company paid or accrued \$37,500 (2009 – \$37,500) for management fees and \$15,000 (2009 – \$15,000) for administrative fees to a company partially controlled by a director and an officer of the Company.

(b) the Company paid or accrued \$24,000 (2009 - \$30,000) for consulting and geological services fees, included in resource properties, to a company controlled by a director of the Company.

(c) As at September 30, 2009, there were no amounts due to directors and officers of the Company (June 30, 2009- \$2,470).

(d) As at September 30, 2009, \$50,000 (June 30, 2009 - \$50,000) was due from a director of the Company. This amount was fully repaid subsequent to September 30, 2009.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**7. CAPITAL DISCLOSURE**

The Company's objective is to manage its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of shareholders' equity and working capital.

In order to achieve this objective, the Company makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may invest its excess cash in interest bearing accounts of Canadian chartered banks and/or raise additional funds externally as needed. The Company has no significant debt and is not subject to externally imposed capital requirements. There were no changes to the Company's capital management structure during the period ended September 30, 2009.

## 8. FINANCIAL INSTRUMENTS

### Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

#### *Credit Risk*

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's primary exposure to credit risk is on its bank accounts and short-term investments, whose balances at September 30, 2009 were \$6,903 and \$4,578,618 respectively. Bank accounts are held with a major bank in Canada. As all of the Company's cash is held by a Canadian bank and all the cash equivalents are also held by the same Canadian bank, there is a concentration of credit risk with one bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consist primarily of refundable government sales taxes.

#### *Currency Risk*

The Company operates in Canada and is therefore not exposed to significant foreign exchange risk arising from transactions denominated in a foreign currency.

#### *Interest Rate Risk*

The Company is exposed to interest rate risk as bank accounts earn interest income at variable rates. The income earned on these bank accounts is subject to the movements in interest rates. The cash proceeds from the Company's flow-through private placement completed in fiscal 2009 were invested in a guaranteed investment certificate at a fixed rate of 2.25%, which is readily convertible to known amount of cash and not exposed to a risk of loss in value. Other cash equivalents presently earn a variable rate of approximately 0.49%.

#### *Liquidity Risk*

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents. As at September 30, 2009, the Company was holding cash of \$6,903 and guaranteed investment certificates of \$4,578,618 to settle current liabilities of \$308,307. Management believes it has sufficient funds to meet its current obligations as they become due.

#### *Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors certain commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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**9. SUBSEQUENT EVENTS**

Subsequent to the period ended September 30, 2009, the Company:

- (a) purchased additional 57,500 common shares at a weighted average price of \$0.36 per share under the NCIB in effect since July 31, 2009.
- (b) granted to directors, officers, employees and consultants an aggregate of 1,360,000 stock options, exercisable for a period from five to ten years, at an average price of \$0.41 per share.
- (c) 417,500 stock options were exercised at a weighted average price of \$0.25 per share and 417,500 common shares were issued for total proceeds of \$103,250.