

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 and 2007

AUDITORS' REPORT

To the Shareholders of
Canada Zinc Metals Corp.
(formerly "Mantle Resources Inc.")

We have audited the consolidated balance sheet of Canada Zinc Metals Corp. (formerly "Mantle Resources Inc.") as at June 30, 2008 and 2007, and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and 2007, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

October 9, 2008



CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)

CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30

	2008	2007
ASSETS		
Current		
Cash	\$ 4,313,889	\$ 9,148,681
Deposits held in trust	–	13,000
Receivables	281,628	340,794
Prepaid expenses	354,629	711,362
	4,950,146	10,213,837
Due from related parties (Note 10(d))	50,000	–
Other Assets (Note 4)	85,000	25,000
Equipment and leasehold improvements (Note 5)	11,085	8,958
Resource properties (Note 6)	43,958,327	30,316,332
	\$ 49,054,558	\$ 40,564,127
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 2,043,763	\$ 1,439,367
Due to related parties (Note 10)	956	–
	2,044,719	1,439,367
Future income taxes (Note 8)	102,589	–
Shareholders' equity		
Capital stock (Note 7)	54,356,255	47,072,442
Contributed Surplus (Note 7)	7,252,237	3,601,781
Deficit	(14,701,242)	(11,549,463)
	46,907,250	39,124,760
	\$ 49,054,558	\$ 40,564,127

Nature and continuation of operations (Note 1)
Subsequent events (Note 13)

On behalf of the Board:

"James Mustard" Director

"Peeyush Varshney" Director

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

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED JUNE 30

	2008	2007
ADMINISTRATION EXPENSES		
Administration	\$ 60,000	\$ 35,000
Amortization	3,698	2,865
Consulting	206,875	138,476
Flow through taxes	30,368	31,957
Interest and bank charges	3,344	3,311
Investor relations	122,292	226,780
Management fees	150,000	105,400
Office and miscellaneous	94,171	69,360
Professional fees	109,812	114,074
Regulatory fees	28,312	18,561
Rent	59,962	28,320
Stock-based compensation	3,752,383	2,028,894
Termination fees	-	300,000
Transfer agent fees	16,821	19,417
Travel and promotion	219,197	118,660
Wages and benefits	389,651	53,903
Loss before other items	(5,246,886)	(3,294,978)
OTHER ITEMS		
Interest income and other income	309,987	231,342
Gain on sale of marketable securities	-	12,168
Loss on sale of capital asset	-	(12,873)
Write-off of capital assets	-	(1,485)
Write-off of mineral properties (Note 6)	(256,221)	-
Write-off of accounts payable	268	-
Write-off of accounts receivable	(1,338)	-
	52,696	229,152
Loss before income tax	(5,194,190)	(3,065,826)
Future income tax recovery (Note 8)	2,042,411	1,646,250
Loss for the year	(3,151,779)	(1,419,576)
Deficit, beginning of year	(11,549,463)	(10,129,887)
Deficit, end of year	\$ (14,701,242)	\$ (11,549,463)
Basic and diluted loss per share	\$ (0.05)	\$ (0.03)
Weighted average number of shares outstanding	67,936,117	40,896,007

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

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (3,151,779)	\$ (1,419,576)
Items not affecting cash:		
Amortization	3,698	2,865
Gain on sale of marketable securities	–	(12,168)
Loss on sale of capital asset	–	12,873
Stock-based compensation	3,752,383	2,028,894
Write-off of accounts receivable	1,338	–
Gain on forgiveness of debt	(268)	–
Write-off of capital assets	–	1,485
Write-off of resource properties	256,221	3,000
Recovery of marketable securities	–	(1,146)
Future income tax recovery	(2,042,411)	(1,646,250)
Changes in non-cash working capital items:		
Decrease in receivables	57,828	52,567
(Increase) decrease in prepaid expenses	356,733	(258,526)
(Increase) decrease in deposits held in trust	13,000	(13,000)
Increase in due from related parties	(49,044)	–
Increase (decrease) in accounts payable and accrued liabilities	(32,766)	80,220
Cash used in operating activities	(835,067)	(1,168,762)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of marketable securities	–	79,280
Proceeds on sale of capital assets	–	17,100
Purchase of equipment	(5,825)	(1,578)
Cash acquired upon take-over of Ecstall	–	491,916
Other assets	(60,000)	–
Resource property costs	(13,055,068)	(3,762,158)
Cash used in investing activities	(13,120,893)	(3,175,440)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock, net of issuance costs	9,121,168	8,572,346
Cash provided by financing activities	9,121,168	8,572,346
Increase (decrease) in cash during the year	(4,834,792)	4,228,144
Cash, beginning of year	9,148,681	4,920,537
Cash, end of year	\$ 4,313,889	\$ 9,148,681

Supplemental disclosure with respect to cash flows (Note 9)

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

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Zinc Metals Corp. (the "Company") is incorporated under the laws of the Province of British Columbia. The Company operates in one business segment, that being the exploration and development of mineral properties in Canada, and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development and upon future profitable production.

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

June 30,	2008	2007
Working capital	\$ 2,905,427	\$ 8,774,470
Deficit	(14,701,242)	(11,549,463)

On February 23, 2007, the Company acquired 96% of the issued and outstanding capital stock of Ecstall Mining Corp ("Ecstall"), a company engaged in the exploration and development of mineral properties. During the year ended June 30, 2008, the Company acquired the remaining 4% of the issued and outstanding capital stock of Ecstall, increasing the Company's ownership interest to 100%.

Effective September 26, 2008, the Company changed its name from Mantle Resources Inc. to Canada Zinc Metals Corp. and commenced trading under its new name and symbol "CZX". There was no consolidation of share capital.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

(b) Equipment and leasehold improvements

Equipment is amortized over their estimated useful lives using the declining-balance method at the following annual rates:

Computer equipment	45%
Furniture, fixtures and office equipment	20%

Leasehold improvements are amortized over the term of the lease using the straight-line method.

In the year of acquisition, one-half of the annual amortization is recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(c) Cash

The Company considers cash to include cash on deposit and highly liquid short-term interest bearing variable rate Guaranteed Investment Certificates. Interest earned is recognized immediately in operations.

(d) Resource properties

Costs related to the acquisition, exploration and development of mineral properties are capitalized by property until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and development costs are not recoverable over the estimated economic life of the property, or the property is abandoned, the property is written down to its net realizable value.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependant upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

(e) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any significant asset retirement obligations for the years presented.

(f) Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

Effective March 19, 2004, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants requires that, when flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as recovery of income taxes in the statement of operations.

(g) Stock-based compensation

The Company uses the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock using the Black-Scholes option pricing model. Any consideration paid on the exercise of stock options is credited to capital stock.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(h) Change in accounting policy

Financial instruments

Effective July 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified its cash as held-for-trading. Receivables and due from related parties are classified as loans and receivables. Accounts payable and accrued liabilities as well as due to related parties are classified as other financial liabilities, all of which are measured at amortized cost. The Company has elected to measure all derivatives and embedded derivatives at fair value and the Company has maintained its policy not to use hedge accounting.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

The application of Section 3855 had no impact on the financial results of the Company. There was no adjustment to opening deficit at July 1, 2007.

(i) Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year and does not include outstanding options and warrants.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(j) Income taxes

Income taxes are accounted for using the asset and liability method. Under this method of tax allocation, future tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (“temporary differences”) and losses carried forward. Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(k) Comparative figures

Certain comparative figures have been reclassified to conform with the current year’s presentation.

(l) New accounting pronouncements

Going-concern

In June 2007, the CICA amended Handbook Section 1400, “General Standards of Financial Statement Presentation”, which requires management to make an assessment of a Company’s ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Company is not considered a going-concern. The new section is effective for years beginning on or after January 1, 2008. The Company is in the process of assessing the impact of this new section on its financial statements.

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will likely require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be determined at this time.

Capital Disclosures

CICA Section 1535, capital disclosures, is effective for annual and interim periods beginning on or after October 1, 2007 and requires disclosure of the Company’s objectives, policies, and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and, if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and will have no effect on the financial results of the Company.

Financial Instruments Disclosure and Presentation

CICA Section 3862, Financial Instruments Disclosures and CICA Section 3863, Financial Instruments Presentation will replace Section 3861, Financial Instruments Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new Sections will place increased emphasis on disclosure about the nature and extent of risk arising from financial

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(l) New accounting pronouncements (continued)

instruments and how the entity manages those risks. The mandatory effective date is for annual and interim financial statements for years beginning on or after October 1, 2007. The Company will begin application of these sections effective July 1, 2008. It is not anticipated that the adoption of these new accounting standards will materially impact the amounts reported in the Company's financial statements as they relate primarily to disclosure.

3. ACQUISITION OF ECSTALL MINING CORPORATION

Effective February 23, 2007, the Company acquired 96% of the issued and outstanding share capital of Ecstall, a junior exploration company, pursuant to its take-over bid made December 22, 2006. The Company acquired an aggregate of 53,533,615 common shares of Ecstall. Pursuant to the Offer, the Company issued to those shareholders who had tendered, 0.41 of one share of the Company for each Ecstall share tendered.

As consideration, the Company issued, 21,948,782 common shares valued at \$24,143,660. The acquisition of Ecstall has been accounted for using the purchase method and accordingly, these consolidated financial statements include the results of operations of Ecstall from the date of acquisition.

During the year ended June 30, 2008, the Company acquired the remaining 4% of the issued and outstanding capital stock of Ecstall, increasing the Company's ownership interest to 100%.

The total purchase price of \$24,143,660 was allocated as follows:

Cash	\$	491,916
Receivables		165,272
Prepaid expenses and deposits		452,836
Equipment		31,459
Resource properties		23,056,144
Accounts payable and accrued liabilities		(53,967)
	<u>\$</u>	<u>24,143,660</u>

4. OTHER ASSETS

Other assets comprise a reclamation bond of \$85,000 (2007 – \$25,000) posted with the Government of British Columbia.

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computers	\$ 14,909	\$ 7,107	\$ 7,802	\$ 9,083	\$ 4,387	\$ 4,696
Equipment and furniture	4,026	1,794	2,232	4,026	1,236	2,790
Leasehold improvements	2,522	1,471	1,051	2,522	1,050	1,472
	<u>\$ 21,457</u>	<u>\$ 10,372</u>	<u>\$ 11,085</u>	<u>\$ 15,631</u>	<u>\$ 6,673</u>	<u>\$ 8,958</u>

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

6. RESOURCE PROPERTIES

The following table summarizes resource property expenses by property.

	Akie Property		DA		Kechika Regional		Total
Acquisition Costs:							
Balance, June 30, 2006	\$ 160,688	\$	–	\$	10,000	\$	170,688
Additions	23,720,648		70,930		300,439		24,092,017
Balance, June 30, 2007	23,881,336	\$	70,930		310,439		24,262,705
Additions	292,783		605		206,701		500,089
Write-off	–		–		(170,400)		(170,400)
Balance, June 30, 2008	24,174,119		71,535		346,740		24,592,394
Deferred Exploration Costs:							
Balance, June 30, 2006	\$ 2,513,736	\$	–	\$	–	\$	2,513,736
Additions:							
Geological Consulting	57,324		–		2,024		59,348
Drilling	3,428,634		–		1,185		3,429,819
Environmental studies	50,724		–		–		50,724
Balance, June 30, 2007	6,050,418		–		3,209		6,053,627
Additions:							
Geological Consulting	463,953		150,025		171,999		785,977
Drilling	9,172,964		–		–		9,172,964
Environmental studies	930,122		–		–		930,122
Road construction	2,436,523		–		72,541		2,509,064
Write-off	–		–		(85,821)		(85,821)
Balance, June 30, 2008	19,053,980		150,025		161,928		19,365,933
June 30, 2008	\$ 43,228,099	\$	221,560	\$	508,668	\$	43,958,327

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.

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.

6. RESOURCE PROPERTIES (cont'd...)

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.

Kechika Regional, British Columbia

On March 28, 2007, the Company entered into an agreement pursuant to which the Company would have an option to earn an initial 60% interest in Megastar Development Corp. ("Megastar") SEDEX zinc properties located in Northeastern British Columbia. The Company would be the operator and can earn a 60% interest in Megastar's properties as follows:

- (i) Payment to Megastar of \$50,000 and the issuance of 50,000 shares of the Company upon signing a definitive agreement (paid and issued);
- (ii) The issuance of 50,000 shares of the Company nine months from signing a definitive agreement (issued) (Note 7);
- (iii) Payment to Megastar of \$100,000 and the issuance of 25,000 shares of the Company on or before the first anniversary of the signing of the definitive agreement; and
- (iv) Spending \$2.25 million in exploration and development over a three-year period.

During the year ended June 30, 2008, the Company terminated its option agreement with Megastar. Accordingly, the Company wrote-off all related capitalized acquisition and exploration costs incurred on the properties of \$256,221.

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.

On May 8, 2007, the Company entered into an agreement with Dwayne Edward Kress pursuant to which the Company has acquired a 100% interest in mineral claims located in the Kechika mining division of British Columbia. As consideration for the claims, the Company paid \$5,000 in cash and issued 20,000 common shares of the Company.

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

6. RESOURCE PROPERTIES (cont'd...)

On May 28, 2007, the Company entered into an agreement with 747080 B.C. Ltd and David Heyman pursuant to which the Company has acquired a 100% interest in mineral claims located in the Kechika mining division of British Columbia. As consideration for the claims, the Company paid \$20,000 in cash.

On April 30, 2008, the Company entered into an agreement with Jesse Otto pursuant to which the Company has acquired a 100% interest in mineral claims located in the Kechika mining division of British Columbia. As consideration for the claims, the Company paid \$10,500 in cash.

Mt. Alcock Property, British Columbia

The Company owns a 100% interest subject to a 1.0 % NSR, in the Mt. Alcock property. The Company paid \$75,000 and issued 100,000 shares on October 20, 2006 and issued 100,000 shares on July 6, 2007.

West Range Property, British Columbia

The Company owns a 100% interest in the West Range property which was earned by making a \$10,000 payment.

7. CAPITAL STOCK

(a) Authorized and issued

	Number of Shares	Amount	Contributed Surplus
Authorized Unlimited common shares without par value			
As at June 30, 2006	26,478,862	\$ 16,507,981	\$ 1,578,837
Exercise of options	35,000	12,950	(5,950)
Exercise of warrants	7,403,679	2,351,616	–
Acquisition of property	170,000	135,300	–
Private placement	7,185,000	6,899,300	–
Ecstall take-over bid	21,948,782	24,143,660	–
Share issuance costs	–	(685,569)	–
Stock-based compensation	–	–	2,028,894
Tax benefit renounced to Flow-through share subscribers	–	(1,646,250)	–
Less: treasury shares	(919,220)	(646,546)	–
As at June 30, 2007	62,302,103	47,072,442	3,601,781
Acquisition of property (i),(ii)	150,000	179,000	–
Ecstall take-over bid (iv)	24,291	26,718	–
Exercise of warrants (vi)	211,224	175,790	–
Exercise of options (vii)	197,500	203,302	(101,927)
Private placements (iii), (v)	6,220,000	9,321,000	–
Share issuance costs (iii), (v)	–	(476,997)	–
Stock based compensation	–	–	3,752,383
Tax benefit renounced to Flow-through share subscribers	–	(2,145,000)	–
As at June 30, 2008	69,105,118	\$ 54,356,255	\$ 7,252,237

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

(a) Authorized and issued (cont'd...)

During the year ended June 30, 2008:

- (i) 100,000 shares were issued at a value of \$1.26 per share towards the acquisition of the Mt. Alcock Property.
- (ii) 50,000 shares were issued at a value of \$1.06 per share pursuant to the definitive agreement with Megastar (Note 6).
- (iii) the Company completed a non-brokered private placement on August 13, 2007 of 3,500,000 flow-through shares at a price of \$1.50 per share and 550,000 non flow-through shares at a price of \$1.25 per share for total gross proceeds of \$5,937,500. An aggregate of \$252,350 was paid as finders' fees and another \$44,604 was paid in legal and regulatory costs on this private placement.
- (iv) the Company issued another 24,291 shares as part of Ecstall take-over. A total of \$14,234 was incurred as costs associated with the take-over bid.
- (v) the Company completed a non-brokered private placement on December 4, 2007 of 1,875,000 flow-through shares at a price of \$1.60 per share and 295,000 non flow-through shares at a price of \$1.30 per share for total gross proceeds of \$3,383,500. An aggregate of \$145,000 was paid as finders' fees and another \$20,809 was paid in legal and regulatory costs on this private placement.
- (vi) an aggregate of 211,224 warrants were exercised at a price ranging from \$0.73 per share to \$1.00 per share and a total of 211,224 common shares were issued for total proceeds of \$175,790.
- (vii) an aggregate of 197,500 stock options were exercised at a price ranging from \$0.20 per share to \$0.81 per share and a total of 197,500 common shares were issued for total proceeds of \$101,375. In addition, a reallocation of \$101,927 from contributed surplus to share capital was recorded on the exercise of these options.

During the year ended June 30, 2007:

- (i) the Company completed a non-brokered private placement on April 10, 2007 of 3,500,000 units at a price of \$1.15 per unit for gross proceeds of \$4,025,000. Each unit consists of one common share and one-half share purchase warrant of the Company. Each whole warrant is exercisable at a price of \$1.75 until April 10, 2009.

An aggregate of \$70,725 was paid as finders' fees and another \$23,465 was paid in regulatory costs on this private placement.
- (ii) an aggregate of 7,403,679 warrants were exercised at a price ranging from \$0.20 per share to \$1.10 per share and a total of 7,403,679 common shares were issued for total proceeds of \$2,351,616.
- (iii) 35,000 options were exercised at \$0.20 per share. In addition, a reallocation of \$5,950 from contributed surplus to share capital was recorded on the exercise of these options.
- (iv) 100,000 shares were issued at a value of \$0.55 per share towards the acquisition of the Mt. Alcock Property.

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

(a) Authorized and issued (cont'd...)

- (v) 50,000 shares were issued at a value of \$1.07 per share towards an agreement with Megastar Development Corp.
- (vi) 20,000 shares were issued at a value of \$1.34 per share towards an agreement with Dwayne Edward Kress.
- (vii) the Company entered into a financing arrangement with Lundin Mining Corp. ("Lundin"), pursuant to which Lundin subscribed, by way of a non-brokered private placement, for 3,685,000 units of the Company at a price of \$0.78 per unit for gross proceeds of \$2,874,300. Each unit consists of one common share and one common share purchase warrant. Each warrant shall entitle the purchaser to purchase, at any time within 24 months from closing, one common share of the Company at a price of \$0.78.
- (viii) pursuant to the Company's take-over bid, as described in Note 3, the Company issued a total of 21,948,782 common shares of the Company at a value of \$24,143,660. The Company incurred \$567,020 in share issuance costs in relation to the take-over bid.

As a result of the acquisition of Ecstall, common shares of Ecstall previously owned by the Company were converted into 919,220 common shares of the Company and have been recorded as treasury shares. The Company paid \$24,360 in filing and regulatory costs for various share issuances during the year.

(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, 2006	2,602,500	\$ 0.70
Granted	2,105,000	1.07
Cancelled / Expired	(635,000)	(0.94)
Exercised	(35,000)	(0.20)
Balance June 30, 2007	4,037,500	0.86
Granted	4,882,500	1.12
Cancelled / Expired	(275,000)	1.11
Exercised	(197,500)	0.51
Balance, June 30, 2008	8,447,500	\$ 1.01

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

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

Stock options outstanding and exercisable at June 30, 2008 are summarized as follows:

Number of Shares	Exercise Price	Expiry Date	Exercisable
585,000	\$0.20	July 4, 2010	585,000
100,000	\$0.30	August 25, 2010	100,000
100,000	\$0.64	October 13, 2010	100,000
687,500	\$0.81	January 9, 2011	687,500
300,000	\$1.35	February 24, 2011	300,000
600,000	\$0.70	November 14, 2016	600,000
287,500	\$0.70	November 14, 2011	287,500
100,000	\$1.00	December 28, 2008	100,000
1,005,000	\$1.40	April 10, 2012	1,005,000
50,000	\$1.21	May 18, 2012	50,000
250,000	\$1.15	July 3, 2012	250,000
400,000	\$1.26	July 9, 2010	400,000
525,000	\$1.26	July 9, 2012	525,000
400,000	\$1.00	September 17, 2012	288,930
400,000	\$1.05	September 17, 2012	288,930
200,000	\$1.15	September 17, 2012	144,465
200,000	\$1.15	September 17, 2012	31,452
400,000	\$1.20	September 17, 2012	62,904
120,000	\$1.30	November 28, 2012	101,163
1,167,500	\$1.05	February 11, 2018	1,167,500
150,000	\$1.05	April 1, 2013	77,050
300,000	\$1.05	April 29, 2013	300,000
120,000	\$1.10	April 30, 2013	41,778
8,447,500			7,494,172

During the year, under the fair value based method \$3,752,383 (2007 – \$2,028,894) in stock-based compensation expense was recorded in the statements of operations and deficit for stock options granted to directors, officers, employees 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 assumptions:

	2008	2007
Risk free interest rate	4.06%	4.01%
Expected dividend yield	0%	0%
Stock price volatility	130%	180%
Expected life of options	6 years	6 years

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

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

The weighted average fair value of options granted during the year ended June 30, 2008 is \$0.96 (2007 – \$1.02) per share.

(c) Warrants

As at June 30, 2008, the Company had outstanding share purchase warrants and agents' warrants, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
3,685,000	\$0.78	December 4, 2008
1,750,000	\$1.75	April 10, 2009

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

	Number of Shares	Weighted Average Exercise Price
Balance June 30, 2006	10,668,186	\$ 0.57
Private placement	5,435,000	1.04
Ecstall warrants (0.41 Mantle warrant for each Ecstall warrant)	1,944,303	1.35
Warrants expired	(3,552,586)	0.32
Warrants exercised	(7,403,679)	1.30
Balance, June 30, 2007	7,091,224	1.06
Warrants exercised	(211,224)	0.83
Warrants expired	(1,445,000)	0.96
Balance, June 30, 2008	5,435,000	\$ 1.09
Number of warrants currently exercisable	5,435,000	\$ 1.09

8. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2008	2007
Loss before income tax recovery	\$ (5,194,190)	\$ (3,065,826)
Expected income tax recovery at statutory date	\$ (1,704,214)	\$ (1,076,718)
Non-deductible expenses	1,373,188	818,309
Recognized benefits of non-capital losses carried forward	(1,711,385)	(1,387,841)
Total income taxes (recovery)	\$ (2,042,411)	\$ (1,646,250)

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

8. INCOME TAXES (cont'd...)

Details of future income tax assets (liabilities) are as follows:

	2008	2007
Equipment	\$ 18,550	\$ 22,958
Resource properties	(1,830,475)	(203,081)
Non-capital losses carried forward	1,263,245	1,112,031
Capital losses	55,811	62,760
Share issuance costs	390,280	478,167
	(102,589)	1,472,835
Less: Valuation allowance	-	(1,472,835)
	\$ (102,589)	\$ -

During the year ended June 30, 2008, the Company issued 5,375,000 flow-through common shares for gross proceeds of \$8,250,000. The flow-through agreement requires the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. Future income taxes of \$2,145,000 on the exploration expenditures to be renounced to shareholders were applied against capital stock.

The Company has non-capital losses of approximately \$4,859,000 which may be carried forward and applied against taxable income in future years. These losses, if unutilized, will expire through 2028. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been reflected in these financial statements and have been offset by a valuation allowance.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

June 30	2008	2007
Cash paid during the period for interest	\$ 12,089	\$ -
Cash paid during the period for income tax	\$ -	\$ -

Significant non-cash transactions for the year ended June 30, 2008 included:

- (a) Upon the exercise of stock options, \$101,927 was allocated to contributed surplus.
- (b) 150,000 common shares issued at a value of \$179,000 in consideration for the acquisition of resource properties (Note 7).
- (c) Included in accounts payable is \$1,828,136 in resource property expenditures.
- (d) 24,291 common shares issued at a value of \$1.10 pursuant to its take-over bid with Ecstall (Note 7).

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd)

Significant non-cash transactions for the year ended June 30, 2007 included:

- (a) Upon the exercise of stock options, \$5,950 was allocated to contributed surplus.
- (b) 170,000 common shares issued at a value of \$135,300 in consideration for the acquisition of resource properties (Note 7).
- (c) Included in accounts payable is \$1,190,706 in resource property expenditures.
- (d) 21,948,782 (0.41 of the Company's share for each Ecstall share tendered) common shares issued at a value of \$1.10 pursuant to its take-over bid with Ecstall (Note 4).

10. TRANSACTIONS WITH RELATED PARTIES

During the year ended June 30, 2008:

- (a) the Company paid or accrued \$150,000 (2007 – \$100,000) for management fees and \$60,000 (2007 – \$35,000) for administrative fees to a company partially controlled by a director and an officer of the Company.
- (b) the Company paid or accrued \$115,975 (2007 - \$46,623) for consulting and geological services fees, included in resource properties, to a company controlled by a director of the Company.
- (c) As at June 30, 2008, \$956 (2007- \$Nil) was due to directors and officers of the Company. The amount resulted from expense reimbursement and is unsecured and non-interest bearing with no fixed terms of repayment. This amount was fully repaid subsequent to the year end.
- (d) As at June 30, 2008, \$50,000 (2007- \$Nil) was due from a director of the Company. This amount is unsecured , non-interest bearing, with no fixed terms of repayment.

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.

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, due from related parties, receivables, due to related parties and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

12. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of resource properties in Canada.

CANADA ZINC METALS CORP.
(formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

13. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2008, the Company:

- (a) Changed its name to Canada Zinc Metals Corp. and commenced trading under its new name and symbol, CZX, at the open on September 26, 2008. There was no consolidation of share capital.
- (b) Completed a non-brokered private placement of 7,863,778 flow-through common shares at a price of \$0.90 per share, for gross proceeds of \$7,077,400.

The Company paid \$274,170 in cash as finder's fees on a portion of the private placement. The securities issued are subject to a four month hold period expiring February 3, 2009.