

CANADA ZINC METALS CORP.

(Formerly Mantle Resources Inc.)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2008 and 2007
(UNAUDITED – PREPARED BY MANAGEMENT)

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

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.

February 27, 2009

CANADA ZINC METALS CORP.

(Formerly Mantle Resources Inc.)

CONSOLIDATED INTERIM BALANCE SHEETS
AS AT DECEMBER 31, 2008 AND JUNE 30, 2008
(UNAUDITED – PREPARED BY MANAGEMENT)

	December 31, 2008	June 30, 2008
	(unaudited)	(audited)
ASSETS		
Current		
Cash	\$ 2,255,445	\$ 4,313,889
Receivables (Note 2)	1,459,063	281,628
Due from related parties (Note 5(c),(d))	62,500	50,000
Prepaid expenses	75,000	354,629
	3,852,008	5,000,146
Other Assets	85,000	85,000
Equipment and leasehold improvements	9,129	11,085
Resource properties (Note 2)	49,564,358	43,958,327
	\$ 53,510,495	\$ 49,054,558
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 303,671	\$ 2,043,763
Due to related parties (Note 5(e))	149	956
	303,820	2,044,719
Future income taxes	102,589	102,589
Shareholders' equity		
Capital stock (Note 3(a))	61,067,069	54,356,255
Contributed Surplus (Note 3(a))	8,292,718	7,252,237
Deficit	(16,255,701)	(14,701,242)
	53,104,086	46,907,250
	\$ 53,510,495	\$ 49,054,558

Subsequent events (Note 6)

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

CANADA ZINC METALS CORP.

(Formerly Mantle Resources Inc.)

CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007
(UNAUDITED – PREPARED BY MANAGEMENT)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
ADMINISTRATION EXPENSES				
Administration	\$ 15,000	\$ 15,000	\$ 30,000	\$ 30,000
Amortization	978	725	1,956	1,326
Bank charges	584	858	1,178	2,062
Consulting	2,500	16,720	2,500	16,720
Investor Relations	9,221	41,257	23,221	202,137
Management fees	37,500	37,500	75,000	75,000
Office and miscellaneous	19,440	12,399	33,203	18,342
Professional fees	17,294	54,418	37,341	43,848
Regulatory fees	5,495	12,960	6,260	13,160
Rent	15,080	15,258	29,280	29,814
Stock-based compensation	857,164	422,645	1,040,481	1,819,380
Transfer agent fees	4,624	8,982	7,816	12,848
Travel and promotion	35,203	40,868	63,010	63,377
Wages and benefits	92,753	96,938	239,825	158,877
Loss before other items	(1,112,836)	(776,528)	(1,591,071)	(2,486,891)
OTHER ITEMS				
Interest income	8,636	80,347	36,612	187,456
Loss for the period	(1,104,200)	(696,181)	(1,554,459)	(2,299,435)
Deficit, beginning of period	(15,151,501)	(13,152,717)	(14,701,242)	(11,549,463)
Deficit, end of period	\$(16,255,701)	\$(13,848,898)	\$(16,255,701)	\$(13,848,898)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Weighted average number of shares outstanding	76,725,483	68,206,129	72,915,301	66,801,313

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

CANADA ZINC METALS CORP.

(Formerly Mantle Resources Inc.)

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007 (UNAUDITED – PREPARED BY MANAGEMENT)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (1,104,200)	\$ (696,181)	\$ (1,554,459)	\$ (2,299,435)
Items not affecting cash:				
Amortization	978	725	1,956	1,326
Stock-based compensation	857,164	422,645	1,040,481	1,819,380
Changes in non-cash working capital items:				
(Increase) decrease in receivables	109,480	152,556	(22,207)	(211,344)
Decrease in prepaid expenses	453	414	–	2,870
Decrease (increase) in accounts payable and accrued liabilities	(62,127)	4,677	(74,940)	(36,876)
Decrease in due to/ from related parties	(22,851)	–	(13,307)	–
Cash used in operating activities	(221,103)	(115,164)	(622,476)	(724,079)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of equipment	–	(2,289)	–	(2,289)
Resource property costs	(4,821,136)	(5,178,368)	(8,146,782)	(9,617,362)
Cash used in investing activities	(4,821,136)	(5,180,657)	(8,146,782)	(9,619,651)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of capital stock, net of issuance costs	6,710,814	3,427,445	6,710,814	9,049,200
Common stock subscribed	(617,400)	–	–	–
Cash provided by financing activities	6,093,414	3,427,445	6,710,814	9,049,200
Change in cash and cash equivalents during the period	1,051,175	(1,868,376)	(2,058,444)	(1,294,530)
Cash and cash equivalents, beginning of period	1,204,270	9,722,527	4,313,889	9,148,681
Cash and cash equivalents, end of period	\$ 2,255,445	\$ 7,854,151	\$ 2,255,445	\$ 7,854,151
Cash and cash equivalents				
Cash	\$ 155,445	\$ 1,314,151	\$ 155,445	\$ 1,314,151
Guaranteed Investment Certificate	\$ 2,100,000	\$ 6,540,000	\$ 2,100,000	\$ 6,540,000

Supplemental disclosure with respect to cash flows (Note 4)

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

CANADA ZINC METALS CORP.
(Formerly Mantle Resources Inc.)
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
DECEMBER 31, 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, 2008 consolidated financial statements and notes thereto.

2. RESOURCE PROPERTIES

Summary of expenditure incurred on various properties during the period ended December 31, 2008:

	Akie Property		DA		Kechika Regional		Total
Acquisition Costs:							
Balance, June 30, 2008	\$ 24,174,119	\$	71,535	\$	346,740	\$	24,592,394
Additions	–		–		737		737
Balance, December 31, 2008	24,174,119		71,535		347,477		24,593,131
Deferred Exploration Costs:							
Balance, June 30, 2008	\$ 19,053,980	\$	150,025	\$	161,928	\$	19,365,933
Additions:							
Geological Consulting	753,065		–		336,617		1,089,682
Drilling	4,012,423		–		–		4,012,423
Environmental studies	396,522		–		–		396,522
Road construction	1,068,307		–		193,588		1,261,895
Mining exploration tax credit	(1,155,227)		–		–		(1,155,227)
Balance, December 31, 2008	24,129,070		150,025		692,133		24,971,228
December 31, 2008	\$ 48,303,189	\$	221,560	\$	1,039,610	\$	49,564,359

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.

The Company has qualified for the 20% British Columbia Mining Exploration Tax Credit ("METC") and the enhanced tax credit of an additional 10% for Mountain Pine Beetle affected areas, on qualified mining exploration costs incurred by the Company. As at December 31, 2008, the Company recorded total METC of \$1,155,227 (2007 - \$Nil) in accounts receivable.

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

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.

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

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.

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.

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3. CAPITAL STOCK

(a) Authorized and issued

	Number of Shares	Amount	Contributed Surplus
Authorized Unlimited common shares without par value			
Balance, June 30, 2008	69,105,118	\$ 54,356,255	\$ 7,252,237
Private placements	7,863,778	7,077,400	–
Rounding adjustment	18	–	–
Share issuance costs	–	(366,586)	–
Stock based compensation	–	–	1,040,481
Balance, December 31, 2008	76,968,914	\$ 61,067,069	\$ 8,292,718

(b) Common stock subscribed

During the period ended December 31, 2008, the Company completed a non-brokered private placement of 7,863,778 flow-through shares at a price of \$0.90 per share for total gross proceeds of \$7,077,400. An aggregate of \$330,920 was paid as finders' fees and another \$35,666 was paid in regulatory costs on this private placement.

During the period ended December 31, 2008, the Company issued 18 common shares to be held in a trustee account to correct actual entitlements of shares. The difference was a result of fractional rounding accumulated from exchanges processed for previous capital consolidations.

(c) 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, 2008	8,447,500	\$ 1.01
Granted	3,527,500	0.25
Cancelled	(3,777,000)	1.11
Balance, December 31, 2008	8,198,000	\$ 0.46

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

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

Stock options outstanding and exercisable at December 31, 2008 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	250,000
350,000	\$1.05	September 17, 2012	250,000
100,000	\$1.15	September 17, 2012	100,000
100,000	\$1.15	September 17, 2012	48,274
400,000	\$1.20	September 17, 2012	103,233
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	112,500
225,000	\$0.25	April 29, 2013	225,000
75,000	\$1.05	April 29, 2013	75,000
125,000	\$0.25	October 21, 2013	–
212,500	\$0.25	October 21, 2013	212,500
3,190,000	\$0.25	October 31, 2018	3,190,000
8,198,000			7,437,007

During the period ended December 31, 2008, under the fair value based method a total of \$939,901 (2007 – \$1,819,380) 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.

During the period ended December 31, 2008, the Company also re-priced previously granted stock options to a number of employees and consultants to acquire 1,768,000 common shares at a price between \$0.70 per share and \$1.40 per share, expiring between January 9, 2011 and February 11, 2018, to \$0.25 per share. The Company recorded \$100,580 (2007 - \$Nil) in additional stock based compensation expense in connection with the re-pricing.

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

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

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	3.20%	4.54%
Expected dividend yield	0%	0%
Stock price volatility	107%	144%
Expected life of options	7.76 years	4.42 years

The weighted average fair value of options granted or re-priced during the period ended December 31, 2008 was \$0.19 (2007 – \$1.02) per share.

(d) Warrants

As at December 31, 2008, the Company had outstanding share purchase warrants enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
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, 2008	5,435,000	\$ 1.09
Expired	(3,685,000)	0.78
Number of warrants currently exercisable	1,750,000	\$ 1.75

4. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

December 31,	2008	2007
Cash paid during the period for interest	\$ –	\$ –
Cash paid during the period for income tax	\$ –	\$ –

Significant non-cash transactions for the period ended December 31, 2008 included:

- (a) Included in accounts payable is \$162,984 (2007 - \$389,134) in resource property expenditures.
- (b) Included in accounts receivable is \$1,155,227 (2007 - \$Nil) in METC credits.

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

- (c) Included in prepaid expenses is \$75,000 (2007 - \$Nil) in resource property expenditures.
- (d) Upon the issuance of common shares in consideration for the acquisition of resource properties, \$nil (2007 - \$55,000) was allocated to share capital.
- (e) Upon the issuance of common shares pursuant to a take-over bid with Ecstall Mining Corp., \$Nil (2007 - \$26,720) was allocated to share capital.

5. TRANSACTIONS WITH RELATED PARTIES

During the period ended December 31, 2008:

- (a) the Company paid or accrued \$75,000 (2007 – \$75,000) for management fees and \$30,000 (2007 – \$30,000) for administrative fees to a company controlled by a director and an officer of the Company.
- (b) the Company paid or accrued \$60,000 (2007 - \$58,356) for consulting and geological services fees, included in resource properties, to a company controlled by a director of the Company. As at December 31, 2008, \$Nil (June 30, 2008- \$956) was due to this company.
- (c) As at December 31, 2008, \$50,000 (June 30, 2008- \$50,000) was due from a director of the Company. This amount is unsecured, non-interest bearing and repayable by September 2009.
- (d) As at December 31, 2008, \$12,500 (June 30, 2008- \$Nil) was due from a director of the Company. This amount represents monies to be reimbursed to the Company for overpayment of payroll expenses and was partially repaid subsequent to the period ended December 31, 2008.
- (e) As at December 31, 2008, \$149 (June 30, 2008- \$Nil) was due to a company with a director and officers in common. This amount is for expense recoveries, unsecured and non-interest bearing. The amount was repaid subsequent to the period ended December 31, 2008.

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.

6. SUBSEQUENT EVENTS

Subsequent to December 31, 2008, the Company has entered into a financing arrangement with Tongling Nonferrous Metals Group Holdings Co. Ltd. (“Tongling”) pursuant to which Tongling will purchase units equal to a 13% equity position in Canada Zinc Metals. Tongling has subscribed, by way of a non-brokered private placement, for 11,500,000 units of Canada Zinc Metals at a price of \$0.425 per unit for gross proceeds of \$4,887,500. Each unit consists of one common share and one half of a common share purchase warrant. Each whole 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 \$0.60 during the first year and at a price of \$0.80 during the second year.

Tongling Nonferrous Metals Group Holdings Co. Ltd., based in Tongling, Anhui, is a state-owned holding company, and one of China's largest copper smelting companies. Tongling's principal activities are exploration, mining, ore processing, smelting & refining and products processing of copper, lead, zinc, gold, silver and other non-ferrous and rare metals.

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6. SUBSEQUENT EVENT (cont'd...)

The financing is subject to receiving the necessary approvals of the relevant Chinese regulatory departments and the TSX Venture Exchange.

The proceeds of the private placement will be used to fund further exploration and advancement of the Company's SEDEX zinc-lead properties and for working capital purposes.