

CANADA ZINC METALS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED MARCH 31, 2010 and 2009

(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.

May 31, 2010

CANADA ZINC METALS CORP.

CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31, 2010 AND JUNE 30, 2009

	March 31, 2010		June 30, 2009
	(unaudited)		(audited)
ASSETS			
Current			
Cash and cash equivalents	\$ 4,170,818	\$	6,389,394
Receivables	29,993		83,730
METC recoverable (Note 3)	921,064		–
Prepaid expenses	1,555		693
Marketable securities (Note 2)	375,000		–
Due from related parties (Note 6)	–		50,000
	5,498,430		6,523,817
Other assets	89,000		89,000
Equipment and leasehold improvements	4,549		7,200
Long-term prepaid expenses	75,000		75,000
Resource properties (Note 3)	51,535,922		51,120,891
	\$ 57,202,901	\$	57,815,908
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 215,185	\$	241,980
Due to related parties (Note 6)	–		2,470
	215,185		244,450
Future income taxes	1,514,583		1,514,583
Shareholders' equity			
Capital stock (Note 4)	66,577,067		64,084,820
Contributed surplus (Note 4)	7,842,038		8,406,348
Deficit	(18,945,972)		(16,434,293)
	55,473,133		56,056,875
	\$ 57,202,901	\$	57,815,908

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 NINE MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED – PREPARED BY MANAGEMENT)

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
ADMINISTRATION EXPENSES				
Administration	\$ 15,000	\$ 15,000	\$ 45,000	\$ 45,000
Amortization	1,349	960	2,651	2,916
Bank charges	775	537	2,744	1,714
Bonus	–	–	97,750	–
Consulting	145,100	–	556,725	2,500
Flow-through taxes (Note 3)	44,278	–	41,910	–
Investor relations	462	321	925	23,542
Management fees	37,500	37,500	112,500	112,500
Office and miscellaneous	5,455	8,285	29,394	41,489
Professional fees (recovery)	1,241	(1,472)	28,301	35,869
Regulatory fees	9,880	5,780	14,875	12,040
Rent	15,069	15,082	44,007	44,362
Stock-based compensation	850,232	47,763	1,202,730	1,088,244
Transfer agent fees	2,281	1,940	5,303	9,756
Travel and promotion	23,518	9,709	57,443	72,719
Wages and benefits	80,335	135,838	286,360	375,663
Loss before other items	(1,232,475)	(277,243)	(2,528,618)	(1,868,314)
OTHER ITEMS				
Interest and other income	5,013	12,038	22,782	48,650
Write-off of mineral properties (Note 3)	(5,843)	(20,622)	(5,843)	(20,622)
	(830)	(8,584)	16,939	28,028
Loss for the period	(1,233,305)	(285,827)	(2,511,679)	(1,840,286)
Deficit, beginning of period	(17,712,667)	(16,255,701)	(16,434,293)	(14,701,242)
Deficit, end of period	\$(18,945,972)	\$(16,541,528)	\$(18,945,972)	\$(16,541,528)
Basic and diluted loss per share	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.02)
Weighted average number of shares outstanding	91,504,192	76,968,914	89,561,697	74,246,779

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

CANADA ZINC METALS CORP.

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED – PREPARED BY MANAGEMENT)

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (1,233,305)	\$ (285,827)	\$ (2,511,679)	\$ (1,840,286)
Items not affecting cash:				
Amortization	1,349	960	2,651	2,916
Stock-based compensation	850,232	47,763	1,202,730	1,088,244
Write-off of mineral properties	5,843	20,622	5,843	20,622
Changes in non-cash working capital items:				
(Increase) decrease in receivables	(2,855)	211,002	53,737	188,795
(Increase) decrease in prepaid expenses	2,186	(360)	(862)	(360)
Increase (decrease in accounts payable and accrued liabilities)	44,094	24,330	3,604	(50,610)
(Increase) decrease in due to/ from related parties	–	11,351	47,530	(1,956)
Cash used in operating activities	(332,456)	29,841	(1,196,446)	(592,635)
CASH FLOWS FROM INVESTING ACTIVITIES				
Marketable securities costs (Note 2)	–	–	(375,000)	–
Resource property costs	(187,720)	(283,598)	(1,372,337)	(8,430,380)
Cash used in investing activities	(187,720)	(283,598)	(1,747,337)	(8,430,380)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of capital stock, net of issuance costs	696,150	–	849,400	6,710,814
Common shares repurchased (Note 4)	–	–	(124,193)	–
Deferred financing costs	–	(29,625)	–	(29,625)
Cash provided by financing activities	696,150	(29,625)	725,207	6,681,189
Change in cash and cash equivalents during the period	175,974	(283,382)	(2,218,576)	(2,341,826)
Cash and cash equivalents, beginning of period	3,994,844	2,255,445	6,389,394	4,313,889
Cash and cash equivalents, end of period	\$ 4,170,818	\$ 1,972,063	\$ 4,170,818	\$ 1,972,063
Cash and cash equivalents				
Cash	\$ 59,200	\$ 137,063	\$ 59,200	\$ 137,063
Guaranteed Investment Certificates	\$ 4,111,618	\$ 1,835,000	\$ 4,111,618	\$ 1,835,000

Supplemental disclosure with respect to cash flows (Note 5)

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

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 audited consolidated financial statements and notes thereto.

2. MARKETABLE SECURITIES

During the nine months ended March 31, 2010, 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 quoted market value of the marketable securities as of March 31, 2010 was \$459,375 (June 30, 2009 – \$Nil).

3. RESOURCE PROPERTIES

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 the Company's 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.

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.

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

The following table summarizes resource property expenses by property.

	Akie Property	Kechika Regional	DA	Total
Acquisition Costs:				
Balance, June 30, 2009	\$ 24,173,329	\$ 328,432	\$ 71,535	\$ 24,573,296
Additions	2,000	–	–	2,000
Balance, March 31, 2010	24,175,329	328,432	71,535	24,575,296
Deferred Exploration Costs:				
Balance, June 30, 2009	25,695,058	702,512	150,025	26,547,595
Additions:				
Geological consulting	384,575	220,047	–	604,622
Camp operating	152,648	249,974	–	402,622
Community consultations	157,134	–	–	157,134
Environmental studies	101,494	–	–	101,494
Metallurgical analysis	52,108	–	–	52,108
Road and transportation	21,958	–	–	21,958
Less:				
Write-off of camp equipment	(5,843)	–	–	(5,843)
METC	(921,064)	–	–	(921,064)
Balance, March 31, 2010	25,638,068	1,172,533	150,025	26,960,626
March 31, 2010	\$ 49,813,397	\$ 1,500,965	\$ 221,560	\$ 51,535,922

The Company applied 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 in fiscal 2008.

During the period ended March 31, 2010, the Company received Canada Revenue Agency’s (“CRA”) approval of \$921,064 in METC for its fiscal 2008 application. The Company recorded this amount in METC recoverable with a corresponding reduction in Resource Properties on the consolidated balance sheet as at March 31, 2010.

The Company recorded \$44,278 in additional part XII.6 tax on flow-through funds related to fiscal years 2006 to 2008 upon receipt of the CRA’s flow-through assessment.

During the period ended March 31, 2010, the Company wrote-off \$5,843 of obsolete camp equipment which was no longer in use.

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4. CAPITAL STOCK

(a) Authorized and issued

	Number of Shares	Amount	Contributed Surplus
Authorized Unlimited common shares without par value			
Balance, June 30, 2009	88,468,914	\$ 64,084,820	\$ 8,406,348
Exercise of options	3,492,500	2,492,347	(1,642,847)
Stock- based compensation	–	–	1,202,730
Normal course issuer bid	–	–	(124,193)
Share issuance costs	–	(100)	–
Balance, March 31, 2010	91,961,414	\$ 66,577,067	\$ 7,842,038

During the nine months ended March 31, 2010, an aggregate of 3,492,500 stock options were exercised at a price ranging from \$0.20 per share to \$0.25 per share and a total of 3,492,500 common shares were issued for total proceeds of \$849,500. In addition, a reallocation of \$1,642,847 from contributed surplus to share capital was recorded on the exercise of these options.

During the nine months ended March 31, 2010, the Company paid \$100 in regulatory fees in connection with the private placement completed in fiscal 2009.

During the nine months ended March 31, 2010, 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 March 31, 2010, the Company had repurchased 329,000 of its common shares for a total consideration of \$124,193 at a weighted average price of \$0.38 per share under the NCIB.

(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.

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

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

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	3,680,000	0.49
Exercised	(3,492,500)	0.24
Cancelled	(1,460,000)	1.09
Balance, March 31, 2010	6,925,500	\$ 0.47

Stock options outstanding and exercisable at March 31, 2010 are summarized as follows:

Number of Shares	Exercise Price	Expiry Date	Exercisable
100,000	\$0.64	October 13, 2010	100,000
10,000	\$0.81	January 9, 2011	10,000
155,000	\$0.70	November 14, 2016	155,000
22,500	\$0.25	November 14, 2011	22,500
175,000	\$0.25	April 10, 2012	175,000
50,000	\$0.25	July 3, 2012	50,000
50,000	\$1.15	July 3, 2012	50,000
70,000	\$1.30	November 28, 2012	70,000
420,000	\$1.05	February 11, 2018	420,000
318,000	\$0.25	February 11, 2018	318,000
150,000	\$0.25	April 1, 2013	150,000
75,000	\$1.05	April 29, 2013	75,000
275,000	\$0.25	October 21, 2013	275,000
1,475,000	\$0.25	October 31, 2018	1,475,000
700,000	\$0.40	September 22, 2014	175,000
500,000	\$0.40	October 9, 2019	500,000
860,000	\$0.41	October 13, 2016	640,000
100,000	\$0.50	November 16, 2012	50,000
100,000	\$0.70	November 16, 2012	50,000
1,320,000	\$0.63	January 15, 2020	1,270,000
6,925,500			6,030,500

During the period ended March 31, 2010, under the fair value based method a total of \$1,202,730 (2009 – \$987,664) in stock-based compensation expense was recorded in the statements of loss and deficit for stock options granted to directors, officers, employees and consultants of the Company.

During the nine months ended March 31, 2009, the Company also recorded \$100,580 in stock-based compensation expense in connection with the re-pricing of previously granted stock options to a number of employees and consultants; no such amounts were recorded during the current fiscal period.

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

(b) 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 weighted average assumptions:

March 31,	2010	2009
Risk free interest rate	2.95 %	3.20%
Expected dividend yield	0%	0%
Stock price volatility	103%	108%
Expected life of options	9.11 years	7.7 years

The weighted average fair value of options granted during the period ended March 31, 2010 was \$0.41 (2009 – \$0.20) per share.

(c) Warrants

As at March 31, 2010, 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 March 31, 2010	5,750,000	\$ 0.60

5. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

March 31	2010	2009
Cash paid during the period for interest	\$ –	\$ –
Cash paid during the period for income tax	\$ –	\$ –

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

Significant non-cash transactions for the period ended March 31, 2010 included:

- (a) \$45,850 in accounts payable (June 30, 2009 - \$76,249) in resource property expenditures.
- (b) \$921,064 in METC recoverable (June 30, 2009 - \$Nil) offset in Resource Property expenditures.
- (c) \$1,642,847 in stock-based compensation reallocated from contributed surplus to share capital on the exercise of 3,492,500 stock options.

Significant non-cash transactions for the period ended March 31, 2009 included:

- (d) \$120,162 in accounts payable (June 30, 2008 - \$1,828,136) in resource property expenditures.

6. TRANSACTIONS WITH RELATED PARTIES

During the period ended March 31, 2010,

- (a) the Company paid \$112,500 (2009 – \$112,500) for management fees and \$45,000 (2009 – \$45,000) for administrative fees to a company partially controlled by a director and an officer of the Company.
- (b) the Company paid or accrued \$72,000 (2009 - \$84,000) for consulting and geological services fees, included in resource properties, to a company controlled by a director of the Company. The Company also paid a cash bonus of \$1,500 (2009 - \$Nil), included in wages and benefits in the consolidated statements of operations and deficit, to this director.
- (c) the Company paid a cash bonus of \$97,750 (2009 - \$Nil) to a company partially controlled by a director and an officer of the Company.

As at March 31, 2010, there were no amounts due to or from directors and officers of the Company. The Company fully repaid a balance of \$2,470 outstanding as at June 30, 2009 for the reimbursement of business expenses and received \$50,000 for a loan repayment from a former director of the Company.

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 March 31, 2010.

8. FINANCIAL INSTRUMENTS

Financial Risk Management

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

8. FINANCIAL INSTRUMENTS (cont'd...)

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 March 31, 2010 were \$59,200 and \$4,111,618 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, interest accrued on short-term investments and refundable provincial METC.

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 Company's guaranteed investment certificates presently earn a variable rate of approximately 0.50%.

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 March 31, 2010, the Company was holding cash and cash equivalents of \$4,170,818 to settle its current liabilities of \$215,185. 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.

9. SUBSEQUENT EVENTS

Subsequent to the period ended March 31, 2010,

- (a) 5,750,000 share purchase warrants were exercised by Tongling Nonferrous Metals Group Holdings Co. Ltd. ("Tongling") at a price of \$0.60 per share and 5,750,000 common shares were issued for total proceeds of \$3,450,000. With the exercise of the warrants, Tongling now holds a 17.65% equity position in the Company.

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9. SUBSEQUENT EVENTS (cont'd...)

- (b) 300,000 stock options exercisable for a period of five years at a price of \$0.50 were granted to consultants of the Company.
- (c) the Company announced a private placement of 5,000,000 Units at a price of \$0.60 per unit for gross proceeds of \$3,000,000. Each Unit will consist of one common share and one-half share purchase warrant of the Company. Each whole warrant will entitle the holder to purchase one additional common share at a price of \$0.80 for a period of 18 months from closing. A finder's fee of 7% will be paid on the private placement. The private placement is subject to TSXV approval.