

CANADA ZINC METALS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 and 2008

AUDITORS' REPORT

To the Shareholders of
Canada Zinc Metals Corp.

We have audited the consolidated balance sheets of Canada Zinc Metals Corp. as at June 30, 2009 and 2008, and the consolidated statements of loss and deficit and cash flows for the years 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, 2009 and 2008, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

October 19, 2009



CANADA ZINC METALS CORP.

CONSOLIDATED BALANCE SHEETS AS AT JUNE 30

	2009	2008
ASSETS		
Current		
Cash and cash equivalents	\$ 6,389,394	\$ 4,313,889
Receivables	83,730	281,628
Prepaid expenses	693	279,629
Due from related parties (Note 9(d))	50,000	–
	6,523,817	4,875,146
Other Assets (Note 3)	89,000	85,000
Equipment and leasehold improvements (Note 4)	7,200	11,085
Long-term prepaid expenses	75,000	75,000
Long-term due from related parties (Note 9(d))	–	50,000
Resource properties (Note 5)	51,120,891	43,958,327
	\$ 57,815,908	\$ 49,054,558
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 241,980	\$ 2,043,763
Due to related parties (Note 9)	2,470	956
	244,450	2,044,719
Future income taxes (Note 7)	1,514,583	102,589
Shareholders' equity		
Capital stock (Note 6)	64,084,820	54,356,255
Contributed Surplus (Note 6)	8,406,348	7,252,237
Deficit	(16,434,293)	(14,701,242)
	56,056,875	46,907,250
	\$ 57,815,908	\$ 49,054,558

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

On behalf of the Board:

"Peeyush Varshney" Director

"John Fraser" Director

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

CANADA ZINC METALS CORP.

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

	2009	2008
ADMINISTRATION EXPENSES		
Administration	\$ 60,000	\$ 60,000
Amortization	3,885	3,698
Consulting	6,250	206,875
Flow through taxes	22,560	30,368
Interest and bank charges	2,247	3,344
Investor relations	23,542	122,292
Management fees	150,000	150,000
Office and miscellaneous	63,808	94,171
Professional fees	83,444	109,812
Regulatory fees	12,040	28,312
Rent	59,438	59,962
Stock-based compensation (Note 6)	1,154,111	3,752,383
Transfer agent fees	10,909	16,821
Travel and promotion	90,904	219,197
Wages and benefits	480,607	389,651
Loss before other items	(2,223,745)	(5,246,886)
OTHER ITEMS		
Interest and other income	80,256	309,987
Write-off of resource properties (Note 5)	(20,622)	(256,221)
Write-off of accounts payable	2,930	268
Write-off of accounts receivable	-	(1,338)
	62,564	52,696
Loss before income taxes	(2,161,181)	(5,194,190)
Future income tax recovery (Note 7)	428,130	2,042,411
Loss for the year	(1,733,051)	(3,151,779)
Deficit, beginning of year	(14,701,242)	(11,549,463)
Deficit, end of year	\$ (16,434,293)	\$ (14,701,242)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.05)
Weighted average number of common shares outstanding	76,028,188	67,936,117

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

CANADA ZINC METALS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (1,733,051)	\$ (3,151,779)
Items not affecting cash:		
Amortization	3,885	3,698
Stock-based compensation	1,154,111	3,752,383
Write-off of accounts receivable	-	1,338
Write-off of accounts payable	(2,930)	(268)
Write-off of resource properties	20,622	256,221
Future income tax recovery	(428,130)	(2,042,411)
Changes in non-cash working capital items:		
Decrease in receivables	197,898	57,828
Decrease in prepaid expenses	278,936	356,733
Decrease in deposits held in trust	-	13,000
(Increase) decrease in due from related parties	1,514	(49,044)
Decrease in accounts payable and accrued liabilities	(46,966)	(32,766)
Cash used in operating activities	(554,111)	(835,067)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	-	(5,825)
Other assets	(4,000)	(60,000)
Resource property costs	(8,935,073)	(13,055,068)
Cash used in investing activities	(8,939,073)	(13,120,893)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock, net of issuance costs	11,568,689	9,121,168
Cash provided by financing activities	11,568,689	9,121,168
Increase (decrease) in cash and cash equivalents during the year	2,075,505	(4,834,792)
Cash and cash equivalents, beginning of year	4,313,889	9,148,681
Cash and cash equivalents, end of year	\$ 6,389,394	\$ 4,313,889
Cash and cash equivalents		
Cash	\$ 48,823	\$ 231,347
Guaranteed Investment Certificates	\$ 6,340,571	\$ 4,082,542

Supplemental disclosure with respect to cash flows (Note 8)

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

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 resource 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 resource 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,	2009	2008
Working capital	\$ 6,279,367	\$ 2,830,427
Deficit	(16,434,293)	(14,701,242)

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 resource 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) Principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its wholly owned subsidiary, Ecstall. All inter-company transactions and balances have been eliminated upon consolidation.

(b) 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.

(c) Cash and cash equivalents

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

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

(d) Equipment and leasehold improvements

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

Computers	45%
Equipment and furniture	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.

(e) Resource properties

The Company records its interests in resource properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Resource properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of resource exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Management evaluates each resource interest on a reporting period basis or as changes in events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs are capitalized or charged to operations. Resource property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

The amounts shown for resource properties and deferred exploration costs represent costs incurred to date, and do not necessarily represent present or future values which are entirely dependent upon the economic recovery from production or from disposal.

(f) Deferred exploration costs

The Company defers all exploration costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the estimated reserves available on the related property following commencement of production or written-off to operations in the period related properties are abandoned.

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

(g) 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.

(h) Impairment of Long-Lived Assets

The carrying values of long-lived assets with fixed or determinable lives are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value determinations are based on management's estimates of undiscounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management.

Assets with indefinite or indeterminable lives are not amortized and are reviewed for impairment on a reporting basis using fair value determinations through management's estimate of recoverable value.

(i) 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 loss and deficit.

(j) 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.

(k) 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...)

(l) Financial instruments

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. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. 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.

The Company has classified its cash and cash equivalents 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.

(m) 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.

(n) Comparative figures

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

(o) New accounting standards

The Company adopted the following new accounting standards issued by the CICA. There were no adjustments recorded to opening balance sheet items or deficit as a result of the adoption of these standards.

Accounting Changes – CICA Handbook Section 1506

This standard establishes criteria for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policies to be applied retrospectively unless doing so is impracticable.

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

(o) New accounting standards (cont'd...)

Capital Disclosure – CICA Handbook Section 1535

This section specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as a capital; (iii) whether the entity has not complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by this new section in Note 10 to these consolidated financial statements.

Financial Instruments – Disclosures, CICA Handbook Section 3862, and Financial Instruments Presentation, CICA Handbook Section 3863

These new standards, which replace Section 3861 – Disclosure and Presentation, revise and enhance disclosure requirements while carrying forward presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosure recommended by this new section in Note 11 to these consolidated financial statements.

General Standards for Financial Statement Presentation – CICA Handbook Section 1400

In June 2007, the CICA modified section 1400 “General Standards of Financial Statement Presentation” in order to require that management make an assessment of the Company's ability to continue as going concern over a period which is at least, but not limited to, twelve months from the balance sheet date. The Company's disclosures in Note 1 to these financial statements, comply with the recommendations of this new section.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities – EIC 173

In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This new standard is effective for the Company's annual consolidated financial statements for the year ended June 30, 2009. The Company has performed an assessment as of June 30, 2009 and believes there to be no impact on its financial statements.

Mining Exploration Costs – EIC 174

In March 2009 the CICA approved EIC 174, Mining Exploration Costs. The guidance clarified that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. This new standard is effective for the Company's annual consolidated financial statements for the year ended June 30, 2009. The Company has performed an assessment as of June 30, 2009 and believes there to be no impact on its financial statements.

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a 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 International Financial Reporting Standards (“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 GAAP.

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

(p) Recent accounting pronouncements

The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. Management continues to monitor and assess the impact of Canadian GAAP and IFRS.

Goodwill and Intangible Assets – Section 3064

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaced existing Handbook Section 3062, Goodwill and Other Intangible Assets, and Handbook Section 3450, Research and Development. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Management does not expect that the adoption of this new standard will have any impact on its financial statements.

Business Combinations – Section 1582

In January 2009, the CICA issued Section 1582, Business Combinations, which will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations, and replace the existing Section 1581, Business Combinations. The new standard will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also be required to early adopt Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. Management does not expect that the adoption of this new standard will have a significant impact on the Company's financial statements.

Consolidated Financial Statements – Section 1601

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which establishes standards for the preparation of consolidated financial statements and will replace the existing Handbook Section 1600, Consolidated Financial Statements. The new standard is effective for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also be required to early adopt Handbook Section 1582, Business Combinations, and Handbook Section 1602, Non-Controlling Interests. Management does not expect that the adoption of this new standard will have a significant impact on the Company's financial statements.

Non-Controlling Interests – Section 1602

In January 2009, the CICA issued Handbook Section 1602, Non-Controlling Interests, which establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. The new standard is effective for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations, and Section 1601, Consolidated Financial Statements. Management does not expect that the adoption of this new standard will have a significant impact on the Company's financial statements.

CANADA ZINC METALS CORP.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2009

3. OTHER ASSETS

Other assets comprise a reclamation bond of \$89,000 (2008 – \$85,000) posted with the Government of British Columbia.

4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computers	\$ 14,909	\$ 10,124	\$ 4,785	\$ 14,909	\$ 7,107	\$ 7,802
Equipment and furniture	4,026	2,241	1,785	4,026	1,794	2,232
Leasehold improvements	2,522	1,892	630	2,522	1,471	1,051
	<u>\$ 21,457</u>	<u>\$ 14,257</u>	<u>\$ 7,200</u>	<u>\$ 21,457</u>	<u>\$ 10,372</u>	<u>\$ 11,085</u>

5. RESOURCE PROPERTIES

The following table summarizes resource property expenses by property.

	Akie Property	Kechika Regional	DA	Total
Acquisition Costs:				
Balance, June 30, 2007	\$ 23,881,336	\$ 310,439	\$ 70,930	\$ 24,262,705
Additions	292,783	206,701	605	500,089
Write-off	–	(170,400)	–	(170,400)
Balance, June 30, 2008	24,174,119	346,740	71,535	24,592,394
Additions	–	1,524	–	1,524
Write-off	(790)	(19,832)	–	(20,622)
Balance, June 30, 2009	24,173,329	328,432	71,535	24,573,296
Deferred Exploration Costs:				
Balance, June 30, 2007	6,050,418	3,209	–	6,053,627
Additions:				
Geological Consulting	463,953	171,999	150,025	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	161,928	150,025	19,365,933
Additions:				
Geological Consulting	834,930	346,996	–	1,181,926
Drilling	4,273,940	–	–	4,273,940
Environmental studies	463,901	–	–	463,901
Road construction	1,068,307	193,588	–	1,261,895
Balance, June 30, 2009	25,695,058	702,512	150,025	26,547,595
June 30, 2009	\$ 49,868,387	\$ 1,030,944	\$ 221,560	\$ 51,120,891

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

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.

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 (Note 1).

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.

During the fiscal 2009, the Company wrote off \$20,622 of acquisition costs relating to certain claims that the Company will no longer pursue.

6. CAPITAL STOCK

(a) Authorized and issued

	Number of Shares	Amount	Contributed Surplus
Authorized Unlimited common shares without par value			
As at June 30, 2007	62,302,103	\$ 47,072,442	\$ 3,601,781
Acquisition of property (iv),(v)	150,000	179,000	–
Ecstall take-over bid (vii)	24,291	26,718	–
Exercise of warrants (ix)	211,224	175,790	–
Exercise of options (x)	197,500	203,302	(101,927)
Private placements (vi), (viii)	6,220,000	9,321,000	–
Share issuance costs (vi), (viii)	–	(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

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

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

	Number of Shares	Amount	Contributed Surplus
Private placements (i), (iii)	19,363,778	11,964,900	–
Rounding adjustment (ii)	18	–	–
Share issuance costs (i), (iii)	–	(396,211)	–
Stock- based compensation	–	–	1,154,111
Tax benefit renounced to Flow-through share subscribers	–	(1,840,124)	–
Balance, June 30, 2009	88,468,914	\$ 64,084,820	\$ 8,406,348

During the year ended June 30, 2009:

- (i) 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.
- (ii) 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.
- (iii) the Company completed a non-brokered private placement of 11,500,000 units at a price of \$0.425 per unit subscribed by Tongling Nonferrous Metals Group Holdings Co. Ltd. ("Tongling") 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. An aggregate of \$29,625 was paid in regulatory and other costs on this private placement.

During the year ended June 30, 2008:

- (iv) 100,000 shares were issued at a value of \$1.26 per share towards the acquisition of mineral claims.
- (v) 50,000 shares were issued at a value of \$1.06 per share pursuant to the acquisition of mineral claims.
- (vi) 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.
- (vii) the Company issued another 24,291 shares as part of the Ecstall take-over. A total of \$14,234 was incurred as costs associated with the take-over bid.

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

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

- (viii) 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.
- (ix) 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.
- (x) 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.

(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, 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
Granted	3,527,500	0.25
Re-priced from	(1,768,000)	1.08
Re-priced to	1,768,000	0.25
Cancelled	(3,777,000)	1.08
Balance, June 30, 2009	8,198,000	\$ 0.46

CANADA ZINC METALS CORP.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2009

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

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

Stock options outstanding and exercisable at June 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	350,000
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	58,192
400,000	\$1.20	September 17, 2012	142,904
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
75,000	\$1.05	April 29, 2013	75,000
125,000	\$0.25	October 21, 2013	62,500
212,500	\$0.25	October 21, 2013	212,500
3,190,000	\$0.25	October 31, 2018	3,190,000
8,198,000			7,786,596

During the year ended June 30, 2009, under the fair value based method a total of \$1,053,531 (2008 – \$3,752,383) 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 year ended June 30, 2009, 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 (2008 - \$Nil) in additional stock-based compensation expense in connection with the re-pricing.

6. 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:

June 30,	2009	2008
Risk free interest rate	3.21%	4.06%
Expected dividend yield	0%	0%
Stock price volatility	108%	130%
Expected life of options	7.7 years	6 years

The weighted average fair value of options granted or re-priced during the year ended June 30, 2009 was \$0.30 (2008 – \$0.96) per share.

(c) Warrants

As at June 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, 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
Warrants expired	(5,435,000)	1.09
Warrants granted (Note 6(a) (iii))	5,750,000	0.60
Balance, June 30, 2009	5,750,000	\$ 0.60

CANADA ZINC METALS CORP.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2009

7. INCOME TAXES

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

	2009	2008
Loss before income tax recovery	\$ (2,161,181)	\$ (5,194,190)
Expected income tax recovery at statutory date	\$ (653,757)	\$ (1,704,214)
Net, non-deductible expenses	182,572	1,373,188
Recognized benefits of non-capital losses carried forward	43,055	(1,711,385)
Total income taxes (recovery)	\$ (428,130)	\$ (2,042,411)

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

	2009	2008
Equipment	\$ 12,031	\$ 18,550
Resource properties	(3,694,641)	(1,830,475)
Non-capital losses carried forward	1,826,943	1,263,245
Capital losses	3,174	55,811
Share issuance costs	337,910	390,280
	(1,514,583)	(102,589)
Less: Valuation allowance	-	-
	\$ (1,514,583)	\$ (102,589)

During the year ended June 30, 2009, the Company issued 7,863,778 flow-through common shares for gross proceeds of \$7,077,400 (2008 - \$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 \$1,840,124 (2008 - \$2,145,000) on the exploration expenditures renounced to shareholders were applied against capital stock.

The Company has non-capital losses of approximately \$7,027,000 which may be carried forward and applied against taxable income in future years. These losses, if unutilized, will expire through 2029. 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.

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

June 30	2009		2008	
Cash paid during the period for interest	\$	-	\$	12,089
Cash paid during the period for income tax	\$	-	\$	-

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

Significant non-cash transactions for the year ended June 30, 2009 included

(a) Included in accounts payable is \$76,249 in resource property expenditures.

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

(b) Upon the exercise of stock options, \$101,927 was allocated to contributed surplus.

(c) 150,000 common shares were issued at a value of \$179,000 in consideration for the acquisition of resource properties.

(d) Included in accounts payable is \$1,828,136 in resource property expenditures.

(e) 24,291 common shares were issued at a value of \$1.10 pursuant to its take-over bid with Ecstall.

9. TRANSACTIONS WITH RELATED PARTIES

During the year ended June 30, 2009:

(a) the Company paid or accrued \$150,000 (2008 – \$150,000) for management fees and \$60,000 (2008 – \$60,000) for administrative fees to a company partially controlled by a director and an officer of the Company.

(b) the Company paid or accrued \$108,000 (2008 - \$115,975) 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, 2009, \$2,470 (2008 - \$956) 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. These amounts were fully repaid subsequent to the year end.

(d) As at June 30, 2009, \$50,000 (2008 - \$50,000) was due from a director of the Company. This amount was fully repaid subsequent to the year end.

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.

10. 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 year ended June 30, 2009.

11. 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 June 30, 2009 were \$48,823 and \$6,340,571 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 June 30, 2009, the Company was holding cash of \$48,823 and guaranteed investment certificates of \$6,340,571 to settle current liabilities of \$244,450. 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.

12. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of resource properties in Canada. All of the Company's assets are located in Canada.

13. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2009, the Company:

- (a) received the TSXV approval to commence a normal course issuer bid 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 normal course issuer bid commenced on July 31, 2009 and will stay open for 12 months.

The purchases are made in accordance with the policies and rules of the TSXV. The Company will pay the market price of the common shares at the time of acquisition and will not purchase more than 2% of the total issued and outstanding common shares within any 30 day period.

As at October 19, 2009, the Company repurchased 253,000 of its common shares at a weighted average price of \$0.36 per share pursuant to the normal course issuer bid in effect since July 31, 2009.

- (b) granted to directors, officers and consultants an aggregate of 1,300,000 stock options, exercisable for a period from three to ten years, at an average price of \$0.40 per share.
- (c) entered into four separate consulting agreements to provide business development consulting services to the Company for a period of six months commencing July 1, 2009 for an aggregate monthly fee of approximately \$57,021. During fiscal 2010 the Company is committed to pay a total of \$342,126 in respect of the above agreements, \$228,084 of which was paid to date.
- (d) invested \$375,000 by subscribing for 1,875,000 common shares of TNR Gold Corp. ("TNR") at a price of \$0.20 per share.