



Financial Statements  
(Unaudited – Prepared By Management)  
(A Development Stage Company)

March 31, 2007

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**CANADIAN ZINC CORPORATION**

Balance Sheets

as at March 31, 2007

(Unaudited – prepared by management)

	March 31 2007 (unaudited)	December 31 2006 (audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 17,661,638	\$ 13,608,364
Short-term investments (Note 2)	9,902,708	15,478,718
Marketable securities (Note 2)	250,000	250,000
Other receivable and prepaid expense	171,135	269,426
	27,985,481	29,606,508
<b>Resource interests</b> (Note 3)	28,546,419	26,700,256
<b>Plant and equipment</b> (Note 4)	446,862	455,422
	\$ 56,978,762	\$ 56,762,186
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 622,664	\$ 464,347
<b>Future income tax liabilities</b> (Note 8)	3,863,600	1,134,000
<b>Asset retirement obligations</b> (Note 5)	1,399,347	1,380,120
	5,885,611	2,978,467
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 6)	57,394,521	59,993,621
<b>Contributed surplus</b> (Note 6)	6,451,846	6,478,846
<b>Deficit</b>	(12,753,216)	(12,688,748)
	51,093,151	53,783,719
	\$ 56,978,762	\$ 56,762,186

See accompanying notes

Approved by the Directors:

\_\_\_\_\_  
"John F. Kearney"  
John F. Kearney

\_\_\_\_\_  
"Robert Gayton"  
Robert Gayton

**CANADIAN ZINC CORPORATION**

Statements of Operations and Deficit

As at March 31, 2007

(Unaudited – prepared by management)

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	Three Months ended March 31 2007	Three Months ended March 31 2006
<b>Income</b>		
Interest Income	\$ 320,006	\$ 181,361
<b>Expenses</b>		
Amortization of office furniture and equipment	920	1,092
Listing and regulatory fees	33,536	27,123
Management and directors fees	64,200	49,600
Office and general	104,215	103,533
Professional fees	93,294	87,768
Project evaluation	39,009	14,722
Shareholder and investor communications	49,300	52,669
	384,474	336,507
<b>Net loss for the period</b>	(64,468)	(155,146)
<b>Deficit, end of period</b>	\$ (12,753,216)	\$ (11,357,478)
<b>Loss per share - basic and diluted</b>	\$ (0.00)	\$ (0.00)
<b>Weighted average number of common shares outstanding – basic and diluted</b>	107,670,212	89,242,252
See accompanying notes		

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**CANADIAN ZINC CORPORATION**

(a development stage company)

Statements of Cash Flows

(Unaudited – prepared by management)

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	Three Months ended March 31 2007	Three Months ended March 31 2006
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (64,468)	\$ (155,146)
Adjustment for items not involving cash:		
- amortization of office furniture and equipment	920	1,092
	(63,548)	(154,054)
Change in non-cash working capital items:		
- other receivables and prepaid expenses	98,291	(1,282)
- accounts payable and accrued liabilities	158,317	213,149
	193,060	57,813
<b>Cash flows from financing activities</b>		
Proceeds from shares issued and subscribed, net of issuance costs	103,500	9,609,858
<b>Cash flows from (used in) investing activities</b>		
Purchase of equipment	(26,253)	(3,901)
Short-term investments redeemed	5,576,010	-
Lease and property abandonment deposit	(30,000)	(30,000)
Deferred exploration and development costs, excluding amortization and accretion	(1,763,043)	(250,499)
	3,756,714	(284,400)
<b>Increase in cash and cash equivalents</b>	4,053,274	9,383,271
<b>Cash and cash equivalents, beginning of period</b>	13,608,364	16,063,876
<b>Cash and cash equivalents, end of period</b>	\$ 17,661,638	\$ 25,447,147

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**1. Continued operations**

These interim financial statements have been prepared using the same accounting policies and methods of their application as the most recent annual financial statements of the Company. These interim financial statements do not include all disclosures normally provided in the annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2006. In management's opinion, all adjustments necessary for fair presentation have been included in these interim financial statements. Interim results are not necessarily indicative of the results expected for the fiscal year. Certain comparative figures have been reclassified to conform to the current period's presentation.

**2. Short-term Investments and Marketable Securities**

Short-term investments, which consist primarily of investments in Bankers Acceptances and Guaranteed Investment Certificates (GIC's) are investments with maturities of three months or more when purchased. As at March 31, 2007, short-term investments consist of \$9,902,708.

On December 21, 2006, the Company participated in a private placement and subscribed to 5,000,000 Units of Ste. Genevieve Resources Ltd. at \$0.05 per Unit for a total of \$250,000. Each Unit consists of one common share and one common share purchase warrant entitling the holder to acquire an additional common share at a price exercisable at \$0.06 on or before December 29, 2008. The market value as at March 31, 2007 and December 31, 2006 was \$300,000.

**3. Resource Interests**

The Company's resource interests comprise the Prairie Creek Mine Property:

	March 31 2007	December 31 2006
Acquisition costs:		
- mining lands	\$ 3,158,000	\$ 3,158,000
- plant and mill	500,000	500,000
	3,658,000	3,658,000
Reclamation security deposits	425,000	395,000
Increase from asset retirement obligations	714,450	746,630
Exploration and development costs (see table below)	23,748,969	21,900,626
	\$ 28,546,419	\$ 26,700,256

**CANADIAN ZINC CORPORATION**  
(a development stage company)  
Notes to Financial Statements  
March 31, 2007  
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**3. Resource Interests** (continued)

Exploration and development costs incurred in 2007 are detailed below:

	Three Months ended March 31 2007	Three Months ended March 31 2006
<b>Exploration and development costs</b>		
Assaying and metallurgical studies	\$ 106,244	\$ 46,959
Camp operation and project development	567,746	97,488
Drilling and underground development	814,462	-
Lease rental	6,592	6,592
Permitting and environmental	120,352	90,931
Transportation and travel	147,647	8,529
	1,763,043	250,499
Amortization – asset retirement obligations	32,180	32,180
Amortization – mining plant and equipment	33,893	7,025
Asset retirement accretion	19,227	19,727
<b>Total exploration and development costs for the period</b>	<b>1,848,343</b>	<b>309,431</b>
<b>Exploration and development costs, beginning of period</b>	<b>21,900,626</b>	<b>13,771,790</b>
<b>Exploration and development costs, end of period</b>	<b>\$ 23,748,969</b>	<b>\$ 14,081,221</b>

Prairie Creek Mine

The Company holds a 100% interest in the Prairie Creek Mine property, plant and equipment located in the Northwest Territories, Canada.

During 2003 the Company renewed two surface leases granted by the Federal Government relating to the operation and care and maintenance of the Prairie Creek Mine Property for a period of ten years terminating March 31, 2012. The Company paid \$100,000 upon execution of the lease and is obligated to pay \$30,000 per year for five years to a maximum of \$250,000 (the final amount of which was paid in the quarter ended March 31, 2007), as a security deposit for the performance of abandonment and reclamation obligations under the leases.

On September 10, 2003 the Company was granted a Type A Land Use Permit and a Type B Water Licence (reissued February 2006) by the Mackenzie Valley Land and Water Board for a period of five years commencing September 10, 2003 for underground development and exploration and for metallurgical testing.

On June 12, 2006, under the terms of the Land Use Permit (MV2001C0023 Part 3C, Section 38) and Water Licence (MV2001L2-0003, Part B, Section 2) the Company contributed \$30,000 and \$70,000, respectively, as security deposits for reclamation obligations.

**3. Resource Interests** (continued)

*Prairie Creek Mine (cont'd)*

On May 11, 2006 the Mackenzie Valley Land and Water Board issued a Land Use Permit for the Phase 3 Exploration Drilling Program. The Land Use Permit (MV2004C0030), is valid for five years and allows surface exploration and diamond drilling at up to 60 sites. Under the terms of the Permit (Part C, Section 56), a security deposit for \$75,000 was made on June 12, 2006.

On April 11, 2007, the Mackenzie Valley Land and Water Board issued a Land Use Permit for use of the road which connects the Prairie Creek Mine with the Liard Highway. The Land Use Permit (MV2003F0028) is valid for five years to April 10, 2012. Under the terms of the Permit (Condition #38; 26 (1)(l)) a security deposit in the amount of \$100,000 is payable prior to the first use of the road.

In 1996, the Company concluded a Co-operation Agreement with the Nahanni Butte Dene Band ("Nahanni"), part of the Deh Cho First Nations. In return for co-operation and assistance undertakings given by the Nahanni towards the development of the Prairie Creek Project, the Company granted the following net profit interest and purchase option to the Nahanni:

- (i) A 5% annual net profits, before taxation, interest in the Prairie Creek Project, payable following the generation of profits after taxation equivalent to the aggregate cost of bringing the Prairie Creek Project into production and establishing the access road; and
- (ii) An option to purchase either a 10% or a 15% interest in the Prairie Creek Project at any time prior to the expiry of three months following permitting for the Project, for the cash payment of either \$6 million or \$9 million, subject to price adjustment for exploration expenditure and inflation, respectively.

In October 2003 the Nahanni informed the Company that Nahanni considers the Agreement terminated. Such termination is not in accordance with the provisions of the Agreement.

During 2006, the Company staked six new mineral claims [the WAY 1-6] at Prairie Creek. The WAY claims cover 4,126.25 hectares and are in good standing until November 11, 2008.

**4. Plant and Equipment**

	March 31, 2007		December 31
	Cost	Accumulated Amortization	2006 Net Book Value
Mining equipment	\$ 645,541	\$ 248,720	\$ 396,821
Pilot plant	108,161	73,845	34,316
Furniture, fixtures & equipment	92,077	76,352	15,725
	<u>\$ 845,779</u>	<u>\$ 398,917</u>	<u>\$ 446,862</u>
			<u>\$ 455,422</u>

**5. Asset Retirement Obligation**

	March 31 2007	December 31 2006
Opening balance – beginning of the period	\$ 1,380,120	\$ 1,302,212
Obligations re-measured during the period	-	-
Accretion expense	19,227	77,908
Ending balance – end of the period	\$ 1,399,347	\$ 1,380,120

The Company's asset retirement obligation arises from its obligations to undertake site reclamation and remediation in connection with its mining activities. In addition the Company has posted reclamation security deposits of \$425,000.

The total discounted amount of the estimated cash flows required to settle the asset retirement obligation as at March 31, 2007 is estimated to be \$1,399,347 in 2007 dollars (December 31, 2006 - \$1,380,120) excluding the security deposits. While it is anticipated that some expenditures will be incurred during the life of the operation to which they relate, a significant component of this expenditure will only be incurred at the end of the mine life. In determining the carrying value of the asset retirement obligation, the Company has assumed a long-term inflation rate of 2.5%, a credit-adjusted risk-free discount rate of 6.5% and a weighted average useful life of production facilities and equipment of ten years. Elements of uncertainty in estimating this amount include changes in the projected mine life, reclamation expenditures incurred during ongoing operations and reclamation and remediation requirements and alternatives.

**6. Share Capital**

Authorized: Unlimited (2006 – unlimited) common shares with no par value.

Shares outstanding:

	Number of Shares	Amount
Balance, December 31, 2006	107,590,212	\$ 59,993,621
Stock options exercised at \$0.23 per share (including \$27,000 from contributed surplus attributed to stock-based compensation)	450,000	130,500
Income tax effect on flow-through share renouncement (Note 8)	-	(2,729,600)
Balance, March 31, 2007	108,040,212	\$ 57,394,521



**6. Share Capital (continued)**

Stock Options

The Company has outstanding directors and employee stock options, fully vested entitling the holders to acquire additional common shares as follows:

Number of Shares	Exercise Price	Expiry Date
2,860,000	\$0.60	January 14, 2010
270,000	\$0.89	June 27, 2011
1,200,000	\$0.90	December 13, 2011
4,330,000		

A summary of the stock option activity for the period is as follows:

	Shares	Weighted Average Exercise Price
Options outstanding and exercisable at December 31, 2006	4,780,000	\$ 0.66
Exercised	(450,000)	0.23
Options outstanding and exercisable at March 31, 2007	4,330,000	

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March 31, 2007  
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**6. Share Capital (continued)**

Warrants

A summary of the Company's warrants issued and outstanding as at March 31, 2007 is as follows:

Balance of Warrants Outstanding at December 31, 2006	Balance of Warrants Outstanding at March 31, 2007	Exercise Price Per Warrant	Expiry Date	Warrant Value
6,666,666	6,666,666	\$1.00	January 30, 2008	2,263,858
814,093	814,093	\$0.72	January 30, 2008	508,676
666,666	666,666	\$1.00	January 30, 2008	319,999
2,777,778	2,777,778	\$1.15	November 23, 2008	845,077
194,444	194,444	\$1.15	November 23, 2008	73,362
486,957	486,957	\$1.15	November 23, 2008	183,723
388,889	388,889	\$0.93	November 23, 2008	166,549
11,995,493	11,995,493			\$4,361,244

Contributed Surplus

	Options	Warrants	Unexercised Options and Warrants	Total
Balance, December 31, 2006	\$ 2,004,303	\$ 4,361,244	\$ 113,299	\$ 6,478,846
Exercise of options	(27,000)	-	-	(27,000)
Balance, March 31, 2007	\$ 1,977,303	\$ 4,361,244	\$ 113,299	\$ 6,451,846

**7. Related Party Transactions**

The Company incurred the following expenses to directors and corporations controlled by directors of the Company:

	March 31 2007	March 31 2006
Executive and director compensation	108,200	85,600
Rent	3,000	3,300
	\$ 111,200	\$ 88,900

All transactions with related parties were within the normal course of business. These transactions have been recorded at amounts agreed to by the transacting parties.

**8. Income Taxes**

The Company's future income tax liability arises from the renunciation of mineral exploration expenditures on flow-through shares issued to investors. During the year ended December 31, 2006, the Company renounced to subscribers of flow-through shares Canadian Exploration Expenditures (CEE) of \$8,000,000. The Company has applied the accounting treatment recommended by the Canadian Institute of Chartered Accountants Emerging Issues Committee #146 which requires the recognition of a future income tax liability of \$2,729,600, representing the tax effect of the renunciation, and a corresponding reduction in shareholders' equity to be recorded in the first quarter of 2007. The future income tax liability (net of future tax assets) was \$1,134,000 at December 31, 2006.

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce such exploration expenditure to the subscribers allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. A future income tax liability arises from the renunciation of mineral exploration costs to investors of flow-through shares.

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through shares issuances which have not been spent and which are held by the Company. As at March 31, 2007, the amount of flow-through proceeds remaining to be expended is \$5,032,669.

**9. Non-cash Transactions**

In the fiscal period ended March 31, 2007 and December 31, 2006, there were no non-cash transactions.