



Financial Statements  
(Unaudited)  
(A Development Stage Company)

September 30, 2008

## **Index**

Balance Sheets

Statements of Operations, Comprehensive Income and Deficit

Statements of Cash Flows

Statements of Shareholders' Equity

Notes to Financial Statements

The Company's auditors have not reviewed these financial statements for the period ended September 30, 2008.

**CANADIAN ZINC CORPORATION**

(a development stage company)

Balance Sheets

(Prepared in accordance with Canadian generally accepted accounting principles)

(Unaudited)

<i>(in thousands of Canadian dollars)</i>	September 30, 2008	December 31, 2007
	(unaudited)	(audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 3,351	\$ 6,919
Short-term investments (Note 3)	20,845	21,495
Marketable securities (Note 4)	54	100
Other receivables and prepaid expenses	143	172
<b>Total Current Assets</b>	<b>24,393</b>	<b>28,686</b>
<b>Restricted cash</b> (Note 5)	<b>214</b>	<b>-</b>
<b>Resource interests</b> (Note 6)	<b>40,711</b>	<b>37,797</b>
<b>Plant and equipment</b> (Note 7)	<b>707</b>	<b>448</b>
<b>Total Assets</b>	<b>\$ 66,025</b>	<b>\$ 66,931</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable	\$ 317	\$ 813
Accrued liabilities	173	441
<b>Total Current Liabilities</b>	<b>490</b>	<b>1,254</b>
<b>Asset retirement obligation</b> (Note 8)	<b>1,221</b>	<b>1,228</b>
<b>Future income tax</b>	<b>3,621</b>	<b>3,621</b>
<b>Total Liabilities</b>	<b>5,332</b>	<b>6,103</b>
<b>Commitments</b> (Notes 6 and 12)		
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 9)	<b>67,015</b>	<b>66,593</b>
<b>Contributed surplus</b> (Note 10)	<b>7,846</b>	<b>7,844</b>
<b>Accumulated other comprehensive income</b>	<b>-</b>	<b>-</b>
<b>Deficit</b>	<b>(14,168)</b>	<b>(13,609)</b>
<b>Total Shareholders' Equity</b>	<b>60,693</b>	<b>60,828</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 66,025</b>	<b>\$ 66,931</b>
<b>Subsequent events</b> (Note 13)		

Approved by the Board of Directors:

“John F. Kearney”

Director

“Brian A. Atkins, CA”

Director

**CANADIAN ZINC CORPORATION**

(a development stage company)

Statements of Operations, Comprehensive Income and Deficit

(Prepared in accordance with Canadian generally accepted accounting principles)

(Unaudited)

<i>(in thousands of Canadian dollars except share and per share amounts)</i>	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
<b>Income</b>				
Interest Income	\$ 184	\$ 375	\$ 698	\$ 1,026
<b>Expenses</b>				
Amortization	5	1	15	3
Listing and regulatory fees	8	10	41	55
Management and directors fees	138	59	425	186
Office and general	89	131	263	291
Professional fees	28	57	79	219
Project evaluation	6	-	17	39
Shareholder and investor communications	62	93	169	320
Stock based compensation	17	-	202	-
Write down on marketable securities (Note 4)	15	25	46	150
	368	376	1,257	1,263
<b>Net loss for the period</b>	(184)	(1)	(559)	(237)
<b>Other comprehensive income/(loss)</b>	-	-	-	-
<b>Comprehensive loss</b>	\$ (184)	\$ (1)	\$ (559)	\$ (237)
<b>Deficit, beginning of period</b>	\$ (13,984)	\$ (12,925)	\$ (13,609)	\$ (12,689)
<b>Net loss</b>	(184)	(1)	(559)	(237)
<b>Deficit, end of period</b>	\$ (14,168)	\$ (12,926)	\$ (14,168)	\$ (12,926)
<b>Loss per share - basic and diluted</b>	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
<b>Weighted average number of common shares outstanding</b>				
– basic and diluted	120,626,813	117,266,961	120,641,434	111,094,708

See accompanying notes to the interim financial statements.

**CANADIAN ZINC CORPORATION**

(a development stage company)

## Statements of Cash Flows

(Prepared in accordance with Canadian generally accepted accounting principles)

(Unaudited)

<i>(in thousands of Canadian dollars)</i>	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
<b>Operating Activities</b>				
Loss for the period	\$ (184)	\$ (1)	\$ (559)	\$ (237)
Reclamation expenditures (Note 8)	(285)	-	(288)	-
Adjustment for items not involving cash:				
Amortization	5	1	15	3
Write down on marketable securities	15	25	46	150
Stock based compensation	17	-	202	-
Change in non-cash working capital items:				
Other receivables and prepaid expenses	(39)	(109)	29	(35)
Accounts payable and accrued liabilities	(21)	1,221	(377)	1,815
	(492)	1,137	(932)	1,696
<b>Financing Activities</b>				
Capital stock issued and subscribed, net of issuance costs	-	9,771	340	10,184
Capital stock repurchased (Note 9)	(118)	-	(118)	-
	(118)	9,771	222	10,184
<b>Investing Activities</b>				
Purchase of equipment	(2)	(8)	(369)	(40)
Resource interest and plant and equipment obligations	(90)	-	(387)	-
Short-term investments	(1,228)	7,818	650	(1,703)
Restricted Cash	-	-	(214)	-
Reclamation security deposits	(100)	-	(100)	(30)
Deferred exploration and development costs, excluding amortization and accretion	(1,442)	(4,868)	(2,438)	(8,915)
	(2,862)	2,942	(2,858)	(10,688)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(3,472)</b>	<b>13,850</b>	<b>(3,568)</b>	<b>1,192</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>6,823</b>	<b>950</b>	<b>6,919</b>	<b>13,608</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,351</b>	<b>\$ 14,800</b>	<b>\$ 3,351</b>	<b>\$ 14,800</b>
<b>Supplemental Information:</b>				
Interest paid	\$ -	\$ -	\$ -	\$ -
Income taxes paid	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the interim financial statements.

## CANADIAN ZINC CORPORATION

(a development stage company)

Statements of Shareholders' Equity

(Prepared in accordance with Canadian generally accepted accounting principles)

(Unaudited)

<i>(in thousands of Canadian dollars except for share amounts)</i>	Common shares		Contributed Surplus	Deficit	Total
	Shares	Amount			
<b>Balance</b> , December 31, 2006	107,590,212	\$ 59,994	\$ 6,479	\$ (12,689)	\$ 53,784
Exercise of options at \$0.23 per share	450,000	131	(27)	-	104
Future income tax effect of flow through shares	-	(2,487)	-	-	(2,487)
Exercise of options at \$0.89 per share	100,000	153	(64)	-	89
Exercise of warrants between \$0.72 - \$0.93 per share	302,738	394	(174)	-	220
Issue of shares at \$0.85 per unit	11,765,000	9,766	-	-	9,766
Share purchase warrants	-	(1,366)	1,366	-	-
Exercise of warrants at \$0.72 per share	6,012	8	(3)	-	5
Stock-based compensation	-	-	267	-	267
Net loss for the year	-	-	-	(920)	(920)
<b>Balance</b> , December 31, 2007	120,213,962	66,593	7,844	(13,609)	60,828
Exercise of warrants at \$0.72 per share	471,101	613	(273)	-	340
Stock-based compensation	-	-	168	-	168
Net loss for the period	-	-	-	(223)	(223)
<b>Balance</b> , March 31, 2008	120,685,063	67,206	7,739	(13,832)	61,113
Stock-based compensation	-	-	17	-	17
Net loss for the period	-	-	-	(152)	(152)
<b>Balance</b> , June 30, 2008	120,685,063	67,206	7,756	(13,984)	60,978
Shares cancelled under normal course issuer bid	(342,500)	(191)	73	-	(118)
Stock-based compensation	-	-	17	-	17
Net loss for the period	-	-	-	(184)	(184)
<b>Balance</b> , September 30, 2008	120,342,563	\$ 67,015	\$ 7,846	\$ (14,168)	\$ 60,693

See accompanying notes to the interim financial statements.

## CANADIAN ZINC CORPORATION

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

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### 1. Basis of Presentation

These unaudited financial statements have been prepared in accordance with Canadian generally accepting accounting principles ("Canadian GAAP") for interim financial information and follow the same accounting policies and methods of application as the most recent audited financial statements of the Company for the year ended December 31, 2007. These interim financial statements do not include all the information and note disclosures required by Canadian GAAP for annual financial statements and therefore should be read in conjunction with the Company's audited financial statements and the notes thereto for the year ended December 31, 2007. In management's opinion, all adjustments considered necessary for fair presentation have been included in these financial statements. Interim results are not necessarily indicative of the results expected for the fiscal year.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company is in the development stage and has no history of profitable operations. There is no guarantee that the Company will be able to obtain the necessary financing to complete the development of its Prairie Creek Mine asset. These financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the impact on the statement of operations and balance sheet classifications that would be necessary were the going concern assumption not appropriate.

### 2. Changes in Accounting Policy

On January 1, 2008, the Company adopted the recommendations included in the following Sections of the Canadian Institute of Chartered Accountants Handbook: Section 1535, "Capital Disclosures," and Section 3862, "Financial Instruments - Disclosures."

#### (a) Section 1535, "Capital Disclosures"

This Section establishes standards for disclosing information about a company's capital and how it is managed. Under this standard the Company will be required to disclose the following, based on the information provided internally to the Company's key management personnel:

- (i) qualitative information about its objectives, policies and processes for managing capital;
- (ii) summary quantitative data about what it manages as capital;
- (iii) whether during the period it complied with any externally imposed capital requirements to which the Company is subject; and
- (iv) when the Company has not complied with such externally imposed capital requirements (if any), the consequences of such non-compliance.

As required under Section 1535, the Company's objectives, policies and processes for managing capital are as follows:

The Company manages its common shares, options and warrants as capital. As the Company is in the exploration and development stage, its principal source of funds for its operations is from the issuance of common shares. The issuance of common shares requires approval of the Board of Directors. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its Prairie Creek project for the benefit of its stakeholders. The Company primarily uses stock options to retain and provide future incentives to key employees and members of the management team. The granting of stock options is primarily determined by the Compensation Committee of the Board of Directors.

## CANADIAN ZINC CORPORATION

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

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### 2. Changes in Accounting Policy (continued)

#### (b) Section 3862, "Financial Instruments – Disclosure"

The new disclosure standard requires companies to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the company's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Companies will be required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

The Section requires specific disclosures to be made, including the criteria for:

- (i) designating financial assets and liabilities as held for trading;
- (ii) designating financial assets as available-for-sale; and
- (iii) determining when impairment is recorded against the related financial asset or when an allowance account is used.

See Note 11 for disclosures related to financial instruments.

### 3. Short-term Investments

Short-term investments, which consist primarily of investments in Bankers Acceptances and Guaranteed Investment Certificates, are investments with maturities of more than three months and less than one year when purchased. As at September 30, 2008, short-term investments were valued at \$20.845 million, earning income at rates ranging from 3.0% to 4.2% (December 31, 2007 - \$21.495 million, earning income at rates ranging from 3.4% to 5.75%). The Company has designated its short-term investments as held for trading assets. Interest income and changes in market value on short-term investments are recorded in interest income in the Statement of Operations; accrued interest earned but not yet received is included in other receivables on the balance sheet. The market value of these assets is based upon quoted market values and the recorded amounts, at September 30, 2008, approximate fair value for these investments.

### 4. Marketable Securities

Canadian Zinc Corporation has an investment in Copper Mesa Mining Corporation ("Copper Mesa"), holding 764,595 Copper Mesa shares and 902,159 Copper Mesa warrants.

The market value of the Copper Mesa shares held by the Company, as at September 30, 2008, was approximately \$54,000 (December 31, 2007 - \$100,000). The loss in market value has been recorded in the Statement of Operations in accordance with the Company's designation of the marketable securities as held for trading assets.

### 5. Restricted Cash

The Company has \$214,000 (December 31, 2007 - \$nil) of cash on hand, which is restricted as security for a letter of guarantee issued by a financial institution, to secure performance by the Company of certain obligations pursuant to an authorization from Fisheries and Oceans Canada ("DFO") (see Notes 6 and 12).

## CANADIAN ZINC CORPORATION

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

### 6. Resource Interests

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

	Sept 30, 2008	December 31, 2007
Acquisition costs:		
- mining lands	\$ 3,158	\$ 3,158
- plant and mill	500	500
	3,658	3,658
Reclamation security deposits	525	425
Increase from asset retirement obligations	811	635
Exploration and development costs (see table below)	35,717	33,079
	\$ 40,711	\$ 37,797

Exploration and development costs incurred in the three and nine months ended September 30, 2008 and September 30, 2007, are detailed below:

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
<b>Exploration and development costs</b>				
Assaying and metallurgical studies	\$ 50	\$ 63	\$ 81	\$ 274
Camp operation and project development	914	1,102	2,044	2,347
Drilling and underground development	-	3,114	171	5,032
Insurance, lease rental	15	58	74	93
Permitting and environmental	307	201	634	487
Transportation and travel	139	329	347	682
	1,425	4,867	3,351	8,915
Drilling and underground development cost recovery	-	-	(942)	-
Amortization – asset retirement obligation	18	32	44	97
Amortization – mining plant and equipment	42	35	125	103
Asset retirement accretion	20	19	60	57
	80	86	229	257
<b>Total exploration and development costs for the period</b>	1,505	4,953	2,638	9,172
<b>Exploration and development costs, beginning of period</b>	34,212	26,120	33,079	21,901
<b>Exploration and development costs, end of period</b>	\$ 35,717	\$ 31,073	\$ 35,717	\$ 31,073



## CANADIAN ZINC CORPORATION

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

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### 6. Resource Interests (continued)

The Company conducted an underground drilling program at the Prairie Creek Mine that commenced in 2006 and continued through to the end of 2007. During the nine months ended September 30, 2008, the Company incurred further expenditures relating to the demobilization of the contractor's equipment and finalization of the work program. Following completion of the contract, a reconciliation of the project costs was performed which resulted in a cost recovery of \$942,000 which was paid to the Company in April 2008.

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

The Company holds various licences and permits required in order to maintain and perform current activities at the Prairie Creek Mine site. A summary of permits and licences granted to the Company subsequent to December 31, 2006 is noted below.

On April 10, 2007, the Mackenzie Valley Land and Water Board (the "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, a security deposit in the amount of \$100,000 is payable prior to the first use of the road. This amount was paid to the Water Board on July 16, 2008.

On March 20, 2008, the Water Board issued a Type B Water Licence (MV2007L8-0026) to permit remediation of a portion of the winter road. The Water Licence is valid for five years to March 20, 2013.

In June 2008, the Company entered into a letter of guarantee in the amount of \$214,000 in favour of DFO to secure performance by the Company of certain obligations pursuant to an authorization from DFO to perform certain road repairs in proximity to the Prairie Creek Mine site. The Authorization from DFO was received on July 15, 2008.

In September 2008, the Water Board granted a two year extension to the Company's Land Use Permit (MV2001C0023) to September 9, 2010 and a five year renewal of the Company's Water Licence (MV2001L2-0003) to September 9, 2013.

## CANADIAN ZINC CORPORATION

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

### 7. Plant and Equipment

	September 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Mining equipment	\$ 1,073	\$ 469	\$ 604
Pilot plant	108	88	20
Furniture, fixtures & equipment	127	88	39
Leasehold improvements	60	16	44
	\$ 1,368	\$ 661	\$ 707

  

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Mining equipment	\$ 693	\$ 349	\$ 344
Pilot plant	108	82	26
Furniture, fixtures & equipment	107	81	26
Leasehold improvements	60	8	52
	\$ 968	\$ 520	\$ 448

### 8. Asset Retirement Obligation

The fair value of the asset retirement obligation is based on information currently available, including the Company's obligations to undertake site reclamation and remediation in connection with its Prairie Creek Mine Site infrastructure and development and applicable regulations. However, the ultimate amount of the asset retirement obligation is uncertain.

The total undiscounted amount of the estimated cash flows required to settle the Company's reclamation and remediation obligations, as at September 30, 2008, is estimated to be \$2.5 million (December 31, 2007 - \$2.5 million). While it is anticipated that some expenditures will be incurred during the life of the operation to which the obligations relate (should mining activity commence), a significant component of this expenditure will only be incurred at the end of the mine life.

The fair value of the estimated cash flows has been estimated at \$1.221 million as at September 30, 2008 (December 31, 2007 - \$1.228 million). In determining the fair 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.

## CANADIAN ZINC CORPORATION

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

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### 8. Asset Retirement Obligation (continued)

A summary of the Company's provision for asset retirement obligation and reclamation is presented below:

	Nine months ended September 30, 2008		Year ended December 31, 2007	
Balance – beginning of period	\$	1,228	\$	1,380
Reclamation expenditures		(288)		(246)
Accretion		60		77
Change in estimates		221		17
Balance – end of period	\$	1,221	\$	1,228

### 9. Share Capital

Authorized: Unlimited common shares with no par value (December 31, 2007 – unlimited).

Issued and outstanding: 120,342,563 common shares (December 31, 2007 – 120,213,962).

During the nine months ended September 30, 2008:

- (i) 471,101 warrants were exercised at a price of \$0.72 per common share for proceeds of \$340,000; and
- (ii) 342,500 common shares were purchased for cancellation pursuant to the Company's Normal Course Issuer Bid for a total expenditure of \$118,000 or \$0.34 per share. The difference between the cost of the shares and the assigned value of the shares was allocated to contributed surplus.

**CANADIAN ZINC CORPORATION**

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

**10. Stock Options, Warrants and Contributed Surplus***(a) Stock Options*

The Company has an incentive stock option plan in place under which it is authorized to grant stock options to directors, executive officers, employees and consultants. At September 30, 2008, the Company was allowed to grant up to 10% of the issued share capital of the Company as stock options. Stock options are exercisable once they have vested under the terms of the grant. A summary of the Company's options at September 30, 2008 and the changes for the three and nine month periods then ended is presented below:

	Three months ended September 30,			
	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,815,000	\$ 0.73	4,170,000	\$ 0.69
Cancelled	(600,000)	0.70	-	-
Outstanding, end of period	4,215,000	\$ 0.73	4,170,000	\$ 0.69

	Nine months ended September 30,			
	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,865,000	\$ 0.73	4,780,000	\$ 0.66
Exercised	-	-	(550,000)	0.35
Cancelled	(650,000)	0.72	(60,000)	0.89
Outstanding, end of period	4,215,000	\$ 0.73	4,170,000	\$ 0.69

**CANADIAN ZINC CORPORATION**

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

**10. Stock Options, Warrants and Contributed Surplus (continued)***(a) Stock Options (continued)*

As at September 30, 2008, the Company has outstanding stock options to purchase an aggregate 4,215,000 common shares as follows:

Options Outstanding			Options Exercisable	
Number	Weighted Average Exercise Price	Expiry Date	Number	Weighted Average Exercise Price
2,460,000	\$ 0.60	January 14, 2010	2,460,000	\$ 0.60
110,000	0.89	June 27, 2011	110,000	0.89
1,000,000	0.90	December 13, 2011	1,000,000	0.90
645,000	0.94	October 15, 2012	545,000	0.94
4,215,000	\$ 0.73		4,115,000	\$ 0.72

No stock options were granted in the nine month period ended September 30, 2008. The Company incurred \$17,000 of stock-based compensation expense during the three months ended September 30, 2008 and \$202,000 for the nine months ended September 30, 2008, related to the vesting of stock options granted in prior periods.

*(b) Warrants*

A summary of the Company's warrants issued and outstanding as at September 30, 2008 and for the three and nine month periods then ended is presented below:

	Three months ended September 30,			
	2008		2007	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	9,715,012	\$ 1.17	11,692,755	\$ 1.03
Granted	-	-	5,882,500	1.20
Exercised	-	-	(6,012)	0.72
Outstanding, end of period	9,715,012	\$ 1.17	17,569,243	\$ 1.09

**CANADIAN ZINC CORPORATION**

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

**10. Stock Options, Warrants and Contributed Surplus (continued)***(b) Warrants (continued)*

	Nine months ended September 30,			
	2008		2007	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	17,569,243	\$ 1.09	11,995,493	\$ 1.02
Granted	-	-	5,882,500	1.20
Exercised	(471,101)	0.72	(308,750)	0.73
Expired	(7,383,130)	1.00	-	-
Outstanding, end of period	9,715,012	\$ 1.17	17,569,243	\$ 1.09

As at September 30, 2008, the Company has outstanding warrants to purchase an aggregate 9,715,012 common shares as follows

Balance of Warrants Outstanding	Exercise Price per Warrant	Expiry Date
3,459,179	\$ 1.15	November 23, 2008
373,333	\$ 0.93	November 23, 2008
5,882,500	\$ 1.20	July 23, 2009
9,715,012		

No warrants were issued in the nine month period ended September 30, 2008.

**CANADIAN ZINC CORPORATION**

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

*(c) Contributed Surplus*

A summary of the contributed surplus account is presented below:

	Options	Warrants	Unexercised Options and Warrants	Normal Course Issuer Bid	Total
Balance, December 31, 2007	\$ 2,142	\$ 5,550	\$ 152	\$ -	\$ 7,844
Stock-based compensation	168	-	-	-	168
Options cancelled	(34)	-	34	-	-
Warrants expired		(2,613)	2,613	-	-
Broker warrants exercised	-	(273)	-	-	(273)
Balance, March 31, 2008	2,276	2,664	2,799	-	7,739
Stock-based compensation	17	-	-	-	17
Balance, June 30, 2008	2,293	2,664	2,799	-	7,756
Stock-based compensation	17	-	-	-	17
Options cancelled	(280)	-	280	-	-
Shares cancelled under normal course issuer bid	-	-	-	73	73
Balance, September 30, 2008	\$ 2,030	\$ 2,664	\$ 3,079	\$ 73	\$ 7,846

## CANADIAN ZINC CORPORATION

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

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### 11. Financial Instruments

- (a) Fair Values: As at September 30, 2008, the recorded amounts for cash and cash equivalents, other receivables and prepaid expenses, accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The Company has designated its cash and cash equivalents and short-term investments as held for trading assets.
- (b) Interest rate risk: Included in the loss for the period in these financial statements is interest income on the Company's cash and cash equivalents and short-term investments. If interest rates throughout the period had been 100 basis points (1%) lower (higher) then net loss would have been approximately \$199,000 higher (\$199,000 lower) for the nine months ended September 30, 2008. The Company does not have any debt obligations which expose it to interest rate risk. As described below, the Company places its cash and cash equivalents and short-term investments with high credit quality financial institutions which have invested the funds in AAA debt instruments.
- (c) Credit risk: The Company does not currently generate any revenues from sales to customers nor does it hold derivative type instruments that would require a counterparty to fulfil a contractual obligation. The Company has never held any asset-backed paper instruments.

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and short-term investments. The Company places its cash and cash equivalents and short-term investments (which consist of Bankers' Acceptances and Guaranteed Investment Certificates) with high credit quality financial institutions which have invested the funds in AAA debt instruments.

- (d) Liquidity risk: Liquidity risk encompasses the risk that the Company cannot meet its financial obligations. The Company manages liquidity risk by maintaining sufficient cash and cash equivalent balances. Liquidity requirements are managed based on expected cash flow to ensure that there is sufficient capital in order to meet short-term obligations. As at September 30, 2008, the Company had positive working capital of \$23.903 million. Accordingly, the Company is able to meet its current obligations and has minimal liquidity risk. However, it is likely that the Company will require additional funding in the future in order to complete the development of the Prairie Creek Mine site and bring the mine into production. Accordingly, there is a risk that the Company may not be able to secure adequate funding on reasonable terms at that future date.
- (e) Currency risk: As at September 30, 2008, the Company has no cash and cash equivalents or short-term investments in any currency other than the Canadian dollar, which is the Company's functional currency. In addition, the Company currently operates entirely within Canada.
- (f) Commodity price risk: The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market prices of zinc, lead and silver.



## CANADIAN ZINC CORPORATION

(a development stage company)

Notes to Financial Statements

September 30, 2008

(Tabular amounts are in thousands of Canadian dollars, except for shares, price per share and per share amounts)

(Unaudited)

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### 12. Commitments

- (a) The Company has entered into operating lease agreements for office space and equipment. These agreements require the Company to make the following lease payments:

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	Office Leases		Office equipment		Total
3 months ending December 31, 2008	\$ 30	\$	2	\$	32
Year ending December 31, 2009	129		7		136
Year ending December 31, 2010	135		-		135
Year ending December 31, 2011	133		-		133
Year ending December 31, 2012	78		-		78
	\$ 505	\$	9	\$	514

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- (b) The Company has a letter of guarantee outstanding in the amount of \$214,000 as security for the Company fulfilling certain obligations pursuant to an Authorization granted by DFO relating to road repairs in proximity to the Prairie Creek Mine Site (see Notes 5 and 6).

### 13. Subsequent Events

Subsequent to September 30, 2008:

- (a) 10,000 stock options exercisable at \$0.94 per share were cancelled.
- (b) An additional 204,000 common shares were purchased for cancellation pursuant to the Company's Normal Course Issuer Bid for a total expenditure of \$55,000 or \$0.27 per share.
- (c) The Company commenced a limited program to invest in the marketable securities of major mining companies in order to enhance returns from its cash resources. To date, a total of approximately \$990,000 has been invested in such marketable securities.