CANADIAN ZINC CORPORATION

Unaudited Financial Statements

September 30, 2005

These financial statements are unaudited and

have not been reviewed by an auditor

Index

Balance Sheets

Statements of Operations and Deficit

Statements of Cash Flows

Schedule of Deferred Exploration and Development Costs

Notes to Financial Statements

CANADIAN ZINC CORPORATION

Balance Sheets
September 30, 2005
(unaudited - prepared by management)

		September 30 2005 (unaudited)		December 31 2004 (audited)
ASSETS				
Current assets				
Cash and cash equivalents	$	11,545,080	$	12,907,997
Accounts receivable and prepaids		41,548		24,711
		11,586,628		12,932,708
Resource interests (Note 2)		18,051,496		16,897,724
Plant and equipment (Note 3)		115,765		133,547
	$	29,753,889	$	29,963,979
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	299,189	$	175,080
Property closure and abandonment provision (Note 4)		1,223,658		1,197,996
		1,522,847		1,373,076
SHAREHOLDERS' EQUITY				
Share capital (Note 5)		38,023,211		37,789,923
Contributed surplus (Note 5)		1,277,000		36,000
Deficit		(11,069,169)		(9,235,020)
		28,231,042		28,590,903
	$	29,753,889	$	29,963,979

Approved by the Directors: *"John F. Kearney"* John F. Kearney *"Robert J. Gayton"* Robert J. Gayton

CANADIAN ZINC CORPORATION
September 30, 2005
Statements of Operations and Deficit
(Unaudited – prepared by management)

	Three months Ended Sept . 30, 2005	Three months ended Sept. 30, 2004	Nine months ended Sept. 30, 2005	Nine months ended Sept. 30, 2004
Income				
Interest income	$ 80,686	$ 83,134	$ 209,607	$ 247,498
Expenses				
Amortization	745	1,280	2,269	3,840
Listing and regulatory	27,811	7,100	101,164	31,335
Management and Directors fees	47,950	34,850	253,150	185,744
Office & General	48,200	44,081	187,159	144,139
Professional fees	17,694	20,661	89,392	164,424
Project evaluation	-	-	72,921	-
Shareholder and Investor communications	26,209	39,140	96,701	166,829
Stock based compensation (Note 5)	-	-	1,241,000	-
	168,609	147,112	2,043,756	696,311
Loss for the period	(87,923)	(63,978)	(1,834,149)	(448,813)
Deficit, beginning of period	(10,981,246)	(8,940,728)	(9,235,020)	(8,555,893)
Deficit, end of period	**$** (11,069,169)	**$** (9,004,706)	$ (11,069,169)	$ (9,004,706)
Loss per share - basic and diluted	$ (0.00)	$ (0.00)	$ (0.03)	$ (0.01)
Weighted average number of common shares outstanding				
– basic and diluted	69,783,755	68,788,456	69,744,874	67,534,835

CANADIAN ZINC CORPORATION
September 30, 2005
Statements of Cash Flows
(Unaudited – prepared by management)

		Three months Ended Sept. 30, 2005		Three months ended Sept. 30, 2004		Nine months ended Sept. 30, 2005		Nine months ended Sept. 30, 2004
Cash flows from (used in) operating activities								
Loss for the period	$	(87,923)	$	(63,978)	$	(1,834,149)	$	(448,813)
Adjustment for item not involving cash:								
- Amortization		745		1,280		2,269		3,840
- Stock based compensation		-		-		1,241,000		
		(87,178)		(62,698)		(590,880)		(444,973)
Change in non-cash working capital items:								
- Accounts receivable		92,044		121,019		(16,837)		(43,282)
- Accounts payable and accrued liabilities		125,525		49,326		124,109		5,698
		130,391		107,647		(483,608)		(482,557)
Cash flows from financing activities								
Shares issued for cash		-		272,143		233,288		2,188,505
Cash flows (used in) investing activities								
Purchase of equipment		(1,326)		(11,745)		(12,508)		(40,149)
Payment of security deposit		-		-		(30,000)		-
Exploration and development costs excluding amortization		(600,262)		(1,225,158)		(1,070,089)		(1,767,927)
		(601,588)		(1,236,903)		(1,112,597)		(1,808,076)
Increase (decrease) in cash and cash equivalents		(471,197)		(857,113)		(1,362,917)		(102,128)
Cash and cash equivalents, beginning of period		12,016,277		14,094,427		12,907,997		13,339,442
Cash and cash equivalents, end of period	$	11,545,080	$	13,237,314	$	11,545,080	$	13,237,314

CANADIAN ZINC CORPORATION

September 30, 2005

Schedule of Deferred Exploration and Development Costs

(unaudited - prepared by management)

		Three months ended Sept. 30, 2005	Three months ended Sept. 30, 2004	Nine months ended Sept. 30, 2005	Nine months Ended Sept. 30, 2004
Exploration and development costs					
Assaying and metallurgical	$	295,648	111,954	382,469	190,175
Camp operation		94,232	63,708	100,245	69,772
Exploration drilling		-	655,486	-	789,646
Insurance		-	-	30,250	31,150
Lease rental		15,408	15,408	22,751	89,730
Salaries and consulting – geology, permitting, environmental		94,648	231,290	403,050	361,662
Travel		100,326	147,313	131,324	235,793
		600,262	1,225,159	1,070,089	1,767,928
Amortization – asset retirement obligation		32,180	-	96,540	-
Amortization – mining plant and equipment		9,180	2,476	28,021	5,194
Amortization – asset retirement accretion		18,554	-	55,662	-
		59,914	2,476	180,223	5,194
Total exploration and development costs for the period		660,176	1,227,635	1,250,312	1,773,122
Deferred exploration and development costs, beginning of period		12,695,790	10,292,105	12,105,654	9,746,618
Deferred exploration and development costs, end of period	$	13,355,966	11,519,740	13,355,966	11,519,740

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, 2004. 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. Resource Interests

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

	September 30 2005	December 31 2004
Acquisition costs:		
- mining lands	$ 3,158,000	$ 3,158,000
- plant and mills	500,000	500,000
	3,658,000	3,658,000
Increase from asset retirement obligation	1,037,530	1,134,070
Exploration and development costs (see schedule)	13,355,966	12,105,654
	$ 18,051,496	$ 16,897,724

Prairie Creek Mine

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

In 1994, the Company acquired a 100% interest, subject to a 2% net smelter royalty interest ("N.S.R."), in the property. The acquisition included a 60% interest in the plant and equipment located on the property with an option to acquire the remaining 40% interest. One-half of the 40% interest was to be transferred to the Company when N.S.R. payments totalled $3,200,000 and the remaining one-half interest when additional N.S.R. payments totalled $5,000,000, whereupon the N.S.R. terminated.

In early 2004, the Company entered into an agreement with Titan Logix Corp. (Titan) to purchase Titan's interest in the Prairie Creek Mine Property. Under the Agreement with Titan, the Company acquired the remaining 40% interest in the physical plant and equipment and repurchased the 2% NSR royalty. The consideration for the acquisition was the issuance to Titan of 300,000 common shares and 250,000 purchase warrants exercisable at $1.25 per share until June 22, 2005.

During 2003 the Company renewed two surface leases granted by the Federal Government of Canada 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, (of which $190,000 was paid as at September 30, 2005) 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 for a period of five years commencing September 10, 2003 for underground development and exploration and for metallurgical testing, by the Mackenzie Valley Land and Water Board. Under the terms of the Land Use Permit and Water Licence the Company is obligated to contribute the amounts of $30,000 and $70,000, respectively, as security deposits for reclamation obligations.

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

(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;

(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.

On October 10, 2003 an appeal to the Federal Court was filed by the Nahanni Butte Dene Band, Pehdzeh Kl First Nation and the Deh Cho First Nations against the Mackenzie Valley Land and Water Board and the Company seeking judicial review of the decision of the Water Board to grant the Water Licence to the Company. Filing of these proceedings by the Nahanni Butte Dene Band is in breach of the Co-operation Agreement. The Nahanni Butte Dene Band has informed the Company that the Nahanni considers the Agreement terminated. Such termination is not in accordance with the provisions of the Agreement.

On August 30 and 31, 2005 the Judicial Review of the decision of the Mackenzie Valley Land and Water Board in September 2003 to issue the Water Licence was heard by the Federal Court in Vancouver. A judgment is pending. This appeal had been taken by the Dehcho First Nations against the Mackenzie Valley Land and Water Board and the Company, alleging that the Licence as issued did not include all the recommendations of the Mackenzie Valley Environmental Impact Review Board. The Minister for Indian Affairs and Northern Development joined the case as an Intervenor. Prior to the hearing, the Company reached agreement with the Minister that the Water Licence should be corrected to include the recommendations of the Mackenzie Valley Environmental Impact Review Board which had been adopted by the Minister. Both the Company and the Minister have asked the Court to correct the Licence and have submitted proposed amending language to the Court. This correction may take the form of an amendment approved by the Court, or a direction by the Court that the Licence be referred back to the Water Board for re-issue in its corrected form. The Court reserved judgment and a decision is pending.

On May 6, 2005 the Supreme Court of the Northwest Territories ("Supreme Court") ruled in favour of the Company that its Winter Road permit application is "*grandfathered*" and is therefore exempt from the environmental assessment process under the *Mackenzie Valley Resource Management Act ("MVRMA")*. In a written decision the Supreme Court overturned the earlier decision of the Mackenzie Valley Land and Water Board that the development proposal to use the winter road must undergo preliminary screening and, if applicable, an environmental assessment and environmental impact review by the Mackenzie Valley Environmental Impact Review Board. Canadian Zinc had appealed to the Supreme Court seeking judicial review of that decision of the Water Board. In its decision the Supreme Court said that the permit sought by Canadian Zinc is related to the operation of the winter access road, a permit in respect of that same undertaking had been issued before 1984, and therefore the exemption provided in Section 157.1 of the MVRMA governs and a Part 5 assessment does not apply.

3. Plant and Equipment

	September 30, 2005			December 31 2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Mining equipment	$ 222,384	$ 179,506	$ 42,877	$ 46,681
Pilot plant	108,161	49,484	58,677	75,712
Furniture, fixtures & equipment	84,390	70,180	14,211	11,154
	$414,935	$ 299,170	$ 115,765	$ 133,547

4. Asset Retirement Obligation

	September 30 2005	December 31 2004
Opening balance – beginning of the period	$ 1,197,996	$ 117,990
Obligations re-measured during the year	-	1,043,189
Payment of security deposit	(30,000)	(30,000)
Accretion expense	55,662	66,817
Ending balance – end of the period	$ 1,223,658	$ 1,197,996

The Company's asset retirement obligation arises from its obligations to undertake site reclamation and remediation in connection with its operating activities. The security deposits which the Company has paid for these obligations have been recorded in Resource Interests (see note 2).

The total discounted amount of the estimated cash flows required to settle the asset retirement obligation as at September 30, 2005 is estimated to be $1,223,658 measured in 2005 dollars. 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 alternatives.

5. Share Capital

Authorized: Unlimited common shares with no par value.

Issued:

	Number of Shares	Amount
Balance, December 31, 2004	69,394,942	$37,789,923
Warrants exercised at $0.60 per share	383,813	230,288
Warrants exercised at $0.60 per share	5,000	3,000
Balance, September 30, 2005	69,783,755	$38,023,211

Stock Options/Stock Based Compensation

In January 2005, pursuant to the Company's 10% Rolling Stock Option Plan, the Company granted stock options to purchase an aggregate of 3,650,000 common shares at $0.60 per share to directors, officers, consultants and service providers of the Company. These stock options vest immediately and expire in five years on January 14, 2010. Each option entitles the holder to acquire one common share of the Company.

The weighted average fair value of the options granted in 2005 was estimated at $0.34 per share by using the Black-Scholes Option Pricing Model with the following weighted average assumptions: risk-free interest rate of 3.5%, dividend yield of 0%, volatility of 83% and expected life of 5 years. An expense of $1,241,000, in respect of stock based compensation, was charged to operations and added to contributed surplus

The Black-Scholes model was developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. The Company's options have characteristics which are significantly different from those of traded options, and changes in any of the assumptions can materially affect fair value estimate.

A summary of the Company's stock option plans as at September 30, 2005 is presented below:

	Shares	Weighted Average Exercise Price
Options outstanding and exercisable at December 31, 2004	450,000	$ 0.23
Granted in January 2005	3,650,000	$ 0.60
Options outstanding and exercisable at September 30, 2005	4,100,000	$ 0.56

The Company did not grant any stock options in the quarter ended September 30, 2005.

5. Share Capital (Continued)

Warrants

At September 30, 2005, the Company had no outstanding warrants.

	Number of Warrants
Balance, December 31, 2004	7,284,065
Warrants exercised at $0.60 per share	(388,813)
Warrants expired June 2005 ($0.60-$1.25)	(6,895,252)
Balance September 30, 2005	Nil

6. Related Party Transactions

The Company incurred the following executive and director compensation, and expenses, paid directly or to corporations controlled by the executives/directors:

	Three months ended Sept. 30 2005	Three months ended Sept.30 2004	Nine months ended Sept. 30 2005	Nine months ended Sept. 30 2004
Executive and Director compensation	$ 83,950	$ 30,100	$ 262,000	$ 180,994
Professional Fees	-	34,750	-	60,258
Rent	3,000	-	9,000	-
	$ 86,950	$ 64,850	$ 271,000	$ 241,252

7. Non-cash Transactions

In the period ended September 30, 2005, the Company had no non-cash transactions.

8. Subsequent events

On October 28, 2005 the Company closed a brokered private placement for the sale, of 9,090,909 (Flow-Through) Common Shares at a subscription price of $0.55 per (Flow-Through) Common Share for gross proceeds of $5,000,000.

The proceeds received from the private placement will be used to incur Canadian Exploration Expense ("CEE") and will be applied to fund further exploration at the Prairie Creek Project along with future possible property acquisitions in Canada.

Under the private placement 145,409 (1.6%) common shares were issued to non-arm's length parties.

Octagon Capital Corporation, as Agent, was paid a cash commission equal to 8.0% of the gross proceeds and Agent's Warrants entitling Octagon to purchase 727,273 Warrants exercisable for a period of two years, to acquire one Common Share at a price of $0.55 per Common Share. The Company also paid Agent's fees and expenses.

The securities issued and any securities issued on exercise of such securities are subject to a hold period and may not be traded for a period of four months from the date of Closing except as permitted by applicable securities legislation and the rules of The Toronto Stock Exchange.