



Financial Statements
(Unaudited – Prepared by Management)

June 30, 2006

Index

Balance Sheets

Statements of Operations and Deficit

Statements of Cash Flows

Notes to Financial Statements

CANADIAN ZINC CORPORATION

Balance Sheets

as at June 30, 2006

(Unaudited – prepared by management)

| | June 30 2006 | December 31 2005 |
|---|-----------------|---------------------|
| | (unaudited) | (audited) |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 24,595,000 | \$ 16,063,876 |
| Accounts receivable | 88,682 | 24,179 |
| | 24,683,682 | 16,088,055 |
| Resource interests (Note 2) | 20,488,447 | 18,495,140 |
| Plant and equipment (Note 3) | 171,369 | 111,385 |
| | \$ 45,343,498 | \$ 34,694,580 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,079,585 | \$ 48,409 |
| Asset retirement obligations (Note 4) | 1,516,666 | 1,302,212 |
| | 2,596,251 | 1,350,621 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 5) | 52,201,802 | 43,066,867 |
| Contributed surplus (Note 5) | 2,229,069 | 1,479,424 |
| Deficit | (11,683,624) | (11,202,332) |
| | 42,747,247 | 33,343,959 |
| | \$ 45,343,498 | \$ 34,694,580 |

Approved by the Directors:

"John F. Kearney"

John F. Kearney

"Robert Gayton"

Robert Gayton

CANADIAN ZINC CORPORATION

Statements of Operations and Deficit

as at June 30, 2006

(Unaudited – prepared by management)

| | Three Months ended June 30 2006 | Three Months ended June 30 2005 | Six Months ended June 30 2006 | Six Months ended June 30 2005 |
|---|--|--|--|--|
| Income | | | | |
| Interest Income | \$ 225,490 | \$ 75,812 | \$ 406,851 | \$ 128,921 |
| Expenses | | | | |
| Amortization | 1,090 | 812 | 2,182 | 1,524 |
| Listing and regulatory fees | 3,034 | 34,168 | 30,157 | 73,353 |
| Management compensation | 146,000 | 50,800 | 195,600 | 205,200 |
| Office and general | 70,020 | 41,842 | 173,553 | 138,959 |
| Professional fees | 42,819 | 37,664 | 130,587 | 71,698 |
| Project evaluation | 14,784 | 36,991 | 29,506 | 72,921 |
| Shareholder and investor communications | 82,416 | 33,431 | 135,085 | 70,492 |
| Stock based compensation | 191,473 | - | 191,473 | 1,241,000 |
| | 551,636 | 235,708 | 888,143 | 1,875,147 |
| Loss for the period | (326,146) | (159,896) | (481,292) | (1,746,226) |
| Deficit, beginning of period | (11,357,478) | (10,821,350) | (11,202,332) | (9,235,020) |
| Deficit, end of period | \$(11,683,624) | \$(10,981,246) | \$(11,683,624) | \$ (10,981,246) |
| Loss per share - basic and diluted | \$ (0.00) | \$ (0.00) | \$ (0.01) | \$ (0.03) |
| Weighted average number of common shares outstanding - basic and diluted | | | | |
| | 94,529,214 | 69,782,088 | 91,981,502 | 69,661,707 |

See accompanying notes

CANADIAN ZINC CORPORATION

Statements of Cash Flows

as at June 30, 2006

(Unaudited – prepared by management)

| | Three Months ended June 30 2006 | Three Months ended June 30 2005 | Six Months ended June 30 2006 | Six Months ended June 30 2005 |
|--|---|---|---|---|
| Cash flows from (used in) operating activities | | | | |
| Loss for the period | \$ (326,146) | \$ (159,896) | \$ (481,292) | \$ (1,746,226) |
| Adjustment for items not involving cash: | | | | |
| - amortization | 1,090 | 812 | 2,182 | 1,524 |
| - stock based compensation | 191,473 | - | 191,473 | 1,241,000 |
| | (133,583) | (159,084) | (287,637) | (503,702) |
| Change in non-cash working capital items: | | | | |
| - accounts receivable | (63,221) | (110,964) | (64,503) | (108,882) |
| - accounts payable and accrued liabilities | 818,027 | (6,932) | 1,031,176 | (1,415) |
| | 621,223 | (276,980) | 679,036 | (613,999) |
| Cash flows from financing activities | | | | |
| Proceeds from shares issued and subscribed, net of issuance costs | 83,249 | 3,000 | 9,693,107 | 233,288 |
| Cash flows used in investing activities | | | | |
| Purchase of equipment | (75,134) | (11,182) | (79,035) | (11,182) |
| Lease and property abandonment deposit | (175,000) | - | (205,000) | (30,000) |
| Deferred exploration and development costs, excluding amortization and accretion | (1,306,485) | (292,307) | (1,556,984) | (469,827) |
| | (1,556,619) | (303,489) | (1,841,019) | (511,009) |
| Increase (decrease) in cash and cash equivalents | (852,147) | (577,469) | 8,531,124 | (891,720) |
| Cash and cash equivalents, beginning of period | 25,447,147 | 12,593,746 | 16,063,876 | 12,907,997 |
| Cash and cash equivalents, end of period | \$ 24,595,000 | \$12,016,277 | \$24,595,000 | \$ 12,016,277 |

CANADIAN ZINC CORPORATION

Notes to Financial Statements

June 30, 2006

(Unaudited – prepared by management)

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, 2005. 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:

| | June 30 2006 | December 31 2005 |
|---|-----------------|---------------------|
| 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 | 395,000 | 190,000 |
| Increase from asset retirement obligation | 985,990 | 875,350 |
| Exploration and development costs (see table below) | 15,449,457 | 13,771,790 |
| | \$ 20,488,447 | \$ 18,495,140 |

CANADIAN ZINC CORPORATION

Notes to Financial Statements

June 30, 2006

(Unaudited – prepared by management)

2. Resource Interests (cont'd)

Exploration and development costs incurred in 2006 and 2005 are detailed below:

| | Three Months ended June 30 2006 | Three Months ended June 30 2005 | Six Months ended June 30 2006 | Six Months ended June 30 2005 |
|---|--|--|--|--|
| Exploration and development costs | | | | |
| Assaying and metallurgical studies | \$ 20,060 | \$ 38,681 | \$ 67,019 | \$ 86,821 |
| Camp operation and project development | 253,756 | 6,013 | 316,105 | 6,013 |
| Drilling and underground development | 453,368 | - | 453,368 | - |
| Geology | 175,700 | - | 210,839 | - |
| Insurance | 32,930 | 30,250 | 39,522 | 30,250 |
| Lease rental | 5,787 | - | 5,787 | 7,343 |
| Permitting and environmental | 155,196 | 195,369 | 246,127 | 308,402 |
| Transportation and travel | 209,688 | 21,994 | 218,217 | 30,998 |
| | 1,306,485 | 292,307 | 1,556,984 | 469,827 |
| Amortization – asset retirement obligation | 32,180 | 32,180 | 64,360 | 64,360 |
| Amortization – mining plant and equipment | 9,844 | 9,662 | 16,869 | 18,841 |
| Asset retirement accretion | 19,727 | 18,554 | 39,454 | 37,108 |
| | 61,751 | 60,396 | 120,683 | 120,309 |
| Total exploration and development costs for the period | 1,368,236 | 352,703 | 1,677,667 | 590,136 |
| Exploration and development costs, beginning of period | 14,081,221 | 12,343,087 | 13,771,790 | 12,105,654 |
| Exploration and development costs, end of period | \$ 15,449,457 | \$ 12,695,790 | \$ 15,449,457 | \$ 12,695,790 |

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 (of which \$190,000 was paid as at December 31, 2005 and \$220,000 was paid as at June 30, 2006), as a security deposit for the performance of abandonment and reclamation obligations under the leases.

CANADIAN ZINC CORPORATION

Notes to Financial Statements

June 30, 2006

(Unaudited – prepared by management)

2. Resource Interests (cont'd)

Prairie Creek Mine (cont'd)

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.

On May 11, 2006 the Mackenzie Valley Land and Water Board issued the 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 by the Company.

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 an appeal to the Federal Court was filed by the Nahanni, Pehdzeh KI 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 a Water Licence to the Company. The appeal by the Nahanni against the decision of the Water Board to issue the Water Licence was a breach of the Co-operation Agreement. The Nahanni has informed the Company that Nahanni considers the Agreement terminated. Such termination is not in accordance with the provisions of the Agreement.

CANADIAN ZINC CORPORATION

Notes to Financial Statements

June 30, 2006

(Unaudited – prepared by management)

3. Plant and Equipment

| | June 30, 2006 | | | December 31 2005 |
|---------------------------------|-------------------|-----------------------------|-------------------|---------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Mining equipment | \$ 299,702 | \$ 191,714 | \$ 107,988 | \$ 39,590 |
| Pilot plant | 108,161 | 63,112 | 45,049 | 52,999 |
| Furniture, fixtures & equipment | 91,542 | 73,210 | 18,332 | 18,796 |
| | <u>\$ 499,405</u> | <u>\$ 328,036</u> | <u>\$ 171,369</u> | <u>\$ 111,385</u> |

4. Asset Retirement Obligation

| | June 30 2006 | December 31 2005 |
|---|---------------------|---------------------|
| Opening balance – beginning of the period | \$ 1,302,212 | \$ 1,227,996 |
| New obligation incurred during the period | 175,000 | - |
| Accretion expense | 39,454 | 74,216 |
| <u>Ending balance – end of the period</u> | <u>\$ 1,516,666</u> | <u>\$ 1,302,212</u> |

The Company's asset retirement obligation arises from its obligations to undertake site reclamation and remediation in connection with its operating activities.

The total discounted amount of the estimated cash flows required to settle the asset retirement obligation as at June 30, 2006 is estimated to be \$1,516,666 measured in 2006 dollars (December 31, 2005 - \$1,302,212). While it is anticipated that some reclamation 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.

CANADIAN ZINC CORPORATION

Notes to Financial Statements

June 30, 2006

(Unaudited – prepared by management)

5. Share Capital

Authorized: Unlimited common shares with no par value.

Issued:

| | Number of Shares | Amount |
|--|---------------------|--------------|
| Balance, December 31, 2005 | 79,747,212 | \$43,066,867 |
| Private Placement at \$0.72 per share (less \$768,141 issuance costs) | 13,333,333 | 8,831,858 |
| Broker warrants | - | (942,993) |
| Stock options exercised at \$0.60 per share (including \$233,189 from contributed surplus attributed to stock-based compensation recognized in prior periods) | 630,000 | 611,189 |
| Broker warrants exercised at \$0.55 per share (including \$109,091 from contributed surplus attributed to the fair value of warrants attached to private placements issued in prior periods) | 727,273 | 509,091 |
| Balance, March 31, 2006 | 94,437,818 | 52,076,012 |
| Stock options exercised at \$0.60 per share (including \$22,208 from contributed surplus attributed to stock-based compensation recognized in prior periods) | 60,000 | 58,208 |
| Broker warrants exercised at \$0.75 and \$0.85 per share (including \$20,333 from contributed surplus attributed to the fair value of warrants attached to private placements issued in prior periods) | 61,077 | 67,582 |
| Balance, June 30, 2006 | 94,558,895 | \$52,201,802 |

Stock Options

As of June 30, 2006 the Company has outstanding directors and employee stock options entitling the holders to acquire additional common shares as follows:

| Number of Shares | Exercise Price | Expiry Date |
|---------------------|----------------|------------------|
| 450,000 | \$0.23 | March 18, 2007 |
| 2,860,000 | \$0.60 | January 14, 2010 |
| 300,000 | \$0.89 | June 27, 2011 |
| 3,610,000 | | |

On June 27, 2006, the company granted stock option to certain employees and consultants to purchase an aggregate of 300,000 common shares at \$0.89 per share. These stock options vest immediately and expire in five years.

CANADIAN ZINC CORPORATION

Notes to Financial Statements

June 30, 2006

(Unaudited – prepared by management)

5. Share Capital (cont'd)

The weighted average fair value of the options granted in 2006 was estimated at \$0.64 per share by using the Black-Scholes Option Pricing Model with the following weighted average assumptions: risk-free interest rate of 4.51%, dividend yield of 0%, volatility of 98% and expected life of 5 years. An expense of \$191,473, in respect of stock based compensation, was charged to operations and added to contributed surplus.

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 vested 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 \$0.36 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 91% and expected life of 5 years. In the three months to March 31 and six months to June 30, 2005 an expense of \$1,241,000, in respect of stock based compensation, was charged to operations and added to contributed surplus for the first half of 2005.

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.

Summary of the stock option activity as of June 30, 2006:

| | Shares | | Weighted Average Exercise Price |
|--|-----------|----|--|
| Options outstanding and exercisable at December 31, 2005 | 4,000,000 | \$ | 0.56 |
| Exercised | (690,000) | | 0.60 |
| Granted | 300,000 | | 0.89 |
| Options outstanding and exercisable at June 30, 2006 | 3,610,000 | \$ | 0.58 |

The remaining contractual life of these options is as follows:

| Range of Exercise Price | Number Outstanding and Exercisable | Weighted Average Remaining Contractual Life |
|-------------------------|---------------------------------------|---|
| \$0.23 - \$0.60 | 3,310,000 | 3.16 years |
| \$0.89 | 300,000 | 4.99 years |

CANADIAN ZINC CORPORATION

Notes to Financial Statements

June 30, 2006

(Unaudited – prepared by management)

5. Share Capital (cont'd)Warrants

Summary of the Company's warrants issued and outstanding as at June 30, 2006:

| Number of Warrants Outstanding at December 31, 2005 | Number of Warrants Expired/ Exercised during 2006 | Issued during 2006 | Balance of Warrants Outstanding at June 30, 2006 | Exercise Price Per Warrant | Expiry Date | Warrant Value |
|---|---|--------------------|--|----------------------------|------------------|----------------|
| 727,273 | (727,273) | - | - | \$0.55 | Oct. 27, 2007 | \$ - |
| 46,666 | (46,666) | - | - | \$0.75 | Dec. 30, 2006 | - |
| 14,411 | (14,411) | - | - | \$0.85 | Dec. 30, 2006 | - |
| - | - | 6,666,666 | 6,666,666 | \$1.00 | January 30, 2008 | - |
| - | - | 1,333,333 | 1,333,333 | \$0.72 | January 30, 2008 | 679,601 |
| - | - | 666,666 | 666,666 | \$1.00 | January 30, 2008 | 263,392 |
| 788,350 | (788,350) | 8,666,665 | 8,666,665 | | | 942,993 |

In January 2006, the Company completed an underwritten private placement for total proceeds of \$9.6 million, through the issuance of 13,333,333 units, priced at \$0.72 per unit. Each unit consists of one common share and one-half share purchase warrant exercisable to purchase one common share at a price of \$1.00 per share for a period of two years.

On June 14, 2006, at the Company's Annual Meeting, shareholders approved the issuance to Northern Securities Inc. for underwriters options on 1,333,333 Units, exercisable for a period of two years from January 30, 2006 at \$0.72 per Unit, with each Unit consisting of one common share and one half share purchase warrant exercisable at \$1.00 per share for a period of twenty four months, pursuant to an underwritten financing of the Company completed on January 30, 2006. These broker options and warrants were issued as part of the cost of the private placement and were allocated at fair value of \$942,993 based on the Black Scholes Option Pricing Model in accordance with *CICA Handbook Section 3860, "Financial Instruments – Disclosure and Presentation"* and added to Contributed Surplus.

Contributed Surplus

| | Amount |
|---|---------------------|
| Contributed surplus at December 31, 2005 | \$ 1,479,424 |
| Value of broker warrants | 942,993 |
| Stock based compensation on options granted | 191,473 |
| Exercise of options | (255,397) |
| Exercise of broker warrants | (129,424) |
| Contributed surplus at June 30, 2006 | \$ 2,229,069 |

CANADIAN ZINC CORPORATION

Notes to Financial Statements

June 30, 2006

(Unaudited – prepared by management)

6. Related Party Transactions

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

| | Three months ended June 30 2006 | Three months ended June 30 2005 | Six months ended June 30 2006 | Six months ended June 30 2005 |
|-------------------------------------|---|---|---|---|
| Executive and director compensation | \$ 279,309 | \$ 85,159 | \$ 364,909 | \$ 178,050 |
| Rent | 3,300 | 3,000 | 6,600 | 6,000 |
| | <u>\$ 282,609</u> | <u>\$ 88,159</u> | <u>\$ 371,509</u> | <u>\$ 184,050</u> |

7. Non-cash Transactions

In the period ended June 30, 2006, the Company did not have any non-cash transactions.