



## **Management Discussion & Analysis for the Quarter Ended March 31, 2005**

This Management Discussion and Analysis for Yukon Zinc Corporation (formerly Expatriate Resources Ltd. "Expatriate") incorporates information for the quarter ended March 31, 2005 and information subsequent to the quarter up to May 23, 2005. This Management Discussion and Analysis should be read in conjunction with the unaudited financial statements and related notes for the quarter ended March 31, 2005, the Annual Audited Consolidated Financial Statements and related notes of the Company for the year ended December 31, 2004 as attached hereto or filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

### **Overall Performance**

Yukon Zinc Corporation ("the Company", or "Yukon Zinc") changed its name from Expatriate Resources Ltd. on December 16, 2004. Yukon Zinc is in the business of exploration and development of mineral deposits in Yukon Territory, Canada. Yukon Zinc, through its subsidiary Nitrosyl Technologies Corporation, also has interests in metal leaching and sulphur technologies that may provide strategic benefit to the development of its mineral properties.

The Company was incorporated May 21, 1993 in the Province of British Columbia and became a reporting issuer on June 9, 1994. Prior to its name change, Expatriate undertook a re-organization by means of a Plan of Arrangement that was approved by the shareholders at an Extraordinary Meeting held on December 14, 2004. Pursuant to this Plan of Arrangement, Expatriate sold all of its exploration properties to Pacifica Resources Ltd. ("Pacifica"), except for its large holdings in the Finlayson District that include the Wolverine property and the Logan and Swift properties in the Rancheria District. All of Yukon Zinc's exploration properties are now located in the Yukon, and the company changed its name to better reflect its clear focus on the exploration and development of these properties. In exchange for the issuance of 14 million common shares of Pacifica, Expatriate sold to Pacifica: (1) the Yava, Selwyn and Tillex properties in Canada, (2) the Blue Moon base metals property in California, (3) the Islena, Lucy, Cerro Ocre and Yuby-Gabriela properties in Chile, and, (4) 758,285 shares of StrataGold Corporation and 4 million StrataGold common share purchase warrants. Expatriate distributed these 14 million Pacifica shares to its shareholders of record as at December 8, 2004 on a pro rata basis at a conversion ratio of 0.09202485016 of a Pacifica share for each Expatriate share held on the record date. On December 16, 2004, Expatriate shareholders exchanged each of their shares for one common share of Yukon Zinc Corporation. During the fourth quarter of 2004, the Company increased its ownership of Wolverine to 100% and completed an aggregate of \$16.63 million in equity financing.

### **Financial Condition**

Working capital for the quarter declined from \$14,390,304 on December 31, 2004 to \$9,116,664 at March 31, 2005, a decrease of \$5,273,640. Working capital consisted of \$10,905,930 in cash, \$579,631 in amounts receivable, \$1,226,542 in Marketable Securities and \$59,796 in Prepaid Expenses, less \$3,655,235 in Accounts Payable and Accrued Liabilities. The decline in cash and large increase in accounts payable, reflects the high levels of expenditures in the quarter due to: a) the mobilization of mining equipment and supplies to Wolverine in preparation for development of the decline to the ore zone, and b) continued surface definition drilling of the

Wolverine deposit. The accounts payable figure is largely comprised of invoices from the mining contractor that were subsequently paid.

As at March 31, 2005, the Company recorded \$19,895,620 in cumulative deferred mineral property costs, an increase of \$4,936,017 from December 31, 2004, and \$197,390 in property and equipment. The Company had no debt as of March 31, 2005.

Administration costs for the quarter increased to \$375,634 from \$210,511 in the comparable quarter of 2004. This increase principally reflects higher salaries with the addition of two key personnel, and higher investor relations and financing expenses.

### Future Financial Condition

The primary factors that can affect the future financial condition of the Company include the continued ability to raise equity capital and the level of exploration expenditures required to meet commitments. As a mineral exploration company with no current mining operations, Yukon Zinc's cash flows consist of cash outflows for administrative expenses, salaries, property acquisition and evaluation, exploration (net of cost recoveries and management fees allowed under joint venture agreements) and expenditures for depreciable equipment such as computers and field equipment. Interest income is credited against costs and investing activities, such as share issuances, resulting in cash inflows to the Company.

### Industry and Economic Factors Affecting Performance

For Yukon Zinc, which is primarily a zinc-silver exploration company, the most important factors are zinc and silver prices and the availability of equity funds. Metal prices strengthened in the latter part of 2004 resulting in some improvement in the share price of zinc-silver companies; however, zinc price receded during first quarter 2005, which decrease was reflected in lower share prices for base metals companies including Yukon Zinc.

### Risk Factors

Mineral exploration and development involves a high degree of risk and few properties which are explored are ultimately developed into producing mines. With respect to Yukon Zinc's properties, several of its properties have resources and/or reserves, however, substantial expenditures will be required to establish ore reserves that are sufficient to permit development of its current properties, and to allow the Company to obtain the required environmental approvals, permits and financing required to commence commercial operations. Should any resource be defined on these and other properties, there can be no assurance that the mineral resources on such properties can be commercially mined or that the metallurgical processing will produce economically viable saleable products. The decision as to whether a property contains a commercial mineral deposit and should be brought into production, will depend upon the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and/or geologists, all of which involves significant expense. This decision will involve consideration and evaluation of several significant factors including, but not limited to: (1) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies and construction of production facilities; (2) availability and costs of financing; (3) ongoing costs of production; (4) market prices for the minerals to be produced; (5) environmental compliance regulations and restraints (including potential environmental liabilities associated with historical exploration activities); (6) the availability of smelter capacity of the type able to receive any metal concentrate production; and (7) political climate and/or governmental regulation and control.

## **Environmental Risks and Other Regulatory Requirements**

The current or future operations of Yukon Zinc, including development activities and commencement of production on its properties, require permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which Yukon Zinc may require for the construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which Yukon Zinc might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Yukon Zinc and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties.

### Management and Corporate Matters

Yukon Zinc is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the Company.

During the quarter, Yukon Zinc appointed Mr. Richard Goodwin as Vice President of Mining and Ms. Pamela Ladyman as Manager of Environment and Community Affairs. Mr. Barry Finlayson became Secretary for the Company replacing Mr. Glenn Yeadon.

On March 31, 2005, the Company announced in a News Release the adoption of a Shareholder Rights Plan. The plan, which is effective immediately, was submitted for ratification by the shareholders at the Company's Annual General Meeting on May 12, 2005. This plan was approved by the shareholders.

Yukon Zinc received its Class B Water License in respect of the underground drilling and metallurgical sampling program at Wolverine in April 2005. The amended Mining Land Use Permit for this activity was received on January 18, 2005.

### **Selected Annual Information**

The financial information disclosed below has been determined in accordance with Canadian GAAP and is reported in Canadian Currency. The table below displays selected financial information for the Company.

|  | Quarter ended<br>March 31,<br>2005 | Year Ended<br>December 31,<br>2004 | Year Ended<br>December<br>31, 2003 | Year Ended<br>December<br>31, 2002 |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Shares Outstanding   | 158,833,151                        | 158,133,151                        | 71,390,913                         | 50,026,128                         |
| Warrants Outstanding   | 28,125,470                         | 29,614,870                         | 7,825,000                          | 5,217,500                          |
| Options Outstanding  | 11,885,000                         | 6,615,000                          | 2,812,500                          | 4,160,000                          |
| Fully Diluted Shares Outstanding                                 | 198,843,621                        | 194,363,021                        | 82,028,413                         | 59,403,628                         |
| Weighted-Average Shares<br>Outstanding                           | 158,217,535                        | 93,144,805                         | 58,073,502                         | 46,248,457                         |
| Total Revenues   | Nil                                | Nil                                | Nil                                | Nil                                |
| Net Income (Loss) before<br>Discontinued Items                   | \$3,022,280                        | (\$2,066,439)                      | (\$9,950,050)                      | (\$372,494)                        |
| Net Income (Loss) before<br>Discontinued Items per share*        | \$0.019                            | (\$0.022)                          | (\$0.17)                           | (\$0.01)                           |
| Net Income (Loss) before<br>Discontinued Items per share diluted | \$0.015                            | \$(0.011)                          | (\$0.14)                           | (\$0.01)                           |
| Net Income (Loss)  | \$3,022,280                        | (\$2,066,439)                      | (\$10,567,832)                     | (\$372,494)                        |
| Net Income (Loss) per share issued*                              | \$0.019                            | \$(0.022)                          | (\$0.18)                           | (\$0.01)                           |
| Net Income (Loss) per share diluted                              | \$0.015                            | \$(0.011)                          | (\$0.15)                           | (\$0.01)                           |
| Cash Dividends Declared per<br>common share                      | \$0.00                             | \$0.00                             | \$0.00                             | \$0.00                             |
| Total Long Term Financial Liabilities                            | \$0                                | \$0                                | \$0                                | \$0                                |
| Total Assets   | \$32,869,721                       | \$30,093,372                       | \$9,542,972                        | \$17,836,828                       |

\* based on the weighted average number of shares outstanding.

The Net Income of \$3,022,280 for the quarter vs. loss of \$339,579 for the comparable quarter of 2004, is attributable to the following main items: an income tax recovery item of \$3,622,554, administration expenses of \$375,634 (Q1 2004: \$210,511), and stock-based compensation expense \$246,350 (Q1 2004: \$129,280). These items are in part offset by interest income of \$66,696 (Q1 2004: \$8,234).

The unusual large positive net income in the current quarter reflects a non-cash income tax recovery item that relates to the renouncement of \$10.2 million of flow through expenditures to investors in March 2005 (see Notes 4 and 5 to the financial statements). This income item, which results from a change in Canadian accounting rules in 2004, effectively reduces Share Capital whilst also decreasing Deficit by the same amount. There is no effect on cash.

Administration expenses for the quarter included investor relations and financing expense (\$107,753), salaries and benefits (\$139,448), and professional fees (\$28,250) as the major contributors. Administration expense rose by \$165,123 for the quarter compared to the same period in 2004 due to staff additions and much higher levels of corporate investor relations activity during the quarter compared to previous year.

## Results of Operations

Yukon Zinc's operations consist generally of mineral exploration and evaluation of new property acquisitions. This includes acquiring mineral properties, evaluating the merits of these properties using various techniques such as geophysical and geochemical methods as well as drilling, and the completion of engineering evaluation studies to advance them to feasibility study.

During the quarter, Yukon Zinc concentrated on adding key management, definition drilling at Wolverine and mobilizing the underground mining contractor's equipment and supplies to the Wolverine project. A portal for the decline was collared in April 2005. Once completed, this decline will provide access to the Wolverine deposit for underground drilling, metallurgical testwork and test mining. The decline is sized to be used for future production.

### Principal Properties and Focus

With the completion of the reorganization, all of Yukon Zinc's mineral properties are in the Yukon, Canada. Its major properties are its Wolverine and Logan base-precious metals properties in the Finlayson and Rancheria Districts in south central Yukon. Yukon Zinc's prime focus is the development of the Wolverine deposit that, together with its large land holdings in the Finlayson District, form the basis of the Yukon Silver-Zinc Project. Yukon Zinc has an indirect interest in the exploration properties sold to Pacifica Resources Ltd. through its approximate 21% share ownership of Pacifica.

### **Wolverine Project, Yukon**

Yukon Zinc's prime focus is the evaluation of exploration and development of its base-precious metals properties in the Finlayson District. This activity is directed at the advancement of the 100% owned Wolverine property to bankable feasibility stage followed by a production decision.

### ***Wolverine Development Chronology***

Yukon Zinc commenced evaluation of the development of Wolverine as an underground mine in the fall of 2003 and commissioned Hatch Associates Ltd. to undertake a scoping study evaluation of the joint development of Wolverine and the Logan deposit located in south central Yukon (see Logan Project). The scope of this engineering study was to review a combination of the 1,250 tonne per day underground mine plan developed in 2001 by Hatch for Wolverine, and the development of an open pit mine at Logan. The Wolverine ores were to be transported to the proposed Logan mine site for processing.

By mid 2004, the price of selenium had increased dramatically and zinc concentrates were in short supply, and it became evident that Wolverine concentrates could be marketed on a stand-alone basis. With this development, the Wolverine/Logan project was set aside in favour of a Wolverine stand-alone project.

In July 2004, Hatch Limited was commissioned to undertake prefeasibility-level studies relating to the development of Wolverine as a stand-alone 1,250 tonne per day underground mine (see Subsequent Events). In preparation for the completion of a bankable feasibility study by the end of 2005, the Company commenced planning and permitting for a test mining program that would provide the additional information required to expand the mineable reserve by conversion of resources into reserves and provide the additional detailed mining and metallurgical information required for the feasibility study.

Reserves and resources at Wolverine have been estimated as follows:

| <b>Wolverine Reserves and Resources (see Notes)</b>  |               |             |             |               |               |             |
|--|---------------|-------------|-------------|---------------|---------------|-------------|
|  | <b>Grade</b>  |             |             |               |               |             |
|  | <b>Tonnes</b> | <b>Zinc</b> | <b>Lead</b> | <b>Copper</b> | <b>Silver</b> | <b>Gold</b> |
| <b>Wolverine (1)<br/>Probable reserves</b>   | 3,470,000     | 12.43%      | 1.44%       | 1.37%         | 336.6 g/t     | 1.59g/t     |
| <b>Wolverine<br/>Resources (2)</b>   | 6,237,000     | 12.66%      | 1.55%       | 1.33%         | 371.0 g/t     | 1.76 g/t    |
| <b>Wolverine<br/>Resources (3)</b>   |               |             |             |               |               |             |
| <b>Indicated</b>   | 4,941,000     | 13.00%      | 1.58%       | 1.43%         | 379.4 g/t     | 1.76 g/t    |
| <b>Inferred</b>  | 498,000       | 13.61%      | 1.70%       | 1.36%         | 365.3 g/t     | 1.51 g/t    |
| (1, 3) Reserve and resource estimates for Wolverine calculated by Hatch Associates Ltd., November 2000.  |               |             |             |               |               |             |
| (2) Westmin Resources Ltd. 1998 (measured, indicated and inferred; estimate predates current NI-43-101 standards and are non-compliant with 43-101 standards). |               |             |             |               |               |             |

The difference in the two Hatch and Westmin resource estimates is primarily related to the exclusion of resources for a hangingwall lense in the Hatch estimate that was included in the Westmin calculation.

A total of 1,758 metres of large diameter drill core was completed in nine holes in the Wolverine deposit in August and September, 2004. The large diameter core was sent to SGS Lakefield Research Ltd. for additional metallurgical testing and heavy media separation studies.

The heavy media separation (HMS) study was completed at SGS Lakefield in late 2004 to evaluate gravity as a means of separating massive sulphide mineralization and waste rock. The testwork results were very positive indicating that the application of this simple technology could provide a very effective pre-concentration step through the rejection of waste and production of an ore product containing approximately 98% of base metals and 95% of precious metals in the dense "sink" portion together with "fines" products. Note that there can be no assurance that the Lakefield test results would be replicated in actual operations.

Successful application of HMS technology at Wolverine could reduce mill process costs on a unit of production basis. However, the main benefits would be in mining where it provides a means of removing waste material from ores prior to processing. The effective removal of waste allows mining to maximize recovery of the high-grade ores; particularly, where excessive dilution with waste rock occurs due to multiple bands of massive sulphide mineralization, hanging-wall failure, contamination of ore with footwall material and in the mining of thin massive sulphide lenses. Application of HMS to the mining of thinner zones would allow the conversion, with additional drilling, of significant amounts of indicated and inferred resources into mining reserves, thereby increasing mine life. HMS has been used successfully at several underground base metal mines.

In late July 2004, Yukon Zinc made application for a Class B Water License related to a test mining program proposed to commence in early 2005. The test mining program will include the sinking of a decline from surface to access the massive sulphide zone and undertake the test mining of the mineralization to confirm mining assumptions and extract a bulk sample for additional metallurgical testing. In addition, development drifting is planned to provide an underground platform for definition drilling of the deposit, particularly the deeper parts of the deposit.

In November 2004, Yukon Zinc made application for a Class A Water License related to the permitting of a mine for the development of Wolverine. Yukon Zinc also advanced its discussions with the Ross River Dena Council in the negotiation of a socioeconomic participation agreement that would provide for First Nations employment and services in the

## development and operation of the Yukon Silver-Zinc Project

The initial development of Wolverine was hindered by marketing concerns related to the high levels of selenium. The recent rapid rise in selenium prices and tightness in zinc concentrate markets is creating a more positive environment for the sale of concentrates from Wolverine on more reasonable terms. Selenium prices have risen to over US\$50 per pound (March 2005) from US\$3 per pound in mid-2003. Yukon Zinc is studying the concentrate and selenium markets to determine opportunities to remove the selenium penalty and participate in the price of selenium. Projections of annual concentrate production from Wolverine suggest that the zinc, copper and lead concentrates would contain about 700,000 pounds of selenium, which, if it were all recoverable (of which there can be no assurance), would represent approximately 15% of world estimated selenium consumption.

In late September 2004, exploration drilling resumed to follow up previous encouraging drill results in the northern part of the Wolverine Property. Two drill holes were completed on the Fisher Ridge area, with the one hole completed to target depth intersecting a broad zone of alteration and low grade zinc mineralization.

Subsequent to the first quarter, Yukon Zinc awarded the feasibility for the development of Wolverine to Hatch Associates Ltd. The feasibility study is scheduled for completion by year end 2005. A key part of the feasibility study is a test mining program to gather the remaining information required for the feasibility study. In February, mining equipment and supplies were transported to the site on a winter road, and preparation of the site for the start of the underground development and test mining was undertaken.

During the quarter, Yukon Zinc commenced additional surface drilling to better define the resources to be used in the feasibility study evaluation. This drilling is continuing and will be followed by drilling of the deeper parts of the deposit from the underground development areas.

### ***Finlayson District Exploration***

Yukon Zinc resumed exploration in the Finlayson District in 2004 after several years of low level activity. Exploration focused on the Goal Net South area. Surface mapping located a new zone of massive sulphide mineralization grading 13.2% zinc, 5.2% lead, 1.7% copper, 40.7 g/t silver and 0.06 g/t gold over 0.3 metres in a gently south dipping zone that has been named Thunderstruck. Mapping of the Thunderstruck zone traced the zone for 225 metres before it was lost in overburden cover. Further along strike is an untested airborne electromagnetic anomaly.

Three drill holes were completed in the Thunderstruck Zone before winter conditions brought an end to drilling in late November. All three drill holes intersected narrow zones of high grade mineralization over a length of 500 metres downdip from the surface discovery. Wide spaced drill holes are planned to test this horizon for thicker mineralization over a six square kilometer area.

Hole GN-04-17 was drilled on the Skyblaze zone located 1.25 kilometres north of GN-01-05, that intersected 16m of greater than 1% zinc, and 2.7 kilometres south of GN00-02 which intersected 0.73 meters of semi-massive sulphide mineralization grading 3.0% zinc, 1.85% lead, 0.14% copper, 63 g/t silver and 0.2 g/t gold. Drill hole GN 04-17 was not completed to target depth and will be deepened in 2005. The upper part of the drill hole intersected several intervals of sulphide mineralization.

The wide-spaced drill holes on the Goal Net property indicate a large depositional basin hosting numerous sulphide occurrences that are coeval and time stratigraphic equivalents of both Kudz

Ze Kayah and GP4F deposits. Additional drilling is planned for late spring and summer 2005 to fully evaluate the Kudz Ze Kayah stratigraphy on the Skyblaze and Thunderstruck zones.

### ***Rancheria District***

The Rancheria District is located in south central Yukon. The District hosts numerous carbonate-hosted zinc-lead-silver deposits with similarities to the major, world-class manto deposits of Mexico that make it a world class silver district. The Logan deposit occurs within a granitic intrusion within this terrane. Further west of the platformal carbonate strata are mixed volcanic-sedimentary strata that host zinc-copper-lead-silver-gold occurrences including the Swift property.

### ***Logan Joint Venture***

Getty Resources Limited and Total Energold Corporation, predecessors to Energold Minerals, spent approximately \$4.5 million exploring the Logan property in the period 1982 through 1989. A total of 103 diamond drill holes have been completed, defining a mineral resource of 12,300,000 tonnes grading 6.17% zinc and 26.4 g/tonne silver. The resource was calculated by Stammers in 1989, however it predates criteria of National Instrument 43-101. Utilizing the new criteria the resource should be considered as an Inferred Resource.

Hatch has, as part of a scoping study of the joint development of the Wolverine and Logan deposits, completed a re-estimation of resources in the Logan deposit. Hatch estimated an Inferred Resource of 13,080,000 tonnes grading 5.10% zinc and 23.7 g/t silver using a 3.5% zinc equivalent cutoff that is based upon metal prices of US\$0.43/lb zinc, US\$5.50/oz silver, and recoveries of 94% and 64% respectively (see March 29, 2004 news release). The Company abandoned the pursuit of the joint development of Logan and Wolverine in January of 2004, in favour of evaluation of Wolverine as a stand-alone mine.

### ***Swift Property***

In November 2004, Yukon Zinc acquired all interest in the Swift Property, subject to a 1% net smelter return royalty to the claim holder. The property is situated approximately 55 kilometres southwest of Logan and covers a 20 kilometre long belt of anomalous geochemistry and numerous massive sulphide occurrences and boulders in till.

Massive sulphide and oxide mineralization in the Window/Dan showing occurs as at least two distinct units within a complex sequence of phyllite, schist, calc-silicate rocks, and marble, suggestive of stratabound mineralization. Drill results from hole SR97-06 include 1.2 metres grading 14.6% zinc and 0.2% copper from 93.85–95.05 metres and 3.62% zinc from 103.95–107.57 metres. This second interval includes 0.87 metre intercept grading 13.4% zinc and 0.1% copper. These and other showings suggest that the mineralization is characteristic of a volcanogenic massive sulphide deposit environment and has potential for higher grade mineralization that could be developed in conjunction with Logan deposit. Planning is in progress for a summer exploration program to better define targets for drilling.

### **Summary of Quarterly Results**

Yukon Zinc is an exploration company and has no operations from which to derive revenues. It raises capital through the sale of its shares. It receives minor income from interest on cash balances and option payments on properties that it has farmed out. The Income or Loss for the years 2003, 2004 and first quarter of 2005 are as follows:

### Summary of Historical Quarterly Financial Information

| Period           | Revenues | Net Income<br>(Loss) | Net Income<br>(Loss) Per<br>Share |
|------------------|----------|----------------------|-----------------------------------|
| 1st Quarter 2005 | Nil      | \$3,022,280          | \$0.02                            |
| 4th Quarter 2004 | Nil      | (\$935,592)          | (\$0.01)                          |
| 3rd Quarter 2004 | Nil      | (\$235,973)          | (\$0.00)                          |
| 2nd Quarter 2004 | Nil      | (\$555,295)          | (\$0.01)                          |
| 1st Quarter 2004 | Nil      | (\$339,579)          | (\$0.00)                          |
| 4th Quarter 2003 | Nil      | (\$10,526,536)       | (\$0.15)                          |
| 3rd Quarter 2003 | Nil      | (\$135,525)          | (\$0.00)                          |
| 2nd Quarter 2003 | Nil      | (\$166,401)          | (\$0.00)                          |

The variation in loss per quarter reflects expenses generally relates to non-deferred exploration activity that is seasonal in nature, and loss related to discontinued operations and writedowns of deferred property expenditures and deferred technology costs.

The large positive net income in the current quarter reflects a non-cash income tax recovery item that relates to the renunciation of \$10.2 million of flow through expenditures to investors in March 2005 (see Notes 4 and 5 to the financial statements). This income item, which results from a change in Canadian accounting rules in 2004, effectively reduces the balance sheet Share Capital account whilst also decreasing the balance sheet Deficit Account by the same amount. There is no effect on cash.

The large loss in fourth quarter 2003 is mainly due to the large writedown of deferred exploration expenditures and to a lesser degree is due to a loss related to discontinued operations.

#### Liquidity

As at March 31, 2005, on a consolidated basis, the Company has cash of \$10,905,930 compared to \$13,475,080 as at December 31, 2004. The Company had \$579,631 in accounts receivable, \$1,226,542 in marketable securities, \$3,655,235 in accounts payable, and no long-term liabilities as at March 31, 2005. As at March 31, 2005, the Company had \$9,116,664 in working capital.

The Company relies on its existing and future cash resources to fund its mineral exploration and development activities. With no internal sources of available cash flow at this stage of its development, the Company is dependent on external sources of funds, primarily the public equity markets and joint venture partners. Circumstances that could affect the availability of equity funds to the Company (both positively and negatively), include: significant exploration successes or lack thereof; new acquisitions; changes in metal prices; significant world events; exchange rate movements and the general state of the equity markets for base metal companies. A requirement for additional sources of funding could be triggered by acquisitions, and there is no certainty of raising these funds if required.

The Company has will require additional financing to fully fund its current 2005 exploration plans and administration expenses. A financing is planned for the second or third quarter of 2005.

## **Capital Resources**

Yukon Zinc has \$10,905,930 of cash as at March 31, 2005. As at this date, the Company is obligated to incur \$2,930,000 of “flow through” share expenditure obligations before the end of 2005. The Canadian tax deductions derived from the Company’s qualified Canadian Exploration Expenditures (“CEE”) are renounced to the individual flow through share investors.

The Company has interests in several mineral properties, some of which require ongoing exploration or cash payments in lieu of work, in order to maintain title.

For the foreseeable future, the Company will rely on capital from equity issuances to meet its additional capital requirements. There can be no assurance that these current sources of capital will continue to be available to the Company. The Company is advancing its Wolverine Zinc-Silver Project to bankable feasibility study stage. A positive feasibility study would provide a basis for seeking project financing for development of the Wolverine deposit. There is no assurance that the Company will be able to produce a positive feasibility study or to secure project financing for the development of the Wolverine deposit as a mine.

## **Transactions with Related Parties**

Yukon Zinc shares corporate offices and has cost sharing arrangements with StrataGold Corporation and Pacifica Resources Ltd. relating to office and certain overhead expenses, and certain management personnel that act as officers, or office staff, and perform work for the three companies on a cost and time reimbursement basis. The intention of these arrangements is for cost efficiency and shared expertise.

As at March 31, 2005 the Company is owed \$50,810 by certain employees for seed loans to acquire Pacifica shares and has accrued interest on these loans. Also \$14,243 is due from a related public company for expense reimbursements, and \$20,970 in legal fees and disbursements have been incurred with a law firm in which an officer of the company is a partner.

Yukon Zinc owns 4,800,000 common shares of Pacifica and share purchase warrants for the purchase of an additional 2,400,000 common shares of Pacifica at \$0.40 per share on or before December 6, 2006. Dr. Harlan Meade, President and CEO of the Company, is also Chairman and Director of StrataGold, and President, CEO and Director of Pacifica Resources Ltd. Mr. Robert McKnight, Chief Financial Officer and Vice President Corporate Development of the Company, is also Chief Financial Officer and Vice President of both StrataGold Corporation and Pacifica Resources Ltd., and a Director of Pacifica. Mr. Jason Dunning, Vice President of Exploration of the Company is also Vice President of Exploration for Pacifica.

## **Proposed Transactions**

In the normal course of business, the Company evaluates property acquisition transactions and, in some cases, makes proposals to acquire such properties. These proposals, which are usually subject to Board, regulatory and, sometimes, shareholder approvals, may involve future payments, share issuances and property work commitments. These future obligations are usually contingent in nature and generally the Company is only required to incur the obligation if it wishes to continue with the transaction. As of this date, the Company has a number of possible transactions that it is pursuing.

## **Critical Accounting Estimates**

Under the vested accounting rules used for Yukon Zinc, the “fair value” of stock-based compensation (i.e. stock option grants) must be expensed to the Statements of Operations and

Deficit. In addition, agents' warrants issued as compensation to brokers must be similarly accounted for on a fair value basis and recorded as a share issue cost. The determination of the fair value of options and warrants for this purpose is generally done using the "Black-Scholes" formula. Some of the parameters used in this formula are highly subjective, in particular the assumption of future share price volatility, and therefore the amounts expensed are highly subjective and may not be reflective of the true cost of the option granted. Whether or not any of the options and agents' warrants are exercised, the amounts previously expensed are not adjusted and will have permanently increased Yukon Zinc's Deficit and Contributed Surplus accounts. During the quarter, \$246,350 was expensed for stock-based compensation (option grants). This is a non-cash item that has no effect on the Company's cash position.

### **Changes in Accounting Policies**

Yukon Zinc's accounts are stated using Canadian Generally Accepted Accounting Principles (GAAP). The Company's accounting policies have not changed since incorporation and no future changes are currently contemplated.

### **Financial Instruments and Other Instruments**

Except as disclosed, Yukon Zinc currently does not own, hold or have any material interest in, or liability associated with, any financial or other instruments. As at March 31, 2005, Yukon Zinc had accounts payable and accrued liabilities of \$3,655,235.

### **Other MD&A Requirements**

Additional information relating to Yukon Zinc is available on the SEDAR website: [www.sedar.com](http://www.sedar.com) under "Yukon Zinc".

### **Deferred Property Expenditures**

The required detailed Schedule of Deferred Property Costs, including deferred mineral property costs, is included in the Company's financial statements. During the quarter, Yukon Zinc expended \$4,879,207 on exploration. The great majority of these expenditures were on the Wolverine property. Net acquisition costs during the same period were \$56,810, primarily related to the final property purchase payment for the Logan property.

Aggregate Deferred Property Costs increased to \$19,895,620 as at March 31, 2005, compared to \$14,959,603 as at December 31, 2004. There were no write-downs of exploration expenditures during the quarter.

### **Disclosure of Outstanding Share Data**

Yukon Zinc has an unlimited number of common shares without par value, an unlimited number of Class "A" Preferred shares without par value, and an unlimited number of Class "B" Preferred shares with a par value of \$10 per share, authorized for issuance.

As of March 31, 2005, the Company had 158,833,151 common shares issued and outstanding. There are no other classes of shares outstanding. As of March 31, 2005, Yukon Zinc had 28,125,470 warrants and 11,885,000 stock options outstanding at various exercise prices and future expiry dates. If all these securities were exercised, a total of 198,843,621 shares would be issued and outstanding.

## Share Capital Summary as at May 23, 2005

|  | Common<br>Shares Issued | Options           | Warrants          | Fully Diluted<br>Shares |
|--|-------------------------|-------------------|-------------------|-------------------------|
| Balance: December 31, 2004             | 158,133,151             | 6,615,000         | 29,614,870        | 194,363,021             |
| Issued during period                   | 700,000                 |                   |                   |                         |
| Granted during period                  |                         | 5,660,000         |                   | 5,660,000               |
| Exercised during period                |                         |                   | (700,000)         |                         |
| Expired during period                  |                         | (390,000)         | (789,400)         | (1,179,400)             |
| <b>Balance: March 31, 2005</b>         | <b>158,833,151</b>      | <b>11,885,000</b> | <b>28,125,470</b> | <b>198,843,621</b>      |
| Warrants issued subsequent to March 31 |                         |                   |                   |                         |
| Options granted subsequent to March 31 |                         | 175,000           |                   | 175,000                 |
| Exercised subsequent to March 31       |                         |                   |                   |                         |
| Expired subsequent to March 31         |                         | (55,000)          |                   | (55,000)                |
| <b>Balance: May 23, 2005</b>           | <b>158,833,151</b>      | <b>12,005,000</b> | <b>28,125,470</b> | <b>198,963,621</b>      |

### Share Purchase Warrants

As at March 31, 2005 the Company had 28,125,470 common share purchase warrants outstanding with various expiry dates ranging from July 21, 2005 to October 26, 2006. Exercise prices range from \$0.32 to \$0.70 per share, as detailed in Note 4 of the financial statements. Exercise of all outstanding warrants would result in cash proceeds to the Company of \$10.6 million.

The warrants outstanding as of December 8, 2004 are convertible upon exercise into one common share of Yukon Zinc and one fractional share of Pacifica, at an exchange ratio of 0.09202485016 of a Pacifica share for each Expatriate share. Pursuant to a provision of the Plan of Arrangement, Yukon Zinc is required to remit to Pacifica \$0.25 per each share of Pacifica issued pursuant to the exercise of a Yukon Zinc warrant.

### Share Purchase Options

During the quarter, 5,660,000 options were granted at a price of \$0.28 per share and 390,000 options expired. As at March 31, 2005 the Company had 11,885,000 common share purchase options outstanding at various exercise prices and expiry dates. Details of options and the exercise prices and expiry dates for the period ending March 31, 2005 are summarized in Note 4 of the Company's quarterly financial statements. If all of these outstanding options were fully exercised, the Company would realize cash proceeds of approximately \$3.2 million.

Subsequent to March 31, 2005, 175,000 options were granted with an exercise price of \$0.32 per share and 55,000 options expired unexercised resulting in 12,005,000 options outstanding as of May 23, 2005.

Note that holders of options and warrants on Yukon Zinc on December 8, 2004 will receive, on exercise, one common share of the Company and one fractional share of Pacifica Resources Ltd. at an exchange ratio of 0.09202485016 of a Pacifica share for each Yukon Zinc share. Pursuant to a provision of the Plan of Arrangement, Yukon Zinc is required to remit to Pacifica \$0.25 per each share of Pacifica issued pursuant to the exercise of a Yukon Zinc option or warrant (the "Pacifica commitment").

## **Subsequent Events**

On April 6, 2005, the Company received its “B” Water Licence Permit from the Yukon Water Board. This permit will allow the commencement of the underground exploration and test mining program.

On April 25, 2005, the Company engaged Hatch Ltd. to complete a bankable feasibility study for development of the Wolverine deposit in south central Yukon. The feasibility study is scheduled for completion by year end 2005.

On May 2, 2005, 21%-owned Pacifica Resources Ltd. announced it had entered into a letter of intent to acquire a 100% interest in the Howard’s Pass Joint Venture Properties (see Pacifica May 2, 2005 news release).

## **Forward Looking Statements**

*This discussion includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, exploration activities and events or developments that the Company expects, are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that the actual results or developments may differ materially from those projected in the forward-looking statements.*

## **YUKON ZINC CORPORATION.**

*“Harlan Meade”*

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Harlan Meade  
President and CEO, Director  
May 23, 2005