

**YUKON ZINC CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
*(Unaudited)*

**Unaudited Interim Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the quarter ended June 30, 2005.

**YUKON ZINC CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
As at June 30, 2005 and December 31, 2004

	June 30 2005 <i>(Unaudited)</i>	December 31 2004 <i>(Audited)</i>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash (Notes 7 and 8(c))	\$ 4,374,654	\$ 13,475,080
Accounts receivable	396,870	264,772
Marketable securities	1,226,542	1,226,542
Prepaid expenses	14,681	38,866
	6,012,747	15,005,260
PROPERTY AND EQUIPMENT (net of accumulated amortization of \$80,027; 2004 - \$59,155)	204,729	127,657
DEFERRED PROPERTY COSTS	24,703,911	14,959,603
DEFERRED TECHNOLOGY COSTS	1	1
DEPOSIT	68,811	4,811
	\$ 30,990,199	\$ 30,097,332
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,997,916	\$ 614,956
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 4)	44,224,494	47,761,014
CONTRIBUTED SURPLUS	2,995,751	2,542,762
DEFICIT	(18,227,962)	(20,821,400)
	28,992,283	29,482,376
	\$ 30,990,199	\$ 30,097,332

Continuance of operations (Note 1)  
Subsequent events (Note 8)

APPROVED BY THE BOARD

*"Lorne B. Anderson" (signed)*

Director – Lorne B. Anderson

*"Robert T. McKnight" (signed)*

Director – Robert T. McKnight

See Notes to Consolidated Financial Statements

**YUKON ZINC CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
For the periods ended June 30, 2005 and June 30, 2004  
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
ADMINISTRATION EXPENSES				
Amortization	\$ 10,993	\$ 3,013	\$ 20,872	\$ 5,684
Consulting	5,000	15,923	13,093	19,126
Investor relations and financing	58,006	117,191	165,759	181,896
Regulatory fees	19,702	9,546	27,689	15,803
Professional fees	29,488	53,322	57,738	64,722
Rent and office services	67,219	28,556	141,443	73,146
Salaries and benefits	51,925	66,218	191,373	143,903
LOSS BEFORE OTHER ITEMS	(242,333)	(293,769)	(617,967)	(504,280)
OTHER ITEMS				
Interest income	35,447	7,928	102,143	16,162
Loss on conversion of foreign currencies	-	(257)	-	(4,789)
Plan of arrangement	-	-	(7,161)	-
General exploration	-	(756)	(198)	(3,545)
Deferred technology costs	(3,641)	(401)	(4,803)	(1,102)
Part XII.6 tax on unspent flow-through funds	(11,676)	-	(48,141)	-
Stock-based compensation (Note 4)	(206,639)	(268,040)	(452,989)	(397,320)
LOSS BEFORE TAX	(428,842)	(555,295)	(1,029,116)	(894,874)
Future tax recovery (Note 5)	-	-	3,622,554	-
INCOME (LOSS) FOR THE PERIOD	(428,842)	(555,295)	2,593,438	(894,874)
DEFICIT, BEGINNING OF PERIOD	(17,799,120)	(19,094,540)	(20,821,400)	(18,754,961)
DEFICIT, END OF PERIOD	\$ (18,227,962)	\$ (19,649,835)	\$ (18,227,962)	\$ (19,649,835)
EARNINGS (LOSS) PER SHARE	\$ (0.00)	\$ (0.00)	\$ 0.02	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Note 4)	158,833,151	75,274,276	158,655,250	74,016,372

See Notes to Consolidated Financial Statements

**YUKON ZINC CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the periods ended June 30, 2005 and June 30, 2004  
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
CASH PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES				
Net (loss) earnings for the period	\$ (428,842)	\$ (555,295)	\$ 2,593,438	\$ (894,874)
Adjustment for items not involving cash				
Amortization	10,993	3,013	20,872	5,684
Stock based compensation	206,639	268,040	452,989	397,320
Future tax recovery	-	-	(3,622,554)	-
	(211,210)	(284,242)	(555,255)	(491,870)
Changes in non-cash working capital items				
Accounts receivable	182,761	57,705	(132,098)	244,443
Prepaid expenses	45,115	(25,000)	24,185	(27,014)
Accounts payable and accrued liabilities	(1,657,319)	125,402	1,382,960	174,918
	(1,640,653)	(126,135)	719,792	(99,523)
FINANCING ACTIVITIES				
Shares issued for cash	-	-	105,000	1,058,532
Share issue costs	-	(6,000)	(2,862)	(44,474)
Pacifica commitment (Note 5)	-	-	(16,104)	-
	-	(6,000)	86,034	1,014,058
INVESTING ACTIVITIES				
Purchase of property and equipment	(18,332)	(5,143)	(97,944)	(19,505)
Deferred property costs, net of recoveries	(4,808,291)	(1,511,523)	(9,744,308)	(1,734,004)
Security deposit	(64,000)	-	(64,000)	-
	(4,890,623)	(1,516,666)	(9,906,252)	(1,753,509)
DECREASE IN CASH	(6,531,276)	(1,648,801)	(9,100,426)	(838,974)
CASH, BEGINNING OF PERIOD	10,905,930	2,790,810	13,475,080	1,980,983
CASH, END OF PERIOD	\$ 4,374,654	\$ 1,142,009	4,374,654	1,142,009
Part XII.6 tax	\$ 11,676	\$ -	\$ 48,141	\$ -

**Supplementary disclosure of non-cash investing and financing activities:**

*During the six-month period ended June 30, 2004, the Company issued 1,653,800 common shares for which proceeds of \$601,500 had been received as at December 31, 2003.*

**YUKON ZINC CORPORATION**  
**CONSOLIDATED SCHEDULE OF DEFERRED PROPERTY COSTS**  
**For the Six Months Ended June 30, 2005**  
**(Unaudited)**

	<b>Wolverine</b>	<b>Finlayson District</b>	<b>Logan</b>	<b>Swift</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>EXPLORATION AND DEVELOPMENT COSTS</b>					
Accommodation and meals	125,988	4,823	-	-	130,811
Advanced exploration	4,389,089	-	-	-	4,389,089
Assays	33,156	28,902	-	-	62,058
Consulting	1,665,364	86,878	-	294	1,752,537
Drilling	1,266,467	-	-	-	1,266,466
Engineering	319,896	-	-	-	319,896
Environmental	138,265	-	-	-	138,265
Field office	41,731	894	-	-	42,625
Field equipment and supplies	95,951	21,293	-	1,171	118,415
Helicopter, fixed wing and fuel	704,763	54,887	-	-	759,650
Labour	541,292	1,967	-	-	543,259
Land and recording fees	2,777	27,089	-	-	29,866
Travel, freight and warehouse	109,421	5,095	-	-	114,516
Exploration and development costs incurred during period	9,434,160	231,828	-	1,465	9,667,453
Balance, December 31, 2004	2,512,475	3,912,088	221,029	-	6,645,592
Balance, June 30, 2005	11,946,635	4,143,916	221,029	1,465	16,313,045
<b>ACQUISITION COSTS</b>					
Balance, December 31, 2004	7,556,978	246,363	450,563	60,107	8,314,011
Acquisition costs	-	26,855	50,000	-	76,855
Balance, June 30, 2005	7,556,978	273,218	500,563	60,107	8,390,866
Total costs, June 30, 2005	19,503,613	4,417,134	721,592	61,572	24,703,911

*See Notes to Consolidated Financial Statements*

**YUKON ZINC CORPORATION**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Six Month Period Ended June 30, 2005**  
**(Unaudited)**

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is incorporated in British Columbia and its business is the acquisition and exploration of property interests that are considered potential sites of economic mineralization. At the date of these financial statements, the Company has not yet identified a known body of commercial grade ore on any of its properties. The ability of the Company to realize the costs it has incurred to date on these properties are dependent upon the Company being able to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the properties. These activities are conducted in Canada.

**2. BASIS OF PRESENTATION**

The accompanying unaudited consolidated interim financial statements of Yukon Zinc Corporation are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim financial statements should be read in conjunction with the Company's annual audited consolidated financial statements dated December 31, 2004. All material adjustments which, in the opinion of management, are necessary for fair presentation of the results for the interim periods have been reflected. The results for the six month period ended June 30, 2005 use the same methods and accounting policies as the most recent audited consolidated annual financial statements dated December 31, 2004.

**3. RELATED PARTY TRANSACTIONS**

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is their fair value as agreed to between management and the related parties. The quarterly balances referred to in the financial statements are non-interest bearing, unsecured, receivable or payable on demand and have arisen from the provision of services, expense reimbursements or advances described.

The Company is owed \$46,696 by a related public company for expense reimbursements.

Legal fees totaling \$43,147 have been incurred with a law firm in which an officer of the Company is a partner.

The Company is owed \$51,309 by certain employees for loans made to enable them to purchase shares of Pacifica Resources Ltd. and for accrued interest to June 30, 2005.

Refer also to Note 5.

**4. SHARE CAPITAL**

(a) Authorized share capital consists of an unlimited (2004 - 200,000,000) number of common shares without par value, unlimited (2004 - 100,000,000) Class "A" preferred shares without par value, and unlimited (2004 - NIL) Class "B" preferred shares with a par value of \$10.00 per share. No Class "A" or Class "B" preferred shares have been issued as at June 30, 2005.

<b>Common Shares</b>	<b>Number of Shares</b>	<b>Total</b>
Issued at December 31, 2004	158,133,151	\$ 47,761,014
Warrants exercised	700,000	105,000
Pacifica commitment (Note 5)	-	(16,104)
Share issue costs	-	(2,862)
Flow-through share renunciation (Note 6)	-	(3,622,554)
	700,000	\$ (3,536,520)
Issued at June 30, 2005	158,833,151	\$ 44,224,494

**YUKON ZINC CORPORATION**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Six Month Period Ended June 30, 2005**  
**(Unaudited)**

**4. SHARE CAPITAL (continued)**

(b) Summary of warrants and stock options outstanding at June 30, 2005:

<b>Type of Issue</b>	<b>Number Outstanding</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Options	70,000	0.40	December 29, 2005
	100,000	0.40	February 8, 2006
	40,000	0.10	November 28, 2006
	470,000	0.12	May 14, 2007
	170,000	0.10	November 25, 2007
	420,000	0.11	April 1, 2008
	550,000	0.28	November 4, 2008
	250,000	0.38	January 21, 2009
	350,000	0.39	January 30, 2009
	3,170,000	0.27	June 21, 2009
	450,000	0.27	August 11, 2009
	50,000	0.27	September 13, 2009
	3,505,000	0.28	January 14, 2010
	1,355,000	0.28	February 1, 2010
	500,000	0.28	February 15, 2010
	300,000	0.28	March 2, 2010
	175,000	0.32	April 1, 2010
	450,000	0.27	May 26, 2010
		<b>12,375,000</b>	
Warrants	2,150,000 <sup>(7)</sup>	0.35	July 21, 2005
	590,000 <sup>(1)(7)</sup>	0.25	July 21, 2005
	250,000 <sup>(7)</sup>	0.35	July 23, 2005
	1,026,031 <sup>(2)</sup>	0.70	March 24, 2006
	5,000,000 <sup>(6)</sup>	0.32	June 16, 2006
	8,791,939 <sup>(4)</sup>	0.40	October 21, 2006
	3,750,000 <sup>(3)</sup>	0.32	October 21, 2006
	1,875,000 <sup>(3)</sup>	0.40	October 21, 2006
	4,692,500 <sup>(5)</sup>	0.40	October 26, 2006
	<b>28,125,470</b>		

- (1) Agents' warrants issued in connection with a private placement at a value of \$63,720.  
(2) Warrant term extended to March 24, 2006.  
(3) Agents' warrants issued in connection with a private placement at a value of \$1,190,625.  
(4) Exercisable at \$0.40 to October 21, 2005 and thereafter at \$0.45 until October 21, 2006.  
(5) Exercisable at \$0.40 to October 26, 2005 and thereafter at \$0.45 until October 26, 2006.  
(6) Warrants issued pursuant to the acquisition of Atna's interest in the Wolverine Joint Venture at a value of \$677,159.  
(7) See Note 8(d).

**YUKON ZINC CORPORATION**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Six Month Period Ended June 30, 2005**  
**(Unaudited)**

**4. SHARE CAPITAL (continued)**

(c) Summary of stock option continuity as at June 30, 2005:

	2005	
	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	6,615,000	\$0.27
Granted	6,285,000	0.28
Forfeited/cancelled	(525,000)	0.45
<b>Options outstanding, June 30, 2005</b>	<b>12,375,000</b>	<b>\$0.27</b>

The Company recorded stock-based compensation of \$452,989 (2004 - \$397,320) for the six months period.

The fair value of options included in the stock-based compensation above has been estimated using the Black-Scholes Option Pricing Model based on the following assumptions: a risk free interest rate (weighted average) of 3.41% (2004 - 3.48%); an expected life of 3 years; an expected volatility (weighted average) of 122% (2004 - 133%); and no expectation for the payment of dividends.

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

**5. PACIFICA COMMITMENT**

The holders of options and warrants of the Company at December 8, 2004 are entitled to receive, on exercise, one common share of the Company and, additionally, 0.09202485016 of a common share of Pacifica Resources Ltd. (the "Pacifica Commitment"). The Company is obligated to remit to Pacifica Resources Ltd. \$0.25 for each share of Pacifica issued (from the proceeds received by the Company from the exercise of these options and warrants). During the period ended June 30, 2005, the Company paid \$16,104 to Pacifica Resources Ltd.

**6. INCOME TAXES**

**Flow-through Expenditures**

Under the Canadian *Income Tax Act* a company may issue securities referred to as flow through shares, whereby the investor may claim the tax deductions arising from the qualifying expenditure (Canadian Exploration Expense) of the proceeds by the company. Subsequent to March 19, 2004, when resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective corporate tax rate), thereby reducing share capital. Previously unrecognized tax assets may then offset or eliminate the liability recorded.

In March 2005, the Company renounced \$10,170,000 raised through the issuance of flow through shares in 2004, resulting in the recording of a future income tax recovery of \$3,622,554 (see also Note 4).

**YUKON ZINC CORPORATION**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Six Month Period Ended June 30, 2005**  
**(Unaudited)**

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**7. COMMITMENT**

At June 30, 2005, the Company is obligated to incur approximately \$176,888 in eligible Canadian Exploration Expense prior to December 31, 2005 in order to complete obligations entered into pursuant to flow-through share purchase agreements.

**8. SUBSEQUENT EVENTS**

Subsequent to June 30, 2005:

- (a) The Company issued 22,727,200 flow-through shares at \$0.22 for gross proceeds of \$4,999,984 under terms of a brokered private placement. The underwriters received a commission of 7% of gross proceeds and compensation options entitling the underwriters to purchase 2,272,720 units (each unit consisting of one common share of the Company and one-half of a share purchase warrant, with each whole warrant entitling the holder to purchase one whole common share of the Company for a period of two years) at \$0.22 per unit.
- (b) The Company issued 2,000,000 common shares at \$0.20 per share for gross proceeds of \$400,000. The funds for the purchase were from amounts paid to the Ross River Dena Council by the Company as part of the Socioeconomic Participation Agreement between the Ross River Dena Council and the Company.
- (c) Notice has been received that \$744,909 in Yukon Mineral Exploration Tax Credits for exploration expenditures incurred in 2004 which were applied for in 2005 have been approved for payment.
- (d) 2,990,000 warrants expired unexercised.