

YUKON ZINC CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006
(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 March 31, 2006.

YUKON ZINC CORPORATION
CONSOLIDATED BALANCE SHEETS
As at

	March 31 2006 (Unaudited)	December 31 2005 (Audited)
ASSETS		
CURRENT ASSETS		
Cash (Note 8)	\$ 7,446,121	\$ 7,303,111
Amounts receivable	480,403	362,761
Marketable securities (Notes 3 and 11)	1,207,078	1,226,542
Prepaid expenses	85,304	27,007
	9,218,906	8,919,421
PROPERTY AND EQUIPMENT (net of accumulated amortization of \$146,022; 2005 - \$69,034)	494,534	212,710
DEFERRED PROPERTY COSTS	38,727,845	34,626,605
DEPOSIT	64,000	64,000
	\$ 48,505,285	\$ 43,822,736
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,736,522	\$ 1,290,459
FUTURE INCOME TAX LIABILITY (Note 7)	6,117,751	2,422,991
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 4)	59,215,332	57,647,186
CONTRIBUTED SURPLUS	2,665,814	3,707,674
DEFICIT	(22,230,134)	(21,245,574)
	39,651,012	40,109,286
	\$ 48,505,285	\$ 43,822,736

Continuance of operations (Note 1)
 Commitments (Note 8)
 Contingency (Note 9)

APPROVED BY THE BOARD

"Harlan Meade" (signed)

Director – Harlan Meade

"Lorne Anderson" (signed)

Director – Lorne Anderson

YUKON ZINC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)

	2006	2005
ADMINISTRATIVE EXPENSES		
Amortization	\$ 26,081	\$ 9,879
Consulting	-	8,093
Directors fees	8,500	-
Insurance	17,037	6,719
Investor relations and financing	103,432	107,753
Regulatory fees	8,296	7,987
Professional fees	38,421	28,250
Rent and office services	70,210	67,505
Salaries and benefits	174,954	139,448
LOSS BEFORE OTHER ITEMS	446,931	375,634
OTHER ITEMS		
Interest income	(57,674)	(66,696)
Gain on sale of marketable securities	(38,331)	-
Plan of Arrangement	-	7,161
Write off general exploration	-	198
Technology costs	1,206	1,162
Part XII.6 tax on unspent flow-through funds	10,913	36,465
Stock-based compensation expense	621,515	246,350
NET LOSS BEFORE TAX	984,560	600,274
Future tax recovery (Note 7)	-	(3,622,554)
NET LOSS (INCOME) FOR THE PERIOD	984,560	(3,022,280)
DEFICIT, BEGINNING OF PERIOD	21,245,574	20,821,400
DEFICIT, END OF PERIOD	\$ 22,230,134	\$ 17,799,120
LOSS (EARNINGS) PER SHARE	\$ 0.00	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	235,432,204	158,217,535

See Notes to Consolidated Financial Statements

YUKON ZINC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)

	2006	2005
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net earnings (loss) for the period	\$ (984,560)	\$ 3,022,280
Adjustment for items not involving cash:		
Amortization	26,081	9,879
Stock-based compensation expense	621,515	246,350
Future tax recovery	-	(3,622,554)
	(336,964)	(344,045)
Changes in non-cash working capital items:		
Amounts receivable	(117,642)	(314,859)
Accounts payable and accrued liabilities	1,446,063	3,040,279
Prepaid expenses	(58,297)	(20,930)
Marketable securities	19,464	-
	952,624	2,360,445
FINANCING ACTIVITIES		
Shares issued for cash	3,805,254	105,000
Share issue costs	-	(2,862)
Pacifica commitment (Note 5)	(205,724)	(16,104)
	3,599,530	86,034
INVESTING ACTIVITIES		
Purchase of property and equipment	(307,904)	(79,612)
Deferred property costs, net of recoveries	(4,101,240)	(4,936,017)
	(4,409,144)	(5,015,629)
NET CASH OUTFLOW DURING THE PERIOD	(143,010)	(2,569,150)
CASH, BEGINNING OF PERIOD	7,303,111	13,475,080
CASH, END OF PERIOD	\$ 7,446,121	\$ 10,905,930
Interest received	\$ 47,894	\$ 83,318
Part XII.6 tax paid	\$ 55,031	\$ 12,013

See Notes to Consolidated Financial Statements

YUKON ZINC CORPORATION
CONSOLIDATED SCHEDULE OF DEFERRED PROPERTY COSTS
For the Year Ended March 31, 2006
(Unaudited)

	Wolverine	Finlayson District	Logan	Swift	Money	Total
	\$	\$	\$	\$	\$	\$
EXPLORATION AND DEVELOPMENT COSTS						
Advanced exploration	3,215,241	-	-	-	-	3,215,241
Assays	214	224	-	-	-	438
Engineering	516,312	-	-	-	-	516,312
Environmental	258,935	-	-	-	-	258,935
Field costs	554	538	-	9	-	1,101
Geology	53,858	17,708	-	586	-	72,152
Helicopter, fixed wing and fuel	(2,064)	-	-	-	-	(2,064)
Land and recording fees	9,440	28,941	-	-	-	38,381
Travel, freight and warehouse	359	280	-	105	-	744
					-	
Total costs incurred during the period	4,052,849	47,691	-	700	-	4,101,240
Balance, December 31, 2005	21,567,779	4,283,459	221,519	97,537	51,780	26,220,074
Balance, March 31, 2006	25,620,628	4,331,150	221,519	98,237	51,780	30,321,314
ACQUISITION COSTS						
Balance, December 31, 2005	7,565,643	273,218	500,563	60,107	5,000	8,404,531
Acquisition costs	-	-	-	-	-	-
Balance, March 31, 2006	7,565,643	273,218	500,563	60,107	5,000	8,404,531
Total costs, March 31, 2006	33,186,271	4,604,368	722,082	158,344	56,780	38,727,845

See Notes to Consolidated Financial Statements

YUKON ZINC CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Month Period Ended March 31, 2006
(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 been able to identify a known body of commercial grade ore on any of its properties and 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 primarily in Canada.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. These interim financial statements should be read in conjunction with the Company's annual audited financial statements dated December 31, 2005. All material adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods have been reflected. The results of the three months ended March 31, 2006 are stated utilizing the same accounting policies, and the methods of application of those policies are consistent with those used to prepare the most recent annual financial statements for the year ended December 31, 2005, but these interim figures are not necessarily indicative of the results to be expected for the full year.

3. MARKETABLE SECURITIES

During the quarter, the Company sold 110,000 shares of Entourage Mining Ltd. for gross proceeds of \$57,795 (included in accounts receivable), and recorded an accounting gain of \$38,331.

4. SHARE CAPITAL

(a) Authorized share capital consists of an unlimited (2005 - unlimited) number of common shares without par value, unlimited (2005 - unlimited) Class "A" preferred shares without par value, and unlimited (2005 - 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 March 31, 2006.

Common Shares	Number of Shares	Total
Issued at December 31, 2005	229,014,851	\$ 57,647,186
Warrants exercised	12,669,928	3,712,304
Options exercised	475,000	92,950
Pacifica commitment (Note 5)	-	(205,724)
Flow-through share renunciation (Note 7)	-	(3,694,760)
	13,144,928	\$ (95,230)
Fair value of stock options and warrants allocated to shares issued on exercise	-	1,663,376
Issued at March 31, 2006	242,159,779	\$ 59,215,332

YUKON ZINC CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Month Period Ended March 31, 2006
(Unaudited)

4. SHARE CAPITAL (continued)

(b) Summary of warrants and stock options outstanding at March 31, 2006:

Type of Issue	Number Outstanding	Exercise Price	Expiry Date
Options	250,000	0.12	May 14, 2007
	120,000	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
	3,105,000	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
	300,000	0.22	September 7, 2010
	5,658,000	0.40	January 13, 2011
240,000	0.58	February 8, 2011	
	18,028,000		
Warrants	8,714,939	0.45	October 21, 2006
	359,800 ⁽¹⁾	0.32	October 21, 2006
	1,875,000 ⁽¹⁾	0.45	October 21, 2006
	4,692,500	0.45	October 26, 2006
	1,207,520 ⁽²⁾	0.22	July 21, 2007
	8,243,500	0.25	October 22, 2007
	2,459,847 ⁽³⁾	0.22	October 22, 2007
	2,500,000 ⁽⁴⁾	0.30	June 30, 2008
	30,053,106		

(1) Agents' warrants issued in connection with a private placement at a value of \$1,190,625.

(2) Agent's compensation options issued in connection with a private placement at a value of \$277,272.

(3) Agent's compensation options issued in connection with a private placement at a value of \$398,925.

(4) Warrant subject to certain conditions and not exercisable until conditions are met.

YUKON ZINC CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Month Period Ended March 31, 2006
(Unaudited)

4. SHARE CAPITAL (continued)

(c) Summary of stock option continuity as at March 31, 2006:

	2006	
	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	12,605,000	\$0.27
Granted	5,898,000	0.41
Exercised	(475,000)	0.20
Options outstanding, March 31, 2006	18,028,000	\$0.31

The Company recorded stock-based compensation of \$621,515 (2005 - \$246,350).

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 3.48% (2005 – 3.12%); an expected life of 3 years; an expected volatility of 104% (2005 - 116%); 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 required to remit to Pacifica Resources Ltd. \$0.25 for each share of Pacifica issued pursuant to the exercise of a Yukon Zinc option or warrant that are part of the Pacifica Commitment. During the quarter, the Company paid \$205,724 to Pacifica Resources Ltd. As at March 31, 2006, there were 15,642,239 warrants and 5,545,000 options outstanding that are eligible to receive the fractional Pacifica share upon exercise, resulting in a maximum amount of \$487,437 that would be remitted to Pacifica should these options and warrants be exercised.

6. 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 by management and the related party. The quarterly balances referred to in the financial statements are unsecured, payable on demand and have arisen from the provision of services or expense reimbursement. All material transactions and balances with related parties are described below.

The Company is owed \$100,153 for expense reimbursements by a public company with a director in common.

Legal fees and disbursements totaling \$17,874 (2005 - \$20,970) have been incurred with a law firm in which an officer of the Company is a partner.

The Company is owed \$44,889 by certain employees for seed loans made to Pacifica Resources Ltd. and for accrued interest to March 31, 2006. Subsequent to March 31, 2006, \$33,000 of the loans were repaid.

Refer also to Note 5.

YUKON ZINC CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Month Period Ended March 31, 2006
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7. 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 2006, the Company renounced \$10,372,714 raised through the issuance of flow through shares in 2005, resulting in the recording of a future income tax liability of \$3,694,760 (see also Note 4).

In March 2005, the Company recorded a future income tax recovery of \$3,622,554 as a result of offsetting the future income tax liability of \$3,622,554, recorded upon the renunciation of \$10,170,000 of flow through to investors in March 2005, against previously unrecognized tax assets thus eliminating the future income tax liability as at March 31, 2005.

8. COMMITMENT

At March 31, 2006, the Company is obligated to incur approximately \$508,700 in eligible Canadian Exploration Expense prior to December 31, 2006 in order to complete obligations entered into pursuant to flow-through share purchase agreements.

9. CONTINGENCY

In 2005, the Company was granted a B Water Licence ("Licence") by the Yukon Water Board, allowing the Company to undertake underground exploration at the Wolverine project by complying with certain monitoring, testing and reporting requirements, and the payment of a \$64,000 security deposit. In addition, as required by the Licence, the Company provided independent cost estimates for continuing operations during a temporary closure (\$163,580 for initial year) and a permanent closure (\$666,966) to the Yukon Water Board.

10. COMPARATIVE FIGURES

Certain 2005 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2006.

YUKON ZINC CORPORATION
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For the Three Month Period Ended March 31, 2006
(Unaudited)

11. SUBSEQUENT EVENTS

Subsequent to March 31, 2006:

- (a) the Company granted 3,700,000 stock options exercisable at \$0.24 for a period of five years;
- (b) the Company issued 100,000 common shares for gross proceeds of \$28,000 pursuant to the exercise of stock options;
- (c) the Company issued 5,024,093 common shares for gross proceeds of \$1,914,526 pursuant to the exercise of warrants;
- (d) the Company paid Pacifica Resources Ltd. \$79,522 for shares issued by Pacifica under the Pacifica commitment (Note 5) due to the exercise of warrants and options; and
- (e) the Company sold 10,000 shares of Entourage Mining Ltd. for gross proceeds of \$3,373 and recorded a gain of \$1,604.