

YUKON ZINC CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 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 June 30, 2006.

**YUKON ZINC CORPORATION
CONSOLIDATED BALANCE SHEETS**

	As at	
	June 30 2006 <i>(Unaudited)</i>	December 31 2005 <i>(Audited)</i>
ASSETS		
CURRENT ASSETS		
Cash (Note 11)	\$ 4,689,716	\$ 7,303,111
Amounts receivable	212,636	362,761
Marketable securities (Note 3)	1,205,308	1,226,542
Prepaid expenses	71,148	27,007
	6,178,808	8,919,421
PROPERTY AND EQUIPMENT (net of accumulated amortization of \$160,782; 2005 - \$119,941)	533,409	212,710
DEFERRED PROPERTY COSTS	41,195,958	34,626,605
DEPOSIT (Note 9)	64,000	64,000
	\$ 47,972,175	\$ 43,822,736
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 931,625	\$ 1,290,459
FUTURE INCOME TAX LIABILITY (Note 7)	6,117,751	2,422,991
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 4)	61,190,549	57,647,186
CONTRIBUTED SURPLUS	2,981,616	3,707,674
DEFICIT	(23,249,366)	(21,245,574)
	40,922,799	40,109,286
	\$ 47,972,175	\$ 43,822,736

Continuance of operations (Note 1)
Commitments (Notes 5 and 8)
Contingency (Note 9)

APPROVED BY THE BOARD

"Harlan Meade" (signed)

Director – Harlan Meade

"Lorne Anderson" (signed)

Director – Lorne Anderson

See Notes to Consolidated Financial Statements

YUKON ZINC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited – prepared by management)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
ADMINISTRATION EXPENSES				
Amortization	\$ 35,394	\$ 10,993	\$ 61,475	\$ 20,872
Consulting	60,165	5,000	60,165	13,093
Directors fees	8,500	-	17,000	-
Financing fee (Note 8)	75,000	-	75,000	-
Insurance	18,515	7,710	35,552	14,429
Investor relations and financing	149,922	58,006	253,354	165,759
Regulatory fees	30,671	19,702	38,967	27,689
Professional fees	84,752	29,488	123,173	57,738
Rent and office services	56,316	59,509	126,526	127,014
Salaries and benefits	154,684	51,925	329,638	191,373
LOSS BEFORE OTHER ITEMS	673,919	242,333	1,120,850	617,967
OTHER ITEMS				
Interest income	(56,391)	(35,447)	(114,065)	(102,143)
Gain on sale of marketable securities	(1,604)	-	(39,935)	-
Loss on write-off of property and equipment	6,797	-	6,797	-
Plan of arrangement	-	-	-	7,161
General exploration	-	-	-	198
Technology costs	3,837	3,641	5,043	4,803
Part XII.6 tax on unspent flow-through funds	751	11,676	11,664	48,141
Stock-based compensation (Note 4)	391,923	206,639	1,013,438	452,989
LOSS BEFORE TAX	1,019,232	428,842	2,003,792	1,029,116
Future tax recovery (Note 7)	-	-	-	(3,622,554)
NET LOSS (INCOME) FOR THE PERIOD	1,019,232	428,842	2,003,792	(2,593,438)
DEFICIT, BEGINNING OF PERIOD	22,230,134	17,799,120	21,245,574	20,821,400
DEFICIT, END OF PERIOD	\$ 23,249,366	\$ 18,227,962	\$ 23,249,366	\$ 18,227,962
LOSS (EARNINGS) PER SHARE	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Note 4)	246,474,475	158,833,151	240,983,843	158,655,250

See Notes to Consolidated Financial Statements

YUKON ZINC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – prepared by management)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
CASH PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES				
Net (loss) earnings for the period	\$ (1,019,232)	\$ (428,842)	\$ (2,003,792)	\$ 2,593,438
Adjustment for items not involving cash				
Amortization	35,394	10,993	61,475	20,872
Loss on write-off of property and equipment	6,797	-	6,797	-
Stock based compensation	391,923	206,639	1,013,438	452,989
Future tax recovery	-	-	-	(3,622,554)
	(585,118)	(211,210)	(922,082)	(555,255)
Changes in non-cash working capital items				
Accounts receivable	267,767	182,761	150,125	(132,098)
Prepaid expenses	14,156	45,115	(44,141)	24,185
Accounts payable and accrued liabilities	(1,804,897)	(1,657,319)	(358,834)	1,382,960
Marketable securities	1,770	-	21,234	-
	(2,106,322)	(1,640,653)	(1,153,698)	719,792
FINANCING ACTIVITIES				
Shares issued for cash	1,977,683	-	5,782,937	105,000
Share issue costs	2,734	-	2,734	(2,862)
Pacifica commitment (Note 5)	(81,319)	-	(287,043)	(16,104)
	1,899,098	-	5,498,628	86,034
INVESTING ACTIVITIES				
Purchase of property and equipment	(81,068)	(18,332)	(388,972)	(97,944)
Deferred property costs, net of recoveries	(2,468,113)	(4,808,291)	(6,569,353)	(9,744,308)
Security deposit	-	(64,000)	-	(64,000)
	(2,549,181)	(4,890,623)	(6,958,325)	(9,906,252)
NET CASH OUTFLOW DURING PERIOD	2,756,405	(6,531,276)	(2,613,395)	(9,100,426)
CASH, BEGINNING OF PERIOD	7,446,121	10,905,930	7,303,111	13,475,080
CASH, END OF PERIOD	\$ 4,689,716	\$ 4,374,654	4,689,716	4,374,654
Interest received	\$ 67,614	\$ 46,389	\$ 126,499	\$ 115,566
Part XII.6 tax paid	\$ -	\$ 11,676	\$ -	\$ 12,013

See Notes to Consolidated Financial Statements

YUKON ZINC CORPORATION
CONSOLIDATED SCHEDULE OF DEFERRED PROPERTY COSTS
For the Period Ended June 30, 2006
(Unaudited – prepared by management)

	Wolverine	Finlayson District	Logan	Swift	Money	Total
	\$	\$	\$	\$	\$	\$
EXPLORATION AND DEVELOPMENT COSTS						
Advanced exploration	4,458,747	-	-	-	-	4,458,747
Assays	8,539	224	-	-	-	8,763
Engineering	837,701	-	-	-	-	837,701
Environmental	921,048	-	-	-	-	921,048
Field costs	(5,317)	1,768	-	9	2,730	(810)
Geology	80,980	19,009	-	586	587	101,162
Helicopter, fixed wing and fuel	(2,064)	-	-	-	-	(2,064)
Land and recording fees	9,440	28,941	-	-	-	38,381
Project development	199,565	-	-	-	-	199,565
Travel, freight and warehouse	2,965	280	-	583	-	3,828
Total costs incurred during the period	6,511,604	50,222	-	1,178	3,317	6,566,321
Balance, December 31, 2005	21,567,779	4,283,459	221,519	97,537	51,780	26,222,074
Balance, June 30, 2006	28,079,383	4,333,681	221,519	98,715	55,097	32,788,395
ACQUISITION COSTS						
Balance, December 31, 2005	7,565,643	273,218	500,563	60,107	5,000	8,404,531
Acquisition costs	3,032	-	-	-	-	3,032
Balance, June 30, 2006	7,568,675	273,218	500,563	60,107	5,000	8,407,563
Total costs, June 30, 2006	35,648,058	4,606,899	722,082	158,822	60,097	41,195,958

See Notes to Consolidated Financial Statements

YUKON ZINC CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Six Month Period Ended June 30, 2006
(Unaudited – prepared by management)

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 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 six months ended June 30, 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 period ended June 30, 2006, the Company sold 120,000 shares of Entourage Mining Ltd. for gross proceeds of \$61,168, and recorded an accounting gain of \$39,935.

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 June 30, 2006.

Common Shares	Number of Shares	Total
Issued at December 31, 2005	229,014,851	\$ 57,647,186
Warrants exercised	17,772,146	5,661,987
Options exercised	575,000	120,950
Pacifica commitment (Note 5)	-	(287,043)
Flow-through share renunciation (Note 7)	-	(3,694,760)
Share issue cost recovery	-	2,733
	18,347,146	\$ 1,803,867
Fair value of stock options and warrants allocated to shares issued on exercise	-	1,739,496
		\$ 3,543,363
Issued at June 30, 2006	247,361,997	\$ 61,190,549

YUKON ZINC CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Six Month Period Ended June 30, 2006
(Unaudited – prepared by management)

4. SHARE CAPITAL (continued)

(b) Summary of warrants and stock options outstanding at June 30, 2006:

Type of Issue	Number Outstanding	Exercise Price	Expiry Date
Options	150,000	\$0.27	December 22, 2006
	120,000	0.28	December 22, 2006
	250,000	0.39	December 22, 2006
	235,000	0.40	December 22, 2006
	250,000	0.12	May 14, 2007
	120,000	0.10	November 25, 2007
	420,000	0.11	April 1, 2008
	450,000	0.28	November 4, 2008
	250,000	0.38	January 21, 2009
	100,000	0.39	January 30, 2009
	2,955,000	0.27	June 21, 2009
	450,000	0.27	August 11, 2009
	50,000	0.27	September 13, 2009
	3,385,000	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
	5,423,000	0.40	January 13, 2011
	240,000	0.58	February 8, 2011
3,700,000	0.24	May 18, 2011	
	21,628,000		
Warrants	5,295,089	0.45	October 21, 2006
	359,750 ⁽¹⁾	0.32	October 21, 2006
	1,865,113 ⁽¹⁾	0.45	October 21, 2006
	4,687,500	0.45	October 26, 2006
	1,207,520 ⁽²⁾	0.22	July 21, 2007
	7,003,500	0.25	October 22, 2007
	2,032,416 ⁽³⁾	0.22	October 22, 2007
2,500,000 ⁽⁴⁾	0.30	June 30, 2008	
	24,950,888		

(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 Six Month Period Ended June 30, 2006
(Unaudited – prepared by management)

4. SHARE CAPITAL (continued)

(c) Summary of stock option continuity as at June 30, 2006:

	2006	
	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	12,605,000	\$0.27
Granted	9,598,000	0.34
Exercised	(575,000)	0.21
Options outstanding, June 30, 2006	21,628,000	\$0.30

The Company recorded stock-based compensation of \$1,013,438 (2005 - \$452,989) 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 3.69% (2005 - 3.41%); an expected life of 3 years; an expected volatility (weighted average) of 109% (2005 - 122%); 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 period ended June 30, 2006, the Company paid \$287,043 to Pacifica Resources Ltd. As at June 30, 2006, there were 12,207,452 warrants and 5,445,000 options outstanding that are eligible to receive the fractional Pacifica share upon exercise, resulting in a maximum amount of \$406,115 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 between management and the related parties. The quarterly balances referred to in the financial statements are unsecured, receivable or payable on demand and have arisen from the provision of services, expense reimbursements or advances described. All material transactions and balances with related parties are described below.

At June 30, 2006, the Company is owed \$33,247 for expense reimbursements by a related public company with a director in common.

Legal fees for the six months ended June 30, 2006 totaling \$40,037 (2005 - \$43,147) have been incurred with a law firm in which an officer of the Company is a partner.

The Company is owed \$11,994 by an employee for a loan made to enable the purchase shares of Pacifica Resources Ltd. and for accrued interest to June 30, 2006.

Refer also to Note 5.

YUKON ZINC CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Six Month Period Ended June 30, 2006
(Unaudited – prepared by management)

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 and Note 8(b)).

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. COMMITMENTS

- (a) On December 15, 2005, the Company engaged Macquarie Bank Ltd. to act as exclusive lead arranger for the Wolverine project loan and associated hedging facilities in exchange for a work fee of \$75,000 (paid in 2005) and work fees to accrue at \$25,000 per month commencing April 1, 2006 payable when certain conditions are met. At June 30, 2006, the Company has accrued \$75,000 in work fees. In addition, the Company has agreed to grant 2,500,000 share purchase warrants exercisable at \$0.30 per share to June 30, 2008 to Macquarie Bank, subject to regulatory approval. The warrant is not exercisable unless certain performance criteria are met.
- (b) At June 30, 2006, the Company had completed its obligations to incur eligible Canadian Exploration Expense prior to December 31, 2006 and has completed obligations entered into in 2005 pursuant to flow-through share purchase agreements. Refer also to Note 11(a).

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
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Six Month Period Ended June 30, 2006
(Unaudited – prepared by management)

11. SUBSEQUENT EVENTS

Subsequent to June 30, 2006:

- (a) The Company completed a brokered private placement for gross proceeds of \$5,000,000. The Company issued 10,000,000 flow-through shares at \$0.30 per share and 8,000,000 units at \$0.22 per unit, each unit consisting of one common share and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company for a period of one year at \$0.31 per share. The Company issued Agents' compensation options for 1,260,000 common shares exercisable at \$0.25 per share for one year. The agents also received a cash commission equal to 6% of the gross proceeds
- (b) The Company granted 600,000 stock options exercisable at \$0.26 for a period of five years
- (c) The Company received \$1,121,624 in cash for Yukon Mineral Exploration Tax Credits for exploration expenditures incurred in 2005 which were applied for in 2006.