



Consolidated Financial Statements

December 31, 2007

and

December 31, 2006

(expressed in Canadian dollars)

**701 – 475 Howe Street
Vancouver, British Columbia
V6C 2B3 Canada
Phone: (604) 682-5474
Fax: (604) 682-5404
info@yukonzinc.com
www.yukonzinc.com**



#701 – 475 Howe Street
Vancouver, British Columbia
Canada V6C 2B3

Telephone: (604) 682-5474
Toll-free: 1-877-682-5474
Fax: (604) 682-5404

International toll-free: 800-8682-5474
info@yukonzinc.com

Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

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DE VISSER GRAY LLP

CHARTERED ACCOUNTANTS

401 - 905 West Pender Street
Vancouver, BC Canada
V6C 1L6

Tel: (604) 687-5447
Fax: (604) 687-6737

AUDITORS' REPORT

To the Shareholders of Yukon Zinc Corporation ("the Company")

We have audited the consolidated balance sheets and consolidated schedules of deferred mineral property costs of Yukon Zinc Corporation as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit, and cash flows for the years then ended and the statement of comprehensive income for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DeVisser Gray LLP"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 15, 2008, except as to note 18, which is as of April 23, 2008

Yukon Zinc Corporation
Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	932,627	3,347,129
Cash reserved for flow-through expenditures (Note 3)	3,545,192	1,272
Receivables (Note 4)	433,486	442,737
Due from related parties (Note 11)	108,773	52,853
Investment	-	5,308
Prepaid expenses	174,722	69,280
Yukon Mineral Exploration Tax Credit (Note 14)	-	2,474,110
	5,194,800	6,392,689
Investments (Note 6)	1,671,182	1,863,790
Property and equipment (Note 7)	2,206,808	480,535
Mineral properties (Note 8)	60,089,489	41,287,451
Yukon Mineral Exploration Tax Credit (Note 14)	1,591,425	-
Deposit (Note 9)	1,092,796	64,000
	\$71,846,500	\$50,088,465
LIABILITIES		
Current		
Accounts payable and accrued liabilities	5,727,033	1,455,409
Due to related parties (Note 11)	415,150	30,705
	6,142,183	1,486,114
Long Term Liabilities		
Future income tax liability (Note 13)	-	2,900,000
Asset retirement obligations (Note 10)	2,600,000	1,640,000
	8,742,183	6,026,114
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	88,070,353	65,195,301
Contributed surplus (Note 12)	4,581,414	3,305,207
Accumulated comprehensive income (Schedule, Note 6)	(13,181)	-
Deficit	(29,534,269)	(24,438,157)
	63,104,317	44,062,351
	\$71,846,500	\$50,088,465
Nature and continuance of operations (Note 1)		
Contingencies and commitments (Note 17)		
Subsequent events (Note 18)		
Approved on behalf of the Board of Directors	<u>"Lorne Anderson"</u> Lorne B Anderson Director	<u>"Harlan Meade"</u> Harlan Meade Director

The accompanying notes are an integral part of these consolidated financial statements.

Yukon Zinc Corporation
Consolidated Statements of Operations and Deficit

	Years ended December 31,	
	2007	2006
	\$	\$
Expenses		
Project Financing	3,807,544	-
Stock based compensation (Note 12)	1,259,180	1,400,928
General and administrative	1,501,320	1,085,875
Salaries and benefits	1,334,176	899,415
Investor communications	390,303	341,410
Loss before the following	8,292,523	3,727,628
Tax on unspent flow through funds	-	11,680
Write off equipment, technology costs and other	-	9,030
Write off mineral property costs	-	4,456,200
Gain on sale of investments (Note 6)	(174,405)	(694,661)
Interest and other income	(177,591)	(234,208)
Loss before tax	7,940,527	7,275,669
Future income tax recovery (Note 13)	(2,844,415)	(4,083,086)
Net loss and comprehensive loss.	5,096,112	3,192,583
Deficit, beginning of year	24,438,157	21,245,574
Deficit, end of the year	\$29,534,269	\$24,438,157
Loss per share - basic and diluted	\$0.02	\$0.01
Weighted average number of shares outstanding	318,912,039	251,819,778

Consolidated Statement of Comprehensive Income

	For the Year ended December 31, 2007
Net loss for the period before comprehensive income	\$5,096,112
Unrealized (gains)/losses on available for sale investments (Note 6)	2,983,437
Comprehensive loss	\$8,079,549

The accompanying notes are an integral part of these consolidated financial statements.

Yukon Zinc Corporation
Consolidated Statements of Cash Flows

	Years ended December 31,	
	2007	2006
	\$	\$
CASH PROVIDED BY (USED FOR):		
Operating Activities		
Net loss for the year	(5,096,112)	(3,192,583)
Items not involving cash:		
Amortization	216,961	123,778
Stock based compensation	1,259,180	1,400,928
Write down equipment, technology costs and other	-	9,030
Write off mineral property costs	-	4,456,200
Gain on sale of investments	(174,405)	(694,661)
Future income tax recovery	(2,844,415)	(4,083,086)
	(6,638,791)	(1,980,394)
Change in non-cash working capital items:		
Receivables	9,251	(114,444)
Due from related parties	(55,920)	(18,384)
Prepaid expenses	(105,442)	(42,273)
Accounts payable and accrued liabilities	1,069,560	(2,134)
Due to related parties	384,445	(7,429)
	(5,336,897)	(2,165,058)
Investing Activities		
Expenditures on mineral properties, net	(14,639,974)	(12,867,561)
Yukon Mineral Exploration Tax Credit received	882,685	1,121,624
Expenditures on property and equipment	(1,943,234)	(400,634)
Deposit	(1,028,796)	-
Exercise of warrants of Selwyn Resources Ltd. (Note 5)	-	(960,000)
Proceeds on sale of investments (Note 6)	303,555	1,012,104
	(16,425,764)	(12,094,467)
Financing Activities		
Selwyn Resources Ltd. Commitment (Note 5)	(17,140)	(289,923)
Shares issued for cash	24,830,181	11,009,628
Shares issue cash costs	(1,920,962)	(414,890)
	22,892,079	10,304,815
Increase (Decrease) in cash and cash equivalents	1,129,418	(3,954,710)
Cash and cash equivalents, beginning of the year	3,348,401	7,303,111
Cash and cash equivalents, end of the year	4,477,819	3,348,401
Cash and cash equivalents consists of the following:		
Cash and cash equivalents	932,627	3,347,129
Cash reserved for flow-through expenditures	3,545,192	1,272
Cash and cash equivalents, end of the year	\$4,477,819	\$3,348,401

The accompanying notes are an integral part of these consolidated financial statements.

Yukon Zinc Corporation

**Consolidated Statement of Changes in Shareholders' Equity
For the Year Ended December 31, 2007**

	December 31, 2007
	\$
Share Capital	
Balance - beginning of year	65,195,301
Private placement of units	13,561,790
Private placement of flow-through shares	10,543,502
Warrant exercise	580,639
Fair value of shares, upon exercise of options	378,008
Stock option exercise	144,250
Payment to Selwyn Resources Ltd (Note 5)	(17,140)
Share issue cash costs	(2,315,997)
Balance - end of year	88,070,353
Contributed Surplus	
Balance - beginning of year	3,305,207
Fair value of agents' compensation	(264,481)
Fair value of options exercised: stock based compensation	(113,527)
Fair value of agents' compensation: share issue costs	395,035
Fair value of options vested: stock based compensation	1,259,180
Balance - end of year	4,581,414
Deficit	
Balance - beginning of year	(24,438,157)
Loss for the year	(5,096,112)
Balance - end of year*	(29,534,269)
Accumulated Other Comprehensive Income ("OCI")	
Balance - beginning of year	2,970,256
Gains realized included in OCI, net of tax	(114,054)
Receipt of shares in Savant	174,462
Unrealized loss on shares of Selwyn, net of tax	(3,043,845)
Balance - end of year*	(13,181)
Total Shareholders' Equity	63,104,317
* Total of Deficit and Accumulated OCI	\$(29,547,450)

Yukon Zinc Corporation
Consolidated Schedule of Mineral Property Costs
For the Year Ended December 31, 2007

Mineral Properties	Wolverine	Others	Total
	\$	\$	\$
Project development	14,925,157	-	14,925,157
Engineering	1,305,164	-	1,305,164
Environment and community	1,387,886	-	1,387,886
Site	74,973	-	74,973
Exploration	81,724	120	81,844
Acquisition costs	4,299	62,715	67,014
Subtotal,	17,779,203	62,835	17,842,038
Asset retirement obligations	960,000	-	960,000
Total additions in 2007	18,739,203	62,835	18,802,038
Balance, December 31, 2006	40,139,868	1,147,583	41,287,451
Balance, December 31, 2007	58,879,071	1,210,418	60,089,489

For the Year Ended December 31, 2006

Mineral Properties	Wolverine	Others	Total
	\$	\$	\$
Project development	9,401,329	-	9,401,329
Engineering	1,796,684	-	1,796,684
Environment and community	1,487,513	-	1,487,513
Exploration	75,133	249,880	325,013
Acquisition costs	11,859	50,381	62,240
Subtotal,	12,772,518	300,261	13,072,779
Asset retirement obligations	1,640,000	-	1,640,000
Write off mineral property costs	-	(4,456,200)	(4,456,200)
Subtotal, before YMETC	14,412,518	(4,155,939)	10,256,579
Recoveries, tax credits	(682,338)	(8,070)	(690,408)
Total additions in 2006	13,730,180	(4,164,009)	9,566,171
Balance, Dec. 31, 2005 previously reported	29,133,422	5,493,183	34,626,605
YMETC previously reported	223,870	521,039	744,909
YMETC restated	(2,947,604)	(702,630)	(3,650,234)
Balance, December 31, 2005, restated	26,409,688	5,311,592	31,721,280
Balance, December 31, 2006	40,139,868	1,147,583	41,287,451

The accompanying notes are an integral part of these consolidated financial statements.

Yukon Zinc Corporation

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and December 31, 2006

1. Nature and Continuance of Operations

Yukon Zinc Corporation (the "Company" or "Yukon Zinc"), is a development stage company incorporated under the Company Act (British Columbia), which Act has been amended and is now the British Columbia Business Corporations Act. The Company's shares trade on Tier 1 of the TSX Venture Exchange ("TSX.V") under the symbol YZC. The Company is focused on advanced exploration and development of its Wolverine Project, a zinc-silver-copper deposit located in the Finlayson Lake area of southeast Yukon Territory, Canada.

Results of the Optimized Feasibility Study for the Wolverine Project were released in January 2007 which concluded that technically and economically the Project is viable. The recoverability of amounts shown for mineral properties is dependent upon the ability of the Company to obtain the necessary financing to proceed with construction and development, to resolve any potential environmental, regulatory, or other impediments and to ultimately achieve commercial production or proceeds from the future disposition of its mineral properties.

These financial statements are prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has no source of operating revenue, has incurred losses since inception and at December 31, 2007 has a working capital deficiency of approximately \$1.1 million, inclusive of restricted cash on hand of approximately \$3.5 million (notes 3 and 18(a)). The Company's ability to meet its obligations and maintain its operations is contingent upon successful completion of financing arrangements, and the financial statements do not reflect any adjustments which may be necessary should the Company become unable to continue on a going concern basis. Refer also to Note 18 (d).

2. Significant Accounting Policies

a) *Presentation and Basis of Consolidation*

The accompanying financial statements of the Company include the accounts of the Company and its inactive subsidiaries. All inter-company accounts and transactions were eliminated upon consolidation.

Certain of the prior year's comparative figures in the consolidated financial statements have been reclassified to conform to the presentation adopted in the current year.

b) *Use of Estimates and Measurement Uncertainty*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets, liabilities, expenses, other income and contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the determination of the recoverability of mineral property costs, the asset retirement obligation, the valuation allowance of future tax assets, the determination of the Yukon Mineral Exploration Tax Credit ("YMETC") receivable and the calculation of stock-based compensation expense. Actual results could differ from those estimates.

c) *Translation of Foreign Currency*

The Canadian dollar is the functional currency of all of the Company's operations which are classified as integrated for foreign currency translation purposes. Under this method translation gains or losses are included in the determination of net income.

d) *Cash and Cash Equivalents*

Cash and cash equivalents are carried in the consolidated balance sheets at cost and they comprise cash on hand, deposits held with banks and other short-term liquid investments generally with original maturities of three months or less.

2. Significant Accounting Policies, continued

e) *Financial Instruments, Equity and Comprehensive Income*

The Company's financial instruments consist of cash and cash equivalents, cash reserved for flow-through expenditures, investments, receivables, deposits, and accounts payable. The carrying values of these financial instruments approximate their fair market values due to the relatively short periods to maturity or capacity for prompt liquidation of these instruments. The Company's operating cash flows are substantially independent of changes in market interest rates.

The accounting policies followed by the Company are set out here and have been consistently followed in the preparation of these consolidated statements except that the Company has adopted the following CICA guidelines effective for the Company's first quarter commencing January 1, 2007.

Section 3855 – Financial Instruments – Recognition and Measurement. Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. Investments classified as available for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are reported at cost and not adjusted to fair market value.

The Company has designated its cash and cash equivalents as held for trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Deposits are classified as held-to-maturity, and are measured at amortized cost. Accounts payable are classified as other liabilities, which are measured at amortized cost.

Section 1530 – Comprehensive Income. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available for sale securities which are not included in net income (loss) until realized.

Transition adjustments to opening balance: the adoption of Sections 3855 and 1530 impacts the opening equity and losses of the Company as follows: the unrealized gain on the available for sale securities (refer to note 6) from purchase to January 1, 2007 was \$2,970,256 net of tax of \$610,955 which is reported as an adjustment to the opening balance of accumulated other comprehensive income.

Recent Accounting Pronouncements

Section 1400 - General Standards of Financial Statement Presentation. The CICA has amended Section 1400, "General Standards of Financial Statement presentation", which is effective for interim periods beginning on or after January 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section will not have an impact on the financial statements.

Section 1535 – Capital Disclosure. This standard was issued by the CICA on December 1, 2006, and will be effective for the Company on January 1, 2008. Section 1535 specifies the disclosure of information that enables users of the Company's financial statements to evaluate the entity's objectives, policies and processes for managing capital such as qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether the entity has complied with any capital requirements and, if it has not complied, the consequences of noncompliance. The Company is assessing the impact of this new section and will adopt these standards commencing in the 2008 year.

2. Significant Accounting Policies, continued

e) Financial Instruments, Equity and Comprehensive Income, continued

Section 3031- Inventories. In June 2007, the CICA issued this section which replaces Section 3030 and establishes standards for the measurement and disclosure of inventories. This section applies to fiscal years beginning on or after January 1, 2008. The main features of the new section are:

- Measurement at the lower of cost and net realizable value;
- Cost of items that are not ordinarily interchangeable, and goods and services produced and segregated for specific projects, assigned by using a specific identification of their individual costs;
- Consistent use of either first-in first-out or weighted average cost formula to measure the cost of other inventories;
- Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.

This new section also provides for additional disclosure. The Company is currently evaluating the effect that the adoption of Section 3031 will have on its consolidated results of operations and financial condition and will adopt these standards prospectively commencing in the 2008 year.

International Financial Reporting Standards ("IFRS"). In January 2006, the AcSB adopted its strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted high-quality standards, namely, IFRS, as issued by the International Accounting Standards Board (IASB). This document outlines the AcSB's implementation plan for incorporating IFRS into Canadian GAAP, including identifying key decisions that the AcSB will need to make as it implements the strategic plan for publicly accountable enterprises. The Company will follow the key events timeline proposed by the AcSB to obtain training and thorough knowledge of IFRS, finalize assessment of accounting policies with reference to IFRS and plan for convergence to be ready for the changeover planned in 2011.

f) Property and Equipment

Property and equipment are recorded at cost and amortized over their estimated useful economic lives using the declining balance method at annual rates of 20% for office furniture and equipment, 30% for vehicle and computer equipment and 100% for computer software. Leasehold improvements are amortized on a straight-line basis over five years. Amortization in the year of acquisition is one half of the amount otherwise calculated.

g) Mineral Properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. Cost includes any cash consideration and advance royalties paid and the fair market value of shares issued on the acquisition of property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts, at fair value, when the payments are made.

If economically recoverable ore reserves are developed, capitalized costs of the related property will be reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

2. Significant Accounting Policies, continued

h) Asset Retirement Obligations

Section 3110 of the CICA Handbook requires the recognition of a liability for obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. The Company recognizes the fair value of a liability for an asset retirement obligation ("ARO") in the year in which a reasonable estimate of the fair value can be made. The estimates are based principally on legal and regulatory requirements. The carrying amount of the related long-lived asset is increased by the same amount as the liability and it is depreciated over the estimated useful life of the asset. It is quite possible that the Company's estimates of its ultimate reclamation and closure liabilities associated with any mine or facility built will change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in cost estimates. Consequently, changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows will be recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The liability will be increased for the passage of time and reported as an operating expense (accretion expense).

i) Stock-Based Compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the vesting period of the stock options.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus, recognized initially as the options vested with the recipient, is transferred to share capital.

j) Loss per Share

Loss per share computations are based on the weighted-average number of common shares outstanding during the year. The diluted effect of options and warrants is computed by the treasury stock method. Diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

There were no securities with potential dilutive effect as at December 31, 2007 and 2006 other than the outstanding options and the share purchase warrants described in Note 12 d).

k) Income Taxes

Future income tax assets and liabilities are determined based on temporary differences between the accounting and the tax base of the assets and liabilities, and are measured using the tax rates expected to be in effect when these temporary differences are likely to reverse. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized, and a valuation allowance is applied against any future tax asset if it is more likely than not that the asset will not be realized.

l) Flow-Through Shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. The recording of these expenditures for accounting purposes gives rise to temporary accounting/tax base differences.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

Yukon Zinc Corporation

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and December 31, 2006

3. Cash Restricted for Flow-through Expenditures

On December 20, 2007, the TSX.V approved the Company's flow-through private placement financing to issue 25,308,572 common shares at \$0.14 per share for gross proceeds of \$3,543,200, which comprises substantially all of the balance of restricted cash at year end. In January 2008, the Company renounced this amount in its entirety, and accordingly will be required to incur this amount on eligible exploration expenditures in 2008.

The future income tax liability associated with the December 2007 financing is estimated to be \$1,208,231 based on a tax rate of 34.10%, and it will be recognized in January 2008 when the Company filed the renouncement documents with the tax authorities, consistent with EIC-146 CICA recommendations.

4. Receivables

Receivables as at December 31, 2007 totalled \$433,486 (December 31, 2006: \$442,737) which included \$417,640 in GST and was received subsequent to year end.

5. Plan of Arrangement, Yukon Zinc - Pacifica Resources Ltd.

In 2004, the Company incorporated a subsidiary, Pacifica Resources Ltd. ("Pacifica"), which was largely inactive until December 16, 2004 when the Company and Pacifica completed a Plan of Arrangement ("the Arrangement") under the *Business Corporations Act* (British Columbia). Under the terms of the Arrangement the Company sold to Pacifica a portfolio of base metal properties, 758,285 common shares of StrataGold Corp. ("SGV") and the right to acquire 4,000,000 SGV shares at \$0.60 per share until November 7, 2008, in consideration for 14,000,000 shares of Pacifica valued at \$3,500,000, which were distributed to the shareholders of record of the Company on a pro rata basis.

Each stock option that was outstanding at the time of the Arrangement entitles the holder to acquire one common share of the Company and, additionally, 0.092025 of a common share of Pacifica (the "Pacifica Commitment"). The stock options subject to this commitment are indicated in the tables in Note 12(e). Upon exercise of one of these options, the Company is required to remit to Pacifica \$0.25 per common share for each share of Pacifica issued.

The Arrangement provided for the Company to acquire 4,800,000 common shares and 2,400,000 common share purchase warrants of Pacifica in consideration for \$1,200,000. Each Pacifica warrant entitled the Company to purchase an additional share of Pacifica at \$0.40 per share until December 16, 2006. These warrants were exercised in December 2006 (Note 12 d).

Pacifica has been renamed Selwyn Resources Ltd. ("Selwyn").

Yukon Zinc Corporation

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and December 31, 2006

6. Investments

As at December 31, 2007, the Company held 5,648,001 common shares of Selwyn, which had a book value of \$1,649,107 and a market value of \$1,496,720 (\$0.265 per share). Selwyn is a related company with the same Chief Executive Officer and certain other common officers and directors. The Company's interest in Selwyn was approximately 4% as at December 31, 2007.

The Company has determined the investment in Selwyn shares as available for sale, and therefore calculated the comprehensive loss for the year ended December 31, 2007 as \$3,043,845, net of tax, based on a share price decline from \$0.90 to \$0.265 per share.

During the second quarter of 2007 and pursuant to a Plan of Arrangement, Selwyn transferred its non-core assets to a new public company, Savant Explorations Ltd. ("Savant"), with shares of Savant distributed pro-rata to the shareholders of Selwyn. The Company received 612,146 Savant shares with a December 31, 2007 market value of \$174,462 (\$0.285 per share).

The Company's holding of Savant shares is also considered to be available for sale and the gain recognized on the receipt of these shares, being their aggregate market value at December 31, 2007, has been included in Other Comprehensive Income. Subsequent to December 31, 2007, 50,000 of these shares were transferred to Paradigm Capital Inc. in connection with a bridge loan financing (Note 17h).

During the year, the Company sold 402,000 shares of Selwyn for gross proceeds of \$123,842, realizing a gain of \$169,639. The company also sold 30,000 shares of Entourage Mining in 2007, for gross proceeds of \$10,074 and realized a gain of \$4,766.

7. Property and Equipment

Property and equipment is carried at cost less accumulated amortization. Details are as follows:

Property and Equipment	December 31, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Field equipment	325,162	111,844	213,318	325,162	58,514	266,648
Vehicles	97,189	49,670	47,519	97,189	29,305	67,884
Furniture and fixtures	81,338	43,701	37,637	78,009	34,707	43,302
Computers and other	88,944	45,150	43,794	70,330	31,024	39,306
Software	257,597	169,276	88,321	80,954	58,293	22,661
Leasehold Improvements	52,335	17,880	34,455	50,260	9,526	40,734
Construction in Progress	1,741,764	-	1,741,764	-	-	-
Total	2,644,329	437,521	2,206,808	\$701,904	\$221,369	\$480,535

8. Mineral Properties

Mineral Properties	31-Dec-07	2007	31-Dec-06	2006	31-Dec-05
	balance	additions	balance	additions	balance
	\$	\$	\$	\$	\$
Wolverine Project	58,879,071	18,739,203	40,139,868	13,730,180	26,409,688
Finlayson District	52,500	52,500	-	(4,399,385)	4,399,385
Logan	799,646	-	799,646	77,564	722,082
Swift	296,758	5,335	291,423	149,448	141,975
Money	61,514	5,000	56,514	8,364	48,150
Total	60,089,489	18,802,038	\$41,287,451	\$9,566,171	\$31,721,280

a) Wolverine Property

As at December 31, 2007, the Company held 940 mineral claims (December 31, 2006: 1,064) covering approximately 15,986 hectares of land called the Wolverine property. This property contains a volcanogenic massive sulphide deposit with zinc, lead, copper, silver and gold mineralization.

In 2004, the Company increased its interest in the Wolverine project to 100% by acquiring Atna Resources Ltd.'s ("Atna") 39.4% interest in the Wolverine Joint Venture for \$2,000,000 cash, 10,000,000 common shares and 5,000,000 common share purchase warrants. The Company recorded a value of \$2,271,000 for the common shares and a fair value of \$677,159 for the warrants, which were exercised in Q1 2006 at \$0.32 per share for total proceeds of \$1,600,000 (Note 12d).

The Wolverine property is subject to a sliding scale royalty payable to Atna only on gold and silver production. A net smelter return royalty ("NSR") of 4% is payable on silver and gold when the silver price exceeds US \$5.00 per ounce and an NSR of 10% is payable on silver and gold if the silver price exceeds US \$7.50 per ounce. Included in the Wolverine property are 143 mineral claims (the "Initial Claims") plus other mineral claims within a two kilometre area of interest which are subject to additional NSR royalties of 0.5%. These other NSR's may be purchased at any time for \$500,000. One of the Initial Claims that hosts part of the Wolverine deposit is subject to a 1% NSR royalty which may be reduced to 0.5% after cumulative payments totalling \$500,000.

b) Finlayson Lake District

The Company has properties in the Finlayson Lake District of Yukon covering, collectively, approximately 15,000 hectares. General exploration costs incurred in this area over several years totalling \$4,399,385 were written off in December 2006 since the Company intends to focus on the Wolverine Project. Refer to the Schedule of Mineral Properties.

c) Logan Property

In an agreement dated March 24, 2003, the Company entered into a joint venture agreement with Energold Minerals Inc. to acquire a 60% interest in the Logan base metal property located in south central Yukon, 80 kilometres west of Watson Lake. The property consists of 156 mineral claims covering approximately 3,200 hectares. The Company acquired its 60% interest by paying \$200,000 over a period of eighteen months and issuing 2,556,585 common shares, valued at \$300,000, on July 15, 2003. Energold is also entitled to receive a \$500,000 payment upon the commencement of commercial production.

8. Mineral Properties, continued

d) Money Property

In 2005, the Company entered into an agreement to earn a 25% interest in 46 mining claims by making cash payments totalling \$40,000 and aggregate exploration expenditures of \$400,000 over five years. The Company has made the required cash payments of \$5,000 since signing the agreement. Exploration expenditures to date have exceeded the required thresholds and the agreement is in good standing. Upon earning its 25% interest, the Company may earn an additional 26% interest by making a payment of \$25,000 and by incurring exploration expenditures of \$500,000 over two years.

e) Swift Property

Effective November 5, 2004, the Company entered into an agreement to acquire the Swift property, located 135 kilometres west of Watson Lake, from First Yukon Silver Resources Ltd. by filing assessment work or making the requisite cash-in-lieu payment by November 5, 2005 to maintain the claims in good standing. An exploration program was conducted in 2005 and the Company acquired a 100% interest, subject to a 1% net smelter return ("NSR") royalty. The Swift property consists of 317 claims covering approximately 6,500 hectares.

9. Deposit

In 2005, the Company was granted a B Water Licence by the Yukon Water Board, which allowed the Company to undertake underground exploration at the Wolverine property. An initial security deposit of \$64,000 was made. The deposit is restricted for use towards future site restoration. On October 3, 2007, the Company was granted a Type A Water Licence for the Company's Wolverine Project by the Yukon Government. The Type A Water Licence sets out the conditions for the use of water during construction and operations at the Wolverine Project and the deposit of waste into water as required for the tailings facility. The Licence extends to the end of 2027, thereby incorporating all phases of development, operation and closure of the Wolverine Project.

During the quarter ended March 31, 2007 the Company paid \$195,000 pursuant to the Quartz Mining Licence ("QML") for commencement of Phase 1 road construction. The Company also paid \$755,546 for on-site liabilities and reclamation activities associated with the advanced exploration phase and \$78,250 for water treatment and discharge associated with the underground mine workings. Interest on these deposits has been accrued to December 31, 2007. Refer to Note 17 f).

10. Asset Retirement Obligations

The Company is required to recognize a liability for a legal obligation to perform asset retirement activities, including decommissioning, reclamation and environmental monitoring activities once the Wolverine Project is permanently closed. Although these activities are conditional upon future events, the Company is required to make a reasonable estimate of the fair value of the liability. Based on the existing level of terrestrial disturbance and water treatment and monitoring requirements, the undiscounted ARO's were estimated to be \$3,000,000 as at December 31, 2007, assuming payments are made over a three year period.

Determination of the undiscounted ARO and the timing of these obligations was based on internal estimates using information currently available, existing regulations, and estimates of closure costs included in the Quartz Mining Licence (received December 5, 2006) and the Optimized Feasibility Study (accepted by the Board of directors January 19, 2007).

The discount rate used when estimating the fair value of the ARO is a credit-adjusted risk-free interest rate with the same maturity as the removal obligation. The Company used a credit adjusted risk free interest rate of 7.87% to calculate the present value of the ARO, which was \$2,600,000 as at December 31, 2007. As at December 31, 2006 the Company's expected ARO was \$1,640,000.

Yukon Zinc Corporation

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and December 31, 2006

10. Asset Retirement Obligations, continued

If and when project financing is secured, and construction and development proceeds, the Company will be required to estimate and recognize the fair value of the ARO incurred at the end of each reporting period as construction progresses. Most reclamation activities are not expected to be undertaken until years in the future. Part of these future costs will be funded from the deposits held pursuant to environmental bonding requirements, (Notes 9 and 17f) and the remainder will be funded from the Company's general resources at the time of the closure.

11. Related Party Transactions

All transactions with related parties occurred in the normal course of business and were measured at the exchange amount, which was the fair value as agreed between management and the related parties. The balances disclosed in the financial statements were unsecured, receivable or payable upon demand and arose from the provision of services, expense reimbursements or advances. All material transactions and balances with related parties are described below.

The Company shares office space and some administration expenses with Selwyn and Savant which are companies with certain common officers and directors. As at December 31, 2007, \$103,118 (December 31, 2006: \$52,489) was due from Selwyn and \$5,655 was due from Savant. In 2006, office space was shared with StrataGold ("SGV"). This arrangement ended in 2006 resulting in no related party transactions with SGV in 2007 (December 31, 2006: \$364) for services rendered and for reimbursement of common office expenses.

The Company's investment in Selwyn and Savant is discussed in Notes 5 and 6.

For the years ended December 31, 2007 and 2006, the following is a summary of related party transactions not disclosed elsewhere in these financial statements:

- Legal fees of \$225,083 (2006: \$188,926) were incurred by an association of lawyers in which Barry Finlayson, the Corporate Secretary of the Company, is a Partner. Of this total, \$140,371 (2006: \$42,775) was booked to share capital issue costs and \$399,000 was payable at year end (2006: \$30,705);
- Selwyn and Savant reimbursed the Company for their proportionate share of salaries for certain shared officers and employees. The amount recovered from Selwyn was \$515,769 (2006: \$379,243). Savant reimbursed the Company for \$6,939 and (2006: \$nil). StrataGold had no transactions regarding officers and employees in 2007 (2006: \$11,192);
- Total salaries and benefits for senior officers were \$1,125,713 (2006: \$672,927). The portion of salaries recovered from Selwyn and Savant based on time devoted to these related companies was \$333,908 (2006: \$259,082) from Selwyn and nil (2006: nil) from Savant;
- A portion of the compensation paid to the President and certain senior officers was allocated to deferred Mineral Property costs based on time spent in the field directly on exploration activities in 2006. The amount capitalized in 2007 was \$nil. In 2006, the amount capitalized to Mineral Property costs for senior officers was \$150,683;
- The Company's net salaries expense for senior officers totalled \$456,234 (2006: \$381,450);
- Effective January 1, 2007, non-management directors of the Company were paid fees of \$13,000 per year, except for the Chairman of the Audit Committee who was paid \$15,000 per year;
- Officers and directors exercised 695,000 stock options for total proceeds of \$130,750 (2006: 1,050,000 options for \$273,000);
- Office lease costs for were \$245,184 (2006: \$212,007) of which Selwyn paid the Company \$113,394 (2006: \$56,073) and Savant paid \$12,239 (2006: \$nil) for their share of the rent, respectively.
- Consulting fees of (\$19,019) were paid to a director of the Company (2006: \$3,648)

12. Share Capital

Issued and Outstanding	Number of shares	Total Value \$	Contributed Surplus \$
Balance, December 31, 2005	229,014,851	57,647,186	3,707,674
<u>Issued for cash:</u>			
Private placement of units at \$0.25 per unit	8,000,000	2,000,000	-
Private placement of flow-through shares at \$0.30 per share	10,000,000	3,000,000	-
Exercise of share purchase warrants	17,821,878	5,672,928	-
Exercise of stock options	1,350,000	336,700	-
	37,171,878	11,009,628	-
Payment to Selwyn Resources Ltd.	-	(289,923)	-
Tax benefits renounced to flow-through share subscribers, March	-	(3,537,095)	-
Tax benefits renounced to flow-through share subscribers, December	-	(1,023,000)	-
Fair value of shares, upon exercise of options	-	171,287	(171,287)
Fair value of Atna shares upon exercise of warrants	-	677,159	(677,159)
Fair value of agents' shares, upon exercise of warrants	-	983,121	(983,121)
Fair value of options vested: stock based compensation	-	-	1,400,928
Subtotal, before share issue costs	37,171,878	7,991,177	(430,639)
Fair value agents' compensation: share issue costs	-	(141,803)	141,803
Adjust fair value of agents' compensation: share issue costs	-	113,631	(113,631)
Share issue cash costs	-	(414,890)	-
Transactions in the year	37,171,878	7,548,115	(402,467)
Balance, December 31, 2006	266,186,729	\$65,195,301	\$3,305,207
<u>Issued for cash:</u>			
Private placement of units at \$0.20 per unit	50,934,950	10,186,991	-
Private placement of units at \$0.12 per unit	28,123,336	3,374,800	-
Private placement of flow-through shares at \$0.31 per share	22,581,613	7,000,300	-
Private placement of flow-through shares at \$0.14 per share	25,308,572	3,543,200	-
Exercise of share purchase warrants	2,467,450	580,640	-
Exercise of stock options	745,000	144,250	-
	130,160,921	24,830,181	-
Payment to Selwyn Resources Ltd.	-	(17,140)	-
Capital distribution – Savant	-	-	-
Fair value of shares, upon exercise of options	-	113,527	(113,527)
Fair value of agents' shares, upon exercise of agents' options	-	264,481	(264,481)
Fair value of options vested: stock based compensation	-	-	1,259,180
Subtotal, before share issue costs	130,160,921	25,191,049	881,172
Fair value of agents' compensation: share issue costs	-	(395,035)	395,035
Share issue cash costs	-	(1,920,962)	-
Transactions in the year	130,160,921	22,875,052	1,276,207
Balance, December 31, 2007	396,347,650	\$88,070,353	\$4,581,414

Yukon Zinc Corporation

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and December 31, 2006

12. Share Capital, continued**a) Authorized**

The Company has an unlimited number of common shares without par value authorized for issuance; 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 \$10.00 per share. No Class A or B preferred shares have been issued to date.

b) Adjustment to Shareholders' Equity

The fair value of stock options and agent compensation warrants is calculated using the Black-Scholes option pricing model as described in Note 12 f) below. In 2006, the Black-Scholes value of certain agents' warrants issued in connection with two private placements was previously estimated to be \$676,197. This was changed in 2006 to \$562,645, resulting in an adjustment of \$113,631. The adjustment had no net impact on shareholders' equity. When stock options and agents' compensation warrants are exercised, the Black-Scholes value per share is transferred from contributed surplus to share capital.

c) Private Placements**2007 Financings**

On February 8, 2007, the TSX.V approved a non-brokered, private placement of 6,451,613 flow-through shares at a price of \$0.31 per flow-through share, for gross proceeds of \$2,000,000. A 3% finder's fee was paid to Dundee Securities Corporation (\$60,000).

On April 12, 2007, the TSX.V approved a brokered private placement consisting of 50,934,950 units at a price of \$0.20 per unit, for gross proceeds of \$10,186,990. Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant entitling the holder to purchase an additional common share at a price of \$0.30. The brokers received a 6% cash commission (\$611,219) and 3,556,446 Agents' Options which are exercisable at \$0.20 per share. The Agents' compensation options were valued using the Black-Scholes option pricing model at \$348,688 and recorded as share issue costs.

On May 30, 2007, the TSX.V approved a brokered private placement consisting of 16,130,000 flow-through shares at a price of \$0.31 per flow-through share for total proceeds of \$5,000,300. The brokers received a 6% cash commission (\$300,018).

On December 31, 2007, the TSX.V approved two brokered private placements: a private placement of 28,123,336 units at a price of \$0.12 per unit, for gross proceeds of \$3,374,800; and a flow-through share private placement of 25,308,572 flow-through common shares at a price of \$0.14 per share, for gross proceeds of \$3,543,200. Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant entitling the holder to purchase an additional common share at a price of \$0.16 until expiry on December 20, 2009. The Agents received a cash commission of 6% of the gross proceeds (\$415,080). The Company issued Agents' compensation options for 1,687,400 common shares exercisable at a price of \$0.12 per share until expiry on December 20, 2008. The Agents' compensation options were valued using the Black-Scholes option pricing model at \$46,437 and recorded as cash costs.

12. Share Capital, continued

2006 Financings

Effective July 31, 2006, the TSX.V approved two private placements: a private placement of 8,000,000 units at a price of \$0.25 per unit, for gross proceeds of \$2,000,000; and a flow-through share private placement of 10,000,000 flow-through common shares at a price of \$0.30 per share, for gross proceeds of \$3,000,000.

Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant entitling the holder to purchase an additional common share at a price of \$0.31 until expiry on July 31, 2007. The Company issued Agents' compensation options for 1,260,000 common shares exercisable at a price of \$0.25 per share until expiry on July 31, 2007. The Agents' compensation options were valued using the Black-Scholes option pricing model at \$141,803 and recorded as share issue costs.

Share issuance cash costs were 6% of the \$5,000,000 gross proceeds, (\$300,000), and legal, filing fees and other associated costs were \$113,286, resulting in net proceeds of \$4,586,714 from the two private placements.

d) Share Purchase Warrants

All of the share purchase warrants that were outstanding at the time of the Plan of Arrangement (Note 5) made December 8, 2004, were subject to a commitment to pay a fee to Selwyn (the "Pacifica Commitment"). The share purchase warrants subject to this commitment are indicated below. Upon exercise of one of these Yukon Zinc warrants, the Company is required to remit to Selwyn \$0.25 per share for each 0.092025 of a Yukon Zinc common share issued upon the exercise of one of the Company's warrants.

In the year ended December 31, 2007, the Company remitted to Selwyn \$nil (2006: 273,819) in regards to the Pacifica Commitment warrants. All unexercised warrants subject to the Pacifica Commitment expired in 2006.

Share Purchase Warrants	Expiry Date	Exercise Price \$	Balance 31-Dec-06	Issued	Exercised	Cancelled Expired	Balance 31-Dec-07 #
July 2005 PP Agents' compensation options	21-Jul-07	0.22	1,207,520	-	(1,207,450)	(70)	-
July 2006 Private Placement	31-Jul-07	0.31	4,000,000	-	-	(4,000,000)	-
PP Agents' compensation options	31-Jul-07	0.25	1,260,000	-	(1,260,000)	-	-
October 2006 Private Placement	22-Oct-07	0.25	7,003,500	-	-	(7,003,500)	-
PP Agents' compensation options	22-Oct-07	0.22	1,982,684	-	-	(1,982,684)	-
April 2007 Private Placement	23-Apr-09	0.30	-	25,467,475	-	-	25,467,475
PP Agents' compensation options	24-Apr-08	0.20	-	3,565,446	-	-	3,565,446
December 2007 Private Placement	20-Dec-09	0.16	-	14,061,668	-	-	14,061,668
PP Agents' compensation options	20-Dec-08	0.12	-	1,687,400	-	-	1,687,400
Total			15,453,704	44,781,989	(2,467,450)	(12,986,254)	44,781,989
Weighted average exercise prices			\$ 0.259	\$ 0.242	\$ 0.235	\$ 0.264	\$ 0.242
Commitment to issue warrants, on certain conditions							
Hill Street Capital warrant		0.265	2,000,000	-	-	-	2,000,000
Barclays Capital warrant		0.260	-	3,500,000	-	-	3,500,000

12. Share Capital, continued

d) Share Purchase Warrants, continued

Share Purchase Warrants	Expiry Date	Exercise Price \$	Balance 31-Dec-05	Issued	Exercised	Cancelled Expired	Balance 31-Dec-06 #
March 2004 Private Placement	24-Mar-06	0.70	1,026,031	-	-	(1,026,031)	-
Atna Resources Ltd. - property acquisition	16-Jun-06	0.32	5,000,000	-	(5,000,000)	-	-
October 2004 Private Placement	21-Oct-06	0.45	8,791,939	-	(3,496,850)	(5,295,089)	-
October 2004 Private Placement	26-Oct-06	0.45	4,692,500	-	(5,000)	(4,687,500)	-
Agents compensation Units	21-Oct-06	0.32	3,750,000	-	(3,390,250)	(359,750)	-
Agents compensation options	21-Oct-06	0.45	1,875,000	-	(9,887)	(1,865,113)	-
Subject to Pacifica commitment			25,135,470	-	(11,901,987)	(13,233,483)	-
July 2005 PP Agents compensation options	21-Jul-07	0.22	2,272,720	-	(1,065,200)	-	1,207,520
July 2006 Private Placement	31-Jul-07	0.31	-	4,000,000	-	-	4,000,000
Agents' compensation options	31-Jul-07	0.25	-	1,260,000	-	-	1,260,000
October 2005 Private Placement	22-Oct-07	0.25	10,516,500	-	(3,513,000)	-	7,003,500
Agents' compensation options	22-Oct-07	0.22	3,324,375	-	(1,341,691)	-	1,982,684
Total			41,249,065	5,260,000	(17,821,878)	(13,233,483)	15,453,704
Weighted average exercise prices			\$ 0.346	\$ 0.296	\$ 0.318	\$ 0.439	\$ 0.259
Commitment to issue warrants, conditional							
Hill Street Capital warrant		0.265	-				2,000,000
Macquarie warrant, as previously reported		0.300	2,500,000			(2,500,000)	-
Pacifica Resources commitment			\$578,270		\$273,819		

e) Stock Options

As at December 31, 2007 and December 31, 2006, the Company had a stock-based compensation plan (the "Plan") allowing for the reservation of common shares issuable under the Plan to a maximum 10% of the number of issued and outstanding common shares at any given time. The vesting of each option grant is determined by the Board of Directors. When an employee is terminated or resigns, the date of expiry of the options held is generally revised to expire ninety days after the final day of employment. The options with revised expiry dates are disclosed below. All stock options that were outstanding at the time of the arrangement (Note 5) are subject to the Pacifica Commitment as indicated in the tables below.

12. Share Capital, continued

e) Stock Options – Dec 31, 2007

Expiry Date	Exercise Price \$	Balance 31-Dec-06 #	Granted #	Exercised #	Cancelled or Expired #	Revised Expiry #	Balance 31-Dec-07 #
February 1, 2007	0.27	50,000	-	(50,000)	-	-	-
May 14, 2007	0.12	250,000	-	(250,000)	-	-	-
June 30, 2007	0.33	470,000	-	-	(470,000)	-	-
November 25, 2007	0.10	120,000	-	(120,000)	-	-	-
April 1, 2008*	0.11	420,000	-	-	-	-	420,000
November 4, 2008	0.28	300,000	-	(100,000)	-	-	200,000
January 21, 2009	0.38	250,000	-	-	-	-	250,000
June 21, 2009	0.27	2,560,000	-	(225,000)	(15,000)	-	2,320,000
August 11, 2009	0.27	450,000	-	-	-	-	450,000
September 13, 2009	0.27	50,000	-	-	(50,000)	-	-
Subject to Pacifica commitment		4,920,000	-	(745,000)	(535,000)	-	3,640,000
February 1, 2007	0.27	305,000	-	-	(305,000)	-	-
March 1, 2007	0.34	380,000	-	-	(380,000)	-	-
June 30, 2007	0.33	595,000	-	-	(595,000)	-	-
January 14, 2010	0.28	2,755,000	-	-	(30,000)	-	2,725,000
February 1, 2010	0.28	55,000	-	-	-	-	55,000
February 15, 2010	0.28	500,000	-	-	-	-	500,000
March 2, 2010	0.28	300,000	-	-	-	-	300,000
April 1, 2010	0.32	175,000	-	-	-	-	175,000
May 26, 2010	0.27	450,000	-	-	-	-	450,000
September 7, 2010	0.22	300,000	-	-	-	-	300,000
January 13, 2011	0.40	4,193,000	-	-	(40,000)	-	4,153,000
February 8, 2011	0.58	240,000	-	-	-	-	240,000
May 18, 2011	0.24	3,700,000	-	-	-	-	3,700,000
July 18, 2010	0.26	600,000	-	-	-	-	600,000
October 5, 2011	0.25	1,400,000	-	-	(1,400,000)	-	-
October 11, 2011	0.27	700,000	-	-	-	-	700,000
November 9, 2011	0.37	420,000	-	-	-	-	420,000
March 9, 2012	0.25	-	4,100,000	-	(380,000)	-	3,720,000
April 26, 2012	0.25	-	900,000	-	(900,000)	-	-
May 1, 2012	0.24	-	1,000,000	-	-	-	1,000,000
July 10, 2012	0.25	-	400,000	-	-	-	400,000
August 3, 2010	0.27	-	500,000	-	-	-	500,000
Total		21,988,000	6,900,000	(745,000)	(4,565,000)	-	23,578,000
Weighted average exercise prices		\$0.295	\$0.250	\$0.194	\$0.279		\$0.286
Weighted average contractual life of options outstanding – years							3.0
Pacifica Resources commitment paid on exercise				\$17,140			
Pacifica Resources commitment							\$83,743

* Subsequent to year end, these options were extended six months due to the Company being under blackout and the employee being unable to exercise these options.

12. Share Capital, continued

e) Stock Options, continued – Dec 31, 2006

Expiry Date	Exercise Price \$	BS Value \$	Balance 31-Dec-05 #	Granted #	Exercised #	Cancelled or Expired #	Revised Expiry #	Balance 31-Dec-06 #
February 8, 2006	0.40		100,000	-	(100,000)	-	-	-
November 28, 2006	0.10		40,000	-	(40,000)	-	-	-
February 1, 2007	0.27		-	-	-	-	50,000	50,000
May 14, 2007	0.12		470,000	-	(220,000)	-	-	250,000
June 30, 2007	0.33		-	-	-	-	470,000	470,000
November 25, 2007	0.10		170,000	-	(50,000)	-	-	120,000
April 1, 2008	0.11	0.0916	420,000	-	-	-	-	420,000
November 4, 2008	0.28	0.2284	550,000	-	(100,000)	-	(150,000)	300,000
January 21, 2009	0.38	0.3245	250,000	-	-	-	-	250,000
January 30, 2009	0.39	0.3232	350,000	-	-	(250,000)	(100,000)	-
June 21, 2009	0.27	0.2065	3,170,000	-	(190,000)	(150,000)	(270,000)	2,560,000
August 11, 2009	0.27	0.2033	450,000	-	-	-	-	450,000
September 13, 2009	0.27	0.2033	50,000	-	-	-	-	50,000
Subject to Pacifica commitment			6,020,000	-	(700,000)	(400,000)	-	4,920,000
February 1, 2007	0.27		-	-	-	-	305,000	305,000
March 1, 2007	0.34		-	-	-	-	380,000	380,000
June 30, 2007	0.33		-	-	-	-	595,000	595,000
January 14, 2010	0.28	0.1699	3,505,000	-	-	(120,000)	(630,000)	2,755,000
February 1, 2010	0.28	0.1704	1,355,000	-	(650,000)	(650,000)	-	55,000
February 15, 2010	0.28	0.1958	500,000	-	-	-	-	500,000
March 2, 2010	0.28	0.2044	300,000	-	-	-	-	300,000
April 1, 2010	0.32	0.2185	175,000	-	-	-	-	175,000
May 26, 2010	0.27	0.1589	450,000	-	-	-	-	450,000
September 7, 2010	0.22	0.1380	300,000	-	-	-	-	300,000
January 13, 2011	0.40	0.2495	-	5,658,000	-	(815,000)	(650,000)	4,193,000
February 8, 2011	0.58	0.3589	-	240,000	-	-	-	240,000
May 18, 2011	0.24	0.1670	-	3,700,000	-	-	-	3,700,000
July 18, 2010	0.26	0.1668	-	600,000	-	-	-	600,000
October 5, 2011	0.25	0.1477	-	1,400,000	-	-	-	1,400,000
October 11, 2011	0.27	0.1606	-	700,000	-	-	-	700,000
November 9, 2011	0.37	0.2185	-	420,000	-	-	-	420,000
Total			12,605,000	12,718,000	(1,350,000)	(1,985,000)	-	21,988,000
Weighted average exercise prices			\$0.267	\$0.326	\$0.249	\$0.342		\$0.270
Weighted average contractual life of options outstanding - years								3.3
Pacifica Resources commitment paid on exercise					\$16,104			
Pacifica Resources commitment								\$113,191

12. Share Capital, continued

f) Fair Value Determination

The fair value method of valuing stock options and warrants requires that the amount calculated using the Black-Scholes option-pricing model be expensed over the applicable vesting periods. It is the value of the premium associated with the call option and it is measured at the grant date. The option-pricing model requires the input of highly subjective assumptions and is particularly sensitive to the expected share price volatility. Changes in the subjective input assumptions can affect the fair value estimate, and therefore the model does not necessarily provide a reliable single measure of the fair value of the Company's stock options.

The value assigned to stock options and share purchase options for the years ended December 31, 2007 and December 31, 2006 and the assumptions used are presented below.

Weighted Average Fair Value Assumptions	Options Year ended December 31,		Warrants Year ended December 31,	
	2007	2006	2007	2006
	Expected share price volatility	87.80%	97.78%	85.9%
Expected option life in years	3.5	3.0	1.7	1.0
Risk-free interest rate	4.2%	4.0%	4.3%	3.1%
Expected dividend yield	-	-	-	-
Value assigned to Options / Warrants				
Weighted average value per option / warrant	\$0.15	\$0.21	\$0.12	\$0.11
Fair value as calculated, total granted	\$1,045,062	\$2,626,704	\$297,946	\$141,803
Fair value vested	\$1,259,180	\$1,400,928	\$297,946	\$141,803

13. Future Income Tax Liability

The Company is required to recognize a future income tax liability ("FIT") whenever recovery or settlement of an asset or liability at its carrying value would result in future income tax outflows.

As at December 31, 2007, due to a reversal of taxable temporary differences, the Company had an estimated FIT liability of \$nil. The significant components of the Company's future income tax assets (liabilities) were as follows:

	2007	2006
Future Income Tax Liability	\$	\$
Mineral property costs in excess of tax pools	(15,678,728)	(14,718,728)
Non-capital losses and share issue costs	15,506,042	5,049,492
Property and equipment tax pools in excess of book value	1,251,096	999,752
	1,078,410	(8,669,484)
Expected statutory rates	28.50%	34.10%
Future income tax asset (liability), rounded	307,000	(2,900,000)
Valuation allowance	(307,000)	-
Future tax asset (liability) recognized	-	(2,900,000)

The non-capital loss carry-forwards have expiry dates from 2007 to 2027.

13. Future Income Tax Liability, continued

A reconciliation of income taxes at statutory rates is as follows:

	2007	2006
	\$	\$
Net loss for accounting purposes	(7,926,277)	(3,192,583)
Expected income tax recovery	(2,702,860)	(1,088,671)
Net adjustments for additions and non-deductible amounts	2,183,024	310,459
Unrecognized benefit of tax pools carried forward	519,836	778,212
	-	-

The future tax recovery results from the recognition of previously unrecognized future tax assets to offset a pre-existing future tax liability which resulted from the renunciation of the proceeds of flow-through share financings. The FIT liability at December 31, 2006 was effectively reversed, net of \$55,585 in tax expense associated with realized gains initially recognized in other comprehensive income.

14. Yukon Mineral Exploration Tax Credit - YMETC

The Yukon Government provided a refundable exploration tax credit based on 25% of eligible exploration expenditures incurred between April 1, 2001 and March 31, 2007, with a limit of \$300,000 applicable to work undertaken between April 1, 2006 and March 31, 2007. Subsequent to March 31, 2007, the YMETC program was discontinued, and accordingly no claim for 2007 is available.

The Company's full 2005 YMETC claim was not accepted as filed with the Canada Revenue Agency and the Company is continuing to undertake remedial action to recover these additional tax credits, with the related provision of \$1,591,425 reported as a non-current receivable pending the definitive resolution of the matter.

In the event the Company is not successful in its action, this provision will be reclassified to deferred property costs, which will then reflect total costs incurred, with the result being not materially different from the presentation followed in these financial statements.

15. Supplemental Cash Flow Information

	2007	2006
	\$	\$
Supplemental cash flow information		
Interest received	149,880	239,748
Interest paid	11,011	-
Part XII.6 tax paid	-	55,032
Tax benefits renounced to flow-through share subscribers	-	4,560,095
Non-cash operating, investing and financing activities:		
Fair value of agents' warrants included in share issue costs	395,035	141,803
Fair value of Atna warrants exercised	-	677,159
Fair value of stock options exercised	113,527	171,287
Fair value of agents' compensation options exercised	264,481	983,121
Accrued asset retirement cost included in mineral properties	960,000	1,640,000
Accrued YMETC deducted from mineral properties	690,407	690,408
Accounts payable for deferred mineral property costs, end balance	1,182,578	977,359

16. Community Relations

The Wolverine Project area falls within the area recognized as the traditional territory of the Ross River Dena Council. In July 2005, the Company entered into a Socio-Economic Participation Agreement ("SEPA") with the Ross River Dena Council that provides them certain benefits and participation in the development and operation of the Wolverine Project.

In 2005, the Company paid \$100,000 towards the establishment of an economics initiatives fund and paid \$400,000 to the Ross River Dena Council to enable it to purchase 2,000,000 common shares of the Company at \$0.20 per share by way of a private placement. In addition, the Company is committed to paying \$50,000 per year as a land use interruption supplement, which amount was paid in both 2006 and 2007. Upon the commencement of access road construction, the Company has agreed to contribute \$100,000 to the economics initiatives fund and to provide a \$150,000 interest free development loan for ten years. This loan was made to the Ross River Dena Council subsequent to year-end. A further \$100,000 is due when mine construction begins. All of these amounts are recorded in the accounts at the time the payments are made.

17. Contingencies and Commitments

Contingencies and commitments not disclosed elsewhere in these notes are as follows:

a) Macquarie Bank Ltd. ("Macquarie")

On December 15, 2005, the Company engaged Macquarie to assist in arranging financing for the Wolverine Project. A work fee of \$75,000 was paid in 2005 and a monthly fee of \$25,000 was accrued from April 1, 2006 until November 2006. The accrued balance totalling \$200,000 would only become payable when and if a term sheet for a proposed financing was completed within the mandate period. The mandate period expired November 29, 2006 and the accrual was reversed.

In December 2005, the Company agreed to issue 2,500,000 share purchase warrants to Macquarie, subject to TSX.V approval, which was conditional upon the acceptance of a financing term sheet. Since the performance criteria were not met and the warrants were not approved by the Exchange, the warrants were not issued. The commitment to issue the warrants expired with the lapse of the mandate period.

In 2007, the Company paid Macquarie \$75,000 for consideration of Macquarie relinquishing its right to back into any debt facility provided by another source (up to 40%) as provided in their mandate agreement.

17. Contingencies and Commitments, continued

b) Hill Street Capital

Pursuant to an agreement made August 29, 2006 as amended October 16, 2006, the Company engaged Hill Street Capital ("HSC") as a financial advisor for a term of six months at a fee of US \$30,000 per month commencing September 1, 2006. Upon securing and completing project financing (the "Transaction"), the Company would be required to pay a success fee of 1 – 2% of the Transaction value, depending upon the nature and terms of the Transaction. In addition, subject to final TSX.V approval, the Company is required to issue 2,000,000 share purchase warrants, with each warrant vested and exercisable upon consummation of a Transaction for one common share at a price of \$0.265 per share for two years from the date of regulatory acceptance.

The advisor agreement was extended and effective March 1, 2007 HSC reduced its monthly fee to US \$10,000. This agreement has now been terminated, and the warrants have not been issued.

c) Pincock Allen Holt

In November 2006, Pincock Allen & Holt ("PAH") was engaged by HSC to act as Independent Engineers for the review of the Company's Wolverine Project. The Company was committed to paying the costs associated with their evaluation of the feasibility study. As at December 31, 2007 \$146,324 had been incurred (2006: \$34,355).

d) Office Lease Obligations

The Company entered into five year lease agreements in 2004 to rent office space, which were subsequently amended to increase the available space. Two related companies shared the premises for most of 2007 and reimbursed the Company for their pro-rata portion of the rent (Note 11). Lease obligations are currently approximately \$245,000 per year (\$20,400 per month). Selwyn and Savant have agreed to reimburse the Company for approximately 40% of the lease costs.

e) Equipment Lease Obligations

As of December 31, 2007 the Company had leasing arrangements for heavy equipment that cost \$21,932 per month. Lease costs for one lease have increased in 2008, as per the lease agreement, from a monthly charge of \$1,500 to \$9,914. Total costs per month for equipment lease obligations going forward are \$34,409.

f) Environmental Bonding Requirements

As a condition of the Quartz Mining Licence, ("QML") Type B Water Licence and the Mining Land Use Permit the Company is required to maintain security deposits in amounts determined by the Government regulators. The total may be adjusted depending upon environmental assessments. Upon the commencement of construction of the phase 2 access road and the industrial complex, an additional \$585,000 and \$1,000,000, respectively, is required to be held pursuant to the terms of the QML..

g) Employees

In the event that the Company is unable to secure the financing necessary to proceed with the development of its Wolverine Project by December 31, 2007, certain employees and an officer may elect to leave the Company and if they do, the Company would be obliged to pay a total of \$212,500. As at the date of the financial statements, these employees had indicated that they would remain with the Company as financing options are being pursued. Has a specific date been agreed to? Is the liability Booked?

17. Contingencies and Commitments, continued

h) Bridge Loan

On March 14, 2007, the Company received a loan in the amount of \$800,000 which was secured by a pledge of 2,000,000 common shares of Selwyn. The loan bore interest at 12% per annum and was repayable on or before May 14, 2007. The Company paid an arrangement fee of \$5,000 and had an obligation to transfer 50,000 common shares of Savant to the lender if and when the Company receives shares of Savant pursuant to the Arrangement transaction between Savant, Selwyn and the shareholders of Selwyn. The loan was repaid on April 24, 2007.

i) Mining Equipment Standby Charge

In 2005, the Company engaged Procon Mining and Tunnelling (“Procon”) to provide advanced exploration and test mining services for the Wolverine Project. The agreement stipulated that in the event that mine development work did not proceed for a period in excess of four months, mining equipment standby charges would be applied for all existing support plant and mining equipment captive on site until demobilization.

Procon was on standby in 2006 until mid July when test mining, dewatering and rehabilitation work resumed. Standby charges incurred were approximately \$350,000. However, pursuant to a letter agreement made November 17, 2006, Procon agreed to defer all outstanding and future equipment standby charges until June 1, 2007. This agreement was further extended until December 2007. YZC procurement staff are currently working on extending this agreement until such date as a production decision is made.

Standby charges incurred in 2006 have not been booked. If a production decision is not made in the foreseeable future, then certain standby fees of indeterminable amount may become payable.

18. Subsequent Events

a) Private Placement

On March 11, 2008, the Company announced a non-brokered private placement financing for proceeds of \$8 million. This financing subsequently closed on March 19th, 2008. The offering consisted of \$8 million units; each unit consists of one common share and one-half common share purchase warrant and was priced at \$0.135. Each whole warrant entitles the holder to purchase one common share of the Company for \$0.17 for a period two years from the closing date.

b) Barclay’s Extension

On March 26, 2008, the Company announced that Barclay’s Capital (“Barclays”) had extended the current US\$140 million senior debt facility (“the Facility”) commitment to June 30, 2008. This Facility forms the lead portion of project financing for the Wolverine Project located in southeast Yukon, Canada. The original debt commitment, and the extension of the commitment are subject to standard conditions, including a review of any capital cost changes and loan pricing in the context of the debt markets.

Yukon Zinc Corporation

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and December 31, 2006

18. Subsequent Events, continued

c) Paradigm Capital Inc.

On January 25, 2008, the Company engaged Paradigm Capital Inc. ("Paradigm") to act as a financial and investment advisor with respect to a transaction. In exchange for Paradigm's expertise, the Company will pay to Paradigm a fee of \$25,000 and \$25,000 per month through the term of the engagement. If the Company enters into a transaction during the term of the engagement or within three months after termination of the agreement, a success fee of 2.0% of the transaction value will be paid to Paradigm. This fee is capped at \$500,000 or \$2,000,000 depending upon the parties to the transaction.

If a transaction is entered into, and if the Company is entitled to and paid a Break Fee under this transaction, Paradigm will be entitled to an amount equal to 25% of the Break Fee paid.

Paradigm shall receive a fee for the initial Fairness Opinion of \$250,000 and \$100,000 for each additional, revised or amended Fairness Opinion in respect of a transaction. Any opinion fee will be credited against any success fee or portion of a Break Fee payable to Paradigm.

d) Letter of Intent – Griffin Mining Ltd.

On April 21, 2008 the Company announced that it has signed a letter of intent with Griffin Mining Limited ("Griffin") whereby Griffin will acquire all of the issued shares of Yukon Zinc through a court-approved plan of arrangement. Griffin is traded on the Alternative Investment Market of the London Stock Exchange. The transaction is subject to a number of conditions that are customary for transactions of this nature, including a favourable vote of at least two thirds of the Yukon Zinc shares voted at a shareholders meeting. Yukon Zinc has agreed to pay a break fee to Griffin, under certain circumstances, of C\$2,500,000.