



## Management Discussion & Analysis for the Quarter Ended March 31, 2008

### Introduction

The following management discussion and analysis ("MD&A") for Yukon Zinc Corporation, (the "Company" or "Yukon Zinc") is dated May 15<sup>th</sup> 2008 and provides an analysis and discussion of Yukon Zinc's interim unaudited financial results for the quarter ended March 31, 2008 compared to the same period in the previous year. This MD&A was prepared to conform to National Instrument 51-102, and was approved by the Board of Directors prior to its release.

The following MD&A should be read in conjunction with the Company's March 31, 2008 unaudited interim consolidated financial statements, and related notes thereto, and with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2007, all of which were prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). The accounting policies have been consistently followed in preparation of these financial statements except that the Company has adopted the guidelines governed by Sections 3855 and 1530 of the CICA Handbook, "Financial Instruments – Recognition and Measurement" and "Comprehensive Income", respectively, effective for the Company's financial year commencing January 1, 2007 whereby the Company is required to disclose comprehensive income and its components.

All dollar amounts are in Canadian dollars unless otherwise indicated. Some numbers in this MD&A have been rounded for discussion purposes. Certain forward-looking statements are discussed in the MD&A with respect to the Company's activities and future financial results. These are subject to significant risks and uncertainties that may cause projected results or events to differ materially from actual results or events. The section on Forward-looking Statements at the end of this document more fully describes the nature of these statements and the risks of relying on them. The Company is a reporting issuer in British Columbia, Alberta, Ontario and Quebec and its shares trade on the TSX Venture Exchange ("TSX.V") under the symbol YZC. Additional information relating to the Company is available on the Company's website at [www.yukonzinc.com](http://www.yukonzinc.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### Overview

The Company is in the business of exploration and development of its mineral properties in the Yukon Territory, Canada. Its focus is on advancing the Wolverine Project through completion of project financing with the goal of bringing this project into production. Wolverine is a base-precious metals property located in the Finlayson District of the Yukon.

In January 2007, the Board of Directors accepted a positive, independent optimized feasibility study ("**the OFS**") by Wardrop Engineering Inc. ("Wardrop") of the Wolverine Project. Wolverine will be an underground mining operation with processing facilities designed to produce zinc, copper and lead concentrates. Average annual metal production in the first three years is forecast at approximately 53,400 tonnes of zinc, 4,900 tonnes of copper, 6,000 tonnes of lead, 4.9 million ounces of silver and 20,000 ounces of gold contained in concentrates. Refer to SEDAR for more details of the OFS. With the Barclays debt facility commitment providing base financing, in the second half of 2007 management focused on completing the equity portion of the Wolverine financing arrangements with a minimum of further share issuances. This equity financing was unable to be completed due to deteriorating financial markets. Management and the Board are now engaged in discussions with third parties who have expressed an interest in

participating in the Wolverine Project or a corporate transaction. At the same time, the Company continued efforts, using the Barclays debt facility as a basis, to achieve a fully financed Wolverine Project on terms reasonable to our shareholders (see also Subsequent Events) .

### **Highlights of the First Quarter 2008**

Highlights of the first quarter are:

- On January 25, 2008, the Company engaged Paradigm Capital Inc. (“Paradigm”) to act as a financial and investment advisor with respect to an identified transaction. Paradigm will assist and coordinate discussions with the interested parties and provide the Board with relevant information to enable it to assess the fairness of any proposal which may be received. The Company also indicated that it was engaged in discussions with a number of third parties who have expressed an interest in participating in the Wolverine Project. These discussions ranged from a merger with the Company, a major share investment in the Company to an acquisition of all of the shares of the Company (see Subsequent Events below in regards to transactions proposed).
- On February 26, 2008 the Company disclosed that it was evaluating financing alternatives to alleviate a current working capital shortfall and to provide the additional working capital necessary to maintain equipment purchase contracts and the development schedule and other activities related to the Company’s Wolverine Project. This shortfall was subsequently addressed by an \$8 million financing in March 2008.
- On March 11, 2008, the Company announced a non-brokered private placement financing for proceeds of \$8 million. This financing subsequently closed on March 19<sup>th</sup>, 2008. The \$8 million was sufficient to eliminate the 2007 year end working capital deficit and provided limited additional working capital. The Offering consisted of \$8 million Units, each Unit consist 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 of two years from the closing date.
- On March 26, 2008, the Company announced that Barclays had extended the US\$140 million senior debt finance facility commitment to June 30, 2008. It is expected that the current debt markets may require some change to the Barclays facility terms, which is provided for under a “market flex” provision of the Barclays term sheet.

### **Subsequent Events**

On April 21, 2008 the Company announced that it had signed an Agreement with Griffin Mining Limited (“Griffin”) whereby Griffin would have acquired all of the issued shares of Yukon Zinc through a court approved plan of arrangement (“the Griffin Transaction”). The shares of Griffin are traded on the Alternative Investment Market (“AIM”) of the London Stock Exchange. Under the terms of the Griffin Transaction the shareholders of Yukon Zinc would receive one ordinary share of Griffin for every nine common shares of Yukon Zinc held. This represented a value of approximately C\$0.206 per Yukon Zinc share based upon the closing price of the Griffin shares on AIM on April 18, 2008 of £0.9225; and a £ - C\$ exchange rate of approximately 2.01. The Griffin Transaction includes a break fee of C\$2.5 million and also provided Griffin with certain other customary rights, including the right to amend its offer in response to any competing bid.

On April 28, 2008 the Company announced that it had received a competing proposal for 100% of the outstanding shares, options and warrants of the Company from Northwest International

Investment Company, Limited, and Jinduicheng Molybdenum Group, Ltd. (collectively, “the Investors”), (“the Northwest Proposal”). Both corporations exist under the laws of the People's Republic of China. The Northwest Proposal provides for the acquisition of all outstanding Yukon Zinc shares at a price of \$0.22 per share (“the Purchase Price”), payable in cash. Each Yukon Zinc option and warrant that is “in-the money” will be purchased for their cash value. All options and warrants that have an exercise price greater than the Purchase Price (that is, “out-of-the-money”) will be purchased for cash according to a purchase schedule for each series of options and warrants. The Northwest Proposal expires at noon Vancouver time May 7, 2008. The transaction is subject to a number of conditions that are customary for transactions of this nature, including execution of definitive transaction documents, a favourable vote of at least 66 2/3% of the Yukon Zinc shares voted at a special meeting of the shareholders of Yukon Zinc called to approve the transaction, regulatory and court approvals.

Following receipt of the Northwest Proposal, the Board determined that it was a Superior Proposal and notified Griffin of its determination. The Company subsequently received formal notification from Griffin that it did not intend to increase its offer for Yukon Zinc shares (*see April 28, 2008 News Release*).

The Board met on May 6, 2008 and determined that the Northwest Proposal is fair to the shareholders and warrant holders and is in the best interests Yukon Zinc and, after careful consideration, signed a definitive acquisition agreement and loan facility with the investors. The Board recommends that Yukon Zinc shareholders vote in favour of the Transaction. Paradigm has delivered an opinion to the Yukon Zinc Board stating that, in its opinion, the Transaction is fair, from a financial point of view, to Yukon Zinc shareholders. An extraordinary general meeting of shareholders is scheduled for June 25, 2008 to consider the Transaction.

A break fee of \$2.5 million and Griffin transaction expenses is due to Griffin on the Board's acceptance of the Northwest Proposal. Pursuant to a loan agreement dated May 6, 2008, the Investors have agreed to provide a \$2.5 million secured loan to the Company to finance working capital.

### **Wolverine Property**

The Company has a 100% interest in the Wolverine property, subject to certain royalties. The Wolverine Project is within the traditional territory of the Ross River Dena Council and Kaska First Nations. Communities near the Project include Ross River, Faro and Watson Lake. As at December 31, 2007, the Company held 1,064 mineral claims covering approximately 19,500 hectares of lands located 198 kilometres north-northwest of the town of Watson Lake, west of the Robert Campbell Highway in the Yukon. The Wolverine property contains a volcanogenic massive sulphide deposit with zinc, lead, copper, silver and gold mineralization.

In 1995, Westmin Resources Limited (“Westmin”) optioned the property from Atna Resources Ltd (“Atna”) and a drilling program was conducted that resulted in the discovery of the Wolverine deposit. At the end of 1995, Westmin entered into a 60/40 joint venture (“JV”) with Atna. An airstrip was constructed near the deposit in 1996 and drilling programs significantly expanded the known area of mineralization. In 1998, all activities ceased when Westmin was acquired by Boliden Ltd. Yukon Zinc (known as Expatriate Resources Ltd. at the time) acquired a 60% interest in the Wolverine JV from Boliden in 1999 and together with Atna, conducted metallurgical evaluations and investigated marketing opportunities. There had been concerns about the high selenium levels in the zinc concentrate and the impact that this would have on project economics. In 2000, the Company agreed to purchase the Kudz Ze Kayah (KZK) exploration claims in the Finlayson District from Cominco Ltd. (now TeckCominco Ltd.) and engaged Hatch Ltd. to do a pre-feasibility study. This study assessed a combined development

plan known as the Finlayson Project, which included an open pit and milling operation at KZK and an underground mining operation at Wolverine. Pre-feasibility results were positive and the environmental permitting process began. Shortly thereafter, due to a lack of financing, the Company relinquished its acquisition agreement with Cominco and the permitting process was suspended. The Company increased its interest in the Wolverine JV to 100% in 2004 by acquiring Atna's 39.4% interest for \$2.0 million plus 10 million common shares and 5 million common share purchase warrants, which were valued at \$2.3 million and \$0.7 million, respectively. Atna retained a sliding scale royalty payable on gold and silver production. The net smelter return royalty ("NSR"), payable only on silver and gold, is 4% when the silver price exceeds US \$5.00 per ounce and 10% if the silver price exceeds US \$7.50 per ounce. No royalty is payable to Atna on base metals. Included in the Wolverine property are claims (the "Initial Claims") plus other mineral claims within a two kilometre area of interest which are subject to NSR royalties payable to the original claim holders; Equity Engineering Ltd. ("Equity") and Strategic Metals Corporation. Equity is entitled to an NSR royalty of 0.5% which may be purchased at any time for \$0.5 million. One of the Initial Claims, the Kink 3 claim, is subject to a 1% NSR royalty which may be reduced to 0.5% after cumulative payments of \$0.5 million have been made. The Kink 3 claim covers approximately 50% of the Wolverine deposit.

Until mid-2007, access to the property was by way of air or winter trail. During Q3 of 2007, a 26 kilometre Phase 1 all-season access road was completed from the Robert Campbell Highway to the site. Since 1999, the Company has spent approximately \$60 million on acquisition, exploration, and pre-feasibility development of the Wolverine Project (excluding asset retirement obligation accruals and tax credits).

#### 2007 Development Highlights

Wardrop completed their OFS in January 2007. Details of the OFS are reported on SEDAR and in other financial reports filed in 2007 by the Company. The OFS was favourably received by the Board of Directors, and the related NI 43-101 Technical Report was SEDAR-filed in March 2007. Pincock Allen & Holt ("PAH") was engaged by independent advisors to conduct a due diligence review of the OFS and supporting documents in November 2006 and completed a positive report in February 2007. The PAH report concluded that the development plan and related economics of the Project as presented in the OFS were reasonable.

A Type "A" Water Licence, issued under the *Yukon Waters Act*, was received in October 2007. Other major permits that had been received prior to 2007 are the Mining Land Use Permit under the *Yukon Quartz Mining Act*, Department of Energy Mines and Resources, (received January 18, 2005), the Type "B" Water Licence, issued under the *Yukon Waters Act*, (received April 5, 2005); and a Quartz Mining License (QML) issued under the *Yukon Quartz Mining Act*, Department of Energy Mines and Resources (received December 5, 2006). Construction and operational activities, as presented in the OFS, are in accordance with the conditions placed on the Project by these licenses.

#### 2008 Activity

Wolverine-related costs incurred during the first quarter 2008 totaled \$2.0 million and were directed primarily to maintenance of the site during the winter season, and including access road clearing, water treatment and maintenance of the underground decline. A schedule of detailed property cost expenditures is included in the interim unaudited financial statements.

Other corporate expenditures were for salaries & benefits, investor relations, legal and other administrative expenses.

## Other Mineral Properties

The Company has interests in mineral properties other than Wolverine in the Yukon. These are described in the Notes to the Consolidated Financial Statements. No exploration program was conducted on the Finlayson District and other exploration properties while the Company focused on the Wolverine Project. The Company intends to maintain most of the outside mineral claims and undertake additional work on these claims at a future date.

## Results of Operations

The following financial data was derived from the Company's Consolidated Financial Statements for each of the eight most recently completed quarters:

<b>Summary by Quarter \$000's</b>	<b>Q1 2008</b>	<b>Q4 2007</b>	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>Q1 2007</b>	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>Q2 2006</b>
Corporate expenses (net interest & other income)	795	1,738	3,396	923	798	610	474	629
Stock based compensation	644	51	127	402	679	319	68	392
Write off mineral properties	-	-	-	-	-	4,456		
Gain on sale of investments/other	-	-3	2	2	-175	-655		-2
	-					-		
Future income tax recovery	(1,356)	-485	1,488	-517	-354	4083		
<b>Net loss (income)</b>	<b>83</b>	<b>1,301</b>	<b>2,037</b>	<b>810</b>	<b>948</b>	<b>647</b>	<b>542</b>	<b>1,019</b>
Net loss (income) / share – basic & diluted	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00

### First quarter 2008

The net loss for the quarter was \$0.1 million compared to a loss of \$0.9 million for same period of 2007.

Administrative expenditures totaled \$1.5 million in Q1 2008 (Q1 2007; \$1.5 million). Salaries & benefits and general & administrative costs remained the same in Q1 2008 at \$0.3 million (Q1 2007; \$0.3 million). Stock based compensation in 2008 was slightly lower at \$0.6 million (Q1 2007; \$0.7 million). There were no write downs of mineral property costs in the quarter.

## Selected Annual Financial Information

<b>As at December 31 \$ 000's (except loss per share)</b>	<b>2007 \$000s</b>	<b>2006 \$000s</b>	<b>2005 \$000s</b>
Gain on sale of investments	(174)	(695)	-
Interest and other income	(178)	(234)	(193)
Net loss for the year	5,096	3,193	424
Loss per share - basic and diluted	0.02	0.01	0.00
Total assets	71,847	50,088	43,823
Long term liabilities	2,600	4,540	2,423
	-	-	-
Cash including restricted cash	\$4,478	\$3,348	\$7,303
Working capital (Deficit)	(947)	4,907	7,551
Mineral properties	60,089	41,287	31,721
Shareholders' equity	\$63,104	\$44,062	\$40,109
Shares - issued and outstanding	396,347,650	266,186,729	229,014,851

### **Investment in Selwyn Resources Ltd.**

Selwyn Resources Ltd (“Selwyn”), formerly Pacifica Resources Ltd., is a related company with the same Chief Executive Officer and certain other common officers and directors. The Company currently holds 5,648,001 shares of Selwyn with a market value at March 31, 2008 of \$1.04 million. This share position represents approximately 3.7% of the issued and outstanding shares of Selwyn. The Company has determined the investment in Selwyn shares as available for sale, and therefore calculated the comprehensive loss for the quarter ended March 31, 2008 as \$451,840, based on a share price decline from \$0.265 at December 31, 2007.

### **Investment in Savant Explorations Ltd.**

During the second quarter of 2007, Selwyn transferred its non-core assets to a public company, Savant Explorations Ltd. (“Savant”). Shares in Savant were issued to all shareholders of record of Selwyn including the Company. Yukon Zinc Corporation was issued 612,146 shares pursuant to this transaction and currently holds this number of Savant shares as of March 31, 2008. The Company has determined the investment in Savant shares as available for sale, and therefore calculated the comprehensive loss for the quarter ended March 31, 2008 as \$50,593, based on a share price decline from \$0.285 to \$0.195 per share.

### **Liquidity and Capital Resources**

The Company has limited financial resources and does not generate revenue from its operations. Like many junior exploration and development companies, it has financed its operations by raising capital in the equity markets. While management, with the assistance of financial advisors, has been evaluating various financial alternatives to fund Wolverine Project construction and development, there can be no assurance that the Company will be successful in its financing efforts.

During the quarter, the Company raised a total of \$8.0 million in gross proceeds from the issuance of shares. The net proceeds were used to reduce accounts payable and for general corporate purposes.

Cash balances during the quarter increased by \$1.3 million to \$5.7 million as at March 31, 2008, including \$2.1 million of cash restricted to flow-through eligible expenditures, compared to \$4.5 million in total cash, including cash restricted to flow-through eligible expenditures of \$3.5 million, as at December 31, 2007. Working capital increased by \$4.0 million to \$3.1 million as at March 31, 2008 compared to a deficit of \$0.9 as at December 31, 2007.

Accounts payables decreased by \$3.0 million during the quarter to \$3.1 million as at March 31, 2008. The Company sold the completed construction camp in Q2 2008, which would further reduced payables by \$1.7 million. Subsequent to March 31, 2008, the construction camp was sold and the \$1.7 million payable eliminated matched by a reduction in the associated fixed asset account.

### **Capital Requirements**

In the first quarter of 2007, the Company engaged Barclays to arrange for senior project debt financing. Following Barclays due diligence and an independent engineers report commissioned by them, Barclays provided a written commitment letter in August 2007 for a senior debt facility of US\$140 million. On March 26, 2008, the Company announced that Barclays has extended their US\$140 million senior debt finance facility commitment to June 30, 2008. If the Northwest Proposal is completed, the Barclays debt facility may or may not be completed under its existing terms, or may otherwise be modified.

If the Northwest Proposal does not progress to completion, the Company will rely on the sale of securities and/or enter into joint venture or other corporate transaction arrangements with third parties to finance on-going corporate expenses and, if a Board decision is made to proceed further with a Wolverine financing, the equity portion of the Wolverine Project funding requirements. The timing of, and ability to close on, any equity transaction should it be required will depend upon equity market conditions and/or the Company's ability to complete a transaction with such third parties, and there is no certainty that the Company will be able to do so in a timely manner, should this become necessary.

Refer to Contingencies, Commitments and Subsequent Events in the Notes and elsewhere in this MD&A for a further discussion of capital resources.

### **Off Balance Sheet**

The Company did not enter into any off balance sheet transactions or commitments as defined by NI 51 –102, except as disclosed in the Notes and below.

### **New Accounting Policies**

The Company adopted new accounting policies for 2007 and subsequent years (see Note 2 (e) of the Notes to the interim unaudited Consolidated Financial Statements).

### **Share Capital Summary as at May 15, 2008**

As at May 15 2008, the Company had 460,606,909 shares issued and outstanding, 22,268,000 options outstanding and 67,946,172 warrants outstanding. An \$8 million unit issue in March 2008 resulting in the issuance of 59,259,259 shares and 29,629,629 warrants during the quarter. In addition 2,100,000 warrants that had previously vested were issued to Barclays. In this regard, the Company had a commitment to issue a total of 3,500,000 warrants to Barclays Capital subject to certain conditions. Upon delivery of the term sheet in August 2007, Barclays had vested 2,100,000 of those warrants and these warrants were issued in the current quarter. During the quarter 720,000 options expired or were reduced pursuant to certain vesting provisions that will not be fulfilled.

Subsequent to March 31, 2008, 3,565,446 warrants and 170,000 options expired. Details of the options and warrants as at March 31, 2008 are contained in the financial statements. Grants under the Company's current stock option plan vest over 3 years (25% on grant date and 25% on the anniversary date in each of the subsequent 3 years). All unvested stock options become fully vested upon a change of control of the Company. On May 13, 2008, 5,000,000 warrants were exercised at a price of \$0.16 per share for total proceeds of \$800,000.

## **Contingencies and Commitments**

### Bonding Requirements

As a condition of the QML, the 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 revisions to the Reclamation and Closure Plan. In first quarter 2007 the Company established three term deposits/GICs to cover the bonding requirements, thereby increasing environmental bonding to \$1,092,796. Subsequent to the quarter, as agreed with the Yukon Government, \$78,250 was paid April 1, and \$409,726 of bonding must be placed on each of May 30, 2008 and September 3, 2008. Upon the commencement of project development an additional 1,170,756 is required to be held pursuant to the terms of the QML.

### Financing Commitments

Pursuant to the terms of agreements with Barclays and the Company's financial advisors, Yukon Zinc has the following obligations:

Barclays Capital. Under an engagement agreement signed in March 2007 with Barclays Capital, Barclays is entitled to a total of 3.5 million share purchase warrants exercisable into an equivalent number of common shares at \$0.26 per share for a period of five years. The warrants available for exercise are staged and conditional upon the achievement of key milestones and regulatory approval. Of this total, 2.1 million warrants (60%) vested in 2007, the remaining 40% will vest on any financial close of a debt facility. One-half of the Barclays required commitment fee (\$2.1 million) was due, and was paid, on the Company's acceptance of the US\$140 million underwritten commitment letter in August 2007 with the remainder due on any debt drawdown.

Hill Street Capital . An advisory agreement with Hill Street Capital (HSC) terminated Q3, 2007. Under this agreement, 2.0 million share purchase warrants, with each warrant vested and exercisable upon closing of a transaction with certain parties. The HSC warrants provide for the issuance of one common share at a price of \$0.265 per share for two years from the date of regulatory acceptance. Under the "trailing rights" provisions of the terminated agreement, HSC may become entitled, under certain circumstances, to receive the warrants.

### The Kaska Nation - SEPA Commitments

The Company has made commitments pursuant to the terms of the agreement with the Kaska and Ross River Dena Council, some of which are considered privileged information. The agreement provides for their participation in the Wolverine Project through employment and service contract opportunities. In 2007, the Company made payments totaling less than \$0.2 million in aggregate to the Ross River Dena Council. If a production decision is made and Wolverine mine construction begins, a one time payment of \$0.1 million will become payable in addition to approximately \$0.1 million of annual fees during operations.

### Exploration

The Company has small expenditure commitments of approximately \$0.1 million annually to maintain its exploration properties in the absence of qualifying exploration expenditures on those properties. The Company intends to focus on the advancement of the Wolverine Project. Any underground exploration is subject to completion of project financing and the availability of exploration funds.

### Other Commitments

Pending the completion of Project financing, the Company is conserving cash by keeping operational and procurement activities and expenditures to a minimum. Other contingencies and commitments are disclosed in the Notes to the Consolidated Financial Statements and elsewhere in this MD&A.

### **Related Party Information**

Selwyn and Savant Explorations Ltd. ("Savant") are related companies with certain common officers and directors, with whom the Company shares office space and some administration expenses. The intention of these cost sharing arrangements is to improve efficiencies and to share certain expertise.

These services were provided in the normal course of operations for consideration established and accepted by the related parties, which management believes were reasonable under the circumstances. There were small inter-company balances outstanding for services rendered and for reimbursement of common office expenses.

Dr. Harlan Meade is President, CEO and a Director of the Company, is also President, CEO and a Director of Selwyn and a Director of Savant. Mr. Robert McKnight is CFO, Vice-President Corporate Development and a Director of Yukon Zinc, is also a Vice President Corporate Development of Selwyn and a Director of both Selwyn and Savant. Mr. Jason Dunning is Vice President of Exploration for both Yukon Zinc and Selwyn.

Other related party transactions and balances are disclosed in the Notes to the interim, unaudited Consolidated Financial Statements and elsewhere in this MD&A.

### **Financial Instruments, Equity and Comprehensive Income**

In April 2005, the Accounting Standards Board issued new accounting standards dealing with the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income which, consistent with US and international reporting standards, require that certain gains and losses be recorded in a separate statement as comprehensive income. Fair value is considered the most relevant measure for financial instruments, which are any contracts that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

These new standards are effective for financial statements relating to fiscal years beginning on or after October 1, 2006. The Company adopted these policies effective January 1, 2007 and has reported comprehensive income, equity and financial instruments in accordance with the relevant sections in the CICA handbook (sections 1530, 3251, and 3855, respectively). In addition to disclosing a new comprehensive income statement, the primary effect on the Company will be that all financial instruments will be measured at fair value.

The Company's investment in Selwyn was carried as a book value at December 31 2007 of \$1.6 million. Based on the March 31 2008 closing price of \$0.185 per share, the market value of the Selwyn shares held was \$1.04 million. The Company's investment in Savant was carried as a book value at March 31, 2008 of \$0.1 million. Comprehensive loss for the quarter was \$0.43 million based on the decline in share price of the Selwyn shares held and to much a lesser degree on the Savant shares held.

The Company's financial instruments consist of cash and cash equivalents, cash reserved for flow-through expenditures, receivables, investments and payables. Management is of the opinion that the Company is exposed to no significant interest, currency or credit risks arising from cash balances held. With regard to receivables, there is significant risk that the YMETC receivable may not be realized in full, or in part, nor is the timing of any YMETC receipts

determinable. With regards to the current accounts payables, the Company had insufficient funds as year end to meet these payables. The \$8 million financing that closed on March 19th, 2008, provided funds sufficient to meet all current payables and provide limited working capital.

### Derivatives and Hedging

The Company does not currently have any derivative products. However, the term sheet from Barclays Capital contemplates a senior debt facility for the Wolverine Project. When, and if, such debt financing is completed and available for drawdown, it is expected that, to meet lending requirements, the Company will be required to enter into derivative instruments to reduce the risk exposure to future metal prices and possibly foreign currency and interest rate movements. It is currently expected that any such derivatives will be accounted for on a mark-to-market basis. Depending upon the terms of any financing facility, management will assess the impact of any embedded derivatives to the Company at that time. The new standard on Hedges, (section 1530), is applicable when a company chooses to designate a hedging relationship for accounting purposes. The impact of adopting this standard is not known at this time.

### **Management's Responsibility for Financial Information**

Management has prepared the information and representations in this report. The financial statements have been prepared to conform to GAAP and, where appropriate, reflect management's best estimates and judgment. The financial information presented throughout this report is consistent with the data presented in the Consolidated Financial Statements.

### **Disclosure & Internal Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting. They are assisted in this responsibility by the Company's senior management team.

Through the evaluation of the design of its internal controls, the Company has identified certain preexisting internal control weaknesses in the financial reporting process due to the small size of the financial team. As a result of the limited number of staff, there is little segregation of duties within the financial internal control system of the Company.

Management believes that it does control these weaknesses through certain control procedures including: a) the requirement for two senior management signatures on all cash disbursements; b) no signing officers can sign checks made out to themselves; c) regular visits by senior management to work sites and, d) substantive periodic review of the financial statements to ensure disclosure controls and procedures are effective.

Management has also taken steps to replace the existing accounting software with a more sophisticated system, but implementation will be done in conjunction with an assessment of the broader corporate needs for an enterprise resource planning system if and when a Wolverine production decision is made.

The broad scope of senior management's oversight is expected to compensate for any individual weaknesses. As such, the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures are effective to provide reasonable assurance that all material or potentially material information about the activities of the Corporation is made known to them by others within Yukon Zinc. However, management does not expect that the Company's disclosure controls and procedures would prevent all errors or fraud. Management believes that any system of internal controls over financial reporting, no

matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **Dependence on Management**

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the Company. The Company does not maintain key employee insurance on any of its employees.

### **Outlook**

On acceptance of the Northwest Proposal on May 6, 2008, and with the assistance of its legal advisors, management is working to conclude the transaction prior to June 30, 2008. This transaction when, and if, completed, would result in Yukon Zinc becoming a private company owned by the Investors. The Investors have the financial resources to construct the Wolverine Project, however it is not known what their plans may be regarding development of the Wolverine Project.

If an unsolicited alternate merger, takeover, or other proposals of that nature are received by the Board before conclusion of the Northwest proposal, they would be reviewed and considered on their merits. If the Northwest transaction or some other similar transaction is not concluded and if financing is not obtained sufficient to allow Wolverine project construction to commence, the Company would likely reduce all Wolverine and corporate costs to levels that would preserve the long term value of the Wolverine asset for shareholders.

### **Additional Disclosure for Venture Issuers without Significant Revenue**

Additional disclosure concerning Yukon Zinc's general and administrative expenses and mineral property costs is provided in the Company's Consolidated Statement of Loss and Deficit and the Consolidated Schedules of Mineral Property Costs contained in its interim, unaudited Consolidated Financial Statements for the quarter ended March 31, 2008.

### **Risks and Uncertainties**

Critical factors affecting the Company's performance are zinc and silver prices and the availability of equity and project development funds. The ability to attract capital to the Company is dependent on a number of external market factors including the general state of the equity markets and movements in commodity prices, which fluctuate on a daily basis and are affected by a number of factors beyond the control of Yukon Zinc. If, because of a sustained decline in prices, financing were not available to meet cash operating costs, the feasibility of continuing operations would be evaluated and if warranted, would be discontinued.

Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. The Wolverine Project has estimated mineral reserves and resources; however, substantial expenditures will be required to allow the Company to obtain any additional required environmental approvals, permits and financing required to commence commercial operations from this Project.

The figures presented for both mineral reserves and mineral resources are only estimates. The estimating of mineral reserves and mineral resources is a subjective process and the accuracy of reserve and resource estimates is a function of the quantity and quality of available data and the

assumptions used and judgments made in interpreting engineering and geological information. There is significant uncertainty in any reserve or resource estimate, and the actual deposits encountered and the economic viability of mining a deposit may differ materially from the Company's estimates.

Estimated mineral reserves or mineral resources may have to be recalculated based on changes in metal prices, further exploration or development activity or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralization, estimated recovery rates or other important factors that influence reserve or resource estimates. Market price fluctuations for metals, increased production costs or reduced recovery rates, or other factors may render the present proven and probable mineral reserves of the Company uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated reserves could require material write-downs in the Company's investment in the Wolverine Project and increased amortization, reclamation and closure charges.

Feasibility studies are used to determine the economic viability of a deposit. Many factors are involved in the determination of the economic viability of a deposit, including the achievement of satisfactory mineral reserve estimates, the level of estimated metallurgical recoveries, capital and operating cost estimates and the estimate of future metal prices. Capital and operating cost estimates are based upon several factors, including anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, ground and mining conditions, expected recovery rates of the metals from the ore and anticipated environmental and regulatory compliance costs. Each of these factors involves uncertainties and as a result, the Company cannot give any assurance that its development or exploration projects will become operating mines. If a mine is developed, actual operating results may differ from those anticipated in the OFS.

As at 2007 year end, the Company required funds to repay its current creditors. These immediate working capital needs were addressed in the \$8 million equity financing that closed on March 19, 2008. Additional funds may be required in the future for corporate overhead, exploration and Wolverine development activities or acquisitions of additional properties or other interests that may be appropriate to enhance the Company's financial or operating interests. The Company has historically raised capital through equity financing and in the future may raise capital through equity or additional debt financing, joint ventures, production sharing arrangements or other means. There can be no assurance that, in future, the Company will be able to obtain necessary financing in a timely manner on acceptable terms, if at all.

#### Increased Costs and Compliance Risks

Legal, accounting and other expenses associated with public company reporting requirements have increased significantly in the past few years. The Company anticipates that costs may continue to increase with recently adopted corporate governance requirements, including new rules implemented by the TSX.V and the CSA. Like many smaller public companies, the Company faces a significant impact from compliance with the requirement for management to evaluate the effectiveness of internal control over financial reporting. Any failure to effectively implement new or improved internal controls, or to resolve difficulties in their implementation, could harm the Company's operating results, cause the Company to fail to meet reporting obligations or result in management being required to give a qualified assessment of the Company's internal controls over financial reporting. Any such result could cause investors to lose confidence in the Company's reported financial information, which may have an adverse effect on the Company's share price.

## **Environmental and Other Regulatory Requirements**

The Company's operations require permits from various governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. While major permits have been received allowing for construction of the Wolverine project to begin, there can be no assurance that all other future permits which the Company may require for the construction of mining facilities and the future conduct of mining operations will be obtainable on reasonable terms; or that such laws and regulations may not be changed and result in an adverse effect on the Company's Wolverine mining project.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and mining activities could have a material adverse impact on the Company. Capital expenditures or production costs may be increased, or the level of achievable production may be reduced, or the Company may be required to abandon or delay the development of new mining properties as a result of changes in regulations.

## **Forward-Looking Statements**

This discussion and analysis contains forward-looking statements about the Company's future prospects, and the Company provides no assurance that actual results will meet management's expectations. Forward-looking statements include estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Such forward-looking statements are made pursuant to the safe harbour provisions of the United States Private Securities Litigation Reform Act of 1995 and similar securities legislation in Canada. Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results relating to, among other things, results of exploration, project development, reclamation, capital costs, and the Company's financial condition and prospects, could differ materially from those currently anticipated in such statements for many reasons such as; changes in general economic conditions and conditions in the financial markets; changes in demand and prices for the minerals the Company expects to produce; litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; technological and operational difficulties encountered in connection with the Company's activities; and changing foreign exchange rates and other matters discussed in this MD&A. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the

Company's forward-looking statements. Further information regarding these and other factors, which may cause results to differ materially from those projected in forward-looking statements, are included in the filings by the Company with securities regulatory authorities that may be viewed on SEDAR at [www.sedar.com](http://www.sedar.com). The Company does not undertake to update any forward-looking statement that may be made from time to time by the Company or on its behalf, except in accordance with applicable securities laws.