

**Management Discussion and Analysis  
For the year ended December 31, 2005**

**Introduction**

The following Management Discussion and Analysis (MD&A) of the results of operations and the financial condition for YGC Resources Ltd (the “Company”) should be read in conjunction with the financial statements of the Company for the year ending December 31, 2005. The MD&A is prepared to conform with National Instrument 51-102F1 and has been approved by the Company’s Audit Committee and Board of Directors prior to release. This MD&A is written as of February 28, 2006 and at that date the Company had 47,011,816 shares outstanding.

**Overall Performance**

The Company was able to achieve key objectives in 2005 of being listed on the TSX (under the symbol “YGC”) and completing financing for a portion of the gold exploration program at Ketza River, Yukon (“Ketza River”). The Company was listed on the TSX on April 13, 2005. The Company was also listed on the Frankfurt Stock Exchange on May 3, 2005 (trading on the Xetra under the symbol “ZH6”). The Company completed four private placements in 2005 which provided net proceeds of approximately \$13.4 million.

The primary focus of the Company is the exploration of the Ketza River property which consists of 308 mineral claims and leases, a gold mill from past operations and associated equipment. The Company spent approximately \$4.5 million on exploration and capital assets to support exploration. The 2005 gold exploration program consisted of approximately 12,500 metres of diamond drilling from 100 holes.

The Company signed a Memorandum of Understanding with the Kaska Nation on July 20<sup>th</sup>, 2005 with respect to the exploration of the Ketza River property. This was a significant event as the Ketza River property is located in the traditional territory of the Kaska Nation. The Company has enjoyed a positive working relationship with the Kaska Nation, including the employment of numerous Kaska members at the exploration site, as well as the use of significant goods and services provided by organizations within the Kaska Nation.

The Company had a resource estimate completed in November of 2005 for the Ketza River property by an independent geological consultant, Mr. Gary Giroux, P.Eng. The gold resource in the Measured and Indicated category was calculated to be 757,000 ounces. The gold resource in the Inferred category was calculated to be 1,054,000 ounces. This resource calculation incorporated the first 37 holes drilled in 2005 as well as results from previous diamond drilling that were not included in previous resource estimates. The resource estimate as of November 2005 was as follows:

	<b>Tonnes 000’s</b>	<b>Grade g/t Au</b>	<b>Contained Ounces</b>
<b>Measured:</b>			
Manto	1,410	3.54	160,500
<b>Indicated:</b>			
Manto	4,540	2.84	414,100
Shamrock	2,590	2.19	182,000
Total	7,130	2.60	596,100
<b>Measured &amp; Indicated:</b>	<b>8,540</b>	<b>2.76</b>	<b>756,700</b>
<b>Inferred:</b>			
Manto	10,550	2.37	805,200
Shamrock	4,030	1.93	249,200
<b>Total</b>	<b>14,580</b>	<b>2.25</b>	<b>1,054,400</b>

**Resource Estimate at 1 g/t Au cut-off**

**Inferred resources are in addition to Measured and Indicated resources**

**Manto and Shamrock are terms used to identify geological zones occurring at Ketza River**

**Rounding differences may occur**

The Company does not currently derive any revenue from its operations, aside from interest revenue on short-term investments. Its ability to conduct exploration on its properties and develop properties that may prove to be economical is based upon its ability to raise capital via equity financing. The Company's ability to raise capital by equity financing in the near future will be affected by the price of gold and the results of the drill program on the Ketz River property.

On the final trading day of 2005, the price of gold was \$US 513 per ounce, an increase of almost 20% over the 2004 closing price. On February 28, 2006 gold closed at \$561.50 per ounce. Gold Fields Minerals Services is projecting that the price of gold will be in the US\$ 490-550 range in the first half of 2006. Management is encouraged by the increase in the value of the commodity that is the focus of the Company's exploration.

### Selected Financial Information

The following financial information has been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP):

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Total revenues	161,166	61	73
Net loss	(1,444,813)	(782,121)	(412,073)
Loss per share (basic and diluted)	(0.04)	(0.07)	(0.04)
Resource assets	10,302,673	5,991,409	5,972,578
Total assets	19,377,645	6,174,416	6,224,715
Total long-term financial liabilities	Nil	Nil	Nil
Cash dividends	Nil	Nil	Nil

### Results of Operations

The Company had a significant increase in its total assets of approximately \$13 million from December 31, 2004 to December 31, 2005. This was the result of private placements in 2005 which resulted in the injection of approximately \$13.4 million into the Company's treasury during the year. The Company invests excess cash in liquid investment grade debt, which is liquidated as required to finance operations. The net proceeds from equity financings which were not immediately required were invested during 2005. The following table illustrates the cash and short term investments balances in the Company as of the three most recent year-end dates:

	December 31, 2005	December 31, 2004	December 31, 2003
Cash and cash equivalents	48,134	83,680	221,980
Short term investments	5,304,955		
Restricted cash	150,000	Nil	Nil
Cash held for future exploration	2,652,144	Nil	Nil
Total	8,155,233	83,680	221,980

As of December 31, 2005, cash and short term investments totaled approximately \$8.2 million, an increase of over \$8 million from the December 31, 2004 balance of approximately \$85,000. The "cash held for future exploration" is held in short-term investments. This represents the balance of funds that the Company must expend on exploration in Canada by December 31, 2006 under flow-through share agreements (see "Capital Resources" section for more detail). Restricted cash of \$150,000 at December 31, 2005 represents a guaranteed investment certificate that is security for a letter of credit with the Yukon Territorial Government as the beneficiary, relating to possible reclamation costs associated with the exploration program at Ketz River.

Resource assets increased by approximately \$4.3 million from 2004 to 2005, from approximately \$6 million to approximately \$10.3 million. This increase was almost entirely attributable to \$4.15 million of exploration expenditures on the Ketz River gold property. The expenditures were used for diamond drilling and geological work, improving the infrastructure (roads, bridges and accommodation), as well as the implementation of an environmental program. Exploration expenditures are deferred in accordance with the Company's accounting policies. Approximately \$150,000 of the increase in resource assets is attributable to a write down of the Greenwood and Other Yukon Properties (see note 6 in the Company's financial statements).

Capital assets increased by approximately \$350,000 from 2004 to 2005, primarily due to the purchase of assets required to support the Ketz River exploration program.

### **Ketz River Project – Yukon, Canada**

The Company planned early in 2005 to allocate approximately \$5 million toward exploration expenditures on the Ketz River property in 2005. Of the equity financing raised by the Company in 2005, \$7.05 million was raised via the issuance of flow-through shares. At December 31, 2005 the Company had spent approximately \$4.4 million on exploration expenditures at Ketz River. Under the terms of the flow-through share agreements, the remaining \$2.65 million must be spent on exploration in Canada by the end of 2006. The Company has an exploration license with the Yukon Territorial Government that expires in June 2009. Expenditures planned for 2006 include environmental baseline monitoring required for pre-feasibility work.

Exploration at Ketz River can we run year round. The current diamond drilling exploration program at Ketz River has been running since June 2005, with a brief shut-down over the holiday season in December 2005. The Company plans to continue drilling in 2006, with a minimum expenditure of \$2.65 million required under the flow-through share agreements. A decision will likely be made in 2006 as to how to proceed on the project. The Company's intention at this point is to conduct pre-feasibility/preliminary economic assessment work on the Ketz River property in 2006. The results of this assessment will assist the Company in formulating a strategy regarding the development of the property toward the ultimate goal, the production of gold.

### **Summary of Quarterly Results**

	<b>Q4 2005</b>	<b>Q3 2005</b>	<b>Q2 2005</b>	<b>Q1 2005</b>	<b>Q4 2004</b>	<b>Q3 2004</b>	<b>Q2 2004</b>	<b>Q1 2004</b>
Revenue	62,925	63,740	34,501	-	-	-	-	-
Net loss	350,732	245,424	767,322	81,335	493,099	160,714	85,657	42,651
Loss per share	.01	.01	.02	.00	.02	.01	.01	.01

The only revenue currently being generated by the Company is interest earned on excess funds invested by the Company. Significant investing began in April 2005, shortly after receiving funds from the first equity placement in 2005 which closed on April 13, 2005. This resulted in interest income being earned in the last three quarters of 2005.

The Company's net loss in 2005 of \$1.45 million exceeded losses in 2004 (\$780,000) and 2003 (\$410,000). For the two years prior to 2005, the Company was focused on dealing with administrative matters in an effort to get re-listed on the TSX. There was essentially no activity on the exploration front during these two years, and no costs associated with actively trading on the TSX such as accounting, legal, investor relations, and transfer agency fees. The April 13, 2005 listing on the TSX essentially changed administrative operating requirements of the Company.

In addition to the increased administrative costs associated with being listed on the TSX, the Company had stock-based compensation expense in the amount of approximately \$735,000 in 2005 relating to the grant of 3,100,000 stock-options. This is a non-cash expense that relates to the fair value of stock-options granted during the year to directors, employees and service providers of the Company. In the previous two years, the Company did not incur this expense as no stock-options were granted. This is not an expense that is expected to recur in the same

magnitude in the near future as the board of directors has been established and future turnover will likely not cause an infusion of new board members similar to that which occurred in 2005.

A major focus of the Company during the year was to implement sound corporate governance procedures to ensure compliance with statutory regulations and provide strategic direction to the Company. Stock-options were issued to directors to assist in attracting an experienced and knowledgeable board of directors. Two full-time employees were hired in the second quarter of 2005 to handle the increasing financial, administrative, and investor relations requirements of the Company.

Essentially, the Company underwent a significant change in how business was conducted in 2005, necessitated by the listing on the TSX and the beginning of an exploration program in Ketz River. This led to an increase in the overall cost structure of the Company.

The loss per share incurred by the Company in 2005 (\$.04) was less than the loss per share in 2004 (\$.07). In 2005, the Company issued approximately 21 million shares which led to the weighted average number of shares outstanding of approximately 41,000,000 compared to approximately 11,500,000 in 2004. The fact that the weighted average number of shares outstanding in 2005 was almost four times the number outstanding in 2004 resulted in a decrease in the loss per share, despite incurring a loss in 2005 that was almost twice as large as the \$780,000 loss in 2004.

#### **Fourth Quarter Analysis**

The Company incurred a loss of approximately \$420,000 in the fourth quarter of 2005, compared with a loss of approximately \$495,000 in 2004. There was a stock-based compensation expense of approximately \$190,000 in the fourth quarter of 2005 to reflect the fair value of options granted in October 2005 to directors and officers. There was no such charge in 2004.

The remaining expenses of approximately \$300,000 in the fourth quarter of 2005 reflect the ongoing general and administrative costs of running the Company. Approximately \$400,000 of the Company's fourth quarter expenses of \$495,000 in 2004 were for management fees paid to people associated with the process of getting the Company listed on the TSX.

The Company spent approximately \$1.5 million in the fourth quarter of 2005 on the Ketz River project and these expenditures were deferred in the accounts of the Company in resource assets. There was virtually no money spent in the fourth quarter of 2004 on exploration properties.

There was a gain on the write down of resource assets in the fourth quarter of 2005 of approximately \$150,000. This relates to the adjustment of the carrying value of the "Greenwood" and "Other Yukon Properties" from a credit balance to a nominal value of \$1 per property (there are three properties in "Other Yukon Properties").

#### **Liquidity and Capital Resources**

As of December 31, 2005 the Company had a working capital position of approximately \$8 million (including cash held for future exploration). This is likely sufficient to fund the management and administration requirements of the Company as well as the exploration requirements of Ketz River for 2006.

As the Company is not currently generating revenue, aside from interest on short-term investments, it is reliant upon equity financing to fund long-term exploration and development as well as the management and administration of the Company. The current climate for equity financing is quite positive, as numerous institutional investors have expressed a desire to participate in potential future financing placed by the Company.

There are financial derivatives outstanding as of December 31, 2005 which are a potential source of financing to the Company. These derivatives include warrants, agents' options and stock options. The exercise of all outstanding derivatives by their holders would result in the injection of approximately \$13.7 million into the Company. In order for this to happen, the stock price of the Company will have to rise to a level in excess of the exercise price for these derivatives, giving a financial incentive to the holder to exercise. The details of these financial derivatives are disclosed in note 8 of the financial statements.

Aside from the requirement to spend approximately \$2.65 in Canadian exploration expenditures in 2006, in accordance with the requirements of flow-through financing placed in 2005, exploration incurred by the Company is discretionary. The main exploration commitment of the Company is to keep its claims and leases on its properties in good standing.

The following represents the Company's commitments to fulfill contractual obligations:

<b>Contractual Obligations</b>	<b>Total</b>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Management contract	576,000	144,000	288,000	144,000	-
Operating leases	141,877	61,632	80,245	-	-
Total Contractual Obligations	717,877	205,632	368,245	144,000	-

### **Off Balance-Sheet Arrangements**

Under the provisions of the Yukon Minerals Exploration Tax Credit Program ("YMETC"), a corporation is eligible to receive a refundable corporate income tax credit equal to 25% of eligible mineral exploration expenditures incurred conducting exploration in the Yukon. Based on exploration expenditures incurred by the Company on the Ketzka River project in 2005, a tax refund of approximately \$1 million is anticipated. The Company does not recognize this amount as an asset in the accounts until the funds are received. In 2005, the Company received \$32,613 relating to exploration expenditures conducted in the Yukon in 2004.

Aside from the aforementioned, the Company does not have any off-balance sheet arrangements that are likely to have a material current or future impact on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that have not been disclosed in the Company's financial statements.

The Company does not enter into off-balance sheet arrangements with special purpose entities in the normal course of its business, nor does it have any unconsolidated entities.

### **Related Party Transactions**

The Company paid a total of \$155,429 in 2005 (2004 - \$273,023) for management services to a company owned by the president of the Company. There is an agreement with the president's company that expires on December 31, 2009 that specifies an annual payment of \$144,000, plus bonus and holiday pay. A portion of this payment is allocated to deferred exploration expenditures in resource assets on the balance sheet.

The Company paid a total of \$178,843 in 2005 (2004 - nil) for legal fees to a law firm in which the corporate secretary of the Company is a partner in the firm. A substantial portion of these fees relate to share issue costs which is recorded as a reduction of share capital in the Company's accounts. The balance of the legal fees were included in the general and administrative expenses of the Company.

The Company was charged a total of \$5,100 in 2005 for consulting fees by a director of the Company (2004 - nil). This charge was predominantly for the development of the Company's corporate governance policies and procedures.

## **Critical Accounting Estimates**

The Company has adopted the recommendations of CICA Handbook Section 3870, Stock-based compensation and Other Stock-based Payments for employees and non-employees. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. These recommendations require that compensation for all awards made to employees and non-employees be measured and recorded in the financial statements at fair value.

The assumptions used in the determination of the fair value of these awards involve management estimates regarding, amongst other factors, stock price volatility. As the Company started trading on April 13, 2005 on the TSX, an estimate had to be used in the absence of historical information to determine the volatility factor to be used. Stock-based compensation is a non-cash charge, so the measurement of the fair value of the grant of stock options does not impact the financial condition of the Company. However, the stock-based compensation expense is included in the Statement of Operations and the stock-based compensation expense during 2005 of \$736,997 is a material component.

In accordance with the recommendations of CICA Handbook Section 3063, Impairment of Long-Lived Assets, the Company monitors the recoverability of long-lived assets. This is based on such factors as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying value of the asset may not be recoverable.

Management's estimate of future commodities prices, operating costs, capital costs and the availability of resources required to develop existing properties are essential to the evaluation of these properties.

## **Financial Instruments**

The Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents, accounts receivable and current liabilities. The fair value of these instruments approximate their carrying value due to the short maturity associated with these instruments. The Company has not entered into any derivative contracts either to hedge existing risks or for speculative purposes.

## **Additional Information**

Additional information may be examined or obtained through the internet by accessing the Company's website at [www.ygcr.ca](http://www.ygcr.ca) or by accessing the Canadian System for Electronic Data Analysis and Retrieval (SEDAR) website at [www.sedar.com](http://www.sedar.com).

## **Forward Looking Statements**

Statements in this MD&A that are forward-looking are subject to various risks and uncertainties concerning specific factors. Such forward-looking information represents management's best judgment based on information currently available. No forward-looking statement can be guaranteed and actual figures may vary materially. The Company does not assume the obligation to update any forward looking statement.

**YGC RESOURCES LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

## AUDITORS' REPORT

To the Shareholders of  
YGC Resources Ltd.

We have audited the consolidated balance sheets of YGC Resources Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations, deficit and cash flows for the years then ended. These consolidated 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, 2005 and 2004 and the results of operations and cash flows of the Company for the years then ended in accordance with Canadian generally accepted accounting principles.

February 28, 2006  
Toronto, Ontario

*Wasserman Ramsay*

Chartered Accountants

# YGC RESOURCES LTD.

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Current		
Cash	\$ 48,134	\$ 83,680
Short term investments	5,304,955	-
Accounts receivable and prepaid expenses	<u>543,349</u>	<u>70,420</u>
	5,896,438	154,100
Restricted funds (Note 4)	150,000	-
Cash and short term investments held for future exploration (Note 4)	2,652,144	-
Property, plant and equipment (Note 5)	376,390	28,907
Resource assets (Note 6)	<u>10,302,673</u>	<u>5,991,409</u>
	<u>\$ 19,377,645</u>	<u>\$ 6,174,416</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 457,047	\$ 94,571
Due to related parties (Note 7)	<u>9,780</u>	<u>34,055</u>
	466,827	128,626
Asset retirement obligations (Note 13)	<u>2,053,300</u>	<u>1,901,200</u>
	<u>2,520,127</u>	<u>2,029,826</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	23,017,879	10,949,220
Warrants (Note 8)	985,084	-
Contributed surplus (Note 10)	1,103,998	-
Deficit	<u>(8,249,443)</u>	<u>(6,804,630)</u>
	<u>16,857,518</u>	<u>4,144,590</u>
	<u>\$ 19,377,645</u>	<u>\$ 6,174,416</u>

(see Note 1-Status of Operations and Going Concern)

Approved on behalf of the Board

"Graham C. Dickson"  
Graham C. Dickson, director

"Don MacDonald"  
Don MacDonald, director

The accompanying notes form an integral part of these consolidated financial statements

# YGC RESOURCES LTD.

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Revenue		
Interest and other income	\$ <u>161,166</u>	\$ <u>61</u>
Expenses		
General and administrative expenses <i>(Note 7(b))</i>	705,818	321,292
Interest on shareholder loans	-	18,919
Depreciation	12,421	4,848
Accretion	152,100	140,800
Management fees <i>(Note 7(b))</i>	140,857	296,323
Stock based compensation <i>(Note 8(d))</i>	736,997	-
Gain on write down of resource assets	<u>(142,214)</u>	<u>-</u>
	<u>1,605,979</u>	<u>782,182</u>
Net loss for the year	\$ <u>(1,444,813)</u>	\$ <u>(782,121)</u>
Loss per share - basic and diluted	\$ <u>(0.035)</u>	\$ <u>(0.068)</u>
Weighted average number of shares outstanding - basic and diluted	<u>40,991,750</u>	<u>11,492,000</u>

## CONSOLIDATED STATEMENTS OF DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Deficit, beginning of year	\$ 6,804,630	\$ 6,022,509
Net loss for the year	<u>1,444,813</u>	<u>782,121</u>
Deficit, end of year	\$ <u>8,249,443</u>	\$ <u>6,804,630</u>

*The accompanying notes form an integral part of these consolidated financial statements*

# YGC RESOURCES LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash was provided by (used in):		
<b>Operations:</b>		
Net loss for the year	\$ (1,444,813)	\$ (782,121)
Item not affecting cash		
Depreciation	73,851	4,848
Accretion expense	152,100	140,800
Gain on write down of resource assets	(142,214)	-
Stock based compensation	<u>736,997</u>	<u>-</u>
	(624,079)	(636,473)
Change in non-cash working capital <i>(Note 9)</i>	<u>(110,453)</u>	<u>292,519</u>
	<u>(734,532)</u>	<u>(343,954)</u>
<b>Financing:</b>		
Increase (decrease) in due to related parties	(24,275)	48,780
Common shares issued for cash <i>(Note 8)</i>	13,420,744	326,254
Promissory notes payable	<u>-</u>	<u>37,476</u>
	<u>13,396,469</u>	<u>412,510</u>
<b>Investments:</b>		
Cash held for future exploration	(2,652,144)	-
Short term investments	(5,304,955)	-
Restricted cash	(150,000)	-
Resource assets <i>(Note 6)</i>	(4,169,050)	(188,667)
Purchase of Property, plant and equipment	<u>(421,334)</u>	<u>(18,189)</u>
	<u>(12,697,483)</u>	<u>(206,856)</u>
Increase (decrease) in cash	(35,546)	(138,300)
Cash, beginning of year	<u>83,680</u>	<u>221,980</u>
Cash, end of year	<u>\$ 48,134</u>	<u>\$ 83,680</u>

*The accompanying notes form an integral part of these consolidated financial statements*

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 1. Status of operations and going concern

YGC Resources Ltd. [the "Company"] is in the process of mineral exploration on its properties and has yet to determine whether these properties contain reserves that are economically recoverable. The continuous operations of the Company and the recoverability of the amount shown for resource assets is dependent upon the existence of economically recoverable reserves, confirmation of the Company's ownership interest in the mining claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production. The Company has working capital of \$5,429,611 (2004 -\$25,474). The ability of the Company to realize on its assets and discharge its liabilities in the normal course of operations and to complete the exploration and development of its resource properties is dependent upon the Company raising further capital.

The Company was listed on the TSX on April 13, 2005 and was also listed on the Frankfurt Stock Exchange on May 3, 2005.

#### 2. Summary of significant accounting policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

##### a) Basis of presentation

These consolidated financial statements include the accounts of YGC Resources Ltd. and its wholly owned subsidiaries Ketz River Holdings Ltd and YGC Arizona Inc. All significant inter-company balances and transactions have been eliminated.

##### b) Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated based on declining balance method using the following rates per annum, subject to the half-year rule. Property, plant and equipment used in exploration are depreciated but this charge is deferred with other exploration expenditures. Property, plant and equipment costs are reduced by income tax credits received by the Company that relates to the purchase of Property, plant and equipment used in exploration.

Computer hardware	- 45 %
Computer software	-100 %
Equipment	- 20 %
Vehicles	- 30 %
Furniture and fixtures	- 20 %

##### c) Resource assets

The acquisition cost of mining properties and its related exploration expenditures net of any option payments or income tax credits received are deferred until the property is placed into production is sold or abandoned. These deferred expenditures will be amortized on a units of production basis over the estimated useful life of the property following commencement of production or written off if the property is abandoned or sold.

##### d) Long-lived assets

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset.

##### e) Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is increased to reflect an interest component (accretion expense) considered in the initial measurement at fair value. The capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, a gain or loss is recorded if the actual costs incurred are different from the liability recorded .

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

### . Summary of significant accounting policies (continued)

#### f) Stock-based compensation plan

The CICA Handbook, Section 3870, establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments for goods and or services. The Section requires that awards of stock be measured at fair value. The Company uses the Black Scholes Option pricing model to determine the fair value of each stock option on the date of the grant. The value of the stock options issued to directors, employees and service providers is expensed as Stock-Based Compensation and is credited to Contributed Surplus. This policy was adopted effective January 1, 2002 but had no effect on the financial statements of the Company until this year. Prior to this date, the Company had not issued any options or made any stock-based payments for goods and or services.

The Company has establish a stock based compensation plan as described in Note 8.

The value of the agents' options, stock options issued to agents in exchange for brokerage services during equity placement, is netted against share capital as share issuance costs and credited to Contributed Surplus.

#### g) Loss per share

Basic loss per share is the amount of loss for the period available to the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, agents' options and share purchase warrants that are "in the money" would be used to repurchase common shares of the Company at the average market price during the year.

Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted per share are the same.

#### h) Income taxes

The Company has adopted the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants. Under this method, current income taxes are recognized for the estimated taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future year for tax purposes that are likely to be realized.

#### i) Flow-through shares

The Company financed a portion of its exploration expenditures through the issuance of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Share capital is reduced and future income tax liabilities are increased by the estimated income tax benefit renounced to subscribers. As required under CICA EIC 146 the Company will recognize a future income tax liability, with an offset to share issue costs, when it renounces these expenditures to shareholders.

#### j) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. By their nature, these estimates are subject to management uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Significant estimates include those relating to asset retirement obligations and those relating to the fair valuation of stock-options issued, share purchase warrants issued and Agent's Options issued. Actual results may differ from those estimates.

#### k) Short term investments

Short term investments consists of investments of highly liquid dollar denominated investments in investment grade debt with terms to maturity of greater than 90 days when acquired. Short term investments are carried at lower of cost or recoverable amount.

#### l) Financial instruments

The Company's financial instruments recognized in the balance sheet consists of cash, short term investments and substantially all current liabilities. The fair value of these financial instruments approximate their carrying value due to the short maturity or current market rate associated with these instruments.

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

### 3. Accounting changes

On January 1, 2004, the Company retroactively adopted the recommendations under Section 3110, Asset Retirement Obligations, of the CICA Handbook ("Section 3110"). Section 3110 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. The adjustments resulting from this change have been reflected in these financial statements on a retroactive basis.

The recommendations require that the fair value of a liability for an asset retirement obligation be recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is increased to reflect an interest component (accretion expense) considered in the initial measurement at fair value. The capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, a gain or loss is recorded if the actual costs incurred are different from the liability recorded. This differs from the Company's prior practice that involved accruing for the estimated reclamation and closure liability through charges to the statement of operations over the life of the mine.

This change in accounting policy has been applied retroactively and had the effect of increasing (decreasing) the following:

	<u>2005</u>	<u>2004</u>
Net loss	\$ -	\$ 140,800
Opening deficit	-	(214,600)
Asset retirement obligations	-	926,200
Resource assets	-	1,000,000

### 4. Cash and short term investments held for future exploration and restricted funds

In 2005, the Company raised \$7,050,000 by way of private placements of flow-through shares, see Note 8(vi) and (ix). Under the conditions of these private placements, the funds must be spent in 2005 and 2006 on Canadian Exploration Expenditures ("CEE") on properties located in Canada. As at December 31, 2005 \$4,397,856 had been spent leaving a balance to be spent in the amount of \$2,652,144.

Certain short term investments are pledged as security for a Letter of Credit. The Yukon Territorial Government has a Letter of Credit with the Company for \$150,000 which was put in place to secure payment of potential reclamation work relating to the Ketza River project. The pledged funds of \$150,000 has been disclosed separately as restricted funds on the balance sheet.

### 5. Property, plant and equipment

	<u>2005</u>	<u>2004</u>
<b>Administrative</b>		
Equipment	\$ 18,701	-
Furniture & fixtures	12,817	-
Computer equipment	43,110	11,907
Computer Software	<u>1,466</u>	<u>-</u>
	<u>76,094</u>	<u>11,907</u>
<b>Exploration</b>		
Equipment	225,132	17,000
Furniture & fixtures	1,974	-
Vehicles	119,854	-
Computer equipment	11,244	-
Computer software	<u>33,018</u>	<u>-</u>
	<u>391,222</u>	<u>17,000</u>
	<u>\$ 467,316</u>	<u>\$ 28,907</u>
	<u>\$ 90,926</u>	<u>\$ 376,390</u>

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

### 6. Resource assets

	Ketza River Property	Arizona Property	Greenwood Property	Other Yukon Properties	Total Expenditures
<b>Acquisition costs:</b>					
Balance at December 31, 2005 and 2004	\$ 4,408,391	\$ _____	\$ _____	_____	<u>4,408,391</u>
<b>Deferred Exploration Costs:</b>					
Balance at December 31, 2004	<u>1,241,907</u>	<u>481,786</u>	<u>(131,389)</u>	<u>(9,286)</u>	<u>1,583,018</u>
Geological	431,653	-	-	-	431,653
Drilling	1,809,996	-	-	-	1,809,996
Infrastructure	839,929	-	-	-	839,929
Supplies	201,586	-	-	-	201,586
Environmental	188,592	-	-	-	188,592
Contractors & labour	527,837	-	-	-	527,837
Site support	189,013	14,592	525	2,940	207,070
Income tax credits (a)	(32,613)	-	-	-	(32,613)
Option -earn in	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
Additions for the year	4,155,993	14,592	525	(2,060)	4,169,050
Write down of deferred exploration	-	-	130,865	11,349	142,214
Balance of deferred exploration	<u>5,397,900</u>	<u>496,378</u>	<u>1</u>	<u>3</u>	<u>5,894,282</u>
Balance at December 31, 2005	<u>\$ 9,806,291</u>	<u>\$ 496,378</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 10,302,673</u>

#### a) Income Tax Credit

Under the provisions of the Yukon Minerals Exploration Tax Credit Program ("YMETC"), a corporation is eligible to receive a refundable corporate income tax credit equal to 25% of eligible mineral exploration expenditures incurred conducting exploration in the Yukon between April 1, 2001 and March 31, 2007. The Company recognizes any credit due under YMETC when it is received. A refund of \$32,613 was received in the third quarter of 2005 by the Company for exploration expenditures incurred in 2004. This was recorded in the accounts as a reduction of resource asset in 2005 when the refund was received. Management estimates that the Company is eligible to receive approximately \$1,000,000 in investment tax credits for 2005 based on expenditures incurred in conducting minerals exploration in the Yukon to December 31, 2005.

#### b) Ketza River properties, Yukon

The Company has a 100% interest of the Ketza River property including 308 mining claims and leases, a mill and all associated equipment. The focus of the Ketza River property is gold.

#### c) South Zone Silver Bar, Arizona

The Company has a 100% interest in 45 claims in Pinal County, Arizona. The focus of exploration of this property will be gold and copper.

#### d) Greenwood properties

The Company owns a 75% interest in 31 claims in the Greenwood Mining District in south-east British Columbia. These claims are subject to a 2% net smelter returns royalty. The remaining 25% interest in this gold property is owned by Intrepid Minerals Corporation. This property was written down to a nominal amount in the current year.

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

### 6. Resource assets (continued)

#### e) Other Yukon Base Metals properties

(i) Money Property - The Company has a 100% interest in 46 claims on this gold, silver and copper property located in south-central Yukon. The Company entered into an option agreement with Yukon Zinc Corporation ("Yukon Zinc") in August 2005 which allows Yukon Zinc to acquire a 25% interest in the property by making cash payments to the Company of \$40,000 over the next five years and incurring \$150,000 of exploration expenditures in the next five years. Upon exercise of the initial option, Yukon Zinc shall have an additional option to acquire an additional 26% interest in the property by paying the Company \$25,000 in cash or shares upon giving notice of its intent to pursue the additional option and undertaking an additional \$500,000 of exploration expenditures over two years from date of election of the additional option.

(ii) Wolf Property - The Company has a 34.42% joint venture interest in 18 claims in this zinc, lead and silver property in south-central Yukon. Atna Resources Ltd. owns the remaining 65.58% interest.

These properties have been written down to a nominal amount in the current year.

### 7. Related party transactions

#### a) Due to related parties

	<u>2005</u>	<u>2004</u>
Loan from shareholders	\$ <u>9,780</u>	\$ <u>34,055</u>

The amount showing as due to shareholders are non-interest bearing, unsecured and due on demand.

#### b) Other related party transactions

During the year the Company was charged a total of \$140,857 (2004 - \$272,023) in management fees by a company owned by a director of the Company. In addition, the Company paid \$14,572 (2004 - Nil) to this Company for work performed on the Company's Ketz River property. This amount is included under mineral properties.

During the year the Company was charged a total of \$178,843 (2004 - \$nil) in legal fees by a law firm in which the corporate secretary of the Company is a partner in the firm. A portion of these fees are included in share issue costs with the remainder included under general and administrative expenses.

During the year the Company was charged a total of \$5,100 (2004- \$nil) for consulting fees by a director of the Company and this is included in general and administrative expenses.

The Company was also charged \$61,275 (2004 -\$7,169) in geological services by a company owned by a former director of the Company and these expenses are included under resource assets. Included in accounts payable and accrued liabilities is \$35,878 payable (2004 - \$8,342) to the company owned by the former director.

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 8. Share capital

a) Authorized share capital consists of an unlimited number of common shares.

b) Common shares issued and outstanding

		<u>Shares</u>	<u>Amount</u>
As at December 31, 2003		19,204,977	\$ 8,780,170
Share consolidate 5:1		(15,363,982)	-
Debt settlement - promissory notes	(i)	8,689,150	868,915
Debt settlement	(ii)	9,738,810	973,881
Private placement for cash	(iii)	3,000,000	300,000
Private placements	(iv)	<u>30,000</u>	<u>26,254</u>
As at December 31, 2004		25,298,955	10,949,220
Brokered private placements -net of costs	(v)	7,885,667	3,905,317
Flow-through brokered private placements	(vi)	4,012,500	3,210,000
Private placements for cash	(vii)	2,916,450	1,716,996
Brokered private placements - net of costs	(viii)	797,856	170,513
Flow-through brokered private placements	(ix)	4,800,000	3,840,000
Private placement for cash	(x)	<u>932,000</u>	<u>577,918</u>
Less: Fair value of warrants			(985,084)
Less: Agents' options			<u>(367,001)</u>
As at December 31, 2005		<u>46,643,428</u>	<u>\$ 23,017,879</u>

(i) During the prior year the Company settled debt related to the promissory notes issued in a prior year by issuing 8,689,150 shares @ \$0.10 per share.

(ii) During the year the Company settled debt owing to a number of creditors through the issuance of 9,738,810 shares at a price of \$0.10 per share. Of the debt settled 8,238,810 shares for \$823,881 was with related parties.

(iii) During the year the Company completed a non-brokered private placement for a total of 3,000,000 common shares of the Company at a price of \$0.10 per share for a total of \$300,000.

(iv) During the year the Company completed private placements for a total of 30,000 common shares for proceeds of \$26,254.

(v) On April 13, 2005 the Company closed a brokered private placement of 7,885,667 common share units at a price of \$0.60 per unit. Each unit consists of one common share and one-half of one transferable share purchase warrant, each whole warrant entitle the holder to purchase one common share of the Company at a price of \$1.00 per share, expiring on April 13, 2007.

(vi) On April 13, 2005 the Company closed a brokered private placement of 4,012,500 flow-through common share units at a price of \$0.80 per unit. Each unit consists of one flow-through common share and one-half of one transferable share purchase warrant, each whole warrant entitles the holder to purchase one non-flow through common share of the Company at a price of \$1.00 per share, expiring on April 13, 2007.

Pacific International Securities was the broker in both private placements mentioned above in (v) and (vi) and received cash commission of 8% which was netted against proceeds received in (v). The broker also received Agent's options in the amount of 1,189,816 which entitle the broker to purchase one Agent's unit at a price of \$0.65 expiring on April 13, 2007. Each Agent's unit consist of one common share of the Company and one-half of one non-transferable share purchase warrant, each whole warrant entitles the Agent to purchase one common share of the Company at a price of \$1.05 per share, expiring two years from closing.

(vii) On April 13, 2005 the Company closed a non-brokered private placement of 2,916,450 common share units at a price of \$0.60 per unit. Each unit consists of one common share and one-half of one transferable share purchase warrant, each whole warrant entitle the holder to purchase one common share of the Company at a price of \$1.00 per share, expiring on April 13, 2007.

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 8. Share capital (continued)

(viii) On July 29, 2005 the Company closed a brokered private placement of 797,856 common share units at a price of \$0.70 per unit. Each unit consist of one common share and one-half of one transferable share purchase warrant, each whole warrant entitle the holder to purchase one common share of the Company at a price of \$1.00 per share, expiring on July 29, 2007.

(ix) On July 29, 2005 the Company closed a brokered private placement of 4,800,000 flow-through common share units at a price of \$0.80 per unit. Each flow-through unit consists of one flow-through common share and one-half of one transferable share purchase warrant, each whole warrant entitle the holder to purchase one non flow-through common share of the Company at a price of \$1.00 per share, expiring on July 29, 2007.

Pacific International Securities was the broker in (viii) and (ix) and received cash commission of 8% which was netted against proceeds received in (ix). The broker also received Agent's options in the amount of 559,785 which entitle the broker to purchase one Agent's unit at a price of \$0.75 expiring on July 29, 2007. Each Agent's unit consist of one common share of the Company and one-half of one non-transferable share purchase warrant, each whole warrant entitles the Agent to purchase one common share of the Company at a price of \$1.05 per share, expiring July 29, 2007.

(x) On August 26, 2005 the Company closed a non-brokered private placement of 932,000 common share units at a price of \$0.60 per unit. Each unit consists of one common share and one-half of one transferable share purchase warrant, each whole warrant entitle the holder to purchase one common share of the Company at a price of \$1.00 per share, expiring on August 26, 2007. 25,000 of the common share units issued were in-lieu of a cash commission paid upon closing.

All costs of issuing shares are netted against the proceeds of each issue. Share issue costs are netted against common share units, there were no costs netted against flow-through share units.

#### Escrowed shares

Of the shares issued at December 31, 2005, 11,808,232 shares are held in escrow under the terms of an escrow agreement. Under the escrow agreement the balance of 11,808,232 shares subject to escrow will be released in increments of 2,361,647 shares on April 13 and Oct 13 each year until the final release on April 13, 2008.

#### c) Warrants

Warrants included in the common share units of the Company issued in 2005 are assigned an estimated fair value using the Black-Scholes option pricing model. The fair value of the warrants has been estimated with the following assumptions: risk free interest rate of 2.65%; no dividend yield; weighted average expected life of the warrants of 2 years and volatility factor of expected market price of the Company's common stock of 50%. The fair value of the warrants are netted against the value of the common shares and credited to warrants as follows:

	<u>Warrants</u>	<u>Amount</u>
As at December 31, 2004	-	\$ -
Warrants issued in January 2005	20,000	-
Warrants issued in April 2005 (v) - (vii)	7,407,309	594,552
Warrants issued in July 2005 (viii) & (ix)	2,798,928	332,927
Warrants issued in August 2005 (x)	<u>466,000</u>	<u>57,605</u>
As at December 31, 2005	<u>10,692,237</u>	<u>\$ 985,084</u>

The following share purchase warrants to acquire 10,692,237 common shares of the Company are outstanding as at December 31, 2005:

<u>Number of warrants</u>	<u>Exercise price</u>	<u>Expiry Date</u>
20,000	\$ 1.80	January 31, 2006
	\$ 2.40	January 31, 2007
7,407,309	\$ 1.00	April 13, 2007
2,798,928	\$ 1.00	July 29, 2007
<u>466,000</u>	<u>\$ 1.00</u>	<u>August 26, 2007</u>
<u>10,692,237</u>		

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 8. Share capital (continued)

##### d) Stock Options

The Company has a stock option plan (the "Plan") in place under which the board of directors may grant options to acquire common shares of the Company to directors, employees and or service providers. Under the terms of the Plan, the number of securities issuable to insiders, at any time under all security based agreements, can not exceed 10% of the issued and outstanding securities. The options granted under the Plan can not have a term exceeding 10 years, are non-transferable and the grant price shall not be lower the last recorded sale price of a board-lot on the TSX on the trading day preceding the grant of the option.

A summary of changes in stock options for the year ending December 31, 2005 is as follows:

	Number of options	Weighted average exercise price
Balance - December 31, 2004	-	\$
Options granted to directors and officers (i)	2,400,000	0.60
Options granted to service providers (ii)	<u>700,000</u>	<u>0.60</u>
Balance - December 31, 2005	<u><u>3,100,000</u></u>	<u><u>\$ 0.60</u></u>

(i) Options expire 5 years from date of grant and have a four-month hold period .

(ii) 150,000 options expire 2 years from grant date and have a four month hold period.

550,000 options expire 2 years from grant date and vest over a period of 18 months from date of grant, 25% vest immediately, 25% vest 6 months from date of grant, 25% vest 12 months from date of grant and 25% vest 18 months from date of grant.

The following table summarizes the number of stock options outstanding and exercisable as at December 31, 2005:

	Outstanding			Exercisable
	Number of Options	Weighted Avge Exercise price	Weighted Avge Contract life remaining	Number of Options
Options granted to directors and officers	1,250,000	\$ 0.60	4.28	1,250,000
Options granted to directors and officers	1,150,000	\$ 0.60	4.75	-
Options granted to service providers	<u>700,000</u>	<u>\$ 0.60</u>	<u>2.00</u>	<u>425,000</u>
	<u><u>3,100,000</u></u>	<u><u>\$ 0.60</u></u>	<u><u>3.94</u></u>	<u><u>1,675,000</u></u>

Under the fair value method, the total fair value of the stock based compensation granted to directors, officers and service providers was \$736,997 in 2005. This amount is included in expenses on the Statement of Loss and credited to Contributed Surplus. The fair value of the options at the date of grant has been estimated using the Black-Scholes Option Pricing Model with the following assumptions: risk free interest rate of 2.75%; no dividend yield; weighted average expected life of the options of 4.47 years and volatility factor of expected market price of the Company's common stock of 50%.

The following table summarizes information on the Agent's Options outstanding as at December 31, 2005:

	Total number Options	Weighted Avge Exercise price	Weighted Avge Contract life remaining
Agent's options issued on April 13, 2005	1,189,816	\$ 0.60	1.28
Agent's options issued on July 29, 2005	<u>559,785</u>	<u>\$ 0.60</u>	<u>1.58</u>
	<u><u>1,749,601</u></u>	<u><u>\$ 0.60</u></u>	<u><u>1.38</u></u>

Under the fair value method, the total fair value of Agent's options issued to brokers was \$367,001. This amount reduces the Share Capital and is credited to Contributed Surplus. The fair value of the Agent's options has been estimated using the Black-Scholes Option Pricing Model with the following assumptions: risk free interest rate of 2.65%; no dividend yield; weighted average expected life of the options of 2 years, volatility factor of expected market price of the Company's common stock of 50%.

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 9. Supplemental cash flow information

	<u>2005</u>	<u>2004</u>
Accounts receivable and prepaid expenses	\$ (472,929)	\$ (55,828)
Accounts payable and accrued liabilities - net of shares-for-debt -see below	<u>362,476</u>	<u>348,347</u>
	<u>\$ (110,453)</u>	<u>\$ 292,519</u>

During the current year \$Nil (2004 - \$475,000) of accounts payable were settled through the issuance of Nil (2004 - 4,750,000) common shares.

	<u>2005</u>	<u>2004</u>
Non-cash Financing activities:		
Common shares issued for debt	\$ _____	\$ 1,842,796
Debt with BYG settled for equipment	<u>\$ _____</u>	<u>\$ 169,836</u>

#### 10. Contributed surplus

Balance - December 31, 2004	\$ -
Stock based Compensation	736,997
Agent's options	<u>367,001</u>
Balance - December 31, 2005	<u>\$ 1,103,998</u>

#### 11. Income taxes

The Company has income tax loss carry-forwards of approximately \$2.01 Million (2004 - \$1.1 Million). The potential benefit of these losses has not been recognized in these financial statements and will expire if unused as follows:

2006	\$ 77,000
2007	61,000
2008	30,000
2009	88,000
2010	281,000
2014	777,000
2015	<u>698,000</u>
	<u>\$ 2,012,000</u>

The components of future income taxes are as follows:

	<u>2005</u>	<u>2004</u>
Income tax loss carry-forwards	\$ 727,000	\$ 496,000
Exploration and development expenditures	1,786,542	153,023
Share issue costs	507,685	-
Less: valuation allowance	<u>(3,021,227)</u>	<u>(649,023)</u>
	<u>\$ _____</u>	<u>\$ _____</u>

#### 12. Segmented information

The Company operates in one industry segment mining exploration and development. All revenues and expenses to date were incurred in Canada. Assets held by geographic location are as follows:

	<u>2005</u>	<u>2004</u>
Canada	\$ 18,881,268	\$ 5,692,630
United States	<u>496,377</u>	<u>481,786</u>
	<u>\$ 19,377,645</u>	<u>\$ 6,174,416</u>

# YGC RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

#### 13. Asset retirement obligations:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	1,901,200	\$ 1,760,400
Accretion expense	<u>152,100</u>	<u>140,800</u>
Balance, end of year	<u><u>2,053,300</u></u>	<u><u>\$ 1,901,200</u></u>

The Company's asset retirement obligations relate to its Ketzka River Properties in the Yukon Territory, Canada. The costs result mainly from a requirement to remove the surface facilities and to close and revegetate the tailings impoundment area. The estimated cash flows have been discounted using a credit adjusted risk free rate of 8% for the current year.

#### 14. Commitments:

The Company is committed under the various contracts and leases to the following annual minimum payments:

2006	205,632
2007	205,632
2008	162,613
2009	<u>144,000</u>
	<u><u>717,877</u></u>