

**YGC RESOURCES LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDING MARCH 31, 2006**

INTRODUCTION

The following Management Discussion and Analysis (MD&A) of the results of operations and the financial condition of YGC Resources Ltd. (the "Company") should be read in conjunction with the financial statements of the Company for the quarter ending March 31, 2006. The MD&A has been 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 May 3, 2006 and at that date the Company had 48,061,321 shares outstanding.

OVERALL PERFORMANCE

The operational focus of the Company in the quarter ending March 31, 2006 was on the exploration of the Ketz River property in the Yukon. Just over 25,000 feet (7,620 m) of diamond drilling in 55 holes was completed during the first quarter of 2006. All of the drilling in the first quarter was done in the Manto zone, as the Shamrock zone is not accessible during the winter season.

OUTLOOK

The Company's current plans are to continue exploration on the Manto zone at Ketz River through to the fall of 2006 in an effort to increase the gold resource. Results of the drilling will determine management's strategy of bringing the property to production. Management currently envisions initiating pre-feasibility work on gold production from the Manto zone toward the end of 2006.

In addition to the drilling program on the Manto zone, the Company plans on conducting substantial exploration work on the Shamrock zone in the spring of 2006. There has been very little exploration carried out on this zone in the past and management feels it has the potential to host substantial resources which will provide value for the shareholders.

The key performance drivers for the Company are the price of gold, the results of exploration at Ketz River and the ability of management to execute its plans toward gold production at Ketz River.

Management continues to be encouraged by the increasing price of gold, which closed at a spot price of \$US 664 per ounce on May 3, 2006. This is an increase of almost 30% from the price of \$US 513 per ounce on the last trading day in 2005.

The Company has assembled a management team and Board of Directors that brings the skills to the table to move from exploration through the pre-feasibility process, into development and ultimately production, if the economics are in place. The President and CEO, Mr. Graham Dickson, has been involved in the construction of 16 gold mills in the past and this experience will be invaluable to the process of moving the Ketz River property toward production.

The geology team in place at Ketz River is headed by Mr. Ed Gates, who has over 25 years of precious metals exploration and development work. Under the supervision of Mr. Gates, the Company has recently incorporated previous geo-magnetic anomaly mapping of the Ketz River property into the exploration plan, identifying numerous drill targets on the Manto zone to be explored in 2006.

As of the most recently completed resource estimate by Mr. Gary Giroux, P. Eng. in November 2005, the Manto zone contained approximately 575,000 ounces of gold (in the measured & indicated categories) and an additional 805,000 ounces of gold (in the inferred category). The Shamrock zone contained approximately 180,000 ounces of gold (in the measured and indicated categories) and approximately 250,000 ounces of gold (in the inferred category). There have been several drill intercepts of high-grade gold during the quarter ending March 31, 2006 that will likely allow an increase in the resource estimate on

the Manto zone. Management plans on updating the resource calculation in the fall of 2006 as a part of the pre-feasibility process.

There are numerous risks involved with gold exploration companies and the Company is subject to these risks. The major risks facing the Company at Ketz River are a decrease in the price of gold, poor drilling results, the potential fallibility of resource estimates, political risk, environmental risk and the inability to raise capital to finance the project and the availability of resources required for exploration, development and production.

RESULTS OF OPERATIONS

The Company had a net loss for the quarter ending March 31, 2006 of approximately \$595,000. Non-cash expenses accounted for approximately \$400,000 of the loss - \$337,000 of stock-based compensation, \$30,000 of depreciation expense and \$41,000 of accretion expense. Therefore, operations from a net loss perspective used approximately \$180,000 of the Company's treasury for the quarter ending March 31, 2006.

There was an injection of approximately \$460,000 into the Company's treasury from the exercise of Agents' options by Pacific International (the "Agent"), the broker involved in the Company's two brokered private placements in 2005. The Agent exercised approximately 700,000 Agents' options in the first quarter of 2006, leaving a balance of unexercised Agents' options of approximately 1,050,000 at March 31, 2006.

The Company spent approximately \$1,980,000 on exploration expenditures at Ketz River in the first quarter of 2006 and an additional \$120,000 on capital assets to support the exploration program at Ketz River. As of December 31, 2005 there was a line item on the balance sheet entitled "Cash and short term investments held for future exploration" of approximately \$2.65 million. This represents exploration expenditures that were to be renounced, and subsequently were renounced on March 29, 2006, that are required to be spent on exploration in Canada pursuant to the flow-through share agreements in 2005. The balance of the "Cash and short term investments held for future exploration" as of March 31, 2006 was approximately \$560,000.

The renunciation of \$7.05 million of exploration expenditures to investors in flow-through shares of the Company resulted in a future income tax liability on the balance sheet of approximately \$2.23 million. All exploration expenditures renounced were incurred at Ketz River in the Yukon. The 2006 corporate tax rate on manufacturing and processing in the Yukon is 31.62%. The renunciation of the exploration expenditures to flow-through shareholders results in the expenditures no longer being available to the Company as a deduction for income tax purposes in the future. Canadian GAAP (EIC 146 – Flow-Through Shares) requires that tax impact of renouncing these expenditures to shares be recorded as a liability for future income taxes with a corresponding reduction in share capital.

SUMMARY OF QUARTERLY RESULTS

	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Revenue	\$ 49,746	\$ 62,925	\$ 63,740	\$ 34,501	-	-	-	-
Net Loss	594,993	350,732	245,424	767,322	81,335	493,099	160,714	85,657
Loss per share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.00	\$ 0.02	\$ 0.01	\$ 0.01
# shares issued & outstanding	46,941,768	46,643,428	44,301,452	38,159,996	25,298,955	25,298,955	12,584,745	5,840,995

The Company incurred a loss of approximately \$595,000 in the first quarter of 2006 compared with a loss of approximately \$80,000 in the first quarter of 2005. In the first quarter of 2005, there was very little activity in the Company aside from the process of working toward a listing on the TSX (which happened

on April 13, 2005) and efforts toward securing financing from investors. The Company had one full-time employee, the President & CEO, who was working out of a small office.

The Company's operations in the first quarter of 2006 were more complex than 2005, with three full-time employees working out of a larger office to carry out the administration of the Company. Administration involves the finance function, investor relations, marketing, assessing potential properties and providing operational support to the ongoing exploration project at Ketz River. The exploration project at Ketz River did not begin until June of 2005 and therefore had no support requirements in the first quarter of 2005.

A significant component of the \$595,000 loss in the first quarter of 2006 is a stock based compensation charge of approximately \$335,000 relating to the granting of 525,000 stock-options to employees, contractors and consultants to the Company. This non-cash expense is a key component of the Company's compensation strategy designed to provide extra motivation to employees and service providers to work toward achieving the Company's operational objectives and consequently increase the value of the Company to its shareholders.

There was revenue of approximately \$50,000 in the first quarter of 2006, which was mostly interest on short-term investments and a very small component of interest on cash balances. As the Company had yet to complete its initial financing in the first quarter of 2005, there were no investments earning interest and consequently, no interest income.

LIQUIDITY AND CAPITAL RESOURCES

The Company has sufficient liquidity, as of March 31, 2006, to finance its working capital and administrative requirements for the remainder of 2006 as well as the majority of planned exploration expenditures in 2006. As detailed below, the Company has in excess of \$6 million in cash and short-term investments as of March 31, 2006:

	Balance as of March 31, 2006
Cash	\$ 175,821
Short term investments	\$ 5,449,554
Cash and short term investments held for future exploration	\$ 557,545
Total	\$ 6,182,920

Management plans on drawing from two sources of financing to provide funds for corporate administration and the exploration and the potential development of the Ketz River property – (1) cash provided by investors upon exercise of outstanding derivatives (majority of derivatives are warrants) and (2) cash provided by investors pursuant to the issuance of flow-through shares and non-flow-through common shares.

As of March 31, 2006 the Company had approximately 10.7 million warrants outstanding to purchase shares of the Company for \$1.00. These are share purchase warrants that were attached to common shares issued by the Company in 2005 (see OUTSTANDING SHARE DATA section of this MD&A for more information). None of these warrants had been exercised as of March 31, 2006. However, as the Company's share price increases (the Company's shares traded between \$1.12 and \$1.84 subsequent to March 31, 2006) it is more likely that investors will exercise these warrants. In the timeframe from April 1, 2006 to the date of this MD&A, 275,000 warrants have been exercised at an exercise price of \$1.00 per share.

The Company has negotiated two private placements scheduled to close in late May 2006 that will provide up to \$12,450,000 gross proceeds to the Company. One of the private placements is brokered and the other is non-brokered.

The Company has negotiated a brokered private placement for gross proceeds of up to \$8,150,000 with Pacific International Securities Inc. (the "Agent") where the Agent will use its best efforts to sell up to

500,000 common shares at \$1.30 per share and up to 5,000,000 flow-through common shares at \$1.50 per flow-through share.

The Company has negotiated a non-brokered private placement for gross proceeds of up to \$4,300,000 to sell up to 1,000,000 common shares at \$1.30 per share and 2,000,000 flow-through common shares at \$1.50 per flow-through share.

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 minerals exploration in the Yukon. Based on exploration expenditures incurred in the Yukon by the Company in 2005, a refund of approximately \$1 million is anticipated.

The Yukon government decided to implement a cap on the total refundable corporate income tax credits available to each corporation, effective April 1, 2006. This cap limits each corporation to a maximum of \$300,000 in refundable tax credits for exploration expenditures incurred between April 1, 2006 and March 31, 2007. However, there is no cap for the period ending March 31, 2006. Based on exploration expenditures incurred by the Company in the Yukon in the three months ending March 31, 2006, refundable tax credit of approximately \$500,000 is expected.

In short, the Company is anticipating a total refund of approximately \$1.5 million that is not recorded on the balance sheet, as the Company records these refundable tax credits when received.

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.

RELATED PARTY TRANSACTIONS

The Company paid a total of \$36,450 (2004 - \$18,542) to a company owned by the President and CEO of the Company for management services during the quarter ending March 31, 2006. This is in accordance with a contract signed between the two parties effective January 1, 2005. Under the terms of this contract, the Company is to pay \$12,000 per month to the President’s management company and this payment is to be indexed by the Lower Mainland CPI. The contract expires on December 31, 2009.

During the quarter ending March 31, 2006, the Company was charged \$17,810 (2005 – nil) in legal fees by a law firm in which the corporate secretary of the Company is a partner.

During the quarter ending March 31, 2006, the Company was charged \$300 (2005 – nil) for consulting fees by a director of the Company and these fees are included in general and administrative expenses.

CRITICAL ACCOUNTING ESTIMATES

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.

OUTSTANDING SHARE DATA

The following is the outstanding share data and outstanding securities that are convertible into common shares of the Company as of May 3, 2006:

Common shares outstanding @ May 3, 2006	48,071,321		
Derivative Description	# of Derivatives	Weighted Average Exercise Price	Potential Proceeds
Warrants	10,397,237	\$1.00	\$ 10,397,237
Warrants	414,179	\$1.05	434,887
Agents' Options	255,569	\$0.75	191,677
Agents' Options	459,317	\$0.65	298,556
Stock Options	3,610,000	\$0.65	2,346,500
Total	15,136,302		\$13,678,857
Fully Diluted Shares @ May 3, 2006	63,207,623		

ADDITIONAL INFORMATION

Additional information may be examined or obtained through the internet by accessing the Company's website at www.ygcr.ca or by accessing the Canadian System for Electronic Data Analysis and Retrieval (SEDAR) website at 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.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2006
UNAUDITED – PREPARED BY MANAGEMENT

Responsibility for financial statements

The accompanying financial statements for YGC Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2005 audited financial statements. Only changes in accounting information have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

Auditor involvement

The auditors of YGC Resources Ltd. have not performed a review of the unaudited financial statements for the three months ended March 31, 2006 and 2005.

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

YGC RESOURCES LTD.

INTERIM CONSOLIDATED BALANCE SHEETS

AS AT MARCH 31, 2006

(with comparative figures as at December 31, 2005)

UNAUDITED – PREPARED BY MANAGEMENT

	March 31 <u>2006</u>	December 31 <u>2005</u> (audited)
ASSETS		
Current		
Cash	\$ 175,821	\$ 48,134
Short term investments	5,449,554	5,304,955
Accounts receivable and prepaid expenses	<u>890,216</u>	<u>543,349</u>
	6,515,591	5,896,438
Restricted funds (Note 3)	150,000	150,000
Cash and short term investments held for future exploration (Note 3)	557,545	2,652,144
Property, plant and equipment	464,588	376,390
Resource assets (Note 4)	<u>12,285,799</u>	<u>10,302,673</u>
	<u>\$ 19,973,523</u>	<u>\$ 19,377,645</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 810,397	\$ 457,047
Due to related parties (Note 5)	<u>-</u>	<u>9,780</u>
	810,397	466,827
Future income tax liability (Note 6)	2,616,960	-
Asset retirement obligations	<u>2,094,300</u>	<u>2,053,300</u>
	<u>5,521,657</u>	<u>2,520,127</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	20,987,581	23,017,879
Warrants (Note 6)	985,084	985,084
Contributed surplus (Note 6)	1,323,647	1,103,998
Deficit	<u>(8,844,436)</u>	<u>(8,249,443)</u>
	<u>14,451,866</u>	<u>16,857,518</u>
	<u>\$ 19,973,523</u>	<u>\$ 19,377,645</u>

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

Approved on behalf of the Board

“Graham Dickson”

“Don MacDonald”

Graham C. Dickson, director

Don MacDonald, director

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

YGC RESOURCES LTD.

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2006
(with comparative figures for the three months ended March 31, 2005)

UNAUDITED – PREPARED BY MANAGEMENT

	Three months ended March 31 <u>2006</u>	Three months ended March 31 <u>2005</u>
Revenue		
Interest and other income	\$ <u>49,746</u>	\$ <u>-</u>
Expenses		
General and administrative expenses	226,792	41,543
Depreciation	3,672	1,250
Accretion	41,000	20,000
Management fees (Note 5(b))	36,540	18,542
Stock based compensation (Note 6(d))	<u>336,735</u>	<u>-</u>
	<u>644,739</u>	<u>81,335</u>
Net loss for the period	\$ <u>(594,993)</u>	\$ <u>(81,335)</u>
Loss per share - basic and diluted	\$ <u>(0.013)</u>	\$ <u>(0.003)</u>
Weighted average number of shares outstanding - basic and diluted	<u>46,941,768</u>	<u>25,298,955</u>

INTERIM CONSOLIDATED STATEMENTS OF DEFICIT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2006
(with comparative figures for the three months ended March 31, 2005)

UNAUDITED – PREPARED BY MANAGEMENT

	<u>2006</u>	<u>2005</u>
Deficit, beginning of period	\$ 8,249,443	\$ 6,804,630
Net loss for the period	<u>594,993</u>	<u>81,335</u>
Deficit, end of period	\$ <u>8,844,436</u>	\$ <u>6,885,965</u>

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

YGC RESOURCES LTD.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2006
 (with comparative figures for the three months ended March 31, 2005)

UNAUDITED – PREPARED BY MANAGEMENT

	Three months ended March 31 <u>2006</u>	Three months ended March 31 <u>2005</u>
Cash was provided by (used in):		
Operations:		
Net loss for the period	\$ (594,993)	\$ (81,335)
Item not affecting cash		
Depreciation	30,534	1,250
Accretion expense	41,000	20,000
Stock based compensation	<u>336,735</u>	<u>-</u>
	(186,724)	(60,085)
Change in non-cash working capital	<u>6,482</u>	<u>90,107</u>
	<u>(180,242)</u>	<u>30,022</u>
Financing:		
Increase (decrease) in due to related parties	(9,780)	10,353
Common shares issued upon exercise of agent's options (<i>Note 6</i>)	460,567	-
Common shares issued upon exercise of stock options	<u>9,000</u>	<u>-</u>
	<u>459,787</u>	<u>10,353</u>
Investments:		
Cash held for future exploration	2,094,599	-
Short term investments	(144,599)	-
Restricted cash	-	-
Resource assets (<i>Note 4</i>)	(1,983,127)	(59,209)
Purchase of Property, plant and equipment	<u>(118,731)</u>	<u>(12,833)</u>
	<u>(151,858)</u>	<u>(72,042)</u>
Increase (decrease) in cash	127,687	(31,667)
Cash, beginning of period	<u>48,134</u>	<u>83,680</u>
Cash, end of period	<u>\$ 175,821</u>	<u>\$ 52,013</u>

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

YGC RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006

UNAUDITED – PREPARED BY MANAGEMENT

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 \$5,705,195 (March 31, 2005 – deficiency of \$106,652). 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.

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 The Company 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

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

YGC RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006

UNAUDITED – PREPARED BY MANAGEMENT

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.

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 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.

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

YGC RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006

UNAUDITED – PREPARED BY MANAGEMENT

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.

3. 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. 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 March 31, 2006 \$6,492,455 had been spent leaving a balance to be spent in the amount of \$557,545.

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 have been disclosed separately as restricted funds on the balance sheet.

4. Resource assets

	Ketza River Property	Arizona Property	Greenwood Property	Other Yukon Properties	Total Expenditures
Acquisition costs:					
Balance at Mar31,06 & Dec31,05	\$ 4,408,391	\$ -	\$ -	-	4,408,391
Deferred Exploration Costs:					
Balance at December 31, 2005	5,397,900	496,378	1	3	5,894,282
Prospecting				11,309	11,309
Geological	177,652	-	-	-	177,652
Drilling	1,163,184	-	-	-	1,163,184
Infrastructure	202,124	-	-	-	202,124
Supplies	69,088	-	-	-	69,088
Environmental	40,272	-	-	-	40,272
Contractors & labour	254,300	-	-	-	254,300
Site support	59,387	1,504	-	4,305	65,196
Income tax credits (a)	-	-	-	-	-
Option -earn in	-	-	-	-	-
Additions for the period	1,966,008	1,504	-	15,614	1,983,126
Balance of deferred exploration	7,363,908	497,882	1	15,617	7,877,408
Balance at March 31, 2006	<u>\$ 11,772,299</u>	<u>\$ 497,882</u>	<u>\$ 1</u>	<u>\$ 15,617</u>	<u>\$ 12,285,799</u>

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

YGC RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006

UNAUDITED – PREPARED BY MANAGEMENT

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, 2006. The Company recognizes any credit due under YMETC when it is 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.

The Yukon government announced in January 2006 that there is a per company refundable limit of \$300,000 for work undertaken between April 1, 2006 and March 31, 2007. Management estimates that the Company is eligible to receive approximately \$500,000 of invest tax credits for exploration expenditures incurred to March 31, 2006 in the Yukon.

b) Ketza River properties, Yukon

The Company has a 100% interest of the Ketza River property including 308 mining claims and leases. 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.

e) Other Yukon 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.
- (iii) Bay Property – The Company has staked 36 claims in south-east Yukon, near Watson Lake. Based on preliminary geological work, the primary focus of this property will be silver.

5. Related party transactions

a) Due to related parties

	<u>2006</u>	<u>2005</u>
Due to shareholders	\$ _____ -	\$ <u>9,780</u>

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

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

YGC RESOURCES LTD.

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UNAUDITED – PREPARED BY MANAGEMENT

b) Other related party transactions

During the quarter the Company was charged a total of \$36,540 (2005 - \$18,542) in management fees by a company owned by a director of the Company.

During the quarter the Company was charged a total of \$17,810 (2005 - \$nil) in legal fees by a law firm in which the corporate secretary of the Company is a partner in the firm.

During the quarter the Company was charged a total of \$300 (2004- \$nil) for consulting fees by a director of the Company and this is included in general and administrative expenses.

6. Share capital

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

b) Common shares issued and outstanding

	Shares	Amount
As at December 31, 2005	46,643,428	\$ 23,017,879
Agents' options exercised @ \$0.65	680,499	442,324
Agents' options exercised @ \$0.75	24,323	18,242
Stock options exercised @ \$0.60 per share	15,000	9,000
Re-allocation from Contributed Surplus relating to Agent option exercise		113,175
Re-allocation from Contributed Surplus relating to Stock option exercise		3,911
<u>Flow-through share renunciation</u>		<u>(2,616,960)</u>
<u>As at March 31, 2006</u>	<u>47,363,250</u>	<u>\$ 20,987,581</u>

On March 29, 2006 the Company renounced \$7,050,000 of exploration expenditures to subscribers of flow-through shares issued in 2005. As a result of this renunciation, share capital is reduced by the estimated tax effect of the exploration expenditures flowed-through to the shareholders, which is \$2,616,960. The Company has accrued a "Future income tax liability" on the balance sheet for \$2,616,960. Management is currently reviewing the ability of the Company to recognize previously unrealized tax assets.

c) Warrants

	Warrants	Amount
As at December 31, 2005	10,692,237	\$ 985,084
<u>Warrants issue upon exercise of Agents' options</u>	<u>352,410</u>	<u>-</u>
<u>As at March 31, 2006</u>	<u>11,044,647</u>	<u>\$ 985,084</u>

Each Agents' option entitles the holder to purchase one common share of the Company and one-half of one non-transferable share purchase warrant. During the period ending March 31, 2006 there were 352,410 share purchase warrants issued upon the exercise of Agents' options. (see note 8 (d) for Agent option information).

Warrants are assigned a value on the date common shares are issued, using the Black-Scholes option pricing model. Warrants issued upon the exercise of Agents' options are not assigned a value, as this is done at the date of the issuance of the Agents' options. The value assigned to the warrants associated with Agents' options is included in Contributed Surplus.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006

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The following table reflects the continuity of share purchase warrants:

Expiry Date	Exercise Price	Dec 31,05 Balance	Warrants Issued	Warrants Exercised	Mar 31,06 Balance
January 31, 2007	\$ 2.40	20,000	-	-	20,000
April 13, 2007	\$ 1.00	7,407,309	-	-	7,407,309
July 29, 2007	\$ 1.00	2,798,928	-	-	2,798,928
August 26, 2007	\$ 1.00	466,000	-	-	466,000
April 13, 2007	\$ 1.05		340,249	-	340,249
July 29, 2007	\$ 1.05		12,161	-	12,161
		10,692,237	352,410	-	11,044,647

d) Contributed Surplus

	<u>Amount</u>
As at December 31, 2005	\$1,103,998
Stock based compensation	336,735
Re-allocation to Share Capital upon exercise of Agents' options	(113,175)
<u>Re-allocation to Share Capital upon exercise of Stock options</u>	<u>(3,911)</u>
<u>As at March 31, 2006</u>	<u>\$1,323,647</u>

(i) 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.

The fair value of stock options granted under the "Plan" to directors, officers, employees and/or service providers is estimated using the Black-Scholes option pricing model. The fair value of options granted during the quarter ending March 31, 2006 was estimated to be \$336,735 using the following assumptions for the January 25, 2006 grant of 400,000 stock options and the March 28, 2006 grant of 125,000 stock options:

	Jan 25,06 Options	Mar 28,06 Options
Risk Free Interest Rate	3%	3%
Dividend Yield	Nil	Nil
Weighted Average Expected Life of Options	5 years	5 years
Volatility Factor of Company Stock	97%	90%

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

YGC RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006

UNAUDITED – PREPARED BY MANAGEMENT

The following table reflects the continuity of Stock Options under the “Plan” for the three months ending March 31, 2006:

Expiry Date	Exercise Price	Dec 31,05 Balance	Options Issued	Options Exercised	Mar 31,06 Balance	Mar 31,06 Exercisable
April 14, 2010	\$ 0.60	1,400,000	-	(10,000)	1,390,000	1,390,000
May 17, 2007	\$ 0.60	550,000	-	-	550,000	275,000
October 1, 2010	\$ 0.60	1,150,000	-	(5,000)	1,145,000	1,145,000
January 25, 2011	\$ 0.82		400,000	-	400,000	-
March 28, 2011	\$ 1.06		125,000	-	125,000	-
		3,100,000	525,000	(15,000)	3,610,000	2,810,000

(ii) Agents' Options

Agents' options were issued to the broker of two private placements in 2005, with each option entitling the holder to purchase one common share and one-half of one common share purchase warrant. The details of the Agents' options continuity for the period ending March 31, 2006 are as follows:

Expiry Date	Exercise Price	Dec 31,05 Balance	Agents' options Issued	Agents' options Exercised	Mar 31,06 Balance
April 13, 2007	\$ 0.65	1,189,816	-	(680,499)	509,317
July 29, 2007	\$ 0.75	559,785	-	(24,323)	535,462
		1,749,601	-	(704,822)	1,044,779

7. Subsequent events

The Company has negotiated two private placements scheduled to close in late May 2006 that will provide up to \$12,450,000 gross proceeds to the Company. One of the private placements is brokered and the other is non-brokered.

The Company has negotiated a brokered private placement for gross proceeds of up to \$8,150,000 with Pacific International Securities Inc. (the “Agent”) where the Agent will use its best efforts to sell up to 500,000 common shares at \$1.30 per share and up to 5,000,000 flow-through common shares at \$1.50 per flow-through share.

The Company has negotiated a non-brokered private placement for gross proceeds of up to \$4,300,000 to sell up to 1,000,000 common shares at \$1.30 per share and 2,000,000 flow-through common shares at \$1.50 per flow-through share.

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