

**YGC Resources Ltd.**  
**Management Discussion and Analysis**  
**For the three month period ending March 31, 2007**

**INTRODUCTION**

The following interim Management Discussion and Analysis (MD&A) of the results of operations and the financial condition for YGC Resources Ltd. (the “Company” or “YGC”) should be read in conjunction with the interim financial statements of the Company for the period ending March 31, 2007 (“Q1 2007”). 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 May 9, 2007 and at that date the Company had 66,429,038 shares outstanding.

**OVERALL PERFORMANCE**

The Company continues to focus on moving the Ketza River gold project toward production. In Q1 2007, the Company drilled approximately 5,232 metres (17,164 feet) of core diamond drilling on the Manto zone at Ketza River in 38 holes.

In the first quarter of 2007, the process of permitting of the re-opening of the mining and milling operation at Ketza River proceeded with the initiation of community workshops in Ross River and Faro. These are the two closest communities that are likely to be impacted by the restarting of the mine and studies with regard to the socio-economic effects of the restart are underway.

An Environmental Manager, based in Whitehorse, has been hired to both steward the Company’s permit applications and to ensure that the corporate environmental policy is fully enacted at all of the Company’s operational sites.

The Company entered into an Option agreement on the Silver Valley property in the Yukon in 2006. In order to acquire a 100% interest in the Optionor’s claims on this property, the Company must pay the Optionor \$60,000 cash, 30,000 shares and incur \$550,000 in exploration expenditures over the period to September of 2011. As of March 31, 2007, the Company had already fulfilled its exploration requirement, incurring a total of approximately \$875,000 of exploration expenditures. In Q1 2007, the Company drilled approximately 5,194 metres (17,040 feet) of core diamond drilling on the Silver Valley property in 32 holes.

The Company entered into a definitive agreement on March 16, 2007 to combine the operations of YGC with Queenstake Resources Ltd. (“Queenstake”) (TSX: QRL; AMEX: QEE) by way of a Plan of Arrangement which will take the form of an acquisition of Queenstake by YGC.

The Plan of Arrangement is subject to the approval of the shareholders of both companies at their respective shareholder meetings, due to take place on May 18, 2007. The Plan of Arrangement must be approved by a two-thirds majority of the shareholders of each company voting at the meetings.

One of the conditions precedent to the business combination between YGC and Queenstake is the completion of a financing with net proceeds available to the Company in the amount of \$80 million. On April 27, 2007, the Company announced that it had negotiated a brokered private placement for gross proceeds of up to \$86,400,000 (the “Private Placement”) with a syndicate of registered brokers (the “Agents”) wherein the Agents will use their commercially reasonable efforts to sell up to 48,000,000 subscription receipts of the Company (“Subscription Receipts”) at Cdn\$1.80 per Subscription Receipt. Each Subscription Receipt will entitle the holder to acquire, at no additional cost and upon certain conditions being met (the “Release Conditions”), one common share (“Common Share”) and one half of one transferable share purchase warrant. Each whole warrant (a “Warrant”) will entitle the holder to purchase one additional Common Share at a price of Cdn\$3.00 for a period of five years. The Company will use its reasonable efforts to list the Warrants for trading on the Toronto Stock Exchange (“TSX”).

The Private Placement is subject to the approval of the shareholders of YGC and to acceptance by the TSX.

## RESULTS OF OPERATIONS

The Company had a loss of \$2.765 million in Q1 2007. The majority of the loss was the result of a stock-based compensation charge of approximately \$2.347 million. This non-cash charge was the fair value of 1,275,000 options granted in January of 2007 – 600,000 options were granted to members of the Board of Directors, 600,000 options were granted to the CEO, 50,000 options were granted to the Corporate Secretary and 25,000 options were granted to the CFO.

The cash expenses of the Company were approximately \$526,000 for Q1 2007, comprised of approximately \$280,000 of general and administrative expenses, approximately \$165,000 of corporate communications and development expenses and \$81,000 of management fees.

See “SUMMARY OF QUARTERLY RESULTS” section of this MD&A for additional analysis of Q1 2007 expenses.

The Company earned approximately \$154,000 of interest income in Q107, which is an increase over the interest income earned in Q4 2006 of approximately \$139,000. This is a function of the average month-end treasury balance increasing from approximately \$14.5 million in Q4 2006 to approximately \$15.7 million in Q1 2007. The increase in the average month-end treasury balance from Q4 2006 to Q1 2007 was predominantly a result of equity instrument holders exercising their shareholder warrants, broker warrants, agents’ options and stock options, which resulted in an injection of approximately \$4.18 million to the Company’s treasury. The exercise of equity instruments in Q1 2007 resulted in an increase of the common shares issued and outstanding of approximately 4.36 million from December 31, 2006 to March 31, 2007. This injection exceeded the combined expenditures of the Company in Q1 2007 of combined corporate expenses (\$526,000) and expenditures on its mineral properties of approximately \$2.7 million, which are deferred in the Company’s accounts on the balance sheet.

Mineral properties increased by approximately \$2.7 million in Q1 2007, with approximately \$2.0 million being spent on the Ketz River property and an additional \$0.7 million spent exploring the Silver Valley property, both located in the Yukon. Approximately 54% of the \$2.7 million in expenditures were spent on direct costs associated with diamond drilling, with the remainder spent on geological work, supplies, labour and other expenditures required to support the ongoing exploration at both Ketz River and Silver Valley.

The Company had approximately \$130,000 in deferred acquisition costs on the balance sheet as of March 31, 2007. These are due diligence costs incurred by the Company with respect to the combination agreement signed on March 16, 2007 to combine the operations of YGC with Queenstake.

## SUMMARY OF QUARTERLY RESULTS

	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Income	\$153,634	\$138,762	\$156,309	\$82,614	\$49,746	\$62,925	\$63,740	\$34,501
Net Loss	\$2,765,016	\$458,353	\$253,961	\$231,555	\$405,543	\$350,732	\$245,424	\$767,322
Loss per share	\$0.05	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02
Weighted average # shares issued & outstanding	60,590,466	58,857,710	56,710,213	50,874,682	46,941,768	46,643,428	44,301,452	38,159,996

The Company incurred a loss of approximately \$2,765,000 in Q1 2007 compared with a loss of approximately \$405,000 in Q1 2006. There was a non-cash stock-based compensation charge of approximately \$147,000 in Q1 2006, compared with a stock-based compensation charge of approximately \$2,347,000 in Q1 2007.

The cash expenses of the Company increased from Q1 2006 level of approximately \$263,000 to approximately \$526,000 in Q1 2007. The primary factors driving this increase of approximately \$263,000 were (a) an increase in Part XII.6 tax of approximately \$80,000 in Q1 2007 (associated with flow-through shares issued in 2006), (b) an increase in marketing expenses of approximately \$40,000, (c) an increase in management fees of approximately \$45,000 (d) an increase in Board of Director fees of approximately \$16,000 (associated with the Queenstake combination and the appointment of a new director) and (e) an increase in professional fees of approximately \$47,000.

As the Company continues to evolve, certain costs have increased out of necessity. The Company's increased market capitalization level has resulted in higher listing fees on the TSX, the increased complexity of operations have led to an increase in legal, audit and taxation costs and corporate governance costs continue to rise as the Company becomes involved in a broader scope of operations.

There was a significant increase in interest income from Q1 2006 to Q1 2007, from approximately \$50,000 in Q1 2006 to approximately \$153,000 in Q1 2007. As discussed earlier in this MD&A, the average month-end treasury balance in Q1 2007 was approximately \$15.7 million, compared with an average treasury balance in Q1 2006 of approximately \$6.9 million. The Company's treasury balance in Q1 2006 did not have the benefit of the \$12.67 million injected into the treasury from 3 separate share issuances in 2006, two of which were completed in Q2 2006 (total of \$10.42 million) and the final one which was completed in Q4 2006 (\$2.25 million). This increase in the average treasury balance, combined with a modest increase in interest rates associated with the Company's short term investments, led to an approximate 3 fold increase of interest income earned.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company had a working capital balance of approximately \$10.1 million at March 31, 2007. This is sufficient to sustain the corporate operations of the Company as it is currently structured well beyond 2007.

In addition to the \$10.1 million working capital, the Company has certain equity instruments outstanding that are very likely to be the source of additional capital. In the period between March 31, 2007 and May 9, 2007, the Company has received approximately \$3.06 million pursuant to the exercise of equity instruments by their holders. The majority of the \$3.06 million was from shareholders exercising approximately 2.21 million warrants which had an expiration date of April 13, 2007 and an exercise price of \$1.00. It should be noted that 100% of the warrants with an April 13, 2007 expiration date were exercised by shareholders. See the "OUTSTANDING SHARE DATA" for details of outstanding common shares and equity instruments as of May 9, 2007.

The Company has "Cash and short-term investments held for future exploration" in the amount of \$5,971,885 as of March 31, 2007. These funds must be spent on qualifying exploration activities, as defined by the flow-through share agreements entered into by the Company when placing \$12.67 million worth of flow-through shares in 2006. The deadline for the incurring these expenditures is December 31, 2007. The Company incurred approximately \$2.7 million of qualifying exploration activities in Q1 2007 and anticipates fulfilling its obligation by Q3 or Q4 of 2007. The remainder of the exploration activity is discretionary in 2007 and will be determined by management.

Management anticipates financing the long-term development of the Ketz River project, assuming a positive pre-feasibility study, via combination of funds from treasury, debt and/or equity financing as determined by the Company's Board of Directors.

## OUTLOOK

**Ketza River Project:** The Company plans on incurring, at the minimum, an additional \$6 million in qualifying exploration expenditures during the remainder of 2007. These funds will be spent exploring targets in the Manto zone and the Shamrock zone later in 2007, after snow cover is no longer an issue in this higher elevation zone.

The Company will continue the process of permitting of the re-opening of the mining and milling operations at Ketza River in 2007. Approximately \$130,000 was spent on activities relating to the permitting process in Q1 2007.

In its attempts to procure an updated 43-101 compliant resource calculation and report the Company has experienced, first-hand, the challenges provided by the lack of availability of human resources in the mining industry. The forthcoming merger with Queenstake will provide a pool of the necessary human resources in Nevada (at Queenstake's Jerritt Canyon operations) which will enable the Company to produce the report in-house. The pre-feasibility report will be enabled in a similar manner.

**Exploration:** The Company plans to continue diamond drilling activity on the Silver Valley property into Q2 2007. Some initial drill holes have yielded some very encouraging results.

**Financing:** The Company has sufficient funds on hand as of March 31, 2007 to finance all exploration activity and permitting activity associated with the Ketza River project, Silver Valley exploration and all administrative activity for the remainder of 2007.

**Acquisition:** The Company entered into a definitive agreement to combine the operations of YGC and Queenstake by way of a Plan of Arrangement. The agreement is subject to court, regulatory and shareholder approval. The shareholder meetings of both YGC and Queenstake are scheduled for May 18, 2007.

Assuming this combination is completed, there will be a significant change in the operations of the Company. In addition to exploration activity in the Yukon, the Company will be producing gold and exploring/developing new ore bodies in Nevada (location of Queenstake's Jerritt Canyon gold mine). The Company will have materially higher cash requirements going forward. One of the conditions precedent to the completion of the combination is the completion of financing by YGC that will provide proceeds, net of certain transaction costs, of \$80 million. As disclosed in the "OVERALL PERFORMANCE" section of this MD&A, the Company announced in a news release (April 27, 2007) that YGC has negotiated a brokered private placement for up to \$86.4 million, whereby the syndicate of brokers will use their commercially reasonable efforts to complete the financing.

Management continues to be encouraged by the price of gold. In 2006, the average market price of gold rose more than 36% over the 2005 figure of US\$ 444 per troy ounce to reach US\$ 604 per troy ounce. In 2007, further increases have been evidenced with gold rising as high as US\$ 690 and averaging around US\$ 636 per troy ounce. These dramatic rises have been partly offset by the continuing strength of the Canadian dollar. The major influences that management believes will continue to have a positive impact on the gold price are:

- a weakening US dollar
- investment demand
- producer de-hedging
- lower mine supply
- lower Central Bank sales
- increased fabrication and jewelry demand

## 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 Ketz River project in 2006, a tax refund of approximately \$800,000 is anticipated (effective April 1, 2007 the YMETC program has capped the refund at \$300,000 per entity). The Company does not recognize this amount as an asset in the accounts until the funds are received. In 2006, the Company received approximately \$1.0 million relating to exploration expenditures conducted in the Yukon in 2005.

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 \$81,000 in Q1 2007 (2006 - \$36,540) 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 May 31, 2008 that specifies an annual payment of \$180,000, plus bonus and holiday pay.

The Company paid a total of \$60,580 in Q1 2007 (2006 – \$17,810) 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 are recorded on the balance sheet, in “Deferred acquisition costs” as they relate to due diligence work associated with the proposed combination of YGC and Queenstake. The balance of these fees was included in the general and administrative expenses of the Company.

## 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 9, 2007:

	Weighted average exercise price	Weighted average years to expiry	# outstanding
<b>Common shares</b>			<b>66,429,038</b>
<b>Convertible securities:</b>			
Shareholder warrants	\$ 1.00	0.23	2,236,001
Broker warrants	\$ 1.05	0.21	31,520
Agents' options	\$ 1.13	0.14	364,102
Stock options	\$ 1.34	3.52	4,137,000
<b>Fully diluted common shares</b>			<b>73,197,661</b>

## 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, the weighted average remaining life of the stock options. 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 amount for Q1 2007 of \$2,347,531 is a material component of the financial statements.

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.

The Company has adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. This section establishes the standard for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standards require that a liability for an asset retirement obligation be recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. The only property on which the Company has an asset retirement obligation, at this point in time, is the Ketzá River project. An estimate was made in 1996 of the anticipated cost associated with the reclamation of the Ketzá River project, in accordance with the applicable laws and regulations in place at that time. This estimate has been accreted over time, which assigns a cost to the increase in the liability resulting from the passage of time. As the Company works with the Yukon Territorial Government on obtaining the necessary permits associated with advancing the Ketzá River project towards production, an updated cost associated with the reclamation related to the Ketzá River project will be established in accordance with the applicable laws and regulations of the Yukon Territory. This amount may or may not be materially higher than the Asset Retirement Obligation in the Company's accounts as of March 31, 2007 of \$2,258,300.

## **RISK ASSESSMENT**

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

## **DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company maintains a system of disclosure controls and procedures designed to ensure the reliability, completeness and timeliness of the information disclosed in this MD&A and other public disclosure documents. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed with securities regulatory agencies is recorded, processed, summarized and reported on a timely basis, as required by law, and is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management is responsible for establishing internal controls over financial reporting for the Company. Management has designed and implemented internal controls over financial reporting (ICFR), subject to

limitations below that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has identified an internal control weakness caused by a lack of segregation of duties regarding the production, authorization and recording of journal entries to the accounts of the Company. This weakness is not uncommon, given the size of the Company. Management does not believe that there is a reasonable possibility of a material error in the Company's financial statements as a result of the aforementioned ICFR weakness. This weakness was identified as of December 31, 2006 and continues to exist as of March 31, 2007. As the Company continues to evolve, management anticipates that the staffing of the financial reporting function will continue to grow. The Company is currently in the process of hiring a full-time employee to work in the accounting/finance function. Management will continue to assess the ICFR as the Company evolves and will be conscious of this aspect of the business going forward.

Management has determined that there have been no changes in ICFR that have materially affected, or are reasonably likely to materially affect, the reliability of financial reporting and the preparation of financial statements, subsequent to the completion of the period ending March 31, 2007.

## **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.

Consolidated Financial Statements of

**YGC RESOURCES LTD.**

Three month period ended March 31, 2007

(Unaudited)

# YGC RESOURCES LTD.

Consolidated Balance Sheets

	March 31, 2007	December 31, 2006
	(Unaudited)	(Audited)
<b>Assets</b>		
Current assets:		
Cash	\$ 9,374,906	\$ 5,059,690
Short-term investments	1,226,740	1,196,241
Accounts receivable and prepaid expenses	897,782	699,738
	11,499,428	6,955,669
Restricted funds (note 4)	150,000	150,000
Cash and short term investments held for future exploration (note 4)	5,971,885	8,983,631
Deferred acquisition costs	129,658	-
Property, plant and equipment	671,875	629,298
Mineral properties (note 5)	23,176,426	20,470,237
	\$ 41,599,272	\$ 37,188,835
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,413,106	\$ 784,328
Due to related parties (note 6)	-	13,274
	1,413,106	797,602
Future income taxes	4,345,891	4,345,891
Asset retirement obligations	2,258,300	2,217,300
	8,017,297	7,360,793
Shareholders' equity:		
Share capital (note 7)	41,544,707	36,893,659
Warrants (note 7)	520,027	803,122
Contributed surplus (note 7)	3,488,951	1,337,955
Deficit	(11,971,710)	(9,206,694)
	33,581,975	29,828,042
Subsequent events (note 9)		
	\$ 41,599,272	\$ 37,188,835

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Graham C. Dickson" Director

"Don MacDonald" Director

# YGC RESOURCES LTD.

Consolidated Statements of Operations and Comprehensive Loss  
(Unaudited)

	Three month period ended March 31, 2007	Three month period ended March 31, 2006
Revenue:		
Interest and other income	\$ 153,634	\$ 49,746
Expenses:		
General and administrative expenses (note 6(b))	279,965	121,066
Corporate communications and development	165,201	105,726
Depreciation	3,953	3,672
Accretion	41,000	41,000
Management fees (note 6(b))	81,000	36,540
Stock-based compensation (note 7(d))	2,347,531	147,285
	2,918,650	455,289
Net loss and comprehensive loss	\$ (2,765,016)	\$ (405,543)
Loss per share - basic and diluted	\$ (0.05)	\$ (0.008)
Weighted average number of shares outstanding - basic and diluted	60,590,466	46,941,768

See accompanying notes to consolidated financial statements.

# YGC RESOURCES LTD.

Consolidated Statements of Deficit  
(Unaudited)

	Three month period ended March 31, 2007	Three month period ended March 31, 2006
Deficit, beginning of period:		
As previously reported	\$ (9,206,694)	\$ (7,857,282)
Adoption of new accounting policies for financial instruments (note 3)	-	-
As restated January 1, 2007, after adoption	(9,206,694)	(7,857,282)
Net loss and comprehensive loss	(2,765,016)	(405,543)
Deficit, end of period	\$ (11,971,710)	\$ (8,262,825)

See accompanying notes to consolidated financial statements.

# YGC RESOURCES LTD.

Consolidated Statements of Cash Flows  
(Unaudited)

	Three month period ended March 31, 2007	Three month period ended March 31, 2006
Cash was provided by (used in):		
Operations:		
Net loss	\$ (2,765,016)	\$ (405,543)
Items not affecting cash:		
Depreciation	42,758	30,534
Accretion	41,000	41,000
Stock-based compensation	2,347,531	147,285
Change in non cash working capital	430,734	6,482
	97,007	(180,242)
Financing:		
Increase (decrease) in due to related parties	(13,274)	(9,780)
Common shares issued upon exercise of agents' option	222,925	460,567
Common shares issued upon exercise of stock options	307,800	9,000
Common shares issued upon exercise of brokers' warrants	124,410	-
Common shares issued upon exercise of shareholder warrants	3,521,583	-
Share issue costs	(5,300)	-
	4,158,144	459,787
Investments:		
Cash held for future exploration	3,011,746	2,094,599
Short term investments	(30,499)	(144,599)
Deferred acquisition costs	(129,658)	-
Mineral properties	(2,706,189)	(1,983,127)
Purchase of property, plant and equipment	(85,335)	(118,731)
	60,065	(151,858)
Increase in cash	4,315,216	127,687
Cash, beginning of period	5,059,690	48,134
Cash, end of period	\$ 9,374,906	\$ 175,821

See accompanying notes to consolidated financial statements.

# YGC RESOURCES LTD.

Notes to Consolidated Financial Statements  
(Unaudited)

Three month period ended March 31, 2007

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## 1. Nature of operations:

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 recoverability of the amount shown for mineral properties 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 or proceeds from the disposition of the mineral properties. The Company has working capital of \$10,086,322 (December 31, 2006 - \$6,158,067). 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 outcome of these matters cannot be predicted with certainty at this time.

## 2. Significant accounting policies:

These unaudited interim consolidated financial statements include the accounts of YGC Resources Ltd. and its wholly owned subsidiaries (the Company). These interim consolidated financial statements do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, these interim consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application used in the Company's audited consolidated financial statements as at and for the year ended December 31, 2006, except for the new accounting policies adopted subsequent to that date, as discussed in note 3.

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

## 3. Adoption of new accounting policies:

### (a) Financial instruments:

The Canadian Institute of Chartered Accountants (CICA) issued Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments - Disclosure and Presentation*, Section 3865, *Hedges* and Section 1530, *Comprehensive Income*, all applicable for annual or interim periods beginning on or after October 1, 2006. Sections 3855 and 3861 require all financial assets, financial liabilities and non-financial derivatives to be recognized on the balance sheet at the appropriate measurement and properly disclosed in the notes to the consolidated financial statements. Section 3865 sets out hedge accounting prerequisites and rules and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and disclosed. Section 1530 introduces new standards for the presentation and disclosure of components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. The Company has adopted the standards on January 1, 2007.

The adoption of new accounting policies for financial instruments has not resulted in any significant changes to the Company's financial statements.

# YGC RESOURCES LTD.

Notes to Consolidated Financial Statements  
(Unaudited)

Three month period ended March 31, 2007

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### 3. Adoption of new accounting policies (continued):

#### (b) Accounting changes:

The CICA issued Section 1506, *Accounting Changes*, applicable for annual or interim periods beginning on or after January 1, 2007.

Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively, unless doing so is impracticable, changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effect of changes in accounting policies, estimates and errors on the financial statements. The impact of this standard cannot be determined until such time as the Company makes a change in accounting policy other than one resulting from implementation of new CICA Handbook standards.

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

In 2006, the Company raised \$12,645,100 by way of private placements of flow-through shares. Under the conditions of these private placements, the funds must be spent in 2006 and 2007 on Canadian Exploration Expenditures (CEE) on properties located in Canada. As at March 31, 2007, \$6,673,215 had been spent leaving a balance to be spent in the amount of \$5,971,885.

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 Ketz River project. The pledged funds of \$150,000 have been disclosed separately as restricted funds on the balance sheet.

# YGC RESOURCES LTD.

Notes to Consolidated Financial Statements  
(Unaudited)

Three month period ended March 31, 2007

## 5. Mineral properties:

	Ketza River Property	Silver Valley Property	Arizona Property	Greenwood Property	Other Yukon Properties	Total Expenditures
Acquisition costs:						
Balance, March 31, 2007 and December 31, 2006	\$ 6,792,720	\$ -	\$ -	\$ -	\$ -	\$ 6,792,720
Deferred exploration costs:						
Balance, December 31, 2006	12,968,298	185,185	504,909	1,213	17,912	13,677,517
Geological	192,408	16,698	-	-	-	209,106
Drilling	776,357	672,582	-	-	-	1,448,939
Infrastructure	293,139	-	-	-	-	293,139
Supplies	80,092	-	-	-	-	80,092
Environmental	51,197	-	-	-	-	51,197
Contractors and labour	342,327	-	-	-	-	342,327
Site support	277,577	-	32	-	3,780	281,389
Income tax credit	-	-	-	-	-	-
Option payments	-	-	-	-	-	-
Additions for the year	2,013,097	689,280	32	-	3,780	2,706,189
Balance, March 31, 2007	14,981,395	874,465	504,941	1,213	21,692	16,383,706
Total	\$ 21,774,115	\$ 874,465	\$ 504,941	\$ 1,213	\$ 21,692	\$ 23,176,426

## 6. Related party transactions:

(a) Due to related parties:

	March 31, 2007	December 31, 2006
Loan from shareholders	\$ -	\$ 13,274

The amount showing as due to shareholders at December 31, 2006 was non-interest bearing, unsecured and due on demand.

(b) Other related party transactions:

During the period, the Company was charged a total of \$81,000 (2006 - \$36,540) in management fees by a company owned by a director of the Company.

During the period, the Company was charged a total of \$60,580 (2006 - \$17,810) 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 deferred acquisition costs with the remainder included under general and administrative expenses.

# YGC RESOURCES LTD.

Notes to Consolidated Financial Statements  
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Three month period ended March 31, 2007

## 7. Share capital:

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

(b) Common shares issued and outstanding:

	Number of shares	Amount
As at December 31, 2006	58,950,169	\$ 36,893,659
Shares issued upon exercise of shareholder warrants	3,521,583	3,521,583
Shares issued upon exercise of agents' options	204,500	222,925
Shares issued upon exercise of broker warrants	118,486	124,410
Shares issued upon exercise of stock options	513,000	307,800
Re-allocation from warrants relating to the exercise of shareholder warrants	-	283,095
Re-allocation from contributed surplus relating to the exercise of agents' options	-	54,666
Re-allocation from contributed surplus relating to the exercise of stock options	-	141,869
Less: Share issue costs	-	(5,300)
As at March 31, 2007	63,307,738	\$ 41,544,707

Escrowed shares:

Of the shares issued at March 31, 2007, 7,084,938 shares are held in escrow under the terms of an escrow agreement. Under the escrow agreement the balance of 7,084,938 shares subject to escrow will be released in increments of 2,361,647 shares on April 13 and October 13 each year until the final release on April 13, 2008.

(c) Warrants:

Shareholder 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. As warrants are exercised by shareholders, a pro-rated amount of fair value is re-allocated from warrants to common shares. Warrants issued and exercised relating to agents' options (broker warrants) does not impact warrant valuation.

There were no shareholder warrants issued by the Company in the current period or 2006.

There were no agents' options issued in the current period or 2006 that will generate additional issuances of broker warrants.

# YGC RESOURCES LTD.

Notes to Consolidated Financial Statements  
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Three month period ended March 31, 2007

## 7. Share capital (continued):

### (c) Warrants (continued):

	Number of warrants	Amount
As at December 31, 2006	8,840,327	\$ 803,122
Warrants exercised by shareholders	(3,521,583)	(283,095)
Warrants expired	(20,000)	-
Warrants issued upon exercise of agents' options	52,250	-
Warrants exercised by brokers	(118,486)	-
As at March 31, 2007	5,232,508	\$ 520,027

The following table summarizes information about warrants outstanding at March 31, 2007:

	Expiry date	Exercise price	Dec 31, 2006			Mar 31, 2007	
			Number of warrants outstanding	Warrants exercised	Warrants expired	Warrants issued	Number of warrants outstanding
Shareholder warrants	Jan 31, 2007	\$ 2.40	20,000	-	(20,000)	-	-
Shareholder warrants	Apr 13, 2007	1.00	5,724,084	(3,511,583)	-	-	2,212,501
Shareholder warrants	Jul 29, 2007	1.00	2,405,001	-	-	-	2,405,001
Shareholder warrants	Aug 26, 2007	1.00	466,000	(10,000)	-	-	456,000
Broker warrants	Apr 13, 2007	1.05	193,720	(118,486)	-	52,250	127,484
Broker warrants	Jul 29, 2007	1.05	31,522	-	-	-	31,522
			8,840,327	(3,640,069)	(20,000)	52,250	5,232,508

### (d) Contributed surplus:

Contributed surplus is comprised as follows:

As at December 31, 2006	\$ 1,337,955
Stock-based compensation	2,347,531
Transfer to share capital for exercise of agents' options	(54,666)
Transfer to share capital for exercise of stock options	(141,869)
As at March 31, 2007	\$ 3,488,951

# YGC RESOURCES LTD.

Notes to Consolidated Financial Statements  
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Three month period ended March 31, 2007

## 7. Share capital (continued):

### (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 share of the Company to directors, employees and service providers. Under the terms of the Plan, the number of securities issuable to insiders, at any time under old security based agreements, cannot exceed 10% of the issued and outstanding securities.

The following assumptions have been used to assign a fair value to stock options granted in the period:

	Jan 07
Risk-free interest rate	4.14%
Dividend yield	0%
Weighted average expected life options	5
Volatility	84%

Continuity of stock options outstanding for the period ending March 31, 2007 is as follows:

Expiry date	Exercise price	Dec 31, 2006	Stock options issued	Stock options exercised	Mar 31, 2007
		Number of stock options outstanding			Number of stock options outstanding
April 13, 2010	\$ 0.60	1,390,000	-	(510,000)	880,000
May 17, 2010	0.60	450,000	-	-	450,000
October 1, 2010	0.60	1,115,000	-	(3,000)	1,112,000
January 25, 2011	0.82	370,000	-	-	370,000
March 28, 2011	1.06	85,000	-	-	85,000
November 10, 2011	1.71	10,000	-	-	10,000
December 12, 2011	2.25	105,000	-	-	105,000
January 5, 2012	2.77	-	1,275,000	-	1,275,000
		3,525,000	1,275,000	(513,000)	4,287,000

### (ii) Continuity of agents' options outstanding for the period ending March 31, 2007 is as follows:

Expiry date	Exercise price	Dec 31, 2006	Agents' options issued	Agents' options exercised	Mar 31, 2007
		Number of agents' options outstanding			Number of agents' options outstanding
April 13, 2007	\$ 0.65	105,380	-	(104,500)	880
July 28, 2007	0.75	191,085	-	-	191,085
May 30, 2007	1.55	273,017	-	(100,000)	173,017
		569,482	-	(204,500)	364,982

# YGC RESOURCES LTD.

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Three month period ended March 31, 2007

## 8. Segmented information:

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

	March 31, 2007	December 31, 2006
Canada	\$ 41,094,331	\$ 36,683,926
United States	504,941	504,909
	<u>\$ 41,599,272</u>	<u>\$ 37,188,835</u>

## 9. Subsequent events:

### (a) Shares issued:

Subsequent to period end, the Company:

- Issued 2,837,498 common shares for proceeds of \$2,837,498 pursuant to the exercise of shareholder warrants.
- Issued 150,000 common shares for proceeds of \$90,000 pursuant to the exercise of stock options.
- Issued 880 common shares for proceeds of \$572 pursuant to the exercise of agents' options.
- Issued 127,922 common shares for proceeds of \$134,318 pursuant to the exercise of broker warrants.

### (b) Combination agreement:

On March 16, 2007, the Company signed a "Combination Agreement" with Queenstake Resources Ltd. (Queenstake) to combine the operations of the two companies by way of a Plan of Arrangement. Under the Plan of Arrangement, each Queenstake shareholder will receive one new common share of the Company for every ten Queenstake shares held. Outstanding warrants and options of Queenstake will be converted to warrants and options of the Company in proportion to the share exchange. It is proposed that the Company will change its corporate name to Yukon-Nevada Gold Corp.

Assuming 100% of Queenstake shareholders tender their shares under the Plan of Arrangement, the following new common shares, warrants and stock options will be issued by the Company to Queenstake shareholders:

Common shares	58,370,600
Warrants	3,851,200
Stock options	1,528,700

# YGC RESOURCES LTD.

Notes to Consolidated Financial Statements  
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Three month period ended March 31, 2007

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## 9. Subsequent events (continued):

### (b) Combination agreement (continued):

Completion of the business combination is subject to the satisfaction of a number of conditions precedent. One of the conditions precedent to the completion of the combination is the completion of financing by YGC that will provide proceeds, net of certain transaction costs, of \$80 million by the Company for the benefit of Yukon-Nevada Gold Corp. The completion of the business combination is subject shareholder and court approvals, and regulatory acceptance. The two companies have scheduled their shareholder meetings, to consider and vote on the proposed combination, for May 18, 2007.

In the event that the combination is not completed as a result of a breach by the Company in any material respect of its covenants and representations and warranties contained in the Combination Agreement (a YGC triggering event) then the Company will pay to Queenstake an amount in cash equal to 5% of the market capitalization of the Company, determined as of the close of business on the last business date prior to the date on which the YGC triggering event occurred. Queenstake is subject to a reciprocal clause.

### (c) On April 27, 2007, the Company announced that it had negotiated a brokered private placement for gross proceeds of up to \$86,400,000 with a syndicate of registered brokers ("Agents") wherein the Agents will use their commercially reasonable efforts to sell up to 48,000,000 subscription receipts of the Company ("Subscription Receipts") at Cdn\$1.80 per Subscription Receipt. Each Subscription Receipt will entitle the holder to acquire, at no additional cost and upon certain conditions being met, one common share and one half of one transferable share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share at a price of Cdn\$3.00 for a period of five years. The Company will use its reasonable efforts to list the warrants for trading on the Toronto Stock Exchange ("TSX").

### (d) Flow-through share renunciation:

The Company issued \$12,645,100 of flow-through shares in 2006 to investors in YGC Resources Ltd. Qualifying eligible expenditures under the flow-through share program were renounced to these investors on March 30, 2007, with an effective date of December 31, 2006 for income tax purposes. YGC Resources Ltd. invested \$12,645,100 in flow-through shares of its 100% owned subsidiary, Ketz River Holdings Ltd., in 2006. This was pursuant to three "back-to-back" flow-through share agreements between YGC Resources Ltd. and Ketz River Holdings Ltd. Qualifying eligible expenditures incurred by Ketz River Holdings Ltd. had not been renounced to YGC Resources Ltd. as of March 31, 2007.

On April 30, 2007, Ketz River Holdings Ltd. renounced \$3,661,469 to YGC Resources Ltd., with an effective date of December 31, 2006 for income tax purposes (the amount of qualifying expenditures incurred up to December 31, 2006). The remaining expenditures will be renounced as the expenditures are incurred by Ketz River Holdings Ltd. in 2007. In accordance with EIC-146, a future income tax liability is to be recorded at the date of renunciation of the qualifying expenditures to the flow-through share investors. This liability will be reflected on the balance sheet of the Company, with a corresponding reduction to share capital, as the expenditures are renounced by Ketz River Holdings Ltd. in 2007.