

**YGC RESOURCES LTD.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDING JUNE 30, 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 June 30, 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 August 10, 2006 and at that date the Company had 56,522,805 shares outstanding.

**OVERALL PERFORMANCE**

The operational focus of the Company in the quarter ending June 30, 2006 was on the exploration of the Ketz River property in the Yukon. Just over 35,000 feet (approximately 11,000 m) of diamond drilling in 90 holes was completed during the second quarter of 2006. All of the drilling in the second quarter was on the Manto Zone at Ketz River. Drilling on the Shamrock Zone commenced early in the third quarter of 2006.

**OUTLOOK**

The continued strategy of the Company is to focus on exploration of the Manto zone at Ketz River through the fall of 2006 in order to increase the gold resource. The drill results will impact management's strategy toward bringing the property into production. Management currently envisions the completion of a pre-feasibility study, on production of gold from the Manto zone, by 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 summer and fall 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 value for the shareholders.

The key performance drivers for the Company are the price of gold, the results of exploration in 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 in New York at a spot price of \$US 650.60 per ounce on August 9, 2006. This is an increase of 27% 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.

The most recently completed resource estimate by Mr. Gary Giroux, P. Eng. in November 2005, showed that the Manto zone contained approximately 575,000 ounces of gold (measured & indicated) and an additional 805,000 ounces of gold (inferred). The Shamrock zone contained approximately 180,000 ounces of gold (measured and indicated) and approximately 250,000 ounces of gold (inferred). There were several drilling intercepts of high-grade gold in the quarter ending March 31, 2006. These intercepts have been

added to with some of the best ever intercepts on the Ketz River project in the quarter ending June 30, 2006. The results will have a positive impact on the resource estimate that Giroux Consultants have been retained to update as part of the ongoing pre-feasibility study.

An active part of the Company's strategy for growth is to look at the acquisition of other late stage projects in North America.

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 June 30, 2006 of approximately \$230,000. Non-cash expenses accounted for approximately \$45,000 of the loss - \$4,000 of depreciation expense and \$41,000 of accretion expense. Therefore, operations from a net loss perspective used approximately \$185,000 of the Company's treasury for the quarter ending June 30, 2006.

The Company completed two financings during the quarter ending June 30, 2006. There was a brokered private placement of flow-through shares that closed on May 30, 2006 which yielded gross proceeds of \$8,250,000. There was a non-brokered private placement of flow-through shares that yielded gross proceeds of \$2,145,000 along with a non-flow-through share component that yielded gross proceeds of \$25,000. This non-brokered private placement closed on June 14, 2006. The net proceeds to the Company for both private-placements closing during the second quarter of 2006 were approximately \$9.9 million.

During the quarter ending June 30, 2006, shareholders exercised 1,515,367 warrants in the Company, all at an exercise price of \$1.00. This provided \$1,515,367 to the treasury of the Company.

There was an injection of approximately \$250,000 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 340,000 agents' options in the second quarter of 2006. Each agents' option issued in 2005 is convertible upon payment of exercise price (\$0.65 for agents' options issued with April 13, 2005 financing and \$0.75 for agents' options issued with July 29, 2005 financing) into one non-flow-through common share of the Company and one half of one brokers' warrant. Each brokers' warrant entitles the holder to receive one non-flow-through common share in the Company, upon payment of the \$1.05 exercise price. Approximately \$115,000 was injected into the Company's treasury upon exercise of approximately 105,000 brokers' warrants.

An additional 385,000 agents' options were issued to the Agent as per the agency agreement between Pacific International and the Company for the May 30, 2006 brokered private placement. These agents' options have an exercise price of \$1.55 and expire on May 30, 2007.

The Company spent approximately \$2,020,000 on exploration expenditures at Ketz River in the second quarter of 2006 and an additional \$105,000 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 CEE (Canadian Exploration Expenditures), pursuant to the flow-through share agreements in 2005, by the end of 2006. As of June 30, 2006, the Company had spent all funds raised via flow-through financing in 2005. 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 37.12%.

The renunciation of the exploration expenditures to flow-through shareholders resulted 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.

The Company closed two financings in the quarter ending June 30, 2006 that provided \$10,395,000 of flow-through financing. Pursuant to the flow-through subscription agreements, these funds must be renounced to the flow-through shareholders no later than March 31, 2007 and the funds must be spent on qualifying CEE by the end of 2007. As of June 30, 2006 the Company had “Cash and short-term investments held for future exploration” of approximately \$9,265,000 that must be spent by the end of December 2007.

### SUMMARY OF QUARTERLY RESULTS

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
<b>Revenue</b>	\$ 82,614	\$ 49,746	\$ 62,925	\$ 63,740	\$ 34,501	-	-	-
<b>Net Loss</b>	231,555	594,993	350,732	245,424	767,322	81,335	493,099	160,714
<b>Loss per share</b>	\$ 0.005	\$ 0.013	\$ 0.008	\$ 0.006	\$ 0.020	\$ 0.003	\$ 0.019	\$ 0.013
<b># shares issued &amp; outstanding</b>	50,874,682	46,941,768	46,643,428	44,301,452	38,159,996	25,298,955	25,298,955	12,584,745

The Company incurred a loss of approximately \$230,000 in the second quarter of 2006 compared with a loss of approximately \$765,000 in the second quarter of 2005. There was a significant stock-based compensation charge in the Q2 2005 of approximately \$335,000 and there was no charge for stock-based compensation in Q2 2006 as no stock options were granted in the quarter ending June 30, 2006. The result of backing out the non-cash stock based compensation from Q2 2005 would leave a loss of approximately \$430,000 in Q2 2005. The Company’s cost structure is similar from Q2 2005 to Q2 2006, with a few exceptions. There was approximately \$64,000 of initial listing fees on the TSX and the Frankfurt Stock Exchange in Q2 2005 that were not applicable in 2006. There was approximately \$15,000 of consulting fees in Q2 2005 relating the recruiting of financial and investor relations personnel for the Company and these expenditures were not present in Q2 2006. A couple of areas where costs went up in Q2 2006 compared to Q2 2005 were in administrative salaries, an increase of approximately \$25,000, and marketing with an increase of approximately \$24,000.

The Company earned approximately \$33,000 more investment revenue in Q2 2006 compared with Q2 2005. This is partly due to a larger average cash and short-term investment balance on hand in Q2 2006 in addition to higher interest rates being earned on interest bearing investments in 2006.

### LIQUIDITY AND CAPITAL RESOURCES

The Company has sufficient liquidity, as of June 30, 2006, to finance its working capital and administrative requirements for several years into the future, assuming the Company’s cost structure does not change materially. The Company has sufficient “cash and short term investments held for future exploration” to finance planned exploration activities well into 2007. The following is an illustration of financial resources on hand as of June 30, 2006:

	<b>Balance as of June 30, 2006</b>
<b>Cash</b>	\$ 499,320
<b>Short term investments</b>	\$ 5,478,607
<b>Cash and short term investments held for future exploration</b>	\$ 9,264,904
<b>Total</b>	\$15,242,831

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

As of June 30, 2006 the Company had approximately 9.15 million shareholder 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 financings (see OUTSTANDING SHARE DATA section of this MD&A for more information).

The Company anticipates receiving a corporate income tax credit under the "YMETC" program at some point in the third quarter of 2006. It is estimated that this tax credit will be approximately \$1 million (see OFF BALANCE SHEET ARRANGEMENTS section of this MD&A for more information).

#### **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 six months ending June 30, 2006, refundable tax credit of approximately \$800,000 is expected.

In short, the Company is anticipating a total refund of approximately \$1.8 million that is not recorded on the balance sheet, as the Company records these refundable tax credits when received. The anticipated timing of the receipt of these funds is Q3 2006 for the approximately \$1 million related to 2005 Yukon exploration expenditures and Q3 2007 for the approximately \$800,000 related to 2006 Yukon exploration expenditures.

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 \$39,360 (2005 - \$54,258) to a company owned by the President and CEO of the Company for management services during the quarter ending June 30, 2006. This is in accordance with a contract signed between the two parties effective January 1, 2005. The terms of the contract were modified effective June 1, 2006 resulting in a monthly payment of \$15,000. The contract expires on December 31, 2009.

During the quarter ending June 30, 2006, the Company was charged \$17,810 (2005 – \$106,005) in legal fees by a law firm in which the corporate secretary of the Company is a partner.

### 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 August 10, 2006:

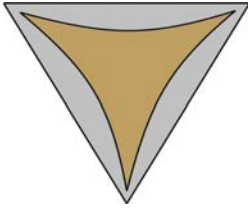
<b>Common shares outstanding@ August 10, 2006</b>	<b>56,522,805</b>		
<b>Derivative Description</b>	<b># of Derivatives</b>	<b>Weighted Average Exercise Price</b>	<b>Potential Proceeds</b>
Shareholder Warrants	9,146,870	\$1.00	\$ 9,146,870
Broker Warrants	440,515	\$1.05	462,435
Agents' Options	402,344	\$0.65	261,524
Agents' Options	253,069	\$0.75	189,802
Agents' Options	385,000	\$1.55	596,750
Stock Options	3,510,000	\$0.64	2,246,200
<b>Total</b>	<b>14,137,698</b>		<b>\$12,903,781</b>
<b>Fully Diluted Shares @ August 9, 2006</b>	<b>70,660,503</b>		

### 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.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTH PERIOD ENDED JUNE 30, 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 June 30, 2006 and 2005.

**YGC RESOURCES LTD.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
**AS AT JUNE 30, 2006**  
**(with comparative figures as at December 31, 2005)**  
**UNAUDITED – PREPARED BY MANAGEMENT**

	June 30, 2006	December 31, 2005 (audited)
<b>ASSETS</b>		
Current:		
Cash	\$ 499,320	\$ 48,134
Short-term investments	5,478,607	5,304,955
Accounts receivable & prepaid expenses	1,175,650	543,349
	<u>7,153,577</u>	<u>5,896,438</u>
Restricted funds (Note 3)	150,000	150,000
Cash & short-term investments for future exploration (Note 3)	9,264,904	2,652,144
Deferred Costs - Asset Acquisition	25,741	-
Property, plant & equipment	551,675	376,390
Resource assets (Note 4)	14,302,832	10,302,673
	<u>\$ 31,448,729</u>	<u>\$ 19,377,645</u>
<b>LIABILITIES</b>		
Current:		
Accounts payable & accrued liabilities	\$ 642,262	\$ 457,047
Due to related parties (Note 5)	-	9,780
	<u>642,262</u>	<u>466,827</u>
Future income tax (Note 6)	2,616,960	-
Provision for reclamation	2,135,300	2,053,300
	<u>5,394,522</u>	<u>2,520,127</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares (Note 6)	32,858,449	23,017,879
Warrants (Note 6)	892,921	985,084
Contributed surplus (Note 6)	1,378,827	1,103,998
Deficit	(9,075,990)	(8,249,443)
	<u>26,054,207</u>	<u>16,857,518</u>
	<u>\$ 31,448,729</u>	<u>\$ 19,377,645</u>

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

Approved on behalf of the Board

Graham C. Dickson, director

Don MacDonald, director

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

**YGC RESOURCES LTD.**  
**INTERIM CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE THREE AND SIX MONTHS PERIODS ENDED JUNE 30, 2006**  
**(with comparative figures for the three and six months ended June 30, 2005)**  
**UNAUDITED – PREPARED BY MANAGEMENT**

	3 months ended June 30, 2006	3 months ended June 30, 2005	Year to date ended June 30, 2006	Year to date ended June 30, 2005
Investment revenue	\$ 82,614	34,501	132,360	34,501
Expenses:				
Management fees	39,360	54,159	75,900	72,701
General and administrative	230,151	266,594	456,943	308,137
Depreciation	3,658	4,302	7,329	5,552
Accretion	41,000	20,000	82,000	40,000
Stock-based compensation	-	456,769	336,735	456,769
	314,169	801,824	958,907	883,159
<b>Net Loss for the Period</b>	<b>\$ (231,555)</b>	<b>(767,323)</b>	<b>(826,547)</b>	<b>(848,658)</b>
Loss per share - basic and diluted (Note 2g)	\$ (0.005)	\$ (0.020)	\$ (0.017)	\$ (0.027)
Weighted average number of shares outstanding (basic and diluted)	50,874,682	38,159,996	48,920,212	31,765,003

**INTERIM CONSOLIDATED STATEMENT OF DEFICIT**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006**  
**(with comparative figures for the six months ended June 30, 2005)**  
**UNAUDITED – PREPARED BY MANAGEMENT**

	2006	2005
Deficit, beginning of period	\$ 8,249,443	\$ 6,804,630
Net loss for period	826,547	848,658
<b>Deficit, end of period</b>	<b>\$ 9,075,990</b>	<b>\$ 7,653,288</b>

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

**YGC RESOURCES LTD.**  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2006**  
**(with comparative figures for the three and six months ended June 30, 2005)**  
**UNAUDITED – PREPARED BY MANAGEMENT**

	3 months ended June 30, 2006	3 months ended June 30, 2005	Year to date ended June 30, 2006	Year to date ended June 30, 2005
Cash was provided by (used in):				
<b>Operations:</b>				
Net loss for the period	\$ (231,555)	(767,323)	(826,547)	(848,658)
Item not affecting cash				
Depreciation	27,870	4,302	58,404	5,552
Accretion expense	41,000	20,000	82,000	40,000
Stock based compensation	-	456,769	336,735	456,769
	(162,685)	(286,252)	(349,408)	(346,337)
Change in non-cash working capital	(453,569)	(91,590)	(297,087)	(1,483)
	\$ (616,254)	(377,842)	(796,495)	(347,820)
<b>Financing:</b>				
Increase (decrease) in due to related parties	-	(44,408)	(9,780)	(34,055)
Common shares issued upon exercise of agent's options (Note 6)	247,220	-	707,786	-
Common shares issued upon exercise of stock options	60,000	-	69,000	-
Common shares issued upon exercise of brokers' warrants	112,012	-	112,012	-
Common shares issued upon exercise of warrants (Note 6)	1,515,367	-	1,515,367	-
Common shares issued for cash, net of share issue costs	9,899,295	8,824,766	9,899,295	8,824,766
	\$11,833,894	8,780,358	12,293,680	8,790,711
<b>Investments:</b>				
Cash held for future exploration	\$(8,707,359)	-	(6,612,760)	-
Short term investments	(29,053)	(7,253,700)	(173,652)	(7,253,700)
Restricted cash	-	-	-	-
Deferred acquisition costs	(25,741)	-	(25,741)	-
Resource assets (Note 4)	(2,017,032)	(770,351)	(4,000,159)	(829,560)
Purchase of property, plant and equipment	(114,957)	(34,188)	(233,688)	(47,021)
	(10,894,141)	(8,058,239)	(11,045,999)	(8,130,281)
Increase in cash	323,499	344,277	451,186	312,610
Cash, beginning of period	175,821	52,013	48,134	83,680
Cash, end of period	\$ 499,320	396,290	499,320	396,290

*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 PERIOD ENDED JUNE 30, 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 \$6,511,316 (June 30, 2005 – \$7,812,373). 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.

*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 PERIOD ENDED JUNE 30, 2006**  
**UNAUDITED – PREPARED BY MANAGEMENT**

**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.

**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.

*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 PERIOD ENDED JUNE 30, 2006**  
**UNAUDITED – PREPARED BY MANAGEMENT**

**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.

**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 June 30, 2006 the Company has spent all proceeds from the 2005 flow-through financings.

In the three months ending June 30, 2006, the Company raised \$10,395,100 (gross proceeds) by way of private placements of flow-through shares. Under the conditions of the flow-through shareholder agreements, the funds must be spent in 2006 and 2007 on Canadian Exploration Expenditures ("CEE") on properties located in Canada. As at June 30, 2006 the unspent balance was \$9,264,904.

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.

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**YGC RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED JUNE 30, 2006**  
**UNAUDITED – PREPARED BY MANAGEMENT**

**4. Resource assets**

	Ketza River Property	Arizona Property	Greenwood Property	Other Yukon Properties	Total Expenditures
<b>Acquisition costs:</b>					
Balance at June 30,06 & Dec31,05	\$4,408,391	-	-	-	\$4,408,391
<b>Deferred Exploration Costs:</b>					
Balance at December 31, 2005	5,397,900	496,378	1	3	5,894,282
Prospecting				11,309	11,309
Geological	429,096	-	-	-	429,096
Drilling	2,242,584	-	-	-	2,242,584
Infrastructure	454,127	-	-	-	454,127
Supplies	128,740	-	-	-	128,740
Environmental	70,515	-	-	-	70,515
Contractors & labour	538,605	-	-	-	538,605
Site support	119,352	1,525	-	4,305	125,183
Income tax credits (a)	-	-	-	-	-
Option -earn in	-	-	-	-	-
Additions for the period	3,983,019	1,525	-	15,614	4,000,159
Balance of deferred exploration	9,380,919	497,903	1	15,617	9,894,441
Balance at June 30, 2006	\$13,789,310	\$497,903	\$1	\$15,617	\$14,302,832

**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 \$800,000 of invest tax credits for exploration expenditures incurred to June 30, 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.

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**YGC RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED JUNE 30, 2006**  
**UNAUDITED – PREPARED BY MANAGEMENT**

**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	\$ -	\$ 9,780
	<hr/>	<hr/>

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

**b) Other related party transactions**

During the quarter the Company was charged a total of \$39,360 (2005 - \$54,258) 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 - \$106,005) in legal fees by a law firm in which the corporate secretary of the Company is a partner in the firm.

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**YGC RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED JUNE 30, 2006**  
**UNAUDITED – PREPARED BY MANAGEMENT**

**6. Share capital**

- a) **Authorized share capital consists of an unlimited number of common shares**
- b) **Common shares issued and outstanding**

	Shares	\$ Amount
Common shares issued and outstanding - March 31, 2006	47,363,250	20,987,581
Brokered private-placement of flow-through common shares @ \$1.50 per share, net proceeds	5,500,000	7,618,795
Common shares issued as partial payment of commission for brokered private-placement	88,846	115,500
Non-brokered private placement of flow-through common shares @ \$1.50 per share, net proceeds	1,430,067	2,140,058
Non-brokered private placement of non-flow-through common shares @ \$1.30 per share, net proceeds	19,231	24,932
Common shares issued pursuant to exercise of shareholder warrants, exercise price \$1.00	1,515,367	1,515,367
Common shares issued pursuant to exercise of broker warrants, exercise price \$1.05	106,678	112,012
Common shares issued pursuant to exercise of agents' options, exercise price \$0.65	54,500	35,425
Common shares issued pursuant to exercise of agents' options, exercise price \$0.75	282,393	211,795
Common shares issued pursuant to exercise of stock options, exercise price \$0.60	100,000	60,000
Fair value of agents' options issued with brokered private placement		131,476
Re-allocation from Warrants relating to exercise of shareholder warrants		92,163
Re-allocation from Contributed Surplus relating to exercise of agents' options, exercise price \$0.65		8,706
Re-allocation from Contributed Surplus relating to exercise of agents' options, exercise price \$0.65		51,855
Re-allocation from Contributed Surplus relating to exercise of stock options, exercise price \$0.60		15,735
<b>Common shares issued and outstanding – June 30, 2006</b>	<b>56,460,332</b>	<b>32,858,449</b>

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**YGC RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED JUNE 30, 2006**  
**UNAUDITED – PREPARED BY MANAGEMENT**

On May 30, 2006 the Company closed a brokered private placement of 5,500,000 flow-through shares at a price of \$1.50 per share. A financing fee of 7% was charged by the agent on this brokered private-placement, paid by issuing 88,846 common shares of the Company in addition to a cash payment of \$462,000. The agent also received 385,000 agents' options to purchase non-flow-through common shares of the Company at a price of \$1.55 per share. These agents' options expire on May 30, 2007.

On June 14, 2006 the Company closed a non-brokered private placement consisting of 1,430,067 flow-through shares at a price of \$1.50 per share and 19,231 non-flow-through common shares at a price of \$1.30 per share.

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
Balance at March 31, 2006	11,044,647	985,084
Warrants exercised by shareholders	(1,515,367)	(92,163)
Warrants issued upon exercise of agents' options	168,447	-
Warrants exercised by brokers	(106,678)	-
Balance at June 30, 2006	9,591,049	892,921

During the period ending June 30, 2006 there were 1,515,367 share purchase warrants exercised by shareholders of the Company. A pro-rated amount of the fair value assigned to the share purchase warrants at date of issuance (using the Black-Scholes option pricing model) was debited to the Warrants account and credited to Common Shares.

Each agents' option entitles the holder to purchase one common share of the Company and one-half of one non-transferable share purchase warrant (see note 6 d) for agent option information). During the period ending June 30, 2006 there were 106,678 share purchase warrants exercised by brokers. In the same period, 168,447 share purchase warrants were issued to brokers upon exercise of agents' options.

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 PERIOD ENDED JUNE 30, 2006**  
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The following table reflects the continuity of share purchase warrants in the period ending June 30, 2006:

Expiry Date	Exercise Price	March 31, 2006 Balance	Warrants Exercised	Warrants Issued	June 30, 2006 Balance
January 31, 2007	\$ 2.40	20,000	-	-	20,000
April 13, 2007	\$ 1.00	7,407,309	(1,148,225)	-	6,259,084
July 29, 2007	\$ 1.00	2,798,928	(367,142)	-	2,431,786
August 26, 2007	\$ 1.00	466,000	-	-	466,000
April 13, 2007	\$ 1.05	340,248	(101,280)	27,250	266,218
July 29, 2007	\$ 1.05	12,162	(5,398)	141,197	147,961
		11,044,647	(1,622,045)	168,447	9,591,049

**d) Contributed Surplus**

	\$ Amount
Balance at March 31, 2006	1,323,647
Fair value assigned to agents' options issued with May 30,06 brokered private placement	131,476
Re-allocation to Share capital upon exercise of agents' options - \$0.65 exercise price	(8,706)
Re-allocation to Share capital upon exercise of agents' options - \$0.75 exercise price	(51,855)
Re-allocation to Share capital upon exercise of stock options	(15,735)
Balance at June 30, 2006	1,378,827

(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 following table reflects the continuity of Stock Options under the "Plan" for the three months ending June 30, 2006:

Expiry Date	Exercise Price	March 31, 2006 Balance	Options Exercised	Options Issued	June 30, 2006 Balance	June 30, 2006 Exercisable
April 14, 2010	\$ 0.60	1,390,000	-	-	1,390,000	1,390,000
May 17, 2007	\$ 0.60	550,000	(100,000)	-	450,000	175,000
October 1, 2010	\$ 0.60	1,145,000	-	-	1,145,000	1,145,000
January 25, 2011	\$ 0.82	400,000	-	-	400,000	400,000
March 28, 2011	\$ 1.06	125,000	-	-	125,000	-
		3,610,000	(100,000)	-	3,510,000	3,110,000

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED JUNE 30, 2006**  
**UNAUDITED – PREPARED BY MANAGEMENT**

(ii) Agents' Options

Agents' options were issued to the broker of the May 30, 2006 brokered private placement. There were 385,000 agents' options per the terms of the agency agreement. These agents' options expire on May 30, 2007 and each option entitles the holder to acquire one non-flow-through common share of the Company for \$1.55.

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 June 30, 2006 are as follows:

Expiry Date	Exercise Price	March 31, 2006 Balance	Options Exercised	Options Issued	June 30, 2006 Balance
April 13, 2007	\$ 0.65	509,317	(54,500)	-	454,817
May 30, 2007	\$ 1.55	-	-	385,000	385,000
July 29, 2007	\$ 0.75	535,462	(282,393)	-	253,069
		1,044,779	(336,893)	385,000	1,092,886

The fair value of the 385,000 agents' options issued in conjunction with the May 30, 2006 brokered private placement was calculated using the Black-Scholes Option Pricing model with the following assumptions:

Risk-free interest rate	4.05%
Expected life	1 year
Expected volatility	91%
Expected dividends	Nil

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