



May 12, 2006

10QSB for YUKON RESOURCES CORP

Yukon Resources Corp. (OTCBB:YUKR)(FWB:YE5) - 11-May-2006

Quarterly Report

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis contains various "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events or the future financial performance of the Company that involve risks and uncertainties. Certain statements included in this Form 10-QSB, including, without limitation, statements related to anticipated cash flow sources and uses, and words including but not limited to "anticipates", "believes", "plans", "expects", "future" and similar statements or expressions, identify forward looking statements. Any forward-looking statements herein are subject to certain risks and uncertainties in the Company's business, including but not limited to, reliance on key customers and competition in its markets, market demand, product performance, technological developments, maintenance of relationships with key suppliers, difficulties of hiring or retaining key personnel and any changes in current accounting rules, all of which may be beyond the control of the Company. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth therein.

Management's Discussion and Analysis of Results of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the financial statements included herein. Further, this quarterly report on Form 10-QSB should be read in conjunction with the Company's Financial Statements and Notes to Financial Statements included in its 2005 Annual Report on Form 10-KSB. In addition, you are urged to read this report in conjunction with the risk factors described herein.

BACKGROUND

This discussion and analysis of financial position and results of operation is prepared as at March 31, 2006 and should be read in conjunction with the audited financial statements for the year ended June 30, 2005. These financial statements have been prepared in accordance with United States generally accepted accounting principles.

Company's Overview

We were incorporated in the State of Nevada on March 1, 2004 and established a fiscal year end of June 30. We are a start-up, exploration stage company engaged in the search for gold, uranium and other minerals. We have not had any bankruptcy, receivership or similar proceeding since incorporation. There have been no material reclassifications, mergers, consolidations or purchases or sales of any significant amount of assets not in the ordinary course of business since the date of incorporation.

On April 26, 2006, Board of Directors of Yukon Resources Corp. (the "Company") appointed J. A. Kirk McKinnon, Richard E. Schler, and Fredrick William Nielson as directors of the Company. In addition, the Board of Directors of the Company appointed J. A. Kirk McKinnon as President and Chief Executive Officer and Richard E. Schler as Vice President and Chief Financial Officer. Thornton J. Donaldson resigned as President and Principal Accounting Officer. Jeff Murdock resigned as Secretary and Director.

Property Summary

Peter's Creek

We have acquired a 100% interest in a group of placer gold properties located on Peter's Creek in the Quesnel-Barkerville area of east-central British Columbia, Canada. Intermittent work has been carried out on various portions of Peter's Creek since the 1870's following the Barkerville gold rush of 1860. Considerable data has been reported over the years from sluicing of surface gravels, excavation and tunneling from two shafts, other hand workings, and testing by drilling and bulk sampling. The potential economic significance of the property is that the presence of gold-bearing gravels has been reported in and around Peter's Creek and varying estimates of scale and gold grades has been calculated by previous operators. In August and September, 2005 the Company successfully completed Phase 1 of it's exploration plan as described in the July 30, 2004 Summary Report of our Geologist William Timmins. The Phase 1 program attained encouraging results and Mr. Timmins is recommending further permitting be applied for to the Ministry of Mines to enable the next stage of exploration.

Gila County, Arizona

The Company entered into a letter of intent dated February 10, 2006 for an option to acquire a 75% interest in four mineral properties located in Gila County, Arizona. The letter of intent is to be replaced by a formal joint venture agreement (the "JV Agreement"). The Company also has a first right of refusal to acquire seven mineral claims contiguous to one of the properties. To exercise its option, the Company must:

†

Issue 1,000,000 shares of common stock prior to March 10, 2006;

†

Issue 500,000 share purchase warrants prior to March 10, 2006, exercisable at 20% below the Company's market share price on the date of issuance for a period of five years;

†

Register the above common shares and share purchase warrants by filing a Form SB-2 Registration Statement with the Securities and Exchange Commission within 14 days of entering into the JV Agreement;

†

Pay \$50,000 by March 10, 2006;

†

Incur an aggregate of \$500,000 in exploration expenditures on the properties on or before the first anniversary date of the JV Agreement; and

†

Incur a minimum of \$150,000 in exploration expenditures on each property on or before the second anniversary date of the JV Agreement.

During the period ended March 31, 2006, the Company did not make any of the above payments or issue any of the above equity securities under this agreement. Both parties have agreed to extend the terms of the option indefinitely.

Finland

The Company entered into a letter of intent dated March 10, 2006, for an option to acquire a 100% interest in 20 mineral claims located in Finland. The letter of intent is to be replaced by a formal agreement. The vendor has filed claim reservation applications for certain areas, subject to approval by Finnish authorities. The Company will acquire the exclusive right to stake claims on the reserved areas by making the following payments: a non-refundable cash payment \$10,000 on or before March 31, 2006 (paid); and a further cash payment of \$40,000 upon the exercise the option. The option expires within 15 business days of notification of approval by the Finnish authorities of the claim reservation properties. Upon the exercise of the option, the Company

agreed to issue 100,000 common shares plus an additional 2,000 common shares per kilometre of claim acquired, as a finders fee. At March 31, 2006, the Company had not exercised the option. The cost of the mineral property was initially capitalized. At March 31, 2006, the Company recognized an impairment loss of \$10,000, as it has not yet been determined whether there are proven or probable reserves on the property During the period ended March 31, 2006, the Company did not make the additional \$40,000 payment or issue any of the above equity securities under this agreement. Both parties have agreed to extend the terms of the option indefinitely.

Sagar Property

Effective May 4 2006, Yukon Resources, Inc (the "Company") entered into a binding letter of intent with Virginia Mines Inc., a Québec, Canada Corporation ("Virginia") (the Agreement"). Virginia trades on the Toronto Stock Exchange under the symbol VGQ.

Pursuant to the terms and conditions of the Agreement, the Company has the option to acquire, in joint venture, an undivided 75% participating interest in 200 claims constituting the Sagar property (the "Sagar Property"), located in the Labrador Trough in Northern Quebec and Virginia has the right and option, but not the obligation, to sell an additional 25% undivided interest in the Sagar Property. This Agreement is subject to a royalty agreement dated May 27, 1992, signed between Virginia Gold Mines Inc. (predecessor to Virginia Mines Inc.) and Pierre Poisson and Joanne Jones and its amendments of May 10, 1993, and November 3, 1993 (the "Underlying Agreement"). Virginia has acquired a 100% interest into the Sagar Property, subject to a 1% NSR on certain claims and a 0.5% NSR on other claims owned by Jones & Poisson. Virginia has the right to buy back half of the 1% NSR (0.5%) for \$200,000 and half of the 0.5% NSR (0.25%) for \$100,000.

The consideration to be paid by the Company includes:

1.

upon Yukon receiving the final written approval of the regulatory authorities under which Yukon is subject, as the case may be, to the acquisition of an undivided 75% joint venture interest in the Sagar property, issue two million (2,000,000) common shares of Yukon on or before May 15, 2006;

2.

issue two million (2,000,000) warrants of purchase common stock of Yukon on or before May 15, 2006, exercisable at \$1.00 per share for a 3-year period from the date of issuance; and

3.

incur aggregate exploration expenditures in the amount of two million dollars (\$2,000,000) on the Sagar Property on or before August 31, 2008 (the "Earn-In Period").

During the Earn-In Period and thereafter, as long as Virginia still owns a 25% Participating Interest in the Property, Virginia shall have the additional option at its sole discretion, to sell its remaining 25% joint venture interest in the Sagar Property to Yukon, subject to a royalty (as defined in the Agreement) and Yukon shall issue one million (1,000,000) common shares and one million (1,000,000) warrants to purchase shares of Yukon to Virginia within 10 days of notice. The common share purchase warrants shall be exercisable at a price equal to the 20-trading-day weighted average closing price preceding the selling date and shall be valid for a 2-year period from the date of issuance. In such case, upon completion of the share and warrant issuances, Yukon shall have earned a 100% interest in the Sagar Property, subject to the Underlying Agreement and to a 1.5% royalty to Virginia.

Should Yukon or the joint venture entity with Virginia discover a potentially exploitable gold deposit with an indicated resource outlined (defined according to NI43-101 Guidelines) of no less than 500,000 ounces of contained gold equivalent (for all precious metals), Virginia shall have,

within 90 days of notice from Yukon of the discovery of a gold deposit Gold Deposit of no less than 500,000 ounces, a one-time right to back-in to re-acquire a 51% interest in the discovery by issuing a cash payment or Virginia common shares equivalent to that amount equal to two and a half times the current expenditures (as defined in the Agreement) incurred by Yukon on the discovery prior to Virginia's election. Upon receipt of the cash payment or its equivalent value in Virginia's shares as defined above, a joint venture entity will immediately be formed between the parties with Virginia having a joint venture interest equal to 51% and Yukon having a joint venture interest equal to 49%. Upon exercising its back-in right, Virginia would then become the operator of the gold property.

SAGAR Property Highlights

†

The significant mineral potential for uranium-gold and copper mineralization is well demonstrated by the abundance and diversity of uranium-gold and copper showings found to date on the property.

†

The most spectacular mineralization is from the Mistamisk boulder field which contains 150 boulders that range up to 474g/t Au and 0.36% U.

†

Several other uranium-gold showings have been defined on the property, the most significant being the Viking (grab samples assaying as high as 223 g/t Au and 0.1% U), the Eagle (grab samples assaying as high as 5.4 g/t Au and 1% U), and the Kish (grab samples assaying as high as 1 g/t Au and 1% U) showings.

†

Significant sedimentary hosted copper mineralization has also been defined, the most significant being the Dehli-Pacific (4.2% Cu over 7.6 meters in a drill hole) and a pre 43-101 mineral resource of 18Mt @ 0.5% copper hosted by the 1.5 kilometre long Bacon-Ronsin Horizon.

†

The geological setting of the property is the northwest trending Romanet Horst within the Labrador Trough. The significant mineral potential of this geological setting is well demonstrated by the abundance and diversity of uranium-gold showings, which range from veins to breccia's to shear zones. There is locally significant sedimentary-hosted copper mineralization. The most spectacular mineralization found to date is the 500 x 200 meter Mistamisk boulder field which contains 150 boulders that range up to 474g/t Au and 0.36% U, with an average for individual boulder's of 50 g/t

Au and 0.3% U. The boulders discovered within the Mistamisk boulder field range in length from 0.30 to 2.0 metres. Previous work has not determined the bedrock source of this boulder field.

†

Copper mineralization has been defined in a number of locations, the most significant being: The Delhi-Pacific showing which has reported 4.2% Cu over 7.6 meters within a drill hole that intersected a shear zone along a sediment-gabbro contact.

†

Stratabound copper mineralization occurs over 1.5 kilometres of strike length in a host referred to as the Bacon-Ronsin Horizon. A pre 43-101 mineral resource of 18Mt @ 0.5% copper was outlined by the Hollinger North Shore and Exploration Co. in the early 1960's.

†

The Company is currently up to date with all obligations required to maintain our property holdings in good standing.

Plan of Operation

Our plan of operations for the remainder of this fiscal year is to complete the following objectives within the time periods specified, subject to our obtaining the permits necessary for the continued exploration of the mineral properties;

†

We have completed our Phase 1 exploration program on the Peter's Creek property consisting of a bulk testing program in the vicinity of newly optioned ground to confirm

earlier results and have the Progress Report from William Timmins our Consulting Geologist. The Phase 1 exploration costs were approximately 10% under our proposed budget.

†

Warranted by the results of Phase 1, we intend to commence the permitting process necessary for the Phase 2 Exploration Program

†

We have agreed with Apofas Ltd. to extend the deadline regarding the properties in Finland. This will allow us more time to complete our research on the properties Apofas Ltd. has under reservation.

†

We expect to initiate an exploration program on the Sagar Property in Quebec between June and October of 2006.

†

The final details of the Arizona property agreements are being finalized, Yukon made no payments or issued any equity during the period ended March 31, 2006

We anticipate spending approximately \$60,000 in ongoing general and administrative expenses per quarter for the next twelve months. The general and administrative expenses for the year will consist primarily of professional fees for the accounting, audit and legal work relating to our regulatory filings throughout the year, as well as transfer agent fees and general office expenses. The overall general and administration expenses will however, vary in direct proportion with the level of activity relating to future acquisitions and exploration programs.

Based on the nature of our business, we anticipate incurring operating losses in the foreseeable future. We base this expectation, in part, on the fact that very few mineral properties in the exploration stage ultimately develop into producing, profitable mines. Our future financial results are also uncertain due to a number of factors, some of which are outside our control. These factors include, but are not limited to:

†

our ability to raise additional funding;

†

the market price for gold;

†

the market price for uranium

†

the results of our proposed exploration programs on our mineral properties; and

†

our ability to find joint venture partners for the development of our property interests

If we are successful in completing an equity financing, existing shareholders will experience dilution of their interest in our company. In the event we are not successful in raising additional financing, we anticipate that we will not be able to proceed with our business plan. In such a case, we may decide to discontinue our current business plan and seek other business opportunities in the resource sector. Any business opportunity would require our management to perform diligence on possible acquisition

of additional resource properties. Such due diligence would likely include purchase investigation costs such as professional fees by consulting geologists, preparation of geological reports on the properties, conducting title searches and travel costs for site visits. It is anticipated that such costs will not be sufficient to acquire any resource property and additional funds will be required to close any possible acquisition.

During this period, we will need to maintain our periodic filings with the appropriate regulatory authorities and will incur legal and accounting costs. In the event no other such opportunities are available and we cannot raise additional capital to sustain operations, we may be forced to discontinue business. We do not have any specific alternative business opportunities in mind and have not planned for any such contingency.

Due to our lack of operating history and present inability to generate revenues, our auditors have stated their opinion that there currently exists substantial doubt about our ability to continue as a going concern.

During March, 2004, the Company issued 2,500,000 shares of common stock at a price of \$0.01 per share for cash proceeds of \$25,000. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, either through Regulation S for non-United States citizens or entities or as set forth in Rule 506 promulgated under the Securities Act of 1933, as amended (the "Securities Act") and in Section 4(2) and Section 4(6) of the Securities Act and/or Rule 506 of Regulation D, based on the following: (a) the investors confirmed to us that they were "accredited investors," as defined in Rule 501 of Regulation D promulgated under the Securities Act and had such background, education and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation with respect to the offering; (c) the investors were provided with certain disclosure materials and all other information requested with respect to our company; (d) the investors acknowledged that all securities being purchased were "restricted securities" for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequently registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

During May, 2004, the Company issued 225,000 shares of common stock at a price of \$0.05 per share for cash proceeds of \$11,250. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, either through Regulation S for non-United States citizens or entities or as set forth in Rule 506 promulgated under the Securities Act of 1933, as amended (the "Securities Act") and in Section 4(2) and Section 4(6) of the Securities Act and/or Rule 506 of Regulation D, based on the following: (a) the investors confirmed to us that they were "accredited investors," as defined in Rule 501 of Regulation D promulgated under the Securities Act and had such background, education and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation with respect to the offering; (c) the investors were provided with certain disclosure materials and all other information requested with respect to our company; (d) the investors acknowledged that all securities being purchased were "restricted

securities" for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequently registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

During June, 2004, the Company issued 470,000 shares of common stock at a price of \$0.05 per share for cash proceeds of \$23,500. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, either through Regulation S for non-United States citizens or entities or as set forth in Rule 506 promulgated under the Securities Act of 1933, as amended (the "Securities Act") and in Section 4(2) and Section 4(6) of the Securities Act and/or Rule 506 of Regulation D, based on the following: (a) the investors confirmed to us that they were "accredited investors," as defined in Rule 501 of Regulation D promulgated under the Securities Act and had such background, education and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation

with respect to the offering; (c) the investors were provided with certain disclosure materials and all other information requested with respect to our company; (d) the investors acknowledged that all securities being purchased were "restricted securities" for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequently registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

On September 1, 2005, we closed on a financing transaction with a group of private investors of \$453,000. The financing consisted of the sale of two components: (a) an aggregate of Seven Hundred and Fifty-Five Thousand shares of the Company's common stock at a purchase price of \$0.60; and (b) Warrants registered in the name of each Investor to receive an aggregate of Seven Hundred Fifty-Five Thousand shares of the Company's common stock, with an exercise price of \$0.80 and an expiration date of September 1, 2007. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, either through Regulation S for non-United States citizens or entities or as set forth in Rule 506 promulgated under the Securities Act of 1933, as amended (the "Securities Act") and in Section 4(2) and Section 4(6) of the Securities Act and/or Rule 506 of Regulation D, based on the following: (a) the investors confirmed to us that they were "accredited investors," as defined in Rule 501 of Regulation D promulgated under the Securities Act and had such background, education and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation with respect to the offering; (c) the investors were provided with certain disclosure materials and all other information requested with respect to our company; (d) the investors acknowledged that all securities being purchased were "restricted securities" for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequently registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

On September 26, 2005, the Company completed a forward stock split on the basis of three new shares of common stock in exchange for every one old shares of common stock outstanding.

On March 23, 2006, the Company issued 255,000 shares upon the exercise of stock options for proceeds of \$114,750.

We anticipate that additional funding will be in the form of equity financing from the sale of our common stock. However, we cannot provide investors with any assurance that we will be able to raise sufficient funding from the sale of our common stock for additional phases of exploration. We believe that debt financing will not be an alternative for funding additional phases of exploration. We do not have any arrangements in place for any future equity financing.

Results of Operations

We have had no operating revenues since our inception on March 1, 2004 through to the quarter ended March 31, 2006. Our activities have been financed from the proceeds of share subscriptions.

For the period from inception, March 1, 2004, to March 31, 2006, we incurred total expenses of \$556,987. These expenses included \$75,700 in impairment losses on mineral properties, \$52,571

in professional fees , a foreign exchange translation gain of \$5,922 and general and administrative expenses of \$388,139. We also expensed a total of \$12,500 for donated services and \$6,250 for donated rent both provided by our President.

Liquidity and Capital Resources

As at March 31, 2006, the Company has working capital of \$458,294 and accumulated losses of \$556,987 since inception.

We have funded our business to date from sales of our common stock.

We hold a significant portion of our cash reserves in Canadian dollars. Due to foreign exchange rate fluctuations, the value of these Canadian dollar reserves can result in both translation gains or losses in US dollar terms. If there was to be a significant decline in the Canadian dollar versus the US Dollar our US dollar cash position would also significantly decline. We have not entered into derivative instruments to offset the impact of foreign exchange fluctuations. Such foreign exchange declines could cause us to experience losses.

There are no assurances that we will be able to achieve further sales of our common stock or any other form of additional financing. If we are unable to achieve the financing necessary to continue our plan of operations, then we will not be able to continue our exploration of the placer claims and our venture will fail.

Off-balance sheet arrangements

We have no off-balance sheet arrangements including arrangements that would effect our liquidity, capital resources, market risk support and credit risk support or other benefits.

FOR FURTHER INFORMATION PLEASE CONTACT:

Yukon Resources Corp.
Investor Information Services
Toll Free: 1 (866) 985-6696
info@yukonresources.com
www.yukr.com

or

Yukon Resources Corp.
Kirk McKinnon
President and CEO
(416) 364-4986 or 1 (800) 818-5442

or

Yukon Resources Corp.
Richard Schler
Vice President and CFO
(416) 364-4986 or 1 (800) 818-5442