

YUKON-NEVADA GOLD CORP.
Management Discussion and Analysis
For the three and six month period ending June 30, 2010

The following management's discussion and analysis ("MD&A") is intended to supplement the Company's interim consolidated financial statements for the three and six month period ending June 30, 2010 which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Readers are encouraged to consult the Company's audited consolidated financial statements and corresponding notes to the financial statements for the year ended December 31, 2009 for additional details. Readers are cautioned that the MD&A contains forward-looking statements and that actual events may vary from management's expectations. All figures are in United States dollars unless otherwise noted. The MD&A has been prepared as of August 11, 2010.

SECOND QUARTER HIGHLIGHTS

- The Jerritt Canyon Mine produced 18,441 ounces from stockpiles and mining operations in the three months ended June 30, 2010, the highest production amount achieved in a quarter since the third quarter of 2008. The production results also reflect the scheduled shutdown which occurred over a two week period in May.
- Small Mine Developers ("SMD") delivered 11,121 ounces to the mill from the Smith mine during that same period, as the mining operations steadily improved into the second quarter.
- Stack tests conducted at Jerritt Canyon continued to improve with the June results showing mercury emissions at 6% of the levels permitted under the consent decree. The Company expects these results to continue to improve as the ultimate discharge limits have not yet been realized.
- The Company had a loss of \$4.9 million in the second quarter of 2010 compared to \$7.7 million in the second quarter of 2009.
- In May, 2010 the Company closed a private placement for a total of 34.6 million flow-through shares at a price of C\$0.275 per Share for proceeds of \$9.2 million. The proceeds will be used on the continued exploration of the Ketz River Property in the Yukon Territory.
- On July 13, 2010 Sprott Asset Management LP, for and on behalf of certain managed accounts, funds and other purchasers, agreed to purchase \$25.0 million principal amount in senior secured notes (the "Notes"). The proceeds from the sale of the Notes will be used to assist with the development of the Jerritt Canyon Gold Project and for working capital purposes.

OVERVIEW

Yukon-Nevada Gold is engaged in gold mining and related activities, including exploration and acquisition of gold-bearing properties, extraction, processing and reclamation. The Company's gold production and exploration activities are carried out in Canada and the United States. Gold is produced in the form of doré, which is shipped to refineries for final processing. The profitability and operating cash flow of Yukon-Nevada Gold is affected by various factors, including the amount of gold produced, the market price of gold, operating costs, interest rates, regulatory and environmental compliance, the extent of exploration activity and capital expenditures, general and administrative costs, and other discretionary costs. Yukon-Nevada is also exposed to fluctuations in foreign currency exchange rates and varying levels of taxation that can impact profitability and cash flow. The Company seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control.

Yukon-Nevada Gold receives its revenues through the sale of gold in U.S. dollars, while costs are incurred in

both U.S. and Canadian currencies. Therefore, movements in the exchange rate between the Canadian and the U.S. dollars have an impact on profitability.

Jerritt Canyon

The Jerritt Canyon operation consists of a milling facility and two underground mines, the Smith and the SSX, located in Nevada, U.S.

Jerritt Canyon Operating Highlights

(dollars in thousands except for per ounce amounts)

	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Gold (troy ounces)								
Produced	18,441	9,258	4,590	-	5,180	-	-	19,176
Sold	9,876	9,105	4,590	-	5,180	-	1921	20,144
Gold sales	\$11,850	\$10,158	\$ 5,125	\$ -	\$ 4,788	\$ -	\$ 2,257	\$17,162
Cost of gold sold	\$13,542	\$13,473	\$18,545	\$ 1,347	\$ 6,089	\$ 68	\$ 3,265	\$20,606
Temporary shutdown costs	\$ -	\$ -	\$ 462	\$ 5,176	\$ 2,460	\$ 2,452	\$ 5,258	\$ -
Average gold price per ounce	\$ 1,200	\$ 1,116	\$ 1,117	\$ -	\$ 924	\$ -	\$ 888	\$ 852

During 2008 the Jerritt Canyon milling operations were shutdown for the majority of the year. On August 8, 2008 the Company shutdown mining operations due to the increasing costs associated with the mining plan and the required infrastructure expenditures remaining to be completed. The plan to continue toll milling after the shutdown of the mines was halted to complete repair work on a key component damaged at the process mill. As a result, the workforce at Jerritt Canyon was reduced to maintenance levels while the Company completed the repair work and undertook discussions with the Nevada Division of Environmental Protection (“NDEP”) to obtain permission to restart the facility, while also seeking additional financing to fund the recommencement of operations.

In the first quarter of 2009, the Company submitted new design plans for mercury emission control equipment along with plans to address other environmental concerns brought forward by the NDEP and completed installation of continuous emissions monitoring instrumentation. After receiving approval from the NDEP on March 25, 2009 and restarting the milling operations, the Company shutdown the roasters again on May 30, 2009, as delays in materials required for the construction of the new mercury emission control system resulted in failure to meet the deadline for this equipment to be installed, a condition of the restart approval.

The failure to meet this deadline, along with significant operating issues noted during the short period in which the mill was operated, resulted in the dismissal of the operator, Golden Eagle from the site. The Company subsequently uncovered numerous discrepancies in the records that were provided, including a significant shortfall in the stockpiles that were reported as well as the ounces that were in circuit at the time of the shutdown. These shortfalls resulted in a significant loss in 2009 which the Company is in the process of attempting to recover through claims against Golden Eagle.

With the dismissal of Golden Eagle, the Company took over the construction of the calomel system and rehired employees to support this effort. The Company completed the installation of the calomel emission system by July 20, 2009 and also carried out a significant overhaul and upgrade of many key components of the roaster, leach circuit, thickener and other sections of the mill. The calomel system put in place is from a design

proprietary to the Chief Operating Officer of the Company and has surpassed the requirements of the NDEP in subsequent stack tests conducted by an independent engineering company.

Jerritt Canyon resumed operations on October 20, 2009 after coming to an agreement with the NDEP in the form of a Consent Decree issued by the Attorney General of the State of Nevada, representing the NDEP. The Consent Decree resolved all of the compliance concerns of the NDEP in relation to the Jerritt Canyon mill and surrounding land holdings, as well as related environmental concerns, and gives the Company the right to operate the Jerritt Canyon milling facility from the effective date. The Consent Decree records and agrees both parties to the terms of an environmental work program and includes penalties for not completing these work programs. It significantly reduces the likelihood of further stop orders being issued to the Company as it provides a future mechanism for resolving any disputes.

During 2010 the Company has engaged SMD to recommence mining operations at the Smith mine, resulting in the delivery of 66,782 tons containing 15,687 ounces from late January to June 30, 2010. The Company began processing the ore in late February, 2010, having processed a total of 49,606 tons to date. Once necessary water injection permits are obtained, additional faces will be open for mining by SMD which will increase the amount of tons produced from Smith.

In May 2010, the Company shutdown the mill at Jerritt Canyon in order to carry out a significant overhaul of key mill components for compliance with the Consent Decree and as well as performed critical maintenance that had been identified subsequent to restart in 2009. During the shutdown, the Company replaced one quench tank completely, began upgrade work on the roaster control system, drained and relined the thickener tank, and refurbished the north tertiary cone crusher. After restarting operations it was determined that the cone crusher needed to be replaced entirely, with a new crusher being installed and put into operation in late July. Due to this shutdown and the subsequent ramp up period, the results for the period continue to reflect a loss from operations.

Ketza River

In the second quarter the Company raised \$9.2 million to further exploration at the Ketza River and Silver Valley properties. A total of 53 drill holes totaling 7,675 metres were completed at the Ketza River Project in the second quarter, with assays pending to determine the results of these drills and develop follow up drill programs.

Target	Vertical Vein	Connector Target	Break Zone	B-Mag Zone	Peel	Hoodoo
No. Drill Holes	7	11	11	14	7	3
Total Footage (ft)	3,876	5,758	7,559	3,268	2,529	2,222
Total Meters (m)	1,182	1,755	2,304	996	771	667

Seven drill holes were completed at the Vertical Vein Target, testing the middle and lower sections of the magnetic anomaly identified in previous geophysical surveys. Several small veins were encountered in the middle section, with the largest being a 1.3 meter quartz-arsenopyrite-pyrrhotite vein. In the lower section, the first drill hole was completed to the planned target depth and intersected a 2.5 m wide quartz-pyrrhotite vein. The Connector Target drill holes have been mixed to date, but have yielded several strong intersections of non-magnetic mineralization. These targets will be re-evaluated once assays are received. Fourteen drill holes were completed on the margin of the B-Mag Zone and were intended to expand the resource to the southeast. Seven drill holes were completed along the northwestern side of the Peel resource, where mineralization was open,

intercepting additional sulphide mineralization. Three drill fans each consisting of 3 drill holes each were completed northward through the crest of the ridge at Hoodoo in order to define the high-grade mineralization in the area. The fan to the east was drilled first, and the drill holes intercepted strong oxide mineralization in the upper portions of the drill holes. Strong sulfide mineralization and abundant breccia was intercepted in the lower portions of the drill holes.

Silver Valley

No exploration work has been carried out on the Silver Valley property in the second quarter of 2010, with results pending for earlier drill work. The Company intends to complete the road access to this property and perform gravity survey work late in 2010.

Yukon-Shaanxi Mining Company

During 2009, the Company, in conjunction with the joint venture partner, Northwest Mining and Geology Group Co., Ltd. for Nonferrous Minerals ("NWME") performed geological and geophysical work at the Skukum property owned by Tagish Lake Gold ("Tagish") (see Related Party Transaction section) as part of the ongoing due diligence for a possible merger. In September, the Amalgamation Agreement was terminated and Yukon-Shaanxi Mining Company ("YSM"), through negotiations with MacQuarie Bank Limited, acquired a credit agreement from MacQuarie Bank with Tagish for total payment of C\$1.5 million, secured by the Skukum property. This was funded through an additional equity contribution from NWME of C\$1 million and cash from treasury. The Company did not participate in this equity contribution and as a result diluted its economic interest from 50% to 37.5% at December 31, 2009. The Company continues to have the option to purchase further shares in order to regain its 50% interest.

In April, 2010, the joint venture received additional contributions of C\$2 million, C\$1 million of which was on behalf of the Company, and resulted in an increase in its ownership percentage from 37.5% to 41.67%. These funds were used to invest in the shares of Tagish Lake and fund exploration work on the Skukum property. Due to the poor working capital conditions of Tagish Lake and actions taken by its other creditors, it has been placed into *Companies Creditors' Arrangement Act* ("CCAA"), utilizing the proceeds provided from the investment by YSM. YSM is both a secured and unsecured creditor in this process, and expects to fully recover the value of the funds loaned to Tagish Lake once the CCAA process is complete and continue to invest in the development of the Skukum deposit.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars, except for share and per share amounts)

	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Income Statement								
Gold Sales	\$ 11,850	\$ 10,158	\$ 5,125	\$ -	\$ 4,788	\$ -	\$ 2,257	\$ 17,162
Cost of gold sold	13,542	13,473	18,545	1,347	6,089	68	3,265	20,606
Gross margin - mining operations	(1,692)	(3,315)	(13,420)	(1,347)	(1,301)	(68)	(1,008)	(3,444)
Loss from mine operations	(3,780)	(5,323)	(16,308)	(8,776)	(6,030)	(4,733)	(8,182)	(6,866)
Loss before taxes	(4,913)	(51,406)	(18,309)	(11,722)	(7,737)	(5,136)	(14,004)	(77,453)
Net loss	(4,914)	(51,406)	(18,073)	(11,727)	(7,737)	(5,223)	(13,575)	(77,201)
Net loss per share	(0.01)	(0.09)	(0.02)	(0.03)	(0.02)	(0.02)	(68.64)	(0.42)
Weighted average # of shares outstanding (000's)	652,520	578,796	407,379	355,219	311,964	283,191	197,775	185,450
Balance Sheet								
Cash and cash equivalents	459	2,107	185	952	1,931	827	1,106	2,301
Total assets	\$ 206,939	\$ 195,733	\$ 195,441	\$ 196,567	\$ 197,394	\$ 197,190	\$ 199,636	\$ 207,824

RESULTS OF OPERATIONS

The Company incurred a loss of \$4.9 million during the quarter ended June 30, 2010, compared to a loss of \$7.7 million in the quarter ended June 30, 2009, due primarily to improved operating results at Jerritt Canyon. The Jerritt Canyon mine operated throughout the quarter, but lost \$1.7 million compared to \$1.3 million in the second quarter of 2009 as the Company shutdown the mill in May to perform required capital work and maintenance over a two week period. This was offset by the absence of shut down costs of \$2.5 million recorded in the second quarter of 2009 as the mine was shut down during that period.

During the six months ended June 30, 2010, a loss of \$56.3 million was incurred compared to \$13.0 million in the same period in 2009. The \$43.3 million reduction in the results is due to a financing charge of \$43.6 million related to the issuance of warrants to induce warrant holders to exercise existing warrants.

Gold sales:

Gold sales were \$11.9 million in the second quarter of 2010 on gold sales of 9,876 ounces of gold from Jerritt Canyon compared to \$4.8 million on gold sales of 5,180 ounces in second quarter of 2009 as the Jerritt Canyon mill was shut down for 29 days of the 2009 quarter. The average price realized during the second quarter of 2010 was \$1,200 per ounce compared to \$924 per ounce in the comparable period in 2009 due to higher spot prices.

Gold sales were \$22.0 million in six months ended June 30, 2010 compared to \$4.8 million in the same period of 2009. In the first half of 2010, sales were 18,981 ounces compared to 5,180 ounces in first half of 2009 at a price realized of \$1,159 per ounce in the six months ended June 30, 2010 compared to \$924 per ounce in first six months of 2009. The increase is due to a 266% increase in ounces sold as the mill operated for only 68 days in the first half of 2009 combined with higher prices. As well, during the 68 days of operations in 2009 the mill experienced operational issues with its mill contractor, leading to the termination of their services in June.

Gross margin – mining operations:

During the three months ended June 30, 2010, the Company had a negative gross margin on gold sales of \$1.7 million. The mine produced 18,441 ounces of gold from a combination of Jerritt Canyon ore stockpiles and

mining operations. Costs increased as a result of the re-opening of the Smith Mine using the services of a contract mining company, SMD, as well as an increased work force to operate the mill facilities. During the quarter the Company also shutdown the Jerritt Canyon mill operations for a two week period to complete required capital and maintenance work, during which time the Company incurred higher than normal labour costs due to overtime as well as additional contracted labour necessary to complete the work in the limited timeframe. This shutdown was followed by a 10 day ramp up period during which production was minimal but costs continued as normal.

The Company had a negative gross margin on mining operations of \$1.3 million for the three months ended June 30, 2009, reflecting the poor performance of the mill operator during that period as well as the higher costs associated with restarting the mill operation after an extensive shutdown period.

During the six months ended June 30, 2010 and 2009, the Company had a negative gross margin on gold sales of \$5.0 million and \$1.4 million respectively. In 2010 costs increased as SMD recommenced mining at Jerritt Canyon and the mill returned to full operations. During the first four months of 2010 Jerritt Canyon experienced significant operational difficulties as only one of two cone crushers operated and the mill operated within the limits of the Consent Decree while stack testing continued to be performed each month. During the shutdown in May, critical maintenance that had been identified was carried out, resulting in significant improvements to the mill operations. During the month of June the Company achieved its targeted production of 8,000 ounces as it progressed towards steady state operations, reached in the month of August, and an average estimated monthly production rate of 12,500 ounces. During the six months ended June 30, 2009, the operations were shutdown for 112 days resulting in the majority of the costs being recorded as shutdown costs.

Temporary shutdown costs:

Temporary shutdown costs related to mine site costs other than rent and utility costs were \$2.5 million in the second quarter of 2009 as the operations were shutdown for a portion of the quarter. Other than the scheduled shutdown in May for two weeks (followed by one week to ramp up the mill) Jerritt Canyon operated throughout the quarter in 2010 and all costs were charged to current production or inventory. This shutdown is not being classified as a shutdown cost as the Company elected to stop operations at this time in order to complete necessary Consent Decree and maintenance work.

Depreciation, depletion and amortization:

The Company had \$1.4 million and \$2.7 million in depreciation and amortization for the three and six month of 2010, respectively and \$1.5 million and \$3.0 million for comparable period in 2009 related to the depreciation of property, plant and equipment. Mineral properties were written down in 2008 therefore there is no depletion of mineral properties.

General and administrative expenses and stock-based compensation:

For the three and six months ended June 30, 2010, the Company incurred general and administrative expenses of \$0.7 million and \$1.7 million, respectively compared with \$0.5 million and \$1.3 million in the comparable 2009 period. The general and administrative cost are incurred at the head office in Canada and the increase is the

result of the weakening of the US dollar relative to the Canadian dollar from \$0.83 in the first half of 2009 to \$0.96 in the same period in 2010 as well as increased activity as cash resources improve.

Stock-based compensation was \$0.5 million and \$0.8 million in the three and six months ended June 30, 2010 compared to nil in the comparable period in 2009. The charge in 2010 relates to the vesting of stock options that were granted in the second half of 2009 and in the first quarter of 2010. The value of the 22.4 million options granted in 2010 and the 21.6 million options granted in 2009 was C\$4.7 million and \$C2.5 million, respectively and are being recognized over the vesting period.

Interest and financing expense:

During the first quarter of 2010, the Company issued 190.7 million inducement warrants for the exercise of 200.9 million warrants. There was a charge of \$43.6 million recorded as a financing charge related to the issue of these inducement warrants. In addition, in 2009, the Company received advance payment of \$4.8 million for gold to be delivered at a series of future dates, with penalties arising of \$0.2 million per month for each month past the delivery dates. The Company incurred \$1.4 million of financing charges related to these penalties in each of the first two quarters of 2010, compared to \$0.1 million in the second quarter of 2009.

Other items:

A foreign exchange gain of \$0.9 million and \$0.2 million in the three and six months ended June 30, 2010 was due to the weakening of the Canadian dollar relative to the US dollar. The gain relates primarily to gains on Canadian denominated monetary liabilities, (primarily future income tax and asset retirement obligations), offset by losses on Canadian denominated monetary assets. In the three and six months ended June 30, 2009, there were foreign exchange losses of \$1.0 million and \$0.7 million, respectively due to the strengthening of the Canadian dollar relative to the US dollar.

LIQUIDITY

In the first half of 2010 cash and cash equivalents increased from approximately \$0.2 million to \$0.5 million. At June 30, 2010 the Company had a working capital deficiency of \$32.7 million, compared to a working capital deficiency of \$28.8 million at December 31, 2009, as a result of the following activities:

Operations:

In the first half of 2010 the Company recorded a loss of \$56.3 million, which, adjusted for non-cash items, resulted in cash outflows of \$8.0 million before changes in working capital. This is comprised primarily of a mine operating loss of \$5.0 million, general and administrative costs of \$1.7 million and interest and financing charges paid in cash of \$1.4 million. In the first half of 2009 the Company recorded a loss of \$12.9 million, which, adjusted for non-cash items, resulted in cash outflows of \$7.8 million before changes in working capital. This is comprised primarily of a mine operating loss of \$1.4 million, temporary shut down costs of \$4.9 million and general and administrative costs of \$1.3 million.

Changes in non-cash working capital resulted in a \$4.8 million cash inflow during the six months ended June 30, 2010 compared to \$7.5 million in comparable period in 2009. The inflows in 2010 were due to an increase in

accounts payables \$7.7 million offset by an increase in inventories of \$1.3 million at the Jerritt Canyon operations and a \$1.6 million increase in receivable. In 2009 changes to non-cash working capital were due to an increase in accounts payable and accrued liabilities of \$2.0 million and the receipt of deferred revenue of \$4.8 million.

Investing:

Capital expenditures

<i>Property Plant and Equipment (in thousands)</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Mill and equipment expenditures - Jerritt Canyon mine	\$ 1,014	\$ 724	\$ 1,081	\$ 830
Other	-	35	5	35
	\$ 1,014	\$ 759	\$ 1,086	\$ 865

<i>Mineral Property (in thousands)</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Exploration expenditures - Ketz River project	2,127	434	3,731	809
Exploration expenditures - Yukon-Shaanxi	65	58	65	78
Other	156	-	178	
	\$ 2,348	\$ 492	\$ 3,974	\$ 887

Expenditures on property, plant and equipment and mineral properties were \$3.4 million and \$5.1 million in the three and six months ended June 30, 2010 compared to \$1.3 million and \$1.8 million in the comparable periods in 2009. The major capital projects completed were the installation of 25 new tailings dam evaporators to manage the water level of the facility, relining of the thickener tank, reclamation of the duck pond (this is an off take pond from the tailings dam), and the removal of one quench tank, with the second planned for the second quarter of 2011. The Company also began work on upgrading the existing mill control technology, to improve the measurement and response time of the facilities and increase throughput. Mine capital and exploration expenditures at Jerritt Canyon were nil in the three months ended June 30, 2010 and 2009 as management focuses on developing plans for reopening SSX and securing the necessary funding and capital equipment. Exploration at Ketz River has increased from \$0.8 million in the first half of 2009 to \$3.7 million in the 2010 as the Company develops the identified resources with a greater availability of cash resources due to funds from operations and the flow through shares issued in the second quarter of 2010. Increased cash resources also allowed the Company to resume limited exploration at the Silver Valley project in the Yukon early in the first quarter.

The Company had an increase of \$5.6 million in cash restricted for future exploration (part of "Restricted funds" on the balance sheet) as of June 30, 2009. This represents a portion of the remaining \$7.2 million of the required future exploration expenditures remaining to be spent from the flow-through financing in May, 2010 that provided \$9.2 million for exploration on the Ketz River project and other exploration activity in Canada. Due to the related broker fees incurred and the maintenance shutdown during May, some of these funds were applied to non-flow-through expenditures, however subsequent cashflows from operations are being used to repay this commitment. These restricted funds must be spent by the Company, in accordance with the flow-through share agreement, by December 31, 2011.

Financing:

In the second quarter of 2010, the Company issued 34.6 million flow-through shares for proceeds of \$9.2 million. Under the conditions of the flow through shares, funds must be spent in 2010 and 2011 on Canadian Exploration

Expenditures ("CEE") on properties located in Canada. The Company plans to spend these funds on the continued exploration at the Company's Ketz River Property in the Yukon. The Company incurred cash share issue costs of \$0.6 million related to this share issue. An additional 3.0 million shares were issued in the second quarter of 2010 on the exercise of warrants for \$0.3 million. In the first quarter of 2010, the Company issued 22.7 million shares for proceeds of \$4.8 million.

During the fourth quarter of 2009 and the first quarter of 2010 the Company received funds from the exercise of warrants from the December and August 2008 private placements as part of a warrant inducement offering. Holders of warrants from these private placements were offered a new warrant (inducement warrant) for the early exercise of their existing warrants. The inducement warrants were issued in January 2010 after approval for their issuance was received at the shareholder meeting. The Company received \$0.7 million in the first quarter of 2010 from the exercise of additional warrants from the February 2009 placements.

In the second quarter of 2009, the Company issued 12.4 million units (consisting of one common share and one warrant) for total proceeds of \$0.6 million. An additional 13.5 million shares were issued on the exercise of warrants for proceeds of \$0.9 million.

The Company issued 27.3 million shares for proceeds of \$1.2 million in first quarter of 2009. Also in the first quarter of 2009, the Company completed the sale of an asset held under a capital lease. Proceeds of \$0.1 million in cash were received and the remaining balance of the capital lease, \$0.7 million, was terminated.

CAPITAL RESOURCES:

The Company had a cash balance of \$0.5 million as of June 30, 2010 and a negative working capital balance of \$32.7 million. The Company had a \$5.6 million cash balance in "cash restricted for future exploration" (part of "Restricted funds" on the balance sheet) as of June 30, 2010.

The cash on hand at June 30, 2010 is not sufficient to maintain the ongoing operations of the Company without continuing funds from operations or other sources of financing. Although current cash flows from operations are improving and are sufficient to maintain operations, management believes that further financing will be required to fund the reopening of the SSX Mine and complete required Consent Decree projects such as the reclamation of various drainage ponds on site and upgrades needed to manage emissions from the ore dryer and refinery. One source of funding was announced on July 13, 2010 for \$25.0 million in senior secured notes (the "Notes") to be purchased by Sprott Asset Management. The Notes will have a maturity date of no later than March 31, 2013 and will be secured by a charge over all the assets of Queenstake Resources U.S.A. Inc. ("Queenstake") and a share pledge over all shares in Queenstake. In connection with the Note financing, the Company will issue to Sprott an aggregate of 25 million common share purchase warrants (the "Warrants"), each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.40 per share for a period of three years following closing. The Company is also pursuing other sources of financing, including continuing due diligence on the previously announced \$40 million debt facility with BNP Paribas, to fund the growth of the Jerritt Canyon property and bring Ketz River to production.

OUTLOOK

In order to reach the targeted production rate of 150,000 ounces of gold under steady state operations, the Company intends to continue milling available stock piles while pursuing opportunities to purchase new

stockpiles or mill through a tolling arrangement. As well, the Company has recommenced mining activity at Smith and is working on plans to reopen the SSX/Steer mine when financing has been secured to allow for the purchase of equipment. Since the commencement of operations in the fourth quarter of 2009, the Company has made significant progress in repaying past liabilities and has been released from the majority of any liens arising from the 2008 shutdown. The Company has proven and probable reserves at Jerritt Canyon, not accounting for 2008 mining and depletion, of 717,300 ounces of gold. In addition, there are ounces already mined and stockpiled on the run-of-mine ("ROM") pad. These ROM pad resources, along with ore purchased from third parties, will allow the Company to achieve the budgeted throughput of 3,300 tons per day (this has been achieved on several occasions subsequent to the work completed during the shutdown) and, once sufficient redundant spares are on hand to support the Jerritt Canyon operation, the Company should return to steady state operations. The mill facility is currently licensed to treat 4,320 tons per day with an overall potential capacity of 6,000 tons per day with the appropriate permitting.

During the remainder of 2010, under the terms of the Consent Decree, the Company will be carrying out an engineering study of the mill in order to provide detailed workings of the facility, completing the installation of a barge facility to support the operation of the already installed evaporators, and commence engineering and design work on systems to reduce emissions from the ore dryer and refinery. The Company is also working to complete design plans and begin the initial stages of work on reclaiming the existing tailings dam and construction of a new tailings storage facility. This investment is not a component of the Consent Decree itself, however the Company believes this investment will extend the life of the mill and bring it in line with current standards. The Company will also be completing the upgrade of the mill control technology and complete the heat tracing project needed to improve the operating effectiveness of the mill during the winter months.

The Company is also focusing on the completion of a long term mine plan and obtaining financing, preferably debt, to fund the required development and backfill work to support future mining activities. The Company is presently planning the re-commencement of underground mining operations at the SSX/Steer mines to supplement the restarted operations at Smith. The Company's mined ore would be supplemented by a combination of purchased ore and toll milling for other mining companies who either have no mill or have insufficient capacity at their own facilities.

In the third quarter the Company is commencing exploration activity again at Jerritt Canyon, with programs in place for both a surface exploration program, focusing on the northern half of the property, and an underground program. Both are designed to provide continuing production from the existing mines and extend the longevity of Jerritt Canyon by 3 to 4 years, as well as explore new discoveries and revisit previous areas of interest. As of the date of filing, both programs had successfully commenced at the property.

The 2010 underground and surface drilling programs are designed to provide continuing production from the existing mines and continue to extend the longevity of Jerritt Canyon. Future exploration programs within the 119 square mile Jerritt Canyon property will be undertaken with the objective of discovering new gold mines.

In the Yukon, the Company will be commencing geophysical and soil survey work in July and August along with a small 12 drill hole program near the proposed Penguin pit, along with geotechnical drilling needed to develop the mine plan. Further work will be completed and planned once the results of the 2010 assays are obtained and compiled. As well, the Company is working to complete the Yukon Environmental and Socio-Economic Assessment (YESA) application with a planned submission date in mid-2011. These expenditures will be funded

through cash flows from Jerritt Canyon as well as from funds obtained from the current flowthrough share private placement announced on April 28, 2010 for 36,400,000 flow-through common shares at \$0.275 per flow-through common share.

The consolidated financial statements are prepared on the basis that the Company will continue as a going concern. The conditions described in the preceding paragraphs raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern and recover its investment in property, plant, and equipment and mineral properties is dependent on its ability to obtain additional financing in order to meet its planned business objectives and generate positive cash flows. However, there can be no assurance that the Company will be able to obtain additional financial resources or achieve profitability or positive cash flows. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which values could differ significantly from the going concern basis.

On August 11, 2010, the Company had \$3.1 million of cash and cash equivalents.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of June 30, 2010.

SUBSEQUENT EVENTS

On July 13, 2010 Sprott Asset Management LP, for and on behalf of certain managed accounts, funds and other purchasers ("Sprott"), agreed to purchase \$25.0 million principal amount in senior secured notes (the "Notes"). The proceeds from the sale of the Notes will be used to assist with the development of the Jerritt Canyon Gold Project and for working capital purposes. The Notes will have a maturity date of no later than March 31, 2013 and will be secured by a charge over all the assets of Queenstake Resources U.S.A. Inc. ("Queenstake") and a share pledge over all shares in Queenstake. The Notes will be repaid through monthly cash installments based on a notional amount of approximately 284,114 shares of SDR GLD Gold Shares beginning September 2010, provided that the Company will guarantee a minimum rate of return of 5% per annum on the aggregate principal amount over the life of the Notes. In connection with the Note financing, the Company will issue to Sprott an aggregate of 25 million common share purchase warrants (the "Warrants"), each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.40 per share for a period of three years following closing.

RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2010, the Company was charged a total of C\$0.2 million (2009 - C\$0.1 million) in legal fees by a law firm for general corporate services in which the corporate secretary of the Company is a partner. The amount owing at June 30, 2010 is C\$0.3 million. A portion of these fees are included in share issue costs with the remainder included under general and administrative expenses.

In the six months ended June 30, 2010, the Company was charged a total C\$0.8 million by a Company owned by a director of the Company, for the management of the Yukon properties. The director ceased being a director of the Company in May, 2010.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its financial statements in accordance with Canadian GAAP. Certain estimates and assumptions must be made by management that affect the reported amounts of assets, liabilities and shareholders' equity for the period. Critical accounting estimates include estimates that are uncertain and changes in such estimates could materially impact the Company's financial statements. Management reviews its estimates and assumptions on an ongoing basis based on the most current information available. The following estimates are critical:

Depletion of mineral properties

Depletion of producing mineral properties is impacted by the estimation of proven and probable reserves, in accordance with National Instrument 43-101. There are many uncertainties associated with having a reserve estimate completed. The proven and probable reserve estimate is completed periodically on the Jerritt Canyon property and this estimate is the basis of depletion for the upcoming years. Consequently, the depletion calculation for each period is directly affected by the reserve estimate at year-end.

Capitalization of long-term mine development costs

The Company capitalizes mining and drilling expenditures that are deemed to have economic value beyond a one-year period. The magnitude of this capitalization involves a certain amount of judgment and estimation by the mine engineers. The magnitude of this capitalization makes this a critical accounting estimate.

Impairment testing of long-lived assets

The Company reviews its mineral properties and property, plant & equipment (for each reporting unit) at least once a year, or when there are impairment indicators, to determine whether the recorded value of the asset in the accounts will be recoverable in the future. This process involves comparing the carrying value of the assets in a reporting unit to the recoverable value based on undiscounted cash flow. If the carrying value exceeds the recoverable amount then the carrying value is compared to the fair value. In the event the carrying value of the assets in the accounts exceeds the fair value, the excess amount is charged to operations in the period when this determination has been made.

A National Instrument 43-101 compliant estimate of proven and probable reserves and measured, indicated & inferred resources for each mineral property is a critical estimate in evaluating long-lived assets for impairment. In addition, estimates such as the future price of gold and certain capital and operating cost estimates are critical estimates in the evaluation of potential impairment of long-lived assets.

Purchase price allocations on business combination

The purchase price allocation of the Queenstake assets and liabilities acquired in the business combination was finalized in the second quarter of 2008. In determining the fair value used in the purchased price, the Company engaged independent professionals to assist in the valuation of (a) the mineral property (b) the processing plant and equipment (c) income tax assets and liabilities and (d) the asset retirement obligation.

Management has used the information provided by the independent professionals to determine the "fair value" of the aforementioned assets and liabilities. All valuation work has a certain amount of assumptions in determining

fair value. Management has reviewed major assumptions to ensure they are supportable in the context of today's operating environment.

Asset retirement obligation

Reclamation costs are estimated at their fair value based on the estimated timing of reclamation activities and management's interpretation of the current regulatory requirements in the jurisdiction in which the Company operates. Changes in regulatory requirements and new information may result in revisions to these estimates. The estimated asset retirement obligations on both the Jerritt Canyon property and the Ketz River property are fully funded at this date.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, incomes taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized based on temporary differences between accounting and tax bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when differences are expected to reverse. Future tax assets are recognized only to the extent it is more likely than not that the benefit will be realized. Such determination involves estimates with respect to future taxable income and timing of reversal of temporary differences.

Stock-based compensation and valuation of warrants

The fair value of stock options granted, measured using the Black-Scholes option pricing model, is used to measure stock-based compensation expense. The Black-Scholes option pricing model requires the usage of certain estimates, which includes the estimated outstanding life of stock options granted. Management currently uses the entire life of the stock option granted as the estimated outstanding life and will continue using this until enough history relating to prior grants has been established to modify this assumption.

When the Company issues Units that are comprised of a combination of common shares and warrants, the value is assigned to common shares and warrants based on their relative fair values. The fair value of the common shares is determined by the closing price on the date of the transaction and the fair value of the warrants is determined based on a Black-Scholes option pricing model.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements issued which may impact us in the future are as follows:

In June 2009, the CICA amended Handbook Section 3855 – Financial Instruments – Recognition and Measurement (“Section 3855”) to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument at initial recognition for accounting purposes. The amendments are applicable for the Company's interim and annual financial statements for its fiscal year beginning January 1, 2011. Earlier adoption is permitted. At June 30, 2010, the Company had no debt instruments to which the Section 3855 amendments would be applicable.

On December 24, 2009, the CICA issued EIC Abstract 175 – Multiple Deliverable Revenue Arrangements (“EIC-175”). EIC-175 addresses the accounting by a vendor for arrangements under which it will perform multiple

revenue generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EIC-175 is applicable to revenue arrangements with multiple deliverables entered into or materially modified on or after January 1, 2011. Earlier adoption is permitted. The Company does not anticipate early adopting EIC-175. The Company plans to adopt revenue recognition principles in accordance with IFRS effective January 1, 2011 and does not anticipate that this adoption will have a material impact on the Company's consolidated financial statements.

International Financial Reporting Standards

In February 2008, the AcSB announced that 2011 is the transition date for publicly listed companies to use International Financial Reporting Standards ("IFRS"), which will replace existing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. As a result, the Company has developed a plan to convert its consolidated financial statements to IFRS. The plan addresses the impact of IFRS on Accounting policies and implementation decisions, infrastructure, business activities and control activities. A summary status of the key elements of the changeover plan is as follows:

Accounting policies and implementation decisions:

- Identification of differences in Canadian GAAP and IFRS accounting policies;
- Selection of the Corporation's ongoing IFRS policies;
- Selection of the Corporation's IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") choices;
- Development of financial statement format; and
- Quantification of effects of change in initial IFRS 1 disclosures and 2010 financial statements.

Status:

- The Company has identified differences between accounting policies under Canadian GAAP and accounting policy choices under IFRS, both on an ongoing basis and with respect to certain choices available on conversion, made in accordance with IFRS 1; and
- The Company will progress towards the quantification of the identified differences and choices throughout 2010.

The conversion to IFRS is not expected to have a significant effect on the Company's infrastructure, business and control activities.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Company has identified key areas that may be impacted by the transition to IFRS and the major areas where significant complexities or key decisions are required by management prior to implementation. The analysis of IFRS and comparison with currently applied accounting principles has identified a number of differences. Although the Company has not yet determined the full effects of adopting IFRS, key areas where changes in accounting policies are expected are as follows:

Property, plant and equipment

Consistent with Canadian GAAP, under IFRS, separable components of property, plant and equipment ("PP&E") are recognized initially at cost. Under International Accounting Standards ("IAS") 16, Property, Plant and Equipment, an entity is required to choose, for each class of PP&E, to use either the cost model (consistent with

Canadian GAAP) or the revaluation model. Under the revaluation model, an item of PP&E is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated amortization and accumulated impairment losses. Increases in fair value are recorded in a revaluation surplus account in equity while decreases in fair value serve to reduce the revaluation surplus account, related to the asset, with any excess recognized in income.

IFRS requires that major inspections and overhauls be accounted as a separate component of PP&E. This treatment is only intended for use for major expenditures that occur at regular intervals over the life of the asset as costs of routine repairs and maintenance will continue to be expensed as incurred. The major maintenance required on the Company's plant and equipment would likely be required to be treated under this standard and would allow for additional amounts to be capitalized and amortized.

Impairments

Under Canadian GAAP for assets other than financial assets, a write-down to estimated fair value is recognized if the estimated undiscounted future cash flows from an asset or group of assets are less than their carrying value. Under IAS 36, Impairment of Assets, a write-down is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value in use (which is typically based on discounted cash flow) is less than the carrying value. Consistent with Canadian GAAP, impairments are measured at the amount by which carried value exceeds fair value less costs to sell.

Currently Canadian GAAP requires a two-step impairment test in which the Company must first compare undiscounted cash flows to the carrying value of the assets, and only if the cash flows are below the carrying value does management need to discount the cash flows to calculate impairment. Under IFRS the impairment calculation is a one-step process in which discounted cash flows are compared to the carrying value of assets. This may lead to additional write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but cannot be supported on a discounted cash flow basis. IFRS also requires the reversal of any previous impairment losses where circumstances have changed such that the impairments have reduced. Canadian GAAP prohibits reversal of impairment losses. This could result in greater variability in earnings, carrying values of PP&E, and balances in shareholders' equity.

Asset retirement obligations

Under Canadian GAAP the Company would only record an asset retirement obligation ("ARO") if there was a legal requirement to incur restoration costs. Under IFRS the threshold for recognizing a liability is a legal or constructive obligation. The difference in standards may require the Company to review business plans to determine if there are any actions planned by management that would create a constructive obligation to record an ARO upon adoption of IFRS. Under Canadian GAAP the discount rate is established as the Credit adjusted risk free rate ("CARF") and is set at the time the obligation is established. Under IFRS the discount rate reflects the risk specific to the provision and is updated if conditions change that would require a change in the rate. As well, under Canadian GAAP the costs built into the model reflect third party costs whereas IFRS allows for the assumption that work can be performed internally, likely reducing the liability.

Provisions

IAS 37, Provisions, Contingent Liabilities and Contingent Assets, requires a provision to be recognized when there is a present obligation as a result of a past transaction or event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. Probability is based on a “more likely than not” threshold. Under Canadian GAAP, the criterion for recognition in the financial statements is “likely”, which is a higher threshold. It is possible that there may be some legal, bad debt or contingent provisions which would meet the recognition criteria under IFRS that were not previously recognized under Canadian GAAP.

First-time adoption of IFRS

Adoption of IFRS requires the application of First-time Adoption of International Financial Reporting Standards (“IFRS 1”) which provides guidance for an entity’s initial adoption of IFRS. IFRS 1 lists specific exemptions the Company may use when first adopting IFRS. The most significant exemptions to the Company are as follows:

Business combinations

For business combinations that occurred before the transition date, the Company has the choice to restate all of these business combinations to IFRS standards, restate all business combinations after a particular date, or not to restate any of the business combinations. Assets and liabilities acquired in an un-restated business combination that were recognized under Canadian GAAP and do not qualify for recognition under IFRS are then de-recognized or vice versa. The Company expects to use this exemption and not restate any business combinations prior to December 31, 2009.

Fair-value or revaluation as deemed cost

IFRS requires PP&E to be measured at a cost in accordance with IFRS (breaking down material items into components and amortizing each one separately). However, upon transition IFRS permits an asset to be recorded at its fair value at date of transition, or an event-driven valuation (i.e., when an entity was acquired). This exemption may be applied to individual items of PP&E. Any write-up of the asset to a fair value above cost will be recorded in retained earnings as a revaluation reserve. The Company is assessing the impact of these alternatives.

Cumulative translation adjustment

IAS 21, The Effects of Changes in Foreign Exchange Rates, requires a company to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition with reclassification of the previous amount made to retained earnings.

Asset retirement obligation

Similar to Canadian GAAP, IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. There are however differences in the measurement of the liability as discussed above. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs. If a first-time adopter uses this exemption, it:

- a) measures the liability as at the date of transition to IFRSs in accordance with IAS 37;
- b) to the extent that the liability is within the scope of IFRIC 1, estimates the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
- c) calculates the accumulated depreciation on that amount, as at the date of transition to IFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with IFRSs.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and other long term liabilities. The carrying amounts of financial instruments, except for as noted below, approximate their fair values.

Previously, the Company engaged in the forward sale of gold produced from ore purchased from third parties to ensure the Company achieves an acceptable profit margin on this activity and to protect against a decline in the price of gold. The Company discontinued this practice in August of 2008 and settled all remaining contracts outstanding at that time, resulting in a realized gain on settlement of \$0.3 million. The existing forward contracts are recorded as deferred revenue as they require physical delivery of the underlying ounces and do not provide for settlement in cash or offsetting.

RISK ASSESSMENT

There are numerous risks involved with gold mining and exploration companies and the Company is subject to these risks. The Company's major risks (in no particular order) and the strategy for managing these risks are as follows:

Gold price volatility

The price of gold has been historically volatile and this volatility will likely continue both near-term and long-term. Management's strategy in dealing with this volatility is to expose gold produced by Jerritt Canyon to this volatility (i.e. sell gold at market rates as produced), thus participating in upward movements in price of gold, while being exposed to downward movements in the price of gold. Third party ore purchases are based on market price of gold at date the Company takes possession of the ore. Management sells gold that is projected to be produced from this ore using forward contracts in an effort to insulate the Company from downward pressure in the price of gold, subsequent to the date of purchase.

Estimates of reserves and resources

Resource estimates involve a certain level of interpretation and professional judgment. The Company has opted to utilize the services of SRK Consulting in its 43-101 work for both the Jerritt Canyon mine and the Ketz River project in the past. This ensures a consistent methodology is utilized from property to property. SRK Consulting has done reserve and resource estimate work for numerous years on the Jerritt Canyon mine and is quite familiar with the property. The Company is currently in the process of completing an updated 43-101 for both the Ketz River and Jerritt Canyon property.

Environmental risk

Environmental factors must be taken into account at all stages of project development and during mining operations. The Company understands that it is critical to long-term success to operate in an environmentally conscious manner.

Safety risk

The mining business can present some significant safety risks during all phases of project/mine life. The Company has undertaken several safety related capital improvements to the Jerritt Canyon facilities during 2008 and 2009 to mitigate the impact of these risks.

Ability to raise capital

The availability of capital is dependent on both macroeconomic factors and the Company's track record in utilizing capital. The current tightening of credit and decline in liquidity have presented new challenges to companies attempting to obtain financing. As well, the significant reduction in the Company's market

capitalization has made it difficult to obtain substantial funding through equity issues without significant dilution of the existing shareholders. Management attempts to use capital resources as efficiently as possible, while being aware of the need to invest money in the finding and developing future gold-bearing ore bodies.

Exploration for future gold resources and reserves

Exploration can be a very capital intensive undertaking for the Company. Management understands this risk and attempts to spend as efficiently as possible. The Company determines an appropriate level of exploration expenditures during the budgeting process and the results of these programs are assessed to determine future level of exploration activity.

OUTSTANDING SHARE DATA

The following is the outstanding share information for Yukon-Nevada Gold as of August 11, 2010:

Common shares issued and outstanding		662,797,403		
Outstanding equity instruments	# Outstanding (000')	Weighted average Exercise price	Weighted average Years to expiration	
Shareholder warrants	249,476	\$ 0.51	1.4	
Stock options	50,767	\$ 0.37	4.1	

DISCLOSURE CONTROLS AND PROCEDURES

Based upon the evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's consolidated financial statements for the three and six months ended June 30, 2010 and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective to ensure that material information relating to the Company was made known to others within the Company particularly during the period in which this report and accounts were being prepared, and such controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under regulatory rules and securities laws is recorded, processed, summarized and reported, within the time periods specified. Refer below to Internal Control Over Financial Reporting. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management, including the Chief Executive Officer and Chief Financial Officer, has assessed:

- (i) the design and evaluated the effectiveness of the Company's disclosure controls and procedures and
- (ii) the design of the company's internal control over financial reporting as of June 30, 2010, pursuant to the certification requirements of National Instrument 52-109. Management has satisfied itself that no material misstatements exist in the Company's financial reporting at June 30, 2010.

Management is in the process of redesigning certain internal controls relating to the material weaknesses as reported in the December 31, 2009 management discussion and analysis.

1. Control Environment

A Company's control environment influences the control consciousness of its people, and is the foundation of all other components of internal control over financial reporting. In 2009 the Company's control environment did not sufficiently promote effective internal control over financial reporting throughout the organization. Specifically, the Company did not conduct a comprehensive fraud risk assessment during the year with all of the structural changes to the Board of Directors which occurred during the third quarter of 2009. As well, during the year the Audit Committee Chair and another member of the Audit Committee, the only two independent members with financial reporting expertise, resigned from the board. They were replaced with two new members who lack financial reporting expertise resulting in a material weakness in corporate governance as it relates to financial oversight. These control deficiencies by themselves do not directly result in a material misstatement to the financial statements, however, deficiencies in the control environment are pervasive in nature.

2. Management review

The Company had limited accounting personnel to support the Chief Financial Officer during the annual financial close process. Specifically, the Company did not have personnel other than the Chief Financial Officer with expertise in complex accounting matters to enable effective review in complex accounting area. As a result, material errors were identified and corrected prior to the issuance of the financial statements for the following accounts: inventory, deferred revenue, accrued liabilities and income taxes. This deficiency creates a reasonable possibility that a material misstatement would not be prevented or detected on a timely basis.

3. Inventory

The Company's controls over inventory were not designed effectively. Specifically, the Company was not able to reconcile the stockpile movement during the year based on production records. This is largely a result of not being able to actively monitor production during the period the mill was being operated by Golden Eagle. This resulted in large adjustments to stockpile inventory at year end based on the results of the annual survey.

Remediation Plans

Management is undertaking the following initiatives for 2010:

1. Control Environment

Management is currently updating the procedures for the Board of Directors and believes a formal fraud risk review program will be implemented during the third quarter of 2010 (delayed due to changes in the board during the second quarter). During the second quarter the Company also brought on three additional independent directors, one of whom qualifies as an independent financial expert.

2. Resource Constraints

Management is actively evaluating the need for additional accounting resources to support the segregation of duties within the organization. During the second quarter of 2010, one additional resource was identified at the corporate level that will enhance the support for the review procedures in 2010.

3. Inventory

Management has been effectively tracking stockpile movement since the recommencement of operations in October of 2009 through the use of daily reporting and monthly stockpile surveys and reconciliations.

ADDITIONAL INFORMATION

Additional information may be examined or obtained through the internet by accessing the Company's website at www.yukon-nevadagold.com or by accessing the Canadian System for Electronic Data Analysis and Retrieval (SEDAR) website at www.sedar.com.

FORWARD LOOKING STATEMENTS

This report contains "forward-looking statements", including all statements that are not historical facts, and forward looking information within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian Securities legislation. Forward-looking statements include, but are not limited to, statements with respect to the future price of gold, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of deposits, success of exploration activities, permitting time lines, currency exchange rate fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

With respect to forward-looking statements and the information included in this MD&A, we have made numerous assumptions, including, among other things, assumptions about the price of gold, anticipated costs and expenditures and our ability to achieve our goals, even though our management believes that the assumptions made and the expectations represented by such statements or information will prove to be accurate. By their nature, forward-looking statements and information are based on assumptions and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include among other things the following: gold price volatility; discrepancies between actual and estimated production and mineral reserves and resources; the speculative nature of gold exploration; mining operational and development risk; and regulatory risks. See our Annual Information Form for additional information on risks, uncertainties and other factors related.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not

undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

Consolidated Financial Statements
(Expressed in United States dollars)

YUKON-NEVADA GOLD CORP.

For the six months ended June 30, 2010 and 2009

The interim consolidated financial statements for the three and six months ended June 30, 2010 and 2009 has not been reviewed by an independent accountant.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Yukon-Nevada Gold Corp. (the Company) have been prepared by management in accordance with generally accepted accounting principles (GAAP) in Canada, and within the framework of the summary of significant accounting policies disclosed in the notes to these consolidated financial statements.

Management is responsible for establishing internal controls over financial reporting for the Company. Management has designed and implemented internal controls over financial reporting (ICFR) that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The Audit Committee of the Board of Directors meets periodically with management and the Company's independent auditors to review the scope and results of their annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval. The Audit Committee is appointed by the Board of Directors and all but one of its members are independent directors. The Audit Committee is responsible for engaging or re-appointing the external auditors.

The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

These interim unaudited consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

YUKON-NEVADA GOLD CORP.

Consolidated Balance Sheets
(Unaudited)
(In thousands of US dollars)

	June 30, 2010	December 31, 2009
		(Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 459	\$ 185
Investments	242	-
Accounts receivable and prepaid expenses	6,075	4,549
Inventories (note 4)	11,522	9,930
Future income taxes	895	895
	19,193	15,559
Restricted funds (note 5)	34,807	29,175
Property, plant and equipment (note 6)	87,321	89,270
Mineral properties (note 7)	64,737	60,526
Other assets	881	911
	\$ 206,939	\$ 195,441
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 47,061	\$ 39,564
Deferred revenue	4,838	4,838
	51,899	44,402
Other long-term liabilities	50	50
Asset retirement obligations	37,305	35,907
Future income taxes (note 9)	15,175	15,372
	104,429	95,731
Shareholders' equity (note 10)		
Share capital	241,713	227,075
Warrants	60,141	17,737
Contributed surplus	12,567	10,489
Accumulated other comprehensive income	2,273	2,273
Deficit	(214,184)	(157,864)
	102,510	99,710
Going concern (note 1)		
Commitments and contingencies (note 12)		
Subsequent event (note 13)		
	\$ 206,939	\$ 195,441

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

“Robert Baldock” _____ Director

“Graham Dickson” _____ Director

YUKON-NEVADA GOLD CORP.

Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

(In thousands of US dollars, except for share and per share amounts)

Six months ended June 30, 2010 and 2009

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Gold sales	\$ 11,850	\$ 4,788	\$ 22,008	\$ 4,788
Cost of gold sold	13,542	6,089	27,015	6,157
Gross margin – mining operations	(1,692)	(1,301)	(5,007)	(1,369)
Temporary shutdown costs (note 3)	-	2,460	-	4,912
Depreciation, depletion, and amortization	1,368	1,547	2,657	3,042
Accretion	720	722	1,439	1,440
Loss from mine operations	(3,780)	(6,030)	(9,103)	(10,763)
General and administration	693	486	1,699	1,312
Stock-based compensation (note 10(d))	545	-	771	-
Loss from operations	(5,018)	(6,516)	(11,573)	(12,075)
Other (loss) income:				
Interest and other income	31	(138)	129	(57)
Foreign exchange gain (loss)	902	(1,007)	162	(665)
Interest and financing charge (note 10(c)(i))	(828)	(76)	(45,037)	(76)
	105	(1,221)	(44,746)	(798)
Loss before income taxes	(4,913)	(7,737)	(56,319)	(12,873)
Income tax (expense) recovery				
Current	(1)	-	(1)	(87)
Future	-	-	-	-
Loss and comprehensive loss for the period	\$ (4,914)	(7,737)	\$ (56,320)	\$ (12,960)
Loss per share – basic and diluted	(0.01)	(0.02)	(0.10)	(0.04)
Weighted average number of shares outstanding (basic and diluted) (000's of shares)	652,520	311,964	582,401	297,657

See accompanying notes to consolidated financial statements.

YUKON-NEVADA GOLD CORP.

Consolidated Statements of Shareholders' Equity

(Unaudited)

(In thousands of US dollars, except number of common shares)

	Common shares						
	Shares (000's)	Amount	Warrants	Contributed surplus	Accumulated comprehensive income	Deficit	Total
Balance at January 1, 2009	272,655	\$ 206,778	\$ 19,107	\$ 8,694	\$ 2,273	\$ (115,204)	\$ 121,648
Issued on private placement (note 10(b)(iii)-(vi),(c))	90,383	3,686	2,854				6,540
Share issue costs (note 10(b)(iii)-(vi),(c))	1,800	111	34	(80)			65
Exercise of warrants (note 10(c))	225,883	21,881	(3,603)				18,278
Expiry of warrants (note 10(c))	-		(655)	655			-
Exercise of options (note 10(d))	120	30		(13)			17
Flow through share renunciation	-	(5,411)					(5,411)
Stockbased compensation (note 10(d))	-			1,233			1,233
Loss for the year	-					(42,660)	(42,660)
Other	5						-
Balance at December 31, 2009	590,846	227,075	17,737	10,489	2,273	(157,864)	99,710
Issued on private placement (note 10(b)(ii),(c))	22,727	4,807					4,807
Flow through share issue (note 10(b)(i))	34,559	9,248					9,248
Share issue costs (note 10(b)(i))	-	(739)	128				(611)
Exercise of warrants (note 10(c))	14,000	1,178	(184)				994
Exercise of options (note 10(d))	190	47		(19)			28
Issue of inducement warrants (note 10(c)(i))	-		43,632				43,632
Expiry of warrants (note 10(c))	-		(1,172)	1,172			-
Stockbased compensation (note 10(d))	-			925			925
Loss for the year	-					(56,320)	(56,320)
Other	440	97					97
Balance at June 30, 2010	662,762	\$ 241,713	\$ 60,141	\$ 12,567	\$ 2,273	\$ (214,184)	\$ 102,510

See accompanying notes to consolidated financial statements.

YUKON-NEVADA GOLD CORP.

Consolidated Statements of Cash Flows
(Unaudited)
(In thousands of US dollars)

Six months ended June 30, 2010 and 2009

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cash provided by (used in):				
Operations				
Net loss for the year	\$ (4,914)	\$ (7,737)	\$ (56,320)	\$ (12,960)
Items not affecting cash:				
Depreciation, depletion, and amortization	1,368	1,547	2,657	3,042
Accretion	720	722	1,439	1,440
Stock-based compensation	559	-	840	-
Loss on disposal and write-down of asset	-	280	-	468
Inducement warrants issued	-	-	43,632	-
Expenses settle in shares	64	-	97	-
Reclamation payments	-	(294)	-	(294)
Unrealized foreign exchange (gain) loss	(1,168)	803	(324)	502
	(3,371)	(4,679)	(7,979)	(7,802)
Change in non cash working capital (note 11)	2,077	5,345	4,779	7,508
Cash used by operating activities	(1,294)	666	(3,200)	(294)
Investing				
Restricted funds	(5,637)	145	(5,672)	-
Short-term investments	(242)	-	(242)	-
Mineral property expenditures	(2,348)	(492)	(3,974)	(887)
Property, plant and equipment expenditures	(1,014)	(759)	(1,086)	(865)
Proceeds from sale of assets	-	-	-	112
Cash used by investing activities	(9,241)	(1,106)	(10,974)	(1,640)
Financing				
Notes payable and capital leases	(11)	17	(18)	(5)
Common shares issued for cash	9,248	617	14,055	1,854
Share issue costs	(611)	-	(611)	-
Common shares issued upon exercise of shareholder warrants	254	910	994	910
Common shares issued upon exercise of stock options	7	-	28	-
Cash used by financing activities	8,887	1,544	14,448	2,759
Increase (decrease) in cash and cash equivalents	(1,648)	1,104	274	825
Cash and cash equivalents, beginning of period	2,107	827	185	1,106
Cash and cash equivalents, end of period	\$ 459	\$ 1,931	\$ 459	\$ 1,931

See accompanying notes to consolidated financial statements.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of US dollars unless otherwise noted)

For the six months ended June 30, 2010 and 2009

1. Going Concern:

Yukon-Nevada Gold Corp.'s (the Company) business is gold mining and related activities, including exploration, development, extraction, processing and reclamation. Gold has been produced in Nevada, USA (Jerritt Canyon) and gold exploration activities are being carried out in Nevada, USA (Jerritt Canyon) and the Yukon Territory, Canada (Ketz River and Silver Valley).

For properties other than the producing mine at Jerritt Canyon, the Company is in the process of mineral exploration and has yet to determine whether these properties contain reserves that are economically recoverable. The recoverability of the amount shown for these 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.

During the third quarter of 2008 the Company determined that under current conditions the Jerritt Canyon mine was not economic, and the mine was shutdown on August 8, 2008. Subsequent to the mine closure, the Company began work on addressing a number of key operational issues that had previously caused the mine to operate at a loss plus issues related to the stop order issued by the Nevada Division of Environmental Protection ("NDEP") in the first quarter of 2008 in order to receive permission to restart the milling operations. These issues included bringing the evaporation pond into operational use and beginning the drawdown of the tailings pond, finalizing engineering design plans of a new mercury emissions system, and the cleanup of waste materials onsite. The Company addressed all of these requirements and received approval from the NDEP to restart milling operations on March 25, 2009, with the requirement that the new mercury emissions system as proposed would be completed by May 31, 2009.

On May 30, 2009, the roaster circuits at Jerritt Canyon were once again shut down as delays in receiving critical components of the new mercury emissions system resulted in the Company being unable to meet the May 30, 2009 installation date. The system was completed in July 2009 and in October 2009 the Company obtained a consent decree to allow for the restart of the Jerritt Canyon facility from the Attorney General representing the NDEP.

Upon recommencement of operations, the Company continued to mill the remaining stockpiles on site as well as pursue toll milling opportunities at the Jerritt Canyon site. Additional financing is required in order to fund further development of the Jerritt Canyon mines and enable a return to mining once the necessary infrastructure work has been completed. Management is currently pursuing financing alternatives and believes it will be able to secure the required financing in the near future. Should such financing be obtained, Management believes that the remaining property, plant, and equipment costs can be fully recovered through a combination of toll milling and a return to mining.

At June 30, 2010 the Company had a working capital deficiency of \$32.7 million. These consolidated financial statements are prepared on the basis that the Company will continue as a going concern. The conditions described in the preceding paragraphs raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern and recover the investment in property, plant, and equipment and mineral properties is dependent on its ability to generate positive cash flows and obtain additional financing in order to meet its planned business objectives. However, there can be no assurance that the Company will be able to obtain additional financial resources, achieve profitability or positive cash flows. If the Company is unable to generate positive cash flows or obtain adequate financing, the Company will need to

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For the six months ended June 30, 2010 and 2009

further curtail operations and exploration activities. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which could differ significantly from the going concern basis.

2. Basis of presentation:

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles following 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, 2009, except for the new accounting policies adopted subsequent to that date, as discussed below. These unaudited interim consolidated financial statements do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, they should be read in conjunction with the Company's most recent audited annual consolidated financial statements.

(a) Basis of consolidation

These unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances have been eliminated. The subsidiaries and joint ventures along with percentage of ownership as at June 30, 2010 are:

Ketza River Holdings Ltd. (Yukon)	100%
YGC Resources Arizona Inc. (Arizona)	100%
Queenstake Resources Ltd. (British Columbia)	100%
Queenstake Resources U.S.A. Inc. (Delaware)	100%
Castle Exploration Inc. (Colorado)	100%
Yukon-Shaanxi Mining Company - Joint Venture (Yukon)	41%

(b) International Financial Reporting Standards

In February 2008, the AcSB announced that 2011 is the transition date for publicly listed companies to use IFRS, which will replace existing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. As a result, the Company has developed a plan to convert its consolidated financial statements to IFRS and will commence reporting on an IFRS basis in the quarter ended June 30, 2011 with comparative 2010 data on an IFRS basis as required. The adoption of IFRS will have a significant impact on property, plant and equipment, asset retirement obligation, provisions and accumulated other comprehensive income.

Accounting policies applicable effective January 1, 2011

In June 2009, the CICA amended Handbook Section 3855 – Financial Instruments – Recognition and Measurement (“Section 3855”) to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument at initial recognition for accounting purposes. The amendments are applicable for the Company's interim and annual financial statements for its fiscal year beginning January 1, 2011. Earlier adoption is

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permitted. At June 30, 2010, the Company had no debt instruments to which the Section 3855 amendments would be applicable.

On December 24, 2009, the CICA issued EIC Abstract 175 – Multiple Deliverable Revenue Arrangements (“EIC-175”). EIC-175 addresses the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EIC-175 is applicable to revenue arrangements with multiple deliverables entered into or materially modified on or after January 1, 2011. Earlier adoption is permitted. The Company does not anticipate early adopting EIC-175. The Company plans to adopt revenue recognition principles in accordance with IFRS effective January 1, 2011 and does not anticipate that this adoption will have a material impact on the Company’s consolidated financial statements.

3. Temporary Suspension of Jerritt Canyon Operations

On August 8, 2008 the Company announced the suspension of underground mining activity at the Jerritt Canyon property, with a suspension of the milling operations occurring the following week. The mill was shut down temporarily with plans to recommence processing available stockpiles in 2009 and continue to pursue toll milling opportunities and financing to continue mining activities. The mill resumed operations on March 29, 2009 and continued operations until May 30, 2009, when it was shut down again due to delays in ductwork required in the construction of the new mercury emission control system. The operations recommenced again on October 20, 2009 after the Company came to an agreement with the NDEP in the form of a Consent Decree (note 1). Expenses incurred during the shutdown of the mill, other than normal course operating costs have been included in temporary shutdown costs.

4. Inventories:

	June 30, 2010	December 31, 2009
Finished goods	\$ 27	\$ 1,316
Stockpiled ore	372	-
Purchased ore	2,285	5,340
Work in progress	6,197	558
Materials and supplies	2,641	2,716
	<u>\$ 11,522</u>	<u>\$ 9,930</u>

All of the Company’s inventories on hand are located at the Jerritt Canyon mine in Nevada, USA.

Included in cost of gold sold and depreciation, depletion and amortization expense on the statement of loss are total inventory related costs of \$(0.9) million (December 31, 2009 – \$0.6 million) and \$(0.3) million (December 31, 2009 – \$0.3 million), respectively. As at June 30, 2010, there is no net realizable value adjustment (December 31, 2009 - \$0.4 million).

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5. Restricted funds:

	June 30, 2010	December 31, 2009
AIG commutation account (i)	\$ 25,650	\$ 25,580
Cash restricted for future exploration in Canada (ii)	5,603	-
Water use license letter of credit (iii)	2,901	2,940
Workmens' compensation self-insurance	431	431
Cash pledged as security for letters of credit	222	224
	<u>\$ 34,807</u>	<u>\$ 29,175</u>

- (i) The Company purchased from American Insurance Group (AIG) an environmental risk transfer program (the "ERTP"). As part of the ERTP, \$25.8 million was deposited in an interest-bearing account with AIG (the Commutation Account). The Commutation Account principal plus interest earned on the principal is used to fund Jerritt Canyon mine's ongoing reclamation and mine closure obligations. During the first half of 2010, the Company earned \$0.1 million (2009 - \$0.1 million) interest from the commutation account.
- (ii) During 2010, the Company raised funds by way of private placements of flow-through shares. Under the conditions of these private placements, the funds must be spent in 2010 and 2011 on Canadian Exploration Expenditures (CEE) on properties located in Canada. A total of \$7.2 million of cash is required to fund future exploration under the terms of the flow through share subscription agreements, however only a \$5.6 million was available due to the use of cash on non-flow through expenditures at June 30, 2010. The Company is obligated to fund the remaining \$1.6 million of expenditures by December 2011.
- (iii) The Yukon Territorial Government has a letter of credit with the Company to secure payment of potential reclamation work relating to the Ketz River project.

6. Property, plant and equipment:

Property, plant and equipment comprise:

	June 30, 2010			December 31, 2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Jerritt Canyon mine, USA	\$ 106,764	\$ 19,897	\$ 86,867	\$ 105,685	\$ 17,032	\$ 88,653
Ketz River project, Canada	1,557	1,188	369	1,642	1,126	516
Corporate and other, Canada	245	160	85	239	138	101
	<u>\$ 108,566</u>	<u>\$ 21,245</u>	<u>\$ 87,321</u>	<u>\$ 107,566</u>	<u>\$ 18,296</u>	<u>\$ 89,270</u>

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For the six months ended June 30, 2010 and 2009

The continuity of property, plant and equipment is as follows:

	June 30, 2010			December 31, 2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Opening, January 1	\$ 107,566	\$ 18,296	\$ 89,270	\$ 105,763	\$ 11,913	\$ 93,850
Additions	1,086	n/a	1,086	2,629	n/a	2,629
Depreciation	n/a	3,035	(3,035)	n/a	6,425	(6,425)
Write-downs	-	-	-	(772)	(42)	(730)
Reclass	(86)	(86)	-	(54)	-	(54)
Closing, June 30	\$ 108,566	\$ 21,245	\$ 87,321	\$ 107,566	\$ 18,296	\$ 89,270

7. Mineral properties:

	December 31, 2009		Additions	June 30, 2010
Ketza River project, Canada (b)	\$ 58,093	\$ 3,962	\$ 62,055	
Silver Valley project, Canada (b)	1,508	178	1,686	
Arizona project, USA (c)	591	-	591	
Yukon-Shaanxi project, Canada (d)	327	71	398	
Other Yukon and BC projects, Canada (e), (f)	7	-	7	
	\$ 60,526	\$ 4,211	\$ 64,737	

a) Jerritt Canyon, Nevada:

The Company has a 100% interest in the Jerritt Canyon property which consists of two gold producing mines, the SSX-Steer complex and the Smith mine. The carrying value of Jerritt Canyon is nil at June 30, 2010 and December 31, 2009 due to a \$69.4 million impairment charge on Jerritt Canyon mineral properties recorded in 2008 when the operations were shutdown.

(b) Yukon properties:

(i) Ketza River properties, Yukon:

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

(ii) Silver Valley, Yukon:

The Company has a 100% interest in 114 claims and an option to acquire an additional 6 claims from an Optionor.

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(c) Silver Bar, Arizona:

The Company has a 100% interest in 55 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 which 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 2005.

(e) Other Yukon Base Metals properties:

(i) Money property:

The Company has a 100% interest in 46 claims on this gold, silver and copper property located in south central Yukon. The Company entered into an option agreement with Yukon Zinc Corporation (Yukon Zinc) in August 2005 which allows Yukon Zinc to acquire a 25% interest in the property by making cash payments to the Company of C\$40,000 over a five year period and incurring C\$150,000 of exploration expenditures over that period. Upon exercise of the initial option, Yukon Zinc will have an additional option to acquire an additional 26% interest in the property by paying the Company C\$25,000 in cash or shares upon giving notice of its intent to pursue the additional option and undertaking an additional C\$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 staked 36 claims near Watson Lake, Yukon Territory during 2006. These claims are adjacent to claims held by an unrelated third party. The focus of this property, based on preliminary historical geological work, will be silver.

These properties have nominal carrying values.

8. Related party transactions:

During the six months ended June 30, 2010, the Company was charged a total of C\$0.2 million (2009 - C\$0.1 million) in legal fees by a law firm for general corporate services in which the corporate secretary of the Company is a partner. The amount owing at June 30, 2010 is C\$0.3 million. A portion of these fees are included in share issue costs with the remainder included under general and administrative expenses.

In the six months ended June 30, 2010, the Company was charged a total C\$0.8 million by a Company owned by a director of the Company, for the management of the Yukon properties. The director ceased being a director of the Company in May, 2010.

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9. Income taxes:

	June 30, 2010
Future income tax liability, opening	\$ 15,372
Impact of foreign exchange on Canadian dollar future income tax liability	(197)
Future income tax liability, closing	\$ 15,175

10. Share capital:

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

(b) Common shares issued and outstanding:

- (i) In May, 2010 the Company closed private placements for gross proceeds of \$9.2 million from the issuance of an aggregate of 34.6 million flow-through shares (the "FT Shares") at C\$0.275 per FT Share in two tranches. In connection with the private placement, the Company paid a commission of \$0.6 million cash and 0.7 million share purchase warrants (the "Agent's Warrants"). Each Agent's Warrant will entitle the Agent to purchase one Common Share of the Company for a period of two years at an exercise price of C\$0.275 Common Share. All securities issued pursuant to these private placements are subject to a four month hold period, commencing on their respective closing dates. The proceeds from the private placements will be used on the continued exploration of the Company's Ketz River Property, Yukon Territory.
- (ii) On March 26, 2010 the Company closed its \$4.8 million non-brokered private placement for a total of 22.7 million common shares at a price of C\$0.22 per Share. There was no finder's or commission fee payable on the private placement.
- (iii) On December 1, 2009, the Company closed a non-brokered private placement for a total of 10.0 million units (the "Units") at a price of C\$0.10 per Unit for proceeds of \$0.9 million. Each Unit consisted of one common share and one share purchase warrant exercisable to purchase one additional common share at a price of C\$0.125 per share within 18 months of closing of the private placement.
- (iv) In August 2009 the Company closed two non-brokered private placements for a total of 41.1 million units (the "Units") at a price of C\$0.10 per Unit. Each Unit consisted of one common share and one share purchase warrant exercisable to purchase one additional common share at a price of C\$0.125 per share within 30 months of closing of the private placement.
- (v) On April 24, 2009 the Company closed a non-brokered private placement for a total of 12.0 million units (the "Units") at a price of C\$0.06 per Unit for proceeds of \$0.6 million. In addition, a finder's fee of 0.4 million units was paid on the private placement. Each Unit consisted of one common share and one share purchase warrant exercisable to purchase one additional common share at a price of C\$0.08 per share within 24 months of closing of the private placement.
- (vi) On February 27, 2009 the Company closed two non-brokered private placement as follows:
 - 10.0 million units ("Unit 2") were issued at a price of C\$0.05 per Unit 2 for proceeds of \$0.4 million. Each Unit 2 consists of one common share (a "Share") and two series of Share purchase warrants. The first warrant (the "Series "A" Warrant") can be exercised to purchase one additional Share (the ""A" Warrant

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Share") at a price of C\$0.07 per share within 12 months of closing of the private placement and the second warrant (the "Series "B" Warrant") can be exercised to purchase one additional Share (the ""B" Warrant Share") at a price of C\$0.09 per share within 18 months of closing of the private placement. In addition, 1.0 million units were issued as a finder's fee in connection with the private placement which consists of one common share and one Series A warrant.

17.3 million units ("Unit 1") were issued at a price of C\$0.06 per Unit 1 for proceeds of \$0.8 million. In addition, 0.4 million Unit 1 units were issued as a finder's fee in connection with the private placement. Each Unit 1 consists of one common share (a "Share") and one Share purchase warrant (the "Warrant"). The Warrant can be exercised to purchase one additional Share (the "Warrant Share") at a price of C\$0.08 within 24 months of closing of the private placement.

(c) Warrants:

Where the warrants are issued as part of a unit comprised of common shares and warrants, the value is assigned to common shares and warrants based on their relative fair value. The fair value of the common shares is determined by the closing price on the date of the transaction and the fair value of the warrants is determined based on a Black Scholes pricing model. Where the warrant is issued and not attached to a common share, they are valued using the Black Scholes pricing model.

The following are shareholder warrants outstanding as of December 31, 2009:

Expiry date	Note	Exercise price (C\$)	Warrants (in thousands)				Carrying value
			December 31, 2008	Issued	Exercised/e xpired	December 31, 2009	
January 16, 2009		\$ 1.80	1,000	-	(1,000)	-	\$ -
April 12, 2010		5.50	2,851	-	-	2,851	1,172
June 20, 2012		3.00	21,426	-	-	21,426	15,282
December 17, 2009		0.07	87,200	-	(87,200)	-	-
June 17, 2010		0.09	87,200	-	(85,200)	2,000	21
February 25, 2011	10(b)(vi)	0.08	-	17,733	(17,333)	400	8
February 24, 2010	10(b)(vi)	0.07	-	11,000	-	11,000	140
August 24, 2010	10(b)(vi)	0.09	-	10,000	-	10,000	118
April 24, 2011	10(b)(v)	0.08	-	12,400	(5,600)	6,800	150
February 7, 2012	10(b)(iv)	0.125	-	18,830	(10,000)	8,830	334
February 28, 2012	10(b)(iv)	0.125	-	22,220	(20,550)	1,670	61
June 1, 2011	10(b)(iii)	0.125	-	10,000	-	10,000	451
			199,677	102,183	(226,883)	74,977	\$ 17,737

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For the six months ended June 30, 2010 and 2009

The following are shareholder warrants outstanding as of June 30, 2010:

Expiry date	Note	Exercise price (C\$)	Warrants (in thousands)				June 30, 2010	Carrying value
			December 31, 2009	Issued	Exercised/ expired			
April 12, 2010		5.50	2,851	-	(2,851)	-		
June 20, 2012		3.00	21,426	-	-	21,426	15,282	
June 17, 2010		0.09	2,000	-	(2,000)	-	-	
February 25, 2011	10(b)(vi)	0.08	400	-	-	400	8	
February 24, 2010	10(b)(vi)	0.07	11,000	-	(11,000)	-	-	
August 24, 2010	10(b)(vi)	0.09	10,000	-	-	10,000	118	
April 24, 2011	10(b)(v)	0.08	6,800	-	(1,000)	5,800	127	
February 7, 2012	10(b)(iv)	0.125	8,830	-	-	8,830	334	
February 28, 2012	10(b)(iv)	0.125	1,670	-	-	1,670	61	
June 1, 2011	10(b)(iii)	0.125	10,000	-	-	10,000	451	
January 12, 2012	(i)	0.320	-	170,400	-	170,400	38,728	
January 12, 2012	(i)	0.129	-	10,000	-	10,000	2,513	
January 12, 2012	(i)	0.260	-	10,250	-	10,250	2,391	
May 12, 2012	10(b)(i)	0.275		700		700	128	
			74,977	191,350	(16,851)	249,476	\$ 60,141	

(i) On January 12, 2010, the Company's shareholders approved the issuance of up to 190.7 million inducement warrants for the early exercise of 200.9 million existing warrants that expired on December 17, 2009, June 17, 2010, February 6, 2012 and February 12, 2010. In the first quarter of 2009 \$43.6 million was expensed related to the issue of these warrants.

(d) Stock options:

The Company has a stock option plan (the Plan) in place under which the Board of Directors may grant options to acquire common 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 security based agreements, cannot exceed 10% of the issued and outstanding securities.

Under the fair value method, the total fair value of the stock based compensation recognized was \$0.8 million for the six months ended June 30, 2010. A portion of this is included in operations and in mineral properties (cost allocated to fair value of options granted to Ketz River contractors). There was no stock base compensation recognized in the six months ended June 30, 2009.

The options outstanding at June 30, 2010 are as follows:

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	Options outstanding (000's)	Weighted average exercise price (C\$/option)
At January 1, 2009	8,869	1.71
Granted	21,585	0.15
Exercised	(120)	0.15
Expired	(4,297)	1.41
At December 31, 2009	26,037	0.40
Granted	22,350	0.32
Exercised	(190)	0.15
Expired	(1,275)	0.88
At June 30, 2010	46,922	0.35

Exercise Price (C\$)	Outstanding			Vested		
	Options outstanding (000's)	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)	Options outstanding (000's)	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)
0.15-0.31	21,275	0.15	4.1	8,675	0.15	4.1
0.32-0.82	22,665	0.33	4.6	834	0.49	2.7
0.83-1.60	275	1.45	2.2	275	1.45	2.2
1.61-1.75	1,882	1.72	2.1	1,882	1.72	2.1
1.76-5.70	825	2.72	1.5	825	2.77	1.5
	46,922	0.35	4.2	12,491	0.61	3.5

11. Supplemental information:

Net change in non-cash working capital comprise of:

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Accounts receivable and prepaid expenses	\$ (1,345)	\$ (271)	\$ (1,550)	\$ 108
Inventories	(3,788)	973	(1,336)	720
Accounts payable and accrued liabilities	7,210	6	7,665	2,043
Deferred revenue	-	4,838	-	4,838
Payable on ore purchases	-	(201)	-	(201)
	\$ 2,077	\$ 5,345	\$ 4,779	\$ 7,508

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12. Commitments and contingencies:

a) Commitments:

The Company received advance payments of \$4.8 million for gold to be delivered at a series of future dates. Once the revenue recognition criteria have been met this deferred revenue will be recognized as gold sales. In conjunction with the receipt of advance payment on gold sales the Company committed to the delivery of 6,508 ounces as follows:

Ounces sold	Contract price (per ounce)
1,000	\$ 850
2,650	750
2,858	700
6,508	\$ 743

Each contract has a specific penalty payment required for late delivery. For the first contract, this penalty amounts to \$0.03 million per month, whereas the latter two contracts contain penalties of \$0.08 million per month. As of June 30, 2010, the Company has not delivered the ounces required under the contracts and has made penalty payments of \$1.4 million to the counterparty in the first half of 2010.

(b) Contingencies:

- (i) On April 22, 2009, the Company received a notice of complaint from the U.S. Department of Justice representing the Environmental Protection Agency (EPA) alleging the Company had violated specific provisions of the Resource Conservation and Recovery Act relating to the generation, storage, handling, and disposal of hazardous wastes at the Jerritt Canyon facility. The Company has responded to the allegations and has held discussions with the EPA on the matter in order to determine the nature of the violations, with further discussions upcoming in the second quarter. The final outcome and the extent of any liability is not yet determinable.
- (ii) On June 10, 2009 Queenstake Resources USA Inc. ("Queenstake"), a subsidiary of the Company filed a complaint in the Fourth Judicial District Court, State of Nevada, against the former mill operator, Golden Eagle International Inc. ("GEII"), stating that GEII had not operated the mill in a workmanlike manner and at a level consistent with industry standards, resulting in a loss of revenues to Queenstake. The Company, through its subsidiary, is claiming damages, the ultimate amount of which is yet to be determined. Subsequently, GEII has filed an answer and counterclaim alleging that the Company had breached the mill operating agreement, resulting in loss of future revenues to GEII and loss of reputation. GEII is also claiming damages, the ultimate amount of which is yet to be determined.
- (iii) Queenstake has been named as a defendant in a class action lawsuit initiated by certain employees who were laid off in August 2008. The action is for an alleged violation of the Federal WARN Act, Employment Retirement Income Security Act, and State Labor Laws and to foreclose on labor liens not yet filed.

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Queenstake intends to satisfy all outstanding legal obligations caused by the shut down in August 2008. When the mine closed the Company took steps to pay out these obligations from available cash at the time, which was half of the amount required under the Federal WARN Act. The Company has provided for what it believes to be the amount that remains due under the Federal WARN Act, Employment Retirement Income Security Act, and State Labor Law obligations. The Company and Queenstake will defend the class action from any and all unjustified claims where they believe there is no obligation. The class action lawsuit has not been certified by the courts.

13. Subsequent event:

On July 13, 2010 Sprott Asset Management LP, for and on behalf of certain managed accounts, funds and other purchasers ("Sprott"), agreed to purchase \$25.0 million principal amount in senior secured notes (the "Notes"). The proceeds from the sale of the Notes will be used to assist with the development of the Jerritt Canyon Gold Project and for working capital purposes. The Notes will have a maturity date of no later than March 31, 2013 and will be secured by a charge over all the assets of Queenstake Resources U.S.A. Inc. ("Queenstake") and a share pledge over all shares in Queenstake. The Notes will be repaid through monthly cash installments based on a notional amount of approximately 284,114 shares of SDR GLD Gold Shares beginning September 2010, provided that the Company will guarantee a minimum rate of return of 5% per annum on the aggregate principal amount over the life of the Notes. In connection with the Note financing, the Company will issue to Sprott an aggregate of 25 million common share purchase warrants (the "Warrants"), each such warrant entitling the holder to purchase one common share of the Company at a price of C\$0.40 per share for a period of three years following closing.

14. Comparative figures

Certain prior year's figures have been restated to conform to current year's presentation.