

YUKON-NEVADA GOLD CORP.
Management's Discussion and Analysis
For the year ended December 31, 2010

The following management's discussion and analysis ("MD&A") relates to the financial condition and results of operations of Yukon-Nevada Gold Corp. (the "Company" or "Yukon-Nevada") together with its wholly owned subsidiaries as of December 31, 2010, and is intended to supplement and complement the Company's audited consolidated financial statements for the year ended December 31, 2010. The MD&A is prepared as of March 31, 2011 to conform to National Instrument 51-102F1 and has been approved by the Company's Audit Committee and Board of Directors prior to release. Readers are cautioned that the MD&A contains forward-looking statements and that actual events may vary from management's expectations. The consolidated financial statements and MD&A are presented in United States dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The Company's shares are listed on the TSX (trading symbol – "YNG") and the Frankfurt Stock Exchange (trading symbol – "NG6") and at March 31, 2011 the Company had 699,117,596 shares outstanding.

ANNUAL HIGHLIGHTS

- The Jerritt Canyon Mine processed 18,770 ounces from stockpiles, purchased ore and mining operations in the three months ended December 31, 2010, despite colder than normal weather conditions which resulted in more down time during the period. Jerritt Canyon processed a total of 65,104 ounces from stockpiles, purchased ore, and mining operations for the year ended December 31, 2010.
- During the quarter the Company purchased 86,257 tons of ore from Newmont USA Limited (Newmont), containing 16,905 ounces, at an average cost per wet ton of \$198.53 per dry ton.
- The gross margin from mining operations at the Jerritt Canyon Mine was a loss of \$8.4 million in the three months ended December 31, 2010, a significant reduction from the third quarter results as the Jerritt Canyon operations dealt with extreme weather conditions which significantly reduced overall tonnage processed during the quarter. The Company also incurred significant fines during the period arising from non-compliance with Consent Decree mainly as a result of weather related issues and follow-on consequences.
- Small Mine Developers ("SMD") delivered 71,173 tons to the mill containing 14,919 ounces from the Smith mine during the quarter, showing continued improvement but also reflecting a slowdown in the month of November to complete backfill and development work. A total of 45,302 ounces were delivered to the mill from the Smith mine for the year at a total cost of \$29.2 million.
- The Company had a loss of \$18.8 million in the fourth quarter of 2010 compared to \$18.1 million in the fourth quarter of 2009. This loss largely arose from the loss from mining operations noted above as well as the interest costs on the \$25 million loan and derivative losses of \$7.2 million.
- On August 13, 2010 the Company issued \$25.0 million in Senior Secured Note (the "Notes") and 25,000,000 common share purchase warrants (the "Warrants"), raising net proceeds of \$24.8 million. Each Warrant entitles the holder thereof 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 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 Corp. ("Yukon-Nevada Gold" or the "Company") 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)

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010
Gold (troy ounces)					
Produced	9,258	18,440	18,636	18,770	65,104
Sold	9,108	9,876	15,547	21,883	56,414
Gold sales	\$ 10,158	\$ 11,850	\$ 19,466	\$ 29,896	\$ 71,370
Cost of gold sold	\$ 13,473	\$ 13,542	\$ 18,043	\$ 38,320	\$ 83,378
Average gold price per ounce	\$ 1,116	\$ 1,200	\$ 1,252	\$ 1,366	\$ 1,265

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009	Q1 2008	Q2 2008	Q3 2008	Q4 2008	2008
Gold (troy ounces)										
Produced	-	5,180	-	4,590	9,770	13,470	12,086	19,176	-	44,732
Sold	-	5,180	-	4,590	9,770	25,590	8,705	20,144	1,921	56,360
Gold sales	\$ -	\$ 4,788	\$ -	\$ 5,125	\$ 9,913	\$ 21,789	\$ 7,773	\$ 17,162	\$ 2,257	\$ 48,981
Cost of gold sold	\$ 68	\$ 6,089	\$ 1,347	\$ 18,545	\$ 26,049	\$ 22,408	\$ 12,463	\$ 20,606	\$ 3,265	\$ 58,742
Temporary shutdown costs	\$ 2,452	\$ 2,460	\$ 5,176	\$ 462	\$ 10,550	\$ 4,360	\$ 3,497	\$ -	\$ 5,258	\$ 13,115
Average gold price per ounce	\$ -	\$ 924	\$ -	\$ 1,117	\$ 1,015	\$ 851	\$ 892	\$ 852	\$ 888	\$ 869

During 2008 the Jerritt Canyon milling operations were shut down for the majority of the year while the Company carried out an extensive maintenance program and pursued additional financing to sustain the necessary work. On August 8, 2008, after several months of low output from mining activities resulting from years of underinvestment in mine development and backfill, the Company shutdown mining operations to contain the increasing costs while working on additional financing to support a new mine plan. The interim plan to continue operating the mill by toll milling existing third party ores and process lower grade stockpiles after the mine

shutdown was halted when a key mill component was damaged, resulting in an immediate reduction of the Jerritt workforce to maintenance levels while the Company completed the repair work. During this time the Company also began discussions with the Nevada Division of Environmental Protection (“NDEP”) to obtain permission to restart the facility and pursued 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. The Company also completed the installation of continuous emissions monitoring instrumentation to facilitate emissions reporting to the NDEP. After receiving approval from the NDEP on March 25, 2009 and restarting the milling operations, the Company shut down 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 of the operator 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 mill operator, Golden Eagle, from the site. The Company subsequently uncovered a number of 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. Although the Company continued to believe that some of this loss could be recovered through litigation, a settlement was reached with Golden Eagle in August of 2010 in order to remove the burden of any claims against the property to facilitate further financing needed to expand the operations.

With the takeover of the operations in June 2009, the Company quickly completed the installation of the calomel emission system and 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 under the scrutiny of a third party auditor. 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 environmental compliance concerns of the NDEP in relation to the Jerritt Canyon mill and surrounding land holdings, and gives the Company the right to operate the milling facility from the effective date. The Consent Decree records and agrees both parties to the terms of an environmental work program to be completed over a two year period and includes penalties for not completing these work programs, significantly reducing the possibility of future stop orders being issued.

Commencing in January 2010 SMD was engaged to commence mining operations at the Smith mine under a three year contract, resulting in the delivery of 207,535 wet tons containing 45,302 ounces doré during the year. Production rates continued to improve as further development of the mine was achieved and necessary permitting obtained, reaching the targeted 1,000 tons per day during the third quarter.

In May 2010, the Company had a scheduled shutdown of the mill at Jerritt Canyon in order to carry out a significant overhaul of key mill components for compliance with the Consent Decree and 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. This replacement subsequently resulted in an improvement in the production rates and the Company achieved steady state of operations during the third quarter.

In the fourth quarter of 2010 the Company successfully negotiated a trial three month contract with Newmont for the delivery of 2,000 tons of gold bearing ore per day commencing October 30, 2010. During the quarter the Company purchased 86,257 tons of ore from Newmont under this contract containing 16,905 ounces, at an average cost per wet ton of \$198.53 per dry ton, or \$1,013 per ounce. Due to the success of this initial contract, Newmont is continuing to deliver at a rate of 1,000 tons per day in 2011 while finalizing a longer term contract with an increased daily tonnage.

During the months of November and December the Company focused on processing primarily Smith ore and ore purchased from Newmont and discontinued processing low cost stockpiles, causing the cost per ton to increase significantly. The cost per ton increased from an average quarterly cost, including mining and milling, of \$95/per ton to approximately \$231/per ton in the fourth quarter as a result of this change. As the Company is able to increase the daily production amounts and mix in a larger portion of lower cost stockpiles a significant improvement in margins will be realized.

Late in 2009 the Company prepared a capital budget that included significant expenditures for the commencement of the construction of a second tailings facility construction (to be completed in 2011), completion of several Consent Decree requirements, and also the winterization and improvements to the milling facility. This winterization would be achieved by installing heat tracing materials on all piping, housing key areas of the crushing circuit (such as fine crushing), construction of an improved ore dryer which would also be protected from the weather, and increasing the level of materials and supplies on hand to reduce the down time caused by a lack of spare parts. In the second quarter the Company made significant progress in completing this capital budget but required additional funding to complete a large portion of the required work. To finance this budget the Company negotiated with several lenders during the year but was unable to obtain debt financing until late in the third quarter of 2010. Due to the timing of closing this financing and also the requirement to settle outstanding claims against the Company to clear title to the property, a substantial portion of the winterization project was not completed and the Company was forced to delay commencement of the second tailings facility construction. As well, due to the early onset of severe weather certain Consent Decree projects such as the reclamation of one of the off-take ponds located next to the tailings facility and the construction of a water treatment facility for acid rock clean up were not completed by their scheduled time.

In addition to the higher cost of the ore processed during the quarter, the delay in these capital investments impacted the milling operations of the Company and the corresponding financial results for the fourth quarter. As a result of being unable to complete the full winterization project and restock materials and supplies to higher levels prior to the onset of severe winter conditions, the operations at Jerritt Canyon experienced higher than normal downtime as sections of the mill, primarily fine crushing and the refinery (where the heat tracing work was not completed prior to winter), were exposed to severe cold and snow resulting in additional strain on equipment, breakdowns, and clogged chutes (due to the freezing of wet ore). This problem was aggravated by the need to freight in necessary parts to complete repair work due to the lack of in house inventories. The delays in completing key environmental projects required by the Consent Decree also resulted in the NDEP levying a fine against the Company (\$0.8 million) late in the fourth quarter.

However, despite not being able to complete certain items within the time constraints as imposed by the Consent

Decree for the above reasons, the NDEP has acknowledged the positive approach and efforts by the Company and continues to provide support and assistance to complete this project. Regular meetings in Carson City, site inspections and other initiatives all assist the Company's progress in working toward finalizing the Consent Decree program.

Exploration Summary

SMD continued drilling underground definition (production) drill holes using a cubex drill, focusing in the last 6 months on Zones 5 and 9 in the Smith Mine. For 2010 a total of 1,143 drill holes were completed for a total footage of 71,565 feet. All of these drill holes have been added to the Company's drill hole database and will be used in the upcoming revised resource calculation.

For underground exploration drilling, eight drill holes totaling 8,126 feet have been completed from underground drill stations at the Smith mine since commencing underground exploration in the third quarter of 2010. Three of these drill holes were for exploration purposes (SMI-LX-750, SMI-LX-751, and SMI-LX-752) and 5 of them were drilled as resource conversion holes (SMI-LX-753, SMI-LX-754, SMI-LX-755, SMI-LX-756, and SMI-LX-757).

The ongoing 2010 underground exploration program is focusing on the Smith mine (no drill stations were ready in 2010 in the SSX/Steer mine) and consists of twelve NQ2 diameter drill holes totaling 15,500 feet. To date, there are no underground drill stations ready to use at the SSX-Steer Mine. This drill program is testing favorable ore controlling structures proximal to the existing underground workings and is intended to expand and convert existing resources outlined in the most recent NI 43-101 report published in 2008. In addition, the goal of the 2010 underground drilling program is to add resources that are not included in the current Smith Mine 4-year Life of Mine plan.

	Exploration (UG) – Diamond Drilling		Resource Conversion (UG) – Diamond Drilling	
	# of Drill Holes	Footage	# of Drill Holes	Footage (ft)
Smith Mine	3	3,446	5	4,680

Additional bonding requirements resulted in delays in the surface exploration program, moving the expected 35,000 foot drill plan into 2011 now that the bonding requirements have been met. The required bonding is now in place with the US Forestry Service and the exploration program will recommence late in the first quarter of 2011.

Ketza River

Exploration Summary

During 2010, a total of 86 exploration diamond drill holes were completed at the Ketza River Project in the Yukon Territory, Canada. This Ketza River drill program tested 11 target areas and consisted of both step-out drilling from existing resources and the testing of new geochemical and geophysical targets. The drilling program contained a Quality Assurance and Quality Control (QA/QC) program including the insertion of certified gold standards and blanks as defined in the previously published Year-end 2007 NI 43-101 report.

Target	Drill Holes Completed	Total Meters	Total Footage
Bluff Zone	8	782	2,566
QB Deep IP	3	1,601	5,251
Vertical Vein	7	1,181	3,876
Connector Zone	10	1,755	5,758
Break Zone	11	2,297	7,537
B-Mag Zone	14	996	3,268
Peel Zone	7	771	2,529
Hoodoo Zone	9	1,456	4,778
Fred's Vein	3	500	1,642
Penguin	13	2,101	6,892
Peel Creek Gravity	1	174	572
Total	86	13,614	44,669

Following up on the successful 2008 drill hole intercepts, a series of 2010 step out drill holes were completed in the Bluff Zone which is located in between the Peel and Lab resource zones. Strong gold mineralization was encountered in some of the 2010 drill holes; however, this phase of drilling defined the bottom of the mineralized zone. The QB Zone – Deep Induced Polarization (IP) target was generated from a Titan-24 survey conducted in August of 2009. The survey identified an extensive zone of anomalous chargeability and conductivity located greater than 700 meters below the surface and beneath the drilled QB Zone resource. The Company completed several drill holes that successfully penetrated the geophysical anomaly and indicated strong anomalous gold throughout much of its length.

A series of 11 drill holes were completed in the Break Zone in the Peel resource that tested a magnetic anomaly caused by sulfide minerals lying below the existing oxide resource. All but two of the drill holes intersected significant gold mineralization but only from the oxide-rich material.

A total of fourteen step-out drill holes were completed in the southeastern margin of the B-Mag Zone located in the east side of the Peel resource. These drill holes were successful in extending gold mineralization by 15 to 33 meters laterally to the southeast from the existing resource.

Nine exploration drill holes were targeted as infill holes and local mineralization extensions in the planned high wall of the Lab-Hoodoo open-pit near the top of the ridge. Three fans of three drill holes each tested above, below and to either side of the 2008 drill holes which contained 9.14 meters averaging 32.98 g/t Au. All of the 2010 drill holes in this zone contained strong oxide mineralization. Assay result highlights in this zone include drill holes which intercepted 9.14 meters averaging 37.37 g/t Au, 1.43 m averaging 15.64 g/t Au, and a third which intercepted 2.30 meters averaging 17.60 g/t Au. Cross sections suggest that these drill hole assay intersections approximate true thickness.

A total of 13 drill holes were completed in 2010 at the Penguin Zone. Six of the drill holes tested Very Low Frequency (VLF) geophysical and soil anomalies that were coincident with a zone of massive pyrite and arsenopyrite boulders on the surface. Some of these drill holes contained significant gold mineralization. Seven of the other drill holes in this zone tested three strong magnetic high anomalies. Some of these drill holes encountered several significant gold intercepts containing massive pyrrhotite and pyrite.

Other exploration targets such as Fred's Vein and the Peel gravity anomaly were also drill tested in 2010 with some indication of gold mineralization but no significant assay intersections.

Several inlying claims located within the large Ketz River property were purchased in the summer of 2010 and

helped consolidate the ownership into one contiguous block owned or leased by Ketz River Holdings. The Company is pursuing other opportunities to extend the claim block at Ketz River.

Geophysical and Geochemical Surveys

As noted in the table below (results shown in kilometers, except for soil sampling which shows number of samples) four areas were targeted in 2010 for geophysical and soil exploration: the Shamrock, South Hill target, OK target, and lower tailings option site. The 2010 geophysical studies included Induced Polarization (IP) and ground magnetics.

Target	South Hill	Shamrock	OK Target	Lower Tailings Site	Total
Technique					
Ground Magnetics	71	45.1	71	41.1	157.2
IP	6.8		36.9		41.3
Line Cutting			34.5		34.5
Soil Sampling	814				814

The results of this work will be used to help target a good portion of the 2011 Ketz River drill hole program. The north side of Shamrock, the South Hill Target and the proposed tailings site were covered by a ground magnetic survey which identified numerous strong anomalies and helped refine targets north of the Shamrock Zone. Two Induced Polarization (IP) lines were conducted across the South Hill Target to investigate the possible presence of mineralized pyrite-bearing manto zones that do not have enough pyrrhotite to generate a magnetic anomaly. The 2010 IP survey results were successful at identifying a number of potential sulfide-bearing and mineralized zones.

Drill Hole Database and Resource Modeling

Significant work on the Ketz drill hole database was conducted in 2010 to help support an updated resource estimate. Drill hole assay data were reviewed, database software was upgraded, and assay importing routines were optimized during 2010. An extensive update process was completed as well to integrate all assays for historical drill holes (assays from 1985 to 1997 were digitally compiled from the paper drill hole files). Primary lab assay data for these early drill hole years were selected and methodically entered into the drill hole database and used for the revised 2010 resource model calculation. An updated resource calculation for the Ketz River project is currently in progress and targeted for completion in 2011 which will incorporate all of the previous year's drilling information and will include a summary of the metallurgy testing program conducted in 2008. This resource estimate will form the basis of the mine design for the Project Proposal that has a targeted submission date to the Yukon Environmental and Socio-economic Assessment Board (YESAB) of August 2011.

2010 YESAB Project Proposal Work Summary

A number of studies relating to YESAB Project Proposal were continued in 2010. A third party engineering firm is handling the completion of this application with a targeted submission date in the third quarter of 2011.

In support of the project proposal a total of 1,233 meters of geotechnical and hydrogeology drilling (see table below) was conducted for the pit-wall stability program. The results of this drilling were combined with the geotechnical drilling information gathered in 2008 to help support pit-wall slope recommendations for the proposed mine design. Two draft geotechnical reports, one on the manto zone deposits and one on the Shamrock zone deposits, were completed for in-house review in December 2010. A few of these 2010

geotechnical drill holes contained significant assay intervals (e.g. a drill hole in Tarn intersected 6.21 m averaging 2.24 g/t Au).

Area	Drill Holes Completed	Total Meters	Total Footage
Peel Zone Geotechnical	3	524	1,721
Penguin Zone Geotechnical	1	77	252
Tarn Zone Geotechnical	2	145	476
Tarn Zone Hydrogeology	1	72	236
3-M Zone Geotechnical	1	103	337
Gully Vein Geotechnical	2	312	1,024
Total Geotechnical - Open Pits	10	1,233	4,046

A total of 32 drill holes were also completed in and around the footprint of the proposed lower tailings site to help support the YESAB project proposal. Sixteen were diamond drill holes that targeted magnetic anomalies and were designed for either exploration or condemnation purposes. All of these drill holes were logged for geotechnical data and some were used to gather hydrogeology information to help support engineering design studies. Fourteen of the drill holes were completed with a Becker drill and diamond drill core at depth to gather geotechnical information. Some of these drill holes were completed as groundwater monitoring wells. Two additional monitoring wells were installed at the toe berm of the existing tailings dam as requested by the Yukon Water Board.

Various other YESAB work was completed during the year including a site water quality control and assurance program, compilation of hydrogeology data compilation and analysis, Socio-economic, wildlife, fish and aquatic studies, tailings design and tradeoff studies, and conceptual engineering and design studies. Several meetings with local communities (Ross River and Faro) and local First Nations (Ross River Dena and Teslin) were held in November and December to update everyone on the Company's proposed Ketz River Mine Project; additional meetings also took place in early 2011 at Teslin. Numerous meetings were also held with the Water Board, YESAA, Water Resources, and Energy, Mines and Resources to help advance the progress for the YESAB Project Proposal and the water license application for the existing tailings pond.

Silver Valley

A total of 7 diamond drill holes were conducted at the Silver Valley project in 2010.

Target	Drill Holes Completed	Total Meters	Total Footage
River's Edge	5	817	2,680
K-18B South	2	428	1,404
Total	7	1,245	4,084

The 2010 drill holes tested two horizontal-loop electromagnetic (HLEM) geophysical anomalies identified during the 2007 field season. Five drill holes were completed at the River's Edge target which identified three sub-parallel quartz-siderite-pyrite veins with minor amounts of galena and tetrahedrite. Two other 2010 drill holes tested the north end of the K-18B South target which is a possible fault offset of the K-18B Vein resource that was drilled in 2007. The two 2010 drill holes intersected two pyrite-dominant veins approximately 3 meters in width containing minor galena, sphalerite, stibnite, and tetrahedrite.

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 of 2009, 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 other creditors, Tagish Lake was placed into Companies Creditors' Arrangement Act ("CCAA"), utilizing the proceeds provided from the investment by YSM. During the CCAA process a takeover bid was received from New Pacific Metals Ltd. ("NUX") for the shares of Tagish Lake which included full payout of any debts. Although the joint venture provided a competing takeover offer and funds were transferred from NWME to support the offer, insufficient shares were tendered to this competing offer to reach the required level of ownership and the majority of the shares were tendered to an improved offer made subsequently by NUX. Both joint venture partners had set a specific fair market value for the Tagish Lake property and the bid was based on these estimates, so an improved offer was not made. Subsequent to the successful take over by NUX, in October 2010 Tagish Lake completed a plan of arrangement under the CCAA with a loan from NUX and the joint venture has recovered all funds that were loaned to Tagish Lake with applicable interest. The joint venture will pursue other opportunities to explore and develop resources in the Yukon.

SELECTED ANNUAL FINANCIAL INFORMATION

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

	2010	2009	2008
Gold sales	\$ 71,370	\$ 9,913	\$ 48,981
Cost of sales	83,378	26,049	58,742
Gross Margin	(12,008)	(16,136)	(9,761)
Temporary shutdown costs	-	10,550	13,115
Depletion, depreciation and amortization	5,428	6,271	9,279
Accretion	2,879	2,890	2,117
Earnings(loss) from mining operations	(20,315)	(35,847)	(34,272)
Net loss	(93,095)	(42,660)	(105,360)
Loss per share - basic and diluted	(0.14)	(0.13)	(0.57)
Weighted average # of shares outstanding (millions)	646.5	339.0	185.1

Jerritt Canyon consists of a milling facility as well as two underground mines, the Smith and the SSX. Jerritt Canyon operated continuously from the date of acquisition on June 20, 2007 until February 22, 2008 when it shut down to address infrastructure and safety concerns. In May 2008, Jerritt Canyon recommenced commercial production at reduced levels. On August 8, 2008 mining at Jerritt Canyon ceased again as a result of increasing mining costs and continued dilution resulting from the ongoing required development and infrastructure work

arising from years of neglect. Subsequent to the closure of the mines, as a result of a dirty air fan that was damaged in the following week, the milling operation was also shut-down. Mining and milling operations did not resume for the remainder of 2008 while management pursued additional financing and continued work on addressing environmental concerns raised by the NDEP in their stop order issued in March of 2008. Milling operations resumed March 25, 2009 when approvals were received from NDEP on the progress and plans developed by the Company. Operations were shutdown again on May 30, 2009 due to a delay in the fabrication of certain fiberglass ductwork required in the construction of the new mercury emission control system, a requirement of the NDEP in their March restart order. The Company was able to complete the installation of a calomel emission system and the system instrumentation on July 20, 2009.

After coming to an agreement with the NDEP in the form of a Consent Decree, the Company resumed operations on October 20, 2009. The Consent Decree resolves all of the compliance concerns of the NDEP in relation to the mill and surrounding land holdings of the Company, as well as related environmental concerns and gives the Company the right to operate the milling facility from the effective date.

The Company incurred a post-tax loss of \$93.1 million during the year ended December 31, 2010, compared with a post-tax loss of \$42.7 million in the year-ended December 31, 2009. The decline in results from 2009 to 2010 reflect the impact of financing costs of \$49.7 million principally arising from a \$43.6 million expense on the inducement warrants issued in January 2010 and \$3.7 million of accretion expense on the \$25 million Notes issued in August 2010 as well as financing fees of \$1.2 million for services paid in shares and settlement of late payment penalties on the deferred revenue of \$1.3 million. Furthermore, the Company was negatively impacted by the fair value movements linked to the rising gold price on the embedded derivative associated with the Notes and prepaid forward contract resulting in a derivative loss of \$7.2 million.

The gross margin loss for 2010 was \$12.0 million compared to \$16.1 million for the year ended December 31, 2009. The lower loss in 2010 is a result of a full year of operations compared with the extended shutdown periods in 2009.

RESULTS OF OPERATIONS

Gold sales:

For the year ended December 31, 2010, the Company realized gold sales of \$71.4 million on sales of 56,411 ounces of gold compared with realized gold sales of \$9.9 million on sales of 9,770 ounces of gold in 2009 and \$49.0 million in sales of 56,360 ounces in 2008. The increase in ounces produced and sold in 2010 from 2009 reflects the return of Jerritt Canyon to steady-state production, following a major maintenance work program to address the operating issues encountered in 2008 and 2009. The 717% increase in gold sales in 2010 was a result of a full year of production compared with only 130 days of operations in 2009, combined with higher spot gold prices in 2010.

Gross margin – mining operations:

Gross margin from mining operations was a loss of \$12.0 million for the year ended December 31, 2010, compared to a loss of \$16.1 million for the year ended December 31, 2009 and operating loss of \$9.8 million in the year ended December 31, 2008. The results in 2010 reflect a full year of operations compared with only 130 days of operations in 2009. Although the operations began to show improvement in the gross margin over 2010

in the final quarter the margin decreased significantly due to a weather-induced decline in daily production and the focus on milling higher cost Newmont ore, as described above. The Company produced 65,104 ounces of gold during the year ended December 31, 2010 compared to 9,770 ounces in 2009 and 56,360 ounces in 2008.

The gross margin in 2010 was also impacted by discrepancies identified by the Company in production numbers leading into the refinery circuit at the mill during the month of August. Accurate tracking of production occurs at each step of the milling process and no further discrepancies have been noted since the third quarter, but the Company estimates that a total of 2,700 ounces went unaccounted for during that period. The loss of these ounces impacted the results of the Company resulting in a significantly lower gross margin than otherwise would have been realized. Had the Company completed the processing of these ounces and either sold them or held them in inventory, the results would have significantly improved. A significant amount of ounces has been identified as residing in one of the overflow tanks in the refinery referred to as the barren tank. In the first quarter of 2011 the Company began work to recover these ounces and to date has recovered 1,490 ounces, compared with the 500 ounces originally recorded in this part of the circuit in September 30, 2010 (revised to 1,800 ounces at December 31, 2010 based on further investigation). The Company believes it has recovered a significant portion of the missing ounces however this has led to a full analysis of the mill circuit and further steps are being taken to improve the controls and enhance the throughput. In late February the Company retained the services of an Australian consulting firm to review the security and metallurgical procedures and they are in the process of providing a full report to bring the Company in line with Gold Security Standards.

Temporary shutdown costs:

As previously noted the Jerritt Canyon mine operated intermittently in 2009 and 2008 while safety, operational and environmental issues were resolved. The mine operated for 130 days in the year ended December 31, 2009 compared to 159 days in 2008. During the temporary shutdowns the Company incurred significant expenditures, some of which benefit the operations beyond the upcoming year and have been capitalized to plant and equipment accordingly. Expenditures that did not have a future economic benefit to the Company were included in the Statement of Operations as "temporary shutdown costs". Temporary shutdown costs were \$10.6 million in 2009 compared to \$13.1 million in 2008 reflecting a shorter shut down period in 2009 and cost controls. The Company has operated continuously in 2010 and hence all costs have been classified as cost of sales.

Depreciation, depletion and amortization:

The Company had \$5.4 million in depreciation, depletion and amortization for the year ended December 31, 2010 compared with \$6.3 million and \$9.3 million for the years ended December 31, 2009 and 2008, respectively.

Depreciation expense was lower in 2010 compared to prior years due to the lower asset base arising from asset sales and impairments recorded in 2008 and 2009 as well as a significantly higher ending inventory balance of \$21.3 million as at December 31, 2010 compared to \$9.9 million as at December 31, 2009. Depreciation is a period cost and is not impacted by mine closures.

Depletion was nil in 2010 and 2009 reflecting write-off of Jerritt Canyon property cost in the third quarter of 2008. Depletion recorded in 2008 was \$0.5 million.

Accretion

Accretion expense was \$2.9 million in 2010, consistent with the charge recorded in 2009 of \$2.9 million and higher than the \$2.1 million arising in 2008. The increase seen in 2009 and continuing in 2010 reflects the revision to the asset retirement obligation recorded in 2008.

Impairment of Mineral Properties and Equipment

During the third quarter of 2008 management determined that the existing mine plan at Jerritt Canyon resulted in unprofitable operations due to high operating costs, low production rates and dilution resulting from years of neglect. To lower the cost of mining and increase efficiency, management determined that additional backfill and development work needed to be completed which could not be performed while continuing to mine. On August 8, 2008 a decision was made to cease all mining activities until a profitable mine plan could be developed and appropriate financing could be obtained to fund the required infrastructure work. As a result of the uncertainty regarding the Company's ability to obtain financing and develop a profitable mine plan, an indicator of impairment arose. The Company reviewed the mineral property and related property, plant and equipment and, based on the uncertainty with respect to their ability to move forward with the development plan, took a full charge against the value of the property and certain equipment as noted in the table below.

See the section on "Critical Accounting Estimates" for discussion on impairment testing of long-lived assets.

During the year ended December 31, 2010, management reviewed the remaining mineral properties and concluded that management did not intend to pursue exploration of the Silver Bar property in Arizona and the Mount Nansen project held by the joint venture. As a result all deferred costs associated with the two properties were expensed in the year resulting in a \$1.0 million impairment charge.

Following a review of the asset retirement obligation at Jerritt Canyon, an increase to the liability of \$0.6 million was recorded. However as a result of the continued uncertainty of financing for exploration and development of the US property, the associated increase to the Jerritt Canyon mineral property was expensed.

Exploration, general and administrative expenses and stock-based compensation:

The Company incurred \$1.0 million of underground exploration activity at Jerritt Canyon mine in the year ended December 31, 2010, which was expensed in the period. There was no exploration or development work undertaken in 2009. Exploration activity related to non-producing sites is capitalized.

During 2010 the Company incurred general and administrative expenses of \$2.6 million compared with \$3.1 million and \$4.1 million in the comparable 2009 and 2008 years. These are costs incurred at the head office in Canada and the decrease is the result of the reversal of prior year accruals of \$0.9 million, offset by the effect of the weakening of the US dollar relative to the Canadian dollar from \$0.88 in 2009 to \$0.97 in 2010 along with higher legal costs for due diligence undertaken for the purpose of securing long term financing and increased business development activity.

Stock-based compensation was \$5.3 million in 2010 compared to \$1.2 million in 2009 and \$1.1 million in 2008. \$1.2 million was recorded as cost of gold sold (2009 -\$0.2 million, 2008 - \$1.1 million). The charge in 2010 relates to the vesting of stock options that were granted in the second half of 2009 and throughout 2010. The Company granted 37.6 million options in 2010, primarily to directors and key personnel, compared to 21.6 million in 2009.

Restructuring charges:

As a result of the suspension of both mining and milling activities in 2008 at Jerritt Canyon the Company undertook a significant work force reduction of 394 employees. The Company was required to provide former employees with severance equivalent to 60 days of wages and was also required to pay out any accumulated vacation amounts. The total of these costs were recorded as a \$4.5 million restructuring charge in the third quarter of 2008. As of December 31, 2010, the Company had paid \$2.6 million of this obligation, the remaining portion representing the final 30 days of severance due.

Interest and other income (loss):

	2010	2009	2008
Provisions for and settlement of lawsuits	\$ (4,612)	\$ -	\$ -
Settlement of deferred revenue	(3,071)	-	-
Loss on derivatives	(7,163)	-	-
Gain on sale of marketable securities	339	-	-
Gain on disposal of assets	-	-	2,572
Interest income	134	-	1,724
Other	251	(7)	339
	\$ (14,122)	\$ (7)	\$ 4,635

The Company recorded a loss of \$14.1 million of interest and other income in 2010 compared to a negligible loss in 2009 and income of \$4.6 million in 2008.

In the third quarter of 2010, the Company settled the dispute between its wholly owned subsidiary, Queenstake Resources Ltd. ("Queenstake") and Golden Eagle International Inc. ("Golden Eagle"), arising out of Queenstake's termination in 2009 of Golden Eagle's arrangement to restart operations at the Jerritt Canyon mine. In full settlement, Queenstake paid Golden Eagle a total of \$3.5 million, and Yukon-Nevada Gold delivered 2 million shares (valued at \$1.0 million) to Golden Eagle during the fourth quarter of 2010. The parties agreed to settlement terms and filed a stipulation to dismiss the case, without any admission of liability by any party. The dismissal included the dismissal with prejudice of counterclaims and third party complaints filed by Golden Eagle against Queenstake, Yukon-Nevada Gold, and François Marland, who currently serves as a Director of Yukon-Nevada Gold. Of the \$4.5 million settlement, \$1.1 million relating to operating costs was accrued in prior periods and \$3.4 million was recorded in the third quarter. The entire settlement was completed in the fourth quarter of 2010 and the case was dismissed in early 2011.

Also in the third quarter, based on the status of negotiations, the Company accrued additional amounts pertaining to the settlement of the class action initiated by certain employees who were laid off in August 2008. The accrual includes an additional \$0.4 million for possible medical costs that were previously unknown and \$0.8 million in contingency and legal costs for the plaintiffs. The final settlement of this case has yet to occur however the Company expects this action to be settled early in 2011.

In 2009, the Company received advance payment of \$4.8 million for three contracts for 6,508 ounces gold at an average price of \$743 per ounce to be delivered at a series of future dates. The advance payment was settled in August 2010 at a price of \$1,215 resulting in a loss to the Company of \$3.1 million.

As part of the \$25.0 million debt issued in the third quarter of 2010, \$6.8 million of the proceeds was allocated to a gold embedded derivative arising from the loan repayments being indexed to the gold spot price. This

instrument was revalued at December 31, 2010 and resulted in a loss of \$5.3 million due to the rising gold price. A gold forward contract was entered into in November 2010 which is being accounted for as a derivative. The fair value of the derivative was \$8.9 million resulting in a loss of \$1.9 million being recorded in net earnings.

Foreign exchange loss:

There was a foreign exchange loss of \$1.2 million, compared with \$2.1 million loss and \$0.8 million gain in the comparable 2009 and 2008 periods. This was due to the strengthening of the Canadian dollar relative to the US dollar as disclosed above. The losses arise from increased cost of Canadian denominated monetary liabilities (primarily future income tax and asset retirement obligations) due to the higher value of the Canadian dollar, offset by gains on Canadian denominated monetary assets (primarily restricted cash).

Interest and financing expense:

Interest and financing expense was \$49.7 million for 2010 compared with \$0.2 million in 2009 and \$0.7 million in 2008. 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 non-cash charge of \$43.6 million recorded based on the fair value of the warrants issued.

In August 2010, the Company issued \$25.0 million in Senior Secured Notes and 25.0 million common share purchase warrants, raising gross proceeds of \$25 million. Each Warrant entitles the holder thereof 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 Notes are repaid through monthly cash installments based on a notional amount of approximately 284,114 shares of SPDR GLD Gold Shares (an exchange listed fund trading on the NYSE and other global exchanges, meant to provide a proxy for gold price for repayment purposes) beginning October 1, 2010. The Company has guaranteed a minimum rate of return of 5% per annum on the aggregate principal amount over the term of the Notes. In connection with the closing, a finder's fee in the amount of 4% of the gross proceeds raised was payable in shares of the Company. Of the total proceeds of \$24.8 million, net of transaction costs of \$0.2 million, \$5.7m was allocated on initial recognition to the warrants issued. A further \$6.8 million was allocated to the gold embedded derivative arising from the indexing of the loan repayments to the gold spot price. This resulted in an initial liability being recorded of \$12.3 million representing the Company's residual debt. The carrying amount of the liability is accreted to the face value of the notes over the term of the notes. The accretion expense recorded in the period was \$3.7 million.

In 2009 the Company received advance payment of \$4.8 million for three contracts for 6,508 ounces gold to be delivered at a series of future dates, with penalties totaling \$0.2 million per month for each month past the delivery dates. The Company incurred \$1.3 million of financing charges related to these penalties in 2010, compared to \$0.3 million in 2009. The charges were higher in 2010 as the delivery dates had been surpassed for the entire period in 2010, and penalties were being incurred each month in 2010. The forward gold sale contracts were settled for cash on August 2010 instead of gold ounces, resulting in a loss on settlement (refer to interest and other income (loss)). Of the \$49.7 million of interest and financing costs in year ended December 31, 2010 \$49.5 million were non-cash transactions.

Income taxes:

The Company recorded an income tax recovery of \$1.5 million in 2010 compared to \$0.1 million in 2009 and \$12.1 million during 2008. The income tax recovery in 2010 reflects the reversal of prior year estimates included in the original purchase price allocation for the acquisition of Queenstake USA in 2007. The recovery recorded in 2008 primarily related to the recognition of additional loss carry forwards available to offset taxable income. The Company has offset the total future income tax assets with a valuation allowance of \$73.9 million until there is sufficient evidence that, more likely than not, the Company will be able to utilize these losses to offset income.

SUMMARY OF QUARTERLY RESULTS

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

	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Income Statement								
Gold Sales	\$ 29,896	\$ 19,466	\$ 11,850	\$ 10,158	\$ 5,125	\$ -	\$ 4,788	\$ -
Cost of gold sold	38,320	18,043	13,542	13,473	18,545	1,347	6,089	68
Gross margin - mining operations	(8,424)	1,423	(1,692)	(3,315)	(13,420)	(1,347)	(1,301)	(68)
Loss from mine operations	(10,614)	(598)	(3,780)	(5,323)	(16,308)	(8,776)	(6,030)	(4,733)
Loss before taxes	(20,387)	(17,934)	(4,913)	(51,406)	(18,309)	(11,672)	(7,687)	(5,136)
Net loss	(18,841)	(17,934)	(4,914)	(51,406)	(18,073)	(11,677)	(7,687)	(5,223)
Net loss per share	(0.03)	(0.03)	(0.01)	(0.09)	(0.02)	(0.03)	(0.02)	(0.02)
Weighted average # of shares outstanding (000's)	685,616	667,823	652,520	578,796	407,379	355,219	311,964	283,191
Balance Sheet								
Cash and cash equivalents	2,400	9,358	459	2,107	185	952	1,931	827
Total assets	\$ 217,813	\$ 226,971	\$ 206,939	\$ 195,733	\$ 195,441	\$ 196,567	\$ 197,394	\$ 197,190

RESULTS OF OPERATIONS

The Company incurred a loss of \$18.8 million during the quarter ended December 31, 2010, compared to a loss of \$18.1 million in the quarter ended December 31, 2009. The \$0.7 million increase in the loss was primarily due to a \$4.7 million increase in investment and other income (loss) arising from changes in the value of the embedded derivative to the Notes and the forward contract, and a \$1.7 million increase in interest expense due to accretion expense relating to the Notes issued in the third quarter. This was offset by a \$5.7 million improvement from mining operations as the mill operated for the entire quarter and no shutdown costs were experienced during the period.

Gold sales:

Gold sales were \$29.9 million in the fourth quarter of 2010 on gold sales of 21,883 ounces of gold from Jerritt Canyon at an average price of \$1,366 per ounce.

Gross margin – mining operations:

During the three months ended December 31, 2010, the Company had a gross margin loss on gold sales of \$8.4 million compared to a loss of \$13.4 million in the three months ended December 31, 2009. The negative margin in the fourth quarter, as noted earlier, was largely a result of the extreme weather conditions as noted previously and the focus on processing higher cost ores during the period. The Company had planned to make significant investments in winterizing the mill during 2010 however, due to a lack of available financing, was unable to complete a substantial portion of the required work program. Also reflected in the loss is the \$0.8 million fine issued from the NDEP to the Company for not completing certain work programs required under the Consent Decree.

In the three months ended December 31, 2010, the mine produced 18,770 ounces of gold from a combination of Jerritt Canyon ore stockpiles, purchased ore and mining operations. In the fourth quarter the Company was able to begin identifying areas where the missing ounces from the third quarter could be residing and began to take steps to recover them. An active investigation is still underway however a significant portion of these ounces has been identified as residing in one of the overflow tanks in the refinery referred to as the barren tank. In the first quarter of 2011 the Company began work to recover these ounces and to date has recovered 1,490 ounces, compared with the 500 ounces originally recorded in this part of the circuit in September 30, 2010 (revised to 1,800 ounces at December 31, 2010 based on further investigation). The Company believes it has now recovered the majority of the missing ounces however this has led to a full analysis of the mill circuit and further steps are being taken to improve the controls and enhance the throughput.

Other changes from the fourth quarter of 2009 would be the full quarter of mining activity as SMD commenced mining activities in 2010 and no such mining activity occurred in 2009.

Temporary shutdown costs:

Temporary shutdown costs related to mine site costs other than rent and utility costs were \$0.5 million in the three months ended December 31, 2009, as the operations were shut down for the majority of this time. Other than the scheduled shutdown in May for two weeks (followed by one week to restart the mill and build up the carbon in circuit) Jerritt Canyon operated throughout 2010 and all costs were charged to current production or inventory. Costs incurred during this period are not being classified as a shutdown cost as the Company elected to cease operations in order to complete necessary Consent Decree and maintenance work.

Depreciation, depletion and amortization:

The Company had \$1.5 million in depreciation and amortization for the three months ended December 31, 2010, compared with \$1.7 million in 2009. The lower depreciation in 2010 is due to an increase in the loading of depreciation to inventory at year-end as a result of the higher inventory balance. Mineral properties were written down in 2008 therefore there is no depletion of mineral properties.

Exploration, general and administrative expenses and stock-based compensation:

The Company incurred \$0.8 million of underground exploration activity at Jerritt Canyon mine in the three months ended December 31, 2010, which was expensed in the period. There was no exploration or development work undertaken in 2009.

For the three months ended December 31, 2010, the Company incurred nil general and administrative expenses compared with \$1.2 million in 2009. These are costs incurred at the head office in Canada and the decrease is primarily due to the reversal of accruals of \$0.9 million. The remaining decrease was the result of increased efficiencies and lower professional fees incurred in the fourth quarter of 2010.

Stock-based compensation was \$1.6 million in the three months ended December 31, 2010 compared to \$0.1 million in the comparable period in 2009. \$1.1 million was recorded in cost of goods sold (2009 - \$nil). The charge in 2010 relates to options that were issued to employees in the fourth quarter as well as the vesting of stock options that were granted in the second half of 2009 and in the first and third quarter of 2010.

Interest and other income (loss):

Interest and other income (loss) was a loss of \$4.7 million for the three months ended December 31, 2010, compared to a gain of \$0.5 million for the same period in 2009.

The loss recorded in 2010 arose as a result of the fair value movement in the embedded derivative associated with the \$25 million Notes and the revaluation of the forward contract entered into in November 2010. The movement in fair value for both derivatives recorded in the three months ended December 31, 2010 was \$4.9 million.

Interest and financing expense:

Interest and financing expense was \$1.7 million for the three months ended December 31, 2010, compared to a nil expense in the comparable 2009 period. The increase was primarily due to the accretion expense on the \$25 million debt which totaled \$2.1 million for the three month period.

LIQUIDITY

During 2010 cash and cash equivalents increased from approximately \$0.2 million to \$2.4 million. At December 31, 2010 the Company had a working capital deficiency of \$38.6 million, compared to a working capital deficiency of \$28.8 million at December 31, 2009, as a result of the following activities:

Operations:

During 2010 the Company recorded a loss of \$93.1 million, which, after adjusting for non-cash items of \$75.8 million, resulted in cash outflows of \$17.3 million before changes in working capital. This cash outflow is comprised primarily of mine operating losses of \$12.0 million, general and administrative costs of \$2.6 million and cash settlement payments for the Golden Eagle lawsuit of \$3.5 million.

Changes in non-cash working capital resulted in a \$0.4 million cash inflow compared to \$10.4 million inflow in the comparable period in 2009. The inflows in 2010 were primarily due to \$11.1 million decrease in accounts payable offset by an increase in inventory of \$10.9 million. The inflows in 2009 were primarily due to an increase in accounts payable by \$2.2 million primarily related to the Jerritt Canyon operations, and the receipt of deferred revenue of \$4.8 million.

Investing:*Capital expenditures*

	2010			2009		
	Property, plant and equipment	Mineral properties	Total	Property, plant and equipment	Mineral properties	Total
Mine capital expenditures - Jerritt Canyon mine	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mill and equipment capital expenditures - Jerritt Canyon mine	5,204	-	5,204	2,569	-	2,569
Exploration expenditures - Ketz River project	-	8,087	8,087	-	3,215	3,215
Exploration expenditures - Yukon-Shaanxi	-	-	-	15	259	274
Other	-	189	189	45	3	48
	\$ 5,204	\$ 8,276	\$ 13,480	\$ 2,629	\$ 3,477	\$ 6,106

Expenditures on property, plant and equipment and mineral properties were \$5.2 million and \$8.3 million for the year ended December 31, 2010 compared to \$2.6 million and \$3.5 million in 2009.

At Jerritt Canyon the Company made significant progress in completing key areas of the capital budget, however critical areas of work were deferred until 2011. For 2010, the Company completed the majority of the heat tracing at the facility to reduce line freezing (\$0.4 million), upgraded the existing roaster control system from an outdated pneumatic system to electronically controlled (\$0.2 million), replaced one quench tank (\$0.4 million) with the second slated for 2011, replaced the north cone crusher that had been operating for 20 years (\$0.4 million), purchased mining equipment needed for initial development work (\$0.4 million), refurbished the exterior of the mill (\$0.3 million) and completed several Consent Decree projects such as the initial design for water treatment facilities, installation of seepage wells and monitoring, and upgrades to current systems to monitor emissions (total of \$1.2 million).

Exploration at Ketz River has increased from \$3.2 million in 2009 to \$8.1 million in the 2010 as the Company developed the identified resources with a greater availability of funds from 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 during the year.

The Company had an increase of \$2.8 million in restricted cash as of December 31, 2010 due to additional environmental bonding requirements to the US Forestry Service and the NDEP of \$2.6 million at Jerritt Canyon. Furthermore, an additional \$0.2 million of cash was pledged as security for letters of credit related to the exploration activity at Ketz River.

During 2010, the Company raised funds by way of a private placement of flow-through shares. Under the conditions of this private placement, the funds must be spent in 2010 and 2011 on Canadian Exploration Expenditures (CEE) on properties located in Canada. A total of \$3.3 million of cash is required to fund future exploration under the terms of the flow through share subscription agreements however there were no additional funds available at December 31, 2010 due to the use of cash on non-flow through expenditures during 2010. The Company is obligated to complete the expenditure by December 31, 2011.

Financing:

On November 25, 2010, the Company entered into a gold sales contract which specifies that 6,255 troy ounces of refined gold will be sold to the Purchaser by May 30, 2011. In return, the Company received an upfront payment of \$7.0 million cash. The terms of the agreement specify that 2,085 oz must be delivered into an escrow account on January 31, 2011, March 31, 2011 and May 30, 2011. However, at the option of the Purchaser, the Company may be requested to settle the liability through a cash payment of USD \$8.5 million rather than through physical delivery of the gold. The forward contract has been assessed to be a derivative liability and is recorded at fair value at each reporting date. As at December 31, 2010 a loss of \$1.9 million has been recorded in net earnings.

The Company issued \$25.0 million in Senior Secured Notes and 25,000,000 common share purchase warrants, raising net proceeds of \$24.8 million. Of the total proceeds of \$24.8 million, net of transaction costs of \$0.2 million, \$5.7 was allocated on initial recognition to the warrants. A further \$6.8 million was allocated to the gold embedded derivative arising from the loan repayments being indexed to the gold spot price. This resulted in an

initial liability being recorded of \$12.3 million representing the Company's residual debt. The carrying amount of the liability is accreted to the face value of the notes over the term of the notes. At December 31, 2010, the fair value of the derivative liability was determined to be \$11.0 million (2009 - \$nil). The Company has included the resulting change in the fair value as an expense to net earnings. Accretion expense for the period ended December 31, 2010 amounted to \$3.7 million.

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 intends 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. In the first quarter of 2010, the Company also issued 22.7 million shares for net proceeds of \$4.8 million.

In the third quarter of 2009, the Company issued 41.1 million units (consisting of one common share and one warrant) for total proceeds of \$3.7 million. 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. 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.

The Company received \$3.1 million during 2010 related to the exercise of 30.6 million warrants compared with 18.3 million in 2009 with the exercise of 226.9 million warrants. The Company received \$0.5 million related to the exercise of 2.4 million stock options in 2010 compared to less than \$0.1 million received in 2009 for the exercise of 0.1 million stock options.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through forecasting its cash flows from operations and anticipating investing and financing activities. Senior management is actively involved in the review and approval of planned expenditures and typically ensures that it has sufficient cash on hand to meet expected operating expenses for 60 days. The previous shutdowns at Jerritt Canyon and operating issues since restarting have increased the need for the Company to continue pursuing additional financing to meet the ongoing capital requirements and replenish the materials and supplies needed to maintain optimal operations. Management believes that the ability to fund operations through cash generated from third party ore purchases and, in some instances, toll milling, a return to mining, and additional financing, should be sufficient to meet the ongoing capital and operating requirements and to settle the outstanding payable(s) of the Company.

The following are the contractual maturities of the undiscounted cash flows of financial liabilities at December 31, 2010:

Contractual obligations	Less than 3 months	4 to 12 months	1 to 2 years	Greater than 2 years	Total
Accounts payable and accrued liabilities	\$ 48,949	-	-	-	\$ 48,949
Capital lease obligations	8	24	18	-	50
Long term debt	4,264	12,840	17,273	1,451	35,828
Asset retirement obligations	-	-	-	39,550	39,550
Total	\$ 53,221	\$ 12,864	\$ 17,291	\$ 41,001	\$ 124,377

CAPITAL RESOURCES:

The Company had a cash balance of \$2.4 million as of December 31, 2010 and a negative working capital balance of \$38.6 million. The Company had a \$32.2 million cash balance in restricted cash as of December 31, 2010, primarily related to cash restricted for future reclamation at the Jerritt Canyon property.

Although current cash flows from operations are improving and returning to maintenance levels after the passing of the winter season, management is pursuing further financing to fund the construction of the second tailings facility and the reopening of the SSX Mine as well as the completion of required Consent Decree projects such as the required reduction of emissions from the ore dryer. The Company is pursuing various sources of financing such as offering current warrant holders an 18% discount on eight series of warrants which would generate up to an additional C\$59.3 million of funding. Furthermore, in February 2011, the Company was successful in completing a C\$7.1 million private placement for funding to support future exploration at Ketz River and Silver Valley properties.

COMMITMENTS

The Company received an advance payment of \$7.0 million for gold to be delivered into an escrow account at a series of future dates with a final delivery date on May 30, 2011. However at the option of the Purchaser, the company may be required to settle the contract with a cash payment of \$8.5 million. Should the Purchaser opt to take physical settlement, the ounces held in an escrow account will be delivered on May 30, 2011.

OUTLOOK

In achieving the targeted production rate of 150,000 ounces of gold under steady state operations, the Company will continue to mill available stockpiles in conjunction with production from the Smith mine, while pursuing opportunities to purchase new stockpiles and reopen the SSX mine. In November, 2010, the Company commenced a short term agreement with Newmont USA Limited involving the delivery of 2,000 tons of gold bearing ore per day from one of their mines. Ore deliveries started on October 30th, 2010 and have continued since then (beyond the original expiry date), while a longer term contract is completed that will be mutually beneficial. The Company has continued to pass all independent stack tests for mercury and other emissions and is currently able to operate over 100 tons of ore per hour through each roaster circuit based on current emissions.

The Company has recently received approval from the shareholders of the Company to provide an 18% discount to existing warrant holders if they exercise the warrants with a 30 day period, commencing March 14, 2011. Should a significant number of warrants be exercised, the funds will provide sufficient financing to commence the purchase of necessary mining equipment for the reopening of the SSX as well acquire the materials required for

the construction of a second tailings facility. With the additional capacity provided by the second tailings facility and improved mining production from the SSX, the Company is targeting a throughput of 4,500 tons per day. These achievements will ensure the Company continues on its path to profitability and will be able to sustain this into the coming year. Additional financing is being pursued to fund the remaining capital budget and to provide funds for the expansion of the current facility.

In 2011 the Company will be working to complete the remaining key items under the terms of the Consent Decree. The Company is 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 commencing engineering and design work on systems to reduce emissions from the ore dryer and refinery. The Company is also completing design plans and commencing 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 process control technology and complete the winterization of the mill needed to improve the operations during the winter months.

In the third quarter the Company commenced exploration activity again at Jerritt Canyon, with significant progress made in the underground program. The surface exploration program was delayed until 2011 due to the increased bonding requirements arising from the State; however the Company subsequently met those requirements in the fourth quarter of 2010. The goal of the existing exploration program is to provide continuing production from the existing mines and extend the longevity of Jerritt Canyon by 3 to 4 years, as well as explore for new discoveries and revisit previous areas of interest or historical mining activity. 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 focusing on completing the YESSA application process with the assistance of a third party engineering firm with a planned submission date of mid-2011. Should the permitting be approved on a timely basis (within 9 months of submission) the Company will be able to commence construction of the planned tailings facility and commence mining upon its completion. The Company also expects to complete work on the updated reserve calculation in the second quarter of 2011 and begin planned development work to facilitate future production at the site. The Company plans to finance this work program by issuing 25% of the ownership interest in Ketz River through a public offering.

The consolidated financial statements are prepared on the basis that the Company will 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 March 31, 2011, the Company had \$7.2 million of cash and cash equivalents.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of December 31, 2010.

SUBSEQUENT EVENTS

On March 2, 2011, the Company completed a C\$7.1 million non-brokered flow-through private placement for 8,334,882 flow-through common shares at \$0.85 per share. The proceeds of this placement will be for used for new resource exploration at Ketz River at new targets as well as at the Silver Valley property.

At a Special Meeting of the Company held March 8, 2011, shareholders approved the temporary reduction of the exercise price of eight series of unlisted warrants issued between April 2009 and August 2010 by approximately 18%. The holders of the warrants have 30 days from March 14, 2011 to exercise their warrants. After 30 days, the exercise prices of the warrants will revert to their original respective exercise prices. The original prices ranged from \$0.08 to \$0.40 per share and the reduced prices range from \$0.07 to \$0.33 per share. There are an aggregate of 235,823,053 warrants eligible to be exercised at the reduced rate.

RELATED PARTY TRANSACTIONS

During the year, the Company was charged a total of \$0.4 million (2009 - \$0.2 million, 2008 - \$0.2 million) in legal fees by a law firm in which the corporate secretary of the Company is a partner. The amount owing at December 31, 2010 is \$0.1 million (2009 - \$0.2 million). A portion of these fees are included in share issue costs with the remainder included under general and administrative expenses. In 2008, a portion of these costs were also included in the transaction costs associated with a business combination.

During 2010, the Company was charged a total C\$1.0 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.

The Company was charged \$0.4 million (2009 - \$nil) by a Company related by common directors and officers for shared services during 2010. As of December 31, 2010, \$0.1 million (2009 - \$nil) was owed to this company.

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 purchase price allocation, 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. The Company records the estimated present value of future cash flows associated with site closure and reclamation as liabilities when the liabilities are incurred and increases the carrying values of the related assets by the same amount. At the end of each reporting period, the liabilities are increased to reflect the passage of time. 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.

Assumptions used to determine the Company's asset retirement obligations at December 31, 2010 include an inflation rate of 2%, a discount rate of 9.2% and the Canadian dollar at \$1.01 to the US dollar.

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.

Derivative Instruments

All financial instruments that meet the definition of a derivative are recorded on the Balance Sheet at fair value. Changes in the fair value of derivatives are recorded in the statement of consolidated income (loss). Management applies significant judgment in estimating the fair value of those derivatives linked to the price of gold.

RECENT ACCOUNTING PRONOUNCEMENTS

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

Business combinations, consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued sections 1582, 1601 and 1602 replace the former CICA 1581, Business Combinations and CICA 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 3251 Equity has been amended as a result of issuing CICA 1602. Amendments apply to those entities that have adopted CICA 1602. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

Financial Instruments – recognition and measurement

In June 2009, the CICA amended Section 3855 – Financial Instruments – Recognition and Measurement 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 contract at initial recognition for accounting purposes. The amendments are applicable for the fiscal year beginning January 1, 2011.

Comprehensive revaluation of assets and liabilities

In August 2009, the CICA amended Section 1625, Comprehensive revaluation of assets and liabilities. This section has been amended as a result of issuing Business combinations, Section 1582, Consolidated financial statements, Section 1601, and Non-controlling interests, Section 1602, in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. If the Company adopts this section for a fiscal year beginning before January 1, 2011, it also adopts Section 1582.

Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC-175 – Multiple Deliverable revenue arrangements. 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 contains multiple deliverables. EIC-175 is applicable to revenue arrangements entered into or materially modified after January 1, 2011.

With the changeover in accounting standards (note 3e) the changes will not be applicable to the Company as the Company did not elect to early adopt any of the above accounting pronouncements.

International Financial Reporting Standards (“IFRS”)

In February 2008, the AcSB announced that effective January 1, 2011, International Financial Reporting Standards (“IFRS”), will replace existing Canadian GAAP for publicly listed companies. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the company will be required to prepare both current and comparative financial information using IFRS. 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 comparative financial information.

The Company has substantially completed its technical analysis and quantification of adjustments expected to impact the Company at the date of transition. This is subject to change as the Company works with its external auditors to complete the opening balance sheet audit and quarterly review at Q1 2011.

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 adopted by the Company are as follows:

- Business combinations: The Company will not retrospectively restate any business combinations and IFRS 3 will be applied prospectively from date of transition.
- Fair-value or revaluation as deemed cost: IFRS 1 provides an exemption whereby an asset may be recorded at its fair value at date of transition, or an event-driven valuation. The Company has adopted the fair value as deemed cost for certain mineral property balances.
- Cumulative translation adjustments (CTA): All cumulative translation adjustments will be transferred to retained earnings from accumulated other comprehensive income upon transition.
- Borrowing costs: Borrowing costs will not be capitalized retrospectively and the Company will only capitalize borrowing costs from January 1, 2010 on qualifying assets.
- Asset retirement obligation: IFRS 1 provides relief from full retrospective application of IFRIC 1 for changes in liabilities that occurred before the date of transition to IFRS.

The resulting impact of the IFRS 1 exemptions and change in accounting standards has resulted in a decrease to equity at date of transition of \$0.5 million. The following quantitative assessment reflects the anticipated impacts of the transition on the Company's results as at January 1, 2010:

	As currently reported	reclass	flow through shares	Asset Retirement Obligations	foreign denominated warrants	other	Unaudited pro forma IFRS
total current assets	15,559	(1,894)	-	-	-	-	13,665
total assets	195,441	4	-	(1,674)	-	(175)	193,596
total current liabilities	44,402	4	-	-	3,179	-	47,585
total liabilities	95,731	4	(14,198)	3,080	9,857	(46)	94,428
Equity	99,710	-	14,198	(4,754)	(9,857)	(129)	99,168

- a) Reclassification: IFRS currently allows either proportionate consolidation or equity accounting for jointly controlled entities. In light of the revised proposals to the joint venture standard anticipated to be released in 2011, the Company has adopted the equity accounting method for its joint venture which is currently proportionately consolidated under Canadian GAAP. In addition, the current deferred taxes have been classified to long-term and the CTA balance as at January 1, 2010 has been taken to retained earnings.
- b) Flow-through shares: IAS 12 'Income Taxes' does not provide guidance for the appropriate treatment of flow-through shares and current indications are that the Canadian GAAP approach will no longer be acceptable. The company has opted to apply US GAAP accounting to its flow-through shares and the reclassification of balances for transition to IFRS reflect those in the US GAAP reconciliation published in the December 31, 2009 financial statements.
- c) Asset Retirement Obligation: The application of IFRIC 1 and the limited exemption within IFRS 1 upon adoption of IFRS has resulted in a \$4.8 million impact to equity. This results from the change in discount

rate applied to the undiscounted costs as at January 1, 2010 and the application of the IFRS 1 exemption to the historical costs capitalized to mineral properties.

- d) Foreign denominated warrants: The exercise price of the warrants is fixed in Canadian dollars. The functional currency of the Company is in U.S. dollars and therefore the conversion option is considered a derivative as the Company will receive a variable amount of cash when the warrants are exercised. As a result, all of the Company's warrants meet the definition of a derivative liability will be stated at fair value at each date of the statement of financial position.
- e) Other:
 - i. The Company has adopted the Canadian dollar as the functional currency for one of its subsidiaries and joint venture. The result of this change in functional currency is an impact to non-monetary assets and liabilities at date of transition as well as recording cumulative translation differences to other comprehensive income
 - ii. The Company has reversed share based compensation expense related to specific non-market performance conditions not deemed likely to occur. Furthermore, under Canadian GAAP, the Company used the straight-line method of calculating vested options. The fair value of stock-based awards with graded vesting was calculated as one grant and the resulting fair value was recognized on a straight-line basis. Under IFRS the Company will value each tranche of an award with different vesting dates as a separate grant for the calculation of fair value, and the resulting fair value amortized over the vesting period of the respective tranches.
 - iii. The Company has included the impact of foreign exchange differences arising on non-monetary assets on deferred tax as required by IAS 12.

Outlook on Future Earnings

Future net earnings will be primarily impacted by changes in fair values to the Company's share purchase warrants, with an exercise price denominated in Canadian dollars. Changes in the fair value of the share purchase warrants are primarily influenced by the Company's share price, the volatility of the Company's share price and the Canadian to USD exchange rate. Generally, if either the share price or the volatility increase or the Canadian dollar strengthens against the USD, with other factors remaining constant, the fair value of the warrant liability will increase and the Company will record an expense in its future earnings.

The impact on the December 31, 2010 statement of consolidated loss is expected to be approximately \$100.0 million expense resulting from the fair valuation of the warrants.

The conversion to IFRS is not expected to have a significant effect on the Company's infrastructure, business and control activities. Management also expects to complete its first interim consolidated financial statements for the three months ended March 31, 2011 with no significant issues or delays.

The International Accounting Board ("IASB") has a work plan in effect which continues to amend and add to current IFRS standards. The Company will monitor the progress of this work plan and assess the impact of the changes on the Company on a timely basis.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, receivables, restricted funds, accounts payable, accrued liabilities, borrowings and derivatives.

Cash and cash equivalents, restricted funds, the embedded gold derivative and the gold forward derivative are designated as held for trading and therefore carried at fair value, with the unrealized gain or loss recorded in income. Interest income and expense are both recorded in income. The fair value of the embedded derivative and the gold forward derivative are made by reference to the gold spot price at period end.

Accounts receivables are classified as loan and receivables with accounts payable, accrued liabilities and borrowings classified as other liabilities and are held at amortized cost using the effective interest rate method of amortization. The fair values of accounts receivables, accounts payable and accrued liabilities approximate carrying value because of the short term nature of these instruments.

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 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 also being exposed to downward movements in the price of gold. The Company has entered into two loan arrangements indexed to the price of gold. As repayment of these obligations is referenced to the gold spot price, increases in the price of gold will increase the cost of payment.

Estimates of reserves and resources

Resource estimates involve a certain level of interpretation and professional judgment. In the past the Company opted to utilize the services of SRK Consulting in the National Instrument 43-101 work for both the Jerritt Canyon mine and the Ketzra River project. This ensures a consistent methodology is utilized from property to property. The Company is currently in the process of completing an updated National Instrument 43-101 for both the Ketzra River and Jerritt Canyon property and expects these to be completed in 2011.

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. The operations in Nevada are subject to close environmental regulation from the NDEP and the Company is currently operating under the terms of a Consent Decree signed in October 2009. The Company must continue to comply with the terms and deadlines of the Consent Decree or be subject to further fines until it returns to compliance.

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 since

acquiring the property in 2007 to mitigate the impact of these risks. In 2011 safety related improvements continue to be a significant component of the capital budget.

Ability to raise capital

The availability of capital is dependent on both macroeconomic factors and the Company's track record in utilizing capital. The industry has come through a period of credit tightening which presented new challenges to companies attempting to obtain financing. Although the availability of some forms of funding improved in 2010, the ability to obtain debt financing has continued to prove difficult for companies without a sufficient history of sustainable earnings. In 2010 the Company saw a significant improvement in market capitalization however has also experienced significant dilution, which will limit the Company's ability to obtain equity financing in the future. 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 use available resources 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 March 31, 2011:

Common shares issued and outstanding		699,117,596	
<hr/>			
Outstanding equity instruments	# Outstanding (000')	Weighted average Exercise price	Weighted average Years to expiration
Shareholder warrants	254,894	\$ 0.53	1.0
Stock options	52,955	\$ 0.37	3.7

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

It should be noted that a control system, no matter how well conceived or operated, can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management has concluded that, as of December 31, 2010, the Company did not maintain effective internal control over financial reporting due to a material weakness in inventory controls as described below.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Material Weakness:

The Company's controls over inventory were not designed or operating effectively. Specifically i) the design and operation of the work-in-process reconciliations to track movement of ounces through the refinery were not performed on a timely basis and did not maintain an accurate record of ounces in the refinery. This resulted in the loss of 2,700 gold ounces as disclosed in the September 30, 2010 quarterly financial statements; and ii) additional deficiencies were identified in the operation of controls around reconciliations of finished gold. The combination of these deficiencies resulted in an assessment of a material weakness in inventory as at December 31, 2010.

Remediation Plans:

Following the identification of the loss of gold in Q3 2010, the following measures were taken to strengthen the controls over inventory:

- Further security measures were implemented in the refinery, including an upgrade of the current scanning equipment.
- Additional resources have been appointed at the mine site including a metallurgist to provide further oversight and review of reconciliations to ensure timely and accurate preparation.
- Subsequent to year end the Company retained the services of a specialist consulting firm to review the security and metallurgical procedures and their findings are expected to be implemented by the Company to bring the Company in line with Gold Security Standards.

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered in this report, evaluated the effectiveness of our disclosure controls and

procedure and determined that, as a result of the material weakness in internal control over financial reporting described above, as of December 31, 2010 our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified.

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.

Years ended December 31, 2010, 2009 and 2008

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 accounting principles generally accepted in Canada and reconciled to US generally accepted accounting principles, and within the framework of the summary of significant accounting policies disclosed in the notes to these consolidated financial statements.

A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management’s authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

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 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 audited by external auditors, Deloitte & Touche LLP. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

“Robert Baldock”

Robert Baldock
President and
Chief Executive Officer

“Shaun Heinrichs”

Shaun Heinrichs
Chief Financial Officer

March 31, 2011



Deloitte & Touche LLP
2800 – 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

Tel: 604-669-4466
Fax: 604-685-0395
www.deloitte.ca

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of Yukon-Nevada Gold Corp.

We have audited the accompanying consolidated financial statements of Yukon-Nevada Gold Corp. and subsidiaries (the “Company”), which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the year ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yukon-Nevada Gold Corp. and subsidiaries as at December 31, 2010, and the results of their operations and their cash flows for the year ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has incurred net losses over the past several years and has a working capital deficit in the amount of \$38.6 million, and has an accumulated deficit of \$251.0 million. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2011 expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

The consolidated statement of financial position of Yukon-Nevada Gold Corp. as at December 31, 2009 and the consolidated statement of operations and comprehensive loss, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended were audited by another auditor who issued an unmodified opinion on those statements on March 26, 2010.

(Signed) Deloitte & Touche LLP

Independent Registered Chartered Accountants
Vancouver, Canada
March 31, 2011

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of Yukon-Nevada Gold Corp.

We have audited the internal control over financial reporting of Yukon-Nevada Gold Corp. and subsidiaries (the "Company") as of December 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis. The Company's controls over inventory were not designed or operating effectively. Specifically i) the design and operation of the work-in-process reconciliations to track movement of ounces through the refinery were not performed on a timely basis and did not maintain an accurate record of ounces in the refinery. This resulted in the loss of 2,700 gold ounces as disclosed in the September 30, 2010 quarterly financial statements; and ii) additional deficiencies were identified in the operation of controls around reconciliations of finished gold. The combination of these deficiencies resulted in an assessment of a material weakness in inventory as at December 31, 2010. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and this report does not affect our report on such financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated March 31, 2011 expressed an unqualified opinion on those financial statements.

(Signed) Deloitte & Touche LLP

Independent Registered Chartered Accountants
Vancouver, Canada
March 31, 2011

YUKON-NEVADA GOLD CORP.

Consolidated Balance Sheets
(In thousands of US dollars)

As at December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,400	\$ 185
Accounts receivable and prepaid expenses	4,505	4,549
Inventories (note 5)	21,280	9,930
Future income taxes (note 16)	-	895
	<u>28,185</u>	<u>15,559</u>
Restricted funds (note 6)	32,248	29,175
Property, plant and equipment (note 7)	88,625	89,270
Mineral properties (note 8)	67,926	60,526
Other assets (note 10)	828	911
	<u>\$ 217,812</u>	<u>\$ 195,441</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 48,949	\$ 39,564
Current portion of long-term debt (note 14)	8,926	-
Forward contract (note 12)	8,901	-
Deferred revenue	-	4,838
	<u>66,776</u>	<u>44,402</u>
Other long-term liabilities (note 15)	18	50
Asset retirement obligations (note 13)	39,550	35,907
Long-term debt (note 14)	15,030	-
Future income taxes (note 16)	15,977	15,372
	<u>137,351</u>	<u>95,731</u>
Shareholders' equity		
Share capital (note 17)	247,470	227,075
Warrants (note 17)	65,063	17,737
Contributed surplus	16,614	10,489
Accumulated other comprehensive income	2,273	2,273
Deficit	(250,959)	(157,864)
	<u>80,461</u>	<u>99,710</u>
Going concern (note 1)		
Commitments and contingencies (note 22)		
Subsequent event (note 24)		
	<u>\$ 217,812</u>	<u>\$ 195,441</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Robert Baldock" Director

"Graham C. Dickson" Director

YUKON-NEVADA GOLD CORP.

Consolidated Statements of Operations and Comprehensive Loss
(In thousands of US dollars, except for share and per share amounts)

Years ended December 31, 2010, 2009 and 2008

	2010	2009	2008
Gold sales	\$ 71,370	\$ 9,913	\$ 48,981
Cost of gold sold	83,378	26,049	58,742
Gross margin – mining operations	(12,008)	(16,136)	(9,761)
Temporary shutdown costs (note 9)	-	10,550	13,115
Depreciation, depletion, and amortization	5,428	6,271	9,279
Accretion of asset retirement obligation (note 13)	2,879	2,890	2,117
Loss from mine operations	(20,315)	(35,847)	(34,272)
Impairment of mineral properties and equipment (note 8)	1,625	653	76,363
Exploration expenditure	963	-	-
General and administration expenses	2,563	3,136	4,090
Stock-based compensation (note 17)	4,112	788	1,056
Loss from operations	(29,578)	(40,424)	(115,781)
Other (loss) income:			
Interest and other income (loss) (note 4)	(14,122)	(7)	4,635
Loss on forward sales arrangements	-	-	(1,904)
Restructuring charges (note 9)	-	-	(4,532)
Foreign exchange (loss) gain	(1,210)	(2,125)	814
Interest and financing charge (notes 14 and 17)	(49,730)	(248)	(667)
	(65,062)	(2,380)	(1,654)
Loss before income taxes	(94,640)	(42,804)	(117,435)
Income tax (expense) recovery (note 16)			
Current		-	-
Future	1,545	144	12,075
	1,545	144	12,075
Loss for the year	(93,095)	(42,660)	(105,360)
Comprehensive loss for the year	\$ (93,095)	\$ (42,660)	\$ (105,360)
Loss per share – basic and diluted	\$ (0.14)	\$ (0.13)	\$ (0.57)
Weighted average number of shares outstanding (basic and diluted)	646,540,724	338,967,089	185,124,008

See accompanying notes to consolidated financial statements.

YUKON-NEVADA GOLD CORP.

Consolidated Statements of Shareholders' Equity
(In thousands of US dollars, except number of common shares)

Years ended December 31, 2010, 2009 and 2008

		Common shares				Accumulated		
	note 17	Shares (000's)	Amount (revised note 3)	Warrants (revised note 3)	Contributed surplus	other comprehensive income (loss)	Deficit	Total
Balance at January 1, 2008		175,133	188,366	16,957	8,092	2,273	(9,844)	205,844
Issued on private placement	(b)(vii)	79,800	1,470	1,829	-	-	-	3,299
Flow through share issue	(b)(viii)	10,050	19,901	-	-	-	-	19,901
Exercise of options		267	356	-	(147)	-	-	209
Share issue costs	(b)(vii)	7,400	(606)	169	(307)	-	-	(744)
Flow through share renunciation		-	(2,709)	-	-	-	-	(2,709)
Stockbased compensation	(d)	-	-	-	1,056	-	-	1,056
Loss for the year		-	-	-	-	-	(105,360)	(105,360)
Other		5	-	152	-	-	-	152
Balance at December 31, 2008		272,655	206,778	19,107	8,694	2,273	(115,204)	121,648
Issued on private placement	(b)(iii)-(vi)	90,383	3,686	2,854	-	-	-	6,540
Share issue costs	(b)(v)/(vi)	1,805	111	34	(80)	-	-	65
Exercise of warrants		225,883	21,881	(3,603)	-	-	-	18,278
Expiry of warrants		-	-	(655)	655	-	-	-
Exercise of options		120	30	-	(13)	-	-	17
Flow through share renunciation		-	(5,411)	-	-	-	-	(5,411)
Stockbased compensation	(d)	-	-	-	1,233	-	-	1,233
Loss for the year		-	-	-	-	-	(42,660)	(42,660)
Balance at December 31, 2009		590,846	227,075	17,737	10,489	2,273	(157,864)	99,710
Issued on private placement	(b)(ii) (c)	22,727	4,807	-	-	-	-	4,807
Flow through share issue	(b)(i)	34,559	9,248	-	-	-	-	9,248
Share issue costs	(b)(i)	-	(739)	128	-	-	-	(611)
Exercise of warrants	(c)	30,627	4,092	(1,021)	-	-	-	3,071
Expiry of warrants	(c)	-	-	(1,172)	1,172	-	-	-
Exercise of options	(d)	2,398	776	-	(286)	-	-	490
Forfeiture of unvested options		-	-	-	(83)	-	-	(83)
Issuance of inducement warrants	c(i)	-	-	43,632	-	-	-	43,632
Equity portion of debt	c(ii)	-	-	5,759	-	-	-	5,759
Shares issued for services		4,505	1,207	-	-	-	-	1,207
Stockbased compensation	(d)	-	-	-	5,322	-	-	5,322
Loss for the year		-	-	-	-	-	(93,095)	(93,095)
Other	note 4(i)	2,005	1,004	-	-	-	-	1,004
Balance at December 31, 2010		687,667	247,470	65,063	16,614	2,273	(250,959) \$	80,461

See accompanying notes to consolidated financial statements.

YUKON-NEVADA GOLD CORP.

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

Years ended December 31, 2010, 2009 and 2008

	2010	2009	2008
Cash provided by (used in):			
Operations			
Net loss for the year	\$ (93,095)	\$ (42,660)	\$ (105,360)
Reclamation payments	-	-	195
Items not affecting cash:			
Depreciation, depletion, and amortization	5,428	6,271	9,279
Accretion of asset retirement obligation	2,879	2,890	2,117
Impairment of mineral properties and equipment	1,625	653	76,363
Stock-based compensation	5,322	1,027	1,056
Dilution loss on joint venture	-	45	-
Gain on disposal of asset	-	199	(2,450)
Unrealized (gain) loss on forward sales	-	-	(952)
loss or gain on disposal of marketable securities	(339)	-	-
Loss on settlement of deferred revenue	3,071	-	-
Interest charges for deferred revenue	1,300	-	-
Future income tax (recovery) expense	(1,545)	(144)	(12,075)
Unrealized foreign exchange (gain)loss	1,386	1,978	(1,668)
Warrants issued for debt financing	43,632	-	152
Expenses settled in shares	2,211	-	-
Accretion on long term debt	3,681	-	-
Loss on derivatives	7,163	-	-
Change in non cash working capital (note 18)	355	10,352	14,931
Cash used by operating activities	(16,926)	(19,389)	(18,412)
Investing			
Restricted funds	(2,812)	(328)	7,476
Short-term investments	-	-	173
Mineral property expenditures	(8,276)	(3,477)	(29,104)
Property, plant and equipment expenditures	(5,204)	(2,629)	(25,703)
Purchase of marketable securities	(308)	-	-
Proceeds from sale of marketable securities	648	-	-
Proceeds from sale of assets	-	112	4,480
Cash used by investing activities	(15,952)	(6,322)	(42,678)
Financing			
Notes payable and capital leases	(33)	(45)	(1,323)
Common shares issued for cash	14,055	6,540	23,201
Proceeds from issuance of debt	24,800	-	-
Settlement of deferred revenue	(9,559)	-	-
Repayment of debt	(4,034)	-	-
Proceeds from forward prepaid contract (note 12)	7,004	-	-
Share issue costs	(611)	-	(995)
Common shares issued upon exercise of shareholder warrants	3,071	18,278	-
Common shares issued upon exercise of stock options	490	17	209
Cash provided by financing activities	35,183	24,790	21,092
Effect of exchange rate changes on cash	(90)	-	-
Increase (decrease) in cash and cash equivalents	2,215	(921)	(39,998)
Cash and cash equivalents, beginning of year	185	1,106	41,104
Cash and cash equivalents, end of year	\$ 2,400	\$ 185	\$ 1,106

Supplemental cash flow information (note 18)

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)

Years ended December 31, 2010, 2009 and 2008

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 2008 the Company determined that due to operational issues and a stop order issued by the Nevada Division of Environmental Protection ("NDEP") the Jerritt Canyon mine was not economically viable and the mine was temporarily shut down. As a result of the shutdown an impairment charge of \$76.4 million was recorded against the Jerritt Canyon assets (note 9).

The Company addressed the operational and environmental issues during the shutdown period and operations at the mine recommenced in 2009. The Company has made a loss in the current year and at December 31, 2010 the Company had a working capital deficiency of \$38.6 million and a \$16.9 million outflow of cash from operations.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern. The conditions described in the preceding paragraphs may cast 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 attain profitable operations under prevailing market prices or 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 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.

During the year ended December 31, 2010, management raised \$45.8 million through issuance of equity and debt demonstrating the Company's success with raising financing for future operations. On February 4, 2011 the Company announced that it proposes to raise additional working capital by offering an incentive for the early exercise (the "Transaction") of eight series of unlisted outstanding share purchase warrants of the Company (the "Warrants"), with the intention of raising an additional \$59.3 million. Management further successfully closed a private placement in March 2011 for gross proceeds of \$7.1 million from the issuance of 8,334,882 flow-through shares. (note 24).

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

2. Significant accounting policies:

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). Material measurement differences between Canadian GAAP and U.S. GAAP are disclosed in Note 23. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries from their respective dates of acquisition. YS Mining Company (YSMC) is an incorporated joint venture and the pro rata share of the assets and liabilities are included in the accounts of the Company. All intercompany transactions and balances have been eliminated. The subsidiaries and percentage of ownership at December 31, 2010 are as follows:

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%
YS Mining Company - Joint Venture (Yukon)	41.7%

(b) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term investments that are readily convertible to cash and have a maturity date within 90 days of the purchase date.

(c) Inventories:

Stockpiles represent ore that has been mined or purchased and is available for future processing. Stockpiles are measured by estimating the number of tons added and removed from the stockpile, the number of contained ounces (based on assay data) and the estimated metallurgical recovery rates (based on expected processing method). Stockpile ore tonnages are verified by periodic surveys. Costs are allocated to stockpiles based on relative values of material stockpiled and processed using normalised mining costs incurred up to the point of stockpiling the ore. These costs include direct labor, mine-site overhead expenses, and depreciation and depletion on Jerritt Canyon mine equipment and mineral properties.

Work-in-process inventories are valued at the lower of average production cost and net realizable value, after a reasonable allowance for further processing and sales costs. Production costs include the cost of raw materials, direct labor, mine-site overhead expenses and depreciation and depletion of property, plant and equipment and mineral properties. Purchased ore is recorded at cost based on the contracted purchase price, net of an allowance for the Company's processing charged to a third party.

Finished goods inventories are valued at the lower of average production cost and net realizable value. Net realizable value is after a reasonable allowance for sales costs. Materials and supplies inventories are

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

valued at the lower of average cost and net realizable value, net of a provision for obsolescence with respect to identified inventory items.

(f) Property, plant and equipment:

Property, plant and equipment is recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. Property, plant and equipment used in exploration is depreciated and included in mineral properties. Depreciation rates are as follows:

Buildings	20 years
Computer hardware and software	3 years
Equipment and facilities	5 - 20 years
Furniture and fixtures	7 years
Leasehold improvements	straight-line over the term of the lease
Vehicles	3 - 7 years

(g) Mineral properties:

The acquisition cost of a mineral property and related exploration expenditures net of any option payments or income tax credits received are deferred until the property is placed into production, is sold or abandoned or determined to be impaired. These deferred expenditures are amortized on a units-of-production basis over the estimated useful life of the property based on proven and probable reserves following commencement of production or written off if the property is abandoned or sold or determined to be impaired.

(h) Long-lived assets:

The Company monitors the recoverability of long-lived assets based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company records an impairment loss in the period it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds its fair value.

(i) Asset retirement obligations:

The fair value of an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is adjusted to reflect the passage of time (accretion expense) and for changes in estimated future cash flows. Accretion expense is charged to the statement of operations, while adjustments related to changes in estimated cash flows are recorded as increases or decreases in the carrying value of the asset. The capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, a gain or loss is recorded if the actual costs incurred are different from the liability recorded.

(j) Stock based compensation:

The Company has established a stock-based compensation plan as described in note 17(d). The Company measures stock-based compensation at fair value and recognizes costs over the vesting period. The Company uses the Black-Scholes option pricing model to determine the fair value of each stock option on

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

the date of the grant. The value of the stock options issued to directors, employees and service providers is expensed as stock-based compensation and is credited to contributed surplus. The value of the stock options issued to agents in exchange for brokerage services is netted against share capital as share issuance costs and credited to contributed surplus. Upon exercise, the proceeds of the options are credited to capital stock at the option price and the fair value of the options, as previously recorded, is reclassified from contributed surplus to capital stock.

(k) Revenue recognition:

Revenue is recognized when there is persuasive evidence that a metal sale contract exists, legal title and risk has passed and the sales price and timing of payment have been agreed upon with the purchaser and collection is reasonably assured. Sales revenue is recognized at the fair value of consideration received. The sales price is fixed at the date of delivery based on the terms of the contract.

(l) Income taxes:

The Company recognizes income tax assets and liabilities using the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated taxes payable for the current year. Future income tax assets and liabilities are recognized for loss carryforwards and temporary differences between the tax and accounting bases of assets and liabilities and are measured using enacted or substantively enacted tax rates that are expected to apply when the related assets are realized or the liabilities are settled. A valuation allowance is provided against future income tax assets to the extent that realization is not considered to be more likely than not.

(m) Flow-through shares:

The Company has financed a portion of its exploration expenditures through the issuance of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. The Company recognizes a future income tax liability, with an offset to share capital, when it renounces these expenditures to shareholders.

(n) Warrants:

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.

(o) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period. By their nature, these estimates and judgments are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Significant estimates and judgments include but are not limited to those relating to the assessment of the Company's ability to continue as a going concern, mineral properties including amount of expenditures to be capitalized, estimates required to determine whether impairment of long lived assets is required, asset retirement obligations, the useful lives and depreciation of property, plant and equipment, inventory, the valuation of stock options, share purchase

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

warrants and agent's options issued, and the recognition of income tax assets and liabilities. Actual results may differ from those estimates and judgments.

(p) Loss per share:

Basic loss per share is computed by dividing the amount of loss for the period by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, agents' options and share purchase warrants that are "in the money" would be used to repurchase common shares of the Company at the average market price during the year.

Existing stock options (note 17(d)) and share purchase warrants (note 17(c)) have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted losses per share amounts are the same.

(q) Investment in joint venture:

The Company conducts a portion of its exploration business through the joint venture YS Mining Company. The joint venture is bound by a contractual agreement which establishes the joint control for each of the venturers. The Company records its proportionate share of the joint ventures assets, liabilities, revenues and operating costs.

(r) Financial instruments:

Financial assets and financial liabilities, including derivatives, are measured at fair value on initial recognition and recorded on the balance sheet. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in the statement of operations. Financial assets and financial liabilities considered held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in the accumulated other comprehensive income until realized or a loss in value is determined to be other than temporary. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value. Changes in the fair values of derivative instruments are recognized in the statement of operations with the exception of derivatives designated as effective cash flow hedges. The Company has no such designated hedges.

Transaction costs related to financial instruments are expensed when they are incurred, unless they are directly attributable to the acquisition or construction of mineral properties, plant and equipment.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

(s) Other comprehensive income/loss:

Comprehensive income/loss represents changes in shareholders' equity during a period arising from transactions and other events and circumstances from non-owner sources and other comprehensive income includes unrealized gains and losses on financial assets classified as available-for-sale.

(t) Foreign currency translation:

The Company uses the U.S. dollar as its functional and reporting currency. Therefore accounts denominated in currencies other than the U.S. dollar have been translated as follows:

- Revenue and expense items at the rate of exchange in effect on the transaction date;
- Non-monetary assets and liabilities at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect on the balance sheet date; and
- Monetary assets and liabilities at the exchange rate at the balance sheet date.
- Exchange gains and losses are recorded in the statement of operations in the period in which they occur.

3. Recent accounting pronouncements:

a) Business combinations, consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued sections 1582, 1601 and 1602 to replace the former CICA 1581, Business Combinations and CICA 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 3251 Equity has been amended as a result of issuing CICA 1602. Amendments apply to those entities that have adopted CICA 1602. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

b) Financial Instruments – recognition and measurement

In June 2009, the CICA amended Section 3855 – Financial Instruments – Recognition and Measurement 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 contract at initial recognition for accounting purposes. The amendments are applicable for the fiscal year beginning January 1, 2011.

c) Comprehensive revaluation of assets and liabilities

In August 2009, the CICA amended Section 1625, Comprehensive revaluation of assets and liabilities. This section has been amended as a result of issuing Business Combinations, Section 1582, Consolidated Financial Statements, Section 1601, and Non-controlling interests, Section 1602, in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. If the Company adopts this section for a fiscal year beginning before January 1, 2011, it also adopts Section 1582.

d) Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC-175 – Multiple Deliverable revenue arrangements. EIC-175 addresses the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

and how to determine whether an arrangement contains multiple deliverables. EIC-175 is applicable to revenue arrangements entered into or materially modified after January 1, 2011.

With the changeover in accounting standards (note 3e) the changes will not be applicable to the Company as the Company did not elect to early adopt any of the above accounting pronouncements.

e) International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB announced that effective January 1, 2011, International Financial Reporting Standards ("IFRS"), will replace existing Canadian GAAP for publicly listed companies. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will be required to prepare both current and comparative financial information using IFRS.

4. Interest income and other income (loss)

Interest income and other income (loss) is comprised of:

	2010	2009	2008
Provisions for and settlement of lawsuits (i)	\$ (4,612)	\$ -	\$ -
Settlement of deferred revenue (ii)	(3,071)	-	-
Loss on derivatives (iii)/(iv)	(7,163)	-	-
Gain on sale of marketable securities	339	-	-
Gain on disposal of assets	-	-	2,572
Interest income	134	-	1,724
Other	251	(7)	339
	\$ (14,122)	\$ (7)	\$ 4,635

- (i) In the third quarter of 2010, the Company settled the dispute between its wholly owned subsidiary, Queenstake Resources U.S.A. Inc. ("Queenstake") and Golden Eagle International Inc. ("Golden Eagle"), arising out of Queenstake's termination in 2009 of Golden Eagle's arrangement to restart operations at the Jerritt Canyon mine. In full settlement, Queenstake paid Golden Eagle a total of \$3.5 million and delivered 2 million shares (valued at \$1.0 million) to Golden Eagle during the fourth quarter of 2010. The parties have agreed to terms of settlement and have filed a stipulation to dismiss the case, without any admission of liability by any party. The dismissal includes the dismissal with prejudice of counterclaims and third party complaints filed by Golden Eagle against Queenstake, the Company, and François Marland, who currently serves as a Director of the Company. The parties have agreed to each bear their own attorney fees and costs. Of the \$4.5 million settlement, \$1.1 million relating to operating costs was accrued in prior periods and \$3.4 million expensed in the current period.

The Company has also accrued additional amounts in the third quarter related to the settlement of the class action initiated by certain employees who were laid off in August 2008. Based on a review of the potential costs to settle the claim, an additional \$0.4 million was accrued for possible medical costs and \$0.8 million recorded in contingency and legal costs for the plaintiffs.

- (ii) In 2009, the Company received advance payment of \$4.8 million for three contracts for 6,508 ounces gold at an average price of \$743 per ounce to be delivered at a series of future dates. It had been the Company's

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

intention to deliver gold ounces to settle the contracts, however, pursuant to the terms of the debt issued (note 14), the commitment was settled in cash in August 2010. The price of the settlement was \$1,215 per ounce resulting in a loss to the Company of \$3.1 million.

- (iii) As part of the \$25.0 million debt issued in the third quarter of 2010, \$6.8 million of the proceeds was allocated to a gold embedded derivative arising from the loan repayments being indexed to the gold spot price. This was revalued at December 31, 2010 and resulted in a loss of \$5.3 million due to the rising gold price (note 14).
- (iv) A gold forward contract was entered into in November 2010 which is being accounted for as a derivative. The fair value of the derivative was \$8.9 million resulting in a loss of \$1.9 million being recorded in income (note 12).

5. Inventories:

	2010	2009
Finished goods	\$ 1,597	\$ 1,316
Stockpiled ore	6,839	-
Purchased ore	1,682	5,340
Work in progress	8,122	558
Materials and supplies	3,040	2,716
	<u>\$ 21,280</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 \$6.3 million (2009 – \$0.6 million, 2008 – \$3.4 million) and \$0.5 million (2009 – \$0.3 million, 2008 – \$1.4 million), respectively. As at December 31, 2010, there is a net realizable value adjustment (expense) of \$0.5 million (December 31, 2009 - \$0.4 million).

6. Restricted funds:

	2010	2009
Chartis commutation account (a)	\$ 25,665	\$ 25,580
Chartis money market account (a)	2,623	-
Cash restricted for future exploration in Canada (b)	-	-
Water use license letter of credit (c)	3,104	2,940
Workmens' compensation self-insurance	431	431
Cash pledged as security for letters of credit	425	224
	<u>\$ 32,248</u>	<u>\$ 29,175</u>

- (a) The Company purchased from American Insurance Group (AIG), now known as Chartis, an environmental risk transfer program (the "ERTP") (note 10). As part of the ERTP, \$25.7 million is held on deposit in an interest-bearing account with Chartis (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 2010, the Company earned \$0.1 million in interest from the commutation account (2009 - \$0.4 million).

In the fourth quarter of 2010 the Company was required to provide further surety to the NDEP and the US Forestry Service to fund the ongoing reclamation and mine closure obligations. To meet this additional

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

surety requirement, the Company deposited \$2.6 million into two money market accounts with Chartis to back two new surety instruments issued to these two agencies.

- (b) During 2010, the Company raised funds by way of a private placement of flow-through shares. Under the conditions of this private placement, the funds must be spent in 2010 and 2011 on Canadian Exploration Expenditures (CEE) on properties located in Canada. A total of \$3.3 million of cash is required to fund future exploration under the terms of the flow through share subscription agreements however only there was \$nil million available due to use of cash on non-flow through expenditures at December 31, 2010. The Company is obligated to fund the remaining expenditures by December 31, 2011.
- (c) The Yukon Territorial Government has letters of credit with the Company which were put in place to secure payment of potential reclamation work relating to the Ketz River project. During the third quarter of 2010 an additional \$0.2 million was placed into term deposits to secure an additional letter of credit issued to the Yukon Territorial Government.

7. Property, plant and equipment:

Property, plant and equipment comprise:

	2010			2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Jerritt Canyon mine, USA	\$ 110,911	\$ 22,819	\$ 88,092	\$ 105,685	\$ 17,032	\$ 88,653
Ketz River project, Canada	1,650	1,309	341	1,642	1,126	516
Corporate and other, Canada	382	190	192	239	138	101
	\$ 112,943	\$ 24,318	\$ 88,625	\$ 107,566	\$ 18,296	\$ 89,270

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

	2010			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	5,461	n/a	5,461	2,629	n/a	2,629
Depreciation	n/a	6,106	(6,106)	n/a	6,425	(6,425)
Disposals	(84)	(84)	-	-	-	-
Write-downs	-	-	-	(772)	(42)	(730)
Reclass	-	-	-	(54)	-	(54)
Other	-	-	-	-	-	-
Closing, December 31	\$ 112,943	\$ 24,318	\$ 88,625	\$ 107,566	\$ 18,296	\$ 89,270

In 2009 the Company recorded a \$0.7 million impairment charge on property, plant and equipment. These impairment charges related to certain discontinued projects.

8. Mineral properties:

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

	2010	Additions (disposals)	2009
Ketza River project, Canada (b)	\$ 66,222	\$ 8,129	\$ 58,093
Silver Valley project, Canada (b)	1,697	189	1,508
Arizona project, USA (c)	-	(591)	591
Yukon-Shaanxi project, Canada (d)	-	(327)	327
Other Yukon and BC projects, Canada (e), (f)	7	-	7
	\$ 67,926	\$ 7,400	\$ 60,526

(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 December 31, 2009 and 2010 due to a \$69.4 million impairment charge on Jerritt Canyon mineral properties recorded in 2008 (note 9). At December 31, 2010, an increase to the asset retirement obligation at Jerritt Canyon of \$0.6 million was recorded. Due to the continuing losses at Jerritt Canyon, the corresponding increase to the mineral property was impaired to nil.

(b) Yukon properties:

(i) Ketza River properties, Yukon:

The Company has a 100% interest of the Ketza River property including 593 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.

(c) Silver Bar, Arizona:

The Company has a 100% interest in 55 claims in Pinal County, Arizona. Management determined that the carrying value of the property was impaired during the year and recorded an impairment expense of \$0.6 million to reduce the carrying value to nil.

(d) Mount Nansen, Yukon:

The Company, had an option agreement to acquire 298 claims in the Mount Nansen area of the Yukon. In 2010 management assessed that there were no future plans to develop this property and did not renew the option agreement, therefore an impairment expense of \$0.4 million was recognized in the year to reduce the carrying value to nil.

(e) 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.

f) Other Yukon Base Metals properties:

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

(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.

9. 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. Expenses incurred during the shut downs were recorded either as capital or, if they were determined to be maintenance or support expenses, as temporary shut down costs. Temporary shut down costs were \$10.6 million and \$13.1 million for the years ended December 31, 2009 and 2008, respectively.

As a result of the shutdown the Company recorded an impairment charge against the Jerritt Canyon assets totaling \$76.4 million of which \$69.4 million was allocated to mineral properties (note 8), \$2.2 million to property, plant and equipment and \$4.7 million to the increase in asset retirement obligation.

Furthermore the shutdown resulted in a workforce reduction of 394 employees. A related restructuring charge of \$4.5 million arose from severance and vacation payments. As of December 31, 2010 the Company had paid \$2.6 million.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

10. Other assets:

Other assets consist of insurance policies associated with the Company's ERTTP (note 6(a)):

(a) Environmental Risk Transfer Program / Reclamation cost cap insurance:

The ERTTP purchased from AIG includes a reclamation and mine closure cost cap insurance policy. The insurance policy provides coverage for future reclamation and mine closure costs related to disturbances in existence at June 30, 2003, if they exceed those funded by the Commutation Account (note 6). If these reclamation costs are less than the amount in the Commutation Account, the Company would be refunded the excess cash. In the event that these reclamation costs are more than the Commutation Account balance, the cost cap insurance policy will pay the excess costs up to a defined maximum.

(b) Pollution legal liability:

The ERTTP also includes a pollution legal liability insurance coverage for third-party damage claims against the Company for both pre-existing pollution conditions and new pollution conditions, for a period of 20 years commencing June 30, 2003.

(c) The insurance premium paid for the ERTTP in June 2003 is being amortized over the estimated proven and probable reserves at the inception of the policy. Amortization of the insurance premium is calculated based on each respective period's production ounces with respect to the estimated proven and probable reserves.

11. Related party transactions:

During the year, the Company was charged a total of \$0.4 million (2009 - \$0.2 million, 2008 - \$0.2 million) in legal fees by a law firm in which the corporate secretary of the Company is a partner. The amount owing at December 31, 2010 is \$0.1 million (2009 - \$0.2 million). A portion of these fees are included in share issue costs with the remainder included under general and administrative expenses.

During 2010, the Company was charged a total C\$1.0 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.

The Company was charged \$0.4 million (2009 - \$nil) by a Company related by common directors and officers for shared services during 2010. As of December 31, 2010, \$0.1 million (2009 - \$nil) was owed to this company.

The transactions with related parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the parties.

12. Forward Contract:

On November 25, 2010, the Company entered into a gold sales contract which specifies that 6,255 troy ounces of refined gold will be sold to the Purchaser by May 30, 2011. In return, the Company received an upfront payment of \$7.0 million cash.

The terms of the agreement specify that 2,085 oz must be deposited into an escrow account on January 31, 2011, March 31, 2011 and May 30, 2011. However, at the option of the Purchaser, the Company may be requested to settle the liability through a cash payment of USD \$8,500,000 rather than through physical delivery

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

of the gold. The forward contract has been assessed to be a derivative liability and is recorded at fair value at each reporting date. As at December 31, 2010 a loss of \$1.9 million has been recorded in net earnings.

13. Asset retirement obligations:

	2010	2009
Balance, beginning of year	\$ 35,907	\$ 32,688
Accretion expense	2,879	2,890
Foreign exchange	180	402
Reclamation spending	(44)	(73)
Revisions in estimates of liabilities	628	-
	\$ 39,550	\$ 35,907

The Company's asset retirement obligations consist of reclamation and closure costs for both active mines and exploration activities. The present value of obligations relating to active mines is currently estimated at \$36.2 million (2009 - \$32.9 million) reflecting payments for approximately the next 19 years. The present value of obligations relating to exploration activity in the Yukon properties are currently estimated at \$3.4 million (2009 - \$3.0 million) reflecting payments for approximately the next 10 years. Significant reclamation and closure activities include land and water rehabilitation, demolition of buildings and mine facilities, ongoing care and maintenance and other costs.

The undiscounted value of this liability is \$63.3 million (2009 - \$58.0 million). An inflation rate assumption of 2% has been used. An accretion expense component of \$2.9 million (2009 - \$2.9 million, 2008 - \$2.1 million) has been charged to operations to reflect an increase in the carrying amount of the asset retirement obligation which has been determined using credit adjusted risk free rates of 8.0%-14.0%. Revisions of estimates in 2010 used a credit adjusted risk free rate of 9.2%.

14. Long-term debt

In August 2010 The Company issued \$25 million in Senior Secured Notes (the "Notes") and 25,000,000 common share purchase warrants (the "Warrants"), raising gross proceeds of \$24.8 million. Each Warrant entitles the holder thereof 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 Notes have a maturity date of December 31, 2012 and are secured by a charge over all the assets of the Company's wholly owned subsidiaries, Queenstake Resources Ltd. ("QRL") and Queenstake Resources U.S.A. Inc. ("Queenstake US") as well as a share pledge over all shares in QRL and Queenstake US. The Notes are being repaid through monthly cash installments based on a notional amount of approximately 284,114 shares of SPDR GLD Gold Shares (an exchange listed fund trading on the NYSE and other global exchanges). The Company has guaranteed a minimum rate of return of 5% per annum on the aggregate principal amount over the term of the Notes. In connection with the closing, a finder's fee in the amount of 4% of the gross proceeds raised was payable in shares of the Company.

Of the total proceeds of \$24.8 million, \$5.7 million was allocated on initial recognition to the warrants. The 25 million warrants fair value was calculated using the Black-Scholes model assuming a risk-free interest rate of 1.91% per annum, an expected life term of 3 years, and expected volatility of approximately 86% and no dividends. A further \$6.8 million was allocated to the gold embedded derivative arising from the loan repayments

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

being indexed to the gold spot price. This resulted in an initial liability being recorded of \$12.3 million representing the Company's residual debt. The carrying amount of the liability is accreted to the face value of the notes over the term of the notes. Accretion included in interest expense totaled \$3.7 million for the period, based on an effective interest rate of 78%.

At December 31, 2010, the fair value of the derivative liability was determined to be \$11.0 million (2009 - \$nil). The Company has included the resulting change in the fair value as an expense to net earnings.

At inception:	
Loan proceeds net of transaction costs	\$ 24,800
Less value attributable to warrants	(5,759)
Carrying value of loan at August 13, 2010	19,041
Interest accretion	3,681
Movement on fair value of embedded gold derivative	5,268
Less payments made	(4,034)
Carrying value of loan at December 31, 2010	\$ 23,956
Current debt	8,926
Long term debt	15,030
	\$ 23,956

15. Other long-term liabilities:

	2010	2009
Capital leases	\$ 50	\$ 80
Current portion of capital leases	(32)	(30)
	\$ 18	\$ 50

The Company has two capital lease obligations with respect to mine equipment in use at Jerritt Canyon. The lease obligations bear interest at rates between 8 and 9 percent. The current portion is included in accounts payable and accrued liabilities.

16. Income taxes:

The Company has income tax loss carry forwards of approximately \$ 136.1 million (2009 - \$58.1 million) from both the Canadian and the US tax jurisdictions. Under a change of control provision under Section 382: Change-of-Ownership Trigger of the IRS code, restrictions are in place on the US tax jurisdiction's pre-2009 loss carryforwards due to more than 50 per cent, on a fully diluted basis, of the Company's share ownership changing with the 2008 private placement.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

The loss carry forwards if unused, expire as follows:

2011 - 2020	\$	4,965
2021		278
2022		165
2023		1,217
2024		2,213
2025		3,361
2026		4,016
2027		2,395
2028		47,407
2029		42,150
2030		27,903
	\$	136,070

The components of future income taxes are as follows:

	2010	2009
Future income tax assets, current		
Non-capital loss carry forwards	\$ -	\$ 895
Future income tax assets, non-current		
Asset retirement obligation	13,336	910
Non-capital loss carry forwards	49,999	19,833
Share issue costs	806	714
Unrealized foreign exchange	1,023	90
Mineral property and property plant and equipment book less tax basis	18,240	36,838
Other	10,752	2,796
	94,156	61,181
Valuation allowance	(73,906)	(39,339)
	20,250	21,842
Future income tax liabilities, non-current		
Mineral property and property plant and equipment book less tax basis	(36,227)	(37,214)
	(36,227)	(37,214)
Net future income tax liability, non-current	\$ (15,977)	\$ (15,372)

The Company has recorded a valuation allowance against certain of its future income tax assets as management does not believe it is more likely than not that sufficient taxable income will be generated during the carry forward period to realize all the future tax assets.

During 2009 the Company renounced C\$20.1 million of Cumulative Canadian Exploration Expenses ("CEE") to flow-through shareholders. There was no renunciation of CEE in 2010.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

The following table reconciles income taxes calculated at statutory rates with the income tax expense in these financial statements:

	2010	2009	2008
Net loss before taxes	\$ (94,640)	\$ (42,804)	\$ (117,435)
Federal statutory tax rate	28.50%	34.86%	35.46%
Tax based on statutory income tax rate	(26,972)	(14,921)	(41,642)
Non-deductible expenses	14,759	2	121
Non-deductible stock-based compensation	1,172	226	311
Loss (gain) not recognized for tax purposes	-	2,160	1,230
Change in valuation allowance	26,364	2,981	28,393
Future and foreign tax rate differential and other	(3,750)	(4,616)	(488)
Unrecognized tax assets	(13,118)	14,024	-
Income tax (recovery) expense	\$ (1,545)	\$ (144)	\$ (12,075)

17. 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. 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.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

(vi) On February 27, 2009 the Company closed two non-brokered private placements as follows:

10.0 million units ("Unit 1") were issued at a price of C\$0.05 per Unit 1 for proceeds of \$0.4 million. Each Unit 1 consisted of one common share and two series of common share purchase warrants. The first warrant (the "Series A Warrant") can be exercised to purchase one additional common 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 common 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 2") were issued at a price of C\$0.06 per Unit 2 for proceeds of \$0.8 million. In addition, 0.4 million Unit 2 units were issued as a finder's fee in connection with the private placement. Each Unit 2 consists of one common share and one common share purchase warrant (the "Warrant"). The Warrant can be exercised to purchase one additional common share at a price of C\$0.08 within 24 months of closing of the private placement.

(vii) On December 19, 2008, the Company closed a non-brokered private placement for a total of 79.8 million units (the "Units") for proceeds of \$3.3 million. In addition, 7.4 million units were issued as a finder's fee in connection with the private placement. Each Unit consisted of one common share and two series of common share purchase warrants. The first warrant (the "Series A Warrant") can be exercised to purchase one additional common 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 common share at a price of C\$0.09 per share within 18 months of closing of the private placement.

(viii) On May 2, 2008, the Company closed a non-brokered private placement of 10.1 million flow-through shares at a price of C\$2.00 per share for proceeds of \$19.9 million.

(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 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 pricing model. Where the warrant is issued and not attached to a common share, they are valued using the Black-Scholes pricing model.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

The following warrants were outstanding as of December 31, 2010:

Expiry date	Note 17	Exercise price (C\$)	In thousands				Carrying value
			December 31, 2009	Warrants issued	Warrants exercised/ expired	December 31, 2010	
April 12, 2010		5.50	2,851		(2,851)	-	-
June 20, 2012		3.00	21,426			21,426	15,282
June 17, 2010	(b)(vii)	0.09	2,000		(2,000)	-	-
February 25, 2011	(b)(vi)	0.08	400		-	400	8
February 24, 2010	(b)(vi)	0.07	11,000		(11,000)	-	-
August 24, 2010	(b)(vi)	0.09	10,000		(10,000)	-	-
April 24, 2011	(b)(v)	0.08	6,800		(3,067)	3,733	82
February 7, 2012	(b)(iv)	0.13	8,830		(1,730)	7,100	269
February 28, 2012	(b)(iv)	0.13	1,670		(170)	1,500	56
June 1, 2011	(b)(iii)	0.13	10,000		-	10,000	451
January 12, 2012	(c)(i)	0.32		170,400	(2,600)	167,800	38,135
January 12, 2012	(c)(i)	0.13		10,000	-	10,000	2,513
January 12, 2012	(c)(i)	0.26		10,250	-	10,250	2,391
May 12, 2012	(b)(i)	0.28		700	(60)	640	117
August 13, 2013	(c)(ii)	0.40		25,000		25,000	5,759
			74,977	216,350	(33,478)	257,849	65,063

(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 2010 \$43.6 million was expensed related to the issue of these warrants.

(ii) On August 13, 2010, the Company completed a \$25 million financing agreement, part of which included the issuance of 25 million detachable warrants to the debt holder (note 14).

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

Expiry date	Exercise price (C\$)	In thousands				Carrying value
		December 31, 2008	Warrants issued	Warrants exercised/ expired	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	0.08	-	17,733	(17,333)	400	8
February 24, 2010	0.07	-	11,000	-	11,000	140
August 24, 2010	0.09	-	10,000	-	10,000	118
April 24, 2011	0.08	-	12,400	(5,600)	6,800	150
February 7, 2012	0.125	-	18,830	(10,000)	8,830	334
February 28, 2012	0.125	-	22,220	(20,550)	1,670	61
June 1, 2011	0.125	-	10,000	-	10,000	451
		199,677	102,183	(226,883)	74,977	\$ 17,737

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

The fair value of the warrants was determined using the following assumptions:

Issue date	Expiry date	Risk-free interest rate	Dividend yield	Weighted average expected life	Volatility
June 20, 2007	April 12, 2010	4.25%	-	2.8	79%
June 20, 2007	June 20, 2012	4.25%	-	5.0	79%
June 20, 2007	June 20, 2012	3.24%	-	4.0	96%
December 17, 2008	June 17, 2010	1.79%	-	1.5	161%
February 24, 2009	February 24, 2010	1.39%	-	1.0	213%
February 24, 2009	August 24, 2010	1.39%	-	1.5	177%
February 25, 2009	February 25, 2011	1.39%	-	2.0	156%
April 24, 2009	April 24, 2011	1.10%	-	2.0	163%
August 7, 2009	February 7, 2012	1.33%	-	2.5	154%
August 28, 2009	February 28, 2012	1.39%	-	2.5	177%
December 1, 2009	June 1, 2011	1.31%	-	1.5	100%
January 12, 2010	January 12, 2012	1.41%	-	2.0	177%
January 12, 2010	January 12, 2012	1.41%	-	2.0	177%
January 12, 2010	January 12, 2012	1.41%	-	2.0	177%
May 12, 2010	May 12, 2012	1.21%	-	2.0	168%
August 13, 2010	August 13, 2013	1.91%	-	3.0	86%

(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 shares of the Company to directors, employees and service providers. Under the terms of the Plan, the number of securities issuable to insiders, at any time under old security based agreements, cannot exceed 10% of the issued and outstanding securities. The options vest over a variable period of time up to 3 years dependent upon the individual's role and any specified performance criteria.

Under the fair value method, the total fair value of the stock based compensation recognized was \$5.3 million in 2010 (2009 - \$1.2 million, 2008 - \$1.1 million) at a weighted average fair value of C\$0.21 per stock option (2009 - C\$0.15). Of this amount, \$1.2 million (2009 - \$0.2 million, 2008 - \$1.1 million) is included in cost of goods sold. In 2010 there were no costs recorded to mineral properties (2009 - \$0.2 million, 2008 - \$nil).

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

The fair value of the options at the date of grant has been estimated using the Black-Scholes option pricing model using the following assumptions:

Grant date	Risk-free interest rate	Dividend yield	Weighted average expected life	Volatility
January 26, 2006	3.00%	-	5	97%
March 28, 2006	3.00%	-	5	90%
November 10, 2006	4.50%	-	5	84%
December 12, 2006	4.13%	-	5	85%
January 5, 2007	4.14%	-	5	84%
April 3, 2007	4.24%	-	5	81%
June 25, 2007	4.25%	-	5	79%
July 5, 2007	4.72%	-	5	78%
August 10, 2007	4.53%	-	5	78%
September 14, 2007	4.14%	-	2	78%
November 13, 2007	3.91%	-	5	77%
February 22, 2008	3.22%	-	2	70%
March 28, 2008	3.35%	-	5	98%
June 19, 2008	3.24%	-	5	96%
July 17, 2009	2.44%	-	5	139%
September 29, 2009	2.33%	-	5	139%
January 1, 2010	2.12%	-	5	138%
March 12, 2010	2.26%	-	5	136%
July 12, 2010	2.20%	-	5	126%
July 15, 2010	2.20%	-	5	126%
October 5, 2010	1.79%	-	5	127%
October 13, 2010	1.79%	-	5	127%

Continuity of stock options outstanding for the years ended December 31, 2010, 2009 and 2008 is as follows:

	Options outstanding (000's)	Weighted average exercise price (C\$/option)
At January 1, 2008	11,534	1.90
Granted	1,050	1.37
Exercised	(3,715)	2.21
At December 31, 2008	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	37,615	0.33
Exercised	(2,398)	0.21
Expired	(700)	0.60
Forfeited	(7,117)	0.33
At December 31, 2010	53,437	0.37

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

The following information pertains to the options outstanding at December 31, 2010 are as follows:

Exercise Price (C\$)	Outstanding			Vested		
	Options outstanding (000's)	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)	Options exercisable (000's)	Weighted average exercise price (C\$/option)	Weighted average remaining contractual life (years)
0.15-0.31	22,078	0.18	3.8	10,203	0.20	4.0
0.32-0.82	28,540	0.35	4.3	10,459	0.39	4.6
0.83-1.60	275	1.45	1.7	275	1.45	1.7
1.61-1.75	1,719	1.73	1.6	1,719	1.73	1.6
1.76-5.70	825	2.72	1.0	825	2.72	1.0
	53,437	0.37	4.0	23,481	0.50	3.9

18. Supplemental information:

(a) Cash flow information

(i) Non-cash transactions:

	2010	2009	2008
Shares issued for provision of services	\$ 1,207	\$ -	\$ -
Shares issued for settlement of litigation	1,004	-	-
Stock-based compensation included in mineral properties	83	202	-

(ii) Operating activities included the following cash payments:

	2010	2009	2008
Interest paid	\$ 234	\$ 168	\$ 257

(iii) Net change in non-cash working capital:

	2010	2009	2008
Accounts receivable and prepaid expenses	\$ 132	\$ (2,366)	\$ 5,334
Inventories	(10,862)	13,901	12,793
Accounts payable and accrued liabilities	11,085	2,236	7,394
Deferred revenue	-	4,838	-
Payable on ore purchase	-	(8,257)	(10,590)
	\$ 355	\$ 10,352	\$ 14,931

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

(b) Interest in joint venture

The Company conducts a portion of its business through a joint venture under which the venturers are bound by contractual arrangements establishing joint control. In 2009 the company's ownership in the joint venture decreased from 50% to 37.5%. In 2010 the Company made an equity contribution of \$1m which resulted in an increase in its ownership percentage from 37.5% to 41.7%. Despite the lower equity holding in the joint venture the Company continues to have 50% representation on the board of directors, and the interest is therefore accounted for as a joint venture. Should the composition of the board change to align with the current ownership structure the accounting treatment would follow the equity method to reflect the reduced control.

The Company records its proportionate share of assets, liabilities, revenues, operating expenses and other income (expense) of the joint ventures. The following condensed statements of earnings and balance sheets for the year ended December 31, 2010 and 2009 detail the amounts relating to the Company's interest in a joint venture that has been proportionately consolidated.

	2010	2009
Ownership percentage	41.7%	37.5%
Proportionate share of other income	\$ 419	\$ -
Proportionate share of expenses	597	165
Proportionate share of assets		
Cash	\$ 2,439	\$ 89
Property plant and equipment	10	18
Accounts receivable	1	910
Mineral properties	-	327
	\$ 2,450	\$ 1,344
Proportionate share of liabilities	\$ 216	\$ 4

19. Segmented information:

All of the Company's operations are related to the gold mining industry. As of the end of December 31, 2010 the Company had one gold mine (Jerritt Canyon) located in Nevada, USA. The Company has exploration properties in Canada and the USA. A single customer comprised greater than 99% of all revenues recorded in the year and were generated by the USA operations only.

Assets and liabilities held by geographic location are as follows:

	2010	2009
Assets		
Canada	\$ 76,478	\$ 66,771
USA	141,334	128,670
	217,812	195,441
Liabilities		
Canada	55,969	31,637
USA	81,382	64,094
	\$ 137,351	\$ 95,731

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

20. Capital Management:

The Company manages its common shares, stock options, warrants and debt, net of cash and cash equivalents as capital. At December 31, 2010 the Company held the following as capital:

	2010	2009
Equity	\$ 80,461	\$ 99,710
Debt	32,857	-
	113,318	99,710
Less cash and cash equivalents	2,400	185
	\$ 110,918	\$ 99,525

The Company's objectives in managing capital are to safeguard its ability to continue as a going concern to provide returns for shareholders and benefits for other stakeholders. To meet this objective the Company will attempt to ensure it has sufficient cash resources to pursue the exploration and development of its mineral properties and fund potential acquisitions and maintain necessary personnel, supplies and equipment at its Jerritt Canyon operations.

To support these objectives the Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to maximize the exploration and development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. During 2010, the Company raised additional funds of \$31.8 million through issuance of debt, \$24.8 million of which has been secured over the Jerritt Canyon assets.

At December 31, 2010, there was no externally imposed capital requirement to which the Company is subject, which the Company has not complied with.

21. Financial Instruments:

(a) Categories of financial instruments:

The Company's financial instruments consist of cash and cash equivalents, receivables, restricted funds, accounts payable, accrued liabilities, borrowings and derivatives.

Cash and cash equivalents, restricted funds, the embedded gold derivative and the gold forward derivative are designated as held for trading and therefore carried at fair value, with the unrealized gain or loss recorded in income. Interest income and expense are both recorded in income. The fair value of the embedded derivative and the gold forward derivative are made by reference to the gold spot price at period end.

Accounts receivables are classified as loans and receivables with accounts payable, accrued liabilities and borrowings classified as other liabilities and are held at amortized cost using the effective interest rate method of amortization. The fair values of accounts receivables, accounts payable and accrued liabilities approximate carrying value because of the short term nature of these instruments.

The fair value of borrowings was determined using discounted cash flows at prevailing market rates and the fair value is approximately equal to the carrying value of the debt.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

Financial instruments that are measured at fair value are grouped into a hierarchy based on the degree to which the fair value is observable:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

An assessment of the company's financial instruments carried at fair value is set out below:

	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash and cash equivalents	\$ 2,400	\$ -	\$ -	\$ 2,400
Restricted funds	32,248	-	-	32,248
Accounts receivable	1,043	-	-	1,043
	<u>\$ 35,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,691</u>
Financial Liabilities				
Long term and short term debt	\$ -	\$ -	\$ 10,995	\$ 10,995
Forward contract derivative	-	8,901	-	8,901
	<u>\$ -</u>	<u>\$ 8,901</u>	<u>\$ 10,995</u>	<u>\$ 19,896</u>

The fair value measurement using the level 3 input was as follows:

	Debt
Balance being of the year	-
Issuance	6,763
Net (gains)/losses	4,232
Balance at end of the year	<u>10,995</u>

The fair value of the derivative instruments is determined using a present value technique based on a combination of forward gold curve prices as at December 31, 2010 and unobservable inputs. The effective interest rate applied to the underlying debt host is 78% based on repayments indexed to the gold price and a guaranteed return to the holder of 5% per annum on the principal amount.

b) Financial Risk Management

The Company is exposed to the certain risks through its use of financial instruments, including market risk (currency risk, interest rate risk and commodity price risk), credit risk, and liquidity risk.

The Company's manages its exposure to risk through the identification and analysis of risks faced by the Company, setting appropriate risk limits and controls, and monitoring those risks and adherence to the limits and controls that are established. Risk management is carried out by senior management under the approval of the Board of Directors. Risk management practices are reviewed regularly by senior management and the Audit Committee to reflect changes in market conditions and the Company's activities.

Market risk:

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include foreign currency risk, interest rate risk and commodity price risk.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

(i) Currency risk:

The Company is exposed to foreign currency risk due to fluctuations in the value of the Canadian dollar. Foreign currency risk arises from purchase transactions as well as financial assets and liabilities denominated in Canadian dollars.

The Company manages this risk by maintaining funds in Canadian dollars to support the cash requirements of those operations. The Company does not use any foreign exchange contracts to hedge these currency risks.

The Company is exposed to currency risk through its cash and cash equivalents, marketable securities, accounts receivable, restricted funds and accounts payable and accrued liabilities denominated in Canadian dollars as follows, based on notional amounts.

<i>In thousands of CAD</i>	2010	2009
Cash and cash equivalents	2,425	398
Accounts receivable	1,617	1,901
Restricted funds	6,170	3,324
Accounts payable and accrued liabilities	14,413	13,022

Based on the above net exposures as at December 31, 2010, a 10% appreciation or depreciation in the Canadian dollar against the US dollar, assuming all other variables remain constant, would result in a \$0.4 million increase or decrease, respectively, in operating results and shareholder equity.

(ii) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's cash and cash equivalents contain highly liquid investments that earn interest at market rates. The Company manages its interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to fund daily operations. Fluctuations in market interest rates do not have a significant impact on the Company's results from operations due to the short term to maturity of the investments held.

(iii) Commodity price risk:

The profitability of the Company is directly related to the market price of gold because revenues are derived primarily from gold mining. Gold prices are affected by numerous factors beyond the Company's control, including central bank sales, producer hedging activities, the relative exchange rate of the US dollar with other major currencies, global and regional demand and political and economic conditions. Worldwide gold production levels also affect gold prices, and the price of gold is occasionally subject to rapid short-term changes due to speculative activities. The Company has not hedged any of its own gold production. The Company has entered into two loan arrangements. As repayment of these obligations is referenced to the gold spot price, increases in the price of gold will increase the cost of payment.

Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

(i) Cash and cash equivalents and restricted funds

The Company manages its credit risk on cash and cash equivalent balances and marketable securities by maintaining balances with Tier 1 Canadian banks with a Standard & Poor's rating of AA. Short-term investments (included in cash and cash equivalents as well as marketable securities) are composed of financial instruments issued by Canadian banks and companies with high investment-grade ratings. These investments mature at various dates over the current operating period. As at December 31, 2010 \$0.01 million of cash and cash equivalents were held as short-term deposits.

The Company also maintains funds of \$28.4 million included in restricted funds (note 6) with a third party insurer with a Standard & Poor's rating of A+ to fund future reclamation costs at Jerritt Canyon. The Company maintains title to these funds should the third party be in default of their obligations or enters into bankruptcy protection.

(ii) Accounts receivable and prepaid expenses

Significant deposits and receivables are either held by or due from government agencies and principally relate to goods and services input tax credits.

The Company minimizes credit risk by reviewing the credit risk of the counterparty to the arrangement and has determined that there were no receivables which were considered impaired or otherwise uncollectible.

The ageing of receivables at the reporting date was as follows:

	Less than 3 months	4 to 12 months	1 to 2 years	Greater than 2 years
Accounts receivable	161	274	608	-

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through forecasting its cash flows from operations and anticipating investing and financing activities. Senior management is actively involved in the review and approval of planned expenditures and typically ensures that it has sufficient cash on demand to meet expected operating expenses for 60 days.

At December 31, 2010 the cash balance of the Company, excluding the YSMC joint venture, was an overdraft of \$0.1 million due to the timing of cash receipts and disbursements at December 31, 2010.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

The following are the contractual maturities of the undiscounted cash flows of financial liabilities at December 31, 2010:

	Less than 3 months	4 to 12 months	1 to 2 years	Greater than 2 years
Account payable and accrued liabilities	48,949	-	-	-
Long term debt	4,264	12,840	17,273	1,451
Capital lease obligations	8	24	18	-

22. Commitments and 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 EPA is continuing to monitor the Company's ongoing compliance program and no further actions have been taken to date. The final outcome and the extent of any liability is not yet determinable.

(ii) 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 Worker Adjustment and Retraining Notification ("WARN") Act, Employment Retirement Income Security Act, and State Labor Laws and to foreclose on labor liens not yet filed.

Queenstake intends to satisfy all outstanding legal obligations caused by the shut down in August 2008 early in 2011. 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.

(b) Lease Commitments:

The Company is committed under various operating leases to the following annual minimum payments:

2011	\$	171
2012		139
2013		121
2014		110
2015		82
	\$	623

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

23. Reconciliation between Canadian and United States Generally Accepted Accounting Principles

These consolidated financial statements have been prepared in accordance with Canadian GAAP. Material measurement differences in the accounting principles, practices and methods used in preparing these consolidated financial statements from principles, practices and methods accepted by United States of America generally accepted accounting principles (US GAAP) are described and quantified below. On July 1, 2009, the Financial Accounting Standards Board (FASB) ratified the Accounting Standards Codification ("ASC") as the sole source of authoritative non-governmental US GAAP. The ASC has not intended to change US GAAP, but rather reorganized existing guidance by accounting topic to allowed easier identification of accounting standards. New accounting pronouncements issued by the FASB are called Accounting Standards Updates ("ASU"). The Company has updated references to US GAAP to reflect the ASC.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

The impact of US GAAP differences on the consolidated statement of operations is as follows:

<i>In thousands</i>	For the year ended December 31		
	2010	2009	2008
Net loss under Canadian GAAP	\$ (93,095)	\$ (42,660)	\$ (105,360)
Recognition of losses on liabilities related to warrants			
denominated in foreign currencies	(v) (100,413)	(32,924)	-
Write-off of exploration mineral property costs	(i) (8,118)	(12,940)	(19,479)
Recognition of future income tax asset due to write-off of			
exploration mineral property costs	(i) -	-	(2,278)
Premium received on flow-through shares	(ii) -	6,667	2,650
Reduction in impairment due to write-off of exploration			
mineral property costs prior to impairment	(i) 997	-	13,714
Depreciation capitalized to mineral properties	(i) (279)	(346)	(386)
Net loss under US GAAP	\$ (200,908)	\$ (82,203)	\$ (111,139)
Comprehensive income under US GAAP	\$ (200,908)	\$ (82,203)	\$ (111,139)
Loss per share under US GAAP - basic and diluted	\$ (0.31)	\$ (0.24)	\$ (0.60)

The impact of US GAAP differences on the consolidated balance sheet is as follows:

<i>In thousands</i>	As at December 31	
	2010	2009
Assets under Canadian GAAP	\$ 217,812	\$ 195,441
Opening adjustment to mineral property costs	(i) (54,803)	(41,517)
Write-off of exploration mineral property costs	(i) (7,400)	(13,286)
Assets under US GAAP	\$ 155,609	\$ 140,638
Liabilities under Canadian GAAP	\$ 137,351	\$ 95,731
Opening adjustments	(ii), (iii) (4,341)	(2,120)
Premium received on flow through shares	(ii) 1,177	-
Premium on flow-through shares expensed on renunciation	(ii) -	(6,667)
Reversal of future income tax liability arising from		
renunciation under Canadian GAAP	(ii) -	(5,411)
Warrants denominated in foreign currencies	(v) 140,728	9,857
Liabilities under US GAAP	\$ 274,915	\$ 91,390

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

<i>In thousands</i>	December 31	
	2010	2009
Shareholders' equity under Canadian GAAP	\$ 80,461	\$ 99,710
Opening adjustments		
Exploration costs and premium on flow-through shares	(50,462)	(39,397)
Write-off of exploration mineral property costs (i)	(8,397)	(13,286)
Reduction in impairment due to write-off of exploration mineral property costs prior to impairment (i)	997	-
Premium received on flow through shares (ii)	(1,177)	-
Premium on flow-through shares expensed on renunciation (ii)	-	6,667
Reversal of future income tax liability arising from renunciation (ii)	-	5,411
Reduction in foreign denominated warrants (v)	(47,327)	(18,392)
Increase in share capital due to foreign denominated warrants (v)	8,184	25,138
Decrease in paid in capital due to expiry of foreign denominated warrants (v)	(1,172)	16,321
Recognition of losses on liabilities related to warrants denominated in foreign currencies (v)	(100,413)	(32,924)
Shareholders' equity under US GAAP	\$ (119,306)	\$ 49,248

The components of Shareholders' equity/(deficit) under US GAAP would be as follows:

<i>In thousands</i>	December 31	
	2010	2009
Share capital (v)	\$ 281,199	\$ 253,798
Accumulated paid in capital (v)	\$ 15,149	\$ 16,321
Contributed surplus	16,614	10,489
Accumulated other comprehensive income	2,264	2,264
Deficit	(434,532)	(233,624)
Total Shareholders' Deficit	\$ (119,306)	\$ 49,248

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

The impact of US GAAP differences on the consolidated statement of cash flows are as follows:

<i>In thousands</i>	For the year ended December 31		
	2010	2009	2008
Cash used in operating activities under Canadian GAAP	\$ (16,926)	\$ (19,389)	\$ (18,412)
Write-off of exploration mineral property costs (i)	(8,118)	(13,286)	(19,865)
Premium received on flow-through shares (ii)	1,177	-	6,667
Cash used in operating activities under US GAAP	\$ (23,867)	\$ (32,675)	\$ (31,610)
Cash used in investing activities under Canadian GAAP	\$ 15,952	\$ (6,322)	\$ (42,628)
Write-off of exploration mineral property costs (i)	8,118	13,286	19,865
Cash provided by (used in) investing activities under US GAAP	\$ 24,070	\$ 6,964	\$ (22,763)
Cash provided by financing activities under Canadian GAAP	\$ 35,183	\$ 24,790	\$ 21,092
Premium received on flow-through shares (ii)	(1,177)	-	(6,667)
Cash provided by financing activities under US GAAP	\$ 34,006	\$ 24,790	\$ 14,425

Under US GAAP there would be no subtotal to the cash flow from operations in the consolidated statement of cash flows.

Notes to the Reconciliation between Canadian and US GAAP

(i) Mineral properties

Under Canadian GAAP, resource property acquisition costs and exploration costs may be deferred and amortized to the extent they meet certain criteria. Capitalized costs under Canadian GAAP are amortized on a unit-of-production basis based on proven and probable reserves.

Under US GAAP, exploration costs must be expensed as incurred unless the resource properties have proven and probable reserves at which time costs incurred to bring the mine into production are capitalized as development costs. Drilling and related costs in delineating an ore body and converting mineral resources to mineral reserves are expensed as exploration costs under US GAAP. Capitalized costs are then amortized on a unit-of-production basis based on proven and probable reserves rather than over the proven and probable reserves of the mine and the applicable portion of resources expected to ultimately be mined. This additional depletion and exploration expense is recognized in the statement of operations under US GAAP. For the purposes of the consolidated statements of cash flows, the exploration costs are classified as cash used in investing activities under Canadian GAAP and cash used in operating activities under US GAAP.

As amounts capitalized may vary between Canadian GAAP and US GAAP, depreciation may also vary.

Option payments are capitalized under US GAAP.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

(ii) Flow-through shares

Under Canadian income tax legislation, the Company is permitted to issue shares whereby the Company agrees to incur Canadian exploration expenditures (as defined in the Income Tax Act, Canada) and renounce the related income tax deductions to investors. Under Canadian GAAP, the full amount of funds received from flow-through share issuances are initially recorded as share capital. Upon renouncing the expenditures, the amount of deferred tax liability on the expenditures is deducted from share capital. Under US GAAP, the premium paid for the flow-through shares in excess of market value is credited to liabilities and included in income when the related tax benefits are renounced by the Company.

(iii) Income taxes

Under Canadian GAAP, future tax assets and liabilities are recorded at substantially enacted tax rates. Under US GAAP, deferred tax assets and liabilities are recorded at enacted tax rates. In 2009 and 2010, there was no difference between enacted and substantially enacted rates. As a result, the application of US GAAP in accounting for income taxes did not result in any material measurement differences from Canadian GAAP for future tax assets or liabilities.

Due to the treatment of exploration costs under US GAAP described in note 23 (i) above, there would be a larger tax benefit arising under US GAAP when compared to Canadian GAAP. With respect to the Canadian operations, any future tax assets arising are fully offset by a valuation allowance as it is not more likely than not that the future tax assets would be realized. For the US operations, a valuation allowance has been taken against all future income tax assets in excess of liabilities, therefore the asset arising under US GAAP was not recognized in 2010 and 2009 and the balance from 2008 has been adjusted accordingly.

(iv) Accounting for uncertainty in income taxes

The Company recognizes uncertain tax positions that are "more-likely-than-not" (50% or greater) of being sustained on audit, based on the technical merits of the position. With the adoption of this standard, the Company has performed a comprehensive review of all material tax positions in accordance with recognition and measurement standards established by FIN 48 (now known as ASC 740).

Based on this review, the provisions of FIN 48 did not have a material impact on the Company's annual consolidated financial statements. The Company has elected to apply the provisions of FIN 48 in assessing their uncertain tax positions under Canadian GAAP as well, removing any differences that would arise with US GAAP.

(v) Reclassification of warrants

In June 2009, FASB released guidance on the accounting treatment for certain equity instruments with elements of foreign currency risk. Warrants with an exercise price that is different from the entity's functional currency cannot be classified as equity. This is applicable for years beginning after December 15, 2009 and has been treated as a change in accounting principle through prospective application. As the Company's functional currency is the US dollar, the issued and outstanding warrants that have an exercise price that is denominated in Canadian dollars are treated as derivative instruments and recorded as liabilities under US GAAP instead of equity and changes in fair value will be calculated at each reporting period. Any gain or loss arising from this revaluation will be recorded in the statement of operations. During 2010, 30,626,000 warrants were exercised and 2,851,000 expired. Upon exercise the fair value of the warrants of \$9.2 million

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

was reclassified to common shares, which resulted in a reduction in the liabilities of \$4.6 million and a loss of \$4.6 million recognized in income in the period. For the year ended December 31, 2010, the Company has assessed the fair value of the warrants and recorded an increase in the liability of \$95.8 million with an offsetting adjustment to the mark-to-market for the year.

(vi) Adoption of New Accounting Standards

In June 2009, FASB issued further guidance on accounting of transfers of financial assets. This guidance improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The Board undertook this project to address (1) practices that have developed that are not consistent with the original intent and key requirements of that guidance and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This guidance must be applied for the Company on January 1, 2010. The adoption of this accounting policy did not have a material impact on the Company.

In June 2009, FASB issued guidance which improves financial reporting by enterprises involved with variable interest entities. The Board undertook this project to address (1) the effects on certain provisions of as a result of the elimination of the qualifying special-purpose entity concept in FASB Statement No. 166, Accounting for Transfers of Financial Assets, and (2) constituent concerns about the application of certain key provisions, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. The adoption of this accounting policy did not have a material impact on the Company.

(vii) New Accounting Pronouncements.

With the transition to International Financial Reporting Standards beginning January 1, 2011, new accounting pronouncements effective after January 1, 2011 will not be applicable to the Company.

(viii) Incorporated joint venture

Under Canadian GAAP incorporated joint ventures are proportionately consolidated. Under US GAAP the investment of a joint venture is equity accounted for where there incorporated joint venture is not controlled by the Company or consolidated where control exists. The Company owns 41.7% of the Yukon-Shaanxi Mining Corp. an incorporated joint venture and accordingly should equity account for this investment for US GAAP. The impact is to reclassify the earnings of the joint venture to the Equity loss in the income statements and include the net investment as an equity investment on the balance sheet. However, as permitted by the Securities Exchange Commission regulation for the preparation of Item 17, financial statement for the Company has not quantified the difference in classification and display related to the joint venture.

YUKON-NEVADA GOLD CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2010, 2009 and 2008

24. Subsequent events:

- a) On February 4, 2011, the Company announced a proposal to raise additional working capital by offering an 18% discount for the early exercise of eight series of unlisted outstanding share purchase warrants of the Company for 30 days following announcement of the transaction. Of the 235.8m warrants which qualified for the incentive, 2,955,000 were exercised by March 31, 2011.
- b) In 2011, the Company negotiated a non-brokered flow-through private placement to sell 8,334,882 flow-through common shares at \$0.85 generating proceeds of \$7.1 million. Use of proceeds will be for new resource exploration at Ketz River and Silver Valley.