



# **TAGISH LAKE GOLD CORP.**

**Unaudited Financial Statements**

**Second Quarter Report**

**Ended April 30, 2010**

## **NOTICE TO READER**

The accompanying unaudited interim financial statements of Tagish Lake Gold Corp. and all information in the Quarterly Report have been prepared by management and are the responsibility of the management of the Company.

The Audit Committee of the Board of Directors, consisting of three (3) members, has reviewed the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent firm of chartered accountants appointed as external auditors by the shareholders, Smythe Ratcliffe LLP, has not performed a review of these quarterly financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

*"Graham Dickson"*

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Graham Dickson  
Chief Executive Officer

*"Denis Lampron"*

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Denis Lampron  
Chief Financial Officer

June 28, 2010

**TAGISH LAKE GOLD CORP.****Balance Sheets (under Creditor Protection – note 18 & 19)**

As at

	<b>April 30, 2010</b>	<b>October 31 2009</b>
	(unaudited)	(audited)
<b>Assets</b> (note 10)		
<b>Current</b>		
Cash	\$ 82,538	\$ 9,716
GST receivable	11,281	12,073
Receivable from private placement	500,000	0
Prepaid expenses and deposits	23,320	13,968
Reclamation bond	15,000	15,000
	632,139	50,757
<b>Property and Equipment</b> (note 7)	157,960	181,060
<b>Resource Properties</b> (note 8)	1,500,000	1,500,000
	\$ 2,290,099	\$ 1,731,817
<b>Liabilities</b>		
<b>Current</b>		
Bank loan (note 10)	\$ 0	\$ 1,500,000
Secured loan from Yukon-Shaanxi Mining Company Inc. (notes 11(a))	1,884,421	0
Unsecured loan from Yukon-Shaanxi Mining Company Inc. (notes 11(a) and 17)	1,054,686	1,001,423
Accounts payable and accrued liabilities (notes 15 and 17)	4,333,452	4,284,882
Advances due within a year (note 11(b))	71,114	60,000
	7,343,673	6,846,305
<b>Advances due after a year</b> (note 11(b))	52,467	55,000
<b>Future Income Taxes</b> (note 12)	0	0
	7,396,140	6,901,305
<b>Shareholders' Equity (Deficiency)</b>		
<b>Capital Stock</b> (note 13)	48,424,905	47,711,705
<b>Shares Held in Treasury</b> (note 6)	(120,000)	(120,000)
<b>Contributed Surplus</b>	1,746,147	1,213,668
<b>Deficit</b>	(55,157,093)	(53,974,861)
	(5,106,041)	(5,169,488)
	\$ 2,290,099	\$ 1,731,817

Going concern (note 2), Commitments (note 16), Subsequent event (note 19)

Approved by the Board:

"Graham Dickson" Director  
Graham Dickson

"Robert Chafee" Director  
Robert Chafee

See notes to financial statements.

**TAGISH LAKE GOLD CORP.**  
**Statements of Operations (Unaudited)**

	Three months ended April 30, 2010	Three months ended April 30, 2009	Six months ended April 30, 2010	Six months ended April 30, 2009
	\$	\$	\$	\$
<b>Expenses</b>				
Management fees (note 15)	532,479	41,150	542,118	150,800
Wages and benefits	48,553	44,896	103,149	92,092
Interest	47,361	24,861	100,402	45,885
Professional fees	182,610	37,673	192,785	79,840
Office and miscellaneous	14,972	30,175	16,044	52,840
Directors' fees (note 15)	18,000	9,000	36,000	18,000
Rent	9,397	6,107	14,420	10,699
Travel	0	10,793	19	12,236
Regulatory and filing fees	10,780	9,577	12,456	9,821
Shareholder and investor relations	0	0	0	11,000
Telecommunications	1,921	3,148	3,751	6,659
Consulting fees	0	4,750	0	4,750
Transfer agent fees	1,379	1,417	2,721	2,786
Advertising and promotion	23	360	512	386
Amortization	5,068	9,756	10,136	19,512
<b>Loss Before Other Items and Future Income Tax Recovery</b>				
	872,543	233,663	1,034,513	517,306
<b>Other Items</b>				
Impairment of resource properties (note 8)	84,246	0	149,955	0
Gain on disposal of property and equipment	0	0	(2,237)	0
	84,246	0	147,718	0
<b>Loss Before Future Income Tax Recovery</b>				
	956,789	233,663	1,182,231	517,306
<b>Future Income Tax Recovery</b>				
	0	39,683	0	92,361
<b>Net Loss and Comprehensive Loss for Year</b>				
	956,789	193,980	1,182,231	424,945
<b>Loss per Share, basic and diluted</b>				
	0.007	0.002	0.009	0.003
<b>Weighted Average Number of Common Shares Outstanding</b>				
	131,708,563	129,817,204	131,708,563	129,817,124

See notes to financial statements.

**TAGISH LAKE GOLD CORP.****Statements of Shareholders' Equity (Deficiency) (Unaudited)**

As at

	Number of Shares	Capital Stock \$	Shares Held in Treasury \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Equity (Deficiency) \$
<b>Balance, October 31, 2008</b>	129,817,124	47,711,705	(120,000)	1,203,935	(25,539,315)	23,256,325
Net loss for year	0	0	0	0	(28,435,546)	(28,435,546)
Stock-based compensation (note 13(d))	0	0	0	9,733	0	9,733
Shares adjustment	80	0	0	0	0	0
<b>Balance, October 31, 2009</b>	129,817,204	47,711,705	(120,000)	1,213,668	(53,974,861)	(5,169,488)
Net loss	0	0	0	0	(1,182,232)	(225,443)
Shares issued	14,264,000	713,200	0	0	0	713,200
Options issued	0	0	0	532,479	0	532,479
<b>Balance, April 30, 2010</b>	144,081,204	48,424,905	(120,000)	1,746,147	(55,157,093)	(5,106,041)

See notes to financial statements.

**TAGISH LAKE GOLD CORP.**  
**Statements of Cash Flows (Unaudited)**

	Three months ended April 30, 2010	Three months ended April 30, 2009	Six months ended April 30, 2010	Six months ended April 30, 2009
<b>Operating Activities</b>				
Net loss	(956,789)	(193,980)	(1,182,231)	(424,944)
Items not affecting cash				
Amortization	5,068	9,756	10,136	19,512
Loss (gain) on disposal of asset	0	0	(2,236)	0
Stock-based compensation	532,479	3,650	532,479	7,300
Accrued interest on advances and loan	37,629	0	97,546	0
Impairment of resource properties	84,246	0	149,955	0
Future income tax recovery	0	(39,683)	0	(92,360)
	(297,367)	(220,257)	(394,353)	(490,492)
Changes in non-cash working capital items				
GST receivable	(2,687)	8,659	792	21,201
Receivable from private placement	(500,000)	0	(500,000)	0
Prepaid expenses and deposits	(13,644)	10,464	(9,352)	13,067
Accounts payable and accrued liabilities	94,231	117,731	37,827	154,722
	(422,100)	136,854	(470,733)	188,990
<b>Net Cash Used in Operating Activities</b>	(719,467)	(83,403)	(865,086)	(301,502)
<b>Investing Activities</b>				
Resource property expenditures	(78,532)	(133,418)	(139,212)	(192,578)
Purchase of property and equipment	0	0		0
Proceeds from sale of property and equipment	0	0	15,200	0
<b>Net Cash Used in Investing Activities</b>	(78,532)	(133,418)	(124,012)	(192,578)
<b>Financing Activities</b>				
Issuance of capital stock	713,200	0	713,200	0
Repayment of bank loan	0	0	(1,500,000)	0
Secured loan by Yukon-Shaanxi	139,020	0	1,639,020	0
Advances from Yukon-Shaanxi	7,560	235,000	209,700	435,000
Proceeds from related parties	0	5,000	0	50,000
<b>Net Cash Provided by Financing Activities</b>	859,780	240,000	1,061,920	485,000
<b>Increase (decrease) in Cash</b>	61,781	23,179	72,822	(9,080)
<b>Cash, Beginning</b>	20,757	31,093	9,716	63,352
<b>Cash, End</b>	82,538	54,272	82,538	54,272

Supplemental cash flow information (note 14)

See notes to financial statements.

**TAGISH LAKE GOLD CORP.**  
**Notes to Financial Statements**  
**Second Quarter Ended April 30, 2010**

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**1. NATURE OF OPERATIONS**

Tagish Lake Gold Corp. (the "Company") was incorporated on November 30, 2000 under the laws of British Columbia and its principal business activity is the exploration and development of natural resource properties.

**2. GOING CONCERN**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. Several adverse conditions as set out below cast significant doubt on the validity of this assumption.

On April 9, 2010, the Company has obtained creditor protection under the Companies' Creditors Arrangement Act ("CCAA") (Note 18 & 19).

The ongoing future of the Company is contingent upon continued ongoing financial support from Yukon-Shaanxi Mining Company Inc. ("YSM") or another party, or additional equity financing and the acceptance of the creditors of the proposal. There can be no assurance that the Company will receive continued financial support from YSM or can there be assurance the creditors will accept the proposal (note 17, 18 and 19).

At April 30, 2010, the Company has no source of operating cash flow, an accumulated deficit of \$55,157,093 (October 31, 2009 - \$53,974,861), and a working capital deficiency of \$6,711,534 (October 31, 2009 - \$6,795,548). The Company's assets are pledged as collateral for the loan to Yukon Shaanxi Mining Company Inc. that is in default (note 10 and 11). The financial support from YSM is not in the normal course of business for the Company or the industry. The current financial equity market conditions, the challenging funding environment and the low price of the Company's common shares make it difficult to raise funds by issuance of common shares. There is no assurance that the Company will be successful with any financing ventures.

If the Company is successful with the proposal but unsuccessful in generating resources from one or more of the anticipated sources and is unable to replace any shortfall with resources from another source, it will not be able to meet its obligations and its operations will be materially, adversely affected. The financial statements do not include any adjustments to the recoverability and classification of recorded assets or the amounts and classifications of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These audited financial statements have been prepared by the Company in accordance with the Canadian GAAP.

(a) Resource properties

All costs related to the acquisition of, exploration for and development of resource properties, net of recoveries, are capitalized on a property-by-property basis. If economically recoverable ore reserves are developed, capitalized costs of the related property will be reclassified as mining assets and will be amortized using the unit-of-production method. When a property is abandoned, all related costs are written-off to operations. If after management review it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated fair value. A

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**Notes to Financial Statements**  
**Second Quarter Ended April 30, 2010**

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resource property interest is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

From time to time the Company may acquire or dispose of a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is recorded in operations.

(b) Government assistance

The Company records government assistance relating to resource properties when it is more likely than not to be received. Government grants are recorded using the cost reduction method and are included as a reduction of resource property interests.

(c) Property and equipment

Amortization of property and equipment is recorded on a declining-balance basis at the following annual rates (additions during the year are amortized at one-half the annual rates):

Building	-	5%
Process and plant equipment	-	20% to 25%
Automotive equipment	-	30%
Office and computer equipment	-	30%

(d) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(e) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of environmental obligations, asset retirement obligations ("ARO"), the fair values of financial instruments, rates of amortization for property and equipment, recoverability of resource properties interests, valuation allowance for future income tax assets and the variables used in the calculation of stock-based compensation. While

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**Notes to Financial Statements**  
**Second Quarter Ended April 30, 2010**

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management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(f) Stock-based compensation

The Company accounts for stock-based compensation using the fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the option is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed, the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options for non-employees is accrued and charged either to operations or resource properties, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

(g) Flow-through common shares

The Company may, from time to time, issue flow-through common shares to finance its resource exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholders the income tax attributes of resource exploration costs financed by such shares. The effect of such renouncement is to reduce future income tax deductions, which is considered to be a share issue cost that is recorded as a reduction to capital stock and a corresponding increase in future income tax liability.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not previously recognized, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

(h) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward (temporary differences). Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(i) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred

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**Second Quarter Ended April 30, 2010**

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upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in these financial statements.

(j) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale, or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

(k) Comprehensive income (loss).

Comprehensive income (loss) is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income (loss) and other comprehensive income (loss). Other comprehensive income includes gains or losses, which GAAP require to be recognized in a period but are excluded from net income for that period. The Company has no items of comprehensive income (loss) in any period presented, accordingly, net loss equals comprehensive loss.

(l) Unit offerings

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

(m) Changes in accounting policies

The following Canadian Institute of Chartered Accountants ("CICA") guidelines are adopted by the Company effective November 1, 2008:

(i) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This new section is effective for the Company on November 1, 2008. Adoption of this section has no impact on the Company's financial statements.

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**Notes to Financial Statements**  
**Second Quarter Ended April 30, 2010**

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(ii) Going concern

Handbook Section 1400, "General Standards of Financial Statement Presentation", requires management to assess an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. Adoption of the standard had no impact on the Company's financial statements.

(n) Future changes in accounting policies

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The effective date for the Company is for interim and annual financial statements commencing November 1, 2011. The transition will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(n) Future changes in accounting policies

(ii) Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", which replaces Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements". Section 1582 is applicable for the Company's business combinations with acquisition dates on or after November 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Sections 1601 and 1602 are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning November 1, 2011. Early adoption of these sections is permitted.

**4. COMPARATIVE FIGURES**

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

**5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

Financial instruments held by the Company include cash, reclamation bond, bank loan, accounts payable and accrued liabilities, advances from related party, and loan from YSM. The Company classifies cash as held-for-trading; reclamation bond as held-to-maturity; and bank loan, accounts payable and accrued liabilities, advances from related party and loan from YSM as other financial liabilities.

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**Notes to Financial Statements**  
**Second Quarter Ended April 30, 2010**

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The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

(a) Fair value

The carrying values of cash, reclamation bond, bank loan, accounts payable and accrued liabilities, current portion of advances from related party, and loan from YSM approximate their fair values because of the short-term maturity of these financial statements. The fair value of the long-term portion of the advances from related party has not been disclosed as the fair values cannot be reliably measured since the parties are not at arm's length.

(b) Credit risk

The Company manages credit risk, in respect of cash and the reclamation bond, by placing cash with well-capitalized high-quality financial institutions.

Concentration of credit risk exists with respect to the Company's cash and reclamation bond as all amounts are held at a single major Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	April 30, 2010	October 31, 2009
Cash	\$ 82,538	\$ 9,716
Term deposit (reclamation bond) with interest 0.15% (2009 - 2.5%), maturing on March 17, 2011	15,000	15,000
	<b>\$ 97,538</b>	<b>\$ 24,716</b>

The credit risk associated with cash and the reclamation bond is minimized substantially by ensuring that these financial assets are placed with major financial institutions with strong investment-grade ratings by a primary ratings agency.

(c) 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's approach to managing risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due.

At April 30, 2010 the Company has cash of \$82,538 (October 31, 2009, \$9,716), a working capital deficiency of \$6,711,534 (October 31, 2009 \$6,795,548) and is essentially insolvent unless future financing initiatives are successful. While the Company has been successful in raising debt and equity funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future.

As at April 30, 2010, the Company had accounts payable and accrued liabilities of \$4,333,452 (October 31, 2009 \$4,284,882), bank loan of NIL\$ (October 31, 2009 - \$1,500,000), secured loan from YSM due immediately of \$1,884,421 and advances from YSM of \$1,054,686. The Company has other advances of \$71,114 due within the next year and \$52,467 due in 2018.

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**Notes to Financial Statements**  
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(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The only market risk to which the Company is exposed is interest rate risk.

The Company's reclamation bond consists of a term deposit that earns interest at 0.15% and matures March 17, 2011. Due to the short-term nature of this financial instrument, fluctuations in market interest rates do not have a significant impact on the estimated fair value of this financial instrument. Absent early redemption of the term deposit, future cash flows will not change as a result of market interest rates. Advances from related party have a fixed interest rate and they are exposed to interest rate price risk.

The Company's bank loan was bearing interest at LIBOR (London Interbank Offered Rate) plus 2.5% and since June 2009, at 4.5 % as the Company did not pay the loan as due. The loan from YSM bears interest at prime plus 5%. As these financial instruments bear interest at variable rates, market interest rate fluctuations will impact their fair values and future cash flows. A 1% change in interest rate would impact the Company's net loss by \$30,000. The Company does not employ derivatives or other techniques to manage this risk.

**6. SHARES HELD IN TREASURY**

In 2008, a shareholder/director returned 1,057,969 common shares to the Company in full settlement of balance receivable. These shares are being held by the Company's legal counsel and are stated at cost.

**7. PROPERTY AND EQUIPMENT**

<b>At April 30, 2010</b>				
	Cost		Accumulated Amortization	Net
Building	\$ 118,950	\$	17,167	\$ 101,783
Process and plant equipment	322,618		290,908	31,710
Automotive equipment	110,643		97,047	13,596
Office and computer equipment	54,837		43,966	10,871
	<b>\$ 607,048</b>	<b>\$</b>	<b>449,088</b>	<b>\$ 157,960</b>
<b>At October 31, 2009</b>				
	Cost		Accumulated Amortization	Net
Building	\$ 118,950	\$	14,557	\$ 104,393
Process and plant equipment	322,618		287,385	35,234
Automotive equipment	141,768		112,809	28,959
Office and computer equipment	54,837		42,362	12,474
	<b>\$ 638,173</b>	<b>\$</b>	<b>457,113</b>	<b>\$ 181,060</b>

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**Notes to Financial Statements**  
**Second Quarter Ended April 30, 2010**

**8. RESOURCE PROPERTIES**

The investment in and expenditures on the properties are summarized as follows:

	Balance, October 31, 2009	Incurred during the first quarter	Incurred during the second quarter	Balance April 30, 2010
<b>Skukum Creek</b>				
Acquisition costs	\$ 265,573	\$ 0	\$ 0	\$ 265,573
Geological and geophysical	3,288,325	0	0	3,288,325
Underground work	10,473,954	0	0	10,473,954
Drilling	1,151,182	0	0	1,151,182
Site supervision	843,647	0	0	843,647
Camp	1,114,424	62,064	74,317	1,250,805
Road work	774,150	2,700	9,928	786,778
Environmental	596,508	0	0	596,508
Assaying	344,229	0	0	344,229
Engineering	687,763	0	0	687,763
Other	451,718	945	0	452,663
	19,991,473	65,709	84,246	20,141,428
Impairment	(18,491,473)	(65,709)	(84,246)	(18,641,428)
<b>Total Skukum Creek</b>	<b>1,500,000</b>	<b>0</b>	<b>0</b>	<b>1,500,000</b>
<b>Goddell</b>				
Acquisition costs	395,443	0	0	395,443
Geological, geophysical and underground work	9,864,957	0	0	9,864,957
Drilling	77,379	0	0	77,379
Assaying	13,681	0	0	13,681
	10,351,460	0	0	10,351,460
Impairment	(10,351,460)	0	0	(10,351,460)
<b>Total Goddell</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Charleston</b>				
Geological and geophysical	10,637	0	0	10,637
Impairment	(10,637)	0	0	(10,637)
<b>Total Charleston</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Arctic Property</b>				
Geological and geophysical	134,217	0	0	134,217
Impairment	(134,217)	0	0	(134,217)
<b>Total Arctic Property</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Properties</b>	<b>\$ 1,500,000</b>	<b>0</b>	<b>\$ 0</b>	<b>\$ 1,500,000</b>

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The Skukum Creek, Goddell and Charleston mineral blocks are part of the Skukum Property, which consists of a total of 982 mineral claims in the Whitehorse Mining District, Yukon. During 2009, management considered the carrying value of the property to be impaired and recorded an impairment charge to reduce the carrying amount to \$1,500,000. The same conditions persist in 2010 and the management considered the carrying value of the property to be impaired and recorded an impairment charge to reduce the carrying amount to \$1,500,000.

The Arctic Property consists of two Crown grants near Carcross, Yukon, which are held for future exploration and development. During 2008, management considered the carrying value of the property to be impaired and recorded an impairment charge to reduce the carrying value to \$nil.

**Environmental**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the resource properties, the potential for production on the properties may be diminished or negated.

**Title to resource properties**

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

**Realization of assets**

The resource properties comprise substantially all of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

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**9. CAPITAL MANAGEMENT**

Management considers the capital of the Company to consist of the items included in shareholders' equity (deficiency) and the loans.

The Company's objectives of capital management are to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis and pursue the exploration and development of its resource properties.

In 2007, the Company obtained a bank loan of \$1,500,000 in order to advance the feasibility study on the Skukum property. The Company had to adhere to certain financial and other covenants related to the terms of its credit facility with Macquarie Metals and Energy Capital (Canada) Ltd. ("Macquarie") such as positive cash position to cover the next three months' expenditures, a positive current ratio and completion of the feasibility study. The Company was not subject to any other externally imposed capital requirements. Macquarie Bank gave a Notice of Intention on April 14, 2008 to enforce its security but did not take action. On November 17, 2009, Macquarie has assigned all of its interests with respect to the interest-bearing loan of \$1,500,000 pursuant to the Credit Facility Agreement dated June 7, 2007 to Yukon-Shaanxi Mining Company Inc..

As at April 30, 2010, the Company is still not in compliance with the required financial and other covenants.

During the first six months of 2010, the Company's funds from financing have covered expenditures and the working capital deficiency has decreased from \$6,795,548 to \$6,711,534. While the Company was successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. The Company's plans present uncertainties about the ultimate ability of the Company to continue operations. The Company is currently managing capital by relying on investment and advances from YSM and is currently considering shares for debt settlement on outstanding debt.

There has been no change from the prior year in the Company's capital management.

**10. BANK LOAN**

The Company took a bank loan of \$1,500,000 with Macquarie in 2007 pledging all of the assets of the Company as collateral. The original due date was June 9, 2009. Since the loan was not repaid in June 2009, the interest according to the Credit Facility was increased from LIBOR plus 2.5% to LIBOR plus 4.5 %.

In April 2008, the Company was in default and Macquarie served the Company a Notice of Intention to enforce its security but did not take further actions.

On November 17, 2009, Macquarie has assigned all of its interests with respect to the interest-bearing loan of \$1,500,000 pursuant to the Credit Facility Agreement dated June 7, 2007 to Yukon-Shaanxi Mining Company Inc..

**11. LOAN AND ADVANCES**

- (a) Loan and advances from Yukon-Shaanxi Mining Company Inc.(YSM)

As at April 30, 2010, the Company owes \$2,939,107 to YSM.

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It consists of:

- \$1,884,421 for the bank loan bought from Macquarie and interest ( LIBOR plus 4.5%). All of the assets of the Company are pledged as collateral.
- \$1,054,686 for advances and interest. The advances are unsecured and bear interest at prime plus 5% per annum and have no specified terms of repayment (note 18).

(b) Other loan and advances

During the quarter, there were no other advances. During the year ended October 31, 2009, advances from individuals amounted to \$55,000.

The promissory notes are unsecured. One promissory note of \$60,000 is non-interest bearing with no terms of repayment. The other six promissory notes bear interest at 12% per annum payable bi-annually in arrears on June 30 and December 31; \$45,000 matures on December 31, 2018 and \$10,000 on December 31, 2010. An amount of \$37,731 (\$35,000 plus interest) is due to a director.

**12. INCOME TAXES**

Future income tax liability reflects the effects of temporary differences between the carrying amounts for financial reporting purposes and the amounts used for income tax purposes at expected future tax rates. Significant components of the Company's future tax assets and liabilities are as follows:

	At April 30, 2010	Year ended October 31, 2009
Future income tax rate	26%	26%
Future income tax liability		
Book value over tax value of resource properties	\$ 0	\$ 0
Future income tax assets		
Tax value over book value of resource properties	4,938,040	4,899,052
Non-capital loss carry-forwards	1,719,715	1,458,615
Tax value over book value of property and equipment	116,418	124,510
Tax value of share issue costs	36,481	36,481
	6,810,654	6,518,658
	6,810,654	6,518,658
Valuation allowance	(6,810,654)	(6,518,658)
Future income tax asset (liability)	\$ 0	\$ 0

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

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The non-capital losses as at October 31, 2009 that may be carried forward to apply against future years' income for Canadian income tax purposes will expire as follows:

2010	\$	356,000
2014		393,000
2015		329,000
2026		638,000
2027		1,611,000
2028		1,196,000
2029		1,004,000
	\$	5,527,000

The Company has capital losses of approximately \$7,000,000 that may be carried forward indefinitely to apply against future years' capital gains. The effect of these capital losses has not been reflected in these financial statements.

**13. CAPITAL STOCK**

(a) Authorized

Unlimited common shares and 30,000,000 preferred shares without par value

- (b) On April 6, 2010 the Company closed a non-brokered private placement for a total of 14,264,000 shares at \$0.05 per share for total proceeds of \$713,200. In accordance with securities legislation currently in effect, the shares are subject to a "hold period" of four months plus one day expiring on August 7, 2010.

The issued common shares were as follows:

	<b>Six months ended April 30, 2010</b>	<b>Year ended October 31, 2009</b>
	Number of shares	Number of shares
Shares, beginning	129,817,204	129,817,124
Adjustment	0	80
Issued April 6, 2010	14,264,000	0
Shares, end	144,081,204	129,817,204

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(c) Share purchase warrants

The following common share purchase warrants were outstanding, entitling the holders the right to purchase one common share for each warrant held as follows:

	<b>Six months ended April 30, 2010</b>		<b>Year ended October 31, 2009</b>	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants exercisable, beginning	201,600	\$ 0.08	21,836,278	\$ 0.27
Issued	0	\$ 0.00	0	\$ 0.00
Expired	0	\$ 0.00	(21,634,678)	\$ 0.26
Warrants exercisable, end	201,600	\$ 0.08	201,600	\$ 0.08

The following share purchase warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants	
		<b>April 30, 2010</b>	<b>October 31, 2009</b>
May 14, 2010	\$ 0.08	201,600	201,600
		201,600	21,836,278

The fair value of warrants included in share issuance costs is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>Quarter ended April 30, 2010</b>	<b>Year ended October 31, 2009</b>
Risk-free interest rate	N/A	N/A
Expected dividend yield	N/A	N/A
Expected stock price volatility	N/A	N/A
Expected option life in years	N/A	N/A
Fair value on grant date	N/A	N/A

(a) Share purchase options

The Company has a stock option plan whereby the Company may grant options to directors, officers, employees and consultants of up to 10% of the common shares outstanding at the time of grant. The exercise price of each option is equal to or at an allowable discount to the market price of the Company's common shares at the date of

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the grant. The option term and vesting period is determined by the board of directors within regulatory guidelines.

On April 1, 2010 11,981,700 options were granted to directors and consultant.

The following table summarizes information about the share purchase options outstanding and exercisable at April 30, 2010 and October 31, 2009:

Expiry Date	Exercise Price	April 30, 2010		October 31, 2009	
		Number of Shares	Number of Options Vested	Number of Shares	Number of Options Vested
March 7, 2011	\$ 0.15			250,000	250,000
March 7, 2011	\$ 0.17			100,000	100,000
December 4, 2011	\$ 0.20			600,000	600,000
May 12, 2012	\$ 0.20			400,000	400,000
June 25, 2012	\$ 0.20	1,000,000	1,000,000	1,200,000	1,200,000
August 21, 2012	\$ 0.20			200,000	200,000
April 1, 2015	\$ 0.10	11,981,700	11,981,700	0	0
		12,981,700	12,981,700	2,750,000	2,750,000

The weighted average remaining contractual life of options is 4.7 years (October 31, 2009 - 2.3 years).

Details of the status of the Company's share purchase options are as follows:

	Six months ended April 30, 2010		Year ended October 31, 2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning	2,750,000	\$ 0.20	4,100,000	\$ 0.20
Issued	11,981,700	\$ 0.10	0	
Expired	0	\$ 0.22	(550,000)	\$ 0.20
Forfeited	(1,750,000)	\$ 0.20	(800,000)	\$ 0.20
Outstanding, end	12,981,700	\$ 0.11	2,750,000	\$ 0.20

The weighted average exercise price of options exercisable at the end is \$0.11 (October 31, 2009 - \$0.20).

The Company determines the fair value of its stock options granted to directors, consultants and employees by using the Black-Scholes option pricing model. During the quarter, the Company recognized \$532,479 (Year ended October 31, 2009 - \$9,733) in stock-based compensation expense related to options granted in 2007 as part of management fees.

The fair value of options is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

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	Quarter ended April 30, 2010	Year ended October 31, 2009
Risk-free interest rate	2.89%	N/A
Expected dividend yield	0	N/A
Expected stock price volatility	234%	N/A
Expected option life in years	5.00	N/A
Fair value on grant date	0.044	N/A

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	Six months ended April 30, 2010	Year ended October 31, 2009
<b>Non-Cash Transactions</b>		
Shares returned in settlement of amounts due from shareholder	\$ 0	\$ 0
Accounts payable and accrued liabilities related to share issue costs	\$ 0	\$ 0
Accounts payable and accrued liabilities related to resource properties	\$ 3,341,630	\$ 3,466,177
Accounts payable and accrued liabilities related to property and equipment	\$ 0	\$ 0
Interest paid	\$ 0	\$ 110,652
Income taxes paid	\$ 0	\$ 0

**15. RELATED PARTY TRANSACTIONS**

The transactions occurring in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. During the quarter ended April 30, 2010, the Company:

- (i) incurred management fees of \$NIL; and
- (ii) incurred directors' fees of \$18,000;

**16. COMMITMENTS**

Commitments in each of the next three years are as follows:

	Premises Lease	Office Equipment Lease	Total
2010	\$ 8,761	\$ 0	\$ 8,761
2011	17,522	0	17,522
2012	8,761	0	8,761
	\$ 35,044	\$ 0	\$ 35,044

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**17. LEGAL PROCEEDINGS**

Six vendors have filed claims against the Company to collect payment on outstanding balances owed to them by the Company. One vendor has commenced legal action to enforce payment. These amounts are included in accounts payable and accrued liabilities.

YSM has filed a lien against the mineral property for a portion of the outstanding loan owed to them by the Company.

**18. CREDITORS PROTECTION**

The Company has obtained creditor protection under the Companies' Creditors Arrangement Act ("CCAA") on April 9, 2010. The Company had over \$7,000,000 in total current liabilities including secured and unsecured amounts due to its trade and general creditors, and it is currently unable to meet those liabilities as they become due.

The process should allow the Company to deal comprehensively with its debt burden and to restructure its operations. The Company's day to day operations continued without interruption. The Company remains in good standing with its Registrar and Transfer Agent. The CCAA Order imposes a stay on any enforcement proceedings.

**19. SUBSEQUENT EVENT**

On May 3, 2010, the receivable of \$500,000 from the private placement was received and deposited in the bank account

On May 7, 2010, the creditor protection under CCAA provided in the Initial Order was confirmed and extended to July 7, 2010. At the same time the Court granted an order that the time for holding the annual general meeting of shareholders of the Company be postponed until further Order of the Court and a claims process for the Company's creditors was approved. In accordance with the claim process, the creditors were required to present their proof of claims to the monitor before 4:30 pm on June 11, 2010.

The monitor has received proof of claims from creditors and subject to reviewing the legitimacy of the proof of claims, the claims total \$8,722,983. Although the Company's records reflected outstanding debt of \$7,396,140, it is frequent in the reorganization process to have proof of claims amounts that do not totally align with the Company books. The monitor will notify creditors before July 7, 2010 those with claims that are unfounded or not properly supported. A claim resolution process will then be engaged. In the course of the Company's reorganization, all claims will be finally reconciled and determined.