VG GOLD CORP.

(an exploration stage company)

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008

INDEX

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AUDITORS' REPORT

To the Shareholders of
VG Gold Corp.

We have audited the balance sheets of VG Gold Corp. as at December 31, 2009 and 2008 and the statements of income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Segal LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 16, 2010

VG GOLD CORP.
(an exploration stage company)
BALANCE SHEETS
AS AT DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Current		
Cash and cash equivalents (note 3)	$ 6,708,698	$ 330,351
Accounts receivable	61,781	37,710
Prepaid expenses and deposits	29,076	21,351
Loan receivable (note 4)	-	417,501
	6,799,555	806,913
Mineral resource properties and deferred exploration costs (note 5)	25,026,311	23,100,953
Property and equipment (note 6)	826,237	829,846
	$ 32,652,103	$ 24,737,712
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 311,438	$ 128,529
Note payable (note 7)	-	15,000
	311,438	143,529
Future income taxes	171,693	439,034
	483,131	582,563
Commitments (note 8)		
SHAREHOLDERS' EQUITY		
Capital stock (note 9)	56,194,838	47,401,079
Common share purchase warrants (note 10)	174,476	65,438
Contributed surplus (note 11)	1,002,300	933,977
Deficit	(25,202,642)	(24,245,345)
	32,168,972	24,155,149
	$ 32,652,103	$ 24,737,712

Approved on Behalf of the Board

'Thomas W. Meredith' Director

'Robin Dunbar' Director

See accompanying notes to the financial statements

VG GOLD CORP.

(an exploration stage company)

STATEMENTS OF DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Deficit, beginning of year	$ (24,245,345)	$ (23,618,227)
Net loss for the year	(957,297)	(627,118)
Deficit, end of year	$ (25,202,642)	$ (24,245,345)

See accompanying notes to the financial statements

VG GOLD CORP.

(an exploration stage company)

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008	Cumulative from the date of commencement of exploration
Revenue			
Interest	$ 29,189	$ 60,647	$ 369,717
Option payments	-	-	370,000
	29,189	60,647	739,717
Expenses			
Office, general and administrative	998,348	976,533	7,217,748
Impairment of loan receivable	439,299	-	502,646
Stock-based compensation	84,733	44,931	1,137,980
Depreciation	4,991	5,267	295,786
Write-down of mining interests	-	-	1,234,492
Loss on disposal of royalty interest	-	1,000	46,000
Loss on settlement of note payable	-	-	27,167
Loss on disposal of marketable securities	-	-	10,170
	1,527,371	1,027,731	10,471,989
Loss before undernoted items	(1,498,182)	(967,084)	(9,732,272)
Future income tax recovery	540,885	339,966	(1,098,369)
Net loss	(957,297)	(627,118)	$ (8,633,903)
Loss per share			
Basic	$ (0.01)	$ (0.01)	
Weighted average number of shares	120,092,815	86,458,514	

See accompanying notes to the financial statements

VG GOLD CORP.

(an exploration stage company)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008	Cumulative from the date of commencement of exploration
Cash flows from operating activities			
Net loss for the year	$ (957,297)	$ (627,118)	$ (8,633,903)
Adjustments for:			
Depreciation	4,991	5,267	295,786
Stock-based compensation	84,733	44,931	1,137,980
Loss on disposal of marketable securities	-	-	10,170
Write-down of mining interest	-	-	1,234,492
Future income tax (recovery)	(540,885)	(339,966)	136,631
Loss on disposal of royalty interest	-	1,000	46,000
Settlement of loan payable	-	-	27,167
Interest on note receivable	(21,798)	(31,798)	(58,606)
Impairment of loan receivable	439,299	-	502,646
	(990,957)	(947,684)	(5,301,637)
Changes in non-cash working capital (note 12)	151,113	(41,578)	(7,009,384)
Cash flows used in operating activities	(839,844)	(989,262)	(12,311,021)
Cash flows from investing activities			
Purchase of property and equipment	(1,382)	(4,648)	(898,207)
Expenditures on mineral resources properties	(1,825,358)	(2,041,151)	(16,678,503)
Increase in loan receivable	-	-	(456,540)
Proceeds on disposal of royalty interest	-	50,000	29,638
Net investment in marketable securities	-	-	(37,170)
Cash flows used in investing activities	(1,826,740)	(1,995,799)	(18,040,782)
Cash flows from financing activities			
Issuance of capital stock, net of financing fees and provision for future income taxes	3,358,731	320,000	26,625,181
Proceeds on exercise of warrants and stock options	5,701,200	-	10,759,799
Advance (repayment) of notes payable	(15,000)	15,000	(306,977)
Issue of convertible debenture	-	-	(32,141)
Cash flows provided by financing activities	9,044,931	335,000	37,045,862
Net increase (decrease) in cash and cash equivalents	6,378,347	(2,650,061)	6,694,059
Cash and cash equivalents beginning of year	330,351	2,980,412	14,639
Cash and cash equivalents end of year	$ 6,708,698	$ 330,351	$ 6,708,698

SUPPLEMENTAL CASH FLOW INFORMATION (note 12)

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

VG Gold Corp. (the "Company") was incorporated under the laws of Ontario on March 24, 1972 as Vedron Gold Inc. Articles of amendment changing the Company's name to VG Gold Corp. were filed on June 27, 2007. The Company is principally engaged in the business of exploring and developing precious metal mineral properties. Substantially all of the efforts of the Company are devoted to these business activities and to date it has generated minimal revenues.

The Company is in the process of further exploring its mineral resource properties and expects to generate additional losses and require additional financial resources to reach commercialization. The continuation as a going concern is dependant on the continued support from the Company's investors and on the determination of economically viable resources on its mineral resource properties. Failure to continue as a going concern would require that the stated amounts of assets and liabilities be reflected on a liquidation basis of valuation that could differ materially from the going concern basis of accounting used in the preparation of these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Mineral resource properties and deferred exploration costs

Mineral resource properties are carried at cost. The Company considers exploration and development costs and expenditures to have the characteristics of capital assets such as property, plant and equipment, and as such, the Company capitalizes all exploration costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties as incurred, until those properties are brought into production. After the commencement of production, these deferred exploration costs will be amortized through charges against income derived from mining operations. Amortization charges will be calculated on a unit-of-production basis, using proven and probable reserves, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made.

The actual recovery value of capitalized expenditures for mineral properties and deferred exploration costs, will be contingent upon the discovery of economically viable reserves, and the Company's financial ability at that time to fully exploit these properties or to determine a suitable plan of disposition.

On March 27, 2009, the Emerging Issues Committee of the CICA approved abstract EIC 174, Mining Exploration Costs, which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. Application of this new standard did not have an impact on the Company's financial statements.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash balances with banks and highly liquid short-term investments with original terms of maturity of less than three months.

(c) Stock based compensation

The Company has adopted CICA Handbook Section 3870 which require the Company to follow the fair value method of accounting for all stock based compensation arrangements. The fair value of each option granted during the period is accounted for in operations over the vesting period of the option using the Black - Scholes options pricing model on the date of the grant, with the related increase to contributed surplus.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Flow through shares

The Company has adopted the recommendations of EIC 146 of the CICA Handbook with respect to the accounting for flow through shares issued since March 19, 2004. This results in the Company reducing the net proceeds of the flow through share issuance by the future tax liability of the Company resulting from the renunciation of the exploration and development expenditures in favour of the flow through share subscribers. This future income tax liability will be calculated net of any benefit resulting from unrecorded income tax loss carry forwards and income tax pools in excess of the accounting value available for deduction.

(e) Share purchase warrants and other shares reserved for issuance

The Company has reserved shares for issuance in accordance with applicable corporate and securities laws. Consideration received on the issuance of reserved shares will be credited to capital stock and will be valued at either the fair market value of the consideration received or shares issued whichever is more readily determinable.

(f) Estimates

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions, in respect of mineral properties, property and equipment, amortization, warrants, stock-based compensation, accrued liabilities and contingencies that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(g) Capital stock issuance costs

Costs incurred in respect of raising capital are charged to capital stock as a reduction of the equity proceeds realized.

(h) Income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are computed based on differences between the carrying value of assets and liabilities on the balance sheet and their corresponding values for income tax purposes, using the effective income tax rates expected to apply when these differences reverse. Future income tax assets are recognized only to such extent that it is more likely than not that they will be realized in full.

(i) Amortization

The Company provides for amortization of its property and equipment at the following annual rates:

Powerlines and electrical equipment	- 10% declining balance basis
Office and computer equipment	- 20% declining balance basis
Mill equipment	- 20% declining balance basis
Automobile	- 20% declining balance basis

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Cumulative information for development stage companies

The Company has adopted CICA Handbook Accounting Guideline #11 with respect to financial statement presentation for development stage companies. Accordingly the statements of income and cash flows have been altered to include a column outlining the cumulative revenues, expenses and cash flows from the date of commencement of development stage activities being January 1, 1995 to the fiscal year end date of the financial statements. As we were appointed auditors during the 2004 fiscal year, the revenue, expenses and cash flows amounts, which included the cumulative balances for the period from January 1, 1995 to December 31, 2003, were audited by other chartered accountants.

(k) Financial instruments

Effective January 1, 2007, the Company has adopted CICA Handbook Section 3855 Financial Instruments - Recognition and Measurement. Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recorded in net earnings.

On adoption of Section 3855, the Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable and loan receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and notes payable are classified as other financial liabilities, which are measured at amortized cost.

(l) Comprehensive income

Effective January 1, 2007 the Company adopted CICA Handbook Section 1530 which establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

The Company has evaluated the impact of these standards on its financial position and results of operations and has determined that these standards have no current year impact on the Company's financial statements.

(m) Impairment of long-lived assets

The Company reviews long-lived assets for impairment on a yearly basis; or whenever events or changes in circumstances occur. Impairment is recognized when the carrying value of a long-term asset exceeds the sum of future cash flows expected from its use.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments disclosure and presentation

Effective January 1, 2008, the Company adopted CICA Handbook Sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments - Presentation, which have replaced Section 3861, Financial Instruments - Disclosure and Presentation. These new standards place increased emphasis on disclosures with respect to the nature and extent of risks arising from financial instruments and how the Company has managed those risks. See note 16 for additional details.

The Company evaluated the impact of these new accounting standards on its financial statements. The only impact of these accounting standards is additional disclosure and presentation requirements, and this does not have a material effect on the financial condition, the results of operations or the cash flows of the Company.

In June 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to improve disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments, which have been aligned with that of IFRS 7, Financial Instruments: Disclosure requires a three-level hierarchy ranking that reflects the significance and transparency of the inputs used to measure the fair values of financial assets and liabilities. Fair values of assets and liabilities included in "level 1" are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in "level 2" include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. "Level 3" valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Additional disclosures, as required by Section 3862, are included in note 16.

(o) General Standards of Financial Statement Presentation

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400, General Standards of Financial Statement Presentation, which has been amended to include requirements to assess and disclose an entity's ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going-concern. The adoption of these amendments has not had any impact on the financial statements (Refer to note 1).

(p) Capital Disclosures

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures, which requires the Company to disclose information about its objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirement and the consequences of non-compliance. See note 17 for additional details.

(q) Goodwill and Intangible assets

Effective January 1, 2009, the Company adopted the new recommendations of the CICA Handbook Section 3064, Goodwill and Intangible assets. This standard establishes revised standards for recognition, measurement, presentation and disclosure for goodwill and intangible assets. The adoption of this standard did not have an impact on the Company's financial statements.

(r) Credit risk

Effective January 1, 2009, the Company adopted the new recommendations of CICA EIC 173, Credit risk and fair value of financial assets and liabilities. This EIC requires companies to take counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The adoption of this standard did not have an impact on the Company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Future accounting pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Company, are as follows:

International Financial Reporting Standards ("IFRS")

Canada's Accounting Standards Board ("AcSB") ratified a plan that will result in Canadian GAAP being converged with IFRS by 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the mandatory transition date. Commencing with the interim period ended March 31, 2011 the Company will restate its comparative fiscal 2010 financial statements for annual and interim periods to be in accordance with IFRS including the restatement of the opening balance sheet as at January 1, 2010.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash of $707,030 (2008 - $330,351) and Guaranteed Investment Certificates ("GIC's") of $6,001,668 (2008 - $nil). The GIC's had a yield to maturity of 0.35% and matured on January 5, 2010.

4. LOAN RECEIVABLE

The Company, as partial consideration of a preferential milling and tailing agreement, had advanced the mill owner a total of $372,000, repayable on November 1, 2007. On maturity, this loan together with certain other advances made by the Company totalling approximately $444,000 including the original loan advance, was extended to be repayable in full on November 1, 2009. This loan is non-interest bearing and as such, the carrying value of the loan has been discounted to its estimated fair value, at an annual rate of 8% consistent with other borrowings available to the Company. The difference between the face value of the loan and the carrying value was being amortized to income using the effective interest rate method. The reduction in the loan receivable balance to fair value at the date of the extension has been recorded as an impairment of the loan receivable in the 2007 financial statements. The loan balance is secured by a first charge on the mill property. The Company wrote down the loan receivable to nil when the loan became due on November 1, 2009 and the amount remained uncollected. Management is assessing its options with respect to its security on the mill property as a result of this non-payment.

5. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS

December 31, 2009	Balance beginning of Year	Acquisition	Exploration	Balance end of Year
Fuller (a)	$ 12,747,904	$ 1,593	$ 78,154	$ 12,827,651
Davidson-Tisdale (b)	5,736,955	16,964	95,394	5,849,313
Buffalo Ankerite (c)	4,060,818	800	161,803	4,223,421
Paymaster (d)	307,182	181,134	1,387,830	1,876,146
Augdome (e)	123,000	1,686	-	124,686
Windsor (f)	125,094	-	-	125,094
	$ 23,100,953	$ 202,177	$ 1,723,181	$ 25,026,311

December 31, 2008	Balance beginning of Year	Acquisition	Exploration	Balance end of Year
Fuller (a)	$ 12,682,745	$ 750	$ 64,409	$ 12,747,904
Davidson-Tisdale (b)	5,593,573	24,330	119,052	5,736,955
Buffalo Ankerite (c)	2,485,471	-	1,575,347	4,060,818
Paymaster (d)	-	110,040	197,142	307,182
Augdome (e)	70,000	53,000	-	123,000
Windsor (f)	96,223	28,871	-	125,094
	$ 20,928,012	$ 216,991	$ 1,955,950	$ 23,100,953

a) Fuller

The Company has a 100% interest in the Fuller Property. A portion of the property is subject to a 10% net profits interest calculated after all capital and operating costs have been recovered.

b) Davidson-Tisdale

The Company is the legal and beneficial owner of 68.5% and San Gold Corp is the legal and beneficial owner of 31.5% of the Davidson Tisdale property.

c) Buffalo Ankerite

The Company continued to carry out work on the Buffalo Ankerite property during the year. The Company had the option to purchase a 100% interest in the property, prior to November 4, 2007, for $25,000, subject to an existing net profits interest. This option was extended until November 1, 2010 for a payment of $25,000 with the exercise price of the option being reduced to $10,000.

5. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

d) Paymaster

As of June 13, 2008, the Company entered into an option and joint venture agreement with the Porcupine Joint Venture to earn an interest in select claims of the Paymaster property situated on the east boundary of both the Company's Buffalo Ankerite and Fuller properties. Under the terms of the agreement, the Company has the option to earn an undivided 60% interest in 17 claims by incurring exploration expenditures of $6 million over 4 years, subject to a back-in-right. The Company also acquired a 100% interest in the mining rights covering 4 claims in Tisdale Township on the west side of the Fuller Property, in exchange for the surface rights to 5 claims on the northern part of the Fuller Property.

e) Augdome Property

The Company has a 100% ownership in the Augdome property. The property consists of 22 patented claims in Tisdale Township.

f) Windsor

As of October 4, 2008, the Company completed its obligations with respect to the acquisition of the Windsor property. The Company now has a 100% interest in the property subject to a 2% net smelter royalty.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	December 31, 2009 Net Book value
Powerlines and electrical equipment	$ 141,921	$ 129,799	$ 12,122
Office and computer equipment	33,311	19,476	13,835
Mill equipment	862,000	63,750	798,250
Automobile	2,900	870	2,030
	$ 1,040,132	$ 213,895	$ 826,237

	Cost	Accumulated Amortization	December 31, 2008 Net Book value
Powerlines and electrical equipment	$ 141,921	$ 127,998	$ 13,923
Office and computer equipment	31,930	16,794	15,136
Mill equipment	862,000	63,750	798,250
Automobile	2,900	363	2,537
	$ 1,038,751	$ 208,905	$ 829,846

Included in property and equipment is mill equipment acquired in anticipation of taking certain of the mineral resource properties into production. As the Company has yet to commence commercial production on its properties this equipment has not been placed in use as at the date of these financial statements. Accordingly no amortization has been charged to the net earnings of the Company with respect to this equipment.

7. NOTE PAYABLE

The note payable bears interest at 5% per annum, unsecured and due on demand. The balance of the note payable was repaid during the year.

8. COMMITMENTS

(a) On June 13, 2008, the Company entered into an option and joint venture agreement with the Porcupine Joint Venture to earn a 60% interest in select claims of the Paymaster property situated on the east boundary of both the Company's Buffalo Ankerite and Fuller properties. Under the terms of the agreement, the Company has the option to earn a 60% interest in 17 claims by incurring exploration expenditures of $6 million over 4 years, subject to a back-in-right. The Company also acquired a 100% interest in 4 claims in Tisdale Township on the west side of the Fuller Property in exchange for the surface rights to 5 claims on the northern part of the Fuller Property.

Under the terms of the Option and Joint Venture Agreement, the Company can exercise its option and enter into a 60/40 Joint Venture agreement with Porcupine Joint Venture once it has completed the $6 million work program and made the payments of cash, shares and warrants specified below. Upon the Company exercising its option to form the joint venture, Porcupine Joint Venture has a 6 month period during which it can exercise the back-in-right to increase its interest from 40% to 70%, and become the operator, by making a payment of $710,000 to the Company plus incurring exploration and development expenditures of $8,250,000 on the property within two years of the back-in-right notice and the completion of a feasibility study within three years.

To maintain the Option and Joint Venture Agreement, the terms require the Company to spend $800,000 by June 12, 2009, $1.1 million in 2010, $1.6 million in 2011 and $2.5 million in 2012, for a total of $6 million over 4 years. The Company was required to pay $40,000 on signing and $50,000 by June 12, 2009. The Company also issued 340,000 shares on signing and 1 million warrants expiring on June 13, 2009, with an exercise price of $0.31 per share. The Company was also required to issue shares with a value of $100,000 on both June 12, 2009 and the second anniversary, $150,000 on the third anniversary and $200,000 on the fourth anniversary of the agreement. If the weighted average over the 20 day trading day period of the Company's shares preceding the date on which the shares are to be issued is less than $0.20, the Company will make a cash payment for the difference.

The Company was required to pay an additional $30,000 during the year to extend the June 12, 2009 obligations until December 31, 2009. As disclosed in note 9, the Company issued 271,848 shares related to the first year obligation and made the $50,000 payment in accordance with the agreement. The Company also expended the required $800,000 in exploration expenses for 2009 in accordance with the requirements of the agreement.

The minimum annual cash payments and expenditures required to maintain option agreements on mineral resource properties for the next three years are:

	Exploration Expenditures	Fair Value of Shares to be Issued
2010	$ 1,100,000	$ 100,000
2011	1,600,000	150,000
2012	2,500,000	200,000
	$ 5,200,000	$ 450,000

8. COMMITMENTS (Continued)

(b) Other commitments

The Company is committed to minimum annual rental payments on its premises as follows:

2010	$	25,824

The Company is required to make minimum annual payments of $80,000 from 2010 to 2022 in order to secure preferential rights to a milling facility.

(c) Contingent liability

On December 17, 2002, the Mining Lands Commissioner issued an Order with respect to the Buffalo Ankerite mine site formerly owned by the Company. The Order requires the Company to use its best efforts to remediate the open pit on the site and maintain site security. The estimated cost to perform this work is not determinable due to uncertainty about the timing of the remediation work as the Company is still exploring the property for future development and therefore no liability has been accrued in these financial statements.

9. CAPITAL STOCK

Authorized
Unlimited common shares without par value

Common Shares

	Number of Shares		Amount
Balance, December 31, 1994	**35,517,444**	**$**	**17,774,310**
Issued to secured creditors	65,789,474		7,500,000
1 for 10 consolidation	(91,176,206)		-
Issued for cash	930,000		110,500
Issued for debt	4,831,416		487,105
Issued for services	370,000		37,000
Balance, December 31, 1995	**16,262,128**	**$**	**25,908,915**
Issued on exercise of employee options	1,475,000		290,000
Issued for cash	952,000		595,720
Issued for services	216,440		116,600
Issued special warrants and flow through shares	3,735,000		2,521,450
Financing fee	-		(261,745)
Balance, December 31, 1996	**22,640,568**	**$**	**29,170,940**
Issued on exercise of employee options	200,000		100,000
Issued for cash and flow through shares	1,010,000		202,000
Issued for services	80,800		16,160
Balance, December 31, 1997	**23,931,368**	**$**	**29,489,100**
Issued on exercise of employee options	20,000		4,000
Issued for cash	200,000		38,052
Balance, December 31, 1998	**24,151,368**	**$**	**29,531,152**
Increase due to rounding up	495		-
Balance, December 31, 1999, 2000, 2001	**24,151,863**	**$**	**29,531,152**

9. CAPITAL STOCK (Continued)

Balance, December 31, 1999, 2000, 2001	**24,151,863**	**$ 29,531,152**
Issued on exercise of employee options	600,000	99,500
Issued on settlement of debt	600,000	60,000
Issued for flow through shares	1,333,333	200,000
Issued for private placement	666,667	100,000
Issued for royalty interest	200,000	40,000
Issued for financing fees	100,000	-
Balance, December 31, 2002	**27,651,863**	**$ 30,030,652**
Issued on exercise of employee options	700,000	140,000
Issued on settlement of debt	450,000	74,250
Issued for flow through shares	3,000,000	525,000
Issued for conversion of debenture payable	1,500,000	300,000
Issued for property	100,000	20,000
Issued for royalty interests	400,000	59,000
Issued for finders fees	100,000	20,000
Balance, December 31, 2003	**33,901,863**	**$ 31,168,902**
Issued on exercise of employee options	200,000	40,000
Issued for cash on private placement February 23, 2004	3,000,000	1,500,000
Issued on marketable securities share swap	2,800,000	368,000
Issued as consideration for Maude Ramp property acquisition	600,000	318,000
Issued on warrant exercise	333,334	50,000
Issued flow through shares on private placement December 22, 2004	2,164,318	476,150
Agents compensation of February 23, 2004	116,000	58,000
Finders fees, December 22, 2004 private placement	193,432	42,555
Less: Issuance costs related to common share offerings	-	(214,188)
Balance, December 31, 2004	**43,308,947**	**$ 33,807,419**
Issued on private placement August 15, 2005	5,064,000	759,600
Issued on private placement September 12, 2005	5,000,000	1,250,000
Issued flow through share on private placement October 31, 2005	724,250	289,700
Issued on warrant exercise	18,750	3,750
Issued for property acquisition	6,581,035	1,870,031
Finders fees, August 25, 2005 private placement	722,750	-
Less: Issuance costs related to common share offerings	-	(18,106)
Balance, December 31, 2005	**61,419,732**	**$ 37,962,394**
Issued on flow through shares on private placement January 9, 2006	275,750	110,300
Issued on private placement May 12, 2006	4,912,334	2,418,436
Issued on flow through shares on private placement May 12, 2006	1,100,000	660,080
Issued on exercise of options	1,080,000	370,350
Issued on warrant exercise	577,500	115,500
Issued as consideration for mill equipment acquisition	800,000	608,000
Finders fees, January 9, 2006 private placement	6,948	2,780
Issued for property acquisitions	50,000	12,500
Less: Issuance costs related to common share offerings	-	(201,716)
Balance, December 31, 2006	**70,222,264**	**$ 42,058,624**

9. CAPITAL STOCK (Continued)

Balance, December 31, 2006	**70,222,264**	**$ 42,058,624**
Issued on private placement February 14, 2007	5,050,000	414,564
Issued on flow through shares on private placement February 14, 2007	8,700,000	2,529,922
Issued on exercise of options	100,000	30,000
Issued on warrant exercise	2,153,750	430,750
Issued for property acquisition	50,000	17,500
Reallocation from Contributed Surplus relating to the options exercised	-	17,670
Less: Provision for future income taxes resulting from the renunciation of CDE	-	(1,183,000)
Less: Issuance costs related to common share offerings	-	(332,781)
Fair value of expired warrants	-	528,964
Balance, December 31, 2007	**86,276,014**	**$ 44,512,213**
Issued for property acquisition	390,000	78,790
Issued on flow through shares on private placement December 31, 2008 (i)	6,400,000	320,000
Reallocated to warrants	-	(65,438)
Fair value of expired warrants	-	2,555,514
Balance, December 31, 2008	**93,066,014**	**$ 47,401,079**
Flow through shares issued for cash on private placement, January 6, 2009 (ii)	600,000	30,000
Less: Tax effect of renunciation associated with flow through shares	-	(99,200)
Flow through shares issued for cash on private placement, May 28, 2009 (iii)	7,030,000	562,400
Less: Tax effect of renunciation associated with flow through shares	-	(174,344)
Less: Share issue costs	-	(2,500)
Less: Finders fees	-	(33,020)
Less: Fair value of warrants	-	(45,204)
Less: Fair value of broker warrants	-	(11,467)
Shares issued for cash on private placement, May 28, 2009 (iv)	62,500	5,000
Shares issued for cash on private placement, July 22, 2009 (v)	38,950,000	3,116,000
Less: Share issue costs		(136,457)
Less: Finders fees		(182,692)
Less: Fair value of warrants		(1,475,832)
Less: Fair value of broker warrants		(71,045)
Fair value of expired warrants		65,438
Consideration received for stock options exercised	150,000	52,500
Fair value of exercised stock options	-	16,410
Consideration received for exercise of warrants	296,250	23,700
Consideration received for exercise of warrants (iv)	37,500,000	5,625,000
Fair value of exercised warrants (iv)	-	1,429,072
Shares issued for property acquisition (note 8a)	271,848	100,000
Balance, December 31, 2009	**177,926,612**	**$ 56,194,838**

(i) On December 28, 2008, the Company completed a $320,000 private placement of 6,400,000 flow through common shares.

(ii) On January 6, 2009, the Company completed a $30,000 private placement offering of 600,000 flow through common shares.

9. CAPITAL STOCK (Continued)

Common Shares (continued)

(iii) On May 28, 2009, the Company completed a $562,400 flow through private placement financing at eight cents per unit, issuing 7,030,000 units. Each unit consists of one flow through common share and one-half of one common share purchase warrant, with each full warrant being exercisable at $0.15 for 18 months for one additional common share. The Company paid finders fees of $33,020 and also issued 515,000 broker warrants, with each broker warrant being exercisable at $0.08 for 18 months for one additional common share.

(iv) On May 28, 2009, the Company completed a $5,000 private placement financing at $0.08 per unit, issuing 62,500 units. Each unit consists of one common share and one-half of a common share purchase warrant, with each full warrant being exercisable at $0.15 for 18 months for one additional common share.

(v) On July 22, 2009, the Company initiated a private placement of 38.95 million units. Each unit is priced at $0.08, and includes one common share and one common share purchase warrant exercisable at $0.15 per share for a period of 18 months. The private placement was completed in two tranches, with the first tranche consisting of 12,594,814 units. Upon closing of both tranches, one of the investees, Lexam Exploration Inc. (Lexam) owned 27 percent of VG Gold's outstanding shares and 42 percent on a diluted basis. The Company paid finders fees of $182,692 and also issued 1,875,000 broker warrants, with each broker warrant being exercisable at $0.15 for 18 months for one additional common share.

(vi) On October 20, 2009, Lexam made an early exercise of all its warrants and purchased 37.5 million common shares of the Company for gross proceeds of $5,625,000. The exercise price of the warrants was $0.15 per share.

Participation Right In Future Financing

Lexam has a right of first refusal to participate up to and including a percentage amount, equal to Lexam's percentage ownership interest in the outstanding common shares, of the value of each financing under taken by the Company.

Common Share Purchase Options

The Company has a stock option plan available to its employees, officers, directors and service providers. The number of common shares reserved for the purpose of the plan is 5,375,000.

The exercise price of options granted in accordance with the plan must not be lower than the fair market value share price as quoted on the Toronto Stock Exchange ("TSE") on the last business day prior to the date of the grant less any discounts permitted by the TSE. The period for exercising an option shall not extend beyond a period of five years following the date the option is granted.

The total number of options held by insiders of the Company must not exceed 10% of the total number of shares issued and outstanding.

9. CAPITAL STOCK (Continued)

Common Share Purchase Options (continued)

The following table summarizes the options activity for the years ending December 31, 2008 and 2009:

	Number of Options	Weighted Average Exercise Price
Balance - December 31, 2008	3,620,000	0.46
Granted	2,200,000	0.24
Exercised	(150,000)	0.35
Expired or cancelled	(850,000)	0.53
Balance - December 31, 2009	**4,820,000**	**$ 0.35**

The following common share purchase options are outstanding at December 31, 2009:

	Date of Grant	Number of Shares	Exercise Price	Expiry Date
Directors	May 18, 2005	200,000	$ 0.20	May 18, 2010
	September 14, 2005	175,000	$ 0.25	September 14, 2010
	July 24, 2006	400,000	$ 0.40	July 24, 2011
	January 18, 2007	200,000	$ 0.60	January 18, 2012
	May 28, 2009	800,000	$ 0.15	May 11, 2014
	October 2, 2009	550,000	$ 0.40	October 1, 2014
Officers	January 19, 2006	100,000	$ 0.55	January 19, 2011
	January 18, 2007	600,000	$ 0.60	January 18, 2012
	May 28, 2009	150,000	$ 0.15	May 11, 2014
	October 2, 2009	50,000	$ 0.40	October 1, 2014
Service Providers	September 14, 2005	120,000	$ 0.25	September 14, 2010
	July 24, 2006	100,000	$ 0.40	July 24, 2011
	January 18, 2007	175,000	$ 0.60	January 18, 2012
	March 26, 2008	550,000	$ 0.40	March 26, 2011
	May 28, 2009	450,000	$ 0.15	May 11, 2014
	October 2, 2009	200,000	$ 0.40	October 1, 2014
		4,820,000		

The Company has adopted CICA Handbook Section 3870, which requires a fair value method of accounting to be applied to all stock-based compensation arrangements. The fair value of each option is accounted for in operations over the vesting period of the options, and the related credit is included in contributed surplus. The fair value of the options granted during the period ended December 31, 2009 was estimated using the Black-Scholes options pricing model with the following assumptions: (i) risk free rate of 2.11% to 2.42% (ii) expected life of 5 years (iii) and expected volatility of 70% (2008 - (i) risk free rate of 2.67% (ii) expected life of 5 years (iii) and expected volatility of 70%).

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

10. COMMON SHARE PURCHASE WARRANTS

The following table summarizes the warrants activity for the years ended December 31, 2008 and 2009:

	Number of Warrants	Weighted Average Exercise Price	Fair Value
Outstanding, January 1, 2008	11,325,000	$ 0.58	$ 2,555,514
Issued	1,000,000	0.31	65,438
Expired	(11,325,000)	0.58	(2,555,514)
Outstanding, December 31, 2008	1,000,000	0.31	65,438
Issued	44,886,250	0.15	1,603,548
Expired	(1,000,000)	0.31	(65,438)
Exercised	(37,796,250)	0.15	(1,429,072)
Balance, December 31, 2009	7,090,000	$ 0.15	$ 174,476

The following common share purchase warrants are outstanding at December 31, 2009.

Number of Warrants	Type of Shares	Exercise Price	Expiry
Warrants:			
1,562,500	Common shares	$ 0.15	November 13, 2010
1,983,750	Common shares	$ 0.15	November 27, 2010
1,450,000	Common shares	$ 0.15	March 1, 2011
Broker Warrants:			
156,250	Common shares	$ 0.08	November 13, 2010
62,500	Common shares	$ 0.08	November 27, 2010
1,875,000	Common shares	$ 0.15	March 1, 2011
7,090,000			

11. CONTRIBUTED SURPLUS

Balance, January 1, 2007	$	399,575
Stock-based compensation, for the year		507,141
Fair value of options exercised during the year		(17,670)
Balance, December 31, 2007	$	889,046
Stock-based compensation, for the year		44,931
Balance, December 31, 2008	$	933,977
Stock-based compensation, for the year		84,733
Fair value of options exercised during the year		(16,410)
Balance, December 31, 2009	$	1,002,300

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital balances

		December 31, 2009		December 31, 2008
Accounts receivable	$	(24,072)	$	60,122
Prepaid expenses and deposits		(7,725)		71,549
Accounts payable and accrued liabilities		182,910		(173,249)
	$	151,113	$	(41,578)
Interest received	$	2,137	$	28,849

13. RELATED PARTY TRANSACTIONS

The following related party transactions occurred and were reflected in the audited financial statements:

Consulting fees expenses:		December 31, 2009		December 31, 2008
Consulting fees were charged by a company controlled by an officer for financial management services	$	90,000	$	72,000
Consulting fees charged by officers for executive management services	$	120,000	$	110,000
Legal fees:				
The Company paid legal fees to a firm in which an officer of the Company is also a partner of the law firm.	$	121,406	$	56,585
Directors' fees expensed	$	31,500	$	34,500

13. RELATED PARTY TRANSACTIONS (Continued)

Accounts payable and accrued liabilities includes $10,000 (2008 - $41,814) owing to directors and officers of the Company and to companies controlled by directors and officers of the Company as at December 31, 2009.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. LOSS PER SHARE

Basic loss per share has been calculated by dividing the net loss per the financial statements by the weighted average number of shares outstanding during the period. The fully diluted loss per share would be calculated using a common share balance increased by the number of common shares that could be issued on the exercise of outstanding warrants and options of the Company. As the Company is in a loss position for the years ended December 31, 2009 and December 31, 2008, no dilutive effect would result from the potential increase in common shares.

15. INCOME TAXES

(i) Income Tax Recovery

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in the financial statements:

	2009	2008
Loss before recovery of future income taxes for accounting	$ (1,498,182)	$ (967,084)
Statutory rate	31%	31%
Expected income tax recovery	(464,436)	(299,796)
Increase (decrease) in tax recoveries resulting from:		
Stock based compensation expense not deductible for income taxes	11,319	13,929
Common share financing fees deducted for income tax	(56,074)	(47,362)
Non-deductible expenses and other	(31,694)	(6,737)
	$ (540,885)	$ (339,966)

(ii) Future Income Taxes

The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

	2009	2008
Future Tax Assets		
Amount related to tax loss carry forwards	$ 1,984,300	$ 1,527,452
Book Value of assets versus tax value of assets	87,592	194,792
Share issuance costs	141,552	87,678
	2,213,444	1,809,922
Future Tax Liability		
Renunciation of exploration and deferred costs	(2,385,137)	(2,248,956)
Net future income taxes	$ (171,693)	$ (439,034)

15. INCOME TAXES (Continued)

(iii) The Company has non-capital loss carryforwards in the amount of $6,400,967 which may be used prior to 2028 to reduce future taxable income.

2010	$ 212,587
2014	508,495
2015	928,587
2026	1,062,573
2027	1,012,346
2028	1,098,669
2029	1,577,710
	$ 6,400,967

In addition, the Company has the following resource deductions which may be applied against certain profits realized on its mining properties exclusive of amounts transferred to investors of flow through shares as follows:

Canadian Exploration Expenditures	$10,913,394
Canadian Development Expenditures	$ 6,391,804
Foreign Exploration and Development Expenditures	$ 136,209

16. FINANCIAL INSTRUMENTS

The Company manages its exposure to a number of different financial risks arising from operations as well as from the use of financial instruments including market risks (commodity prices, foreign currency exchange rate and interest rate), credit risk and liquidity risk though its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities. The Company does not use derivative financial instruments for purposes other than risk management. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and to up-to-date market information.

The Company’s risk exposure and risk management policies and procedures have not changed from 2008.

(a) Market Risk

Market risk is the risk of uncertainty arising from possible commodity market price movements and their impact on the future performance and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly.

16. FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity Risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. The Company's main sources of liquidity are its cash and cash equivalents, these funds are primarily used to finance working capital, operating expenses, capital expenditures, dividends and acquisitions.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities, holding adequate amounts of cash and cash equivalents. The current year's budget is planned to be funded and cash and cash equivalents provide additional flexibility for short-term timing fluctuations.

Accounts payable and accrued liabilities are current financial instruments expected to be settled in the normal course of operations.

(c) Interest Rate Risk

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rate.

Financial assets and financial liabilities with variable interest rate expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents include highly liquid investments that earn interest at market rates.

Although the Company endeavours to maximize the interest income earned on excess funds, the Company's policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company's policy limits the investing of excess funds to liquid term deposits, treasury bills and banker's acceptances.

Fluctuations in market interest rates have not had a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

(d) Commodity Price Risk

The value of the Company's mineral resource properties are related to the price of gold, and the outlook for this mineral. Adverse changes in the price of gold can also significantly impair the Company's cash flows.

Gold prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank reserves management forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand due to speculative hedging activities, macro-economic variables and certain other factors related specifically to gold.

A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value.

16. FINANCIAL INSTRUMENTS (Continued)

(e) Fair Value

The carrying value and fair value of these financial instruments at December 31, 2009 is disclosed below by financial instrument category for the years ended December 31, 2008 and 2009:

	Year ended December 31, 2009				December 31, 2008 Year ended			
Financial Instrument		Carrying Value		Fair Value		Carrying Value		Fair Value
Held for trading								
Cash and cash equivalent	$	6,708,698	$	6,708,698	$	330,351	$	330,351
Loans and receivable								
Accounts receivable	$	61,781	$	61,781	$	37,710	$	37,710
Loans receivable	$	-	$	-	$	417,501	$	417,501
Financial liabilities								
Other liabilities								
Accounts payable and accrued liabilities	$	311,438	$	311,438	$	143,529	$	143,529

There has been no changes to the classification on financial instruments since inception on January 1, 2008.

Due to the short term nature of these financial instruments, fair value approximates carrying value.

The following table summarizes the fair value measurement by level at December 31, 2009 for assets measured at fair value on a recurring basis based on the fair value hierarchy discussed in note 2(n):

Assets Measured at Fair Value
December 31, 2009

		Level 1		Level 2		Level 3		Total
Financial assets								
Cash and cash equivalents								
Cash	$	707,010	$	-	$	-	$	707,010
Cash equivalents	$	6,001,668	$	-	$	-	$	6,001,668
	$	6,708,678	$	-	$	-	$	6,708,678

17. CAPITAL MANAGEMENT

The Company's capital under management at December 31, 2009 includes capital stock of $56,194,838 (2008 - $47,401,079). Changes in capital stock resulted from the issuance of 46,642,500 common shares for private placement equity financing, 271,848 common shares valued at $100,000 for the acquisition of mineral properties, 37,796,250 common shares for the exercise of warrants and 150,000 from exercises of share options during 2009.

There were no changes in the Company's approach to capital management during the year ended December 31, 2009 and the Company is not subject to any externally imposed capital requirements.

The Company's objectives when managing capital are:

a) To safeguard the Company's financial capacity and liquidity for future earnings in order to continue to provide an appropriate return to shareholders and other stakeholders;

b) To maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and

c) To enable the Company to maximize growth by meeting its capital expenditure budget, to expand its budget to accelerate projects, and to take advantage of acquisition opportunities.

The Company regularly monitors and reviews the amount of capital in proportion to risk and future development and exploration opportunities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new debts or equity or similar instruments, reduce debt levels, adjust the amount of dividends paid to shareholders, or make adjustments to its capital expenditure program.

The Company's objectives with regard to capital management remains unchanged from 2008.