

VG GOLD CORP.

(an exploration stage company)

FINANCIAL STATEMENTS (PREPARED BY MANAGEMENT) FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2010 AND 2009

Responsibility for Financial Statements:

The accompanying financial statements for VG GOLD CORP. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these policies have been set out in the December 31, 2009 audited financial statements. These statements are presented on an accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment.

Recognizing that the Corporation is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly stated.

Disclosure Required Under National Instrument 51-102 Continuous Disclosure Obligations - Part 4.3(3)(a)

The auditor of VG GOLD CORP. has not performed a review of the unaudited comparative financial statements for the three month period ended March 31, 2010.

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VG GOLD CORP.

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BALANCE SHEETS**AS AT**

	March 31, 2010	March 31, 2009	December 31, 2009
ASSETS			
Current			
Cash and cash equivalents (note 3)	\$ 5,468,483	\$ 45,804	\$ 6,708,698
Accounts receivable	298,946	26,493	61,781
Prepaid expenses and deposits	28,936	14,937	29,076
Loan receivable	-	425,851	-
	5,796,365	513,085	6,799,555
Mineral resource properties and deferred exploration costs (note 4)	25,755,660	23,245,897	25,026,311
Property and equipment (note 5)	843,452	828,551	826,237
	\$ 32,395,477	\$ 24,587,533	\$ 32,652,103

LIABILITIES

Current			
Accounts payable and accrued liabilities	\$ 363,458	\$ 98,698	\$ 311,438
Note payable	-	10,000	-
	363,458	108,698	311,438
Future income taxes	52,587	493,177	171,693
	416,045	601,875	483,131

Commitments (note 6)**SHAREHOLDERS' EQUITY**

Capital stock (note 7)	56,292,463	47,331,879	56,194,838
Common share purchase warrants (note 8)	156,476	65,438	174,476
Contributed surplus (note 9)	1,002,300	933,977	1,002,300
Deficit	(25,471,807)	(24,345,636)	(25,202,642)
	31,979,432	23,985,658	32,168,972
	\$ 32,395,477	\$ 24,587,533	\$ 32,652,103

Approved on Behalf of the Board'Thomas W. Meredith' Director'Robin Dunbar' Director

See accompanying notes to the financial statements

VG GOLD CORP.

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**STATEMENTS OF LOSS AND DEFICIT
FOR THE**

	Three Months March 31,	
	2010	2009
Deficit, beginning of period	\$ (25,202,642)	\$ (24,245,345)
Net loss for the period	(269,165)	(100,291)
Deficit, end of period	\$ (25,471,807)	\$ (24,345,636)

See accompanying notes to the financial statements

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**STATEMENTS OF LOSS AND DEFICIT
FOR THE**

	Three Months March 31,		Cumulative
	2010	2009	from the date of commencement of exploration
Revenue			
Interest	\$ 3,644	\$ 8,350	\$ 373,361
Option payments	-	-	370,000
	3,644	8,350	743,361
Expenses			
Office, general and administrative	388,103	152,403	7,605,851
Impairment of loan receivable	-	-	502,646
Stock-based compensation	-	-	1,137,980
Depreciation	1,898	1,295	297,684
Write-down of mining interests	-	-	1,234,492
Loss on disposal of royalty interest	1,912	-	47,912
Loss on settlement of note payable	-	-	27,167
Loss on disposal of marketable securities	-	-	10,170
	391,913	153,698	10,863,902
Loss before undernoted items	(388,269)	(145,348)	(10,120,541)
Future income tax recovery	119,104	45,057	(676,588)
Net loss	(269,165)	(100,291)	\$ (9,443,953)
Loss per share			
Basic	\$ (0.01)	\$ (0.01)	
Weighted average number of shares	178,217,862	93,366,014	

See accompanying notes to the financial statements

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**STATEMENTS OF CASH FLOWS
FOR THE**

	Three Months March 31,		Cumulative from the date of commencement of exploration
	2010	2009	
Cash flows from operating activities			
Net loss for the period	\$ (269,165)	\$ (100,291)	\$ (8,903,068)
Adjustments for:			
Depreciation	1,898	1,295	297,684
Stock-based compensation	-	-	1,137,980
Loss on disposal of marketable securities	-	-	10,170
Write-down of mining interest	-	-	1,234,492
Future income tax (recovery)	(119,104)	45,057	17,527
Loss on disposal of royalty interest	-	-	46,000
Settlement of loan payable	-	-	27,167
Interest on note receivable	-	(8,350)	(58,606)
Impairment of loan receivable	-	-	502,646
	(386,371)	(62,289)	(5,688,008)
Changes in non-cash working capital (note 10)	(185,006)	(12,200)	(7,194,390)
Cash flows used in operating activities	(571,377)	(74,489)	(12,882,398)
Cash flows from investing activities			
Property and equipment	(19,114)	-	(19,114)
Purchase of property and equipment	(7,014)	-	(905,221)
Expenditures on mineral resources properties	(722,335)	(144,944)	(17,400,838)
Increase in loan receivable	-	-	(456,540)
Proceeds on disposal of royalty interest	-	-	29,638
Net investment in marketable securities	-	-	(37,170)
Cash flows used in investing activities	(748,463)	(144,944)	(18,789,245)
Cash flows from financing activities			
Issuance of capital stock, net of financing fees and provision for future income taxes	97,625	(60,114)	26,722,806
Proceeds on exercise of warrants and stock options	(18,000)	-	10,741,799
Advance (repayment) of notes payable	-	(5,000)	(306,977)
Issue of convertible debenture	-	-	(32,141)
Cash flows provided by (used in) financing activities	79,625	(65,114)	37,125,487
Net increase (decrease) in cash and cash equivalents	(1,240,215)	(284,547)	5,453,844
Cash and cash equivalents beginning of period	6,708,698	330,351	14,639
Cash and cash equivalents end of period	\$ 5,468,483	\$ 45,804	\$ 5,468,483

SUPPLEMENTAL CASH FLOW INFORMATION (note 10)

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 \$368,483 (March 31, 2008 - \$45,804) and Guaranteed Investment Certificates ("GIC's") of \$5,100,000 (March 31, 2008 - \$nil). The GIC's had a yield to maturity of 0.35% and matured on April 8, 2010.

4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS

	Balance beginning of Period	Acquisition	Exploration	Recoveries	Balance end of Period
March 31, 2010					
Fuller (a)	\$ 12,827,651	\$ 2,311	\$ 43,099	\$ -	\$ 12,873,061
Davidson-Tisdale (b)	5,849,313	301	467,007	(180,461)	6,136,160
Buffalo Ankerite (c)	4,223,421	2,812	25,176	-	4,251,409
Paymaster (d)	1,876,146	-	367,514	-	2,243,660
Augdome (e)	124,686	1,590	-	-	126,276
Windsor (f)	<u>125,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,094</u>
	<u>\$ 25,026,311</u>	<u>\$ 7,014</u>	<u>\$ 902,796</u>	<u>\$ (180,461)</u>	<u>\$ 25,755,660</u>

	Balance beginning of Year	Acquisition	Exploration	Recoveries	Balance end of Year
December 31, 2009					
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)	<u>125,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,094</u>
	<u>\$ 23,100,953</u>	<u>\$ 202,177</u>	<u>\$ 1,723,181</u>	<u>\$ -</u>	<u>\$ 25,026,311</u>

VG GOLD CORP.

(an exploration stage company)

NOTES TO THE FINANCIAL STATEMENTS**4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)**

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.

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.

5. PROPERTY AND EQUIPMENT

			March 31, 2010	December 31, 2009
	Cost	Accumulated Amortization	Net Book value	Net Book Value
Powerlines and electrical equipment	\$ 141,921	\$ 130,112	\$ 11,809	\$ 12,122
Office and computer equipment	37,611	20,219	17,392	13,835
Mill equipment	862,000	63,750	798,250	798,250
Automobile	17,714	1,713	16,001	2,030
	<u>\$ 1,059,246</u>	<u>\$ 215,794</u>	<u>\$ 843,452</u>	<u>\$ 826,237</u>

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 for the quarter of the Company with respect to this equipment.

6. 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. As of March 31, 2010, the Company has expended \$1,100,000 the required in exploration expenses for 2010 and is in good standing 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	Acquisition Costs	Fair Value of Shares to be Issued
June 12, 2010	\$ 1,100,000		\$ 100,000
June 12, 2011	1,600,000		150,000
June 12, 2012	<u>2,500,000</u>	-	<u>200,000</u>
	<u>\$ 5,200,000</u>	<u>\$ -</u>	<u>\$ 450,000</u>

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NOTES TO THE FINANCIAL STATEMENTS**7. CAPITAL STOCK**

Authorized
Unlimited common shares without par value

Common Shares

	Number of Shares	Amount
Balance, January 1, 2008	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
Consideration received for exercise of warrants	541,250	79,625
Fair value of exercised warrants	-	18,000
Balance, March 31, 2010	178,467,862	\$ 56,292,463

7. CAPITAL STOCK (Continued)**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.

The following table summarizes the options activity for the period ending March 31, 2010:

	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 and March 31, 2010	<u>4,820,000</u>	<u>\$ 0.35</u>

The following common share purchase options are outstanding at March 31, 2010:

	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	<u>200,000</u>	\$ 0.40	October 1, 2014
		<u>4,820,000</u>		

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NOTES TO THE FINANCIAL STATEMENTS**7. CAPITAL STOCK (Continued)****Common Share Purchase Options (continued)**

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.

There were no options granted during the quarter.

8. COMMON SHARE PURCHASE WARRANTS

The following table summarizes the warrants activity for the period ended March 31, 2010:

	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	<u>(11,325,000)</u>	0.58	<u>(2,555,514)</u>
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	<u>(37,796,250)</u>	0.15	<u>(1,429,072)</u>
Balance, December 31, 2009	7,090,000	0.15	174,476
Exercised	(510,000)	0.15	(16,800)
1200	<u>(31,250)</u>	<u>0.10</u>	<u>(3,125)</u>
Balance, March 31, 2010	<u>6,548,750</u>		<u>\$ 154,551</u>

The following common share purchase warrants are outstanding at March 31, 2010.

Number of Warrants	Type of Shares	Exercise Price	Expiry
Warrants:			
1,562,500	Common shares	\$ 0.15	November 13, 2010
1,752,500	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
1,565,000	Common shares	\$ 0.15	March 1, 2011
6,548,750			

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NOTES TO THE FINANCIAL STATEMENTS**9. CONTRIBUTED SURPLUS**

Balance, January 1, 2007	\$	399,575
Stock-based compensation, for the year		507,141
Fair value of options exercised during the year		<u>(17,670)</u>
Balance, December 31, 2007	\$	889,046
Stock-based compensation, for the year		<u>44,931</u>
Balance, December 31, 2008	\$	933,977
Stock-based compensation, for the year		84,733
Fair value of options exercised during the year		<u>(16,410)</u>
Balance, December 31, 2009 and March 31, 2010	\$	<u>1,002,300</u>

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital balances

	March 31, 2010	March 31, 2009	December 31, 2009
Accounts receivable	\$ (237,166)	\$ 11,215	\$ (24,072)
Prepaid expenses and deposits	140	6,414	(7,725)
Accounts payable and accrued liabilities	<u>52,020</u>	<u>(29,829)</u>	<u>182,910</u>
	<u>\$ (185,006)</u>	<u>\$ (12,200)</u>	<u>\$ 151,113</u>
Interest received	<u>\$ (3,644)</u>	<u>\$ (8,350)</u>	<u>\$ (2,137)</u>

11. RELATED PARTY TRANSACTIONS

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

Consulting fees expenses:	March 31, 2010	March 31, 2009
Consulting fees were charged by a company controlled by an officer for financial management services	\$ 31,000	\$ 18,000
Consulting fees charged by officers for executive management services	\$ 60,000	\$ 30,000
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.	\$ 1,088	\$ 10,966
Directors' fees expensed	\$ 13,000	\$ 9,000

Accounts payable and accrued liabilities includes \$10,500 (2008 - \$10,000) 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.

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NOTES TO THE FINANCIAL STATEMENTS**12. 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 periods ended March 31, 2010 and March 31, 2009, no dilutive effect would result from the potential increase in common shares.

13. 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:

	March 31, 2010	December 31, 2009
Loss before recovery of future income taxes for accounting	\$ (388,269)	\$ (1,498,182)
Statutory rate	31%	31%
Expected income tax recovery	(120,363)	(464,436)
Increase (decrease) in tax recoveries resulting from:		
Stock based compensation expense not deductible for income taxes	-	11,319
Common share financing fees deducted for income tax	-	(56,074)
Non-deductible expenses and other	1,150	(31,694)
	<u>\$ (119,213)</u>	<u>\$ (540,885)</u>

- (ii) 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
2030	<u>388,269</u>
	<u>\$ 6,789,236</u>

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	<u>\$10,913,394</u>
Canadian Development Expenditures	<u>\$ 6,391,804</u>
Foreign Exploration and Development Expenditures	<u>\$ 136,209</u>

14. 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 through 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.

(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.

14. FINANCIAL INSTRUMENTS (Continued)**(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.

(e) Fair Value

The carrying value and fair value of these financial instruments at March 31, 2010 is disclosed below by financial instrument category for the three month period ended March 31, 2010 and December 31, 2009:

Financial Instrument	Period ended March 31, 2010			Year ended December 31, 2009		
	Carrying Value	Fair Value	Interest Expense	Carrying Value	Fair Value	Interest Expense
<i>Held for trading</i>						
Cash and cash equivalent	\$5,468,483	\$5,468,483	\$ -	\$6,708,698	\$6,708,698	\$ -
<i>Loans and receivable</i>						
Accounts receivable	\$ 298,946	\$ 298,946	\$ -	\$ 37,710	\$ 37,710	\$ -
Loans receivable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Financial liabilities</i>						
<i>Other liabilities</i>						
Accounts payable and accrued liabilities	\$ 363,459	\$ 363,459	\$ -	\$ 311,438	\$ 311,438	\$ -

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 March 31, 2010 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				
March 31, 2010				
	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

15. CAPITAL MANAGEMENT

The Company's capital under management at March 31, 2010 includes capital stock of \$56,274,463 (2008 - \$56,194,838). 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 2009.