VG GOLD CORP.

(an exploration stage company)

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

INDEX

VG Gold Corp.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by and are the responsibility of management of the Company. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimate and judgment based on currently available information.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded, liabilities are recognized and that financial information is relevant and reliable.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities in respect of financial reporting and internal control. The Audit Committee of the Board of Directors, comprised of independent directors, meets periodically with management and the Company's independent auditors to discuss auditing matters and financial reporting issues. In addition, the Audit Committee reviews the annual financial statements and provides a recommendation to the Board of Directors on their approval. The Company's independent auditors, KPMG LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

(Signed) Tom Meredith	(Signed) Ha Tran
Tom Meredith	Ha Tran
Chief Executive Officer	Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of VG Gold Corp.

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

Management's Responsibility for the Financial Statements

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

Auditors’ Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

The financial statements of the Company as at and for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those statements on March 16, 2010.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
March 29, 2011
Toronto, Ontario

VG GOLD CORP. (an exploration stage company)

BALANCE SHEETS

AS AT DECEMBER 31, 2010 and 2009

(in Canadian dollars)

	2010	2009
ASSETS		
Current		
Cash and cash equivalents (note 4)	$ 2,130,137	$ 6,708,698
Accounts receivable	539,032	61,781
Prepaid expenses and deposits (note 16)	370,563	29,076
	3,039,732	6,799,555
Mineral resource properties and deferred exploration costs (note 5)	29,191,079	25,026,311
Property and equipment (note 6)	19,261	826,237
	$ 32,250,072	$ 32,652,103
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 406,231	$ 311,438
	406,231	311,438
Asset retirement obligation (note 7)	349,864	-
Future income taxes (note 15)	-	171,693
	$ 756,095	$ 483,131
Commitments and contractual obligations (note 8)		
SHAREHOLDERS' EQUITY		
Capital stock (note 9)	$ 58,106,534	$ 56,194,838
Common share purchase warrants (note 10)	16,079	174,476
Contributed surplus (note 11)	941,808	1,002,300
Deficit	(27,570,444)	(25,202,642)
	31,493,977	32,168,972
	$ 32,250,072	$ 32,652,103

See accompanying notes to the financial statements.

Approved on Behalf of the Board

'Thomas W. Meredith' Director

'Richard Brissenden' Director

VG GOLD CORP. (an exploration stage company)
STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS and DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009
(in Canadian dollars)

	2010	2009
Expenses		
Office, general and administrative	$ 1,588,625	$ 998,348
Stock-based compensation	139,333	84,733
Depreciation	7,899	4,991
Impairment of plant and equipment (note 6)	819,528	-
Impairment of loan receivable (note 6(c))	-	439,299
	2,555,385	1,527,371
Other income		
Interest income	15,890	29,189
	15,890	29,189
Loss before undernoted items	(2,539,495)	(1,498,182)
Future income tax recovery (note 15)	171,693	540,885
Net loss and comprehensive loss	$ (2,367,802)	$ (957,297)
Deficit, beginning of year	(25,202,642)	(24,245,345)
Deficit, end of year	$ (27,570,444)	$ (25,202,642)
Loss per share		
Basic and diluted loss per share (note 14)	$ (0.01)	$ (0.01)
Weighted average number of shares	180,089,433	120,092,815

See accompanying notes to the financial statements.

VG GOLD CORP. (an exploration stage company)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009
(in Canadian dollars)

	Common Stock		Common Share Purchase	Contributed	Accumulated	
	Shares	Amount	Warrants	Surplus	Deficit	Total
Balance, December 31, 2008	93,066,014	$ 47,401,079	$ 65,438	$ 933,977	$ (24,245,345)	$ 24,155,149
Stock-based compensation	-	-	-	84,733	-	84,733
Flow through shares issued, net of tax effect on renunciation	7,630,000	318,856	-	-	-	318,856
Sale of shares for cash, net of issuance costs	39,012,500	2,766,331	-	-	-	2,766,331
Fair value of warrants	-	(1,521,036)	-	-	-	(1,521,036)
Fair value of broker warrants	-	(82,512)	-	-	-	(82,512)
Issuance of warrants	-	-	1,603,548	-	-	1,603,548
Exercise of warrants	37,796,250	5,648,700	-	-	-	5,648,700
Fair value of exercised warrants	-	1,429,072	(1,429,072)	-	-	-
Expired warrants	-	65,438	(65,438)	-	-	-
Shares issued for property acquisition	271,848	100,000	-	-	-	100,000
Exercise of stock options	150,000	52,500	-	-	-	52,500
Fair value of exercised stock options	-	16,410	-	(16,410)	-	-
Net loss	-	-	-	-	(957,297)	(957,297)
Balance, December 31, 2009	177,926,612	56,194,838	174,476	1,002,300	(25,202,642)	32,168,972
Stock-based compensation	-	-	-	139,333	-	139,333
Exercise of stock options	1,820,000	470,500	-	-	-	470,500
Fair value of exercised stock options	-	199,825	-	(199,825)	-	-
Exercise of warrants	6,665,656	982,974	-	-	-	982,974
Fair value of exercised warrants	-	158,397	(158,397)	-	-	-
Shares issued for property acquisition	397,865	100,000	-	-	-	100,000
Net loss	-	-	-	-	(2,367,802)	(2,367,802)
Balance, December 31, 2010	186,810,133	$ 58,106,534	$ 16,079	$ 941,808	$ (27,570,444)	$ 31,493,977

See accompanying notes to the financial statements.

VG GOLD CORP. (an exploration stage company)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009
(in Canadian dollars)

	2010	2009
Cash (used in) from		
Operating activities:		
Net loss for the year	$ (2,367,802)	$ (957,297)
Adjustment for:		
Depreciation	7,899	4,991
Stock-based compensation	139,333	84,733
Future income tax recovery	(171,693)	(540,885)
Impairment of loan receivable	-	439,299
Impairment of plant and equipment	819,528	-
Interest on note receivable	-	(21,798)
	(1,572,735)	(990,957)
Changes in non-cash working capital (note 12)	(382,206)	151,113
	(1,954,941)	(839,844)
Investing activities:		
Purchase of plant and equipment	(20,451)	(1,382)
Expenditures on mineral resources properties	(4,056,643)	(1,825,358)
	(4,077,094)	(1,826,740)
Financing activities		
Proceeds on exercise of warrants and stocks options	1,453,474	5,701,200
Issuance of capital stock, net financing fees and provision for future income taxes	-	3,358,731
Repayment of notes payable	-	(15,000)
	1,453,474	9,044,931
Net (decrease) increase in cash and cash equivalents	(4,578,561)	6,378,347
Cash and cash equivalents beginning of year	6,708,698	330,351
Cash and cash equivalents end of year	$ 2,130,137	$ 6,708,698

See accompanying notes to the financial statements.

1. NATURE OF OPERATIONS

VG Gold Corp. (the "Company" or "VG Gold") 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 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. These financial statements reflect the results of operations for the years ended December 31, 2010 and 2009, and the assets, liabilities and shareholders' equity as at December 31, 2010 and 2009.

The Company is a development stage enterprise with respect to Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11, "Enterprises in the development stage". As a development stage resource company, the Company has no regular source of cash flow and will need to raise additional funds in the future in order to advance its exploration efforts. As a result, 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. There can be no assurance that the Company will be successful at raising such funds or whether funds raised will be at terms economically favourable to existing shareholders. If in the future the going concern assumption is not appropriate, certain adjustments may be necessary to the financial statements. These adjustments could impact the carrying value of assets or liabilities, such as amounts receivable, prepaid expenses, mineral resource properties and deferred exploration costs, property and equipment, the accounts payable and accrued liabilities balance, and the reported expenses.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions, in respect of mineral properties, property and equipment, amortization, warrants, stock-based compensation, accrued liabilities and asset retirement obligations that affect the reported amounts of assets and liabilities and disclosures of contingent 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.

(b) Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments and comprehensive loss

Financial assets and liabilities, including derivative instruments, are 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 on 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.

The Company does not presently have any items giving rise to other comprehensive income, nor is there any accumulated other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the years.

(d) 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. 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.

Emerging Issues Committee (“EIC”) of the CICA approved abstract EIC 174, Mining Exploration Costs provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. The impairment loss will be established by comparing the assets’ carrying value to its fair value, which is determined using a discounted cash flow model if a reserve exists.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Asset Retirement Obligations

The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value.

(f) Amortization

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

Office and computer equipment	- 20% declining balance basis
Automobile	- 20% declining balance basis

(g) 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 or group of assets exceed the sum of future cash flows expected from its use.

(h) Income taxes

The asset and liability method is used in accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A reduction in respect of the benefit of a future tax asset (a valuation allowance) is recorded against any future tax asset if it is more likely than not that the asset will not be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

(i) Stock-based compensation

CICA Handbook Section 3870 requires 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 option-pricing model on the date of the grant, with the related increase to contributed surplus. Upon exercise of stock options, the recorded fair value of the options is reclassified within shareholders' equity from contributed surplus to capital stock.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

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

The Company issues share purchase warrants from time to time. These warrants are measured and recorded at fair value using the Black-Scholes option-pricing model, net of issuance costs. When exercised, the proceeds received together with the original warrant value are credited to share capital.

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.

(l) Capital stock issuance costs

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

(m) Recent pronouncements

In 2008, the CICA issued Handbook Section 1582, “Business Combinations” (“s.1582”), which is effective for business combinations with an acquisition date on or after January 1, 2011. The standard requires the additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. The impact of s.1582 is expected to have a material impact on how prospective business combinations are accounted for. Additionally, as part of the application of s.1582, companies will be required to adopt CICA Handbook Section 1601 “Consolidated Financial Statements” and 1602 “Non-controlling interests”. These sections will require that non-controlling interests be presented as part of shareholders’ equity on the balance sheet and the controlling parent to present 100% of the subsidiary’s results in the statement of operations with an allocation between controlling and non-controlling interest. The standards are effective as of January 1, 2011, with early adoption permitted. The Company has chosen not to early adopt these standards.

In August 2009, the CICA issued certain amendments to Section 3251, “Equity”. The amendments apply to entities that have adopted Section 1602, “Non-controlling interests”. The amendments require separate presentation on the statements of operations and comprehensive income of income attributable to owners of the Company and those attributable to non-controlling interests. The amendments also require that non-controlling interests be presented separately as a component of equity. As the Company has not adopted Section 1602, which is not mandatory until the year beginning January 1, 2011, the amendments are not applicable to the Company in the interim and there is no impact to the financial statements for the period ended December 31, 2010 or 2009. The Company has chose not to early adopt these standards.

3. 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. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and to up-to-date market information.

(a) Market Risk

Market risk is the risk of uncertainty arising primarily from possible commodity market price movements and their impact on the future economic viability of the Company’s projects 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, exploration expenditures, capital expenditures, and acquisitions.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities and holding adequate amounts of cash and cash equivalents.

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

As at December 31, 2010 the Company held cash and cash equivalents of $2,130,137.

(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. The Company does not have any interest bearing liabilities.

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.

3. FINANCIAL INSTRUMENTS (Continued)

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 economic viability of the Company's projects, along with the ability to obtain future financing.

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) Credit Risk

Credit risk arises from cash held with banks and financial institutions and amounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counter party credit risk is to prevent losses in financial assets. The Company assesses the quality of its counter parties, taking into account their creditworthiness and reputation, past experience and other factors.

The Company's receivable balance primarily relates to a reimbursement of exploration expenditures spent on the Davidson Tisdale property. The Company is the operator of the property, holding a 68.5% ownership, while San Gold Corp ("San Gold") is the beneficial owner of a 31.5% interest. The Company is exposed to credit risk in connection with the timing of processing of refund payments related to exploration expenditures. As at December 31, 2010, the Company recorded a receivable of approximately $341,739 due from San Gold. Subsequent to December 31, 2010, the full receivable balance was received from San Gold.

(f) Fair Value

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.

(in Canadian dollars)

3. FINANCIAL INSTRUMENTS (Continued)

The carrying value of the financial instruments approximates their fair value and are as follows:

Financial Instruments	2010	2009
Held for trading		
Cash and cash equivalent	$ 2,130,137	$ 6,708,698
Loans and receivable		
Accounts receivable	$ 539,032	$ 61,781
Financial liabilities		
Other liabilities		
Accounts payable and liabilities	$ 406,231	$ 311,438

(g) Capital Management

The Company defines capital management in the manner it manages its capital stock. As at December 31, 2010 the Company's capital stock was $58,106,534 (2009 - $56,194,838). Changes in capital stock resulted from the issuance of 6,665,656 common shares for the exercise of warrants and 1,820,000 from exercises of share options during 2010. Refer to Note 9 Capital Stock for additional details.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010 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;

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, or make adjustments to its capital expenditure program.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash of $2,130,137 (2009 - $707,030) and Guaranteed Investment Certificates ("GIC's") of $nil (2009 - $6,001,668).

(in Canadian dollars)

5. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS

2010	Balance Beginning of Year	Acquisition	Exploration	ARO	Balance end of Year
Fuller (a)	$ 12,827,651	$ 3,711	$ 110,641	$ -	$ 12,942,003
Davidson-Tisdale (b)	5,849,313	13,714	575,422	-	6,438,449
Buffalo Ankerite (c)	4,223,421	2,812	938,024	349,864	5,514,121
Paymaster (d)	1,876,146	100,000	2,068,989	-	4,045,135
Augdome (e)	124,686	1,590	-	-	126,276
Windsor (f)	125,094	-	-	-	125,094
	$ 25,026,311	$ 121,827	$ 3,693,076	$ 349,864	$ 29,191,079

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

a) Fuller

The Company holds 100% of the surface and mining rights to the Fuller Property. The Company also owns the mineral rights to surrounding properties, a portion of which is subject to a 10% net profits interest (“NPI”) calculated after all capital and operating costs have been recovered, payable to The Summit Organization, Inc.

b) Davidson-Tisdale

The Company is the legal and beneficial owner of 68.5% and San Gold is the legal and beneficial owner of 31.5% of the Davidson Tisdale property. This is accounted for as a jointly controlled asset where the venturer bears the agreed percentage of expenses incurred on the property, corresponding to ownership.

c) Buffalo Ankerite

The Company has a 100% interest in mining rights to the Buffalo Ankerite property and continued exploration activities during the year. The property is subject to a 10% NPI, except for the south pit area of the South Mine, where it is subject to a 20% NPI on ore mined by open pit, payable to The Summit Organization, Inc.

(in Canadian dollars)

d) Paymaster

On June 13, 2008, the Company entered into an option and joint venture agreement with the Porcupine Joint Venture, owned by Goldcorp Canada Ltd., with 51% interest and Goldcorp Inc., with a 49% interest (together "Goldcorp"), 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 (refer to note 8) 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 has not exercised this option as at December 31, 2010. In addition to this agreement, 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 right to 100% ownership in the Augdome property.

f) Windsor

The Company has a 100% interest in the property subject to a 2% net smelter royalty.

6. PLANT AND EQUIPMENT

2010	Cost	Accumulated Amortizaion	Impairment	Net Book Value
Office and computer equipment (a)	$ 38,948	$ 23,475	$ 9,687	5,786
Automobile	17,714	4,239	-	13,475
Powerlines and electrical equipment (b)	141,921	130,330	11,591	-
Mill equipment (c)	862,000	63,750	798,250	-
	$ 1,060,583	$ 221,794	$ 819,528	19,261

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

(a) In 2010 the Company impaired office and computer equipment in the amount of $9,687 with original cost of $31,930 and accumulated amortization of $22,243. As a result of the Lexam VG amalgamation, taking effect January 1, 2011 (see note 16), the Company has relocated its corporate office. Upon relocation, certain office and computer equipment was identified as being obsolete or redundant, which forms the basis of the impairment.

6. PROPERTY AND EQUIPMENT (Continued)

(b) During the year, power lines and electrical equipment has been impaired in the amount of $11,591, with original cost of $141,921 and accumulated amortization of $130,330. The Company is primarily engaged in exploration activity in nature, as such, there is uncertainty as to when and if the power lines will be used to generate positive cash flow for the Company.

(c) During the year, the Company has performed a review with respect to the milling equipment, and arrived at an impairment of $798,250. Currently the milling equipment is not used in operations. It is expected that the milling equipment would require significant modifications and upgrades to be restored. Also given the age and the specifications for previous use of the equipment, there is uncertainty as to the recovery of the net book value through a sale.

The milling equipment was acquired in 2006. 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 totaling approximately $439,299 including the original loan advance, was extended to be repayable in full on November 1, 2009. This loan was non-interest bearing and as such, the carrying vale of the loan was 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 extension has been recorded as an impairment of the loan in 2007. The loan balance was 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.

7. ASSET RETIREMENT OBLIGATION

The Company has recorded an asset retirement obligation in 2010 pertaining to its Buffalo Ankerite property, based on an estimate performed by a third party. The estimated discounted obligation is $349,864. The obligation relates to re-sloping existing pit walls, revegetation and labour costs. The undiscounted liability is expected to be settled in 2015 for approximately $455,000, and has been discounted using a discount rate of 5.4%. As the Company continues its exploratory activities and investigates potential production scenarios, costs associated with the remediation work will be reconsidered. Currently, the Company has not been required to post a reclamation bond with the Ministry of Northern Development. However, this requirement may change upon submission of a closure plan,.

(in Canadian dollars)

8. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

(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 16 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. These warrants have expired unexercised. 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 2009 to extend the June 12, 2009 obligations until December 31, 2009. As disclosed in Note 9 Capital Stock, the Company issued 397,865 shares related to the second year obligation. The Company also spent the required $1,100,000 in exploration expenses for 2010 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 two years are:

	Exploration Expenditures	Value of Shares to be Issued	Total
2011	$ 1,600,000	$ 150,000	$ 1,750,000
2012	2,500,000	200,000	2,700,000
	$ 4,100,000	$ 350,000	$ 4,450,000

(in Canadian dollars)

8. COMMITMENTS (Continued)

(b) Other commitments

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

2011	$	28,914
2012	$	34,697
2013	$	34,697
2014	$	5,783

In addition to rental payments, the Company is also required to make minimum annual payments of $80,000 from 2011 to 2022 in order to secure preferential rights to a milling facility.

(in Canadian dollars)

9. CAPITAL STOCK

(a) Authorized

The authorized capital stock of the Company consists of an unlimited number of common shares.

(b) Common Shares

	2010		2009	
	Number of Shares	Amount	Number of Shares	Amount
Opening Balance	177,926,612	$ 56,194,838	93,066,014	$ 47,401,079
Consideration received for stock options exercised	1,820,000	470,500	150,000	52,500
Exercised stock options		199,825		16,410
Consideration received for exercise of warrants (v)	6,665,656	982,974	37,796,250	5,648,700
Exercised warrants		158,397		1,429,072
Shares issued for property acquisition	397,865	100,000	271,848	100,000
Flow through shares issued for cash on private placement, January 6, 2009 (i)			600,000	30,000
Less: Tax effect on renunciation associated with flow through shares				(99,200)
Flow through shares issued for cash on private placement, May 28, 2009 (ii)			7,030,000	562,400
Less: Tax effect on renunciation associated with flow through shares, May 28, 2009				(174,344)
Less: Share issue costs, May 28, 2009				(2,500)
Less: Finders fees, May 28, 2009				(33,020)
Less: Fair value of warrants, May 28, 2009				(45,204)
Less: Fair value of broker warrants, May 28, 2009				(11,467)
Shares issued for cash on private placement, May 28, 2009 (iii)			62,500	5,000
Shares issued for cash on private placement, July 22, 2009 (iv)			38,950,000	3,116,000
Less: Share issue costs, July 22, 2009				(136,457)
Less: Finders fees, July 22, 2009				(182,692)
Less: Fair value of warrants, July 22, 2009				(1,475,832)
Less: Fair value of broker warrants, July 22, 2009				(71,045)
Fair value of expired warrants, July 22, 2009				65,438
Closing Balance	186,810,133	$ 58,106,534	177,926,612	$ 56,194,838

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

(ii) On May 28, 2009, the Company completed a $562,400 flow through private placement financing at $0.08 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.

(in Canadian dollars)

9. CAPITAL STOCK (Continued)

(iii) 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.

(iv) On July 22, 2009, the Company initiated a private placement of 38,950,000 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% of the Company's outstanding shares and 42% 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.

(v) On October 20, 2009, Lexam made an early exercise of all its warrants and purchased 37,500,000 common shares of the Company for gross proceeds of $5,625,000. The exercise price of the warrants was $0.15 per share. Upon exercise, Lexam owned 42% of the Company’s outstanding shares.

(c) 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 7,000,000.

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 ("TSX") on the last business day prior to the date of the grant less any discounts permitted by the TSX. 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 options activity for the years ending December 31, 2010 and 2009:

	2010		2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Opening Balances	4,820,000	$ 0.35	3,620,000	$ 0.46
Exercised	(1,820,000)	0.26	(150,000)	0.35
Expired or Cancelled	(190,000)	0.20	(850,000)	0.53
Granted (i)	-	-	2,200,000	0.24
	2,810,000	$ 0.42	4,820,000	$ 0.35

(in Canadian dollars)

9. CAPITAL STOCK (Continued)

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

	Date of Grant	Number of Shares	Exercise Price	Expiry Date
Directors	July 24, 2006	100,000	$ 0.40	July 26, 2011
	January 18, 2007	500,000	0.60	January 18, 2012
	May 28, 2009	400,000	0.15	May 11, 2014
	October 2, 2009	400,000	0.40	October 1, 2014
Officers	July 24, 2006	100,000	0.40	July 26, 2011
	January 18, 2007	100,000	0.60	January 18, 2012
	October 2, 2009	150,000	0.40	October 1, 2014
Service Providers	January 19, 2006	100,000	0.55	January 19, 2011
	July 24, 2006	100,000	0.40	July 24, 2011
	January 18, 2007	375,000	0.60	January 18, 2012
	March 26, 2008	200,000	0.40	March 26, 2011
	May 28, 2009	75,000	0.15	May 11, 2014
	October 2, 2009	210,000	0.40	October 1, 2014
		2,810,000	$ 0.43	

(i) The fair value of the options granted during the period ending December 31, 2009 was estimated using the Black-Scholes option-pricing model with the following assumptions: risk free rate of 2.5%, expected life of 5 years, and expected volatility of 133%. The option grant on October 2, 2009 vests at a rate of 1/3 over three years. As at December 31, 2010, 533,333 shares remain unvested, with 1.75 years remaining before these shares are fully vested, and a remaining option life of 3.75 years.

10. COMMON SHARE PURCHASE WARRANTS

The following table summarizes the warrants activity for the years ended December 31, 2010 and 2009:

	2010			2009		
	Number of Warrants	Weighted Average Exercise Price	Fair Value	Number of Warrants	Weighted Average Exercise Price	Fair Value
Opening Balance	7,090,000	$ 0.15	$ 174,476	1,000,000	$ 0.31	$ 65,438
Exercised	(6,665,656)	0.15	(158,397)	(37,796,250)	0.15	(1,429,072)
Issued	-		-	44,886,250	0.15	1,603,548
Expired	-		-	(1,000,000)	0.31	(65,438)
Closing Blaance	424,344	$ 0.15	$ 16,079	7,090,000	$ 0.15	$ 174,476

(in Canadian dollars)

10. COMMON SHARE PURCHASE WARRANTS (Continued)

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

	Number of Warrants	Type of Shares	Exercise Price	Expiry
Warrants:	224,344	Common Shares	0.15	March 1, 2011
Broker Warrants:	200,000	Common Shares	0.15	March 1, 2011

Subsequent to December 31, 2010 all the 424,344 warrants and broker warrants have been exercised in full prior to expiration. As a result, the Company received proceeds of $63,652.

11. CONTRIBUTED SURPLUS

	2010	2009
Opening balance	$ 1,002,300	$ 933,977
Stock-based compensation for the year	139,333	84,733
Fair value of options exercised during year	(199,825)	(16,410)
Closing balance	$ 941,808	$ 1,002,300

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital balances

	2010	2009
Accounts receivable	$ (477,251)	$ (24,072)
Prepaid expenses and deposits	254	(7,725)
Accounts payable and accrued liabilities	94,791	182,910
	$ (382,206)	$ 151,113
Interest received	$ 14,190	$ 3,805

(in Canadian dollars)

13. RELATED PARTY TRANSACTIONS

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

	2010	2009
Consulting fees:		
Consulting fees were charged by a company controlled by an officer for financial management services	$ 82,000	$ 90,000
Consulting fees charged by officers for executive management services	$ 195,000	$ 120,000
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	$ 103,944	$ 121,406
Directors' fees:	$ 52,000	$ 31,500

Accounts payable and accrued liabilities includes $92,592 (2009 - $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, 2010.

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. BASIC AND DILUTED 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, 2010 and December 31, 2009, a dilutive effect would result from the potential increase in common shares.

(in Canadian dollars)

15. INCOME TAXES

(a) 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. The applicable rate used for 2010 was 31% (2009 – 31%).

	2010	2009
Loss per financial statements before tax	$ (2,539,493)	$ (1,498,182)
Statutory tax rates	31%	31%
Expected income tax recovery	(787,243)	(464,436)
Change in valuation allowance	474,294	-
Stock based compensation	43,193	11,319
Non-deductible expenses	1,425	(31,694)
Future and current tax rate differential	111,600	-
Other	(14,962)	-
Financing fees	-	(56,074)
Income tax recovery	$ (171,693)	$ (540,885)

(b) Future Income Taxes

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

	2010	2009
Non-capital losses	$ 1,877,644	$ 1,984,300
Property and equipment	365,194	87,592
Share issuance costs	69,840	141,552
Write-down of loss receivable	54,913	-
Exploration cost	(1,930,278)	(2,385,137)
Capital loss	7,021	-
Others	29,960	-
	474,294	(171,693)
Valuation allowance	(474,294)	
Net future tax liability	$ -	$ (171,693)

(in Canadian dollars)

15. INCOME TAXES (Continued)

(c) Non-capital loss carry-forwards

The Company has non-capital loss carry-forwards in the amount of $7,510,576 which may be used prior to 2030 to reduce future taxable income.

Years of Expiry		Amount
2014	$	508,495
2015		928,587
2026		1,062,573
2027		1,012,346
2028		1,098,669
2029		1,138,141
2030		1,761,765
	$	7,510,576

16. SUBSEQUENT EVENT - LEXAM VG AMALGAMATION

On November 5, 2010 the Company and Lexam signed a definitive agreement indicating the intent to amalgamate the two companies, forming Lexam VG Gold Inc. ("Lexam VG"). On December 13, 2010 each respective company held a special shareholder's meeting, with both sets of shareholders voting unanimously in favour of the amalgamation. The amalgamation was effected on January 1, 2011 through a Plan of Arrangement under which common shareholders of VG Gold would receive one common share of Lexam VG, for each common share of VG Gold currently held, and common shareholders of Lexam would receive 2.1 common shares of Lexam VG for each common share of Lexam currently held. Pursuant to the agreement, the 75,000,000 common shares of VG Gold held by Lexam will be cancelled upon amalgamation.

Pursuant to the Plan of Arrangement, Mr. Robert R. McEwen, the Non-Executive Chairman of Lexam VG, invested $5,000,000 in Lexam by way of private placement units consisting of 4,960,318 Lexam common shares at a price of $1.008 per share, and for each common share, a two-year half-warrant, with each full warrant exercisable at a price of $2.10. Upon the effective date of the transaction, Mr. McEwen will own 27% of the issued and outstanding common shares of Lexam VG.

As at December 31, 2010 the Company recorded $311,774 costs in prepaid expenses and deposits, associated with the amalgamation, which will be expensed on January 1, 2011, the effective date of the amalgamation. The costs primarily relate to legal, tax, due diligence, and shareholder communication fees.

17. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the presentation adopted in 2010.