

VG GOLD CORP.

(an exploration stage company)

INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010

INDEX

	Page
Notice to Reader of the Interim Financial Statements	1
Balance Sheets	2
Statements of Deficit	3
Statements of Income	4
Statements of Cash Flows	5
Notes to the Interim Financial Statements	6 - 21

NOTICE TO READER OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements of VG Gold Corp. ("the Company") including the accompanying balance sheets as at September 30, 2010 and December 31, 2009 and the statements of loss, deficit and cash flows for the three and nine month periods ended September 30, 2010 and 2009 are the responsibility of the Company's management. The interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgements and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles for interim financial statements.

The independent auditor of the Company has performed a review of these unaudited interim financial statements for the three and nine month periods ended September 30, 2010.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of the financial statements of the unaudited comparative financial statements for the three month and nine month periods ended September 30, 2009.

VG GOLD CORP.

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BALANCE SHEETS**(UNAUDITED)****AS AT SEPTEMBER 30, 2010 AND DECEMBER 31, 2009**

	September 30, 2010	December 31,
	(Unaudited)	2009 (Audited)
ASSETS		
Current		
Cash and cash equivalents	\$ 2,675,233	\$ 6,708,698
Accounts receivable	550,225	61,781
Prepaid expenses and deposits	39,917	29,076
	3,265,375	6,799,555
Mineral resource properties and deferred exploration costs (note 3)	27,839,988	25,026,311
Property and equipment (note 4)	840,646	826,237
	\$ 31,946,009	\$ 32,652,103
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 294,491	\$ 311,438
Future income taxes	-	171,693
	294,491	483,131
Commitments (note 5)		
SHAREHOLDERS' EQUITY		
Capital stock (note 6)	56,743,135	56,194,838
Common share purchase warrants (note 7)	129,567	174,476
Contributed surplus (note 8)	977,471	1,002,300
Deficit	(26,198,655)	(25,202,642)
	31,651,518	32,168,972
	\$ 31,946,009	\$ 32,652,103

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

See accompanying notes to the interim financial statements

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STATEMENTS OF LOSS AND DEFICIT**(UNAUDITED)****FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009**

	Three Months		Nine Months	
	September 30,		September 30,	
	2010	2009	2010	2009
Deficit, beginning of period	\$ (25,754,502)	\$ (24,494,168)	\$ (25,202,642)	\$ (24,245,345)
Net loss for the period	(444,153)	(136,217)	(996,013)	(385,040)
Deficit, end of period	\$ (26,198,655)	\$ (24,630,385)	\$ (26,198,655)	\$ (24,630,385)

See accompanying notes to the interim financial statements

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STATEMENTS OF LOSS AND DEFICIT**(UNAUDITED)****FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009**

	Three Months September 30,		Nine Months September 30,		Cumulative from the date of commencement of exploration
	2010	2009	2010	2009	
Revenue					
Interest	\$ 3,074	\$ 8,517	\$ 10,848	\$ 25,384	\$ 380,565
Option payments	-	-	-	-	370,000
Other income	1,400	-	1,400	-	1,400
	4,474	8,517	12,248	25,384	751,965
Expenses					
Office, general and administrative	402,443	263,439	1,127,827	595,145	8,345,575
Impairment of loan receivable	-	-	-	-	502,646
Stock-based compensation	44,171	-	44,171	36,514	1,182,151
Amortization	2,013	1,295	6,042	3,822	301,828
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
	448,627	264,734	1,179,952	635,481	11,651,941
Loss before undernoted items	(444,153)	(256,217)	(1,167,704)	(610,097)	(10,899,976)
Future income tax recovery	-	120,000	171,691	225,057	1,270,060
Net loss	\$ (444,153)	\$ (136,217)	\$ (996,013)	\$ (385,040)	\$ (9,629,916)
Loss per share					
Basic	\$ (0.002)	\$ (0.001)	\$ (0.006)	\$ (0.003)	
Weighted average number of shares	179,316,648	110,277,127	178,601,699	107,367,620	

See accompanying notes to the interim financial statements

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STATEMENTS OF CASH FLOWS**(UNAUDITED)****FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009**

	Three Months September 30,		Nine Months September 30,		Cumulative from the date of commencement of exploration
	2010	2009	2010	2009	
Cash flows from operating activities					
Net loss for the period	\$ (444,153)	\$ (136,217)	\$ (996,013)	\$ (385,040)	\$ (9,629,916)
Adjustments for:					
Amortization	2,013	1,295	6,042	3,822	301,828
Stock-based compensation	44,171	-	44,171	36,514	1,182,151
Loss on disposal of marketable securities	-	-	-	-	10,170
Write-down of mining interest	-	-	-	-	1,234,492
Future income tax (recovery)	-	(120,000)	(171,691)	(225,057)	(35,060)
Loss on disposal of royalty interest	-	-	-	-	46,000
Settlement of loan payable	-	-	-	-	27,167
Interest on note receivable	-	-	-	-	(58,606)
Impairment of loan receivable	-	-	-	-	502,646
	(397,969)	(254,922)	(1,117,491)	(569,761)	(6,419,128)
Changes in non-cash working capital (note 9)	(149,759)	(94,292)	(516,234)	15,883	(7,525,618)
Cash flows used in operating activities	(547,728)	(349,214)	(1,633,725)	(553,878)	(13,944,746)
Cash flows from investing activities					
Purchase of property and equipment	-	(10,311)	(20,451)	(43,075)	(918,658)
Expenditures on mineral resources properties	(917,129)	(503,940)	(2,713,677)	(737,145)	(19,392,180)
Increase in loan receivable	-	(8,517)	-	(25,384)	(456,540)
Proceeds on disposal of royalty interest	-	-	-	-	29,638
Net investment in marketable securities	-	-	-	-	(37,170)
Cash flows used in investing activities	(917,129)	(522,768)	(2,734,128)	(805,604)	(20,774,910)
Cash flows from financing activities					
Issuance of capital stock, net of financing fees and provision for future income taxes	-	1,334,357	-	1,905,004	26,625,181
Proceeds on exercise of warrants and stock options	190,563	1,538,695	334,388	1,529,928	11,094,187
Advance (repayment) of notes payable	-	(10,000)	-	(15,000)	(306,977)
Issue of convertible debenture	-	-	-	-	(32,141)
Cash flows provided by (used in) financing activities	190,563	2,863,052	334,388	3,419,932	37,380,250
Net increase (decrease) in cash and cash equivalents	(1,274,294)	1,991,070	(4,033,465)	2,060,450	2,660,594
Cash and cash equivalents beginning of period	3,949,527	399,731	6,708,698	330,351	14,639
Cash and cash equivalents end of period	\$ 2,675,233	\$ 2,390,801	\$ 2,675,233	\$ 2,390,801	\$ 2,675,233

SUPPLEMENTAL CASH FLOW INFORMATION (note 9)

See accompanying notes to the interim 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 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 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.

(k) Financial instruments

The Company 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 are classified as other financial liabilities, which are measured at amortized cost.

(l) Comprehensive income

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**

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 13 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 13.

(o) General Standards of Financial Statement Presentation

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

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 15 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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(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.

(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. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS

September 30, 2010	Balance beginning of Year	Acquisition	Exploration	Balance end of Period
Fuller (a)	\$ 12,827,651	\$ 3,712	\$ 83,177	\$ 12,914,540
Davidson-Tisdale (b)	5,849,313	13,713	565,756	6,428,782
Buffalo Ankerite (c)	4,223,421	2,812	492,307	4,718,540
Paymaster (d)	1,876,146	100,000	1,550,610	3,526,756
Augdome (e)	124,686	1,590	-	126,276
Windsor (f)	125,094	-	-	125,094
	<u>\$ 25,026,311</u>	<u>\$ 121,827</u>	<u>\$ 2,691,850</u>	<u>\$ 27,839,988</u>

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

3. 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 by agreement has a 100% ownership interest 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.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****4. PROPERTY AND EQUIPMENT**

	Cost	Accumulated Amortization	September 30, 2010 Net Book value
Powerlines and electrical equipment	\$ 142,723	\$ 130,330	\$ 12,393
Office and computer equipment	38,147	22,461	15,686
Mill equipment	862,000	63,750	798,250
Automobile	17,714	3,397	14,317
	<u>\$ 1,060,584</u>	<u>\$ 219,938</u>	<u>\$ 840,646</u>

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

5. 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.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****5. COMMITMENTS (Continued)**

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 6, the Company issued 397,865 shares related to the second year obligation. As of September 30, 2010, the Company had expended the \$1,100,000 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 two years are:

	Exploration Expenditures	Fair Value of Shares to be Issued
June 12, 2011	\$ 1,600,000	\$ 150,000
June 12, 2012	<u>2,500,000</u>	<u>200,000</u>
	<u>\$ 4,100,000</u>	<u>\$ 350,000</u>

(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

The Company is required to make minimum annual payments of \$80,000 from 2011 to 2022 in order to secure preferential rights to a milling facility.

(c) Contingent liability

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

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****6. 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	-	<u>2,555,514</u>
Balance, December 31, 2008	93,066,014	\$ 47,401,079
Flow through shares issued for cash on private placement, January 6, 2009	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	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	62,500	5,000
Shares issued for cash on private placement, July 22, 2009	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	37,500,000	5,625,000
Fair value of exercised warrants	-	1,429,072
Shares issued for property acquisition	<u>271,848</u>	<u>100,000</u>
Balance, December 31, 2009	177,926,612	\$ 56,194,838
Consideration received for exercise of warrants	1,749,250	258,638
Fair value of exercised warrants	-	44,909
Consideration received for stock options exercised	305,000	75,750
Fair value of exercised stock options	-	69,000
Shares issued for property acquisition	<u>397,865</u>	<u>100,000</u>
Balance, September 30, 2010	<u>180,378,727</u>	<u>\$ 56,743,135</u>

VG GOLD CORP.

(an exploration stage company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****6. 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 September 30, 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	<u>(850,000)</u>	<u>0.53</u>
Balance - December 31, 2009	4,820,000	0.35
Exercised	(305,000)	0.25
Expired or cancelled	<u>(190,000)</u>	<u>0.20</u>
Balance - September 30, 2010	<u>4,325,000</u>	<u>\$ 0.36</u>

The following common share purchase options are outstanding at September 30, 2010:

	Date of Grant	Number of Shares	Exercise Price	Expiry Date
Directors	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	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>4,325,000</u>		

VG GOLD CORP.

(an exploration stage company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****6. 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.

7. COMMON SHARE PURCHASE WARRANTS

The following table summarizes the warrants activity for the period ended September 30, 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	<u>(1,000,000)</u>	0.31	<u>(65,438)</u>
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	<u>(1,749,250)</u>	0.15	<u>(44,909)</u>
Balance, September 30, 2010	<u>5,340,750</u>		<u>\$ 129,567</u>

The following common share purchase warrants are outstanding at September 30, 2010.

Number of Warrants	Type of Shares	Exercise Price	Expiry
Warrants:			
1,562,500	Common shares	\$ 0.15	November 13, 2010
1,717,500	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
31,250	Common shares	\$ 0.08	November 27, 2010
423,250	Common shares	\$ 0.15	March 1, 2011
<u>5,340,750</u>			

VG GOLD CORP.

(an exploration stage company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****8. CONTRIBUTED SURPLUS**

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	\$ 1,002,300
Stock-based compensation, for the period	44,171
Fair value of options exercised during the period	<u>(69,000)</u>
Balance, September 30, 2010	<u>\$ 977,471</u>

9. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital balances

	September 30, 2010 (3 months)	September 30, 2009 (3 months)	September 30, 2010 (9 months)	September 30, 2009 (9 months)
Accounts receivable	\$ (71,305)	\$ (35,249)	\$ (488,445)	\$ (6,862)
Prepaid expenses and deposits	(5,273)	7,747	(10,841)	1,708
Accounts payable and accrued liabilities	<u>(73,181)</u>	<u>(66,790)</u>	<u>(16,948)</u>	<u>21,037</u>
	<u>\$ (149,759)</u>	<u>\$ (94,292)</u>	<u>\$ (516,234)</u>	<u>\$ 15,883</u>
Interest received	<u>\$ 3,074</u>	<u>\$ 8,517</u>	<u>\$ 10,848</u>	<u>\$ 25,384</u>

10. RELATED PARTY TRANSACTIONS

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

	September 30, 2010 (9 months)	September 30, 2010 (9 months)
Consulting fees expenses:		
Consulting fees were charged by a company controlled by an officer for financial management services	\$ 165,000	\$ 80,000
Consulting fees charged by officers for executive management services	\$ 67,000	\$ 62,000
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.	\$ 8,838	\$ 19,297
Directors' fees expensed	\$ 39,000	\$ 24,000

Accounts payable and accrued liabilities includes approximately \$14,000 (2009 - \$15,000) owing to directors and officers of the Company and to companies controlled by directors and officers of the Company as at September 30, 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.

VG GOLD CORP.

(an exploration stage company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****11. 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 September 30, 2010 and September 30, 2009, no dilutive effect would result from the potential increase in common shares.

12. 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:

	September 30, 2010	December 31, 2009
Loss before recovery of future income taxes for accounting	\$ (1,167,704)	\$ (1,498,182)
Statutory rate	26.25%	31%
Expected income tax recovery	(306,522)	(464,436)
Increase (decrease) in tax recoveries resulting from:		
Stock based compensation expense not deductible for income taxes	11,595	11,319
Common share financing fees deducted for income tax	(46,531)	(56,074)
Non-deductible expenses and other	169,767	(31,694)
	<u>\$ (171,691)</u>	<u>\$ (540,885)</u>

- (ii) The Company has non-capital loss carryforwards in the amount of \$7,394,983 which may be used prior to 2028 to reduce future taxable income.

2014	\$ 508,495
2015	928,587
2026	1,062,573
2027	1,012,346
2028	1,098,669
2029	1,138,141
2030	<u>1,646,172</u>
	<u>\$ 7,394,983</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>\$13,605,245</u>
Canadian Development Expenditures	<u>\$ 6,513,631</u>
Foreign Exploration and Development Expenditures	<u>\$ 136,209</u>

13. 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.

VG GOLD CORP.

(an exploration stage company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****13. 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 September 30, 2010 is disclosed below by financial instrument category for the three month and nine month periods ended September 30, 2010 and December 31, 2009:

Financial Instrument	Period ended September 30, 2010			Year ended December 31, 2009		
	Carrying Value	Fair Value	Interest Expense	Carrying Value	Fair Value	Interest Expense
<i>Held for trading</i>						
Cash	\$2,675,233	\$2,675,233	\$ -	\$6,708,698	\$6,708,698	\$ -
<i>Loans and receivable</i>						
Accounts receivable	\$ 550,225	\$ 550,225	\$ -	\$ 61,781	\$ 61,781	\$ -
<i>Financial liabilities</i>						
Other liabilities						
Accounts payable and accrued liabilities	\$ 294,491	\$ 294,491	\$ -	\$ 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 September 30, 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				
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	\$ 2,675,233	\$ -	\$ -	\$ 2,675,233

VG GOLD CORP.

(an exploration stage company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
(UNAUDITED)****14. CAPITAL MANAGEMENT**

There were no changes in the Company's approach to capital management during the period ended September 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; 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.

15. SUBSEQUENT EVENTS

The Company will be holding a special meeting of shareholders on or about December 13, 2010, to consider, and if deemed advisable, to approve the proposed merger by plan of arrangement with Lexam Explorations Inc. In connection with the plan of arrangement shareholders will also be asked to approve the private placement by Rob McEwen for units in the company for gross proceeds of \$5,000,000. The plan of arrangement and the private placement by Rob McEwen is subject to court, shareholder and regulatory approvals.

The attached table illustrates on a pro forma basis, the share structure of the combined company after giving effect to the proposed transaction and Mr. McEwen's private placement.

EFFECT ON SHARE STRUCTURE

VG Gold common shares outstanding	180,378,727
Shares issuable in exchange for Lexam common shares	101,848,503
Shares of VG Gold owned by Lexam to be cancelled	(75,000,000)
Shares issued to Mr. McEwen in \$5-million private placement	<u>10,416,667</u>
Pro forma common shares outstanding	217,643,897
VG Gold warrants outstanding	5,340,750
VG Gold options outstanding	4,325,000
VG Gold warrants to Mr. McEwen in \$5-million private placement	5,208,333
Lexam options converted into VG Gold options	<u>525,000</u>
Pro forma fully diluted shares	<u><u>233,042,980</u></u>