LEXAM VG GOLD INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011
(*unaudited*)

INDEX

Notice to Reader – From Lexam VG Gold Inc.

The interim unaudited consolidated financial statements of Lexam VG Gold Inc. (the "Company" or "Lexam VG") including the accompanying consolidated statements of financial position as at March 31, 2011, December 31, 2010, and January 1, 2010 and the consolidated statements of operations, comprehensive loss and deficit, changes in shareholders' equity and cash flows for the three month periods ended March 31, 2011 and 2010 are the responsibility of the Company's management. The interim unaudited consolidated 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 International Financial Reporting Standards for interim consolidated financial statements.

LEXAM VG GOLD INC.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited - in Canadian dollars)

	As at		
	March 31, 2011	**December 31, 2010**	**January 1, 2010**
		(note 4)	(note 4)
ASSETS			
Current			
Cash and cash equivalents	$ 14,463,144	$ 2,130,137	$ 6,708,698
Accounts receivable (note 6)	161,002	539,032	61,781
Prepaid expenses and deposits (note 5)	48,220	370,563	29,076
	14,672,366	3,039,732	6,799,555
Restricted cash (note 5(a))	67,872	-	-
Exploration and evaluation assets (note 7)	30,174,113	29,245,415	25,026,311
Automobile and equipment (note 8)	49,934	19,261	826,237
	$ 44,964,285	$ 32,304,408	$ 32,652,103
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$ 490,944	$ 406,231	$ 311,438
	490,944	406,231	311,438
Decommissioning liabilities (note 9)	406,636	404,200	-
Deferred tax liability	-	-	171,693
	$ 897,580	$ 810,431	$ 483,131
SHAREHOLDERS' EQUITY			
Capital stock (note 11)	$ 69,194,103	$ 59,481,623	$ 57,569,927
Common share purchase warrants (note 12)	3,666,667	16,079	174,476
Contributed surplus	1,403,643	905,874	994,233
Deficit	(30,197,708)	(28,909,599)	(26,569,664)
	44,066,705	31,493,977	32,168,972
	$ 44,964,285	32,304,408	32,652,103

Commitments and contractual obligations (note 10)

Subsequent event (note 16)

See accompanying notes to the financial statements.

Approved on Behalf of the Board

'Thomas W. Meredith' Director

'Richard Brissenden' Director

LEXAM VG GOLD INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS and DEFICIT
(Unaudited - in Canadian dollars)

	For the three months ended March 31, 2011	2010
Expenses		
Office, general and administrative	$ 1,246,785	$ 388,103
Property holding	71,115	-
Share-based compensation	12,466	-
Depreciation	2,188	1,898
Gain on sale of asset	(4,430)	-
Loss on disposal of royalty interest	-	1,912
	1,328,124	391,913
Other income (expense)		
Interest income	17,909	3,644
Accretion (note 9)	(2,436)	-
Foreign exchange gain	24,542	-
	40,015	3,644
Loss before undernoted items	(1,288,109)	(388,269)
Deferred income tax recovery	-	119,104
Net loss and comprehensive loss	$ (1,288,109)	$ (269,165)
Deficit, beginning of period	(28,909,599)	(26,569,664)
Deficit, end of period	$ (30,197,708)	$ (26,838,829)
Loss per share		
Basic and diluted loss per share (note 15)	$ (0.01)	$ (0.00)
Weighted average number of shares	224,589,993	178,217,862

See accompanying notes to the financial statements.

LEXAM VG GOLD INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three-month periods ended March 31, 2011 and 2010
(Unaudited - in Canadian dollars)

	Common Stock		Common Share Purchase	Contributed	Accumulated	
	Shares	Amount	Warrants	Surplus	Deficit	Total
Balance, December 31, 2009	177,926,612	$ 57,569,927	$ 174,476	$ 994,233	$ (26,569,664)	$ 32,168,972
Proceeds on exercise of warrants	541,250	79,625	-	-	-	79,625
Fair value of exercised warrants	-	18,000	(18,000)	-	-	-
Net loss	-	-	-	-	(269,165)	(269,165)
Balance, March 31, 2010	178,467,862	$ 57,667,552	$ 156,476	$ 994,233	$ (26,838,829)	$ 31,979,432

	Common Stock		Common Share Purchase	Contributed	Accumulated	
	Shares	Amount	Warrants	Surplus	Deficit	Total
Balance, December 31, 2010	186,810,133	$ 59,481,623	$ 16,079	$ 905,874	$ (28,909,599)	$ 31,493,977
Shares issued upon amalgamation (note 5)	112,265,004	90,601,188	-	-	-	90,601,188
Shares cancelled upon amalgamation (note 5)	(75,000,000)	(81,169,386)	-	-	-	(81,169,386)
Warrants issued upon amalgamation (note 5)	-	-	3,666,667	-	-	3,666,667
Fair value of Lexam options (note 5)	-	-	-	540,750	-	540,750
Share-based compensation	-	-	-	12,466	-	12,466
Proceeds on exercise of options	317,500	145,500	-	-	-	145,500
Fair value of exercised options	-	55,447	-	(55,447)	-	-
Proceeds on exercise of warrants	424,344	63,652	-	-	-	63,652
Fair value of exercised warrants	-	16,079	(16,079)	-	-	-
Net loss	-	-	-	-	(1,288,109)	(1,288,109)
Balance, March 31, 2011	224,816,981	$ 69,194,103	$ 3,666,667	$ 1,403,643	$ (30,197,708)	$ 44,066,705

See accompanying notes to the financial statements.

LEXAM VG GOLD INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - in Canadian dollars)

	For the three months ended March 31,	
	2011	2010
Cash (used in) provided by:		
Operating activities:		
Net loss for the period	$ (1,288,109)	$ (269,165)
Adjustment for:		
Depreciation	2,188	1,898
Share-based compensation	12,466	-
Accretion	2,436	-
Unrealized foreign exchange	2,478	-
Amalgamation costs	377,700	-
Gain on sale of asset	(4,430)	-
Deferred income tax recovery	-	(119,104)
	(895,271)	(386,371)
Changes in non-cash working capital (note 13)	(38,384)	(185,006)
	(933,655)	(571,377)
Investing activities:		
Purchase of automobile and equipment (note 8)	(34,431)	(19,114)
Proceeds on sale of asset	6,000	-
Expenditures on exploration and evaluation assets (note 7)	(928,698)	(729,349)
Proceeds from amalgamation (note 5)	14,014,639	-
	13,057,510	(748,463)
Financing activities		
Proceeds on exercise of warrants and options	209,152	79,625
	209,152	79,625
Net increase (decrease) in cash and cash equivalents	12,333,007	(1,240,215)
Cash and cash equivalents, beginning of period	2,130,137	6,708,698
Cash and cash equivalents, end of period	$ 14,463,144	$ 5,468,483

See accompanying notes to the financial statements.

1. REPORTING ENTITY

Lexam VG Gold Inc. was incorporated under the laws of Ontario through a Plan of Arrangement on January 1, 2011, amalgamating Lexam Explorations Inc. ("Lexam") and VG Gold Corp ("VG Gold"). 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. As a result, 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. 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 and deposits, accounts payable and accrued liabilities, and reported expenses.

These financial statements reflect the results of operations for the three month periods ended March 31, 2011 and 2010, and the assets, liabilities and shareholders' equity as at March 31, 2011, December 31, 2010 and January 1, 2010.

On November 11, 2010 VG Gold and Lexam issued a joint management information circular, indicating the intention of the two companies to amalgamate through a Plan of Arrangement, forming Lexam VG Gold Inc., effective January 1, 2011. On December 13, 2010 the shareholders of each company voted to unanimously approve the amalgamation.

Under the Plan of Arrangement common shareholders of VG Gold received one common share of Lexam VG, for each common share of VG Gold held, and common shareholders of Lexam received 2.1 common shares of Lexam VG for each common share of Lexam held. Furthermore, the 75,000,000 VG Gold shares held by Lexam were cancelled upon amalgamation.

Pursuant to the Plan of Arrangement, 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. As at March 31, 2011 Mr. McEwen owns 27% of the issued and outstanding common shares of Lexam VG.

The Company's assets are comprised primarily of the Fuller property, the Buffalo Ankerite property, an option agreement to earn up to 60% interest in the Paymaster property and a 68.5% controlling interest in the Davidson Tisdale property.

2. BASIS OF PRESENTATION

In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effectively for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. These interim consolidated financial statements do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with VG Gold and Lexam's Canadian GAAP annual financial statements for the year ended December 31, 2010.

Statement of Compliance

The interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). These are the Company's first IFRS interim consolidated financial statements in which IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied (note 4). The IAS 34 interim consolidated financial statements do not include all of the information required for full annual financial statements.

The accounting policies set out below have been applied consistently to all periods presented in preparing the opening statement of financial position at January 1, 2010 (note 4) for the purposes of transitioning to IFRS. The accounting policies have been applied consistently to the Company and its subsidiaries.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of May 25, 2011, the date the Board of Directors approved the statements. Any subsequent change to IFRS, that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recorded on change-over to IFRS.

Basis of Measurement and Principles of Consolidation

The interim consolidated financial statements have been prepared on the historical cost basis.

The interim consolidated financial statements includes all the accounts of the Company and all of its subsidiaries and investments, including its principle subsidiaries, Lexam Explorations (USA) Inc. and VG Gold Holdings Inc., as well as other non-significant subsidiaries.

Functional and Presentation Currency

These interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent company and all of its subsidiaries.

2. BASIS OF PRESENTATION (continued)

Use of Estimates and Judgement

The preparation of interim consolidated financial statements in conformity with IFRS requires that management make estimates and assumptions about future events that affect the amounts reported in the interim consolidated financial statements and related notes to the financial statements. Actual results may differ from those estimates.

In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, the recoverability of exploration and evaluation ("E&E") assets, investments, automobile and equipment, decommissioning liabilities, share-based compensation, income taxes, the recording of liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenditures during the reporting period. Actual results could differ from management's best estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting polices set out below have been applied consistently to all periods presented in these interim consolidated financial statements and in preparing the opening IFRS statements of financial position at January 1, 2010 for the purpose of transitioning to IFRS, unless otherwise indicated.

(a) Principles of consolidation

The interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, VG Gold Holdings Inc, and Lexam Explorations (USA) Inc., which holds the Company's Baca Project. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Foreign currency transactions

The interim consolidated financial statements are presented in Canadian dollars. Costs are primarily incurred in Canadian dollars, however, certain of the Company's financial monetary assets and liabilities are denominated in US dollars. In addition, the Company incurs costs at its Baca Project in Colorado primarily in US dollars. Although some transactions are in US dollars, the predominant currency is the Canadian dollar, and as such, it is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency are recognized in the statement of operations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Exploration and evaluation expenditures ("E&E")

E&E assets consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the properties are disposed of either through sale or abandonment. These assets are not depreciated as they are currently not in use.

E&E costs consist of:

- Gathering exploration data through topographical and geological studies;
- Exploratory drilling, trenching and sampling;
- Determining the volume and grade of the resource;
- Test work on geology, metallurgy, mining, geotechnical and environmental; and
- Conducting engineering, marketing and financial studies.

Proceeds received from the sale of any interest in a property are first credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and deferred exploration costs are written off to operations.

Where an indicator of impairment exists, a formal estimated recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the assets in an arm's length transaction between knowledgeable and willing parties.

(d) Automobile and equipment

Recognition and Measurement

Automobile and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset.

Depreciation

Automobile and equipment is depreciated on a declining balance basis over the estimated useful life of the asset. The estimated lives of the current and comparative periods are as follows:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

The carrying amounts of the Company's automobile and equipment is reviewed at each reporting date to determine whether there is indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or group of assets, in which case, the individual assets are grouped together into cash generating units for impairment purposes.

An impairment exists when the carrying amount of the asset, or group of assets, exceeds its recoverable amount. The impairment loss is the amount by which the carrying value exceeds the recoverable amount and such loss is recognized in the consolidated statement of operations. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized such that the recoverable amount has increased.

(e) Jointly Controlled Assets

Jointly controlled assets involve the joint control, and often the joint ownership, of assets dedicated to the joint venture. Each venturer may take a share of the output from the assets and each bears a share of the expenses incurred.

IAS 31, Interest in Joint Ventures, requires that the venturer recognize in its financial statements its share of the joint assets, any liabilities that it has incurred directly and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture and expenses incurred directly in respect of its interest in the joint venture.

The adoption of IFRS has not resulted in any changes to the Company's jointly controlled assets. The Company continues to record its portion of the expenditures and liabilities pertaining to the Davidson Tisdale and Otish properties.

(f) Accounting for income taxes

Income tax expense comprises of current and deferred tax expense. Current tax expense is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity. Income taxes are calculated using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for tax losses and other deductions carried forward.

Deferred income tax assets and liabilities are calculated using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. An asset (liability) is recognized on the statement of financial position when it is probable that the future economic benefits will flow to (away from) the entity and the asset has a cost or value that can be measured reliably. The effect, on deferred tax assets and liabilities, of changes in tax rates are recognized in income in the period in which the change is substantively enacted.

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

(g) Basic loss per common share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period.

(h) Share-based payments

The Company accounts for share-based payments using the fair value method. Under this method, compensation expense is measured at fair value on the date of grant using the Black-Scholes option pricing model, and is recognized as an expense or capitalized, depending on the nature of the grant, with a corresponding increase in equity, over the period that the employees earn the options. The amount recognized as an expense is adjusted to reflect the number of share options expected to vest. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option and stock price volatility.

Warrants, stock options, and other equity instruments issued as purchase consideration in non-cash transactions, other than as consideration for E&E assets, are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration for E&E assets is based upon the trading price of those shares on the TSX on the date of the agreement to issue shares as determined by the Board of Directors.

(i) Decommissioning liabilities

A legal or constructive obligation to incur restoration, rehabilitation, and environmental costs may arise when environmental disturbance is caused by the exploration, development, or production. The Company's exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has recorded a liability for the estimated future costs of decommissioning liabilities, based on geologists' estimates of the costs to comply with the regulations. However, these estimates are subject to change based on changes in circumstances and any new information that becomes available.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value of the liability for a decommissioning liability 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.

The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations.

(j) Warrants

Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value. The fair value of the share component is credited to share capital and the value of the warrant component is credited to contributed surplus. Upon exercise of the warrants, consideration paid by the warrant holder together with the amount previously recognized in the contributed surplus account is recorded as an increase to share capital.

(k) Financial instruments

The Company holds certain financial instruments such as cash and cash equivalents, receivables, accounts payable, and accrued liabilities, the fair value of which approximate their carrying value due to the short-term nature of these instruments. IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”) requires classification of financial instruments into one of four categories: financial assets of fair value through profit and loss, held-to-maturity investments, loans and receivables, and available-for-sale securities.

Non-derivative financial assets and liabilities

Cash and cash equivalents

Cash and cash equivalents include cash, and those short-term money market instruments that are readily convertible to cash with an original term of less than 90 days. The company has classified its cash and cash equivalents as financial assets at fair value through profit and loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized costs using the effective interest method, less any impairment losses. The Company defines accounts receivable and prepaid expenses and deposits as assets that fall under this category.

The Company does not have any assets designated under the held-to-maturity or available-for-sale categories.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counter party; or
- Default or delinquency in interest or principal payments; or
- It becomes probable that the borrower will enter into bankruptcy or financial reorganization.

The carrying amount of the financial asset is directly reduced by any impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Other Financial liabilities at amortized cost

Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends to either settle on a net basis or to realize the assets and settle the liability simultaneously.

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a financial value hierarchy that reflects the significance of the inputs used in marking the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices including Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – valuation techniques using inputs for the asset and liability that are not based on observable market data (unobservable inputs).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Accounting standards issued but not yet applied

IFRS 9, Financial Instruments ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial instruments.

(m) Flow through shares

Upon the issuance of flow through shares, the Company records the initial proceeds to capital stock, net of any tax liability, if any. The liability on the statement of financial position represents the premium of the financing price in excess of the market share price on the date of the flow through share financing. The financial liability pertaining to the premium is recognized in the statement of operations consistent with expenditures incurred. As the Company incurs expenditures to meet flow through requirements, a corresponding tax expense is recognized, reflecting tax renunciations.

4. TRANSITION TO IFRS

First-time adoption of IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS on the first date at which IFRS was applied, which was January 1, 2010 ("Transition Date"). IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

IFRS 1 does not permit changes to estimates that have been previously made. Accordingly, estimates used in the preparation of the Company's opening IFRS statements of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

On the Transition Date, the Company has elected not to retrospectively apply IFRS 2, Share-based Payments ("IFRS 2") to all share-based transactions at the date of transition. IFRS 2 will only be applied to equity instruments issued on or after, and that have not vested by, the Transition Date.

Changes to accounting policies:

The Company has changed certain accounting policies to be consistent with IFRS as is expected to be effective or available for adoption on December 31, 2011, the Company's first annual IFRS reporting date. However, these changes have not resulted in any significant change to the recognition and measurement of assets, liabilities, equity, revenue, and expenses within the Company's interim consolidated financial statements.

4. TRANSITION TO IFRS (continued)

The following summarizes the significant changes to the Company's accounting policies upon adoption of IFRS:

a) Impairment of (non-financial) assets

IFRS requires a write-down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Canadian GAAP requires a write-down to estimated value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of non-financial assets have been changed to reflect these differences. There is no impact on the unaudited interim consolidated financial statements or the opening statement of position as at January 1, 2010.

b) Decommissioning liabilities

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions. IFRS also indicates that the discount rate used should reflect the risks specific to the decommissioning liability, while Canadian GAAP requires the use of a discount rate that reflects the Company's credit adjusted risk free rate.

The Company's accounting policies related to decommissioning liabilities have been changed to reflect these differences. As a result, the Company increased its decommissioning liability and exploration and evaluation assets by $54,336 to reflect changes in assumptions used for the discount rate as at December 31, 2010. The risk free rate used by the Company changed from 5.4% to 2.4% and risk factors specific to the liability have been included in the expected cash flow. There was no impact on the adoption of this accounting policy as at January 1, 2010.

c) Share-based payments

IFRS 2 requires each vesting tranche to be valued with unique assumptions, as if it were a separate grant, along with estimates on forfeitures based on historical trends experienced by the Company.

Under IFRS, the Company uses an estimate of forfeitures based on historical trends experienced by the Company. Under Canadian GAAP no estimate was used, but rather actual forfeitures were accounted for as they occurred. The change affected the calculation of the share-based compensation expense. The Company applied the forfeiture rate to options not yet vested on the Transition Date. The impact of this adjustment resulted in a decrease of $8,067 and $27,867 in share-based compensation expense and a decrease to contributed surplus as at January 1, 2010 and December 31, 2010, respectively.

4. TRANSITION TO IFRS (continued)

d) Warrants

International Accounting Standards 32 (“IAS 32”), pertaining to classification of rights issues was amended to address the accounting for rights issues (rights, options, and warrants) that are denominated in a currency other than the functional currency of the issuer. Prior to the amendment, such rights issues were accounted for as derivative liabilities. The amendment states that, if such rights are issued pro rata to a Company’s existing shareholders for a fixed amount of any currency, they should be classified as equity, regardless of the currency in which the exercise price is denominated.

IAS 32 also indicates that a contract that will be settled by the Company (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. Changes to the fair value of the equity instrument are not recognized in the financial statements.

The Company’s accounting policies relating to warrants have been changed to reflect these differences. Since the Company’s outstanding warrants have been issued in exchange for a fixed amount of cash (using the functional currency), the warrants have been treated as an equity instrument. There is no impact on the unaudited interim consolidated financial statements.

e) Flow through shares

According to Canadian GAAP, the resource expenditure deduction for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The deferred income taxes relating to the temporary difference that arise when the qualifying expenditures are incurred were recorded at the time of filing the renunciation with the tax authorities. The recognition of the deferred income tax liability results in a corresponding reduction to the carrying value of the shares issued.

Under IFRS, the obligation to renounce tax deductions at the time of issuance of flow-through shares is recorded as a liability in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, measured using a residual or a relative fair value method. This obligation is released into the statement of operations as a gain as and when the Company incurs qualifying expenditures (i.e. fulfilling its obligation to renounce tax attributes)

A deferred tax liability is recognized (with a debit to the statement of operations), in accordance with IAS 12, Income Taxes, in respect of the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position on its tax base.

As a result of the changes from Canadian GAAP to IFRS, the Company has reduced its January 1, 2010 deficit by $370,501 reflecting the renounced tax deduction obligations that would have been released into the statement of operations under IFRS. The Company has also increased its January 1, 2010 deficit by $1,456,544 representing the temporary difference between the carrying amount of the eligible expenditures capitalized as an asset in the statement of financial position and its tax basis. The corresponding entry for both adjustments is capital stock. There is no impact on the December 31, 2010 statement of position.

4. TRANSITION TO IFRS (continued)

f) Issuance costs

Under IFRS, current and deferred taxes are normally recognized in the statement of operations except to the extent that the tax arises from an item that has been recognized outside the statement of operations. Accordingly, the effect of re-measuring taxes that were initially recognized outside the statement of operations is recorded in equity or other comprehensive loss as applicable. The practice of tracking the re-measurement of taxes back to the item that originally triggered the recognition is commonly referred to as “backwards tracing”. Canadian GAAP prohibits backwards tracing, except on business combinations and financial reorganizations; accordingly, the effect of re-measuring taxes is generally recognized in the statement of operations, even if the taxes were initially recognized outside the statement of operations.

Through backwards tracing issuance costs, an IFRS transitional adjustment of $289,046 has been made to increase opening capital stock and to increase opening deficit.

g) Presentation

The presentation in accordance with IFRS differs from the presentation in accordance with Canadian GAAP. Please refer below, to the unaudited consolidated statements of financial position and consolidated statements of operations, comprehensive loss, and deficit for the impact of the specific IFRS changes noted above.

(Unaudited - in Canadian dollars)

4. TRANSITION TO IFRS (continued)

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	CANADIAN GAAP	IFRS Adjustments	Ref.	IFRS
ASSETS				
Current				
Cash and cash equivalents	$ 6,708,698	$ -		$ 6,708,698
Accounts receivable	61,781	-		61,781
Prepaid expenses and deposits	29,076	-		29,076
	6,799,555	-		6,799,555
Exploration and evaluation assets	25,026,311	-		25,026,311
Automobile and equipment	826,237	-		826,237
	$ 32,652,103	$ -		$ 32,652,103
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$ 311,438	$ -		$ 311,438
	311,438	-		311,438
Deferred income taxes	171,693	-		171,693
	483,131	-		483,131
SHAREHOLDERS' EQUITY				
Capital stock	56,194,838	1,375,089	(c),(e),(f)	57,569,927
Common share purchase warrants	174,476	-		174,476
Contributed surplus	1,002,300	(8,067)	(c)	994,233
Deficit	(25,202,642)	(1,367,022)	(c),(e),(f)	(26,569,664)
	32,168,972	-		32,168,972
	$ 32,652,103	$ -		$ 32,652,103

(Unaudited - in Canadian dollars)

4. TRANSITION TO IFRS (continued)

The March 31, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	CANADIAN GAAP	IFRS Adjustments	Ref.	IFRS
ASSETS				
Current				
Cash and cash equivalents	$ 5,468,483	$ -		$ 5,468,483
Accounts receivable	298,946	-		298,946
Prepaid expenses and deposits	28,936	-		28,936
	5,796,365	-		5,796,365
Exploration and evaluation assets	25,755,660	-		25,755,660
Automobile and equipment	843,452	-		843,452
	$ 32,395,477	$ -		$ 32,395,477
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$ 363,458	$ -		$ 363,458
	363,458	-		363,458
Deferred income taxes	52,587	-		52,587
	416,045	-		416,045
SHAREHOLDERS' EQUITY				
Capital stock	56,292,463	1,375,089	(c),(e),(f)	57,667,552
Common share purchase warrants	156,476	-		156,476
Contributed surplus	1,002,300	(8,067)	(c)	994,233
Deficit	(25,471,807)	(1,367,022)	(c),(e),(f)	(26,838,829)
	31,979,432	-		31,979,432
	$ 32,395,477	$ -		$ 32,395,477

(Unaudited - in Canadian dollars)

4. TRANSITION TO IFRS (continued)

The December 31, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	CANADIAN GAAP	IFRS Adjustments	Ref.	IFRS
ASSETS				
Current				
Cash and cash equivalents	$ 2,130,137	$ -		$ 2,130,137
Accounts receivable	539,032	-		539,032
Prepaid expenses and deposits	370,563	-		370,563
	3,039,732	-		3,039,732
Exploration and evaluation assets	29,191,079	54,336	(b)	29,245,415
Automobile and equipment	19,261	-		19,261
	$ 32,250,072	$ 54,336		$ 32,304,408
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$ 406,231	$ -		$ 406,231
	406,231	-		406,231
Decommissioning liabilities	349,864	54,336	(b)	404,200
	756,095	54,336		810,431
SHAREHOLDERS' EQUITY				
Capital stock	58,106,534	1,375,089	(c),(e),(f)	59,481,623
Common share purchase warrants	16,079	-		16,079
Contributed surplus	941,808	(35,934)	(c)	905,874
Deficit	(27,570,444)	(1,339,155)	(c),(e),(f)	(28,909,599)
	31,493,977	-		31,493,977
	$ 32,250,072	$ 54,336		$ 32,304,408

(Unaudited - in Canadian dollars)

4. TRANSITION TO IFRS (continued)

There have been no changes to the March 31, 2010 statement of operations, comprehensive loss and deficit upon conversion of Canadian GAAP to IFRS.

The Canadian GAAP statement of operations, comprehensive loss and deficit for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	CANADIAN GAAP	IFRS Adjustments		IFRS
Expenses				
Office, general, and administrative	$ 1,588,625	$ -		$ 1,588,625
Share-based compensation	139,333	(27,867)	(c)	111,466
Depreciation	7,899	-		7,899
Impairment of equipment	819,528	-		819,528
	2,555,385	(27,867)		2,527,518
Other income				
Interest income	15,890	-		15,890
	15,890	-		15,890
Loss before undernoted items	(2,539,495)	27,867		(2,511,628)
Deferred income tax recovery	171,693	-		171,693
Net loss and comprehensive loss	$ (2,367,802)	$ 27,867		$ (2,339,935)
Deficit, beginning of period	(25,202,642)			(26,569,664)
Deficit, end of period	$ (27,570,444)			$ (28,909,599)
Loss per share				
Basic and diluted loss per share	$ (0.01)			$ (0.01)
Weighted average number of shares	180,089,433			180,089,433

(Unaudited - in Canadian dollars)

5. LEXAM VG AMALGAMATION

As previously discussed in note 1, VG Gold and Lexam amalgamated to form Lexam VG Gold Inc. effective January 1, 2011.

For accounting purposes the transaction has been accounted for using IFRS 2. Under IFRS 2, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods received. The attributable equity is based on the fair value of Lexam's net assets as at December 31, 2010 calculated as follows:

Cash	$	14,014,639
Accounts receivable		80,492
Prepaids		2,790
Restricted cash (a)		70,350
Equity accounted investment in VG Gold (b)		82,500,000
Accounts payable and accrued liabilities		(303,346)
Income taxes payable		(225,706)
Future tax liability on VG Gold investment (b)		(1,330,614)
Warrants (c)		(3,666,667)
Fair value of Lexam's net assets		91,141,938
Less: Fair value of outstanding Lexam stock options (d)		(540,750)
Fair value attibutable to Lexam VG common shares issued in exchange for Lexam common shares	$	90,601,188
Cancellation of VG Gold common shares (b)		(82,500,000)
Removal of future tax liability on VG Gold investment (b)		1,330,614
Net attributable equity to Lexam VG common shares issued in exchange of Lexam common shares	$	9,431,802

(a) Lexam Explorations (USA) Inc., a wholly owned subsidiary of Lexam, held a deposit of US$70,000, through a financial institution, with the State of Colorado Oil and Gas Conservation Commission, pertaining to surface reclamation bonds on the Baca property.

(b) Lexam held 75,000,000 shares in VG Gold. On December 31, 2010 these shares were valued at $1.10, which translate to a fair value of $82,500,000. The future tax liability corresponds to the difference between Lexam's accounting and tax value. Upon amalgamation, these shares were cancelled, and as a result, the investment and future tax liability have been removed.

(c) The fair value of the warrants were calculated on January 1, 2011 using the following assumptions: Stock price - $1.10, strike price - $1.00, dividend yield - 0%, estimated life - 2 years, risk-free rate - 1.71%, and volatility - 123%.

(d) The fair value of the options were calculated on January 1, 2011 using the following assumptions: Stock price - $1.10, strike price - $0.07, dividend yield - 0%, estimated life - 8.5 months, risk-free rate - 1.40%, and volatility - 78%. Previously under Lexam management, 250,000 options were granted on August 14, 2001, with a 10 year life, and a strike price of $0.15. Upon conversion, these 250,000 Lexam options were converted to 525,000 Lexam VG options, priced at $0.07.

(Unaudited - in Canadian dollars)

5. LEXAM VG AMALGAMATION (continued)

VG Gold common shares outstanding - December 31, 2010	186,810,133
Common shares issued to acquire Lexam (e)	112,265,004
VG Gold common shares held by Lexam	(75,000,000)
Total amalgamated common shares - January 1, 2011	224,075,137
VG Gold warrants outstanding	424,344
VG Gold options outstanding	2,810,000
Common shares issuable for Lexam warrants (e)	5,208,334
Common shares issuable for Lexam options (e)	525,000
Diluted shares outstanding - January 1, 2011	233,042,815

(e) As at December 31, 2010, Lexam had a total of 53,459,605 shares outstanding, which include 4,960,318 shares issued to Mr. McEwen as part of the private placement. Lexam also had 2,480,159 warrants outstanding corresponding to the private placement, along with 250,000 options outstanding. The conversion ratio of 2.1 Lexam VG common shares for each Lexam common share was used in calculating the capital structure for Lexam VG.

The Company incurred $377,700 of costs relating to the execution of the amalgamation. As at March 31, 2011 these costs have been expensed. These costs were recorded as prepaid expenses and deposits at December 31, 2010.

6. 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 key economic indicators and to up-to-date market information.

6. FINANCIAL INSTRUMENTS (continued)

(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 March 31, 2011 the Company held cash and cash equivalents of $14,463,144.

(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 rates.

Financial assets and financial liabilities with variable interest rates 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.

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

(d) Commodity Price Risk

The value of the Company's exploration and evaluation assets 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.

6. FINANCIAL INSTRUMENTS (continued)

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 includes a reimbursement of exploration expenditures spent on the Davidson Tisdale property. The Company is the operator of the Davidson Tisdale 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 March 31, 2011, the Company recorded a receivable of approximately $3,097 due from San Gold. During the first quarter of 2011 the Company received a repayment of $341,739 pertaining to the outstanding balance as at December 31, 2010.

(f) Foreign Exchange Risk

Certain of the Company's financial assets and liabilities are denominated in US dollars. In addition, the Company incurs costs at its Baca Project in Colorado primarily in US dollars. Accordingly, the Company is exposed to financial gain or loss as a result of foreign exchange movements against the US dollar, and the Company's exploration costs are affected by changes in the exchange rate between the US and Canadian dollar.

The Company has elected not to hedge its exposure to fluctuations in the US dollar as the timing and amounts of exploration spending in US dollars are contingent on the environmental and regulatory processes which are not feasible to predict. The Company's administrative costs denominated in US dollars are not significant. A 1% change in the US dollar at March 31, 2011 would have an impact of approximately $1,000 in the statement of operations, based on working capital at March 31, 2011.

(g) Fair Value

The Company has designated its cash and cash equivalents at fair value through profit and loss. 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.

(Unaudited - in Canadian dollars)

6. FINANCIAL INSTRUMENTS (continued)

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

Financial Instruments	Three months ended March 31, 2011	Year ended December 31, 2010
Fair value through profit and loss		
Cash and cash equivalent	$ 14,463,144	$ 2,130,137
Loans and receivable		
Accounts receivable	$ 161,002	$ 539,032
Financial liabilities		
Other liabilities		
Accounts payable and liabilities	$ 490,944	$ 406,231

Cash and cash equivalents would be classified as a level 1 item under the fair value hierarchy.

(h) Capital Management

The Company defines capital management in the manner it manages its shareholders' equity. As at March 31, 2011 the Company's capital stock was $69,194,103 (2010 - $59,481,623). Changes in capital stock over prior year end resulted from the issuance of 424,344 common shares from exercises of warrants and 317,500 common shares from exercises of share options during first quarter of 2011.

There were no changes in the Company's approach to capital management during the period ended March 31, 2011 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 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.

(Unaudited - in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS

	January 1, 2011	Exploration	ARO	March 31, 2011
Fuller (a)	$ 12,942,004	$ 258,988	$ -	$ 13,200,992
Davidson-Tisdale (b)	6,438,449	5,841	-	6,444,290
Buffalo Ankerite (c)	5,568,457	415,740	-	5,984,197
Paymaster (d)	4,045,135	246,539	-	4,291,674
Augdome (e)	126,276	1,590	-	127,866
Windsor (f)	125,094	-	-	125,094
	$ 29,245,415	$ 928,698	$ -	$ 30,174,113

	January 1, 2010	Exploration	ARO	December 31, 2010
Fuller (a)	$ 12,827,651	$ 114,353	$ -	$ 12,942,004
Davidson-Tisdale (b)	5,849,313	589,136	-	6,438,449
Buffalo Ankerite (c)	4,223,421	940,836	404,200	5,568,457
Paymaster (d)	1,876,146	2,168,989	-	4,045,135
Augdome (e)	124,686	1,590	-	126,276
Windsor (f)	125,094	-	-	125,094
	$ 25,026,311	$ 3,814,904	$ 404,200	$ 29,245,415

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 profit 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.

(Unaudited - in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

d) Paymaster

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 (refer to note 10). The Company has not exercised this option as at March 31, 2011.

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.

8. AUTOMOBILE AND EQUIPMENT

	Office & computer equipment (a)	Automobile	Powerlines & electrical equipment (b)	Mill equipment (c)	Total
Cost					
Balance, January 1, 2010	$ 33,311	$ 2,900	$ 141,921	$ 862,000	$ 1,040,132
Additions	5,637	14,814	-	-	20,451
Impairment	(31,930)	-	(141,921)	(862,000)	(1,035,851)
Balance, December 31, 2010	$ 7,018	$ 17,714	$ -	$ -	$ 24,732
Additions	-	34,431	-	-	34,431
Disposals	-	(2,900)	-	-	(2,900)
Balance, March 31, 2011	$ 7,018	$ 49,245	$ -	$ -	$ 56,263
Accumulated Amortization					
Balance, January 1, 2010	$ 19,476	$ 870	$ 129,799	$ 63,750	$ 213,895
Depreciation for the period	3,999	3,369	531	-	7,899
Impairment	(22,243)	-	(130,330)	(63,750)	(216,323)
Balance, December 31, 2010	$ 1,232	$ 4,239	$ -	$ -	$ 5,471
Depreciation for the period	289	1,899	-	-	2,188
Disposals	-	(1,330)	-	-	(1,330)
March 31, 2011	$ 1,521	$ 4,808	$ -	$ -	$ 6,329
Carrying amounts					
As at January 1, 2010	$ 13,835	$ 2,030	$ 12,122	$ 798,250	$ 826,237
As at December 31, 2010	$ 5,786	$ 13,475	$ -	$ -	$ 19,261
As at March 31, 2011	$ 5,497	$ 44,437	$ -	$ -	$ 49,934

(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, effective January 1, 2011 the Company relocated its corporate office. Upon relocation, certain office and computer equipment were identified as being obsolete or redundant, forming the basis of the impairment.

(Unaudited - in Canadian dollars)

8. AUTOMOBILE AND EQUIPMENT (continued)

(b) During 2010, power lines and electrical equipment were 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 activities, 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 2010, the Company performed a review with respect to the milling equipment, and arrived at an impairment of $798,250. The milling equipment was 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.

9. DECOMMISSIONING LIABILITIES

The Company recorded a decommissioning liability in 2010 pertaining to its Buffalo Ankerite property, based on an estimate performed by a third party. The estimated discounted obligation is $406,636. 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 2.4%. 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.

	Three months ended March 31, 2011	Year ended December 31, 2010
Obligations at beginning of period	$ 404,200	$ -
Estimated future decommissioning costs	-	404,200
Accretion of discounted cash flows	2,436	-
Obligations at end of period	$ 406,636	$ 404,200

(Unaudited - in Canadian dollars)

10. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

(a) Goldcorp agreement

The terms of the agreement, which was originally entered into in 2008, provide for Lexam VG to spend $800,000 in the first year of the agreement, $1.1 million in year two, $1.6 million in year three and $2.5 million in year four, for a total of $6 million over 4 years. In aggregate, the Company has spent in excess of $4 million on the project, issued 1,009,713 common shares, and 1,000,000 warrants. As at March 31, 2011 all warrants have expired. The Company is on track to meet its year three and four exploration expenditure requirements. Pursuant to the Option and Joint Venture agreement, the Company is also obligated to issue common shares equivalent to $150,000 and $200,000, on the third and fourth anniversary date of the agreement respectively.

The minimum annual cash payments and expenditures required to maintain option agreements on exploration and evaluation properties for the next two years are shown below. It remains an objective of the Company to meet these requirements.

	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

(b) Other commitments

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

2011	$	26,023
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.

(Unaudited - in Canadian dollars)

11. CAPITAL STOCK

(a) Authorized

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

(b) 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 three months ended March 31, 2011 and the year ended December 31, 2010

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Opening Balances	2,810,000	$ 0.42	4,820,000	$ 0.35
Exercised	(317,500)	0.46	(1,820,000)	0.26
Expired or Cancelled	-	-	(190,000)	0.20
Granted	525,000	0.07	-	-
	3,017,500	$ 0.37	2,810,000	$ 0.42

(Unaudited - in Canadian dollars)

11. CAPITAL STOCK (Continued)

The following common share purchase options are outstanding at March 31, 2011:

	Date of Grant	Number of Shares		Exercise Price	Expiry Date
Directors	July 24, 2006	100,000		$ 0.40	July 24, 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	(b)	0.40	October 1, 2014
	January 1, 2011	210,000	(a)	0.07	August 14, 2011
Officers	July 24, 2006	100,000		0.40	July 24, 2011
	January 18, 2007	100,000		0.60	January 18, 2012
	October 2, 2009	150,000	(b)	0.40	October 1, 2014
Service Providers	July 24, 2006	100,000		0.40	July 24, 2011
	January 18, 2007	357,500		0.60	January 18, 2012
	May 28, 2009	75,000		0.15	May 11, 2014
	October 2, 2009	210,000	(b)	0.40	October 1, 2014
	January 1, 2011	315,000	(a)	0.07	August 14, 2011
		3,017,500		$ 0.37	

(a) The 525,000 options issued during the period ended March 31, 2011 represent replacement options awarded to prior option holders of Lexam. These options were originally granted by Lexam on August 14, 2001. Refer to note 5 for further details.

(b) The options granted on October 2, 2009 vest at a rate of 1/3 over three years. As at March 31, 2011, 533,333 shares remain unvested, with 1.5 years remaining before these shares are fully vested, and a remaining option life of 3.5 years.

12. COMMON SHARE PURCHASE WARRANTS

The following table summarizes the warrants activity for the first quarter ended March 31, 2011 and for the year ended December 31, 2010:

	Three months ended March 31, 2011			Year ended December 31, 2010		
	Number of Warrants	Weighted Average Exercise Price	Fair Value	Number of Warrants	Weighted Average Exercise Price	Fair Value
Opening Balance	424,344	$ 0.15	$ 16,079	7,090,000	$ 0.15	$ 174,476
Exercised	(424,344)	0.15	(16,079)	(6,665,656)	0.15	(158,397)
Issued	5,208,334	1.00	3,666,667	-		-
Closing Blaance	5,208,334	$ 1.00	$ 3,666,667	424,344	$ 0.15	$ 16,079

The 5,208,334 warrants issued during the period ended March 31, 2011 represent replacement warrants awarded to prior warrant holders of Lexam. Refer to note 5 for further details.

(Unaudited - in Canadian dollars)

12. COMMON SHARE PURCHASE WARRANTS (Continued)

The following common share purchase warrants are outstanding at March 31, 2011.

	Number of Warrants	Type of Shares	Exercise Price	Expiry
Warrants:	5,208,334	Common Shares	$ 1.00	December 30, 2012

13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital balances for the three months ended:

	March 31, 2011	March 31, 2010
Accounts receivable	$ 458,522	$ (237,166)
Prepaid expenses and deposits	(52,567)	140
Accounts payable and accrued liabilities	(218,633)	52,020
Income tax payable	(225,706)	-
	$ (38,384)	$ (185,006)
Interest received	$ 17,909	$ 3,644
Taxes paid	$ 197,605	$ -

14. RELATED PARTY TRANSACTIONS

During 2009, Lexam entered into a single amended management service agreement (“Service Agreement”) with 2083089 Ontario Inc. (“208”) pursuant to which Lexam agreed to reimburse 208 for rent, personnel, office expenses, and other administrative services on a cost recovery basis. Mr. McEwen, the Non-Executive Chairman of Lexam VG, is the owner of 208. Mr. McEwen is also the Chief Executive Officer and Director of 208. During the first quarter of 2011, Lexam VG agreed to continue with this service agreement. The Company incurred and paid management fees of $49,500 under the management service agreement.

(Unaudited - in Canadian dollars)

14. RELATED PARTY TRANSACTIONS (continued)

In addition, the following related party transactions occurred and were reflected in the interim unaudited consolidated financial statements:

	Three months ended March 31,	
	2011	2010
Consulting fees:		
Consulting fees charged by a company controlled by an officer for financial management services	$ -	$ 31,000
Consulting fees charged by officers for executive management services	$ -	$ 60,000
Legal fees:		
The company paid legal fees to a firm in which an officer of the company is also a partner of the law firm	$ -	$ 1,088

Accounts payable and accrued liabilities includes $nil (2010 - $92,592) owing to directors and officers of the Company and to companies controlled by directors and officers of the Company as at March 31, 2011.

As a result of the amalgamation, Lexam VG now has executive officers as employees and are now included as part of salaries and wages or management services fees, as noted above, which are all classified as office, general, and administrative expenses in the statements of operations, comprehensive loss and deficit.

All related party transactions are recorded at the exchange amount, agreed to between the parties. 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.

15. 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 three months ended March 31, 2011 and 2010, the inclusion of options and warrants would be anti-dilutive.

16. SUBSEQUENT EVENT

On May 12, 2011 Lexam VG and Golden Valley Mines Ltd. (“Golden Valley”) entered into a property transfer and share purchase agreement, whereby both companies transferred $300,000, along with their respective 50% interest in the Otish & Mistassini Property, located in Quebec, to Uranium Valley Mines Ltd. (“UVM”). In addition, Golden Valley also contributed its wholly owned Beartooth project to UVM.

As a result of the above noted property transfers, Lexam VG will hold 4,000,000 common shares of UVM, reflecting an approximate ownership of 35%. UVM is in the process of submitting its listing application to the TSX Venture exchange. The Company has simultaneously signed an escrow agreement with UVM, whereby the cash contribution of $300,000 made by the Company will be held in escrow until UVM is listed on the TSX Venture exchange. The funds were placed in escrow on May 16, 2011.

17. RECLASSIFICATION

The comparative financial statements have been reclassified to conform to the presentation of the current period financial statements.