Lexam VG Gold Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FIRST QUARTER ENDED MARCH 31, 2011

This Management's Discussion and Analysis ("MD&A) is prepared as of May 25, 2011 and should be read in conjunction with the audited annual financial statements of VG Gold Corp. ("VG Gold") and Lexam Explorations Inc. ("Lexam") for the year ended December 31, 2010, and the unaudited interim consolidated financial statements of Lexam VG Gold Inc. (the "Company" or "Lexam VG") for the three month periods ended March 31, 2011 and 2010, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address future exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Additional information, including the Annual Information Form can be found on SEDAR, www.sedar.com. All amounts are in Canadian dollars.

Overview

On January 1, 2011, Lexam and VG Gold amalgamated forming a new corporation called Lexam VG Gold Inc. affected by way of a Plan of Arrangement pursuant to the *Business Corporations Act* (Ontario) (the "Arrangement"). As part of the Arrangement, Robert R. McEwen, former Chairman and Chief Executive Officer ("CEO") of Lexam and Non-Executive Chairman of Lexam VG, invested $5 million through a private placement in Lexam priced at $1.008 per unit of Lexam, with each unit consisting of one Lexam common share and one-half of one Lexam common share purchase warrant.

The Arrangement was approved by the shareholders of Lexam and VG Gold on December 13, 2010 and received court approval on December 20, 2010. The Arrangement was carried out pursuant to the terms and conditions contained in an arrangement agreement (the "Arrangement Agreement") dated November 5, 2010 between Lexam and VG Gold and the Plan of Arrangement.

Pursuant to the terms of the Arrangement Agreement and Plan of Arrangement, holders of common shares of Lexam became holders of common shares of Lexam VG on the basis of 2.1 Lexam VG common shares for each Lexam common share held. Holders of common shares of VG Gold became shareholders of Lexam VG on a basis of one Lexam VG common share for each VG Gold common share held.

VG Gold was formed under the *Business Corporations Act* (Ontario) as Vedron Limited on March 24, 1972 by articles of amalgamation. On January 5, 1995 VG Gold amended its articles to change its name to "Vedron Gold Inc." and to consolidate its shares on a one for ten basis. On June 27, 2007, VG Gold further amended its articles to change to the current name, "VG Gold Corp.". The common shares of VG Gold were listed on the Toronto Stock Exchange ("TSX") under the symbol "VG", on the Frankfurter Wertpapierbörse, commonly known as the Frankfurt Exchange, as "VN3" and traded on the OTCQX in the United States as "VGGCF".

Lexam was incorporated under the laws of the Province of Ontario by articles of incorporation dated November 12, 1993. Lexam was a publicly traded company listed on the TSX Venture Exchange under the symbol "LEX". Lexam's principal activity was mineral and oil and natural gas exploration in Canada and the United States. Robert R. McEwen, the Chairman and CEO, prior to acquisition of Lexam, had a 49% ownership of the outstanding common shares of Lexam.

A copy of the Joint Information Circular, dated November 11, 2010, mailed to former holders of Lexam and VG Gold common shares is available under the SEDAR profiles for each of Lexam and VG Gold.

Commencing on January 4, 2011, Lexam VG was listed and traded on the TSX under the symbol "LEX" and on the OTCQX in the United States as "LEXVF". Lexam VG also trades on the Frankfurt Exchange as "VN3A".

The principal business of Lexam VG is to explore and develop gold properties in Timmins, Ontario, Canada and to acquire additional gold properties in the Timmins area. Lexam VG is currently focused on exploring its properties. The Buffalo Ankerite property is 100% controlled and the Fuller property is 100% owned. The Company has the option to earn a 60% interest in the Paymaster project as earn in requirements continue to be satisfied. The Company also holds a 68.5% interest in the Davidson Tisdale property. For more information see the Company's web site: www.lexamvggold.com.

In this report, gold/t represents gold per tonne, m represents metres and, km represents kilometres.

VG Gold's reporting and functional currency is the Canadian dollar.

Lexam VG Gold Amalgamation

For accounting purposes the transaction has been accounted for using IFRS 2, Share-based payment ("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 translates into 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.

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 common shares outstanding, which included 4,960,318 common 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 costs of $377,700 pertaining 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.

Exploration and Development Activities

<u>Buffalo Ankerite Property</u>

The 100% controlled Buffalo Ankerite property consists of 35 claims totaling 1,063 acres in Deloro township, Ontario. The property is accessed by a paved road 2 km southeast of the city of Timmins.

Recent drilling at the Buffalo Ankerite property is focused on expanding the near surface gold resource in the South Mine Area. Previous drilling by the Company's predecessor had intersected significant results that included 5.09 grams gold/t over 13.7 m and 1.61 grams gold/t over 36.1 m and the current drilling is following up on these positive results on the extension of the South Mine geological structure called the South Mine North Limb. The Company began drilling the folded extension of the South Mine in the fall of 2010 and has encountered encouraging gold mineralization and gold values along a strike length of 200 m to date, with additional potential open to the west. The Company drilled 17 holes, totaling 2,445 m. The drill results have been published in a press release dated January 10, 2011. The Company is continuing to drill at the South Mine North Limb area.

Recently the Company began drilling a deeper target in the area of the Buffalo Ankerite North Mine, where the mineralization is located near the boundary of the neighbouring Paymaster property, which the Company currently has under option.

A preliminary economic assessment ("PEA") issued by Vetrin Mine Planners was filed on sedar (www.sedar.com) on July 6, 2007 for the near surface gold mineralization in the south mine area, as outlined by recent drilling. The qualified person for the PEA was Ronald Moran.

Paymaster Property

The Paymaster property consists of 16 claims with an area of about 500 acres, adjacent to the Fuller and Buffalo Ankerite properties and approximately 3 km south east of the City of Timmins. Lexam VG has the option to earn a 60% interest in the Paymaster claims over a period of four years.

The east-west mineralized Paymaster west porphyry zones on both the Fuller Property and the Buffalo Ankerite property trend onto the Paymaster property. Fifteen of the Paymaster claims are situated to the east of the Fuller and Buffalo Ankerite properties and one claim is located adjacent to the west extension of the Buffalo Ankerite South Mine zone. The west porphyry zone represents the primary exploration focus of the Company. Previous historical mining and exploration work established the presence of gold zones associated with porphyry. The project is situated next to Goldcorp's Dome mine.

Currently the Company is drilling a series of zones that straddle the boundary between the Paymaster property and the Buffalo Ankerite property. The Company is drilling these targets from the Paymaster side of the boundary.

Goldcorp Agreement

Effective June 13, 2008, the Company signed an Option and Joint Venture agreement with Goldcorp. This agreement allows the Company to earn a 60% interest in select claims of the Paymaster Property situated on the east boundary of both Lexam VG's Buffalo Ankerite and Fuller properties. Also included is one Aunor Mine Claim situated on the west side of the Buffalo Ankerite Property. Under the terms of the agreement, Lexam VG has the option to earn a 60% interest in 16 claims by incurring exploration expenditures of $6 million over 4 years, subject to a back-in-right option. Fourteen of the claims are in Deloro Township, with 13 on the east side of the Buffalo Ankerite Property, and the Aunor claim on the west side. The other two claims are optioned to the 4,075 feet level in the adjacent Paymaster Mine in Tisdale Township and are adjacent to the east side of the Fuller Property. Lexam VG also acquired a 100% interest in four claims in Tisdale Township on the west side of the Fuller Property in exchange for the surface rights to five claims on the northern part of the Fuller Property.

Under the terms of the Option and Joint Venture Agreement, Lexam VG can exercise its option and enter into a 60/40 Joint Venture agreement with Goldcorp once it has completed the $6 million work program and has made payments of cash, shares and warrants specified below. Upon Lexam VG exercising its option to form the joint venture, Goldcorp has a six month period where it can exercise a back-in right to increase its interest from 40% to 70%, and become the operator, by making a payment of $710,000 to

Lexam VG plus incurring exploration and development expenditures of $8,250,000 on the property within two years of the back-in right notice and by completing a feasibility study within three years of the back-in right notice.

The terms of the agreement 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 meeting 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.

This agreement provides Lexam VG the opportunity to expand the known gold mineralized zones that trend from Lexam VG's property onto Goldcorp's properties.

Fuller Property

The 100% owned Fuller Property consists of 17 claims totaling 672 acres located in Tisdale and Deloro Townships, Timmins, Ontario. Four new patented claims were acquired from the Porcupine Joint Venture owned by Goldcorp Canada Ltd., with a 51% interest and Goldcorp Inc., with a 49% interest (together "Goldcorp") during the prior year. The property is accessed by a paved road and is located 2 km southeast of the city of Timmins.

Property geology consists of the east-west trending volcanic flows that have produced more than 50 million gold ounces within a 4 km radius of the Fuller deposit. Neighbours include the Dome Mine to the east and the Hollinger and McIntyre Mines to the north and northwest. In 1984 the fractured ownership of the Fuller Deposit was consolidated under Lexam VG's control. Further exploration and development work proceeded during the late 1980s. This work involved establishing a decline ramp to a depth of 650 feet with 5 mine levels, and confirming a historically estimated gold resource. In the late 1990s, Lexam VG's exploration drilling was designed to expand the resource (see updated Wardrop NI 43-101 report filed on www.sedar.com on December 4, 2007). The Fuller Property resource is situated in steeply dipping zones of sulphide mineralization. The gold zones appear to be the updip extension of the neighbouring Goldcorp owned Paymaster mine. Seven gold zones that contain gold mineralization have been drilled to a depth of 1,600 feet. Paymaster, the on strike neighbour, was mined and developed to a depth of 7,000 feet.

During 2011 the Company carried out drilling along the down plunge of the geological structure that contains gold mineralization. The drilling is between 1,500 feet and 2,500 feet deep.

Lexam VG Gold filed a PEA issued by Vetrin Mine Planners on www.sedar.com on April 4, 2008 with Ronald Moran as the qualified person.

Davidson Tisdale Property

The Davidson Tisdale Property consists of 10 claims covering approximately 520 acres in Tisdale Township in Timmins.

The property is accessed by an all-weather road from the town of South Porcupine and is located 5 km northeast of the city of Timmins. In 2009 Laurion Minerals sold its 31.5% joint venture interest to San Gold Corp.

Geologically the property is situated on the north limb of the Porcupine Syncline, a structure that hosts a number of the richest gold deposits in Timmins, including the Hollinger and McIntyre Mines. Significant development work took place in the 1980s, with a decline ramp driven to a depth of 550 feet. Historical work in the 1920s established several mine levels down to 600 feet.

Drilling has been focused in the area from surface to 200 m in both the S-Zone and the Main Zone. Lexam VG's exploration focus is on the high-grade quartz veins in the Main Zone. Lexam VG filed a PEA issued by Vetrin Mine Planners on www.sedar.com on October 16, 2007 and the qualified person for the report was Ronald Moran. The Company is working towards obtaining all necessary permits required for production.

Exploration drilling took place from January 2010 to July 2010, with 13 holes into the S-zone to a depth of 200 m and 16 holes into the Main Zone below 250 m deep.

In 2011 the Company is contemplating drilling at greater depths, below 400 m, on the Main Zone. The property is currently undergoing further geological studies in order to design the next phase of the exploration drill program.

Baca Oil & Gas Project – Colorado, USA

The Baca Oil and Gas Project is located in south-central Colorado, USA. The Company owns 75% of the oil and gas rights. The remaining 25% is owned by ConocoPhillips. Currently, the Company is not actively exploring the property.

Otish Uranium Project – Quebec, Canada

The Otish Uranium Project is located in north-central Québec, Canada. The Company owns 50% of the project with the remaining 50% owned by Golden Valley Mines Ltd. ("Golden Valley").

On May 12, 2011 Lexam VG and 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.

Overall Performance

As at March 31, 2011 the Company's cash position increased to $14,463,144 from $2,130,137 as of December 31, 2010, as a result of the amalgamation with Lexam along with option and warrant exercises, partially offset by operating and exploration expenses.

The Company will continue to focus on its four central Timmins properties during 2011. This will comprise of exploration drilling, permitting and mine planning activities. The main activities carried out during the period were focused on increasing the gold resources through exploration drilling on the Buffalo Ankerite, Fuller, and Paymaster properties.

Results of Operations

	Three months ended March 31,	
	2011	2010
Net Loss	$ (1,288,109)	$ (269,165)
Net Loss per share (basic and diluted)	$ (0.01)	$ (0.00)

The Company's operations involve exploration on its gold properties in Ontario, Canada. The Company has no income from mining operations. For the three month period ended March 31, 2011, the Company had a net loss of $1,228,109, or $0.01 per share, compared to $269,165, or $nil per share for the same period in 2010. The increase loss over the comparable period is due to costs incurred pursuant to the amalgamation (included in office and general) and an increase in investor relation and marketing expenditures.

Office, General, and Administrative Expenses

	Three months ended March 31,	
	2011	2010
Management fees (including related party transactions)	$ 49,500	91,310
Salaries and benefits	117,798	-
Professional fees (accounting, audit and legal)	95,704	4,178
Public company fees and investor relations	406,656	117,335
Director's fees and expenses	17,500	13,000
Office and general	559,627	162,280
	$ 1,246,785	$ 388,103

Office, general and administrative expenses increased by 222% or $858,682, due to the increased marketing and investor relation initiatives, amalgamation costs, and professional fees.

Exploration and Development Expenditures for the first quarter ended March 31, 2011

	Fuller	Davidson Tisdale	Buffalo Ankerite	Paymaster	Audgome	Total
Geological	$ 20,302	$ -	$ 30,008	$ 38,492	$ -	$ 88,802
Engineering	8,189	6,481	38,816	900	-	54,386
Drilling	226,587	-	314,131	190,404	-	731,122
Land & Holding	948	1,067	4,362	-	1,590	7,967
Recovery from joint venture partner	-	(3,097)	-	-	-	(3,097)
Other	2,962	1,390	28,423	16,743	-	49,518
March 31, 2011	$ 258,988	$ 5,841	$ 415,740	$ 246,539	$ 1,590	$ 928,698

The Company's policy is to capitalize drilling and other exploration expenditures. Exploration expenditures, which were capitalized for the three month period ended March 31, 2011 totaled $928,698 (Q1 2010 - $902,796).

The Company incurred $246,539 (Q1 2010 - $367,514) expenditures on the Paymaster property. The Company also incurred $258,988 (Q1 2010 - $43,099) on the Fuller property, $5,841 (Q1 2010 - $467,007) on the Davidson Tisdale property and $415,740 (Q1 2010 - $25,176) on the Buffalo Ankerite property. The costs primarily relate to drilling activities.

Summary of Quarterly Results

Selected financial information for the eight previous fiscal quarters.

		2011	2010				2009 (Canadian GAAP)		
		Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net Loss	$	(1,288,109)	(1,343,922)	(444,153)	(282,695)	(269,165)	(572,257)	(136,217)	(148,532)
Net Loss per share (basic and diluted)	$	(0.01)	(0.01)	-	-	-	(0.01)	-	-

Liquidity and Capital Resources

At March 31, 2011, the Company's cash position increased to $14,463,144 compared to $2,130,137 at the end of 2010. The cash increase of $12,333,007 is made up of $933,655 used in operating activities, $13,057,510 proceeds received from investing activities, $209,152 proceeds received on the exercise of options and warrants.

Cash from investing activities primarily relate to proceeds of $14,014,639 received from Lexam upon amalgamation. Cash from financing activities was generated from the exercise of 424,344 warrants and 317,500 options.

Outstanding Share Data

The following schedule outlines the number of shares outstanding.

	March 31, 2011	December 31, 2010
Common Shares	224,816,981	186,810,133
Stock Options	3,017,500	2,810,000
Warrants	5,208,334	424,344

The total common shares outstanding as of May 25, 2011 are 224,816,981.

Contractual Obligations

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Commitments & Permits	$ 1,706,023	2,729,394	165,783	560,000	$ 5,161,200
Decommissioning liabilities	-	-	455,312	-	455,312
	$ 1,706,023	$ 2,729,394	$ 621,095	$ 560,000	$ 5,616,512

The majority of the Company's contractual obligations consist of required expenditures under the Goldcorp Joint Venture. The Company is required to spend $1,600,000 in exploration costs and issue shares with a fair value equivalent to $150,000 by June 2011 and $2,500,000 in exploration costs and issue shares with a fair value equivalent to $200,000 by June 2012. As at March 31, 2011 the Company has met the spending requirement of $1,600,000 by June 2011.

Transactions with Related Parties

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.

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

	Three months ended March 31, 2011		Three months ended March 31, 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

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.

Environmental Risks and Hazards

All phases of Lexam VG's mineral exploration operations are subject to environmental regulations pertaining to the City of Timmins, the province of Ontario in Canada. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Lexam VG's operations. Environmental hazards may exist on the properties on which Lexam VG holds interests, which are unknown to Lexam VG at present and which may have been caused by previous or existing owners or operators of the properties. Lexam VG may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Government approvals and permits are currently and may in the future be required in connection with Lexam VG's operations. To the extent that such approvals are required and not obtained, Lexam VG may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities which may cause operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

The future costs of retiring mining assets include dismantling, remediation, ongoing treatment and monitoring of the site. These are reconciled and recorded as a liability at fair value. The liability is accreted, over time, through periodic charges to earnings. In addition, decommissioning liabilities, are capitalized as part of the asset's carrying value and amortized over the asset's useful life.

In 2010, the Company recorded a decommissioning liability pertaining to the Buffalo Ankerite property. In the past, the Mining Lands Commission had issued an Order for the Company to use its best efforts to remediate the open pit on the site. The Company is currently in the process of obtaining the appropriate mining permits for the site along with completing a closure plan. In 2010, the Company obtained a quote from a third party engineering firm estimating the closure costs, which relates to the re-sloping of the existing pit walls, revegetation and labour. There is uncertainty as to the timing of the expenditures, however, a best estimate has been used, and assumptions will be revisited quarterly.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Lexam VG and could cause increases in exploration expenses, capital expenditures and production costs. They may also cause a reduction in levels of production at producing properties or they may require abandonment or delays in development of new mining properties.

Production of mineral properties may involve the use of dangerous and hazardous substances such as sodium cyanide. While all steps will be taken to prevent discharges of pollutants into the environment, Lexam VG may become subject to liability for hazards against which it cannot be insured. The Company is subject to all environmental acts and regulations at the federal and provincial levels. These include, but are not limited to, the following:

Federal Level (Canada)	**Provincial Level (Ontario)**
Canadian Environmental Protection Act	Environmental Protection Act
Fisheries Act	Mining Act
Navigable Waters Protection Act and Regulations	

Off-Balance Sheet Arrangements

As at March 31, 2011, the Company does not have off-balance sheet arrangements.

Additional Funding Requirements

As discussed, the mineral properties of Lexam VG are in the exploration and development stage. The Company has no source of operating cash flow, and will need to raise additional funds to complete its projects. There is no assurance that Lexam VG will be able to raise additional funds on reasonable terms. The development of ore deposits found on the exploration properties of Lexam VG depend on the ability of the Company to obtain financing through debt financing, equity financing or other means. If the exploration and development programs of Lexam VG are successful, additional funds will be required to develop the properties and, if successful, additional funds will be required to place them in commercial production. The only source of future funds presently available to Lexam VG is the sale of equity capital of Lexam VG or the sale by Lexam VG of an interest in any of its properties in whole or in part. The ability of Lexam VG to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as on the business performance of the Company.

There can be no assurance that Lexam VG will be successful in its efforts to arrange additional financing if needed on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Corporation, control of Lexam VG may change and shareholders may suffer additional dilution. If adequate financing is not available, Lexam VG may be required to delay, reduce its scope, eliminate one or more exploration activities or relinquish rights to certain of its interests. Failure to obtain additional financing on a timely basis could cause Lexam VG to forfeit its interests in some or all of its properties and to reduce or terminate its operations.

Future accounting pronouncements

IFRS 9, Financial Instruments ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") on November 12, 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement. 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 statements.

Management's evaluation of disclosure controls

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's disclosure controls and procedures as at March 31, 2011 and have concluded that these controls and procedures are effective.

Internal Control over Financial Reporting:

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Based on a review of its internal control procedures at the end of the period covered by this MD&A, management believes its internal controls and procedures are appropriately designed as at March 31, 2011.

Risks and Uncertainties

The Company's business of exploring and developing mineral properties is highly uncertain and risky by its very nature. In addition, the ability to raise funding in the future to maintain the Company's exploration and development activities is dependant on financial markets, which often fail to provide necessary capital.

Regulatory standards continue to change making the review process longer, more complex and more costly. Even if an apparently mineable deposit is developed, there is no assurance that it will ever reach production or be profitable, as its potential economics are influenced by many key factors such as commodity prices, foreign exchange rates, equity markets and political interference, which can not be controlled by management. As a result, the Company's future business, operations, and financial condition could differ materially from the forward-looking information contained in this MD&A's and described in the Forward-Looking Statements section below. For more comprehensive discussion of the risks faced by the Company, please refer to VG Gold and Lexam's MD&A as at December 31, 2010 and the Company's Annual Information Form, dated January 1, 2011, filed on www.sedar.com.

Forward Looking Statements

This report may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and operational results. By nature, these risks and uncertainties could cause actual results to differ materially from what has been indicated. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to failure to establish estimated resources and reserves, the grade and recovery of ore which is mined from estimates, capital and operating costs varying significantly from estimates, delays or failure in obtaining governmental, environmental or other project approvals and other factors including those risks and uncertainties identified above. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information as a result of new information, future results or other such factors which affect this information, except as required by law.