

AFRICAN GOLD GROUP, INC.
Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Expressed in U.S. Dollars)



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Independent Auditor's Report

To the shareholders of African Gold Group Inc.

We have audited the accompanying consolidated financial statements of African Gold Group Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit and accumulated other comprehensive income and cash flows for each of the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of African Gold Group Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

April 26, 2011
Toronto, Ontario

AFRICAN GOLD GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. Dollars)

December 31, 2010 2009

ASSETS

Current assets

Cash and cash equivalents	\$ 11,583,838	\$ 360,438
Short term investments (note 4)	-	4,770,013
Receivables	106,606	26,441
Due from directors (note 5)	-	32,805
Due from related party (note 8(c))	65,466	3,068
Prepaid expenses	93,061	18,557

11,848,971 5,211,322

Mineral properties and deferred exploration expenditures (note 6)	20,856,241	17,560,696
Capital assets (note 7)	21,214	21,503

\$ 32,726,426 \$ 22,793,521

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities (note 8)	\$ 1,190,090	\$ 814,071
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Shareholders' Equity

Share capital (notes 9 (a)(b))	40,474,869	29,356,842
Contributed surplus (note 9 (e))	5,745,440	4,285,268
Accumulated other comprehensive income	-	59,000
Deficit	(14,683,973)	(11,721,660)

31,536,336 21,979,450

\$ 32,726,426 \$ 22,793,521

On behalf of the Board

_____ Director

_____ Director

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

AFRICAN GOLD GROUP, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS, ACCUMULATED OTHER COMPREHENSIVE INCOME AND DEFICIT**
(Expressed in U.S. Dollars)

For the years ended December 31,	2010	2009
Revenue	\$ -	\$ -
Expenses		
Administrative and general	2,248,342	1,090,473
Amortization	11,377	11,667
Foreign exchange gain	(244,516)	(26,178)
Interest income	(13,901)	-
Stock-based compensation	978,739	284,654
	2,980,041	1,360,616
Loss before undernoted	(2,980,041)	(1,360,616)
Forgiveness of debt (note 14)	(17,728)	(389,893)
Net loss for the year	(2,962,313)	(970,723)
Fair value adjustment on available for sale financial assets	-	59,000
Comprehensive loss for the year	\$ (2,962,313)	\$ (911,723)
Accumulated other comprehensive income		
Balance at beginning of year	\$ 59,000	\$ -
Fair value adjustment on available for sale financial assets	-	59,000
Reversal of fair value adjustment on available for sale financial assets	(59,000)	-
Balance at end of year	\$ -	\$ 59,000
Deficit		
Balance at beginning of year	\$ (11,721,660)	\$(10,750,937)
Net loss for the year	(2,962,313)	(970,723)
Deficit, end of year	\$ (14,683,973)	\$ (11,721,660)
Average weighted shares outstanding	76,286,167	60,364,200
Basic and diluted loss per share (note 10)	\$ (0.04)	\$ (0.01)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

AFRICAN GOLD GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. Dollars)

For the years ended December 31,	2010	2009
Cash flow from operating activities		
Net loss for the year	\$ (2,962,313)	\$ (970,723)
Items not affecting cash -		
Foreign exchange gain	(244,516)	(26,178)
Amortization	11,377	11,667
Stock-based compensation	978,739	284,654
Forgiveness of debt	(17,728)	(389,893)
	(2,234,441)	(1,090,473)
Changes in non-cash working capital		
Receivables and prepaid expenses	(154,669)	42,918
Accounts payable and accrued liabilities	393,747	(128,257)
	(1,995,363)	(1,175,812)
Cash flow from investing activities		
Purchase of capital assets	(11,088)	-
Redemption (purchase) of short term investments	4,770,013	(4,711,013)
Due from directors	32,805	(8,244)
Due from related party	(62,398)	(3,068)
Investment in mineral properties and deferred exploration expenditures	(3,295,545)	(183,553)
	1,433,787	(4,905,878)
Cash flow from financing activities		
Net cash proceeds from issue of common shares	10,852,656	5,884,944
Exercise of stock options	9,782	-
Exercise of warrants	737,022	507,365
	11,599,460	6,392,309
Effect of foreign currency translation on cash balances	185,516	26,201
Increase in cash and cash equivalents	11,223,400	336,820
Cash and cash equivalents, beginning of year	360,348	23,618
Cash and cash equivalents, end of year	\$ 11,583,838	\$ 360,438
Cash and cash equivalents:		
Cash	\$ 895,431	\$ 360,438
Mutual funds	10,688,407	-
	\$ 11,583,838	\$ 360,438
Non-cash transactions:		
Issuance of broker warrants	\$ 481,433	\$ 525,479
Issuance of shares to settle accounts payable (Note 9(b)(i))	\$ -	\$ 184,299

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

1. NATURE OF BUSINESS AND BUSINESS RISK

Nature of Business

African Gold Group, Inc. (the "Company" or "AGG") was incorporated in Ontario, Canada on October 2, 2002 and carries on business in one segment, being the identification, acquisition and exploration of properties for mining of precious and base metals. The Company's principal assets are mining licenses located in Ghana and Mali, West Africa.

Business Risk

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business as a going concern.

The Company has not generated revenue from operations. The Company incurred a net loss of \$2,962,313 during the year ended December 31, 2010 and, as of that date the Company's deficit was \$14,683,973. However, the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period. As the Company is in the exploration stage, the recoverability of the costs incurred to date on mining properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of its wholly owned subsidiaries AGG (Barbados) Limited (incorporated in Barbados), AGG (Ghana) Ltd. and Arziki Mining Ltd. ("Arziki") (both incorporated in Ghana, Africa) and AGG (Mali) S.A.R.L. (incorporated in Mali, Africa). All inter-company transactions and resulting balances have been eliminated on consolidation.

Recent Accounting Pronouncements

a) Business Combinations

In December 2008, the CICA Section 1582, "Business Combinations" replaces Section 1581. This standard is effective for business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. AGG does not expect the adoption of this new standard to have an impact on its consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

b) Consolidated Financial Statements and Non-Controlling Interests

In December 2008, the CICA Section 1601, “Consolidated financial statements” and CICA Section 1602, “Non-Controlling interests” replaced Section 1600. These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after January 1, 2011. Early adoption is permitted. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. AGG does not expect the adoption of these new standards to have an impact on its consolidated financial statements.

c) International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the date that International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises. As a result, the Company will report under IFRS for interim and annual reporting periods beginning January 1, 2011, with comparative information for 2010 restated under IFRS. Adoption of IFRS as Canadian GAAP will require the Company to make certain accounting policy choices and could materially impact the Company’s reported financial position and results of operations.

Mineral Properties and Deferred Exploration Expenditures

Mineral property acquisition costs and related direct exploration and development expenditures, net of recoveries, are deferred until the properties are placed into production. These net costs will be amortized against income using the unit-of-production method based on estimated recoverable reserves if the properties are brought into commercial production, or written off if the properties are sold or abandoned. The cost of mineral properties includes any cash consideration paid on the acquisition of property interests and exploration and development of exploration projects. The recorded amounts of property acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future profitable production or proceeds from the disposition thereof, all of which are uncertain.

Capital Assets

Capital assets are recorded at cost. Amortization based on the estimated useful life of the asset is provided as follows:

Computer equipment	-	30% diminishing balance
Furniture and fixtures	-	10% straight line
Truck	-	20% straight line

Asset Impairment

The Company monitors events and changes in circumstances which may require an assessment of the recoverability of its long lived assets. If required, the Company would assess recoverability using estimated undiscounted future operating cash flows. If the carrying amount of an asset is not recoverable, an impairment loss is recognized in operations, measured by comparing the carrying amount of the asset to its fair value.

Cash and Cash Equivalents

Cash and cash equivalents include cash and deposits with original maturities of three months or less.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Income Taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance to the extent that it is more likely than not that such losses will be ultimately utilized. These future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

Stock-based Compensation

The Company has a stock-based compensation plan as disclosed in note 9(c). The Company uses the fair value-based method of accounting for stock-based compensation arrangements granted to directors, officers and employees. The fair value of each option granted is accounted for in operations over the vesting period of the option using the Black-Scholes options pricing model at the date of grant, with the related increase to contributed surplus. Compensation expense on stock-based compensation granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received. Any consideration received by the Company on exercise of stock options is credited to share capital.

Comprehensive Income

Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income includes holding gains on available for sale investments.

Foreign Currency Translation

The Company's functional and reporting currency is the U.S. dollar. Transactions and balances denominated in Canadian dollars are translated into U.S. dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into U.S. dollars by the use of exchange rate in effect at that date. At the period end date, monetary assets and liabilities are translated into U.S. dollars by using the exchange rate in effect at that date. Exchange gains and losses arising from these transactions are reflected in income or expense in the period.

All of the Company's subsidiaries are considered to be integrated and therefore integrated foreign subsidiaries are accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical rates. Revenue and expenses are translated at average rates for the year. Exchange gains or losses are reflected in the statement of operations.

Financial Instruments – recognition and measurement

The Company has designated its cash as held-for-trading, which is measured at fair value. Short-term investments are classified as available for sale which are measured at fair value. Unrealized changes in fair value are recorded in other comprehensive income except for losses in value that are considered other than temporary. Receivables and the amount due from directors have been classified as loans and receivables and are measured at amortized cost using the effective interest rate method. Other financial instruments being accounts payable and accrued liabilities are measured at amortized cost using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is computed using the treasury stock method by dividing the net loss by the sum of the weighted average number of common shares outstanding and all additional shares that would have been outstanding if potentially dilutive shares had been issued during the year.

Joint Venture

A portion of the Company's exploration activity is conducted jointly with others whereby AGG enters into agreements that provide for specific percentage interests in mining properties. Joint venture accounting, which reflects the Company's proportionate interest in mining properties is applied by the Company only when commercial feasibility is established and the parties enter into formal agreements for ownership and mining participation terms.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates used in the preparation of these financial statements include, but are not limited to the estimated net realizable value of the mineral properties and deferred exploration expenditures, the provision for income taxes and composition of future income tax assets and liabilities, the valuation of assets acquired and related shares issued in non-monetary transactions and the values determined for stock-based compensation using the Black-Scholes option pricing model.

3. CAPITAL MANAGEMENT

AGG manages its shareholders' equity as capital, making adjustments based on available funds, to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties to which the Company currently has an interest are in the exploration stage and as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration as well as satisfy administrative costs, the Company will spend its existing working capital and raise additional funds as needed. AGG will continue to assess new properties should sufficient geological or economic potential be demonstrated and if the Company has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the current size of the Company. There were no changes to its capital management approach during the year ended December 31, 2010. Neither AGG nor its subsidiaries are subject to externally imposed capital requirements.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company has no external debt and is dependent on the capital markets to finance exploration and development activities.

4. SHORT TERM INVESTMENTS

Short term investments are comprised of term deposits with effective interest rates of 0.65% which had maturity dates between April 7, 2010 and December 21, 2010. There were no short term investments at December 31, 2010.

5. DUE FROM DIRECTORS

The balance due from directors were non-interest bearing, and unsecured with no specific repayment terms.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The Company holds interests in the following mineral properties in Ghana and Mali:

Ayaco License ("the Ayaco License") (also known as the Mankranho License)

In 2007, the Company owned 68.84% of the issued shares of Columbia River Resources Inc. ("CRR"). CRR owns a 100% interest in the Mankranho License subject to a 10% interest by the Government of Ghana. The Mankranho License was held for CRR by CME Ghana Ltd., a company that is wholly-owned by a former director and officer of the Company, pursuant to a trust agreement. On May 6, 2004, the Company entered into an earn-in agreement with CRR. Under the terms of the earned-in option, the Company earned an 85% interest in the Ayaco License upon incurring \$2,253,000 exploration expenses prior to December 31, 2004. On October 1, 2007 the Board of Directors of Columbia River Resources passed a resolution acknowledging that all obligations subscribed to by the Company in the agreement have been fulfilled such that the Company be allowed to purchase CRR's NSR rights, that the title of the license be transferred to the Company from CME Ghana Ltd. and that the Company be released from all its obligations. As at December 31, 2007, all of these obligations had been met.

During the first quarter of 2008, the Company was made aware that on November 2, 2007 the Company's 68.84% shareholding in CRR was diluted through a reverse merger. The Company believes that the transaction was not appropriately approved by the majority of the shareholders of CRR, specifically no approval was obtained from the Company. The transaction has been challenged by AGG, however no legal proceedings have been commenced. The Company is not able to determine the outcome of any proceedings. Given the uncertainty surrounding the realization of this investment, AGG has determined that consolidation is no longer appropriate and has written off the investment.

On October 23, 2008, the Company signed an Option Agreement with Newmont Ghana Ltd. ("Newmont"), a subsidiary of Newmont Mining Corporation to earn up to 70% interest in the Mankranho property by spending \$8,000,000 on Mankranho exploration. The agreement is predicated on annual renewals by Newmont each October. AGG provided that formal notice to CME Ghana to register the Mankranho License in the name of AGG's wholly owned subsidiary AGG Ghana in March, 2010, but CME Ghana has yet to fulfill its obligation under the trust agreement. The Company has been advised by its venture partner that they have ceased work on the Mankranho property until this administrative matter has been completed.

Twedee License ("the Twedee License") (also known as the Arziki License)

The Company, through its Ghanaian subsidiary "Arziki Mining Ltd.", owns a 100% interest in the Twedee License which is subject to a 10% interest by the Government of Ghana.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES - continued

Moseaso License ("the Moseaso License")

Pursuant to an Option Agreement dated May 30, 2003 entered into by the Company and Moseaso Mining Company Limited ("MMC"), the Company has the right to acquire 100% interest in the Moseaso License for a period up to May 30, 2008 subject to a 10% interest by the Government of Ghana and a 15% net profit interest by MMC with the option to pay \$250,000 at the time of production and decrease the net profit interest due to MMC to 10%. All consideration required by the terms of the agreement has been satisfied to date.

Nyankumasi Concession

On October 1, 2004, CME Ghana Ltd. entered into an option agreement to acquire the "Nyankumasi" concession from Jelgom Mining Company Limited on behalf of the Company for a total consideration of \$200,000. Under the terms of the agreement, the Company paid \$5,000 on the signing of the agreement. In addition, the Company paid a one time quarterly fee of \$15,000. Annual payments are required to be made over a period of 5 years or until production commences. All consideration required by the terms of the agreement has been satisfied to date and the property title transferred to the Company. Title is in the process of being transferred to AGG (Ghana) Ltd.

The interest in the concession is subject to a 10% royalty interest to the Government of Ghana and a 3% net smelter royalty to Jelgom Mining Company.

The "Nyankumasi" concession covers approximately 71 square kilometers and is situated in the northeastern section of the Ashanti gold belt, approximately 48 kilometers east of Anglo Gold Ashanti's Obuasi mine and approximately 30 kilometers south-southwest of Newmont Mining Corporation's Akyem Project.

Tropical License

Pursuant to an Option Agreement dated April 4, 2005 entered into by the Company and Tropical Minerals Co. Ltd. ("Tropical"), the Company has the right to acquire 100% interest in the Tropical Prospecting License for a period up to April 30, 2009 subject to a 10% interest by the Government of Ghana and a 20% net profit interest by Tropical for a purchase price of \$300,000. The "Tropical" License covers an area of 98.84 sq. km. and 36.91 sq. km. located in the Amansie West and Nkawie Districts respectively in the Ashanti Region.

The Company paid a signing fee of \$3,000 and \$145,000 towards the purchase of a 70% interest in the License as per the terms of the Agreement. All consideration required by the terms of the agreement has been satisfied to date.

The Company is responsible for all exploration expenditures with a right of first refusal to purchase the 20% net profit interest of Tropical in the event Tropical decides to sell. The Company may at any time terminate the Agreement by providing one month's written notice without reimbursement.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES - continued

Manso Atwere License

On September 12, 2007, the Company entered into an option agreement with Gyampo Mining Company Limited ("GMCL") to acquire 100% interest in a prospecting license for the Manso Atwere concession located in Ghana, West Africa for a 5 year period through September 12, 2012 subject to a 10% equity interest by the Government of the Republic of Ghana and a 10% net profit interest to GMCL for a purchase price of \$450,000.

The Company paid a signing fee of \$100,000 as per terms of the agreement with the remaining payments as follows:

- \$ 50,000 on or before September 12, 2011
- \$ 100,000 on or before September 12, 2012

Subsequent to year end, the Company paid the remaining payments to GMCL.

Mali Concessions

On June 28, 2005, the Company entered into an agreement with Compagnie Miniere d'Or ('Cominor') SA of France to acquire a 100% interest in three exploration permits for three separate mineral concessions located in the Republic of Mali, West Africa. The purchase price paid for these three concessions was 750,000 Euros.

The three exploration permits consist of:

- (i) The Bagoie-West Concession, which comprises 183 sq. km of land located in the Sikasso Region,
- (ii) The Bagoie-East Concession, which comprises 183 sq. km of land located in the Sikasso Region, and
- (iii) The Kobada Concession, comprising 41 sq. km of land located in the Kangaba Region.

Included in the purchase price are data based reference material gathered from exploration and development activities performed by Cominor on each of the concessions, and a variety of ground transportation and exploration equipment.

On November 15, 2007, the Company entered into a joint venture agreement with Rangold Resources Ltd. ("Rangold") to explore the Bagoie East and West concessions in Mali, West Africa. Rangold shall solely fund exploration costs up to and including completion of a pre-feasibility study. On completion of the pre-feasibility study, Rangold shall acquire a 51% participation interest in the joint venture. Following the completion of the pre-feasibility study, Rangold can elect to solely fund all further exploration costs up to and including completion of a bankable feasibility study to earn a 65% interest in the joint venture after which each party will participate in all further exploration of the concessions pro rata with respect to the participation interests. In the 4th quarter of 2008, AGG was notified by Rangold that it would be opting out of the joint venture agreement and discontinue any further exploration activity on the Bagoie sites. The Company has no intention of pursuing any project in this area and as such all costs relating to these two concessions being \$637,500 have been expensed.

In January 2008, the Company received notification from the Government of Mali Mines, Energy and Water Department that the application to explore the Foroko and Acoma concessions had been approved and a license to explore would be issued in due course. The properties, representing approximately 216 square kilometres, are adjacent to the Kobada concession.

AFRICAN GOLD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009
(Expressed in U.S. Dollars)

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES - continued

The following is a summary of the carrying amount of the mineral properties as at December 31:

	2010	2009
Ayaco License	\$ 3,689,700	\$ 3,683,347
Twedee License	278,402	201,825
Moseaso License	1,494,483	1,377,000
Nyamkumasi Concession	1,024,050	1,017,557
Tropical License	1,198,588	1,110,850
Manso Atwere License	1,272,657	1,146,263
Mali Concessions	<u>11,898,361</u>	<u>9,023,854</u>
	<u>\$ 20,856,241</u>	<u>\$ 17,560,696</u>

7. CAPITAL ASSETS

2010

	Cost	Accumulated Amortization	Net Book Value 2010
Computer equipment	\$ 19,975	\$ 11,443	\$ 8,532
Truck	22,638	22,638	-
Furniture and fixtures	64,960	52,278	12,682
	<u>\$ 107,573</u>	<u>\$ 86,359</u>	<u>\$ 21,214</u>

2009

	Cost	Accumulated Amortization	Net Book Value 2009
Computer equipment	\$ 10,554	\$ 9,805	\$ 749
Truck	22,638	19,677	2,961
Furniture and fixtures	63,293	45,500	17,793
	<u>\$ 96,485</u>	<u>\$ 74,982</u>	<u>\$ 21,503</u>

8. RELATED PARTY TRANSACTIONS

- a) The Company incurred project management and consulting fees to CME, a company that is wholly-owned by a former director of the Company in prior years who resigned from AGG in July 2008. Unpaid management and consulting fees of \$290,401 (2009 - \$290,401) have been included in accounts payable and accrued liabilities.
- b) Legal fees of \$306,185 (2009 - \$128,222) were incurred to a legal firm in which one of the partners is a director of the Company.

AFRICAN GOLD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. RELATED PARTY TRANSACTIONS - continued

- c) The balance due from related party, which shares common directors with AGG, is non-interest bearing, unsecured with no specific terms of repayment.
- d) Geological services were provided to the company by two of its directors who charged \$141,582 (2009 - \$18,179) and \$71,230 (2009 - \$Nil) respectively. Unpaid fees owing to one of the geologists of \$21,350 (2009 - \$10,303) is included in accounts payable and accrued liabilities.
- e) Legal fees of \$20,500 (2009 - \$13,000) were paid to a law firm in which one of the partners is a director of one of the subsidiaries.

These transactions were in the normal course of business and have been recorded at the exchange amount as agreed upon between the related parties.

9. SHARE CAPITAL

a) Shares authorized

The Company is authorized to issue an unlimited number of common shares.

b) Common shares issued and outstanding

	Number of Common Shares	Amount
Balances, December 31, 2008	32,626,968	\$23,305,690
Private placement (i)	26,621,000	1,079,547
Private placement (i)	10,000,000	5,671,200
Exercise of warrants (ii)	70,000	6,070
Exercise of warrants (ii)	5,540,200	509,596
Exercise of warrants (ii)	32,000	4,530
Cost of issue	-	(694,312)
Underwriter's Compensation Warrants and Options	-	(525,479)
Balances, December 31, 2009	74,890,168	29,356,842
Exercise of warrants (iii)	4,971,020	737,022
Exercise of stock options (iv)	100,000	9,782
Private placement (v)	17,200,000	11,893,112
Cost of issue	-	(1,040,456)
Underwriter's Compensation Warrants and Options	-	(481,433)
Balances, December 31, 2010	97,161,188	\$ 40,474,869

(i) Private Placements – January and December 2009

In January 2009, the Company closed a non-brokered private placement of 26,621,000 units at CDN\$0.05 per unit for gross proceeds of CDN\$1,083,050 and settlement of accounts payable of CDN\$230,000. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 24 months at CDN \$0.10 per share for the first 6 months from the closing date and \$0.15 thereafter to expiration. In connection with the private placement, the Company paid CDN\$165,776 in commission and other related issuance costs, and issued 996,020 broker warrants to acquire common shares. Each broker's warrant was issued under the same terms and conditions as the private placement units. On June 26, 2009, 70,000 warrants were exercised at CDN\$0.10 per warrant resulting in 70,000 common shares being issued for proceeds of CDN\$7,000.

9. SHARE CAPITAL - continued

The value attributed to the broker warrants was \$49,927 using the Black-Scholes Option Pricing model. Significant assumptions used were as follows: dividend yield of 0%, expected volatility of 106%, risk free interest of 1.39% and an expected life of 2 years.

In December 2009, the Company closed a private placement of 10,000,000 units at CDN\$0.60 per unit for gross proceeds of CDN\$6,000,000. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 18 months at CDN\$0.90. In connection with the private placement, the Company paid CDN\$577,083 in commission and other related issuance costs, and issued 800,000 broker compensation options. Each option entitles the holder to purchase one unit at a price of \$0.60 for a period of 18 months. Each unit was issued under the same terms and conditions as the private placement units.

The value attributed to the broker compensation options was \$475,552 using the Black-Scholes Option Pricing model. Significant assumptions used were as follows: dividend yield of 0%, expected volatility of 144%, risk free interest of 1.41% and an expected life of 1.5 years.

(ii) Exercise of Warrants – July and November 2009

In July 2009, 5,540,200 warrants were exercised at CDN\$0.10 per warrant resulting in the issuance of 5,540,200 common shares for proceeds of CDN\$554,020.

In November 2009, 32,000 warrants were exercised at CDN\$0.15 per warrant resulting in the issuance of 32,000 common shares for proceeds of CDN\$4,800.

(iii) Exercise of Warrants – 2010

During the year ended December 31, 2010, 4,971,020 warrants were exercised at CDN\$0.15 per warrant resulting in the issuance of 4,971,020 common shares for proceeds of CDN\$745,653.

(iv) Exercise of Stock Options – 2010

In October 2010, 100,000 stock options were exercised at CDN\$0.10 per option resulting in the issuance of 100,000 common shares.

(v) Private Placement – December 2010

In December 2010, the Company closed a private placement of 17,200,000 units at CDN\$0.70 per unit for gross proceeds of CDN\$12,040,000. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 24 months at CDN\$1.00. In connection with the private placement, the Company paid CDN\$1,053,307 in commission and other related issuance costs, and issued 1,204,000 broker compensation options. Each option entitles the holder to purchase one unit at a price of \$0.70 for a period of 24 months. Each unit was issued under the same terms and conditions as the private placement units.

The value attributed to the broker compensation options was \$481,433 using the Black-Scholes Option Pricing model. Significant assumptions used were as follows: dividend yield of 0%, expected volatility of 109%, risk free interest of 1.68% and an expected life of 2 years.

9. SHARE CAPITAL - continued

c) Stock Options

The Company has a stock option plan (the "Plan") for its directors, officers, consultants and key employees under which the Company may grant options to acquire a maximum number of 7,519,016 common shares.

These options are non-transferrable and are valid for a maximum of 5 years from the date of issue. Vesting terms and conditions are determined by the Board of Directors at the time of the grant. The exercise price of the options is fixed by the Board of Directors of the Company at the time of the grant at the market price of the common shares, subject to all regulatory requirements.

In April 2009, AGG granted 3,250,000 stock options to certain employees, directors and consultants of the company, 3,050,000 at an exercise price of CDN\$0.10 per common share and 200,000 at an exercise price of CDN\$0.15 per common share, for a period of 5 years from the date of issue. The average fair value attributed to the stock options granted was \$172,110 using the Black-Scholes model for pricing options. The following assumptions were used: dividend yield 0%, expected volatility of 88%, risk-free interest rate of 1.63% and an expected life of 5 years.

On October 22, 2009, AGG granted 125,000 stock options to a director of the Company at an exercise price of CDN\$0.41 for a period of 5 years from the date of the issue. The fair value attributed to the stock options granted was \$34,970 using the Black-Scholes model for pricing options. The following assumptions were used: dividend yield 0%, expected volatility of 92%, risk free rate of return of 2.42% and an expected life of 5 years.

On December 21, 2009, AGG granted 200,000 stock options to a consultant of the Company at an exercise price of CDN\$0.70 for a period of 2 years from the date of issuance. The fair value attributed to the stock options granted was \$77,573 using the Black-Scholes model for pricing options. The following assumptions were used: dividend yield 0%, expected volatility of 130%, risk free rate of return of 1.41% and an expected life of 2 years.

In January and April of 2010, the Company granted 1,975,000 options to directors, officers, consultants and employees of AGG where 250,000 were issued for a two year term from the date of issuance at an exercise price of CDN\$0.65 and 1,725,000 were issued for a five year term from the date of issuance at an exercise price of CDN\$0.60. The following assumptions were used for the January 2010 options: dividend yield 0%, expected volatility 129%, risk free rate of return of 1.21% and an expected life of 2 years. The following assumptions were used for the April 2010 options: dividend yield 0%, expected volatility 95%, risk free rate of return of 2.80% and an expected life of 5 years. The fair value attributed to the options was \$726,746.

On October 26, 2010, AGG granted 125,000 stock options to a consultant of the Company at an exercise price of CDN\$0.60 for a period of 3 years from the date of issuance. The fair value attributed to the stock options granted was \$49,759 using the Black-Scholes model for pricing options. The following assumptions were used: dividend yield 0%, expected volatility of 116%, risk free rate of return of 1.43% and an expected life of 3 years.

On December 24, 2010, AGG granted 390,000 stock options to directors and employees of the Company at an exercise price of CDN\$0.92 for a period of 5 years from the date of issuance. The fair value attributed to the stock options granted was \$265,652 using the Black-Scholes model for pricing options. The following assumptions were used: dividend yield 0%, expected volatility of 99%, risk free rate of return of 2.23% and an expected life of 5 years.

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9. SHARE CAPITAL - continued

As at December 31, 2010, the Company had stock options outstanding as follows:

Date of Grant	Stock Options (#)	Exercise Price (CDN\$)	Expiry Date
March 10, 2008	875,000	1.20	March 10, 2013
April 1, 2009	2,550,000	0.10	April 1, 2014
April 22, 2009	200,000	0.15	April 22, 2014
October 22, 2009	125,000	0.41	October 22, 2014
December 21, 2009	200,000	0.70	December 21, 2011
April 28, 2010	1,725,000	0.60	April 28, 2015
October 26, 2010	125,000	0.60	October 26, 2013
December 24, 2010	390,000	0.92	December 24, 2015
	6,190,000		

A summary of the Company's stock option activity during the year is as follows:

	Weighted Average Options	Exercise Price (CDN\$)
Outstanding – December 31, 2008	2,800,000	1.71
Expired or forfeited	(975,000)	2.30
Granted	3,575,000	0.15
Outstanding – December 31, 2009	5,400,000	0.57
Expired or forfeited	(1,550,000)	1.06
Cancelled	(50,000)	1.20
Exercised	(100,000)	0.10
Granted	2,490,000	0.66
Outstanding – December 31, 2010	6,190,000	0.48
Exercisable – December 31, 2010	6,015,000	0.49

As noted in note 9(b)(iv) 100,000 options were exercised during the year at CDN\$0.10 per option.

Subsequent to year end, 200,000 options were exercised at CDN\$0.10 per option for proceeds of CDN\$20,000. In March 2011, the Company also granted 125,000 options at an exercise price of CDN\$0.91 expiring in March 2016. An additional 250,000 options were also granted in April 2011 at an exercise price of \$0.90 per share expiring in April 2014.

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9. SHARE CAPITAL - continued

d) Warrants and Compensation Units

A summary of the Company's warrant and compensation units activity during the period is as follows:

Outstanding – December 31, 2008	5,385,535
Issued with January 2009 Private Placement	26,621,000
Issued with the December 2009 Private Placement	5,000,000
Issued for consulting services	300,000
Underwriter's Compensation warrants issued	1,796,020
Exercised	(5,642,200)
Expired	(5,224,235)
Outstanding – December 31, 2009	28,236,120
Issued with the December 2010 Private Placement	8,600,000
Underwriter's Compensation warrants issued	1,204,000
Exercised	(4,971,020)
Expired	(161,300)
Outstanding – December 31, 2010	32,907,800

In January 2009, the Company issued 27,617,020 common share purchase warrants as described in note 9(b)(i) as well as 300,000 common share purchase warrants at an exercise price of CDN\$0.15 expiring in January 2011 in exchange for CDN\$15,000 of consulting services valued at CDN\$15,000 using the Black-Scholes model based on assumptions per note 9(b)(i). 5,642,200 warrants were exercised as described in note 9(b)(i) and (ii).

In December 2009, the Company issued 5,000,000 common share purchase warrants as described in note 9(b)(i).

In December 2010, the Company issued 8,600,000 common share purchase warrants as described in note 9(b)(v).

The warrants, exercise price and expiry date and warrants outstanding at December 31, 2010 are as follows:

Warrants	Exercise Price CDN(\$)	Expiry Date
7,420,000	0.15	January 23, 2011
9,883,800	0.15	January 29, 2011
5,000,000	0.90	June 16, 2011
8,600,000	1.00	December 17, 2012
30,903,800	0.54 (Weighted Average)	

Subsequent to year end, 17,403,800 warrants were exercised for cash consideration of CDN\$2,610,570.

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9. SHARE CAPITAL - continued

Compensation Units

The Company has 800,000 broker compensation options outstanding at December 31, 2010. Each option entitles the holder to purchase one unit at a price of \$0.60 for a period of 18 months. Each unit was issued under the same terms and conditions as the December private placement units as described in note 9(b)(i). Subsequent to year end, these units were exercised for cash consideration of CDN\$480,000. On the exercise of these units, an additional 400,000 warrants were issued at an exercise price of CDN\$0.90 expiring in June 2011.

The Company has 1,204,000 broker compensation warrants outstanding at December 31, 2010. Each option entitles the holder to purchase one unit at a price of \$0.70 for a period of 24 months. Each unit was issued under the same terms and conditions as the December private placement units as described in note 9(b)(v).

e) Contributed Surplus

	2010	2009
Opening balance	\$ 4,285,268	\$3,475,135
Options granted	978,739	284,654
Compensation warrants granted	481,433	525,479
Closing balance	\$ 5,745,440	\$4,285,268

10. BASIC AND DILUTED LOSS PER SHARE

Diluted loss per share, which reflects the maximum possible dilution from the potential exercise of outstanding stock options and warrants is the same as basic loss per share. For the 2010 and 2009 periods presented, the conversion of warrants and stock options was not included in the calculation because the calculation would be anti-dilutive.

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11. INCOME TAXES

a) *Provision for Income Taxes*

The difference between the actual income tax recovery and the expected Canadian statutory corporate income tax recovery relates to losses not recognized. The following table summarizes the difference from the Canadian statutory rate of approximately 31% (2009– 33%), the primary area of taxation for the entity, to the Company's current tax provision recorded.

	2010	2009
Net loss for the year before provision for income taxes	\$ (2,962,313)	\$ (911,723)
Expected income recovery at statutory rates	(918,317)	(300,869)
Adjustments resulting from:		
Permanent differences and expiring non-capital items	106,938	358,653
Foreign currency differences	(306,140)	(280,029)
Differences in tax rates	(59,342)	149,755
Other	-	-
Change in valuation allowance	(1,176,861)	72,490
Provision for income taxes	\$ -	\$ -

b) *Future Income Tax Assets*

	2010	2009
Capital assets	\$ 19,109	\$ 18,503
Share issuance costs	555,777	334,191
Non capital losses	3,991,079	3,055,509
Unrealized foreign exchange	4,167	(14,932)
	4,570,132	3,393,271
Valuation allowance	(4,570,132)	(3,393,271)
Future income tax assets	\$ -	\$ -

The Company has provided a full valuation allowance against future tax assets as at December 31, 2010 and 2009 due to uncertainties in the Company's ability to utilize its net operating losses.

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11. INCOME TAXES - continued

c) *Tax Loss Carry-Forwards*

At December 31, 2010, the Company had approximately \$15,356,000 of non-capital losses carried forward available to reduce future taxable income. Any non-capital losses that may be unutilized to reduce taxable income in future years expire at the end of the following years:

2011	\$1,314,000
2012	326,000
2013	735,000
2014	1,411,000
2015	1,873,000
2016	164,000
2017	117,000
2019	124,000
2026	1,616,000
2027	2,062,000
2028	1,079,000
2029	1,821,000
2030	2,714,000

\$ 15,356,000

12. SEGMENTED INFORMATION

The Company has one operating segment: the acquisition, exploration and development of precious and base metal mineral resource properties located in Ghana and Mali.

Geographic segmentation of capital assets and mineral property costs is as follows

	2010	2009
Canada	\$ 5,481	\$ 2,517
Ghana	8,972,113	8,555,828
Mali	11,899,861	9,023,854
	<hr/> \$ 20,877,455	<hr/> \$ 17,582,199

13. FINANCIAL RISK FACTORS

Fair Value of Financial Instruments

At December 31, 2010, the balance sheet carrying amounts for cash and cash equivalents, receivables, due from related party and accounts payable and accrued liabilities approximate fair value due to their short term nature.

13. FINANCIAL RISK FACTORS -continued

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that sufficient funds are available to meet its liabilities as they become due. At December 31, 2010, AGG had a cash balance of \$11,583,838 and current liabilities of \$1,190,090. The Company is able to satisfy its obligations through its existing cash position and the existing liabilities are subject to normal trade terms.

The following is a summary of the Company's contractual obligations:

	Within 1 year	2 years	Total
Accounts payable	\$1,190,090	\$ -	\$1,190,090
Operating lease	61,877	30,939	92,816
Concession fees	50,000	100,000	150,000
Commitment	510,000	-	510,000
	\$1,811,967	\$ 130,939	\$1,942,906

Credit risk

The Company is exposed to credit risk in its cash and cash equivalents, short-term investments, receivables and due from related party. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. Credit risk on cash and cash equivalents and short-term investments is minimized by depositing with only reputable financial institutions. Concentration of credit risk exists with respect to the Company's cash and cash equivalents as substantially the entire amount is held at a single major Canadian financial institution.

Foreign exchange risk

Given the global nature of the company's business, AGG's operating businesses and financial reporting results and cash flows are exposed to risks associated with foreign currency fluctuations. Currently, AGG does not hedge its foreign exchange risk.

Commodity price risk

The ability of the Company to develop its mineral properties and the future profitability of the Company is directly related to the market price of precious metals. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

Sensitivity analysis

Based on management's knowledge and expertise of the financial markets, the Company believes that the following movements are "reasonably possible" over a three month period:

- (i) Commodity price risk is remote as the Company is not a producing entity,
- (ii) Sensitivity to a plus or minus 1% change in the interest rates could impact any renewals or extensions of term deposits which would have no significant impact on the net loss due to the immateriality of the interest earned in this time frame.

For 2010, management estimates that if the United States Dollar had weakened or strengthened by 10% against the Canadian dollar, Ghana dollar and Mali CFA, assuming all other variables remained constant, net loss would have decreased or increased by approximately \$1,200,000. Included in cash and cash equivalents is \$11,127,664, receivables is \$104,884, due from related party is \$56,437 and accounts payable and accrued liabilities is \$651,885 denominated in Canadian dollars. The Company has chosen not to hedge these foreign currency balances.

13. FINANCIAL RISK FACTORS -continued

CICA Handbook Section 3862, “Financial Instruments – Disclosures” requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of an asset or liability of the measurement date. The three levels are defined as follows:

Level 1: for securities valued based on unadjusted quoted prices in active markets for identical assets.

Level 2: for securities valued based on inputs, other than quoted prices included in level 1, that are observable for the asset, either directly or indirectly.

Level 3: for securities valued based on inputs that are based on unobservable market data.

As at December 31, 2010, the following table represents a summary of financial instruments held at fair value by level:

Cash and cash equivalents	<u>Level 1</u> \$ 11,583,838
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14. FORGIVENESS OF DEBT

In May 2010, the Company renegotiated its outstanding obligations with one of its suppliers. As a result of this renegotiation, the suppliers agreed to forgive approximately \$17,728 (2009 -\$389,893) of debt.

15. COMMITMENTS AND CONTINGENCY

In 2005, the Company was named defendant in a lawsuit filed in the Federal Courts of Ghana. The defendants in the case were required to pay to the plaintiff the sum of \$73,000 and GHC 3,000. As of the year end, these settlement amounts have been fully paid to the plaintiff. The plaintiff still claims that interest is due and payable on that sum, and has called on the Company as the garnishee to do so. This is not considered likely and therefore no amounts have been accrued in the consolidated financial statements.

See note 6 for additional commitments and option payments on mineral properties.

The Company has entered into a contract to purchase a sonic drill subsequent to year end in the approximate amount of \$510,000.

At December 31, 2010, the Company was committed to the following future minimum rental payments in respect of premises:

2011	\$ 61,877
2012	30,939
	<u>\$ 92,816</u>

16. SUBSEQUENT EVENTS

On January 20, 2011, AGG loaned to two of its directors, an aggregate of CDN\$295,000 in order to enable them to exercise 1,966,667 share purchase warrants of the Company at \$0.15 per share prior to their expiry on January 23, 2011 and January 29, 2011. The loans are repayable no later than May 17, 2011, bear interest at the rate of 5.0% per annum and are secured against the shares received pursuant to the exercise of the warrants. The loans also provide that any proceeds from the sale of the shares will first be applied to repayment of the loans. CDN\$225,000 of the loans has been repaid.

On March 23, 2011, the Company entered into an agreement with the Gyampo Mining Company Limited to purchase a 100% interest in a mineral license containing an area of approximately 6.8 square kilometres in the Amansic West District of the Ashanti Region in the Republic of Ghana for \$120,000.

17. COMPARATIVE FIGURES

Comparative figures have been restated to conform with the current year presentation.