LEXAM VG GOLD INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011
(*unaudited*)

INDEX

Notice to Reader – From Lexam VG Gold Inc.

The condensed unaudited interim consolidated financial statements of Lexam VG Gold Inc. including the accompanying condensed interim consolidated statements of financial position as at September 30, 2011, and December 31, 2010, the condensed interim consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2011 and 2010, and the condensed interim consolidated statement of changes in shareholders' equity and cash flows for the nine months ended September 30, 2011 and 2010 are the responsibility of the Company's management. The condensed 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.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited - in Canadian dollars)

	As at	
	September 30, 2011	**December 31, 2010**
ASSETS		
Current		
Cash and cash equivalents	$ 10,305,894	$ 2,130,137
Amounts receivable (note 5(e))	241,863	539,032
Prepaid expenses and deposits (note 4)	20,903	370,563
	10,568,660	3,039,732
Restricted cash (notes 4(a) and 7(b))	92,488	-
Investment in Uranium Valley Mines (note 6)	286,504	-
Exploration and evaluation assets (note 7)	33,445,550	29,245,415
Automobiles and equipment (note 8)	76,540	19,261
	$ 44,469,742	$ 32,304,408
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 788,986	$ 406,231
	788,986	406,231
Decommissioning liabilities (note 9)	411,506	404,200
	$ 1,200,492	$ 810,431
SHAREHOLDERS' EQUITY		
Capital stock (note 11)	70,147,216	59,481,623
Common share purchase warrants (note 12)	3,666,667	16,079
Contributed surplus	760,164	905,874
Deficit	(31,304,797)	(28,909,599)
	43,269,250	31,493,977
	$ 44,469,742	$ 32,304,408

Commitments and contractual obligations (note 10)

See accompanying notes to the financial statements.

Approved on Behalf of the Board

'Thomas W. Meredith' Director

'Richard Brissenden' Director

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
COSTS AND EXPENSES:				
Office, general and administrative	372,617	402,443	2,215,662	1,127,827
Property holding	14,769	-	104,646	-
Share-based compensation	12,467	44,171	37,400	44,171
Depreciation	2,184	2,013	7,132	6,042
Impairment of automobiles and equipment	3,012	-	3,012	-
Loss on sale of automobiles and equipment	9,886	-	5,456	-
Loss on sale of exploration and evaluation asset (note 7(f))	-	-	75,094	-
Loss on disposal of royalty interest	-	-	-	1,912
Total costs and expenses	414,935	448,627	2,448,402	1,179,952
Operating loss	(414,935)	(448,627)	(2,448,402)	(1,179,952)
OTHER INCOME (EXPENSE):				
Interest and other income	12,282	4,474	51,811	12,248
Loss from equity accounted investment (note 6)	(13,496)	-	(13,496)	-
Accretion (note 9)	(2,435)	-	(7,306)	-
Foreign exchange gain	10,870	-	34,752	-
Total other income	7,221	4,474	65,761	12,248
Loss before income taxes	(407,714)	(444,153)	(2,382,641)	(1,167,704)
Deferred income tax recovery	-	-	-	171,691
Provision for income taxes	(12,557)	-	(12,557)	-
Net loss and comprehensive loss	$ (420,271)	$ (444,153)	$ (2,395,198)	$ (996,013)
Basic and diluted per share data:				
Net loss - basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted average common shares outstanding:				
- basic and diluted	225,421,678	179,316,648	224,960,322	178,601,699

See accompanying notes to the financial statements.

LEXAM VG GOLD INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended September 30, 2011 and 2010
(Unaudited - in Canadian dollars)

	Common Stock		Common Share Purchase Warrants	Contributed Surplus	Accumulated Deficit	Total
	Shares	Amount				
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	1,749,250	258,638	-	-	-	258,638
Fair value of exercised warrants		44,909	(44,909)	-	-	-
Proceeds on exercise of options	305,000	75,750	-	-	-	75,750
Fair value of exercised options	-	69,000	-	(69,000)	-	-
Share-based compensation expense	-	-	-	44,171	-	44,171
Shares issued for property acquisition	397,865	100,000	-	-	-	100,000
Net loss	-	-	-	-	(996,013)	(996,013)
Balance, September 30, 2010	180,378,727	$ 58,118,224	$ 129,567	$ 969,404	$ (27,565,677)	$ 31,651,518
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 4)	112,265,004	90,601,188	-	-	-	90,601,188
Shares cancelled upon amalgamation (note 4)	(75,000,000)	(81,169,386)	-	-	-	(81,169,386)
Warrants issued upon amalgamation (note 4)	-	-	3,666,667	-	-	3,666,667
Fair value of Lexam options (note 4)	-	-	-	540,750	-	540,750
Fair value of exercised Lexam options	-	216,300	-	(216,300)	-	-
Fair value of expired Lexam options	-	324,450	-	(324,450)	-	-
Share-based compensation expense	-	-	-	37,400	-	37,400
Proceeds on exercise of options	827,500	280,200	-	-	-	280,200
Fair value of exercised options	-	124,448	-	(124,448)	-	-
Fair value of expired options	-	58,662	-	(58,662)	-	-
Proceeds on exercise of warrants	424,344	63,652	-	-	-	63,652
Fair value of exercised warrants	-	16,079	(16,079)	-	-	-
Shares issued for property acquisition	218,284	150,000	-	-	-	150,000
Net loss	-	-	-	-	(2,395,198)	(2,395,198)
Balance, September 30, 2011	225,545,265	$ 70,147,216	$ 3,666,667	$ 760,164	$ (31,304,797)	$ 43,269,250

See accompanying notes to the financial statements.

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

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash (used in) provided by:		
Operating activities:		
Net loss for the period	$ (2,395,198)	$ (996,013)
Adjustments to reconcile net loss from operating activities:		
Depreciation	7,132	6,042
Share-based compensation	37,400	44,171
Accretion	7,306	-
Unrealized foreign exchange gain	(838)	-
Amalgamation costs	377,700	-
Impairment of automobiles and equipment	3,012	-
Loss on sale of automobiles and equipment	5,456	-
Loss on sale of exploration and evaluation asset	75,094	-
Loss from equity accounted investment (note 6)	13,496	-
Deferred income tax recovery	-	(171,691)
	(1,869,440)	(1,117,491)
Changes in non-cash working capital (note 13)	206,111	(516,234)
	(1,663,329)	(1,633,725)
Investing activities:		
Purchases of automobiles and equipment (note 8)	(78,879)	(20,451)
Proceeds from sale of automobiles and equipment	6,000	-
Proceeds from sale of exploration and evaluation asset	50,000	-
Investment in Uranium Valley Mines	(300,000)	-
Expenditures on exploration and evaluation assets (note 7)	(4,175,229)	(2,713,677)
Change in restricted cash	(21,297)	-
Proceeds from amalgamation (note 4)	14,014,639	-
	9,495,234	(2,734,128)
Financing activities:		
Proceeds on exercise of warrants and options	343,852	334,388
	343,852	334,388
Net increase (decrease) in cash and cash equivalents	8,175,757	(4,033,465)
Cash and cash equivalents, beginning of period	2,130,137	6,708,698
Cash and cash equivalents, end of period	$ 10,305,894	$ 2,675,233

See accompanying notes to the financial statements.

1. REPORTING ENTITY

Lexam VG Gold Inc. (the "Company" or "Lexam VG") 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 and nine month periods ended September 30, 2011 and 2010, and the assets, liabilities and shareholders' equity as at September 30, 2011 and December 31, 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 September 30, 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

Statement of Compliance

These condensed unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") under International Financial Reporting Standards ("IFRS") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011.

The same accounting policies and methods of computation were followed in the preparation of these condensed unaudited interim consolidated financial statements as were followed in the preparation of the condensed unaudited interim consolidated financial statements for the three months ended March 31, 2011.

The condensed unaudited interim consolidated financial statements for the three months ended March 31, 2011 contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP. Accordingly, these condensed unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011 should be read in conjunction with VG Gold and Lexam's annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP, as well as Lexam VG's condensed unaudited interim consolidated financial statements for the three months ended March 31, 2011.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of November 10, 2011, the date the Board of Directors approved the statements

As IFRS and Canadian GAAP differ in some areas, management has amended certain accounting, measurement, and consolidation methods previously applied under Canadian GAAP financial statements in order to comply with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial results and cash flows of the Company is provided in note 3. This note includes reconciliations of equity and total comprehensive loss for the comparative periods under previous GAAP to those reported under IFRS.

Basis of Measurement and Principles of Consolidation

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

The condensed interim consolidated financial statements include 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.

Investments in Associates (Equity accounted investments)

The Company adopted IAS 28 "Investments in associates".

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies which are neither subsidiaries nor interest in joint ventures. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

2. BASIS OF PRESENTATION (continued)

Investments in associates are accounted for using the equity method ("equity-accounted investees") and are recognized initially at cost. The cost of the investment includes transaction costs. The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the Company's proportionate share of the profit or loss and other changes in the associate's net assets.

The consolidated statements include the Company's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date the significant influence commences until the date that significant influence or joint control ceases.

When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

At each balance sheet date the Company assesses the investment in associates for indicators of impairment.

The Company's investment in Uranium Valley Mines is accounted for using the equity method (refer to note 6).

Functional and Presentation Currency

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

Use of Estimates and Judgements

The preparation of condensed 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 condensed 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.

2. BASIS OF PRESENTATION (continued)

Recently Issued Accounting Pronouncements

IFRS 7 "Financial instruments – Disclosures" ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

The IASB has issued IFRS 9 "Financial Instruments" which proposes to replace IAS 39. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets—amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available for sale and loans and receivable categories. This standard is effective for the Company's annual year end beginning January 1, 2013. The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

IAS 1, "Presentation of Financial Statements" ("IAS 1") requires grouping of items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, amendments to IAS 1 also require that taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company does not anticipate the amendments to IAS 1 to have a material impact on its consolidated financial statements.

IAS 12 "Income Taxes" ("IAS 12") provides a practical solution in determining the recovery of investment properties as it relates to accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after January 1, 2012, with earlier application permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

The IASB issued the following standards, which are effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the extent of the impact on its financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and structured entities. This standard carries forward the disclosures that existed under IAS 27, IAS 28 and IAS 31, and also introduces additional disclosure requirements that address the nature of, and risks associated with, and entity's interests in other entities.

IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which replaces parts of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") and all of SIC-12, "Consolidation – Special Purpose Entities", changes the definition of control that is the determining factor in whether an entity should be consolidated. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IAS 27, "Separate Financial Statements (2011)" ("IAS 27 (2011)") was reissued and now only contains accounting and disclosure requirements for when an entity prepares separate financial statements, as the consolidation guidance is now included in IFRS 10.

2. BASIS OF PRESENTATION (continued)

IFRS 11, "Joint Arrangements" ("IFRS 11"), which replaces IAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers", requires a venturer to classify its interest in a joint arrangement as either a joint operation or a joint venture. For a joint operation, the joint operator will recognize its assets, liabilities, revenue and expenses, and/or its relative share thereof. For a joint venture, the joint venturer will account for its interest in the venture's net assets using the equity method of accounting. The choice to proportionally consolidate joint ventures is prohibited. IAS 28, "Investments in Associates and Joint Ventures (2011)" was amended as a consequence of the issuance of IFRS 11. In addition to prescribing the accounting for investments in associates, it now includes joint ventures that are to be accounted for by the equity method. The application of the equity method has not changed as a result of this amendment.

IFRS 13, "Fair Value Measurement" ("IFRS 13") provides guidance on how fair value should be applied where its use is already required by other IFRS standards, and includes a definition of fair value and is a single source of guidance on fair value measurement and disclosure requirements for use across IFRS.

3. 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.

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.

During the nine month period ended September 30, 2010, there were no reconciling items within Shareholder's Equity between Canadian GAAP and IFRS, except for the opening balance adjustments recorded at January 1, 2010, which was previously reported in the Company's March 31, 2011 unaudited interim consolidated financial statements.

There were no changes to the three and nine month periods ended September 30, 2010 Statement of Operations and Comprehensive Loss upon conversion from Canadian GAAP to IFRS.

(Unaudited - in Canadian dollars)

4. 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 deposits 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. During 2011, US$30,000 of the deposits were returned to Lexam VG.

(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)

4. 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. These costs have been expensed during the first quarter of 2011. These costs were recorded as prepaid expenses and deposits at December 31, 2010.

5. 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.

(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.

5. FINANCIAL INSTRUMENTS (continued)

(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 September 30, 2011 the Company held cash and cash equivalents of $10,305,894.

(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.

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.

5. FINANCIAL INSTRUMENTS (continued)

(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 September 30, 2011, the Company recorded a receivable of approximately $7,809 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 United States ("U.S.") dollars. In addition, the Company incurs costs at its Baca Project in Colorado primarily in U.S. dollars. Accordingly, the Company is exposed to financial gain or loss as a result of foreign exchange movements against the U.S. dollar, and the Company's exploration costs are affected by changes in the exchange rate between the U.S. and Canadian dollar.

The Company has elected not to hedge its exposure to fluctuations in the U.S. dollar as the timing and amounts of exploration spending in U.S. dollars are contingent on the environmental and regulatory processes which are not feasible to predict. The Company's administrative costs denominated in U.S. dollars are not significant. A 1% change in the U.S. dollar at September 30, 2011 would have an impact of approximately $1,000 in the statement of operations, based on working capital at September 30, 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)

5. FINANCIAL INSTRUMENTS (continued)

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

	Nine months ended September 30, 2011	Year ended December 31, 2010
Financial Instruments		
Fair value through profit and loss		
Cash and cash equivalent	$ 10,305,894	$ 2,130,137
Loans and receivable		
Amounts receivable	$ 241,863	$ 539,032
Financial liabilities		
Other liabilities		
Accounts payable and liabilities	$ 788,986	$ 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 September 30, 2011 the Company's capital stock was $70,147,216 (2010 - $59,481,623). Changes in capital stock over prior year end resulted from the amalgamation with Lexam, and the issuances of 424,344 common shares on exercise of warrants, 827,500 common shares from exercise of share options and 218,284 common shares for property acquisition during period ended September 30, 2011.

There were no changes in the Company's approach to capital management during the period ended September 30, 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)

6. INVESTMENT IN URANIUM VALLEY MINES

On May 12, 2011, Lexam VG and Golden Valley Mines Ltd. ("Golden Valley") entered into a property transfer and share purchase agreement, whereby each company transferred $300,000, along with their respective 50% interest in the Otish & Mistassini Property, located in north central Quebec, to Uranium Valley Mines Ltd. ("UVM"). In addition, Golden Valley also contributed its wholly owned Beartooth project to UVM. The Company simultaneously signed an escrow agreement with UVM, whereby the cash contribution of $300,000 was placed in escrow on May 16, 2011.

As a result of the transfers, Lexam VG holds 4,000,000 common shares of UVM, reflecting an approximate ownership of 36%. UVM received TSX Venture exchange listing on July 14, 2011 and pursuant with the escrow agreement, the $300,000 contribution was released from escrow on July 14, 2011. UVM now trades under the symbol 'VZZ'. The Company's investment in UVM is accounted for using the equity method. The following is a schedule of the equity accounted investment:

	As at September 30, 2011
Purchase of investment	$ 300,000
Loss on equity investment	(13,496)
	$ 286,504

As at September 30, 2011, UVM had total assets approximating $4,300,000 and minimal liabilities, with a net loss approximating $38,000 for the period ended September 30, 2011.

Based on UVM's closing share price of $0.18 per share on September 30, 2011, the market value of 4,000,000 shares was $720,000.

7. EXPLORATION AND EVALUATION ASSETS

	December 31, 2010	Exploration	Disposal of Property	September 30, 2011
Fuller (a)	$ 12,942,004	$ 465,960	$ -	$ 13,407,964
Davidson-Tisdale (b)	6,438,449	14,729	-	6,453,178
Buffalo Ankerite (c)	5,568,457	2,480,296	-	8,048,753
Paymaster (d)	4,045,135	1,362,654	-	5,407,789
Augdome (e)	126,276	1,590	-	127,866
Windsor (f)	125,094	-	(125,094)	-
	$ 29,245,415	$ 4,325,229	$ (125,094)	$ 33,445,550

	December 31, 2009	Exploration	Decommissioning Liabilities	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

7. EXPLORATION AND EVALUATION ASSETS (continued)

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.

In May 2011, the Company was transferred title of the restrictive time deposit of $50,560 held with the Northern Development and Mines for the Davidson-Tisdale Mine Closure Plan. Prior to the transfer, the title was held by the previous claim holder.

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.

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 September 30, 2011.

e) Augdome Property

The Company has a right to 100% ownership in the Augdome property.

f) Windsor

The Company had a 100% interest in the property subject to a 2% net smelter royalty. In June 2011, the Company disposed of its 100% interest in the Windsor property for proceeds of $50,000 resulting in a loss of $75,094. The capitalized exploration and evaluation asset balance was $125,094.

(Unaudited - in Canadian dollars)

8. AUTOMOBILES AND EQUIPMENT

	Office & computer equipment	Automobiles	Total
Cost			
Balance, December 31, 2010	$ 7,018	$ 17,714	$ 24,732
Additions	44,448	34,431	78,879
Impairment	(4,443)	-	(4,443)
Disposals	-	(14,814)	(14,814)
Balance, September 30, 2011	$ 47,023	$ 37,331	$ 84,354
Accumulated Amortization			
Balance, December 31, 2010	$ 1,232	$ 4,239	$ 5,471
Depreciation	1,485	5,647	7,132
Impairment	(1,431)	-	(1,431)
Disposals	-	(3,358)	(3,358)
Balance, September 30, 2011	$ 1,286	$ 6,528	$ 7,814
Carrying amounts			
As at December 31, 2010	$ 5,786	$ 13,475	$ 19,261
As at September 30, 2011	$ 45,737	$ 30,803	$ 76,540

	Office & computer equipment	Automobiles	Powerlines and electrical equipment	Mill equipment	Total
Cost					
Balance, December 31, 2009	$ 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
Accumulated Amortization					
Balance, December 31, 2009	$ 19,476	$ 870	$ 129,799	$ 63,750	$ 213,895
Depreciation	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
Carrying amounts					
As at December 31, 2009	$ 13,835	$ 2,030	$ 12,122	$ 798,250	$ 826,237
As at December 31, 2010	$ 5,786	$ 13,475	$ -	$ -	$ 19,261

(Unaudited - in Canadian dollars)

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 $411,506. 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 pertaining to this obligation. However, this requirement may change upon submission of a closure plan.

	Nine months ended September 30, 2011	Year ended December 31, 2010
Obligations, beginning of period	$ 404,200	$ -
Estimated future decommissioning costs	-	404,200
Accretion of discounted cash flows	7,306	-
Obligations, end of period	$ 411,506	$ 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, provides 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 $5 million on the project, issued 1,227,997 common shares, and 1,000,000 warrants. All warrants expired unexercised in June 2009. The Company is on track to meet its year four exploration expenditure requirements. Pursuant to the Option and Joint Venture agreement, the Company is also obligated to issue common shares equivalent to $200,000, on the fourth anniversary date of the agreement. In June 2011, the Company satisfied the year three spending requirement of $1,600,000 and issued common shares with a fair value equivalent to $150,000.

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

	Exploration Expenditures	Value of Shares to be Issued	Total
2012	$ 2,500,000	$ 200,000	$ 2,700,000

(b) Other commitments

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

(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 22,400,000.

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 nine months ended September 30, 2011 and the year ended December 31, 2010:

	Nine months ended September 30, 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	(827,500)	0.34	(1,820,000)	0.26
Expired or Cancelled	(527,500)	0.25	(190,000)	0.20
Granted (i)	525,000	0.07	-	-
	1,980,000	$ 0.42	2,810,000	$ 0.42

	Nine months ended September 30, 2011	Year ended December 31, 2010
Weighted average fair value of options granted during the period	$1.03	-

(Unaudited - in Canadian dollars)

11. CAPITAL STOCK (Continued)

The following common share purchase options are outstanding at September 30, 2011:

	Date of Grant	Number of Shares		Exercise Price	Expiry Date
Directors	January 18, 2007	500,000		0.60	January 18, 2012
	May 28, 2009	200,000		0.15	May 11, 2014
	October 2, 2009	400,000	(ii)	0.40	October 1, 2014
Officers	October 2, 2009	150,000	(ii)	0.40	October 1, 2014
Service Providers	January 18, 2007	245,000		0.60	January 18, 2012
	May 28, 2009	275,000		0.15	May 11, 2014
	October 2, 2009	210,000	(ii)	0.40	October 1, 2014
		1,980,000	$	0.42	

(i) On January 1, 2011 525,000 options were issued representing replacement options awarded to prior option holders of Lexam. These options were originally granted by Lexam on August 14, 2001. During the third quarter of 2011, 210,000 of the options were exercised and the remaining 315,000 options expired unexercised. Refer note to 4 for further details.

(ii) The options granted on October 2, 2009 vest at a rate of 1/3 over three years. As at September 30, 2011, 533,333 shares remain unvested, with one year remaining before these shares are fully vested, and a remaining option life of 3 years.

12. COMMON SHARE PURCHASE WARRANTS

The following table summarizes the warrants activity for the nine months ended September 30, 2011 and for the year ended December 31, 2010:

	Nine months ended September 30, 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 Balance	5,208,334	$ 1.00	$ 3,666,667	424,344	$ 0.15	$ 16,079

The 5,208,334 warrants issued on January 1, 2011 represent replacement warrants awarded to prior warrant holders of Lexam. Refer to note 4 for further details.

(Unaudited - in Canadian dollars)

12. COMMON SHARE PURCHASE WARRANTS (Continued)

The following common share purchase warrants are outstanding at September 30, 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 are as follows:

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Amounts receivable	$ 377,661	$ (488,444)
Prepaid expenses and deposits	(25,250)	(10,841)
Accounts payable and accrued liabilities	79,406	(16,949)
Income tax payable	(225,706)	-
	$ 206,111	$ (516,234)
Interest received	$ 51,811	$ 10,848
Taxes paid	$ 210,162	$ -
Equivalent dollar value of shares issued for property acquisition	$ 150,000	$ 100,000

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. For the nine months ended September 30, 2011, the Company incurred and paid management fees of $162,300 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:

	Nine months ended September 30,	
	2011	2010
Consulting fees:		
Consulting fees charged by a company controlled by an officer for financial management services	$ -	$ 67,000
Consulting fees charged by officers for executive management services	$ -	$ 165,000
Legal fees:		
The company paid legal fees to a firm in which an officer of the company is also a partner of the law firm	$ -	$ 8,338

Accounts payable and accrued liabilities includes $nil (2010 - $14,000) owing to directors and officers of the Company and to companies controlled by directors and officers of the Company as at September 30, 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 and comprehensive loss.

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.