LEXAM VG GOLD INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012

INDEX

	Page
Management's Responsibility for the Financial Statements	3
Independent Auditors' Report	4
Consolidated Statement of Financial Position	5
Consolidated Statements of Operations and Comprehensive Loss	6
Consolidated Statements of Changes in Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to Condensed Interim Consolidated Financial Statements	9 - 29

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared by and are the responsibility of management of Lexam VG Gold Inc. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and reflect management's best estimate and judgment based on currently available information.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded, liabilities are recognized and that financial information is relevant and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities in respect of financial reporting and internal control. The Audit Committee of the Board of Directors, comprised of independent directors, meets periodically with management and the Company's independent auditors to discuss auditing matters and financial reporting issues. In addition, the Audit Committee reviews the annual consolidated financial statements and provides a recommendation to the Board of Directors on their approval. The Company's independent auditors, KPMG LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

(signed) Robert R. McEwen

Robert R. McEwen
Non-Executive Chairman
in absence of Chief Executive Officer

(signed) Andrew Iaboni

Andrew Iaboni
Chief Financial Officer

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lexam VG Gold Inc.

We have audited the accompanying consolidated financial statements of Lexam VG Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of operations and comprehensive loss, changes in shareholder's equity and statements of cash flows for the years then ended, and notes, comprising 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 International Financial Reporting Standards, 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.

Auditors' 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 our 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, we consider 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 in our audits 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 consolidated financial position of Lexam VG Gold Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 20, 2014
Toronto, Canada

LEXAM VG GOLD INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31,
(in Canadian dollars)

	2013	2012
ASSETS		
Current		
Cash and cash equivalents (note 3m)	$ 458,018	$ 1,532,091
Short-term investments (note 3n)	3,130,887	3,588,707
Amounts receivable (note 4e)	37,903	95,975
Prepaid expenses and deposits	24,677	23,786
	3,651,485	5,240,559
Non-current		
Restricted cash (note 7b)	50,560	75,435
Investment in Uranium Valley Mines (note 6)	-	212,984
Exploration and evaluation assets (note 7)	38,140,614	37,314,802
Automobile and equipment (note 8)	23,015	45,344
	$ 41,865,674	$ 42,889,124
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 118,178	$ 278,264
	118,178	278,264
Non-current		
Decommissioning liabilities (note 9)	434,134	423,917
	$ 552,312	$ 702,181
SHAREHOLDERS' EQUITY		
Common stock (note 11)	70,105,954	70,105,954
Contributed surplus	4,705,661	4,705,661
Deficit	(33,498,253)	(32,624,672)
	41,313,362	42,186,943
	$ 41,865,674	$ 42,889,124

Commitments and contingencies (note 10)

The accompanying notes are an integral part of these consolidated financial statements.

LEXAM VG GOLD INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31,

(in Canadian dollars)

	2013	2012
OPERATING EXPENSES:		
Office, general and administrative	$ 688,533	$ 777,099
Depreciation	22,329	22,328
Property holding	-	8,937
Share-based compensation	-	17,601
Total costs and expenses	710,862	825,965
Operating loss	(710,862)	(825,965)
OTHER INCOME (EXPENSES):		
Interest and other income	51,836	166,066
Accretion	(10,217)	(9,976)
Foreign exchange gain (loss)	8,646	(2,605)
Loss on sales of automobile and equipment		(999)
Loss from equity accounted investment (note 6)	(212,984)	(61,334)
Total other (expenses) income	(162,719)	91,152
Net loss and comprehensive loss	$ (873,581)	$ (734,813)
Basic and diluted per share data:		
Net loss - basic and diluted (note 15)	$ (0.00)	$ (0.00)
Weighted average common shares outstanding		
- basic and diluted	226,570,860	226,131,046

The accompanying notes are an integral part of these consolidated financial statements.

LEXAM VG GOLD INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECMEBER 31, 2013 AND 2012
(in Canadian dollars)

	Common Stock		Common Share Purchase	Contributed	Accumulated	
	Shares	Amount	Warrants	Surplus	Deficit	Total
Balance, December 31, 2011	225,545,265	$ 69,764,104	$ 3,666,667	$ 1,155,743	$ (31,889,859)	$ 42,696,655
Share-based compensation	-	-	-	17,601	-	17,601
Warrants expired, net of tax (note 12)	-	132,500	(3,666,667)	3,534,167	-	-
Proceeds on exercise of options (note 11)	50,000	7,500	-	-	-	7,500
Fair value of exercised options	-	1,850	-	(1,850)	-	-
Share issued for purchase acquisition	975,595	200,000				200,000
Net loss	-	-	-	-	(734,813)	(734,813)
Balance, December 31, 2012	226,570,860	$ 70,105,954	$ -	$ 4,705,661	$ (32,624,672)	$ 42,186,943
Net loss	-	-	-	-	(873,581)	(873,581)
Balance, December 31, 2013	226,570,860	$ 70,105,954	$ -	$ 4,705,661	$ (33,498,253)	$ 41,313,362

The accompanying notes are an integral part of these consolidated financial statements.

LEXAM VG GOLD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(in Canadian dollars)

	2013	2012
Cash (used in) provided by:		
Operating activities:		
Net loss for the period	$ (873,581)	$ (734,813)
Adjustments to reconcile net loss from operating activities:		
Depreciation	22,329	22,328
Share-based compensation	-	17,601
Accretion	10,217	9,976
Unrealized foreign exchange (gain) Loss	(125)	550
Loss on sale of automobile and equipment	-	999
Loss from equity accounted investment	212,984	61,334
	(628,176)	(622,025)
Changes in non-cash working capital (note 13)	(167,264)	(249,557)
	(795,440)	(871,582)
Investing activities:		
Proceeds from sale of short-term investments	457,820	3,411,293
Expenditures on exploration and evaluation assets (note 7)	(761,453)	(2,546,314)
Decrease in restricted cash	25,000	-
Proceeds from sale of automobile and equipment	-	300
	(278,633)	865,279
Financing activities:		
Proceeds on exercise of options	-	7,500
	-	7,500
Net (decrease) increase in cash and cash equivalents	(1,074,073)	1,197
Cash and cash equivalents, beginning of the year	1,532,091	1,530,894
Cash and cash equivalents, end of the year	$ 458,018	$ 1,532,091

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

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 in Timmins, Ontario, Canada. 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, exploration and evaluation assets, accounts payable and accrued liabilities, and reported expenses.

As at December 31, 2013, Robert R. McEwen (“Mr. McEwen”), the non-executive chairman of Lexam VG owns 27% of the issued and outstanding common shares of Lexam VG.

The Company’s gold exploration assets, located in Timmins, Ontario, Canada, are comprised primarily of 100% interest in the Fuller property, 100% interest in the Buffalo Ankerite property, 60.7% interest in the Paymaster property and a 68.5% interest in the Davidson Tisdale property.

2. BASIS OF PRESENTATION

Statement of compliance

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these annual consolidated financial statement are based on IFRS issued and outstanding as of March 20, 2014, the date the Board of Directors approved the statements.

Basis of Measurement and Principles of Consolidation

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

The annual 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.

Functional and Presentation Currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting polices set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Principles of consolidation

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

(b) Foreign currency transactions

The consolidated financial statements are presented in Canadian dollars. Costs are primarily incurred in Canadian dollars, however, certain of the Company's financial monetary assets and liabilities are denominated in US dollars. Although some transactions are in US dollars, the predominant currency is the Canadian dollar, and as such, it is also the Company's functional currency.

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

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

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

E&E costs consist of:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

(d) Automobile and equipment

Recognition and Measurement

Automobile and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes all expenditures that are as follows:

Depreciation

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

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

Impairment

The carrying amounts of the Company's automobile and equipment is reviewed at each reporting date to determine whether there is indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or group of assets, in which case, the individual assets are grouped together into cash generating units for impairment purposes.

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

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

(e) Jointly Controlled Assets

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

The Company recognizes its share of the direct and joint assets, liabilities that it has incurred directly and jointly with the other operator, income from the sale or use of its share of the output, its share of expenses incurred directly or jointly in respect of its interest in the jointly controlled asset.

The Company accounts for the Davidson Tisdale and Paymaster properties as joint operations.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

(f) Investments in Associates (Equity Accounted Investments)

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 interests 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.

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

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

(g) Accounting for income taxes

Income tax expense is comprised of current and deferred tax expense. Current tax expense is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity. Deferred taxes are calculated using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for tax losses and other deductions carried forward.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

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

(h) Basic loss per common share

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

(i) Share-based payments

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

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

(j) Decommissioning liabilities

A legal or constructive obligation to incur restoration, rehabilitation, and environmental costs may arise when environmental disturbance is caused by exploration, development, or production. The Company's exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has recorded a liability for the estimated future costs of decommissioning liabilities, based on independent estimates of the costs to comply with the regulations. However, these estimates are subject to change based on changes in circumstances and any new information that becomes available.
The fair value of the liability for a decommissioning liability is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

(k) Warrants

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

(l) Financial instruments

The Company holds certain financial instruments such as cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities, the fair value of which approximates their carrying value due to the short-term nature of these instruments. IAS 39, requires classification of financial instruments into one of five categories: financial assets at fair value through profit and loss, held-to-maturity investments, loans and receivables, available-for-sale securities and other financial liabilities through amortized cost.

Loans and receivables

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

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

Impairment of financial assets

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

Evidence of impairment could include:

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

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

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

Other Financial liabilities at amortized cost

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

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

Financial instruments recorded at fair value

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

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

m) Cash and cash equivalents

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

(n) Short-term investments

Short-term investments include short-term money market instruments held with Canadian banks with terms to maturity at acquisition of between three and twelve months. The carrying value of short-term investments approximates fair value.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

Use of Estimates and Judgment

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

Significant estimates and judgments used in the preparation of these consolidated financial statements include:

(a) Mineral Resources

The estimates relating to mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous estimates in determining the mineral resource estimate. Such estimation is a subjective process, and the accuracy of any mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions, such as metal prices and market conditions, could have a material effect in the future ability to develop such projects.

The recoverability of exploration and evaluation assets is assessed for impairment upon demonstrating the viability of a project. The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether future economic benefits may be realized, which are based on assumptions about future events and circumstances as indicated above.

(b) Decommissioning Liabilities

The Company's decommissioning liabilities represent management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, and the applicable risk-free interest rates for discounting the future cash outflows. Changes to the above factors can result in a change to the provision recognized by the Company.

Management uses its judgment in determining if a present obligation exists at the reporting period by considering all evidence, including the opinion of independent experts. Management also uses its judgment in evaluating variables that are used in determining the present value of the liabilities.

(c) Income Taxes

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences, and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its judgments, management gives additional weight to positive and negative evidence that can be objectively verified. At the end of each reporting period, the Company reassesses unrecognized tax assets.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

Recently Adopted Accounting Standards

The International Accounting Standards Board ("IASB") issued the following standards, which are effective for annual periods beginning on or after January 1, 2013. The Company adopted these standards effective January 1, 2013 and the adoption of these standards did not have a material impact on the Company's financial statements.

In adopting IFRS 11, the Company performed an analysis to assess whether the entity had joint control over its interests in the Davidson Tisdale, Paymaster and Uranium Valley Mines projects or whether they were joint operations under IFRS 11.

The Company concluded that its Davidson Tisdale and Paymaster projects are considered joint operations, and therefore under IFRS 11 are accounted for under a method similar to proportionate consolidation. UVM was considered a joint venture for accounting purposes, thus, the equity method was used. The accounting methods required under IFRS 11 are therefore the same as the Company was following in prior periods, therefore no change in accounting was required.

IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which replaces parts of International Accounting Standard ("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)" 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.

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 proportionately 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 includes joint ventures that are to be accounted for by the equity method.

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.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

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.

In October 2011, the IFRS Interpretations Committee issued its Interpretation on accounting for waste removal costs - IFRIC Interpretation 20 "Stripping Costs in the Production Phase of a Surface Mine" ("IFRIC 20"), which provides guidance on the accounting for costs related to stripping activity in the production phase of surface mining. When the stripping activity results in the benefit of useable ore that can be used to produce inventory, the related costs are to be accounted for in accordance with IAS 2 "Inventories". When the stripping activity results in the benefit of improved access to ore that will be mined in future periods, the related costs are to be accounted for as additions to non-current assets when specific criteria are met.

Recently Issued Accounting Pronouncements not yet adopted

The IASB issued the following standards, which is not yet effective and has not been applied in the preparation of these financial statements. The Company is in the process of determining the extent of the impact on its financial statements.

The IASB has issued IFRS 9 "Financial Instruments" which proposes to replace IAS 39, Financial Instruments: Recognition and Measurement ("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. In November 2013, the IASB issued an amendment to IFRS 9 which includes a new hedge model that aligns accounting more closely with risk management, as well as enhancements to the disclosures about hedge accounting and risk management. Additionally as the impairment guidance in IFRS 9, as well as certain limited amendments to the classification and measurement requirements of IFRS 9, are not yet complete, the previously mandated effective date of IFRS 9 of January 1, 2015 has been removed. Entities may apply IFRS 9 before IASB completes the amendments, but are not required to.

In May 2013, the IASB issued IFRIC 21– Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.

4. 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.

(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 and short-term investments. 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 required for operating activities, exploration and evaluation expenditures, and holding adequate amounts of cash and cash equivalents and short-term investments, which can readily be converted to cash.

Accounts payable and accrued liabilities are current financial instruments expected to be settled in the normal course of operations.

As at December 31, 2013 the Company held cash and cash equivalents of $458,018 and short-term investments of $3,130,887.

(c) Interest Rate Risk

Interest rate risk is the risk associated with interest-bearing assets or liabilities 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.

4. FINANCIAL INSTRUMENTS (Continued)

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 maturities of 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.

(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 SGX Resources Inc. (“SGX”) 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 December 31, 2013, the Company recorded receivables of approximately $10,372 due from SGX.

(f) Fair Value

Cash and cash equivalents are accounted for at fair value through profit and loss. Amounts receivable are classified as loans and receivables, and measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, and measured at amortized cost, which approximate fair value due to their short term nature.

Cash and cash equivalents are classified as a level 1 item under the fair value hierarchy, and short-term investments are classified as a level 2 item under the fair value hierarchy.

5. CAPITAL MANAGEMENT

The Company defines capital management as the manner in which it manages its shareholders' equity. As at December 31, 2013 the Company's common stock was $70,105,954 (2012 - $70,105,954). There were no changes to the Company's common stock during the year.

There were no changes in the Company's approach to capital management during the year ended December 31, 2013 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, optimizing 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 debt or equity or similar instruments, or make adjustments to its capital expenditure program.

(in Canadian dollars)

6. INVESTMENT IN URANIUM VALLEY MINES ("UVM")

Lexam VG holds 4,000,000 common shares of UVM, representing an approximate ownership of 36%. The Company's investment in UVM is accounted for using the equity method. Based on a moratorium announced on March 28, 2013 by the Quebec Government restricting the issuance of exploration and exploitation permits for uranium in the province, UVM impaired its Otish/Mistassini Prospect.

As a result, UVM loss for the year ended December 31, 2012 was $1,574,322, primarily relating to the impairment of its Otish/Mistassini Prospect. The Company's 36% equity pick-up on the loss would have been $566,756 which exceeded the carrying value of the investment. Thus, the carrying value of the investment was reduced to $nil in the first quarter of 2013. The Company's cumulative accounting loss on the investment is approximately $315,000.

As at December 31, 2013, UVM had total assets approximating $386,000 and liabilities approximating $700, with a year ending net loss approximating $62,000 (2012 - $1,574,322).

The following is a schedule of the equity accounted investment:

	2013	2012
Beginning of year	$ 212,984	$ 274,318
Loss on equity investment	(212,984)	(61,334)
End of year	$ -	$ 212,984

UVM trades on the TSX Venture under the symbol 'VZZ'. Based on UVM's closing share price of $0.03 per share on December 31, 2013, the market value of Lexam VG's investment in UVM is $120,000.

(in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS

	December 31, 2012		Exploration		December 31, 2013	
Fuller (a)	$	14,437,480	$	219,833	$	14,657,313
Davidson Tisdale (b)		6,482,093		75,178		6,557,271
Buffalo Ankerite (c)		10,123,884		366,294		10,490,178
Paymaster (d)		6,271,345		164,507		6,435,852
	$	37,314,802	$	825,812	$	38,140,614

	December 31, 2011		Exploration		December 31, 2012	
Fuller (a)	$	13,520,229	$	917,251	$	14,437,480
Davidson Tisdale (b)		6,462,587		19,506		6,482,093
Buffalo Ankerite (c)		8,900,711		1,223,173		10,123,884
Paymaster (d)		5,684,961		586,384		6,271,345
	$	34,568,488	$	2,746,314	$	37,314,802

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 SGX Resources Inc. is the legal and beneficial owner of 31.5% of the Davidson Tisdale property. This is accounted for as a joint operation where each operator bears the agreed percentage of expenses incurred on the property, corresponding to ownership. The Company's restrictive time deposit of $50,560, is held with the Northern Development and Mines for the Davidson Tisdale Mine Closure Plan.

c) Buffalo Ankerite

The Company has a 100% interest in mining rights to the Buffalo Ankerite property. 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

The Company holds a 60.7% interest in the claims forming Paymaster. This is accounted for as a joint operation where each operator bears the agreed percentage of expenses on the property, corresponding to ownership. On September 20, 2013 the Company received formal notification, from Goldcorp Inc. ("Goldcorp"), the minority holder of Paymaster, indicating that they will not be participating in the 2013 exploration budget. As such, the Company has diluted Goldcorp's ownership in accordance with terms stipulated in the joint venture agreement. For the year ended December 31, 2013, the Company increased its interest from 60% to 60.7%.

(in Canadian dollars)

8. AUTOMOBILE AND EQUIPMENT

	Office & computer equipment	Automobiles	Total
Cost			
Balance, December 31, 2011	$ 44,448	$ 37,331	$ 81,779
Disposals	-	(2,900)	(2,900)
Balance December 31, 2012	$ 44,448	$ 34,431	$ 78,879
Balance December 31, 2013	$ 44,448	$ 34,431	$ 78,879
Accumulated Amortization			
Balance, December 31, 2011	$ 4,321	$ 8,487	$ 12,808
Additions	14,816	7,512	22,328
Disposals	-	(1,601)	(1,601)
Balance, December 31, 2012	$ 19,137	$ 14,398	$ 33,535
Additions	14,817	7,512	22,329
Balance, December 31, 2013	$ 33,954	$ 21,910	$ 55,864
Carrying amounts			
As at December 31, 2012	$ 25,311	$ 20,033	$ 45,344
As at December 31 2013	$ 10,494	$ 12,521	$ 23,015

9. DECOMMISSIONING LIABILITIES

The Company recorded a decommissioning liability in 2010 pertaining to its Buffalo Ankerite property, based on the estimated reclamation costs. The estimated discounted obligation as at December 31, 2013 is $434,134. The obligation relates to re-sloping existing pit walls, revegetation and labour costs. The undiscounted liability is expected to be settled in 2015 for approximately $455,000, and has been discounted using a discount rate of 2.4%. As the Company continues its exploratory activities and investigates potential production scenarios, costs associated with the remediation work will be reconsidered. Currently, the Company has not been required to post a reclamation bond with the Ministry of Northern Development. However, this requirement may change upon submission of a closure plan.

	2013	2012
Obligations, beginning of year	$ 423,917	$ 413,941
Accretion of discounted cash flows	10,217	9,976
Obligations, end of year	$ 434,134	$ 423,917

(in Canadian dollars)

10. COMMITMENTS AND CONTINGENCIES

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Decommissioning liabilities	-	434,134	-	-	434,134
Accounts payable and accrued liabilities	118,178	-	-	-	118,178
	$ 118,178	$ 434,134	$ -	$ -	$ 552,312

11. CAPITAL STOCK

(a) Authorized

Authorized capital stock of the Company consists of an unlimited number of common shares, without par value.

(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 following table summarizes options activity for the years ended December 31, 2013 and 2012.

	2013		2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Opening Balances	1,010,000	$ 0.31	1,980,000	$ 0.42
Exercised (i)	-	-	(50,000)	0.15
Expired or Cancelled	-	-	(920,000)	0.56
	1,010,000	$ 0.31	1,010,000	$ 0.31

(i) The share price on the date of exercise was $0.40.

The following common share purchase options are outstanding at December 31, 2013:

	Date of Grant	Number of Shares	Exercise Price	Expiry Date
Directors	May 28, 2009	200,000	0.15	May 11, 2014
	October 2, 2009	400,000	0.40	October 1, 2014
Service Providers	May 28, 2009	200,000	0.15	May 11, 2014
	October 2, 2009	210,000	0.40	October 1, 2014
		1,010,000	$ 0.31	

(in Canadian dollars)

12. COMMON SHARE PURCHASE WARRANTS

The Following table summarizes the warrants activity for the years ended December 31, 2013 and 2012:

	2013			2012		
	Number of Warrants	Weighted Average Exercise Price	Fair Value	Number of Warrants	Weighted Average Exercise Price	Fair Value
Opening Balance	-			5,208,334	$ 1.00	$ 3,666,667
Exercised	-	-	-			
Issued	-	-	-			
Expired				(5,208,334)	1.00	(3,666,667)
Closing Balance	-	$ -	$ -	-	$ -	$ -

The 5,208,334 warrants were issued on January 1, 2011, convertible to common shares at an exercise price of $1.00 and had an expiry date of December 30, 2012. On December 30, 2012 the warrants expired unexercised and as a result the company recorded a reduction in Common Share Purchase Warrants of $3,666,667 and an off setting increase of $3,534,167 to Contributed Surplus and $132,500 to Common Stock. The proceeds attributable to the warrants on the initial offering, were $1,000,000, with an effective tax rate of 13.25%.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital balances are as follows:

	2013	2012
Amounts receivable	$ 58,072	$ 88,373
Prepaid expenses and deposits	(891)	176
Accounts payable and accrued liabilities	(224,445)	(338,106)
	$ (167,264)	$ (249,557)
Interest received	$ 51,705	$ 160,008
Equivalent dollar value of shares issued for property acquisition	$ -	$ 200,000
Shares issued for property acquisition	-	975,595

14. RELATED PARTY TRANSACTIONS

The Company agreed to reimburse McEwen Mining Inc. ("McEwen Mining") for rent, personnel, office expenses and other administrative services, on an ongoing basis as those costs are paid directly by McEwen Mining. Mr. McEwen is the Chief Executive Officer of McEwen Mining and holds a 25% ownership in McEwen Mining, a publicly listed company, trading on the New York Stock Exchange and the Toronto Stock Exchange.

For the year ended December 31, 2013, the Company paid rent, personnel office expenses and other administrative services of $118,449, to McEwen Mining. During the comparable periods in 2012, the Company paid $114,300, to McEwen Mining.

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.

Short-term benefits include salaries, bonuses payable and other annual employee benefits. During 2013, the Company's directors and other key management received remuneration of $88,563 for short-term benefits (2012 - $93,048).
Key management personnel are defined to include the Senior Leadership Team and members of the Board of Directors.

15. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share has been calculated by dividing the net loss per the financial statements by the weighted average number of shares outstanding during the period. The fully diluted loss per share would be calculated using a common share balance increased by the number of common shares that could be issued on the exercise of outstanding warrants and options of the Company. As the Company is in a loss position for the years ended December 31, 2013 and 2012, the inclusion of options and warrants would be anti-dilutive.

(in Canadian dollars)

16. INCOME TAXES

a) Reconciliation to statutory rate

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in the financial statements. The applicable rate used for 2013 was 26.50% (2012 – 26.50%).

	2013	2012
Loss per financial statements before tax	$ (873,581)	$ (734,813)
Statutory tax rates	26.50%	26.50%
Expected income tax recovery	(231,499)	(194,725)
Tax benefit not recognized	143,445	321,421
Non-deductible expenses	102	5,528
Non-taxable gain/loss on equity investment	28,220	8,127
Increase in tax rate effect on DIT	-	(144,611)
Foreign earnings subject to different tax rates	(1,775)	(3,007)
True up adjustments	60,730	9,850
Other	777	(2,583)
Income tax expense	$ -	$ -

b) Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	Consolidated Statement of financial position		Consolidated Statement of operations	
	2013	2012	2013	2012
Deferred income tax assets (liabilities):				
Non-capital losses	$ 2,021,435	$ 2,021,435	$ -	$ 141,897
Exploration costs	(2,021,435)	(2,021,435)	-	(141,897)
Net deferred income tax assets	$ -	$ -	$ -	$ -

(in Canadian dollars)

16. INCOME TAXES (Continued)

Deductible temporary differences and unused tax losses for which no deferred tax assets are recognized in the statement of financial position are as follows:

	2013	2012
Non-capital losses	$ 6,730,358	$ 6,214,846
Exploration costs	3,484,741	3,484,741
Automobiles and equipment	1,529,466	1,507,138
Share issuance costs	-	70,934
Equity investment	1,200,000	987,016
Decommissioning Liabilites	29,933	19,716
Write-down of loss receivable	219,650	219,650
Capital loss	28,085	28,085
Intangible costs	597,889	642,892
Other	134,613	137,897
Net unrecognized temporary differences	$ 13,954,735	$ 13,312,915

c) Non-Capital Loss Carry-Forwards

The Company has non-capital loss carry-forwards in Canada of approximately $12,978,575 and in the US of US$1,280,502 available in certain circumstances to reduce future taxable income for Canadian and US income tax purposes. These losses expire between 2014 and 2032.