

Lexam VG Gold Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2014

Lexam VG Gold Inc.

Management's Discussion and Analysis – September 30, 2014

This Management's Discussion and Analysis ("MD&A") is prepared as of November 6, 2014 and should be read in conjunction with the condensed unaudited interim consolidated financial statements of Lexam VG Gold Inc. (the "Company" or "Lexam VG") for the three and nine months ended September 30, 2014 and 2013 and the audited annual consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address future exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Additional information, including the Annual Information Form can be found on SEDAR, www.sedar.com. All amounts are in Canadian dollars.

Overview

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. and VG Gold Corp.

The principal business of Lexam VG is to explore gold properties in Timmins, Ontario, Canada and to acquire additional gold properties in the Timmins area. The Buffalo Ankerite property and the Fuller property are 100% owned. The Company also holds a 68.5% interest in the Davidson Tisdale property as well as a 60.85% interest in the claims forming Paymaster. On April 22, 2014, the Company acquired 100% of the mining rights of the claims forming the Teefy property, which is located in Teefy, Ontario, approximately 60 kilometers from Timmins. For more information see the Company's web site: www.lexamvggold.com.

Lexam VG is listed and traded on the TSX under the symbol "LEX" and on the OTCQX in the United States as "LEXVF". Lexam VG also trades on the Frankfurt Exchange as "VN3A". The corporate office is located at 150 King Street West, Suite 2800, Toronto, Ontario, Canada, M5H 1J9.

On January 4, 2012, the Company announced that Tom Meredith resigned as President and Chief Executive Officer. The Board is currently undertaking a search for his replacement. The Board and management oversee the day-to-day management of the Company until such time as a successor is named.

In this report, gpt represents grams per metric tonne, m represents metres and km represents kilometres.

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

Exploration and Development Activities

Preliminary Economic Assessment

Based on positive results from the combined NI 43-101 resource estimate released on June 3, 2013, the Company engaged Roscoe Postle Associates Inc. to prepare a preliminary economic assessment ("PEA") on Buffalo Ankerite, Fuller, Davidson Tisdale, and Paymaster. The PEA focuses on the economics of mining the open pit resource from each property and examining synergies that may exist between them.

On April 23, 2014 the Company announced results from the PEA, which was later filed on June 6, 2014. The assumptions in the base case scenario include gold price of US\$1,300 and an exchange rate of C\$: US\$ 0.90. The PEA highlights are as follows:

- After-tax Net Present Value ("NPV") of \$33 million (using a 7.5% discount rate), Internal Rate of Return ("IRR") of 32%, and 2.1 years payback.

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- Average annual gold production of 45,000 oz Au over a life-of-mine (“LoM”) of 6.5 years with a strip ratio of 9.6:1.
- Cash operating costs over LoM average US\$865/oz Au.
- Initial capital cost to construct the mine is estimated at \$58 million with potential to reduce initial costs through project optimization and more advanced studies.
- Base case assumes toll milling for all mineralization and contract mining for a portion of the waste stripping.
- Mining dilution of up to 27.5% is factored in depending on the mineralized zone and thickness, along with mining extraction of 95%.

Technical Information

The technical information presented in this management discussion and analysis has been reviewed and approved by Kenneth W. Guy, P.Geo, a consultant to Lexam VG, and a qualified person as defined by National Instrument 43-101 “Standards of Disclosure for Mineral Projects” (“NI 43-101”). Mineral resource estimates were estimated using the CIM, Metallurgy and Petroleum Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council December 11, 2005.

Results of Operations

	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	2012	2014	2013	2012
Net Loss	\$ (116,439)	\$ (144,719)	\$ (152,149)	\$ (437,657)	\$ (758,430)	\$ (587,926)
Net Loss per share (basic and diluted)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Assets				41,382,858	41,949,464	42,861,958
Non-Current Liabilities				441,981	431,580	421,423

For the three months ended September 30, 2014, the Company had a net loss of \$116,439 (\$0.00 per share) compared to \$144,719 (\$0.00 per share) for the same period 2013. The reduction in net loss for the three months ended September 30, 2014 was primarily due to lower office, general and administrative expenditures.

The Company recorded a net loss of \$437,657 (\$0.00 per share) for the nine months ended September 30, 2014, compared to \$758,430 (\$0.00 per share) during the corresponding period in 2013. The decrease in the net loss during the third quarter of 2014 was attributable to a reduction in office, general, and administrative expenses, and the loss on the Company's equity accounted investment in UVM.

Office, General and Administrative Expenses

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Salaries and benefits	\$ 44,134	\$ 38,283	\$ 119,395	\$ 154,513
Professional fees (accounting, audit and legal)	9,566	36,647	80,278	101,968
Public company fees and investor relations	32,594	26,970	117,430	152,380
Director's fees and expenses	17,500	17,500	52,500	52,500
Office and general	16,718	27,297	77,649	105,724
	<u>\$ 120,512</u>	<u>\$ 146,697</u>	<u>\$ 447,252</u>	<u>\$ 567,085</u>

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On an overall basis, office, general and administrative expenses decreased by 18% or \$26,185 for the three months ended September 30, 2014 with the comparative period in 2013. The reduction for the three month period was primarily due to decrease in professional fees and office and general expenses. However, for the nine month ended comparative period, office, general and administrative expenses decreased by 21% or \$119,833. The reduction for the nine month period was primarily due to a decrease in salaries and benefits, professional fees, office and general expenses, and investor relation initiatives.

Exploration and Development Expenditures

Exploration and Development Expenditures

	Three months ended September 30,											
	Fuller		Davidson Tisdale		Buffalo Ankerite		Paymaster		Teefy		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Geological	\$ 5,601	\$ 14,378	\$ -	\$ 5,585	\$ 8,632	\$ 40,530	\$ 9,824	\$ 25,616	\$ 9,100	\$ -	\$ 33,157	\$ 86,109
Engineering	3,150	6,750	2,600	4,500	12,750	12,745	-	-	-	-	18,500	23,995
Drilling	-	270	-	-	900	1,440	-	-	-	-	900	1,710
Land & Holding	562	2,216	-	167	7,185	5,963	-	917	642	-	8,389	9,263
Recovery from joint venture partner	-	-	(987)	(3,624)	-	-	-	-	-	-	(987)	(3,624)
Other	1,294	1,064	249	209	1,848	2,031	-	-	52	-	3,443	3,304
	<u>\$ 10,607</u>	<u>\$ 24,678</u>	<u>\$ 1,862</u>	<u>\$ 6,837</u>	<u>\$ 31,315</u>	<u>\$ 62,709</u>	<u>\$ 9,824</u>	<u>\$ 26,533</u>	<u>\$ 9,794</u>	<u>\$ -</u>	<u>\$ 63,402</u>	<u>\$ 120,757</u>

	Nine months ended September 30,											
	Fuller		Davidson Tisdale		Buffalo Ankerite		Paymaster		Teefy		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Geological	\$ 48,230	\$ 125,085	\$ 21,923	\$ 67,174	\$ 63,329	\$ 221,721	\$ 45,929	\$ 134,319	\$ 11,200	\$ -	\$ 190,611	\$ 548,299
Engineering	25,102	24,860	17,052	16,500	27,750	33,284	-	-	-	-	69,904	74,644
Drilling	-	15,927	-	5,778	2,280	10,597	-	2,350	-	-	2,280	34,652
Land & Holding	1,939	6,278	3,917	3,326	25,257	16,155	717	917	13,512	-	45,342	26,676
Recovery from joint venture partner	-	-	(15,539)	(33,109)	-	-	-	-	-	-	(15,539)	(33,109)
Other	8,366	7,705	1,956	2,779	6,151	7,327	-	395	52	-	16,525	18,206
	<u>\$ 83,637</u>	<u>\$ 179,855</u>	<u>\$ 29,309</u>	<u>\$ 62,448</u>	<u>\$ 124,767</u>	<u>\$ 289,084</u>	<u>\$ 46,646</u>	<u>\$ 137,981</u>	<u>\$ 24,764</u>	<u>\$ -</u>	<u>\$ 309,123</u>	<u>\$ 669,368</u>

The Company's policy is to capitalize drilling and other exploration expenditures. Exploration expenditures, which were capitalized for the three and nine months ended September 30, 2014, totaled \$63,402 and \$309,123 (2013 - \$120,757 and \$669,368), respectively. Expenditures for the nine months ended September 30, 2014 primarily relate to the preparation of the PEA. Expenditures incurred during the comparative period primarily relate to the preparation of the updated resource estimate.

Summary of Quarterly Results

Selected financial information for the eight previous fiscal quarters:

	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net Loss	(116,439)	(145,496)	(175,722)	(115,151)	(144,719)	(181,137)	(430,574)	(146,887)
Net Loss per share (basic and diluted)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

Net loss has been consistent on a quarterly basis with the exception of the first quarter in 2013 where the Company recorded a significant loss from its equity accounted investment.

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Liquidity and Capital Resources

At September 30, 2014, the Company's cash position decreased to \$153,036 compared to \$458,018. The cash decrease of \$304,982 is made up of \$517,753 used in operating activities, offset by \$212,771 received from investing activities.

Cash generated from investing activities relates to \$287,229 expenditures on exploration and evaluation assets offset by \$500,000 proceeds from sale of short-term investments. The Company's short-term investment of \$2,658,982 is a fixed income investment.

Based on current spending projections, current cash on hand and short-term investments are expected to be sufficient to fund ongoing operations for the next 12 months.

Outstanding Share Data

The following schedule outlines the number of shares outstanding.

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Common Shares	226,570,860	226,570,860
Stock Options	610,000	1,010,000

The total common shares outstanding as of November 6, 2014 are 226,570,860.

Transactions with Related Parties

In January 2012, the Company agreed to reimburse McEwen Mining Inc. ("McEwen Mining") for rent, personnel, office expenses and other administrative services 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, which is a publicly listed company, trading on the New York Stock Exchange and the Toronto Stock Exchange.

For the three and nine months ended September 30, 2014, the Company paid rent, personnel, office expenses and other administrative services of \$9,500 and \$51,800 (2013 - \$27,400 and \$89,100) respectively, to McEwen Mining.

All related party transactions are recorded at the exchange amount, agreed to between the parties. Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Environmental Risks and Hazards

All phases of Lexam VG's mineral exploration operations are subject to environmental regulations pertaining to the City of Timmins and the province of Ontario in Canada. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Lexam VG's operations. Environmental hazards may exist on the properties on which Lexam VG holds interests, which are unknown to Lexam VG at present and which may have been caused by previous or existing owners or operators of the properties. Lexam VG may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Government approvals and permits are currently and may in the future be required

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in connection with Lexam VG's operations. To the extent that such approvals are required and not obtained, Lexam VG may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities which may cause operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

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

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

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

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

Federal Level (Canada)

Canadian Environmental Protection Act
Fisheries Act
Navigable Waters Protection Act and Regulations

Provincial Level (Ontario)

Environmental Protection Act
Mining Act

Off-Balance Sheet Arrangements

As at September 30, 2014, the Company does not have off-balance sheet arrangements.

Additional Funding Requirements

Mineral properties of Lexam VG are in the exploration and development stage. The Company has no source of operating cash flow, and will need to raise additional funds to complete its projects. There is no assurance that

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Lexam VG will be able to raise additional funds on reasonable terms. The development of ore deposits found on the exploration properties of Lexam VG depend on the ability of the Company to obtain financing through debt financing, equity financing or other means. If the exploration and development programs of Lexam VG are successful, additional funds will be required to develop the properties and, if successful, additional funds will be required to place them in commercial production. The only source of future funds presently available to Lexam VG is the sale of equity capital of Lexam VG or the sale by Lexam VG of an interest in any of its properties in whole or in part. The ability of Lexam VG to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as on the business performance of the Company.

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

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, 2014. The Company adopted these standards effective January 1, 2014 and the adoption of these standards did not have a material impact on the Company's financial statements.

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. The adoption of IFRIC 21 had no impact on financial statements of the Company.

The amendments to IAS 32, Financial Instruments: Presentation, clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of set off in respect of its financial instruments. Amendments to IAS 32 are applicable to annual periods beginning on January 1, 2014, with retrospective application required. There was no material impact on the Company's financial statements upon adoption of these amendments.

Recently Issued Accounting Pronouncements not yet Adopted

The IASB issued the following standard, 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.

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts; IAS 18 – Revenue; IFRIC 13 – Customer Loyalty Programmes; IFRIC 15 – Agreements for the Construction of Real Estate; IFRIC 18 – Transfers of Assets from Customers; and SIC 31 – Revenue – Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

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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. The section is effective for annual periods beginning on or after January 1, 2018.

Management's Evaluation of Disclosure Controls

Management is responsible for the design and operating effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's disclosure controls and procedures as at September 30, 2014 and have concluded that these controls and procedures are appropriately designed.

Internal Control over Financial Reporting

Management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. Based on a review of its internal control, management believes its internal controls and procedures are appropriately designed as at September 30, 2014. There were no changes in our internal control environment during the period ended September 30, 2014 that materially affected or are reasonably likely to materially affect, our internal controls over financial reporting.

Risks and Uncertainties

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

Regulatory standards continue to change making the review process longer, more complex and more costly. Even if an apparently mineable deposit is developed, there is no assurance that it will ever reach production or be profitable, as its potential economics are influenced by many key factors such as commodity prices, foreign exchange rates, equity markets and political interference, which cannot be controlled by management. As a result, the Company's future business, operations, and financial condition could differ materially from the forward-looking information contained in this MD&A and described in the Forward-Looking Statements section below. For a more comprehensive discussion of the risks faced by the Company, please refer to the Company's Annual Information Form, dated March 20, 2014, filed on www.sedar.com.

Forward Looking Statements

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