LEXAM VG GOLD INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

INDEX

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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 statement of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and 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, 2014 and December 31, 2013, 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 19, 2015
Toronto, Canada

LEXAM VG GOLD INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31,

(in Canadian dollars)

	2014	**2013**
ASSETS		
Current		
Cash and cash equivalents	$ 232,322	$ 458,018
Short-term investments	2,416,358	3,130,887
Amounts receivable	37,959	37,903
Prepaid expenses and deposits	26,846	24,677
	2,713,485	3,651,485
Non-current		
Restricted cash (note 7b)	50,560	50,560
Exploration and evaluation assets (note 7)	38,424,973	38,140,614
Automobile and equipment (note 8)	5,008	23,015
	$ 41,194,026	$ 41,865,674
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 79,490	$ 118,178
Decommissioning liabilities (note 9)	444,597	-
	524,087	118,178
Non-current		
Decommissioning liabilities	-	434,134
	$ 524,087	$ 552,312
SHAREHOLDERS' EQUITY		
Common stock (note 10)	70,105,954	70,105,954
Contributed surplus	4,705,661	4,705,661
Deficit	(34,141,676)	(33,498,253)
	40,669,939	41,313,362
	$ 41,194,026	$ 41,865,674

Subsequent event (note 7b)

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

Approved on behalf of the Board

'Richard Brissenden' Director

'Robin Dunbar' Director

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

(in Canadian dollars)

	2014	2013
OPERATING EXPENSES:		
Office, general and administrative	$ 625,249	$ 688,533
Care and maintenance	8,669	-
Impairment charges (note 7e)	24,764	-
Depreciation	18,007	22,329
Total costs and expenses	676,689	710,862
OTHER INCOME (EXPENSES):		
Interest income	38,821	51,836
Accretion (note 9)	(10,463)	(10,217)
Foreign exchange gain	4,908	8,646
Loss from equity accounted investment (note 6)	-	(212,984)
Total other income (expenses)	33,266	(162,719)
Net loss and comprehensive loss	$ (643,423)	$ (873,581)
Basic and diluted per share data:		
Net loss - basic and diluted (note 13)	$ (0.00)	$ (0.00)
Weighted average common shares outstanding - basic and diluted	226,570,860	226,570,860

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 DECEMBER 31, 2014 AND 2013
(in Canadian dollars)

	Common Stock		Contributed	Accumulated	
	Shares	**Amount**	**Surplus**	**Deficit**	**Total**
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
Net loss	-	-	-	(643,423)	(643,423)
Balance, December 31, 2014	226,570,860	$ 70,105,954	$ 4,705,661	$ (34,141,676)	$ 40,669,939

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)

	2014	2013
Cash (used in) provided by:		
Operating activities:		
Net loss for the period	$ (643,423)	$ (873,581)
Adjustments to reconcile net loss from operating activities:		
Depreciation	18,007	22,329
Impairment charges	24,764	-
Accretion	10,463	10,217
Unrealized foreign exchange gain	-	(125)
Interest income from short-term investments	(35,471)	(42,180)
Loss from equity accounted investment (note 6)	-	212,984
	(625,660)	(670,356)
Changes in non-cash working capital (note 11)	(40,913)	(167,264)
	(666,573)	(837,620)
Investing activities:		
Proceeds from sale of short-term investments	750,000	500,000
Expenditures on exploration and evaluation assets (note 7)	(309,123)	(761,453)
Decrease in restricted cash	-	25,000
	440,877	(236,453)
Net decrease in cash and cash equivalents	(225,696)	(1,074,073)
Cash and cash equivalents, beginning of the year	458,018	1,532,091
Cash and cash equivalents, end of the year	$ 232,322	$ 458,018

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, 2014, Robert R. McEwen ("Mr. McEwen"), the non-executive chairman of Lexam VG owned 27% of the Company's issued and outstanding common shares.

The Company's assets are comprised primarily of 100% interest in the Fuller property, 100% interest in the Buffalo Ankerite property, 60.91% interest in the Paymaster property and a 68.5% interest in the Davidson Tisdale property, as at December 31, 2014. On March 3, 2015, the Company announced the purchase of SGX Resources' 31.5% minority interest in the Davidson Tisdale property which increased the Company's ownership of the project to 100%, refer to note 7b.

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").

These consolidated financial statements have been authorized for issue by the Company's Board of Directors on March 19, 2015.

Basis of Measurement and Principles of Consolidation

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

These 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. All 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 U.S. dollars.

Foreign currency transactions are translated into the functional currency using prevailing exchange rates on the date of the transaction. Monetary assets and liabilities of the Company which are denominated in U.S. dollars are translated to Canadian dollars at the exchange rate prevailing at the date of the Consolidated Statements of Financial Position. 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.

An E&E asset is placed on care and maintenance when the Company decides to temporarily cease exploration activity but still plans on holding the asset. In this situation rather than capitalizing expenditures they are expensed in the period they are incurred. Care and maintenance primarily includes security, rent, and general property holding costs.

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.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

Where an indicator of impairment exists, a formal estimated recoverable amount is calculated, which is the higher of the fair value less costs of disposal and estimated 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.

(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 method of depreciation 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) Joint Operations

Jointly operations 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.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

The Company recognizes its proportionate share of the direct and joint assets, liabilities that it has incurred directly and jointly with the other owner, 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 joint operation.

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

(f) 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 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 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

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

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.

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 or liability is recognized on the statement of financial position when it is probable that the future economic benefits will flow to or away from the Company 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 and diluted 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. Diluted loss per share is calculated using a common share balance increased by the number of common shares that could be issued on the exercise of outstanding options of the Company.

(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.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

(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.

(k) 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. IFRS, 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.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

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.

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).

(l) 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.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

(m) 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.

Use of Estimates and Judgment

The preparation of 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 or when factors indicate that the assets carrying valve may not be recoverable. 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.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

(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.

(d) Impairment of E&E Assets

Events or changes in circumstances can give rise to significant impairment charges or reversals of impairment in a particular year.

The Company assesses its E&E assets at each financial reporting period date to determine whether any indication of impairment exists. Where an indicator of impairment exists, an estimate of the E&E assets recoverable amount is calculated, which is the higher of the fair value less costs of disposal and estimated value in use. The determination of the recoverable amount requires the use of estimates and assumptions such as long-term commodity prices, foreign exchange rates, discount rates, future capital requirements, exploration potential and future operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties.

Fair value for an E&E asset is also determined as the present value of estimated future cash flows arising from the development of the asset, using assumptions that an independent market participant would take into account. Cash flows are discounted by an appropriate discount rate to determine the net present value.

Recently Adopted Accounting Standards

International Accounting Standards (“IAS”) 32 – Offsetting of financial instruments (“IAS 32”). 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 or after January 1, 2014, with retrospective application required. There was no material impact on the Company’s consolidated financial statements upon adoption of these amendments.

In May 2013, the IASB issued International Financial Reporting Interpretations Committee 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 if IFRIC 21 had no impact to the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICES (Continued)

Recently Issued Accounting Pronouncements not yet adopted

The IASB issued the following standards, which are not yet effective and have 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.

On May 6, 2014 the IASB issued Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The impact of adoption of the amendment has not yet been determined.

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The impact of adoption of the amendment has not yet been determined.

On May 12, 2014 the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset. The impact of adoption of the amendment has not yet been determined.

The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. The impact of adoption of the amendment has not yet been determined.

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.

4. FINANCIAL INSTRUMENTS (Continued)

(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, 2014, the Company held cash and cash equivalents of $232,322 and short-term investments of $2,416,358.

(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.

Although the Company endeavors 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.

4. FINANCIAL INSTRUMENTS (Continued)

(d) Foreign Exchange Risk

Foreign exchange risk arises from the Company's exposure to currency fluctuations relative to Canadian dollars on expenditures that are denominated in US dollars. The Company is also exposed to the impact of currency fluctuations on its monetary assets and liabilities. As at December 31, 2014, a 1% change in the value of the US dollar compared to the Canadian dollar could result in a foreign exchange gain or loss of approximately $324.

(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, 2014, the Company recorded receivables of approximately $27,630 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.

(in Canadian dollars)

5. CAPITAL MANAGEMENT

The Company defines capital management as the manner in which it manages its shareholders' equity. As at December 31, 2014, the Company's common stock was $70,105,954 (2013 - $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, 2014 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; and

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.

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. At December 31, 2014, the Company's carrying value of UVM was $nil, with total accumulated accounting losses of approximately $341,000.

As at and for the year ending December 31, 2014, UVM had total assets approximating $322,000 and liabilities approximating $1,800, with an approximate net loss of $72,000 (2013 - $62,000).

The following is a schedule of the equity accounted investment:

	2014	2013
Beginning of year	$ -	$ 212,984
Loss on equity investment	-	(212,984)
End of year	$ -	$ -

UVM trades on the TSX Venture under the symbol 'VZZ'. Based on UVM's closing share price of $0.065 per share on December 31, 2014, the market value of Lexam VG's investment in UVM is $260,000.

(in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS

	December 31, 2013	Exploration	Impairment Charges	December 31, 2014
Fuller (a)	$ 14,657,313	$ 83,637	$ -	$ 14,740,950
Davidson Tisdale (b)	6,557,271	29,309	-	6,586,580
Buffalo Ankerite (c)	10,490,178	124,767	-	10,614,945
Paymaster (d)	6,435,852	46,646	-	6,482,498
Teefy (e)	-	24,764	(24,764)	-
	$ 38,140,614	$ 309,123	$ (24,764)	$ 38,424,973

	December 31, 2012	Exploration	Impairment Charges	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

a) Fuller

The Company holds 100% of the mining rights to the Fuller Property. Some of the claims forming the Fuller Property are 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 Ontario Ministry of Northern Development and Mines for the Davidson Tisdale Mine Closure Plan.

On March 3, 2015, the Company announced the acquisition of SGX Resources' 31.5% minority interest in the Davidson Tisdale property, along with adjoining mineral claims to the north, west and south for $130,000, inclusive of $27,630 amount receivable.

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.

7. EXPLORATION AND EVALUATION ASSETS (Continued)

d) Paymaster

The Company holds a 60.91% 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, 2014, the Company increased its interest from 60.7% to 60.91%.

e) Teefy

On April 22, 2014, the Company acquired 100% of the mining rights to the claims forming the Teefy property, located in Teefy, Ontario, which is approximately 60 kilometers north east of Timmins. During the fourth quarter of 2014 the Company conducted a strategic assessment of its operations and decided to discontinue all exploration activities on the Teefy property, with the intention of allowing the claim to lapse upon its renewal date. As a result, an impairment charge of $24,764 has been recognized.

The Company's strategic decision to temporarily cease exploration activities on all E&E assets during the fourth quarter was considered an indicator of impairment, and accordingly, an impairment assessment was performed. Based on the assessment, the carrying value of the E&E assets was considered recoverable at December 31, 2014 and no impairment was deemed necessary.

Given the combined preliminary economic assessment ("PEA") covering an open pit mining scenario from all four of the Company's projects, the fair value less costs of disposal was determined by calculating the net present value ("NPV") of the future cash flows expected to be generated. The estimates of future cash flows, including operating costs, initial, sustaining and non-sustaining capital expenditures, were derived from the Company's PEA published on June 5, 2014. The PEA considers production levels, sequence of extraction taking into account characteristics of the ore body, including waste to ore ratios, ore grades, haul distances, metallurgical recoveries, availability of processing plant and mine equipment, and other factors.

Based on observable market or publicly available data related to current prices, forward prices and forecast prices prepared by industry analysts, the Company made an assumption of future gold prices to estimate future revenues. The Company used a constant long-term gold price estimate of US$1,300 per ounce. The future cash flows were discounted using a discount rate of 10%. Certain costs in the model are incurred in Canadian dollars and were translated to U.S. dollar equivalents based on long-term forecasts of foreign exchange rates, obtained from independent sources of economic data. The model uses a constant exchange rate of $1.00 Canadian dollar to $0.90 US dollars.

The fair value attributable to the portion of the underground resource was derived from per ounce estimates consistent with North American observable market transactions.

(in Canadian dollars)

8. AUTOMOBILE AND EQUIPMENT

	Office & computer equipment	Automobiles	Total
Cost			
Balance, December 31, 2012	$ 44,448	$ 34,431	$ 78,879
Balance, December 31, 2013	$ 44,448	$ 34,431	$ 78,879
Balance, December 31, 2014	$ 44,448	$ 34,431	$ 78,879
Accumulated Depreciation			
Balance, December 31, 2012	$ 19,137	$ 14,398	$ 33,535
Depreciation for the year	14,817	7,512	22,329
Balance, December 31, 2013	$ 33,954	$ 21,910	$ 55,864
Depreciation for the year	10,494	7,513	18,007
Balance, December 31, 2014	$ 44,448	$ 29,423	$ 73,871
Carrying amounts			
As at December 31, 2013	$ 10,494	$ 12,521	$ 23,015
As at December 31, 2014	$ -	$ 5,008	$ 5,008

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 obligation as at December 31, 2014 is $444,597. The obligation relates to re-sloping existing pit walls, revegetation and labour costs. As the Company continues its development activities and investigates potential production scenarios, costs associated with the remediation work will be reconsidered. The undiscounted liability to the end of 2015 is expected to be approximately $455,000, with a discount rate of 2.4%. Currently, the Company does not have an approved mine closure plan by the Ontario Ministry of Northern Development, as a result the entire estimated decommissioning liability is recorded in current liabilities. However, this requirement may change upon submission and approval of a mine closure plan. In addition, the Company has not been required to post a reclamation bond with the Ministry of Northern Development.

	2014	2013
Obligations, beginning of year	$ 434,134	$ 423,917
Accretion of discounted cash flows	10,463	10,217
Obligations, end of year	$ 444,597	$ 434,134

(in Canadian dollars)

10. 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.

There were no options granted during the year ended December 31, 2014 and 2013. During the year, 1,010,000 options expired unexercised.

The following table summarizes options activity for the years ended December 31, 2014 and 2013.

	2014		2013	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Opening Balances	1,010,000	$ 0.31	1,010,000	$ 0.31
Exercised	-	-	-	-
Expired or Cancelled	(1,010,000)	0.31	-	-
	-	$ -	1,010,000	$ 0.31

11. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2014	2013
Amounts receivable	$ (56)	$ 58,072
Prepaid expenses and deposits	(2,169)	(891)
Accounts payable and accrued liabilities	(38,688)	(224,445)
	$ (40,913)	$ (167,264)
Interest received	$ 38,821	$ 51,705

(in Canadian dollars)

12. 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. Mr. McEwen also owns 27% of the Company.

For the year ended December 31, 2014, the Company paid rent, personnel office expenses and other administrative services of $69,300, to McEwen Mining. During the comparable periods in 2013, the Company paid $118,400, to McEwen Mining.

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 2014, the Company's directors and Chief Financial Officer received remuneration of $90,000 for short-term benefits (2013 - $88,600).

13. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share has been calculated by dividing the net loss 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, 2014 and 2013, the inclusion of options would be anti-dilutive.

14. 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 2014 was 26.50% (2013 – 26.50%).

	2014	2013
Net loss before tax	$ (643,423)	$ (873,581)
Enacted statutory tax rates	26.50%	26.50%
Expected income tax recovery	(170,507)	(231,499)
Tax benefit not recognized	152,748	143,445
Non-taxable gain/loss on equity investment	-	28,220
Foreign earnings subject to different tax rates	(2,105)	(1,775)
Other	19,864	61,609
Income tax expense	$ -	$ -

(in Canadian dollars)

15. INCOME TAXES (Continued)

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	
	2014	**2013**
Deferred income tax assets (liabilities):		
Non-capital losses	$ 2,014,897	$ 2,021,435
Exploration costs	(2,014,897)	(2,021,435)
Net deferred income tax assets	$ -	$ -

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

	2014	**2013**
Non-capital losses	$ 8,087,955	$ 7,547,897
Automobiles and equipment	1,547,474	1,529,466
Equity accounted investment	1,200,000	1,200,000
Decommissioning liabilites	40,396	29,933
Capital losses	28,085	28,085
Net unrecognized temporary differences	$ 10,903,910	$ 10,335,381

c) Non-Capital Loss Carry-Forwards

The Company has non-capital loss carry-forwards in Canada of approximately $14,291,523 (2012 - $12,978,575) and in the US of US$1,300,440 (2013 – US$1,280,502) available in certain circumstances to reduce future taxable income for Canadian and U.S. income tax purposes. These losses expire between 2015 and 2034.