LEXAM VG GOLD INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014

INDEX

KPMG LLP
Bay Adelaide Centre
333 Bay Street Suite 4600

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, 2015 and December 31, 2014, the consolidated statements of operations and comprehensive loss, changes in shareholder's 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, 2015 and December 31, 2014, 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 9, 2016
Toronto, Canada

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

	2015	2014
ASSETS		
Current		
Cash and cash equivalents	$ 241,499	$ 232,322
Short-term investments	1,188,378	2,416,358
Amounts receivable	6,780	37,959
Prepaid expenses and deposits	29,456	26,846
	1,466,113	2,713,485
Non-current		
Restricted cash (note 3b)	50,560	50,560
Exploration and evaluation assets (note 3)	39,431,053	38,424,973
Automobile and equipment (note 4)	-	5,008
	$ 40,947,726	$ 41,194,026
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 83,227	$ 79,490
Decommissioning liabilities (note 5)	-	444,597
	83,227	524,087
Non-current		
Decommissioning liabilities (note 5)	1,036,469	-
	$ 1,119,696	$ 524,087
SHAREHOLDERS' EQUITY		
Common stock (note 7)	70,105,954	70,105,954
Contributed surplus	4,708,103	4,705,661
Deficit	(34,986,027)	(34,141,676)
	39,828,030	40,669,939
	$ 40,947,726	$ 41,194,026

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)

	2015	2014
OPERATING EXPENSES:		
Office, general and administrative	$ 807,976	$ 625,249
Care and maintenance	52,126	8,669
Impairment charges (note 3e)	-	24,764
Depreciation	5,008	18,007
Share-based compensation	2,442	-
Total costs and expenses	867,552	676,689
OTHER INCOME (EXPENSES):		
Interest income	28,848	38,821
Accretion (note 5)	(10,714)	(10,463)
Foreign exchange gain	5,067	4,908
Total other income (expenses)	23,201	33,266
Net loss and comprehensive loss	$ (844,351)	$ (643,423)
Basic and diluted per share data:		
Net loss - basic and diluted (note 8)	$ (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, 2015 AND 2014
(in Canadian dollars)

	Common Stock		Contributed	Accumulated	
	Shares	**Amount**	**Surplus**	**Deficit**	**Total**
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
Net loss	-	-	-	(844,351)	(844,351)
Share-based compensation	-	-	2,442	-	2,442
Balance, December 31, 2015	226,570,860	$ 70,105,954	$ 4,708,103	$ (34,986,027)	$ 39,828,030

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)

	2015	2014
Cash (used in) provided by:		
Operating activities:		
Net loss for the period	$ (844,351)	$ (643,423)
Adjustments to reconcile net loss from operating activities:		
Depreciation	5,008	18,007
Share-based compensation	2,442	
Impairment charges	-	24,764
Accretion	10,714	10,463
Interest income from short-term investments	(15,089)	(35,471)
	(841,276)	(625,660)
Changes in non-cash working capital (note 12)	4,676	(40,913)
	(836,600)	(666,573)
Investing activities:		
Proceeds from sale of short-term investments	1,243,069	750,000
Expenditures on exploration and evaluation assets (note 3)	(397,292)	(309,123)
	845,777	440,877
Net decrease in cash and cash equivalents	9,177	(225,696)
Cash and cash equivalents, beginning of the year	232,322	458,018
Cash and cash equivalents, end of the year	$ 241,499	$ 232,322

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, 2015, 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, the Buffalo Ankerite property and Davidson Tisdale property and a 60.95% interest in the Paymaster property.

2. BASIS OF PRESENTATION

Statement of compliance and Accounting Polices

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 significant accounting polices adopted by the Company are disclosed in Note 14.

These consolidated financial statements have been authorized for issue by the Company's Board of Directors on March 9, 2016.

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.

(in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS

	December 31, 2014	Exploration	Impairment Charges	Decommissioning Liabilities	December 31, 2015
Fuller (a)	$ 14,740,950	$ 17,420	$ -	$ 141,371	$ 14,899,741
Davidson Tisdale (b)	6,586,580	407,502	-	50,739	7,044,821
Buffalo Ankerite (c)	10,614,945	-	-	118,289	10,733,234
Paymaster (d)	6,482,498	-	-	270,759	6,753,257
Teefy (e)	-	-	-	-	-
	$ 38,424,973	$ 424,922	$ -	$ 581,158	$ 39,431,053

	December 31, 2013	Exploration	Impairment Charges	Decommissioning Liabilities	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

All exploration properties outlined above, with the exception of Teefy, form one exploration project, or E&E asset, for reporting purposes.

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 an unrelated third party.

b) Davidson Tisdale

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 $157,630. This amount included $130,000, in cash and $27,630 from amounts receivable, owed to Company by SGX Resources. The cash payment occurred on March 25, 2015. The acquisition was accounted for as an asset acquisition. 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 an unrelated third party.

(in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS (Continued)

d) Paymaster

The Company holds a 60.95% 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, 2015, the Company increased its interest from 60.91% to 60.95%.

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 was recognized as at December 31, 2014.

4. AUTOMOBILE AND EQUIPMENT

	Office & computer equipment	Automobiles	Total
Cost			
Balance, December 31, 2013	$ 44,448	$ 34,431	$ 78,879
Balance, December 31, 2014	$ 44,448	$ 34,431	$ 78,879
Balance, December 31, 2015	$ 44,448	$ 34,431	$ 78,879
Accumulated Depreciation			
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
Depreciation for the year	-	5,008	5,008
Balance, December 31, 2015	$ 44,448	$ 34,431	$ 78,879
Carrying amounts			
As at December 31, 2014	$ -	$ 5,008	$ 5,008
As at December 31, 2015	$ -	$ -	$ -

(in Canadian dollars)

5. DECOMMISSIONING LIABILITIES

The Company recorded a decommissioning liability, for estimated future reclamation costs, in 2010 pertaining to its Buffalo Ankerite property. The estimate was revised for the year ended December 31, 2015 and included estimated future reclamation costs for the Company's other E&E assets, based on work performed by an environmental third party consultant.

During the year the Company received a permit for noise related to extractive mining operations and a permit for sewage, both for the Buffalo Ankerite property. As a result of receiving the permits, we no longer record a current liability. While the Company has no immediate intentions of mining from its projects in the immediate future, receiving these permits creates the expectation that, at some point in time, the Company will mine this project, and potentially its other projects. As a result, the Company re-assessed the costs associated with terminal closure of historic mine workings.

The estimated obligation as at December 31, 2015 is $1,036,469, with a discount rate of 3.8%. The obligation relates to re-sloping existing pit walls, revegetation and labour costs, according to the original estimate to remediate the Buffalo Ankerite pit, along with new estimated closure costs to permanently close historical mine portals, and revegitate historical tailings storage facilities. The estimated undiscounted liability as at the end of 2030 is expected to be approximately $1,815,000, using an inflation rate of 1.9%.

	2015	2014
Obligations, beginning of year	$ 444,597	$ 434,134
Increase in environmental obligations	581,158	-
Accretion of discounted cash flows	10,714	10,463
Obligations, end of year	$ 1,036,469	$ 444,597

(in Canadian dollars)

6. 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 2015 was 26.50% (2014 – 26.50%).

	2015	2014
Net loss before tax	$ (844,351)	$ (643,423)
Enacted statutory tax rates	26.50%	26.50%
Expected income tax recovery	(223,753)	(170,507)
Tax benefit not recognized	221,034	152,748
Non-deductible expenses	184	-
Foreign earnings subject to different tax rates	(2,554)	(2,105)
Other	5,089	19,864
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	
	2015	2014
Deferred income tax assets (liabilities):		
Non-capital losses	$ 2,014,897	$ 2,014,897
Exploration costs	(2,014,897)	(2,014,897)
Net deferred income tax assets	$ -	$ -

(in Canadian dollars)

6. 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:

	2015	2014
Non-capital losses	$ 8,899,480	$ 8,087,955
Automobiles and equipment	1,552,482	1,547,474
Equity accounted investment	1,200,000	1,200,000
Decommissioning liabilites	51,110	40,396
Capital losses	28,085	28,085
Net unrecognized temporary differences	$ 11,731,157	$ 10,903,910

c) Non-Capital Loss Carry-Forwards

The Company has non-capital loss carry-forwards in Canada of approximately $15,078,887 (2014 - $14,294,523) and in the US of US$1,324,639 (2014 – US$1,300,440) available in certain circumstances to reduce potential future taxable income for Canadian and U.S. income tax purposes. These loss carry-forwards expire between 2016 and 2035.

7. 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. For the year ended December 31, 2015, the Company granted 969,000 stock options to certain employees, officers, directors and service providers at a weighted average exercise price of $0.10 per share. The options vest equally over a three-year period and are exercisable for a five-year period. There were no stock options issued during the 2014 fiscal period.

(in Canadian dollars)

7. CAPITAL STOCK (Continued)

The following table summarizes options activity for the years ended December 31, 2015 and 2014.

	2015		2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Opening Balances	-	$ -	1,010,000	$ 0.31
Grants	969,000	0.10	-	-
Exercised	-	-	-	-
Expired or Cancelled	-	-	(1,010,000)	0.31
	969,000	$ 0.10	-	$ -

The fair value of stock options granted was estimated using the Black-Scholes option pricing model, applying the following assumptions:

For options granted in the year ended:	2015
Weighted average share price at grant date	$0.07
Exercise price	$0.10
Risk-free rate	1.50%
Expected dividend yield	0.00%
Expected Volatility	109%
Expected Option life (in years)	5
Weigthed average grant date fair value	$0.05

There were no stock options exercised in the year ended December 31, 2015 and 2014.

8. 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, 2015 and 2014, the inclusion of options would be anti-dilutive.

9. CAPITAL MANAGEMENT

The Company defines capital management as the manner in which it manages its shareholders' equity and liquidity. As at December 31, 2015, the Company's common stock was $70,105,954 (2014 - $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, 2015 and the Company is not subject to any externally imposed capital requirements.

(in Canadian dollars)

9. CAPITAL MANAGEMENT (Continued)

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 and related capital needs. 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.

10. RELATED PARTY TRANSACTIONS

The Company agreed to share services with McEwen Mining Inc. ("McEwen Mining") including rent, personnel, office expenses and other administrative services, on an ongoing basis. 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, 2015, McEwen Mining reimbursed the Company $23,600 for net shared services, which include rent, personnel office expenses and other administrative services. During the comparable period in 2014, the Company paid $69,300, 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.

Remunerations of key management personnel were as follows:

	2015	2014
Short-term benefits to management and Directors [1]	$ 89,000	$ 90,000
Share-based compensation	1,700	-
Total	$ 90,700	$ 90,000

[1] Short-term benefits include salaries, bonuses payable and other annual employee benefits.

Key management personnel are defined to be Chief Financial Officer and members of the Board of Directors.

(in Canadian dollars)

11. 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, 2015, the Company's carrying value of UVM was $nil, with total accumulated accounting losses of approximately $365,000

As at and for the year ending December 31, 2015, UVM had total assets approximating $258,000 and liabilities approximating $2,200, with an approximate net loss of $68,000 (2014 - $72,000).

UVM trades on the TSX Venture under the symbol 'VZZ'. Based on UVM's closing share price of $0.05 per share on December 31, 2015, the market value of Lexam VG's investment in UVM is $200,000.

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2015	2014
Amounts receivable	$ 3,549	$ (56)
Prepaid expenses and deposits	(2,610)	(2,169)
Accounts payable and accrued liabilities	3,737	(38,688)
	$ 4,676	$ (40,913)
Interest received	$ 20,523	$ 38,821

13. 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 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.

13. FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity Risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. The Company's main sources of liquidity are its cash and cash equivalents 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, 2015, the Company held cash and cash equivalents of $241,499 and short-term investments of $1,188,378.

(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.

(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, 2015, there were no significant monetary items denominated in USD; 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 $200.

13. FINANCIAL INSTRUMENTS (Continued)

(e) Credit Risk

Credit risk arises from cash and short-term investment 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.

(f) Fair Value

Cash and cash equivalents and short-term investments 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. Short-term investments are held with Canadian banks with terms to maturity at acquisition of between three and twelve months, which have no active markets.

14. 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 accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions are 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) 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.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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.

(e) 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;
- Conducting engineering, marketing and financial studies; and
- Decommissioning liabilities

Cost not directly related to the above E&E activities, including care and maintenance costs on properties not under current E&E are expensed as incurred.

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 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.

(f) Automobile and equipment

<u>Recognition and Measurement</u>

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

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(g) 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.

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 Paymaster property as joint operations.

(h) 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.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The consolidated statements include the Company's share of the profit or loss 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 11) is accounted for using the equity method.

(i) 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.

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.

14. SIGNIFICANT ACCOUNTING POLICES (Continued)

(j) 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.

(k) 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.

(l) 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.

14. SIGNIFICANT ACCOUNTING POLICES (Continued)

(m) 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 and liabilities 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.

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.

14. SIGNIFICANT ACCOUNTING POLICES (Continued)

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).

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.

14. SIGNIFICANT ACCOUNTING POLICES (Continued)

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.

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

(b) 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.

(c) 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.

(d) 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.

14. 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 Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments 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. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

14. SIGNIFICANT ACCOUNTING POLICES (Continued)

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.