Lexam VG Gold Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

This Management's Discussion and Analysis ("MD&A") is prepared as of March 9, 2015 and should be read in conjunction with the audited consolidated financial statements of Lexam VG Gold Inc. (the "Company" or "Lexam VG") for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address future exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Additional information, including the Annual Information Form can be found on SEDAR, www.sedar.com*. All amounts are in Canadian dollars.*

Overview

Lexam VG Gold Inc. ("the Company", or "Lexam VG") was incorporated under the laws of Ontario through a Plan of Arrangement on January 1, 2011, amalgamating Lexam Explorations Inc. and VG Gold Corp.

The principal business of Lexam VG is to explore gold properties in Timmins, Ontario, Canada and to acquire additional gold properties in the Timmins area. The Buffalo Ankerite, Fuller and Davidson Tisdale properties are 100% owned. The Company also has a 60.95% interest in the claims forming the Paymaster property. For more information see the Company's web site: www.lexamvggold.com.

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

In this report, "gpt" represents grams per metric tonne, "Au" represents gold, "VG" represents visible gold, "m" represents metres and "km" represents kilometres.

Exploration and Development Activities

Operational Outlook

The Company conducted an exploration program during the second and third quarters of 2015 on the newly acquired claims part of the Davidson Tisdale property, and on the Fuller property. The exploration program budget was $450,000. The Company's actual expenditures on the program were $424,900. There are no exploration plans for 2016.

For the year ended December 31, 2015 care and maintenance expenditures incurred totaled $52,000, compared to the budget of $52,000. Care and maintenance costs include security, rent, and other property holding costs necessary to maintain the properties in good standing. The Company's budget for care and maintenance costs is $50,000 for 2016.

For the year ended December 31, 2015 the Company incurred approximately $808,000 in office, general and administrative expenditures which include salaries and benefits, professional fees, regulatory and stock exchange fees, rent, insurance and director fees, among other things. The budget was $800,000. For 2016 the Company expects to incur a total of $800,000 in office, general and administrative expenditures.

Davidson Tisdale Property Acquisition

On March 3, 2015, the Company announced the acquisition of SGX Resources' 31.5% minority interest of the Davidson Tisdale property, along with full interest in adjoining mineral claims (Kinch 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 the Company by SGX Resources. The cash payment occurred on March 25, 2015. The acquisition increased the Company's interest in Davidson Tisdale from 68.5% to 100%.

Davidson Tisdale Property Exploration Progam Results

During the third quarter of 2015, the Company completed its exploration program on the Davidson Tisdale property. Exploration was conducted on both the Davidson Tisdale Main Zone as well as the Kinch claims to the north of the Main Zone.

The following work was completed:

- Spatiotemporal Geochemical Hydrocarbons ("SGH") Geochemistry on the Kinch claims
- Geological mapping / prospecting on the Kinch claims
- Diamond drill program on the Davidson Tisdale Main Zone and the Kinch claims

Spatiotemporal Geochemical Hydrocarbons Geochemistry:

Spatiotemporal Geochemical Hydrocarbons ("SGH") is an extractive geochemical procedure which releases organic compounds adsorbed on the sub-soil level of the samples. It provides a highly focussed and sensitive method to measure indicator compounds in various range sizes down to the lowest parts-per-trillion.

Favourable results were obtained on the Kinch claims where a number of high priority anomalies were detected - ranked 5.5 out of 6.0 in the SGH ranking scheme. Diamond drilling targets tested the anomalies and intersected altered volcanic rocks with low but anomalous gold ("Au") values.

Geological Mapping/Prospecting Program:

Test samples were taken from historic trenches and pits on the Kinch claims. Extensive quartz veining was noted. Five grab samples assayed over 1 gpt Au with a high of 10.7 gpt Au in a quartz stock work. The historic trenches coincided with the SGH geochemical anomalies.

Diamond drill program:

A two phase drill program was conducted on Davidson Tisdale as follows:

1. Selected existing holes were deepened at the Davidson Tisdale Main Zone to identify further gold mineralization, at depth, and to better define the alteration envelope allowing for more effective drill tarteting to expand mineralization on the Davidson Tisdale Main Zone at depth.
2. Shallow holes were drilled on the Kinch claims to follow up on the SGH geochemical anomalies as well as to test under the historic trenching and anomalous grab samples.

The program at the Davidson Tisdale Main Zone was successful in better defining the alteration envelope which hosts the quartz vein structures and gold mineralization. Nine holes were drilled; four of which intersected the quartz vein systems and two holes contianed visible gold ("VG"). The best assays (7.84 gpt Au and 7.67 gpt Au) came from the two holes in the quartz vein containing VG.

The program confirmed and better defined the alteration envelope but failed to encounter quartz veining in the quantity expected. Additional exploration at the Davidson Tisdale Main Zone will have to target depths below 450m as there appears to be a gap in the quartz veining structure.

The program at the Kinch claim was targeting the SGH geochemical anomalies, alteration and quartz veining as identified during the prospecting program. Five holes were drilled, one hole intersected significant quartz veining (hole VGK-15-04) with no significant assays. The most promising assay result was from hole VGK-15-05 which intersected 4.36 gpt Au spanning over 2.0 metres. The drilling failed to intersect significant quartz veining with gold. Additional exploration on the Kinch property is expected to focus on a stripping program to better reveal the alteration and quartz veining followed by geological/structural mapping and surface sampling.

The following table summarizes the results of the limited diamond drill program.

Hole# Davidson Tisdale	**Az**	**Dip**	**Start (m)**	**EOH**	**Drilled (m)**	**Quartz Vein System**	**Assays**
04-349ext	330	-68	467.0	599.0	132.0	536-537 moderate	1.66 gpt/1.0m
04-348ext	330	-49	431.0	722.0	291.0	570.2-579.3 weak, *VG*	7.84 gpt/1.0m
05-351ext	300	-83	233.2	317.0	83.8		nsv
04-331ext	330	-59	465.0	545.0	80.0		nsv
04-334ext	330	-50	367.6	461.0	93.4	408.4-412.5 weak *VG*	7.67 gpt/1.5m
04-330ext	334	-61	434.5	544.0	109.5		nsv
04-332ext	330	-55	370.6	500.5	129.9		nsv
10-374ext	355	-55	221	228.5	7.5		nsv
VGT-15-392	334	-56	0	350	350.0	40.4-48.6 moderate, 147.0-150.4 moderate	5.9 gpt/1.8m, 2.41 gpt/2.0, 3.98 gpt/1.3
9 holes					1,277.1		
Kinch							
VGK-15-01	180	-45			201		nsv
VGK-15-02	360	-45			180		0.64 gpt/1.6m
VGK-15-03	180	-45			180.3		nsv
VGK-15-04	180	-45			177	108.5-111.2	nsv
VGK-15-05	180	-45			186		1.14 gpt/1.5m, 4.36 gpt/2.0m
5 holes					924.3		
Total	**14**	**holes**			**2,201.4**		

EOH – end of hole; Az – azimuth; nsv - no significant values

Fuller Property

A small field exploration program was completed on the Chisholm claims, which are part of the Fuller property. Exploration work consisted of SGH geochemistry and prospecting / mapping. The Chisholm claims lie on the western part of the Fuller property. The purpose of the exploration program was to test for a westerly extension of the Fuller deposit.

The SGH geochemistry results identified low level anomalies and follow up was deemed to be low priority at this time. The prospecting returned numerous anomalous grab samples with a high of 13.6 gpt Au as well as 3 additional samples between 5 and 10 gpt Au. All the anomalous samples were located within a strongly altered mafic volcanic in the southeast portion of the Chisholm property, adjacent to the Fuller property boundary. These results represent the surface expression of the extension of the Fuller zones onto the Chisholm claims. This area warrants additional exploration in the future.

Paymaster Property

On September 20, 2013 the Company received formal notification from Goldcorp indicating that they would not be participating in the 2013 exploration budget. Since this time there has been no further notification that Goldcorp will resume participation. As such, the Company is diluting Goldcorp's ownership in accordance with terms stipulated in the joint venture agreement. Through dilution of Goldcrop's interest, the Company increased its interest in the property from 60.91% to 60.95%.

Results of Operations

	2015	2014	2013
Net Loss	$ (844,351)	$(643,423)	$(873,581)
Net Loss per share (basic and diluted)	(0.00)	(0.00)	(0.00)
Total Assets	40,947,726	41,194,026	41,865,674
Non-Current Liabilities	1,036,469	-	434,134

The Company recorded a net loss of $844,351 ($0.00 per share) for the year ended December 31, 2015, compared to $643,423 ($0.00 per share) during the corresponding period in 2014. The increased loss is the result of an increase to office, general and administrative expenses and care and maintenance expenditures. The decrease in the net loss in 2014 compared to 2013 was attributable to a reduction in office, general, and administrative expenses, and a reduction in the loss on the Company's equity investment in Uranium Valley Mines Ltd. ("UVM").

Office, General and Administrative Expenses

	For the three months ended December 31,		For the years ended December 31,	
	2015	2014	2015	2014
Salaries and benefits	$ 36,855	$ 59,874	$ 206,258	$ 179,269
Professional fees (accounting, audit and legal)	14,595	16,336	126,349	96,614
Public company fees and investor relations	13,477	11,699	131,052	129,129
Director fees	17,500	17,500	70,000	70,000
Office and general	72,608	72,588	274,317	150,237
	$ 155,035	$ 177,997	$ 807,976	$ 625,249

Office, general and administrative expenses decreased by 13% or $22,962, for the three months period ended December 31, 2015 with the comparative period in 2014. This quarter on quarter decrease pertains to decrease in salaries and benefits.

Annually, office, general and administrative expenses increased by 29% of $182,727 in comparison to 2014. The increase for the year was attributed to an increase in salaries and benefits, professional fees and office and general. The increase in professional fees is the result of additional audit fees and an increase in legal fees due to costs incurred to complete the Davidson Tisdale acquisition. The increase in office and general expenses relates to an increase in consulting fees for acquisition evaluation and environmental liability assessment.

Exploration Expenditures

	Fuller		Davidson Tisdale		Buffalo Ankerite		Paymaster		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Geological	$ 15,902	$ 48,230	$ 67,063	$ 21,923	$ -	$ 63,329	$ -	$ 45,929	$ 82,965	$ 179,411
Engineering	-	25,102	-	17,052	-	27,750	-	-	-	69,904
Drilling	-	-	168,985	-	-	2,280	-	-	168,985	2,280
Land & Holding	-	1,939	161,770	3,917	-	25,257	-	717	161,770	31,830
Recovery from joint venture partner	-	-	-	(15,539)	-	-	-	-	-	(15,539)
Other	1,518	8,366	9,684	1,956	-	6,151	-	-	11,202	16,473
December 31	$ 17,420	$ 83,637	$407,502	$ 29,309	$ -	$ 124,767	$ -	$ 46,646	$ 424,922	$ 284,359

The Company's policy is to capitalize drilling and other exploration expenditures. Exploration expenditures capitalized for the year ended December 31, 2015, totaled $424,922 (December 31, 2014 - $284,359). The increase in expenditures in 2015 compared to 2014 relates primarily to the exploration program on the newly acquired claims part of the Davidson Tisdale property and on the Fuller property. The Company commenced an exploration program on the newly acquired claims of the Davidson Tisdale property and on the Fuller property, during the second quarter of 2015. Expenditures incurred during the comparative period relate primarily to the preparation of the PEA.

The Company incurred expenditures of $17,420 (2014 - $83,637) on the Fuller property, $407,502 (2014 - $29,309) on the Davidson Tisdale property, $nil (2014 - $124,767) on Buffalo Ankerite property, and $nil (2014 - $46,646) on the Paymaster property.

Summary of Quarterly Results

Selected financial information for the eight previous fiscal quarters:

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net Loss	$ (169,563)	$ (142,491)	$ (222,761)	$ (309,536)	$ (205,766)	$ (116,439)	$ (145,496)	$ (175,722)
Net Loss per share (basic and diluted)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

Liquidity and Capital Resources

As at December 31, 2015, the Company had cash of $241,499, compared to $232,322 at December 31, 2014, representing a decrease of $9,177. The cash decrease of $9,177 is made up of $845,777 generated from investing activities, offset by $836,600 used in operating activities.

Cash from investing activities was primarily related to $397,292 used for expenditures on exploration and evaluation assets offset by $1,243,069 proceeds from the redemption of short-term investments. The Company's short-term investments of $1,188,378 are a fixed income investment, registered with a Canadian Bank and can be liquidated as needed.

Based on current spending projections, primarily relating to exploration and general and administrative expenditures, current cash on hand and short-term investments are expected to be sufficient to fund ongoing operations for a period of at least the next 12 months.

Mineral properties of Lexam VG are in the exploration and development stage. The Company has no source of operating cash flow and will need to raise additional funds to complete exploration and development. There is no assurance that Lexam VG will be able to raise additional funds at reasonable terms. The development of ore deposits found on the exploration properties of Lexam VG depend on the ability of the Company to obtain financing through debt financing, equity financing or other means. If the exploration and development programs of Lexam VG are successful in identification of economically viable resources, additional funds will be required to develop the properties and, if successful, additional funds will be required to place them in commercial production. The only source of future funds presently available to Lexam VG is the sale of equity capital of Lexam VG or the sale by Lexam VG of an interest in any of its properties in whole or in part. The ability of Lexam VG to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as on the business performance and prospects of the Company.

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

Outstanding Share Data

The following schedule outlines the number of shares outstanding.

	2015	2014
Common Shares	226,570,860	226,570,860
Stock Options	969,000	-

The total common shares outstanding as of March 9, 2016 are 226,570,860.

Contractual Obligations

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Decommissioning liabilities	$ -	$ -	$ -	$ 1,036,469	$ 1,036,469
Accounts payable and accrued liabilities	83,227	-	-	-	83,227
	$ 83,227	$ -	$ -	$ 1,036,469	$ 1,119,696

Transactions with Related Parties

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.

Environmental Risks and Hazards

All phases of Lexam VG's mineral exploration operations are subject to environmental regulations pertaining to the City of Timmins and the province of Ontario in Canada. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Lexam VG's operations. Environmental hazards may exist on the properties on which Lexam VG holds interests, which are unknown to Lexam VG at present and which may have been caused by previous or existing owners or operators of the properties. Lexam VG may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability. Government approvals and permits are currently and may in the future be required in connection with Lexam VG's operations. To the extent that such approvals are required and not obtained, Lexam VG may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities which may cause operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation

of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

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

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

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

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

Federal level (Canada)	Provincial Level (Ontario)
Canadian Environmental Protection Act	Environmental Protection Act
Fisheries Act	Mining Act
Navigable Waters Protection Act and Regulations	

Off-Balance Sheet Arrangements

As at December 31, 2015, the Company does not have off-balance sheet arrangements.

Additional Funding Requirements

Mineral properties of Lexam VG are in the exploration and development stage. The Company has no source of operating cash flow, and will need to raise additional funds to complete its projects. There is no assurance that Lexam VG will be able to raise additional funds at reasonable terms. The development of ore deposits found on the exploration properties of Lexam VG depend on the ability of the Company to obtain financing through debt financing, equity financing or other means. If the exploration and development programs of Lexam VG are successful, additional funds will be required to develop the properties and, if successful, additional funds will be required to place them in commercial production. The only source of future funds presently available to Lexam VG is the sale of equity capital of Lexam VG or the sale by Lexam VG of an interest in any of its properties in

whole or in part. The ability of Lexam VG to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as on the business performance of the Company.

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

Recently 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.

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 if adoption if amendments has not yet been determined.

Management's Evaluation of Disclosure Controls

Management is responsible for the design and operating effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as at December 31, 2015 and have concluded that these controls and procedures are appropriately designed and have operated effectively.

Internal Control over Financial Reporting

Management, under the supervision of the Chief Executive Officer (or Chairman of the Board of Directors, in absence of Chief Executive Officer) and the Chief Financial Officer, is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. Based on a review of its internal controls, management believes its internal controls over financial reporting are appropriately designed and operating effectively as at December 31, 2015. There were no changes in the Company's internal controls during the quarter ended December 31, 2015 that materially affected or are reasonably likely to materially affect, our internal controls over financial reporting.

Financial Instruments

The Company manages its exposure to a number of different financial risks arising from operations as well as from the use of financial instruments including market risks (commodity prices, foreign currency exchange rate and interest rate), credit risk and liquidity risk through its risk management strategy. The objective of the strategy

is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities. The Company does not use derivative financial instruments. The financial risks are evaluated regularly with due consideration to changes in key economic indicators and to up to date market information.

(a) Market Risk

Market risk is the risk of uncertainty arising primarily from possible commodity market price movements and their impact on the future economic viability of the Company's projects and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an ongoing 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, 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 endeavours to maximize the interest income earned on excess funds, the Company's policy focuses on cash preservation, while maintaining the liquidity necessary to conduct operations on a day to day basis. The Company's policy limits the investing of excess funds to liquid term deposits, treasury bills and banker's acceptances.

Fluctuations in market interest rates have not had a significant impact on the Company's results of operations due to the short term maturities of investments held.

(d) 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, 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.

(e) Credit Risk

Credit risk arises from cash and short-term investments 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 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.

Use of Estimates and Judgment

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

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

(a) Mineral Resources

The estimates relating to mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous estimates in determining the mineral resource estimate. Such estimation is a subjective process, and the accuracy of any mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions, such as metal prices and market conditions, could have a material effect in the future ability to develop such projects.
The recoverability of exploration and evaluation assets is assessed for impairment upon demonstrating the viability of a project. The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether future economic benefits may be realized, which are based on assumptions about future events and circumstances as indicated above.

(b) 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 Exploration & Evaluation ("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 E&E assets recoverable amount is made, 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 generally 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.

Risks and Uncertainties

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

Regulatory standards continue to change making the review process longer, more complex and more costly. Even if an apparently mineable deposit is developed, there is no assurance that it will ever reach production or be profitable, as its potential economics are influenced by many key factors such as commodity prices, foreign exchange rates, equity markets and political interference, which cannot be controlled by management. As a result, the Company's future business, operations, and financial condition could differ materially from the forward-looking information contained in this MD&A and described in the Forward-Looking Statements section below. For a more comprehensive discussion of the risks faced by the Company, please refer to the Company's Annual Information Form, dated March 19, 2015, filed on www.sedar.com.

Forward Looking Statements

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