

LEXAM VG GOLD INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(Unaudited)

INDEX

	Page
Condensed Interim Consolidated Statements of Financial Position	3
Condensed Interim Consolidated Statements of Operations and Comprehensive Loss	4
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity	5
Condensed Interim Consolidated Statements of Cash Flows	6
Notes to Condensed Interim Consolidated Financial Statements	7 - 11

Notice to Reader – From Lexam VG Gold Inc.

These condensed unaudited interim consolidated financial statements of Lexam VG Gold Inc., including the accompanying condensed interim consolidated statements of financial position as at March 31, 2016 and December 31, 2015, the condensed interim consolidated statements of operations and comprehensive loss for the three months ended March 31, 2016 and 2015, and the condensed interim consolidated statement of changes in shareholders' equity and cash flows for the three months ended March 31, 2016 and 2015 are the responsibility of the Company's management. These condensed unaudited interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgements and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards for interim consolidated financial statements.

The independent auditor of the Company has not performed a review of these condensed unaudited interim consolidated financial statements for the three months ended March 31, 2016 and 2015.

LEXAMVG GOLD INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited - in Canadian dollars)

	As At	
	March 31, 2016	December 31, 2015
ASSETS		
Current		
Cash and cash equivalents	\$ 292,906	\$ 241,499
Short-term investments (note 3)	900,843	1,188,378
Amounts receivable	10,225	6,780
Prepaid expenses and deposits	44,724	29,456
	<u>1,248,698</u>	<u>1,466,113</u>
Non-current		
Restricted cash	50,560	50,560
Exploration and evaluation assets (note 4)	39,431,053	39,431,053
	<u>\$ 40,730,311</u>	<u>\$ 40,947,726</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 97,765	\$ 83,227
	<u>97,765</u>	<u>83,227</u>
Non-current		
Decommissioning liabilities	1,046,331	1,036,469
	<u>\$ 1,144,096</u>	<u>\$ 1,119,696</u>
SHAREHOLDERS' EQUITY		
Common stock (note 5)	\$ 70,105,954	\$ 70,105,954
Contributed surplus	4,715,430	4,708,103
Deficit	(35,235,169)	(34,986,027)
	<u>39,586,215</u>	<u>39,828,030</u>
	<u>\$ 40,730,311</u>	<u>\$ 40,947,726</u>

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

Approved on behalf of the Board

<u>'Richard Brissenden'</u>	Director
<u>'Robin Dunbar'</u>	Director

LEXAM VG GOLD INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF OPERATIONS
AND COMPREHENSIVE LOSS
(Unaudited - in Canadian dollars)

	Three months ended March 31,	
	2016	2015
OPERATING EXPENSES:		
Office, general and administrative	\$ 216,741	\$ 295,504
Care and maintenance	17,870	19,418
Depreciation	-	1,878
Share-based compensation	7,327	-
Total costs and expenses	<u>241,938</u>	<u>316,800</u>
OTHER (EXPENSES) INCOME:		
Interest income	3,130	6,773
Accretion	(9,862)	(2,679)
Foreign exchange (loss) gain	(472)	3,170
Total other (expenses) income	<u>(7,204)</u>	<u>7,264</u>
Net loss and comprehensive loss	\$ <u>(249,142)</u>	\$ <u>(309,536)</u>
Basic and diluted per share data:		
Net loss - basic and diluted	\$ <u>(0.00)</u>	\$ <u>(0.00)</u>
Weighted average common shares outstanding		
- basic and diluted	<u>226,570,860</u>	<u>226,570,860</u>

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

LEXAM VG GOLD INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Unaudited - in Canadian dollars)

	Common Stock		Contributed	Accumulated	
	Shares	Amount	Surplus	Deficit	Total
Balance, December 31, 2014	226,570,860	\$ 70,105,954	\$ 4,705,661	\$ (34,141,676)	\$ 40,669,939
Net loss	-	-	-	(309,536)	(309,536)
Share-based compensation	-	-	-	-	-
Balance, March 31, 2015	<u>226,570,860</u>	<u>\$ 70,105,954</u>	<u>\$ 4,705,661</u>	<u>\$ (34,451,212)</u>	<u>\$ 40,360,403</u>

	Common Stock		Contributed	Accumulated	
	Shares	Amount	Surplus	Deficit	Total
Balance, December 31, 2015	226,570,860	\$ 70,105,954	\$ 4,708,103	\$ (34,986,027)	\$ 39,828,030
Net loss	-	-	-	(249,142)	(249,142)
Share-based compensation	-	-	7,327	-	7,327
Balance, March 31, 2016	<u>226,570,860</u>	<u>\$ 70,105,954</u>	<u>\$ 4,715,430</u>	<u>\$ (35,235,169)</u>	<u>\$ 39,586,215</u>

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

LEXAM VG GOLD INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - in Canadian dollars)

	Three months ended March 31,	
	2016	2015
Cash (used in) provided by:		
Operating activities:		
Net loss for the period	\$ (249,142)	\$ (309,536)
Adjustments to reconcile net loss from operating activities:		
Depreciation	-	1,878
Share-based compensation	7,327	-
Accretion	9,862	2,679
Interest income from short-term investments	(2,537)	(6,488)
	<u>(234,490)</u>	<u>(311,467)</u>
Changes in non-cash working capital (note 7)	<u>(4,175)</u>	<u>30,526</u>
	<u>(238,665)</u>	<u>(280,941)</u>
Investing activities:		
Proceeds from sale of short-term investments	290,072	620,775
Expenditures on exploration and evaluation assets (note 4)	-	(130,000)
	<u>290,072</u>	<u>490,775</u>
Net increase in cash and cash equivalents	<u>51,407</u>	<u>209,834</u>
Cash and cash equivalents, beginning of the period	<u>241,499</u>	<u>232,322</u>
Cash and cash equivalents, end of the period	<u><u>\$ 292,906</u></u>	<u><u>\$ 442,156</u></u>

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

LEXAM VG GOLD INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****MARCH 31, 2016 AND 2015***(Unaudited - in Canadian dollars)***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. and VG Gold Corp. 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 activities. 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 March 31, 2016, 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 the Davidson Tisdale property and a 60.96% interest in the Paymaster property as at March 31, 2016.

2. BASIS OF PRESENTATION**Statement of compliance**

These condensed unaudited interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). These condensed unaudited interim financial statements do not include all disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements and accordingly should be read in conjunction with the Company’s audited annual consolidated financial statements for the year ended December 31, 2015 prepared in accordance with IFRS as issued by the ISAB.

The policies applied in these condensed unaudited interim consolidated financial statements are consistent with the policies disclosed in Notes 2 and 14 of the audited annual consolidated financial statements for the year ended December 31, 2015.

These condensed unaudited interim consolidated financial statements have been authorized for issue by the Company’s Board of Directors on May 6, 2016.

LEXAM VG GOLD INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

(Unaudited - in Canadian dollars)

2. BASIS OF PRESENTATION (Continued)

Recently Adopted Accounting Standards

The IASB issued the following accounting standards and amendments to accounting standards, which are effective January 1, 2016:

On May 6, 2014 the IASB issued Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The adoption of this standard had no impact on the Company's condensed interim consolidated financial statements.

On May 12, 2014 the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset. The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. The adoption of this standard had no impact on the Company's condensed interim consolidated financial statements.

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"). These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The adoption of this standard had no impact on the Company's condensed interim consolidated financial statements.

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.

On July 24, 2014 the IASB issued the complete 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 consolidated

LEXAM VG GOLD INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****MARCH 31, 2016 AND 2015***(Unaudited - in Canadian dollars)***2. BASIS OF PRESENTATION (Continued)**

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 consolidated 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 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 consolidated 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.

3. SHORT-TERM INVESTMENTS

The Company's short-term investments are held with a Canadian bank, and consist of thirty-day Guaranteed Investment Certificates, which can be liquidated as needed.

LEXAM VG GOLD INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****MARCH 31, 2016 AND 2015***(Unaudited - in Canadian dollars)***4. EXPLORATION AND EVALUATION ASSETS**

	December 31, 2015	Exploration	Decommissioning Liabilities	March 31, 2016
Fuller	\$ 14,899,741	\$ -	\$ -	\$ 14,899,741
Davidson Tisdale	7,044,821	-	-	7,044,821
Buffalo Ankerite	10,733,234	-	-	10,733,234
Paymaster	6,753,257	-	-	6,753,257
	<u>\$ 39,431,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,431,053</u>

	December 31, 2014	Exploration	Decommissioning Liabilities	December 31, 2015
Fuller	\$ 14,740,950	\$ 17,420	\$ 141,371	\$ 14,899,741
Davidson Tisdale	6,586,580	407,502	50,739	7,044,821
Buffalo Ankerite	10,614,945	-	118,289	10,733,234
Paymaster	6,482,498	-	270,759	6,753,257
	<u>\$ 38,424,973</u>	<u>\$ 424,922</u>	<u>\$ 581,158</u>	<u>\$ 39,431,053</u>

5. CAPITAL STOCK**(a) Authorized**

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

(b) Common Share Purchase Options

The Company has a stock option plan available to its employees, officers, directors and service providers. The number of common shares reserved for the purpose of the plan is 22,400,000.

There were no options granted or exercised during the three months ended March 31, 2016 and 2015. As at March 31, 2016 a total of 989,000 options are outstanding and exercisable with a weighted average exercise price of \$0.10 per share. The options have a 5 year life, expiring in November 26, 2020 and vest equally over the next three years starting on the anniversary date November 27.

6. INVESTMENT IN URANIUM VALLEY MINES (“UVM”)

Lexam VG holds 4,000,000 common shares of UVM, representing an approximate ownership of 36%. The Company’s investment in UVM is accounted for using the equity method. At March 31, 2016, the Company’s carrying value of UVM was \$nil, with total accumulated accounting losses of approximately \$447,600.

As at March 31, 2016, UVM had total assets approximating \$40,000 and liabilities approximating \$12,600 with an approximate quarterly net loss of \$19,000.

UVM trades on the TSX Venture under the symbol ‘VZZ’. Based on UVM’s closing share price of \$0.05 per share on March 31, 2016, the market value of Lexam VG’s investment in UVM is \$200,000.

LEXAM VG GOLD INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****MARCH 31, 2016 AND 2015***(Unaudited - in Canadian dollars)***7. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	Three months ended March 31,	
	2016	2015
Amounts receivable	\$ (3,445)	\$ (2,651)
Prepaid expenses and deposits	(15,268)	(26,444)
Accounts payable and accrued liabilities	14,538	59,621
	<u>\$ (4,175)</u>	<u>\$ 30,526</u>
Interest received	<u>\$ 2,548</u>	<u>\$ 6,773</u>

8. RELATED PARTY TRANSACTIONS

The Company agreed to share services with McEwen Mining Inc. (“McEwen Mining”) for rent, personnel, office expenses and other administrative services. Robert McEwen (“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 Lexam VG.

For the three months ended March 31, 2016 McEwen Mining reimbursed the Company \$30,100 for net shared services, which include rent, personnel, office expenses and other administrative services. During the comparable period in 2015 the Company paid \$5,600 to McEwen Mining.

These transactions are in the normal course of business.