

LEXAM VG GOLD INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

(Unaudited)

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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 September 30, 2016 and December 31, 2015, the condensed interim consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2016 and 2015, and the condensed interim consolidated statement of changes in shareholders' equity and cash flows for the nine months ended September 30, 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 and nine months ended September 30, 2016 and 2015.

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

	As At	
	September 30, 2016	December 31, 2015
ASSETS		
Current		
Cash and cash equivalents	\$ 101,045	\$ 241,499
Short-term investments (note 3)	754,087	1,188,378
Amounts receivable	5,112	6,780
Prepaid expenses and deposits	17,266	29,456
	<u>877,510</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>\$ 40,359,123</u>	<u>\$ 40,947,726</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 53,322	\$ 83,227
	<u>53,322</u>	<u>83,227</u>
Non-current		
Decommissioning liabilities	1,066,055	1,036,469
	<u>\$ 1,119,377</u>	<u>\$ 1,119,696</u>
SHAREHOLDERS' EQUITY		
Common stock (note 5)	\$ 70,105,954	\$ 70,105,954
Contributed surplus	4,730,085	4,708,103
Deficit	(35,596,293)	(34,986,027)
	<u>39,239,746</u>	<u>39,828,030</u>
	<u>\$ 40,359,123</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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
OPERATING EXPENSES:				
Office, general and administrative	\$ 148,671	\$ 144,568	\$ 513,521	\$ 652,941
Care and maintenance	14,303	9,766	51,876	39,089
Depreciation	-	1,252	-	5,008
Share-based compensation	7,327	-	21,982	-
Total operating expenses	<u>170,301</u>	<u>155,586</u>	<u>587,379</u>	<u>697,038</u>
OTHER (EXPENSES) INCOME:				
Interest income	1,759	13,361	6,917	25,436
Accretion	(9,862)	(2,679)	(29,586)	(8,036)
Foreign exchange gain (loss)	135	2,413	(218)	4,850
Total other (expenses) income	<u>(7,968)</u>	<u>13,095</u>	<u>(22,887)</u>	<u>22,250</u>
Net loss and comprehensive loss	<u>\$ (178,269)</u>	<u>\$ (142,491)</u>	<u>\$ (610,266)</u>	<u>\$ (674,788)</u>
Basic and diluted per share data:				
Net loss - basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<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>	<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 NINE MONTHS ENDED SEPTEMBER 30, 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	-	-	-	(674,788)	(674,788)
Balance, September 30, 2015	<u>226,570,860</u>	<u>\$ 70,105,954</u>	<u>\$ 4,705,661</u>	<u>\$ (34,816,464)</u>	<u>\$ 39,995,151</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	-	-	-	(610,266)	(610,266)
Share-based compensation	-	-	21,982	-	21,982
Balance, September 30, 2016	<u>226,570,860</u>	<u>\$ 70,105,954</u>	<u>\$ 4,730,085</u>	<u>\$ (35,596,293)</u>	<u>\$ 39,239,746</u>

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

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

	Nine months ended September 30,	
	2016	2015
Cash (used in) provided by:		
Operating activities:		
Net loss for the period	\$ (610,266)	\$ (674,788)
Adjustments to reconcile net loss from operating activities:		
Depreciation	-	5,008
Share-based compensation	21,982	-
Accretion	29,586	8,035
Interest income from short-term investments	(4,672)	(13,576)
	<u>(563,370)</u>	<u>(675,321)</u>
Changes in non-cash working capital (note 7)	<u>(16,047)</u>	<u>(46,290)</u>
	<u>(579,417)</u>	<u>(721,611)</u>
Investing activities:		
Proceeds from sale of short-term investments	438,963	993,069
Expenditures on exploration and evaluation assets (note 4)	-	(306,866)
	<u>438,963</u>	<u>686,203</u>
Net (decrease) increase in cash and cash equivalents	<u>(140,454)</u>	<u>(35,408)</u>
Cash and cash equivalents, beginning of the period	241,499	232,322
Cash and cash equivalents, end of the period	<u>\$ 101,045</u>	<u>\$ 196,914</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 SEPTEMBER 30, 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 efforts of the Company are devoted to exploration activities and to date it has generated minimal revenues. As at September 30, 2016 the Company has an accumulated deficit of 35,596,293, and a working capital balance of \$824,188. The Company expects to continue to incur further losses in the exploration of its projects, and has no regular source of cash flow. These factors may cast doubt over the Company’s ability to continue as a going concern.

The Company 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 September 30, 2016, Robert R. McEwen (“Mr. McEwen”), the non-executive chairman of Lexam VG owns 27% of the Company’s issued and outstanding common shares.

The Company’s assets are comprised primarily of 100% interest in Fuller, Buffalo Ankerite and Davidson Tisdale properties and a 60.96% interest in the Paymaster property as at September 30, 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 November 3, 2016.

LEXAM VG GOLD INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 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

On June 20, 2016 the IASB issued Amendments to IFRS 2 Share-based payments. These amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to terms and conditions of a share based payment that changes the classification of the transaction from cash-settled. These amendments are effective for the annual period beginning on January 1, 2018. The extent of the impact of adoption of this standard 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 converted to cash as needed.

LEXAM VG GOLD INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015***(Unaudited - in Canadian dollars)***4. EXPLORATION AND EVALUATION ASSETS**

	December 31, 2015	Exploration	Decommissioning Liabilities	September 30, 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 and nine months ended September 30, 2016 and 2015. As at September 30, 2016 a total of 969,000 options are outstanding, 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, 2016.

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 September 30, 2016, the Company's carrying value of UVM was \$nil, with total accumulated accounting losses of approximately \$464,000.

As at September 30, 2016, UVM had total assets approximating \$385,600 and liabilities approximating \$53,700 with an approximate quarterly net loss of \$21,900.

UVM trades on the TSX Venture under the symbol 'VZZ'. Based on UVM's closing share price of \$0.15 per share on September 30, 2016, the market value of Lexam VG's investment in UVM is \$600,000.

LEXAM VG GOLD INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015***(Unaudited - in Canadian dollars)***7. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	Nine months ended September 30,	
	2016	2015
Amounts receivable	\$ 1,668	\$ (23,845)
Prepaid expenses and deposits	12,190	2,428
Accounts payable and accrued liabilities	(29,905)	(24,873)
	<u>\$ (16,047)</u>	<u>\$ (46,290)</u>
Interest received	<u>\$ (6,365)</u>	<u>\$ 24,436</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 and nine months ended September 30, 2016, McEwen Mining reimbursed the Company \$22,600 and \$76,000, respectively, for net shared services, which include rent, personnel, office expenses and other administrative services. For the three months ended September 30, 2015 McEwen reimbursed the Company \$9,600 for net shared services. For the nine months ended September 30, 2015 the Company paid \$1,300 to McEwen Mining for net shared services.

These transactions are in the normal course of business.