LEXAM VG GOLD INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015
(in Canadian dollars)

INDEX

Collins Barrow Toronto
Collins Barrow Place
11 King Street West
Suite 700, PO Box 27
Toronto, Ontario M5H 4C7
Canada
T: 416.480.0160
F: 416.480.2646

toronto.collinsbarrow.com

INDEPENDENTAUDITOR'S REPORT

To the Shareholders of Lexam VG Gold Inc.

We have audited the accompanying consolidated financial statements of Lexam VG Gold Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 the auditor's judgement, 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, the auditor considers 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lexam VG Gold Corp. as at December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Other matter

The financial statements of Lexam VG Gold Inc. for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on March 9, 2016.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Professional
Accountants March 22, 2017
Toronto

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

	2016	2015
ASSETS		
Current		
Cash and cash equivalents	$ 133,959	$ 241,499
Short-term investments	493,770	1,188,378
Amounts receivable	46,771	6,780
Prepaid expenses and deposits	31,558	29,456
	706,058	1,466,113
Non-current		
Restricted cash (note 3b)	50,560	50,560
Exploration and evaluation assets (note 3)	39,451,855	39,431,053
	$ 40,208,473	$ 40,947,726
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 41,565	$ 83,227
	41,565	83,227
Non-current		
Decommissioning liabilities (note 4)	1,096,720	1,036,469
	$ 1,138,285	$ 1,119,696
SHAREHOLDERS' EQUITY		
Capital stock (note 6)	$ 70,105,954	$ 70,105,954
Contributed surplus	4,736,044	4,708,103
Deficit	(35,771,810)	(34,986,027)
	39,070,188	39,828,030
	$ 40,208,473	$ 40,947,726

Nature of operations and going concern (note 1)
Subsequent event (note 12)

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 STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECMEBER 31,
(in Canadian dollars)

		2016		2015
OPERATING EXPENSES:				
Office, general and administrative	$	660,716	$	807,976
Care and maintenance		66,207		52,126
Depreciation		-		5,008
Share-based compensation		27,941		2,442
Total operating expenses		754,864		867,552
OTHER (EXPENSES) INCOME:				
Interest income		8,382		28,848
Accretion (note 4)		(39,449)		(10,714)
Foreign exchange gain		148		5,067
Total other (expenses) income		(30,919)		23,201
Net loss and comprehensive loss	$	(785,783)	$	(844,351)
Basic and diluted per share data:				
Net loss - basic and diluted (note 7)	$	(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, 2016 AND 2015
(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	-	-	-	(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

	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	-	-	-	(785,783)	(785,783)
Share-based compensation	-	-	27,941	-	27,941
Balance, December 31, 2016	226,570,860	$ 70,105,954	$ 4,736,044	$ (35,771,810)	$ 39,070,188

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)

	2016	2015
Cash (used in) provided by:		
Operating activities:		
Net loss for the period	$ (785,783)	$ (844,351)
Adjustments to reconcile net loss from operating activities:		
Depreciation	-	5,008
Share-based compensation	27,941	2,442
Accretion	39,449	10,714
Interest income from short-term investments	(5,464)	(15,089)
	(723,857)	(841,276)
Changes in non-cash working capital (note 11)	(83,755)	4,676
	(807,612)	(836,600)
Investing activities:		
Proceeds from sale of short-term investments	700,072	1,243,069
Expenditures on exploration and evaluation assets (note 3)	-	(397,292)
	700,072	845,777
Net (decrease) increase in cash and cash equivalents	(107,540)	9,177
Cash and cash equivalents, beginning of the year	241,499	232,322
Cash and cash equivalents, end of the year	$ 133,959	$ 241,499

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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's corporate office is located at 150 King St West, Toronto, Ontario, M5H 1J9. 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 is dependent on raising additional funds in the future or the successful completion of the arrangement discussed further in Note 12, 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. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. 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, 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 Davidson Tisdale property and a 60.98% 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 policies adopted by the Company are disclosed in Note 15. These consolidated financial statements have been authorized for issue by the Company's Board of Directors on March 22, 2017.

Basis of Measurement and Principles of Consolidation

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value. These consolidated financial statements include all the accounts of the Company and all of its subsidiaries and investments, including its 100%, wholly owned subsidiaries, Lexam Explorations (USA) Inc., 912413 Ontario, and VG Gold Holdings Inc. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

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, 2015	Exploration	Decommissioning Liabilities	December 31, 2016
Fuller (a)	$ 14,899,741	$ -	$ (59,832)	$ 14,839,909
Davidson Tisdale (b)	7,044,821	-	7,331	7,052,152
Buffalo Ankerite (c)	10,733,234	-	68,796	10,802,030
Paymaster (d)	6,753,257	-	4,507	6,757,764
	$ 39,431,053	$ -	$ 20,802	$ 39,451,855

	December 31, 2014	Exploration	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
	$ 38,424,973	$ 424,922	$ 581,158	$ 39,431,053

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

The Company owns 100% of the mining rights to the Davidson Tisdale property. 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 the 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 relates to the Davidson Tisdale closure plan, and is held with the Northern Development and Mines.

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 60.98% 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. Since this time there has been limited exploration on the project, however, the Company has continued to incur property holding costs. As a result, since 2013, the Company has diluted Goldcorp's ownership in accordance with terms stipulated in the Joint Venture Agreement. For the year ended December 31, 2016, the Company increased its interest from 60.95% to 60.98% (2015 – increased from 60.91% - 60.95%)

4. DECOMMISSIONING LIABILITIES

The Company's decommissioning obligation relates to re-sloping existing pit walls at Buffalo Ankerite, labour costs, closure costs to permanently close historical mine portals, and revegetation costs for historical tailings storage facilities. The estimated discounted obligation as at December 31, 2016 is $1,096,720 (2015 - $1,036,469), with a discount rate of 3.70% (2015 – 3.8%).

The estimated undiscounted liability is $1,824,700 (2015 - $1,815,000) using an inflation rate of 1.88% (2015 – 1.9%).

	2016	2015
Obligations, beginning of year	$ 1,036,469	$ 444,597
Increase in environmental obligations	20,802	581,158
Accretion of discounted cash flows	39,449	10,714
Obligations, end of year	$ 1,096,720	$ 1,036,469

(in Canadian dollars)

5. 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 2016 was 26.50% (2015 – 26.50%).

	2016	2015
Net loss before tax	$ (785,783)	$ (844,351)
Enacted statutory tax rates	26.50%	26.50%
Expected income tax recovery	(208,232)	(223,753)
Change in tax benefit not recognized	(12,385)	221,034
Non-deductible expenses	7,419	184
Foreign earnings subject to different tax rates	(2,867)	(2,554)
Other	216,065	5,089
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	
	2016	2015
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)

5. 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:

	2016	2015
Non-capital losses	$ 8,807,636	$ 8,899,480
Automobiles	1,552,482	1,552,482
Equity accounted investment	1,200,000	1,200,000
Decommissioning liabilites	90,559	51,110
Capital losses	28,085	28,085
Net unrecognized temporary differences	$ 11,678,762	$ 11,731,157

c) Non-Capital Loss Carry-Forwards

The Company has non-capital loss carry-forwards in Canada of approximately $14,266,476 (2015 - $14,342,123) and in the U.S. of US$1,443,443 (2015 – US$1,324,639) available in certain circumstances to reduce potential future taxable income for Canadian and U.S. income tax purposes. These loss carry-forwards expire between 2017 and 2036.

6. 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, 2016, there were no stock options issued, exercised or cancelled. During the 2015 fiscal period, 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. As at December 31, 2016, there were 323,000 exercisable options, with a weighted average exercise price of $0.10.

The following table summarizes options activity for the years ended December 31, 2016 and 2015.

	2016			2015		
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (years)	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (years)
Opening Balances	969,000	$ 0.10	3.90	-	$ -	4.90
Grants	-	-	-	969,000	0.10	-
	969,000	$ 0.10	$ 3.90	969,000	$ 0.10	4.90

(in Canadian dollars)

6. CAPITAL STOCK (Continued)

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:	2016	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

The expected volatility was calculated using the Company's historical share price data.

7. 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 options of the Company. As the Company is in a loss position for the years ended December 31, 2016 and 2015, the inclusion of options would be anti-dilutive.

8. CAPITAL MANAGEMENT

The Company considers its capital to be shareholder's equity, comprising capital stock, contributed surplus and deficit. As at December 31, 2016, the Company's shareholder's equity was $39,070,188 (2015 - $39,828,030).

There were no changes in the Company's approach to capital management during the year ended December 31, 2016 and the Company is not subject to any externally imposed capital requirements.

The Company's objectives when managing capital are:

a) To safeguard the Company's financial capacity and liquidity for future earnings in order to continue to provide an appropriate return to shareholders and other stakeholders;

b) To maintain a flexible capital structure, optimizing cost of capital at an acceptable risk; and

c) To enable the Company to maximize growth by meeting its capital expenditure budget, to expand its budget to accelerate projects, and to take advantage of acquisition opportunities

(in Canadian dollars)

8. CAPITAL MANAGEMENT (Continued)

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.

9. 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, 2016, McEwen Mining reimbursed the Company $112,800 (2015 – $23,600) for net shared services, which include rent, personnel office expenses and other administrative services.

These transactions are in the normal course of business.

Remunerations of key management personnel were as follows:

	2016	2015
Short-term benefits to management and Directors [1]	$ 86,000	$ 89,000
Share-based compensation	19,922	1,700
Total	$ 105,922	$ 90,700

[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.

10. INVESTMENT IN URANIUM VALLEY MINES ("UVM")

Lexam VG holds 4,000,000 common shares of UVM, representing an approximate ownership of 21% (2015 – 36%). The Company's investment in UVM is accounted for using the equity method. At December 31, 2016, the Company's carrying value of UVM was $nil, with total accumulated accounting losses of approximately $462,000.

As at and for the year ending December 31, 2016, UVM had total assets approximating $558,600 and liabilities approximating $39,800, with an approximate net loss of $73,000 (2015 - $276,600).

UVM trades on the TSX Venture under the symbol 'VZZ-H'. Based on UVM's closing share price of $0.19 per share on December 31, 2016, the market value of Lexam VG's investment in UVM is $760,000.

(in Canadian dollars)

11. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2016	2015
Amounts receivable	$ (39,991)	$ 3,549
Prepaid expenses and deposits	(2,102)	(2,610)
Accounts payable and accrued liabilities	(41,662)	3,737
	$ (83,755)	$ 4,676
Interest received	$ 8,756	$ 20,523

12. SUBSEQUENT EVENT

On February 13, 2017, McEwen Mining and Lexam VG Gold Inc. entered into an agreement pursuant to which McEwen Mining would acquire all of the issued and outstanding securities of Lexam VG by way of plan of arrangement (the “Arrangement”) and Lexam VG would become a wholly-owned subsidiary of McEwen Mining. Pursuant to the Arrangement, each Lexam VG common share would entitle the holder to receive 0.056 of McEwen Mining share (“Exchange Ratio”).

The Arrangement agreement includes customary deal protection and non-solicitation provisions in favour of McEwen Mining, including a break fee of US$2.1 million payable to McEwen Mining in certain circumstances, and fiduciary out provisions for the benefit of Lexam VG. Lexam VG is entitled to a reverse break fee of the same amount payable in certain other circumstances.

This proposed Arrangement is subject to approval by the shareholders of Lexam VG and scheduled for completion by May 23, 2017.

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, 2016, the Company held cash and cash equivalents of $133,959 (2015 - $241,499) and short-term investments of $493,770 (2015 - $1,188,378) to settle current liabilities of $41,565 (2015 - $83,227).

(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 and short-term investments 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. However, the Company does not carry significant monetary assets and liabilities denominated in foreign currencies, as a result fluctuations in foreign exchange rates have not had a significant impact on the Company’s results of operations.

(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

13. FINANCIAL INSTRUMENTS (Continued)

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 accounts payable and accrued liabilities are classified as other financial liabilities. Both are 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.

Exploration 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

Costs 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) Joint Operations

Joint 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 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 a joint operation.

14. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Investments in Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies which are neither subsidiaries nor interests in joint ventures. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

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

The consolidated statements include the Company's share of the profit or loss of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date the significant influence commences until the date that significant influence ceases.

When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has a legal or constructive obligation.

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 10) is accounted for using the equity method.

(h) 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.

15. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 taxable profits will be available against which those deductible temporary differences can be utilized. 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.

(i) 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.

(j) 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.

(k) 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.

15. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instruments

The Company holds certain financial instruments such as cash and cash equivalents, short-term investments, amounts 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. The Company does not have any assets designated under the held-to-maturity or available-for-sale categories.

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 amounts receivable as assets that fall under this category.

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.

15. SIGNIFICANT ACCOUNTING POLICIES (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 include cash and cash equivalent, and short term investments.

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).

The Company classifies cash and cash equivalent as level 1 and short term investments as level 2. During the year, there were no transfers between level 1 and 2.

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.

15. SIGNIFICANT ACCOUNTING POLICIES (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.

(b) Income Taxes

In assessing the probability of realizing income tax assets and the related recognition, 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. Using this criteria the Company assessed its E&E assets at December 31, 2016 and 2015 and determined that there were no indicators of impairment.

(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.

15. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory and would be applicable to the Company for annual periods on or after January 1, 2018. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial instruments ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions.

IFRS 16 – Leases – The standard was issued by the IASB in January 2016, and will replace IAS 17, "Leases". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 – Revenue from contracts with customers has also been applied.