

Lexam Explorations

MANAGEMENT'S DISCUSSION AND ANALYSIS and INTERIM FINANCIAL STATEMENTS

FOR THE FIRST QUARTER ENDED MARCH 31, 2006
(All amounts in this are expressed in Canadian dollars unless otherwise indicated.)

FINANCIAL HIGHLIGHTS

This Management's Discussion and Analysis was prepared on May 26, 2006. Lexam Explorations Inc. ("Lexam" or the "Company") recorded a loss of \$135,830 during the three months ended March 31, 2006, compared to loss of \$20,693 during the corresponding period in 2005. The loss in the first quarter of 2006 can largely be attributed to expenditures for administrative costs of \$102,476, compared to \$19,726 during the same period in 2005 and exploration costs of \$33,512 compared to \$1,009 for the same period in 2005.

	Three months ended March 31,	
	<u>2006</u>	<u>2005</u>
Loss	\$(135,830)	\$ (20,693)
Loss per share (basic and diluted)	\$ -	\$ -

Administrative expenses have increased as Goldcorp is no longer providing administrative services to the Company and as a result of legal and other expenditures on properties unrelated to the Baca Project. As described in the notes to the financial statements, Lexam also entered into a new management services agreement during the quarter.

Exploration expenses incurred relate primarily to the preparation of a NI 51-101 report by Watts, Griffis and McOuat Limited ("WGM") on the Baca property, as well as maintaining certain mining claims unrelated to the Baca Project.

BACA OIL & GAS PROJECT UPDATE AND OUTLOOK

With increased working capital available, Lexam was able to fully integrate and interpret the 2-D seismic data that was supplied by its former joint venture partner Petro-Hunt LLC of Dallas, Texas. Lexam had undertaken a preliminary analysis of the seismic data during the fourth quarter of 2005 as part of the technical report prepared by Watts, Griffis and McOuat. The interpretation of the integrated data has shown that the gas targets on the property appear to be closer to surface than previously believed. The analysis also outlined what may be a thicker section of Cretaceous age rock, which is the host for prolific producers of oil and gas in the Rocky Mountain region, where Lexam proposes to drill two exploratory wells.

Lexam recently hired an engineering firm to complete a well design study and accompanying AFE which will outline the detailed costs associated with exploratory drilling on the Baca Project. The results of the study have been received by Lexam and have in turn been submitted to Lexam's 25% partner on the Baca Project, ConocoPhillips, for their review.

In addition, Lexam has begun to prepare the required Plan of Operations and permitting applications for two possible exploratory wells on the Baca property. Currently, Lexam is unable to provide an estimated timeline for further development as such activities will be dependent on the approval of the permitting applications, decisions by its partner, and the ability to raise additional funds.

LIQUIDITY AND CAPITAL RESOURCES

The change in cash balance reflects the expenditures for exploration and administrative costs net of proceeds from the issuance of shares resulting from the exercise of 520,000 stock options at an exercise price of \$0.15 per share as shown in cash flow from financing activities.

Current assets totalled \$70,463 compared to current liabilities of \$667,470. The Company has no significant contractual obligations or contingencies.

SUBSEQUENT EVENTS

Subsequent to the end of the quarter, 760,000 stock options at an exercise price of \$0.15 per share were exercised providing proceeds of \$114,000 to the Company. 750,000 of these options were exercised, but not sold, by Robert R. McEwen, Chairman and CEO of the Company.

OUTSTANDING SHARE INFORMATION

At March 31, 2006, the Company had 38,627,436 common shares outstanding. At May 26, 2006, the Company had 39,387,436 common shares outstanding reflecting the issuance of 760,000 shares resulting from the exercise of stock options subsequent to March 31, 2006.

SUMMARY OF QUARTERLY RESULTS

	2006		2005			2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	\$ 158	\$ 110	\$ (31)	\$ 18	\$ 42	\$ 91	\$ 122	\$ 304
Net earnings (loss)	(135,830)	(31,366)	134	(43,620)	(20,693)	(2,533,336)	(13,404)	(48,322)
Per share ¹	-	-	-	-	-	(0.07)	-	-
¹ Basic and diluted								

FINANCIAL CONDITION

Lexam may not be able to continue its exploration efforts and discharge its liabilities in the normal course of business, and may not be able to ultimately realize the carrying value of its assets, subject to, among other things, being able to raise sufficient additional financing to continue its exploration activities. The Company is actively evaluating alternatives to address these issues, including joint venturing or selling certain properties and seeking additional sources of debt or equity financing.

FINANCIAL INFORMATION AND NOTICE TO READER

Attached are the Consolidated Financial Statements of Lexam Explorations Inc. for the three months ended March 31, 2006. These interim financial statements have not been subject to auditor review.

**LEXAM EXPLORATIONS INC.
CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Balance Sheets

(in Canadian dollars)

	As at	
	March 31, 2006	December 31, 2005
Assets	(unaudited)	
Current assets		
Cash and short-term investments	\$ 20,057	\$ 35,084
Accounts receivable	5,525	2,409
Reclamation deposit	29,075	29,075
Prepaid expenses	15,806	1,250
	<u>\$ 70,463</u>	<u>\$ 67,818</u>
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities		
Accounts payable and accrued liabilities	\$ 166,161	\$ 148,384
Due to related party	501,279	458,581
	<u>667,440</u>	<u>606,965</u>
Shareholders' equity (deficit)		
Capital stock (note 3)	16,480,075	16,402,075
Deficit	<u>(17,077,052)</u>	<u>(16,941,222)</u>
	<u>(596,977)</u>	<u>(539,147)</u>
	<u>\$ 70,463</u>	<u>\$ 67,818</u>

Going concern (note 1)

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

Consolidated Statements of Operations and Deficit (unaudited)*(in Canadian dollars)*

	Three months ended	
	<u>March 31,</u>	
	<u>2006</u>	<u>2005</u>
Revenues		
Interest income	\$ 158	\$ 42
Expenses		
Administrative	102,476	19,726
Exploration	<u>33,512</u>	<u>1,009</u>
	<u>135,988</u>	<u>20,735</u>
Loss for the period	<u>(135,830)</u>	<u>(20,693)</u>
Deficit at beginning of period	<u>(16,941,222)</u>	<u>(16,845,677)</u>
Deficit at end of period	<u>\$(17,077,052)</u>	<u>\$(16,866,370)</u>
Loss per share (basic and diluted)	<u>\$ -</u>	<u>\$ -</u>
Weighted average number of shares outstanding (000's)	<u>38,537</u>	<u>38,107</u>

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

Consolidated Statements of Cash Flows (unaudited)*(in Canadian dollars)*

	Three months ended	
	March 31,	
	<u>2006</u>	<u>2005</u>
Cash provided by (used in)		
Operating activities		
Loss for the period	\$ (135,830)	\$ (20,693)
Items not affecting cash		
Change in non-cash operating working capital	<u>42,803</u>	<u>20,654</u>
	<u>(93,027)</u>	<u>(39)</u>
Financing activities		
Common shares issued on exercise of stock options	<u>78,000</u>	<u>-</u>
	<u>78,000</u>	<u>-</u>
Decrease in cash	(15,027)	(39)
Cash and short-term investments at beginning of period	<u>35,084</u>	<u>11,932</u>
Cash and short-term investments at end of period	<u>\$ 20,057</u>	<u>\$ 11,893</u>

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

Lexam Explorations Inc.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Presentation and Going Concern

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and on the assumption that Lexam Explorations Inc. (the “Company” or “Lexam”) will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of business.

The Company has a significant working capital deficiency and may not be able to continue its exploration programs and discharge its liabilities in the normal course of business subject to, among other things, being able to raise sufficient additional financing. There can be no assurance that the Company will be able to raise such funds. The Company is actively evaluating alternatives to address these issues, including joint venturing certain properties and seeking additional sources of debt or equity financing.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, adjustments may be necessary to the carrying value of assets, such as accounts receivable and prepaid expenses, the accounts payable and accrued liabilities balance, and the reported expenses.

2. General

The unaudited interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements. The accompanying unaudited consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended December 31, 2005.

These unaudited interim consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented. These interim financial statements have not been subject to auditor review.

3. Capital Stock

a) Common Shares

	<u>Common Shares</u>	<u>Amount</u>
Outstanding at December 31, 2005	38,107,436	\$16,402,075
Stock options exercised	<u>520,000</u>	<u>78,000</u>
Outstanding at March 31, 2006	<u>38,627,436</u>	<u>\$16,480,075</u>

Lexam Explorations Inc.
Notes to Consolidated Financial Statements (unaudited)

b) Employee Incentive Plan

	<u>Options</u>	<u>Average Exercise Price</u>
Outstanding at December 31, 2005	1,550,000	\$ 0.15
Stock options exercised	<u>(520,000)</u>	<u>0.15</u>
Outstanding at March 31, 2006	<u>1,030,000</u>	<u>\$ 0.15</u>

4. Related Party Transactions

On January 1, 2006, Lexam entered into a management services agreement with a private company wholly-owned by Robert R. McEwen, Chairman and CEO of the Company, for the provision of management services similar to Lexam's previous arrangement with Goldcorp Inc., which was terminated August 31, 2005. The current agreement also provides for the reimbursement of cost outlays based on the actual costs incurred on Lexam's behalf. For the quarter ended March 31, 2006, a total of \$42,698 was recorded as due to a related party for costs under this agreement.

5. Subsequent Events

Subsequent to the end of the quarter, 760,000 stock options at an exercise price of \$0.15 per share were exercised providing proceeds of \$114,000 to the Company. 750,000 of these options were exercised, but not sold, by Robert R. McEwen, Chairman and CEO of the Company.