



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
and  
INTERIM FINANCIAL STATEMENTS**

**FOR THE SECOND QUARTER ENDED JUNE 30, 2007**

*(All amounts are expressed in Canadian dollars unless otherwise indicated.)*

*This MD&A is prepared as of August 23, 2007 and should be read in conjunction with the audited financial statements of Lexam Explorations Inc. ("Lexam" or the "Company") for the year ended December 31, 2006 and the unaudited interim consolidated financial statements for the period ending June 30, 2007. This MD&A includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address future exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.*

**FINANCIAL HIGHLIGHTS**

Lexam recorded net income of \$11,967,612 or \$0.25 per share (\$0.23 per share diluted) during the three months ended June 30, 2007, compared to a loss of \$120,128 (\$0.00 per share basic and diluted) during the corresponding period in 2006. Income during the period was due to the gain recognized on the sale of Lexam's Nevada properties in exchange for common shares of Rubicon Minerals Corporation ("Rubicon") which closed in May 2007. The Rubicon shares were still held at the end of the quarter and had a quoted market value of \$16.4 million. Major expenditures during the quarter included budgeted exploration spending at Lexam's Baca Oil and Gas Project in Colorado and costs relating to administration and various corporate development activities.

	Three months ended		Six months ended	
	June 30		June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net Income (loss)	\$11,967,612	\$(120,128)	\$10,332,919	\$(255,958)
Net Income (loss) per share				
-basic	\$ 0.25	\$ (0.00)	\$ 0.21	\$ (0.01)
-diluted	\$ 0.23	\$ (0.00)	\$ 0.20	\$ (0.01)

**RUBICON TRANSACTION**

On May 22, 2007, Lexam's wholly owned US subsidiary closed a previously announced transaction with Rubicon Minerals Corporation (Tickers: AMEX: RBY; TSX: RMX) to sell its Nevada properties in exchange for 8,571,429 Rubicon common shares. This represented approximately 6.1% of the outstanding common shares of Rubicon. Also party to the transaction was Evanachan Limited ("Evanachan"), a company wholly owned by Robert R. McEwen ("Mr. McEwen"), Lexam's Chairman and CEO, which agreed to exchange its Alaska properties for 31,428,571 Rubicon common shares. Mr. McEwen, through various companies he controls, invested a total of \$10.0 million in Rubicon through a private placement at \$0.70 per unit for a total of 14,285,714 units. Each of those units consisted of one Rubicon common share and one-half common share purchase warrant with an exercise price of \$1.50 over a two year period.

Other investors invested an additional \$5 million in Rubicon by acquiring 7,142,857 shares and 3,571,429 warrants on the same terms as Mr. McEwen. Directors and officers of Lexam, excluding Mr. McEwen, participated for \$190,000 of the additional \$5 million. There is a four month hold period on all Rubicon shares issued in the transaction, including Lexam's holdings of Rubicon, which expires on September 19, 2007.

Lexam recorded an initial pre-tax gain on sale of approximately \$19 million as the Nevada properties had been dormant and were carried at a written down cost of nil. The transaction was valued based on Rubicon's closing share price of US\$2.00 (C\$2.16) on May 22, 2007. At June 30, 2007, Rubicon closed at US\$1.80 (C\$1.90). The Rubicon transaction and subsequent gains and losses are based on the US dollar trading price of Rubicon as the shares are held by Lexam's US subsidiary. The appreciation of the Canadian dollar subsequent to the transaction results in an unrealized foreign exchange loss of approximately \$1 million for the quarter.

### **BACA OIL & GAS PROJECT UPDATE**

During the second quarter of 2007, work on the Baca Oil and Gas Project focused on interpretation of the data gathered during the 3D seismic survey and satisfying environmental requirements prior to drilling.

On July 3, 2007, Lexam announced that the interpretation of the Company's 3D seismic survey for the Baca Oil and Gas Project in Colorado had confirmed earlier 2D derived targets for natural gas, in addition to identifying several new prospective areas for exploration.

The site of the first proposed well is located along a structural feature that measures 445 acres in size. A high structural position has been mapped on which the prospective Cretaceous section has been interpreted. The target area appears to have been a relative high throughout its geologic history, which Lexam's consulting geologist believes is a preferred setting for reservoir development, early hydrocarbon emplacement and porosity preservation. The second proposed well is located along the same structure, but 7,500 ft. south of the first target. The structural closure of this prospect is estimated to be 410 acres in size.

On May 25th, 2007, Lexam announced that the San Luis Valley Ecosystem Council (SLVEC) had filed and served a Complaint against the United States Fish and Wildlife Service (USFWS) in Federal District Court in Colorado. The SLVEC claims that the USFWS had not complied with the National Environmental Policy Act (NEPA) in connection with certain exploration activities carried out and proposed by Lexam on the Baca Oil and Gas Project.

Since the Complaint was filed, the USFWS, as part of its scoping process, has completed a public information meeting to exchange information and gather input and has now commenced an Environmental Assessment (EA) pursuant to NEPA.

Lexam has been informed that the study is expected to be completed by late 2007 or early 2008.

### **OTISH URANIUM JV PROJECT – QUEBEC, CANADA**

During the first quarter Lexam announced that it had entered into an agreement with Golden Valley Mines (TSX-V: GZZ) to earn up to a 50% interest in their Otish Basin Uranium Project in Quebec, Canada.

Pursuant to the agreement, Lexam is expected to spend \$3.0 million over three years to earn a 50% interest in the uranium project. The scheduled minimum expenditures are \$750,000 for 2007, \$1,000,000 for 2008 and \$1,250,000 for 2009.

The first phase of exploration on the Lexam-Golden Valley joint venture properties began early July and included airborne surveys over the project. Phase two of the exploration program recently commenced with ground crews focused on confirming earlier high grade uranium showings, including ground follow-up of radiometric anomalies as defined by the airborne surveys.

On April 5, 2007 Lexam and Golden Valley announced that the companies had increased their land position within the prospective Otish and Mistassini Basins to 170,838 acres making it the regions' largest land holder. The joint venture has since increased its total to 205,400 acres giving it a very dominant land position within these basins.

For the first half of 2007, Lexam has spent \$82,446 on surveying, staking and claims fees in the Province of Quebec.

### **JASON BASE METAL PROPERTY – YUKON, CANADA**

Subsequent to the end of the quarter, Lexam's 62% owned subsidiary, MacPass Resources ("MacPass"), successfully closed the previously announced sale of the Jason property in the Yukon to HudBay Minerals ("HudBay"). MacPass received the cash proceeds in July 2007 and Lexam anticipates ultimately receiving approximately \$500,000 in after-tax proceeds following the wind-up of MacPass. This transaction will be reflected in Lexam's third quarter results.

Lexam will retain a 0.9% net smelter return ("NSR") on the Jason property. HudBay has the option to purchase, from Lexam, 0.45% of the NSR at any time, for approximately \$370,000, and the remaining 0.45% for approximately \$1,200,000.

### **FINANCIAL RESULTS**

Overall, exploration and administrative expenses have increased significantly for the three and six month periods ending June 30, 2007 compared to the corresponding periods in 2006. In 2006, Lexam did not have sufficient cash resources available for significant exploration or corporate development activities until the private placement to raise \$4.4 million in cash was completed during the third quarter of 2006. The following tables provide details of exploration and administrative spending:

#### ***Exploration Expenses***

	Three months ended		Six months ended	
	June 30		June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Colorado – Baca Oil and Gas Project</b>				
Geophysical surveying and mapping	\$ -	\$ -	\$ 1,203,023	-
Technical and professional services	83,633	22,837	176,677	37,222
Permitting and environmental	20,785	5,494	41,204	5,494
Land fees – property taxes and title work	-	-	17,754	-
Other	-	-	5,921	-
<b>Quebec – Otish Basin JV (uranium)</b>				
Land – surveying, staking and claim fees	-	-	82,446	-
<b>Nevada</b>				
Land fees – property taxes and title work	-	-	22,939	-
Permitting and environmental	9,482	-	9,482	-
<b>Other</b>	<u>5,038</u>	<u>3,653</u>	<u>15,749</u>	<u>4,758</u>
Total Exploration Expense	<u>\$ 118,938</u>	<u>\$ 31,984</u>	<u>\$ 1,575,195</u>	<u>\$ 65,496</u>

Exploration expense during the second quarter was primarily comprised of spending on the Baca Oil and Gas Project for further analysis of the data obtained from the 3D seismic survey completed during the first quarter of 2007. The results of the seismic interpretation were disclosed in Lexam's press release dated July 3, 2007. Additional expenses during the quarter were incurred for permitting and environmental matters. Overall spending has decreased significantly compared to the first quarter of 2007 when Lexam undertook the 3D seismic survey on the Baca property as well as acquiring land for the Otish Uranium Project. There was minimal activity for the corresponding periods in 2006 given Lexam's lack of cash resources at the time.

### *Administrative Expenses*

	Three months ended		Six months ended	
	June 30		June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Management fees – related party	\$ 72,332	\$ 37,406	\$ 161,364	\$ 85,552
Professional fees				
-accounting, audit and legal	89,170	28,298	160,831	57,578
Public company fees and investor relations	47,221	14,600	79,030	32,398
Director's fees and expenses	2,275	3,000	4,525	6,000
Office and general	<u>20,270</u>	<u>5,112</u>	<u>36,434</u>	<u>9,364</u>
Total Administration Expense	<u>\$ 231,268</u>	<u>\$ 88,416</u>	<u>\$ 442,184</u>	<u>\$ 190,892</u>

Overall, administrative expenses have increased to \$231,268 for the second quarter of 2007 compared to \$88,416 for the second quarter of 2006, and \$210,916 for the first quarter of 2007. This increase in management fees, professional fees, public company and investor relations, and office and general expenses is the result of the significant increase in corporate development and exploration activities. This has been reflected in the sales of Lexam's non-core assets (Nevada and Yukon properties) and managing new exploration activities relating to the Baca and Otish Uranium Projects during the second quarter. As Lexam does not have any full-time employees, management and professional fees are generally expected to increase proportionally with the level of activity in the Company. Lexam's management continues to be active in pursuing additional opportunities to strengthen the balance sheet and seek attractive opportunities. Public company fees have also increased as Lexam was trading on the regular TSX Venture Exchange throughout 2007 as opposed to the NEX Board of the Exchange for the first half of 2006.

### **LIQUIDITY AND CAPITAL RESOURCES**

As a result of exploration and administrative spending, the Company's cash balance has decreased to \$1,667,184 from \$3,918,049 at December 31, 2007 and \$2,128,509 at March 31, 2007. However, this does not include the potential cash value, net of taxes, of the Rubicon commons shares Lexam currently holds, nor the proceeds from MacPass' sale of the Jason property.

For the balance of 2007, Lexam expects to spend a minimum of \$1.0 million in additional expenditures at the Otish Uranium Project, and approximately \$0.4 million in administrative expenses. Lexam would consider selling a portion of its Rubicon common shares in order to raise funds for drilling, should such a decision be made, or to satisfy tax liabilities as they come due. Lexam may also consider a variety of other funding alternatives with the objective of minimizing shareholder dilution. 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.

At June 30, 2007, current assets totalled \$18,189,706 compared to current liabilities of \$5,439,609. Lexam's working capital at June 30, 2007, inclusive of the Rubicon shares and related taxes, was approximately \$12.8 million compared to \$3.6 million at December 31, 2006.

The Company has no significant contractual obligations. The Company has no off-balance sheet arrangements. At June 30 and August 23, 2007, Lexam had 48,469,287 common shares and 4,328,000 warrants outstanding. The warrants expire on August 1, 2008.

## SUMMARY OF QUARTERLY RESULTS

	<u>2007</u>			<u>2006</u>			<u>2005</u>	
	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>
Total income	\$18,984,557	\$ 32,480	\$ 37,155	\$16,202	\$ 272	\$ 158	\$ 110	\$ 31
Net income (loss)	11,967,612	(1,634,693)	(354,043)	11,599	(120,128)	(135,830)	(31,366)	134
Per share–basic	0.25	(0.03)	(0.01)	0.00	(0.00)	(0.00)	(0.00)	0.00
Per share–diluted	0.23	(0.03)	(0.01)	0.00	(0.00)	(0.00)	(0.00)	0.00

## OTHER ITEMS

### Risks and Uncertainties

The Company's operations are subject to all the risks and uncertainties normally incident to the exploration, development and extraction of natural resources. Whether a deposit will ultimately be commercially viable depends upon a number of factors including, but not limited to, the quantity and quality of reserves discovered, commodity prices, development feasibility, environmental issues, government laws and regulations, and the ability to obtain financing. The effects of these factors cannot be accurately predicted, but any of these issues could impede development or render it uneconomic.

### Critical Accounting Policies

Costs relating to the acquisition and exploration of non-producing resource properties, less recoveries, may be deferred until such time as the properties are either put into commercial production, sold, determined not to be economically viable or abandoned. General exploration expenditures which do not relate to specific resource properties are written off in the year incurred.

The costs deferred at any time do not necessarily reflect present or future values. The ultimate recovery of such amounts depends on the discovery of economic reserves and the successful commercial development of the related properties.

### Related Party Transactions

Related party transactions in connection with Mr. McEwen's participation in the sale of the Nevada properties to Rubicon were disclosed previously in the MD&A. In addition, management services for Lexam were provided by a private company wholly owned by Mr. McEwen, Lexam's Charirman and CEO, which incurred management fees and expenses of \$38,532 for the second quarter (2006 – \$26,975) and \$123,964 for the first half of 2007 (2006 – \$69,673). At June 30, 2007, \$30,222 (December 31, 2006 – \$63,215) was owed to Mr. McEwen's private company. Management fees were also paid to a private company wholly owned by Perry Ing, Lexam's CFO, totalling \$24,800 for the second quarter of 2007 (2006 – \$10,232) and \$28,400 for the first half of 2007 (2006 – \$15,720). At June 30, 2007, \$9,060 (December 31, 2006 – nil) was owed to Mr. Ing's private company. All related party transactions are recorded at the exchange amount.

## **Changes in Accounting Policies and Initial Adoption**

Lexam adopted the following two accounting standards effective January 1, 2007:

a) Section 3855 – Financial Instruments – Recognition and Measurement. Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading, otherwise, they are measured at cost. Investments classified as held for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are reported at cost and not adjusted to fair market value.

b) Section 1530 – Comprehensive Income. Comprehensive income or loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income would include the holding gains and losses from available-for-sale securities which are not included in net loss until realized.

The adoption of Sections 1530 and 3855 did not have any impact on the opening deficit of the Company.

## **Future accounting changes**

On January 1, 2008, the Company will adopt CICA 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital. There will be no impact to the Company's financial statements as this standard only addresses disclosure requirements.

On January 1, 2008, the Company will adopt CICA 3862, Financial Instruments – Disclosures and CICA 3863, Financial Instruments – Presentation. CICA 3862 requires disclosure of information related to the significance of financial instruments to the Company's performance. The Company is also required to disclose information related to the risks of its use of financial instruments and how those risks are managed. CICA 3863 does not materially differ from the current standard, CICA 3861. As these standards specifically address presentation and disclosure requirements, there will be no impact to the Company's financial statements.

## **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including Lexam's Chief Executive Officer and Chief Financial Officer, so that appropriate decisions can be made regarding public disclosure. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

Management of the Company is responsible for evaluating the design of internal controls over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with accounting principles generally

accepted in Canada. The Company's internal controls and procedures can only provide reasonable assurance, and not absolute assurance with respect to the preparation and presentation of the financial statements.

There have been no changes in the Company's disclosure controls and procedures and internal controls over financial reporting during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

#### **FINANCIAL INFORMATION AND NOTICE TO READER**

Attached are the Consolidated Financial Statements of Lexam Explorations Inc. for the three and six months ended June 30, 2007. These interim financial statements have not been subject to auditor review.

**Consolidated Balance Sheets***(in Canadian dollars)*

	As at June 30, 2007 <u>(unaudited)</u>	As at December 31, 2006
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 1,667,184	\$ 3,918,049
Amounts receivable	2,033	5,987
Reclamation deposit	69,251	75,751
Prepaid expenses	35,238	2,353
Available-for-sale securities (note 3)	16,416,000	-
	<u>\$ 18,189,706</u>	<u>\$ 4,002,140</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 302,321	\$ 286,547
Due to related party	39,282	63,215
Taxes payable	4,998,006	-
Option deposit (note 5)	100,000	100,000
	<u>\$ 5,439,609</u>	<u>449,762</u>
<b>Shareholders' equity</b>		
Common shares and warrants	21,142,402	21,092,002
Deficiency	(7,206,705)	(17,539,624)
Accumulated other comprehensive loss	(1,185,600)	-
	<u>12,750,097</u>	<u>3,552,378</u>
	<u>\$ 18,189,706</u>	<u>\$ 4,002,140</u>

**Subsequent Event (note 5)**

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

**Consolidated Statements of Income (Loss) and Deficiency (unaudited)***(in Canadian dollars)*

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
<b>Expenses</b>				
Administrative	\$ 231,268	\$ 88,416	\$ 442,184	\$ 190,892
Exploration	118,938	31,984	1,575,195	65,496
Foreign exchange loss	1,030,333	-	1,030,333	-
	<u>1,380,539</u>	<u>120,400</u>	<u>3,047,712</u>	<u>256,388</u>
<b>Other Income</b>				
Gain on Nevada property sale	18,961,476	-	18,961,476	-
Interest and other income	23,081	272	55,561	430
	<u>18,984,557</u>	<u>272</u>	<u>19,017,037</u>	<u>430</u>
<b>Net income (loss) before tax</b>	17,604,018	(120,128)	15,969,325	(225,958)
Provision for income tax	<u>(5,636,406)</u>	<u>-</u>	<u>(5,636,406)</u>	<u>-</u>
<b>Net income (loss)</b>	<u>11,967,612</u>	<u>(120,128)</u>	<u>10,332,919</u>	<u>(225,958)</u>
Deficiency at beginning of period	<u>(19,174,317)</u>	<u>(17,077,052)</u>	<u>(17,539,624)</u>	<u>(16,941,222)</u>
Deficiency at end of period	<u>\$ (7,206,705)</u>	<u>\$(17,197,180)</u>	<u>\$ (7,206,705)</u>	<u>\$(17,197,180)</u>
<b>Net Income (loss) per share</b>				
<b>Basic</b>	<u>\$ 0.25</u>	<u>\$ (0.00)</u>	<u>\$ 0.21</u>	<u>\$ (0.00)</u>
<b>Diluted</b>	<u>\$ 0.23</u>	<u>\$ (0.00)</u>	<u>\$ 0.20</u>	<u>\$ (0.00)</u>
Weighted avg. number of shares				
outstanding (000's) – basic	<u>48,469</u>	<u>39,400</u>	<u>48,433</u>	<u>38,537</u>
– diluted	<u>53,083</u>	<u>39,400</u>	<u>53,011</u>	<u>38,537</u>

**Consolidated Statements of Other Comprehensive Income (Loss) (unaudited)***(in Canadian dollars)*

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
<b>Net income (loss)</b>	11,967,612	(120,128)	10,332,919	(225,958)
Unrealized loss on available-for-sale securities, net of tax	<u>(1,185,600)</u>	<u>-</u>	<u>(1,185,600)</u>	<u>-</u>
<b>Comprehensive income (loss)</b>	<u>10,782,012</u>	<u>(120,128)</u>	<u>9,147,319</u>	<u>(225,958)</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 June 30		Six months ended June 30	
	2007	2006	2007	2006
Cash provided by (used in)				
<b>Operating activities</b>				
Income (loss) for the period	\$11,967,612	\$ (120,128)	\$10,332,919	\$ (255,958)
Items not affecting cash				
Unrealized gain on sale Nevada properties, net of Taxes and foreign exchange translation	(12,603,595)	-	(12,603,595)	-
Change in other non-cash operating working capital	124,258	2,810	(30,589)	45,613
	<u>(511,725)</u>	<u>(117,318)</u>	<u>(2,301,265)</u>	<u>(210,345)</u>
<b>Financing activities</b>				
Warrants exercised	50,400	-	50,400	-
Stock options exercised	-	117,000	-	195,000
	<u>50,400</u>	<u>117,000</u>	<u>50,400</u>	<u>195,000</u>
Decrease in cash	(461,325)	(318)	(2,250,865)	(15,345)
Cash at beginning of period	<u>2,128,509</u>	<u>20,057</u>	<u>3,918,049</u>	<u>35,084</u>
Cash at end of period	<u>\$ 1,667,184</u>	<u>\$ 19,739</u>	<u>\$ 1,667,184</u>	<u>\$ 19,739</u>

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

**Notes to Consolidated Financial Statements (unaudited)****1. Basis of Presentation and Significant Accounting Policies**

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.

As an exploration stage resource company, the Company has no source of cash flow and will need to raise additional funds in the future 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. If in the future the going concern assumption was not appropriate, certain adjustments may be necessary to the financial statements. These adjustments could include the carrying value of assets, such as amounts receivable and prepaid expenses, the accounts payable and accrued liabilities balance, and the reported expenses. The Company is a development stage enterprise with respect to CICA Accounting Guideline 11.

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, 2006.

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.

***Income/Loss per Share***

Basic and diluted losses per share are the same for the comparative 2006 periods reported, as the effect of potential issuances of shares under share option agreements would be anti-dilutive.

***New Accounting Standards***

Effective January 1, 2007, Lexam adopted two new accounting standards issued by the CICA: Section 1530, Comprehensive Income and Section 3855, Financial Instruments – Recognition and Measurement. The adoption of these standards did not materially impact the consolidated financial statements.

***Comprehensive Income***

As a result of adopting these standards, a new category, Accumulated Other Comprehensive Income, will be added to shareholders' equity in the consolidated balance sheets. A component for this category will include unrealized gains and losses on financial assets classified as available-for-sale. The impact on the Company's financial position of adopting Section 1530 was nil at January 1, 2007 and an accumulated other comprehensive loss of \$1,185,600 at June 30, 2007.

**Financial Instruments – Recognition and Measurement**

Section 3855 was adopted retroactively, without restatement. Under this new standard, all financial instruments will be classified as one of the following: held to-maturity, loans and receivables, held-for-trading or available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits the designation of any financial instrument as held-for-trading upon initial recognition. Transaction costs will be netted against the underlying instrument. The impact on the Company's financial position of adopting Section 3855 was nil at January 1, 2007 and an other comprehensive loss of \$1,185,600 at June 30, 2007.

**2. Capital Stock****a) Outstanding Common Shares**

	<u>2007</u>	
	<u>Shares</u>	<u>Amount</u>
Outstanding at beginning of the year	48,397,287	\$20,163,113
Warrants exercised – Q2	72,000	65,600
Outstanding at June 30	<u>48,397,287</u>	<u>\$20,228,713</u>

**b) Outstanding Warrants**

	<u>2007</u>	
	<u>Warrants</u>	<u>Amount</u>
Outstanding at beginning of the year	4,400,000	\$ 928,889
Warrants exercised – Q2	(72,000)	(15,200)
Outstanding at June 30	<u>4,328,000</u>	<u>\$ 913,689</u>

**c) Employee Incentive Plan**

	<u>2007</u>	
	<u>Options</u>	<u>Exercise Price</u>
Outstanding at beginning of the year	250,000	\$ 0.15
Outstanding at June 30	<u>250,000</u>	<u>\$ 0.15</u>

**d) Accumulated Other Comprehensive Loss**

	<u>2007</u>
Balance at beginning of the year	\$ -
Comprehensive loss on available-for-sale securities, net of tax	<u>(1,185,600)</u>
Balance at June 30	<u>\$ (1,185,600)</u>

### 3. Rubicon Transaction

On May 22, 2007, Lexam's wholly owned US subsidiary closed a transaction with Rubicon Minerals Corporation ("Rubicon") to sell its Nevada properties in exchange for 8,571,429 Rubicon common shares. This represented approximately 6.1% of the outstanding common shares of Rubicon. Also party to the transaction was Evanachan Limited ("Evanachan"), a company wholly owned by Robert R. McEwen ("Mr. McEwen"), Lexam's Chairman and CEO, which agreed to exchange its Alaska properties for 31,428,571 Rubicon common shares. Mr. McEwen, through various companies he controls, invested a total of \$10.0 million in Rubicon through a private placement at \$0.70 per unit for a total of 14,285,714 units. Each of those units consisted of one Rubicon common share and one-half common share purchase warrant with an exercise price of \$1.50 over a two year period.

Other investors invested an additional \$5 million in Rubicon by acquiring 7,142,857 shares and 3,571,429 warrants on the same terms as Mr. McEwen. Directors and officers of Lexam, excluding Mr. McEwen, participated for \$190,000 of the additional \$5 million (Richard Brissenden, Director, \$40,000; Perry Ing, CFO, \$25,000; Ian Ball, VP Corporate Development, \$75,000; Stefan Spears, VP Strategic Development, \$50,000). There is a four month hold period on all Rubicon shares issued in the transaction which expires on September 19, 2007.

Lexam recorded an initial pre-tax gain on sale of approximately \$19 million as the Nevada properties had been dormant and were carried at a written down cost of nil. The transaction was valued based on Rubicon's closing share price of US\$2.00 (C\$2.16) on May 22, 2007. At June 30, 2007, Rubicon traded at US\$1.80 (C\$1.90). Lexam has designated the Rubicon common shares as available for sale securities.

### 4. Related Party Transactions

Management services for Lexam were provided by a private company wholly owned by Mr. McEwen, Lexam's Charirman and CEO, which incurred management fees and expenses of \$38,532 for the second quarter (2006 – \$26,975) and \$123,964 for the first half of 2007 (2006 – \$69,673). At June 30, 2007, \$30,222 (December 31, 2006 – \$63,215) was owed to Mr. McEwen's private company. Management fees were also paid to a private company wholly owned by Perry Ing, Lexam's CFO, totalling \$24,800 for the second quarter of 2007 (2006 – \$10,232) and \$28,400 for the first half of 2007 (2006 – \$15,720). At June 30, 2007, \$9,060 (December 31, 2006 – nil) was owed to Mr. Ing's private company. All related party transactions are recorded at the exchange amount.

Related party transactions related to the Rubicon transaction were discussed in note 3 above.

## **5. Subsequent Events - Sale of Jason Base Metal Property**

On July 10, 2007, Lexam's 62% owned subsidiary, MacPass Resources ("MacPass"), successfully closed the previously announced sale of the Jason property in the Yukon to HudBay Minerals. MacPass received the full cash proceeds of \$1,000,000 and Lexam anticipates ultimately receiving approximately \$500,000 in after-tax proceeds following the wind-up of MacPass. This transaction will be reflected in Lexam's third quarter results. Only the initial \$100,000 deposit is reflected on Lexam's June 30, 2007 balance sheet.

Lexam will retain a 0.9% net smelter return on the Jason property. HudBay has the option to purchase, from Lexam, 0.45% of the NSR at any time, for approximately \$370,000, and the remaining 0.45% for approximately \$1,200,000.