



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

**FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2009**

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

*This MD&A is prepared as of November 25, 2009 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, 2008 and the unaudited interim consolidated financial statements for the period ending September 30, 2009. 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 income of \$1,664,740 (\$0.03 per share) during the three months ended September 30, 2009, compared to \$588,263 (\$0.01 per share) during the corresponding period in 2008. For the year to date, net income was \$1,593,931 (\$0.03 per share), compared to \$735,012 (\$0.02 per share) during the corresponding period in 2008. Income for 2009 was primarily a result of a \$4,793,614 realized gain on the sale of Rubicon shares which was partially offset by foreign exchange and tax losses, administrative costs and exploration spending.

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Net Income	\$ 1,664,740	\$ 588,263	\$ 1,593,931	\$ 735,012
Net Income per share				
-basic and diluted	\$ 0.03	\$ 0.01	\$ 0.03	\$ 0.02

**BACA OIL & GAS PROJECT – COLORADO, USA**

The Baca Oil and Gas Project is located in south-central Colorado, USA. Lexam owns 75% of the oil and gas rights. The remaining 25% is owned by ConocoPhillips. Lexam is advancing the project and is planning to drill two natural gas wells that will reach depths of 4,265 m.

During the Fourth Quarter of 2008, Lexam announced that the United States Fish and Wildlife Service (USFWS) had issued a Finding of No Significant Impact (FONSI). The USFWS' decision was reached based on the results of an Environmental Assessment (EA) conducted by the Service under the National Environmental Policy Act (NEPA). The USFWS environmental review process lasted 15 months and involved extensive public meetings, participation, and comment by all interested parties. This decision by the USFWS was the final approval required before Lexam could move forward with its planned exploration for oil and gas.

The Baca Project has been consistently challenged by opposition groups and on November 3, 2008 the San Luis Valley Ecosystem Council (SLVEC) made a motion to reopen litigation against the USFWS. The SLVEC maintains that USFWS decision to issue a FONSI based on the EA does not comply with NEPA.

During the First Quarter of 2009, the District Court of Colorado ordered that the motion to reopen litigation against the USFWS be allowed to proceed. A Preliminary Injunction Hearing was held on May 20, 2009.

On September 4, 2009 Lexam announced that the Federal District Court granted the SLVEC Motion for a Preliminary Injunction against the USFWS. This decision prohibits any exploration drilling by Lexam until a final ruling is reached in the litigation. No date has been scheduled for the pending litigation. Lexam will notify shareholders once a date has been established.

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

The Otish Uranium Project is located in north-central Québec, Canada. Lexam owns 50% of the project with the remaining 50% owned by Golden Valley Mines Ltd. (“Golden Valley”). No exploration is currently planned for this project.

During the Third Quarter of 2009, Lexam received a provincial rebate totaling \$897,220 from the Québec government, in connection with recent exploration activities. At September 30, 2009, Lexam expects to receive an additional \$18,180 from the Québec government.

### **RUBICON MINERALS CORP INVESTMENT – ONTARIO, CANADA**

In early 2007 Lexam traded its Nevada properties for Rubicon Minerals Corp. (“Rubicon”) common shares. Since then, Rubicon has announced exciting drill results from its Phoenix Gold Project, located in the Red Lake gold district of Ontario, Canada. At September 30, 2009 Lexam owned approximately 2.3 million shares of Rubicon. The following table contains the divestiture details of Rubicon shares that the Company sold during the three and nine month periods of 2009 and 2008 respectively.

	Sale of Rubicon Shares	
	Number of Shares	Gain (Loss) on Sale
Three months ended September 30, 2009	1,692,100	\$ 3,975,235
Three months ended September 30, 2008	128,000	\$ (101,647)
Nine months ended September 30, 2009	2,124,200	\$ 4,793,614
Nine months ended September 30, 2008	1,796,100	\$ (1,437,262)

Subsequent to the end of the Third Quarter Lexam sold a further 1.2 million shares in order to exercise its warrants in VG Gold Corp.

## VG GOLD CORP INVESTMENT – ONTARIO, CANADA

On July 21, 2009 Lexam announced that it agreed to make a \$3.0 million strategic investment in VG Gold Corp. (“VG Gold”) for an aggregate subscription of 37.5 million units issued by way of a private placement. VG Gold is an exploration company focused on the Timmins mining camp in Ontario, Canada. VG Gold trades on the Toronto Stock Exchange under the ticker symbol “VG”. Each unit was priced at \$0.08 and included one common share and one common share purchase warrant exercisable at \$0.15 per share for a period of eighteen months. Under terms of the agreement Lexam was granted the right to nominate a director and the right to participate pro-rata in future VG Gold financings, provided Lexam’s aggregate interest remains above 10% of common shares outstanding. Lexam completed the investment in two tranches with the first tranche closing on July 21, 2009 and the second tranche closing on September 1, 2009. Upon completion of the investment during the third quarter the Company owned approximately 27% of VG Gold’s outstanding shares.

Early results from VG Gold’s drilling have intersected favourable gold mineralization (Table 1).

**Table 1 – Paymaster West - Significant Drill Results**

Hole Number	Grade (gpt)	Interval Length (m)	Grade (opt)	Interval Length (ft)	Qualified Person Note
VGP-09-07	14.31	2.7	0.42	8.9	i
VGP-09-10	41.67	1.8	1.22	5.9	i
And	5.25	10.6	0.15	34.8	i
VGP-09-19	11.6	2.0	0.34	6.6	ii
VGP-09-20	1,390.0	0.9	40.54	3.0	ii
VGP-09-23	9.4	4.6	0.27	15.1	iii

Drilling to date has been focused on the Paymaster West Project, where VG Gold has an option to earn 60% from Goldcorp Inc., by making \$6.0 million in exploration expenditures by June 2012. Once VG Gold has given notice that it has earned its 60%, Goldcorp then has six months to decide if it wishes to increase its ownership from 40% to 70% by paying VG Gold \$710,000 and spending \$8.25 million on the property within two years and also completing a feasibility study by the end of year three. Drilling is expected to continue at the Paymaster West Project until the end of the year.

In addition to the Paymaster West Project, VG Gold has identified a number of gold targets that appear very prospective on other projects that it controls. Drilling is scheduled to commence on the Fuller, Davidson-Tisdale and Buffalo Ankerite projects in late 2009/early 2010. VG Gold has indicated that they anticipate having two drills continuously working over the next twelve months.

### *Qualified Person*

All of VG Gold’s exploration work was conducted under the supervision of Kenneth Guy, P. Geo., a full-time employee of VG Gold and their designated Qualified Person as defined in Canadian National Instrument 43-101. Mr. Guy has reviewed, approved and taken responsibility for the contents of all of VG Gold’s technical information appearing in Lexam’s 2009 Third Quarter management discussion and analysis and the original dissemination of the same information publicly released by VG Gold as per the following Notes:

Note i) Press Release dated September 8, 2009. Gold analysis of samples collected by VG Gold was assayed by Laboratoire Expert in Rouyn-Noranda, Quebec. Analysis consisted of a fire assay of a 30-gram sample with an atomic absorption finish. Samples assaying over 1.0 gram per tonne Au are re-assayed with gravimetric finish. Samples noted to

contain visible gold are analyzed via total metallic assay method. A rigorous Quality Control and Assurance program (QA/QC) is in place, using control samples such as Blanks and Rocklabs Standards and duplicate checks. In addition, duplicate analyses of 10% of the samples were corroborated by check assays on sample performed by Bourlamaque Laboratory of Val D'Or, Quebec.

Note ii) Press Release dated October 19, 2009. Gold analysis of samples collected by VG Gold was assayed by ALS Chemex. Analysis consisted of a fire assay of a 30-gram sample with an atomic absorption finish. Samples assaying over 10.0 gram per tonne Au are re-assayed with gravimetric finish. Samples noted to contain visible gold are analyzed via total metallic assay method. A rigorous Quality Control and Assurance program (QA/QC) is in place, using control samples such as Blanks and duplicate checks. In addition, duplicate analyses of 10% of the samples are corroborated by check assays on sample performed at a third party Laboratory.

Note iii) Press Release dated November 9, 2009. All drilling was completed using NQ size core. Gold analysis of the samples collected by VG Gold was assayed by ALS Chemex. Analysis consisted of a fire assay of a 30-gram sample with an atomic absorption finish. Samples assaying over 10.0 gram per tonne Au are re-assayed with gravimetric finish. Samples noted to contain visible gold are analyzed via total metallic assay method. A rigorous Quality Control and Assurance program (QA/QC) is in place, using control samples such as Blanks and duplicate checks. In addition, duplicate analyses of 10% of the samples are corroborated by check assays on sample performed at a third party Laboratory.

## FINANCIAL RESULTS

Overall, exploration and administrative expenses have generally decreased for the three and nine month periods ended September 30, 2009 compared to the corresponding periods in 2008. The following tables provide details of exploration and administrative spending:

### *Exploration Expenses*

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
<b>Colorado - Baca Oil and Gas Project</b>				
Technical and professional services	37,234	67,116	213,044	240,525
Permitting and environmental	2,478	39,017	19,448	103,090
Geophysical surveying and mapping	(553)	-	17,939	-
Land - holding costs	(499)	-	16,191	-
Other	-	-	-	1,328
<b>Quebec - Otish Uranium Project</b>				
Drilling, prospecting and related costs	11,097	631,194	(30,733)	669,082
Land - surveying, staking and claim fees	14,363	1,362	61,403	2,212
<b>Total Exploration Expense</b>	<b>\$ 64,120</b>	<b>\$ 738,689</b>	<b>\$ 297,292</b>	<b>\$ 1,016,237</b>

Exploration costs decreased approximately 91% in the third quarter of 2009 compared to the third quarter of 2008. Spending at the Otish Uranium Project has decreased compared to the prior year as there was no summer drilling program planned for 2009 whereas in 2008 a significant summer drilling program was in progress. Lexam continues to incur costs in Colorado in connection with the litigation process described previously.

**Administrative Expenses**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Management fees - related party	\$ 48,286	\$ 30,196	\$ 144,799	\$ 145,140
Professional fees (accounting, audit and legal)	22,617	98,624	103,470	211,591
Public company fees and investor relations	20,439	10,163	51,676	73,073
Director's fees and expenses	2,250	2,250	7,500	6,750
Office and general	11,853	14,112	31,311	21,274
<b>Total Administrative Expense</b>	<b>\$ 105,445</b>	<b>\$ 155,345</b>	<b>\$ 338,756</b>	<b>\$ 457,828</b>

Overall, administrative expenses have decreased by 32% to \$105,445 for the third quarter of 2009 compared to \$155,345 for the third quarter of 2008. This decrease was primarily due to decreases in Audit and Accounting fees compared to 2008. As Lexam does not have any full-time employees, management and professional fees are generally proportional with the level of activity in the Company.

**SUMMARY OF QUARTERLY RESULTS**

	<u>2009</u>				<u>2008</u>			
	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>
Net income (loss)	1,664,740	59,416	(130,225)	(3,440,742)	588,263	76,874	69,875	1,245,904
Per share								
– basic & diluted	0.03	0.00	(0.00)	(0.07)	0.01	0.00	0.00	0.03

**LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2009, current assets totalled \$18,159,042 compared to current liabilities of \$1,421,622. Lexam's working capital at September 30, 2009 was approximately \$16.7 million compared to \$9.6 million at December 31, 2008. This significant increase was primarily attributable to the increase in the value of the Company's holdings in Rubicon. The Company has no significant contractual obligations. At September 30, 2009 and December 31, 2008, Lexam had 48,499,287 common shares outstanding. There were no changes to our share balance as at November 25, 2009.

As a result of payments made in the normal course of business to our vendors during the first three quarters of 2009 the Company's cash balance has decreased to \$1,424,842 from \$2,038,499 at December 31, 2008. The investment in VG Gold has been primarily funded through the divestiture of Rubicon common shares. Lexam expects that a portion of the existing cash on hand will be utilized for administrative expenses and also for the investment disclosed in the Subsequent Events note below. Lexam may continue to utilize the remaining shares of Rubicon at its discretion and as at September 30, 2009, Lexam had 2.3 million shares. As of November 25, 2009, Lexam had 1.1 million Rubicon shares with a market value of approximately \$5.1 million. Lexam may also consider additional investments or exploration projects for the Company should attractive opportunities arise. 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.

## **SUBSEQUENT EVENTS**

Subsequent to the end of the third quarter Lexam exercised its right to nominate a director to the board of directors of VG Gold. Mr. John Drake's nomination was submitted by Lexam and accepted by the VG Gold board on October 5, 2009. In addition, Lexam exercised 37.5 million warrants on October 21, 2009 for total consideration of \$5.6 million in order to help fund VG Gold's ongoing exploration. The warrant exercise increased Lexam's ownership from 27% (37.5 million common shares) to 42% (75 million common shares) of VG Gold's outstanding common shares. The Company has been able to source these funds by selling a portion of its Rubicon holdings. Lexam may increase or reduce its investment in VG Gold according to market conditions or other relevant factors.

Based on VG Gold's closing share price as of November 25, 2009, the 75 million common shares had a market value of \$31,125,000.

## **CHANGES IN CURRENT ACCOUNTING POLICIES**

### **Credit risk and the fair value of financial assets and financial liabilities**

In January 2009, the Emerging Issues Committee ("EIC") issued EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company adopted EIC 173 in 2008 and the adoption had no impact on the classification or valuation of the Company's consolidated financial statements.

### **Amendment to Section 3862, Financial Instruments – Disclosures**

In June 2009, the CICA issued amendments to Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises. The amendments will be effective for the Company in its 2009 annual financial statements. The Company is currently evaluating the impact, if any, of these amendments on its consolidated financial statements.

## **CHANGES IN FUTURE ACCOUNTING POLICIES**

In January 2009, the CICA also issued three new accounting standards: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3R - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601

applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standards IAS 27, Consolidated and Separate Financial Statements, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

#### Conversion to International Financial Reporting Standards (“IFRS”)

Effective February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (“IFRS”) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

The Company has completed a preliminary IFRS diagnostic and has developed an IFRS project plan. The Company will develop a comprehensive conversion implementation plan, which will include a detailed assessment of the impact of the conversion on the consolidated financial statements and related disclosures. The plan will also consider the impact of the conversion of the Company’s information technology systems, internal controls over financial reporting, performance measurement systems, disclosure controls and procedures and other business activities that may be influenced by GAAP measurements.

The Company is currently performing an analysis of the significant IFRS-GAAP differences with respect to the Company’s financial statements and disclosures. The Company will quantify the potential effect of these differences as part of the conversion implementation plan. Certain key members of the finance department of the Company have or will be attending in-depth training sessions regarding significant IFRS-GAAP differences with a particular focus on how they apply to entities in the mining industry.

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

Attached are the Consolidated Financial Statements of Lexam Explorations Inc. for the three and nine months ended September 30, 2009. These interim financial statements have not been subject to auditor review. Certain balances have been reclassified to conform to the current period’s presentation

#### **RELIABILITY OF INFORMATION**

VG Gold is responsible for and has supplied to the Corporation all reported results from their exploration activities. All VG Gold technical information contained in this management discussion and analysis is based entirely on information provided to Lexam Explorations Inc. by VG Gold. VG Gold is an entity in which the Corporation has a significant equity interest only. The Corporation does not accept responsibility for the use of any VG Gold technical data or the adequacy or accuracy of VG Gold technical information provided in this management discussion and analysis. There can be no assurance that information reported to the Corporation by VG Gold is accurate, the Corporation has not independently verified such information and readers are therefore cautioned regarding the extent to which they should rely upon such information.

**LEXAM EXPLORATIONS INC.**

September 30, 2009

(Unaudited – in Canadian dollars)

<b>INDEX</b>	Page 1
Notice to reader	Page 1
Interim Consolidated Financial Statements	Page 2
• Consolidated Balance Sheets	Page 2
• Consolidated Statements of Income and Deficit	Page 3
• Consolidated Statements of Other Comprehensive Income	Page 3
• Consolidated Statements of Cash Flows	Page 4
• Notes to Interim Consolidated Financial Statements	Page 5

**NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The interim consolidated financial statements of Lexam Explorations Inc. (“the Company”) including the accompanying consolidated balance sheets as at September 30, 2009 and December 31, 2008 and the consolidated statements of income and deficit, the consolidated statements of other comprehensive income, and cash flows for the three and nine-month periods ended September 30, 2009 and 2008 are the responsibility of the Company’s management. The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgements and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles for interim financial statements.

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

	As at September 30, 2009 <i>(unaudited)</i>	As at December 31, 2008 <i>(audited)</i>
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,424,842	\$ 2,038,499
Amounts receivable	5,502,969	959,465
Income taxes recoverable	1,063,649	1,209,979
Prepaid expenses	7,178	2,970
Available-for-sale securities <i>(note 7)</i>	10,160,404	6,224,202
	<u>18,159,042</u>	<u>10,435,115</u>
Restricted cash	74,949	85,260
Equity accounted investments <i>(market value \$23,625,000; 2008 - nil; note 8)</i>	2,984,942	-
Future tax asset	-	699,652
	<u>\$ 21,218,933</u>	<u>\$ 11,220,027</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	\$ 103,355	\$ 855,304
Due to related party <i>(note 5)</i>	57,285	25,253
Income taxes payable	1,260,982	-
	<u>1,421,622</u>	<u>880,557</u>
Future tax liability	1,793,702	-
	<u>3,215,324</u>	<u>880,557</u>
<b>Shareholders' equity</b>		
Common shares and warrants	21,163,402	21,163,402
Accumulated deficit	(6,557,285)	(8,151,216)
Accumulated other comprehensive gain (loss) <i>(note 6)</i>	3,397,492	(2,672,716)
	<u>18,003,609</u>	<u>10,339,470</u>
	<u>\$ 21,218,933</u>	<u>\$ 11,220,027</u>

*Subsequent events (note 9)**The accompanying notes are an integral part of these consolidated financial statements*

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
<b>Expenses</b>				
Exploration	\$ 64,120	\$ 738,689	\$ 297,292	\$ 1,016,237
Administrative	105,445	155,345	338,756	457,828
	<u>169,565</u>	<u>894,034</u>	<u>636,048</u>	<u>1,474,065</u>
<b>Other Income (Expense)</b>				
Gain (loss) on sale of available-for-sale securities	3,975,235	(101,647)	4,793,614	(1,437,262)
Loss from equity accounted investment	(15,058)	-	(15,058)	-
Foreign exchange (loss) gain	(878,364)	884,956	(1,180,341)	2,920,264
Interest and other income	6,756	79,062	9,811	106,149
	<u>3,088,569</u>	<u>862,371</u>	<u>3,608,026</u>	<u>1,589,151</u>
<b>Earnings (loss) before taxes</b>	2,919,004	(31,663)	2,971,978	115,086
Minority interest, net of taxes	-	(25,059)	-	(25,059)
(Provision) Recovery for income taxes	(1,254,264)	644,985	(1,378,047)	644,985
<b>Net income</b>	<u>1,664,740</u>	<u>588,263</u>	<u>1,593,931</u>	<u>735,012</u>
<b>Net income per share</b>				
- basic and diluted	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.02</u>
Weighted average number of shares				
outstanding ('000s) - basic	<u>48,499</u>	<u>48,499</u>	<u>48,499</u>	<u>48,479</u>
- diluted (note 4(e))	<u>48,749</u>	<u>48,749</u>	<u>48,749</u>	<u>48,729</u>
Accumulated deficit at beginning of period	(8,222,025)	(5,298,737)	(8,151,216)	(5,445,486)
Accumulated deficit at end of period	<u>\$ (6,557,285)</u>	<u>\$ (4,710,474)</u>	<u>\$ (6,557,285)</u>	<u>\$ (4,710,474)</u>

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

<b>Net income</b>	\$ 1,664,740	\$ 588,263	\$ 1,593,931	\$ 735,012
Unrealized (loss) gain on available-for-sale securities net of taxes of (\$269,741), (\$2,493,354) (2008 - (\$364,697), (\$243,668))	(147,235)	1,229,788	6,070,208	1,563,059
<b>Comprehensive income</b>	<u>\$ 1,517,505</u>	<u>\$ 1,818,051</u>	<u>\$ 7,664,139</u>	<u>\$ 2,298,071</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		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Cash used in				
<b>Operating activities</b>				
Income for the period	\$ 1,664,740	\$ 588,263	\$ 1,593,931	\$ 735,012
Adjustments:				
(Gain) loss on available-for-sale securities	(3,975,235)	101,647	(4,793,614)	1,437,262
Loss from equity accounted investment	15,058	-	15,058	-
Foreign exchange loss (gain)	878,364	(884,956)	1,180,341	(2,920,264)
Minority interest	-	25,059	-	25,059
Items not affecting cash:				
Change in other non-cash operating working capital	2,175,787	(622,532)	1,523,697	(3,647,754)
	<u>758,714</u>	<u>(792,519)</u>	<u>(480,587)</u>	<u>(4,370,685)</u>
<b>Investing activities</b>				
Proceeds on sale of available-for-sale securities	2,866,930	171,218	2,866,930	2,453,237
Purchase of equity investments	(3,000,000)	-	(3,000,000)	-
	<u>(133,070)</u>	<u>171,218</u>	<u>(133,070)</u>	<u>2,453,237</u>
<b>Financing activities</b>				
Dividend paid by subsidiary	-	(25,059)	-	(25,059)
Warrants exercised	-	21,000	-	21,000
	<u>-</u>	<u>(4,059)</u>	<u>-</u>	<u>(4,059)</u>
Increase (decrease) in cash and cash equivalents	625,644	(625,360)	(613,657)	(1,921,507)
Cash and cash equivalents at beginning of period	<u>799,198</u>	<u>1,616,063</u>	<u>2,038,499</u>	<u>2,912,210</u>
Cash and cash equivalents at end of period	<u>\$ 1,424,842</u>	<u>\$ 990,703</u>	<u>\$ 1,424,842</u>	<u>\$ 990,703</u>
<b>Supplemental Disclosure</b>				
Cash taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,664,645</u>

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

**Notes to Consolidated Financial Statements** (*unaudited*)**1. Basis of Presentation**

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 is a development stage enterprise with respect to CICA Accounting Guideline 11, “Enterprises in the development stage”. As a development stage resource company, the Company has no regular source of cash flow and will need to raise additional funds in the future in order to advance its exploration 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 is not appropriate, certain adjustments may be necessary to the financial statements. These adjustments could include the carrying value of assets, such as amounts receivable, available for sale securities, prepaid expenses, the accounts payable and accrued liabilities balance, and the reported expenses.

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, 2008.

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.

**2. Changes in Current and Future Accounting Policies and Presentation***i) Changes in Current Accounting Policies***Credit risk and the fair value of financial assets and financial liabilities**

In January 2009, the Emerging Issues Committee (“EIC”) issued EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company adopted EIC 173 in 2008 and the adoption had no impact on the classification or valuation of the Company’s consolidated financial statements.

**Amendment to Section 3862, Financial Instruments – Disclosures**

In June 2009, the CICA issued amendments to Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises. The amendments will be effective for the Company in its 2009 annual financial statements. The Company is currently evaluating the impact, if any, of these amendments on its consolidated financial statements.

**Notes to Consolidated Financial Statements (unaudited)*****ii) Future Accounting Policies***

In January 2009, the CICA also issued three new accounting standards: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3R - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standards IAS 27, Consolidated and Separate Financial Statements, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

**3. Financial Instruments, Risk Management and Capital Management*****Financial Instruments***

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding:

Cash and cash equivalent	Held-for-trading
Restricted cash	Held-for-trading
Amounts receivable	Loans and receivables
Available-for-sale securities	Available-for-sale
Amounts payable and accrued liabilities	Other financial liabilities
Due to related party	Other financial liabilities

***Risk Management***

The Company's activities expose it to a variety of financial risks: market risk (foreign exchange risk), credit risk and liquidity risk. The Company's risk management program focuses on ensuring liquidity is available to the Company in to order to fund its exploration efforts. Risk management is the responsibility of Lexam's management who identifies and evaluates financial risks. Material risks are monitored and discussed with the Audit Committee of the Board of Directors. Lexam does not utilize derivative financial instruments.

**Notes to Consolidated Financial Statements (unaudited)****Foreign Exchange Risk**

Certain of the Company's financial assets and liabilities are denominated in US dollars. In addition, the Company incurs costs at its Baca Project in Colorado primarily in US dollars. Accordingly, the Company is exposed to financial gain or loss as a result of foreign exchange movements against the United States dollar, and the Company's exploration costs are affected by changes in exchange rates between the US and Canadian dollar.

The Company has elected not to hedge its exposure to fluctuations in the US dollar as the timing and amounts of exploration spending in US dollars is contingent on the environmental and regulatory processes which are not feasible to predict. The Company's administrative costs denominated in US dollars are not significant.

**Credit risk**

Credit risk arises from cash and cash equivalents held with bank and financial institutions and amounts receivable. The maximum exposure to credit risk is equal to the carrying value of the 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.

A portion of the Company's receivable balance consists of exploration rebate claims due from the Province of Quebec in connection with spending at the Otish Uranium Project. This project is located at a latitude defined by the Province as "near north" where eligible exploration expenditures are subject to a 38.75% refund. The Company is exposed to credit risk in connection with the timing of processing of refund payments and their determination of whether all of our spending qualifies as eligible exploration expenditures which would affect the amount of the refund. As at September 30, 2009, the Company recorded a receivable of approximately \$18,180 from the Province of Quebec in connection with the rebate, a receivable of \$5,478,225 from GMP Securities for the sale of 1,255,000 shares of Rubicon Minerals Corp. and an income tax recoverable of \$1,063,649 from the Internal Revenue Service of the United States.

**Liquidity risk**

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to ensure sufficient cash reserves are available to meet its liquidity requirements in order to meet obligations as they come due and execute our exploration programs. The Company achieves this by maintaining our funds predominantly in cash. Any cash equivalents are limited to Government of Canada treasury bills with original maturities of less than 90 days.

As at September 30, 2009 the Company had cash and cash equivalents of \$1,424,842. The Company's requirements for capital in the foreseeable future may include the continued conversion of available-for-sale securities into cash as market conditions allow. At September 30, 2009, these securities had a market value of \$10,160,404.

**Capital Management**

As a development stage exploration company, Lexam's objective in managing capital is to safeguard the entity's ability to continue as a going concern so that it can continue to its exploration efforts. As at September 30, 2009 the Company had an accumulated deficit of \$6,557,285 and since it has no regular source

**Notes to Consolidated Financial Statements (unaudited)**

of income or cash flow, this accumulated deficit is expected to increase.

The Company regularly assesses corporate opportunities that may strengthen its capital position. Options Lexam may choose to consider include, but are not limited to, issuing new shares, selling assets, acquiring assets, entering joint venture partnerships or other transactions.

**4. Capital Stock****(a) Authorized**

The authorized capital stock of the Company consists of an unlimited number of common shares.

**(b) Outstanding Common Shares**

	2009		2008	
	Shares	Amount	Shares	Amount
Outstanding at beginning of the year	48,499,287	\$ 21,163,402	48,469,287	\$ 20,228,713
Warrants exercised - Q3	-	-	30,000	27,333
Allocated of expired warrants - Q3	-	-	-	907,356
Outstanding at September 30	<u>48,499,287</u>	<u>\$ 21,163,402</u>	<u>48,499,287</u>	<u>\$ 21,163,402</u>

**(c) Outstanding Warrants**

	2009		2008	
	Warrants	Amount	Warrants	Amount
Outstanding at beginning of the year	-	\$ -	4,328,000	\$ 913,689
Warrants exercised - Q3	-	-	(30,000)	(6,333)
Warrants expired - Q3	-	-	(4,298,000)	(907,356)
Outstanding at September 30	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

The common share purchase warrants, issued in connection with a private placement in 2006, all carried an exercise price of \$0.70 and expired on July 31, 2008. A total of 30,000 warrants were exercised by a director of the Company in July 2008. There were no outstanding warrants as at September 30, 2009 nor December 31, 2008.

**(d) Employee Incentive Plan**

	2009		2008	
	Options	Exercise Price	Options	Exercise Price
Outstanding at beginning of the year	250,000	\$ 0.15	250,000	\$ 0.15
Outstanding at September 30	<u>250,000</u>	<u>\$ 0.15</u>	<u>250,000</u>	<u>\$ 0.15</u>

No options have been granted in 2008 or 2009 and all outstanding options were granted prior to January 1, 2002. As of September 30, 2009, the remaining weighted average term to expiry of these options is 1.9 years with all options expiring by August 14, 2011.

**(e) Earnings per Share**

The potentially dilutive securities in (d) above were included in the calculation of diluted earnings per share.

**Notes to Consolidated Financial Statements (unaudited)****5. Related Party Transactions**

Effective January 1, 2009, the Company renewed its management services agreement (“Services Agreement”) with 2083089 Ontario Inc. (“208”) pursuant to which the Company agreed to reimburse 208 for office operating costs. A similar contract was entered into between the Company and 208 for calendar year 2008 expiring on December 31. A company owned by Robert McEwen, the chairman and chief executive officer of the Company and beneficial owner of more than 5% of our voting securities, is the owner of 208. Mr. McEwen is also the chief executive officer and director of 208. During the three and nine month periods ended September 30, 2009, the Company paid \$28,571 and \$85,713, respectively, under these agreements. For the three and nine month periods ended September 30, 2008, the Company paid \$60,563 and \$187,130, respectively, under these agreements. Mr. McEwen receives no compensation or benefits from 208.

Fees were also paid to US Gold Corporation (“US Gold”) as per the personnel services agreement entered into during the fourth quarter of 2008 to reflect the compensation costs paid by US Gold for management and administrative services provided to Lexam. During the three and nine month periods ended September 30, 2009 the Company incurred management fees of \$19,695 (2008: \$nil) and \$59,085 (2008: \$nil), respectively under this agreement. As at September 30, 2009 \$57,285 (December 31, 2008 - \$25,253) was owed to US Gold.

Subsequent to September 30, 2009, the Company entered into a single amended Services Agreement with 208 reflecting the consolidation of the two prior services agreements discussed above that the Company was previously a party to. Under the single agreement, Lexam expects ongoing management fees to be consistent with the combined management fees previously paid under the separate agreements.

**6. Accumulated Other Comprehensive Gain (Loss)**

	2009	2008
Balance at beginning of period - Jan 1	\$(2,672,716)	\$(3,867,978)
Other comprehensive gain (loss)		
Change in fair value of investments	3,769,948	3,243,989
Other comprehensive gain (loss) on realized sales	4,793,614	(1,437,262)
Other comprehensive gain (loss) before taxes	\$ 5,890,846	\$(2,061,251)
Tax provision change during the period	(2,493,354)	(243,668)
Balance at end of period - September 30	<u>\$ 3,397,492</u>	<u>\$(2,304,919)</u>
Accumulated other comprehensive gain (loss) balance before taxes	\$ 5,191,194	\$ (3,309,696)
Less: tax effect on unrealized gain (loss)	(1,793,702)	1,004,777
Ending accumulated other comprehensive gain (loss)	<u>\$ 3,397,492</u>	<u>\$ (2,304,919)</u>

**Notes to Consolidated Financial Statements (unaudited)****7. Available-for-sale Securities**

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Available for sale securities	<u>\$ 10,160,404</u>	<u>\$6,224,202</u>

At September 30, 2009, Lexam continued to hold 2,281,129 Rubicon shares. An unrealized mark-to-market gain of \$3,397,492 net of taxes of \$2,493,354 (2008 – \$2,304,919 loss, net of taxes of \$243,668), has been recorded in Other Comprehensive Income (Loss). The following table contains the divestiture details of Rubicon shares that the Company sold during the three and nine month periods of 2009 and 2008 respectively.

	Sale of Rubicon Shares	
	Number of Shares	Gain (Loss) on Sale
Three months ended September 30, 2009	1,692,100	\$ 3,975,235
Three months ended September 30, 2008	128,000	\$ (101,647)
Nine months ended September 30, 2009	2,124,200	\$ 4,793,614
Nine months ended September 30, 2008	1,796,100	\$ (1,437,262)

**8. Equity Accounted Investment**

The Company's equity accounted investment is in VG Gold Corp. ("VG Gold") which trades on the Toronto Stock Exchange (Ticker symbol: VG). On July 21, 2009 Lexam agreed to make a \$3,000,000 strategic investment in VG Gold for an aggregate subscription of 37,500,000 units issued by way of a private placement. Each unit was priced at \$0.08 and included one common share and one common share purchase warrant exercisable at \$0.15 per share for a period of eighteen months. Upon completion of the investment during the third quarter, the Company owned approximately 27% of VG Gold's outstanding shares. The following is a schedule of the equity accounted investment as at September 30, 2009:

	<u>September 30, 2009</u>
Equity accounted investment – carrying value	
beginning of period	\$ -
Purchase of investment	3,000,000
Loss on equity investment	<u>(15,058)</u>
Equity accounted investment – carrying value	
end of period	<u>\$ 2,984,942</u>

At September 30, 2009, based on VG Gold's closing share price of \$0.39 the market value of 37.5 million common shares was \$14,625,000 and the intrinsic market value of 37.5 million warrants was \$9,000,000 giving the Company a total market value of \$23,625,000 (2008: \$nil) in its investment in VG Gold.

**Notes to Consolidated Financial Statements** *(unaudited)***9. Subsequent Events**

Subsequent to the end of the third quarter Lexam exercised its right to nominate a director to the board of directors of VG Gold. Mr. John Drake's nomination was submitted by Lexam and accepted by the VG Gold board on October 5, 2009. In addition, Lexam exercised 37.5 million warrants on October 21, 2009 for total consideration of \$5.6 million in order to help fund VG Gold's ongoing exploration. The warrant exercise increased Lexam's ownership from 27% (37.5 million common shares) to 42% (75 million common shares) of VG Gold's outstanding common shares.

Lexam may increase or reduce its investment in VG Gold according to market conditions or other relevant factors.

**10. Comparative Figures**

Certain comparative amounts have been reclassified to conform to the presentation adopted in 2009.