



WESDOME GOLD MINES LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2014 AND 2013

## **MESSAGE TO SHAREHOLDERS**

2014 was another turbulent year for the gold industry which saw the price of gold decline further to an average price of USD\$1,266.40 from 2013's average of USD\$1,411.23. Investors demanded tighter cost control, stricter capital discipline, and a profit driven approach to operations rather than ounce growth for growth's sake.

Fortunately at Wesdome, this sentiment is shared by the existing management and board appointed in late 2013, and a profit growth strategy was implemented immediately. The focus was shifted to concentrate entirely on the high grade Eagle River and Mishi Mines. The Eagle River underground mine ranks in third place for highest grade amongst North American underground reserve grade deposits, and the Mishi open pit fifth place amongst North American open pit deposits.

Over the last year, the Company has been successful in expanding its milling capacity and reliability and has seen average throughput rates rise 23.0% to 525 tonnes per day, with a fourth quarter exit rate of 648 tonnes per day. Production from the Eagle River Complex for the year ended December 31, 2014 was 52,575 ounces, an increase of 16% compared to 2013 (45,210 ounces). Recovered grades from the underground Eagle River Mine were 12.2 grams per tonne, and 2.1 grams per tonne from the open pit Mishi Mine.

Success in achieving higher production rates and improved operating efficiencies reduced all-in sustaining costs by 9.6% over 2013, and as a result, free cash flow increased by 398% compared to 2013, with the Company generating \$11.8 million in free cash flow.

2014 was a transformational year for Wesdome not only on the operational and financial fronts but perhaps more importantly, the strong foundation laid to position the Company for the future organic growth. Proven and probable reserves at Eagle River increased by 57%, and the discovery of two additional high grade zones parallel to our main producing structure will enable the Company to deliver growth at higher grades at the mine starting in 2016. 2015 will be a development year to access these zones (311 is being developed now, for production in the second half of 2015 and the 711 Zone will begin production in 2017), and due to their close proximity to existing mine infrastructure developed without material increase to current sustaining capital expenditures.

With a disciplined focus on profit growth, high grade operation, defensive balance sheet, and an experienced team in place, Wesdome is poised to deliver returns to all stakeholders and be in operation for many years to come.

### 2014 Highlights:

- Free cash flow generated in 2014 was \$11.8 million or \$0.11 per share.
- Production from the Eagle River Complex for the year ended December 31, 2014 was 52,575 ounces. Recovered grades from the underground Eagle River mine were 12.2 grams per tonne, and 2.1 grams per tonne from the open pit Mishi mine.
- All-in sustaining costs lowered by 9.6%.
- Mill improvements resulted in 2014 daily throughput rates of 525 tonnes per day (up from 400 tonnes per day in 2013).
- Reserves increased by 57% net of depletion.
- High grade parallel zone discoveries put into 5-year mine plan for no material increases to sustaining capital rates.
- Executive management team strengthened.

On behalf of the Board,

Rolly Uloth  
*President and CEO*

March 23, 2015

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **FOR THE YEAR ENDED DECEMBER 31, 2014**

This Management's Discussion and Analysis ("MD&A") dated February 25, 2015, should be read in conjunction with Wesdome Gold Mines Ltd.'s ("Wesdome" or "the Company") audited consolidated financial statements for the years ended December 31, 2014 and 2013, and their related notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

This MD&A contains "forward-looking statements" that are subject to risk factors set out in the cautionary statement below. All figures are in Canadian dollars unless otherwise stated. Additional information on Wesdome, including Annual Information Forms ("AIF") and other corporate information, can be found at [www.wesdome.com](http://www.wesdome.com) or [www.sedar.com](http://www.sedar.com). Wesdome trades on the Toronto Stock Exchange under the symbol "WDO". The Company's head office is at 8 King Street East, Suite 811, Toronto, Ontario, Canada.

### **CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS AND NON-IFRS PERFORMANCE MEASURES**

All statements, other than statements of historical fact, constitute "forward-looking statements" and are based on expectations, estimates and projections as at the date of this MD&A. The words "believe", "expect", "anticipate", "plan", "intend", "continue", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking statements. The Company cautions the reader that such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Wesdome to be materially different from the Company's estimated future results, performance or achievements expressed or implied by the forward-looking statements and the forward-looking statements are not guarantees of future performance. Factors that could cause results or events to differ materially from current expectations expressed or implied are inherent to the gold mining industry and include, but are not limited to, those discussed in the section entitled "Risks and Uncertainties". The Company does not intend, and does not assume any obligation to update these forward-looking statements, whether as a result of new information, future events or results or otherwise except as required by applicable laws.

The Company has included in this report certain non-IFRS performance measures, including, but not limited to, free cash flow, mining and processing costs, production cash costs, and all-in sustaining costs, as well as their related per unit measures. These measures are not defined under IFRS and therefore should not be considered in isolation or as an alternative to or more meaningful than, net income (loss) or cash flow from operating activities as determined in accordance with IFRS as an indicator of our financial performance or liquidity. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow.

## SELECTED ANNUAL INFORMATION

(in thousands except income per common share)	2014	2013
Total revenue	\$ 82,441	\$ 79,726
Net earnings (loss)	11,876	(3,868)
Earnings (loss) per common share	0.11	(0.04)
Diluted earnings (loss) per common share	0.11	(0.04)
Total assets	116,607	103,049
Long term financial liabilities	11,264	8,810

Revenue for the year ended December 31, 2014 was CAD\$82.4 million compared to CAD\$79.7 million for the year ended December 31, 2013, due to higher mined grades, despite lower gold prices.

Increased overall production resulting from higher mined and recovered grades generated earnings of CAD\$11.9 million or \$0.11 per share in 2014, compared to a loss of CAD\$3.9 million in 2013 or (\$0.04) per share.

Total assets increased to CAD\$116.6 million in 2014 compared to CAD\$103.0 million in 2013 as a result of continued increased investment at the Eagle River Complex.

At December 31, 2014, the Company had CAD\$15.4 million in cash, compared to CAD\$10.7 million in the previous quarter and CAD\$5.7 million as at December 31, 2013.

## OVERALL PERFORMANCE HIGHLIGHTS

	Three Months Ended Dec 31		Twelve Months Ended Dec 31	
	2014	2013	2014	2013
Production (oz)	12,981	15,947	52,757	45,210
Sales (oz) – Eagle River Complex	15,188	13,400	58,230	46,800
Operating cash flow (\$CAD million)	8.4	7.5	28.1	13.3
Net income (loss) (\$CAD million)	2.6	(1.8)	11.9	(3.9)
Free cash flow (\$CAD million) *	4.3	4.4	11.8	2.4
Earnings (loss) per share	0.02	(0.02)	0.11	(0.04)
Operating cash cost (\$USD/oz) **	871	861	832	1,046
All-in sustaining cost (\$USD/oz) **	1,178	1,175	1,150	1,360

\* Cash flows from operations less capital investments

\*\* Costs/oz are on a sales basis

### Highlights of the Fiscal Year 2014

- In 2014, the Company revised guidance upwards to 52,000 ounces from 50,000 in the second quarter and exceeded this guidance, producing 52,757 ounces.
- For the year ended December 31, 2014, the Eagle River underground mine's annual production totalled 123,375 tonnes at a head grade of 12.7 grams per tonne ("g/t") and a 96% recovery rate to produce 48,190 ounces (12.1 g/t recovered grade), a 12.5% increase from 2013 (42,850 ounces). The Mishi mine produced 67,149 tonnes at a head grade of 2.5 g/t and a recovery rate of 85% to produce 4,567 ounces (2.1 g/t recovered grade), a 93% increase over 2013 (2,360 ounces).
- Total 2014 production was 52,757 ounces which exceeded the Company's upwards revised guidance of 52,000 ounces. This is an increase of 17% compared to 2013 (45,210 ounces).

- All-in sustaining costs (“AISC”) for 2014 totalled CAD\$1,278 per ounce (USD\$1,150), a decrease of 8.8% compared to 2013 (CAD\$1,401, USD\$1,360 per ounce). Operating cost per ounce for 2014 was CAD\$924 per ounce (USD\$832) a decrease of 2.9% compared to the same period in 2013 (CAD\$1,078, USD\$1,046 per ounce).
- 2014 free cash flow totalled CAD\$11.8 million, or \$0.11 per share, a 391% increase compared to 2013 (\$2.4 million or \$0.02 per share).
- During the year ended December 31, 2014, revenue exceeded mining and processing costs by CAD\$28.6 million and CAD\$16.3 million in capital investments were made. Cash flow from operations totalled CAD\$28.1 million and net income of CAD\$11.9 million was recorded
- As at December 31, 2014, the Company had 1,562 ounces of gold inventory, compared to 7,034 ounces as at December 31, 2013.
- This year, the Company has been expanding its milling capacity and reliability with the goal of internally generating growth via incremental production from the Mishi Mine. Accordingly, average daily throughput rates doubled, increasing from an average of 400 tonnes per day (“tpd”) in 2013 to ending 2014 at 800 tpd. Currently the mill is running at 900 tpd, which is expected to continue throughout 2015, an approximately 40% improvement over 2014.

#### Highlights of the Fourth Quarter 2014

- During the fourth quarter the Eagle River mine produced 27,798 tonnes at a head grade of 13.0 g/t and a recovery rate of 96% to produce 11,183 ounces (12.5 g/t recovered grade). The Mishi mine produced 31,859 tonnes at a head grade of 2.1 g/t and a recovery rate of 85% to produce 1,798 ounces (1.8 g/t recovered grade), a slight increase of 4.2% compared to the previous quarter (12,456 ounces). Sold ounces were 15,188 at an average sales price of CAD\$1,408 per ounce.
- All-in sustaining costs for the fourth quarter were CAD\$1,370 per ounce (USD\$1,178), and operating costs were CAD\$1,012 per ounce (USD\$871 per ounce), relatively flat compared to the previous quarter (AISC CAD\$1,234, USD\$1,175 per ounce, operating costs CAD\$904, USD\$861 per ounce).
- The Company generated CAD\$4.3 million in free cash flow during the fourth quarter, or \$0.04 per share.
- During the quarter ended December 31, 2014, revenue exceeded mining and processing costs by CAD\$5.5 million and CAD\$4.1 million in capital investments were made. Cash flow from operations totalled CAD\$8.4 million and net income of CAD\$2.6 million was recorded.
- The Company was active with its Normal Course Issuer Bid during the fourth quarter, buying back 51,500 shares at an average price of \$0.73 and retiring them. As of February 25, 2015, 74,448 employee stock options were exercised bringing current shares outstanding stand at 111,077,987.
- During the fourth quarter the gold price declined from USD\$1,215 to USD\$1,200 per ounce. However, the \$CAD/\$USD exchange rate declined even further, offsetting the decline and resulting in an increase during the quarter from CAD\$1,350 to CAD\$1,390 per ounce. The Company’s sales averaged CAD\$1,375 per ounce for the quarter. At 50,000 ounces of production a year at USD\$1,200/oz a \$0.10 change in the USD/CAD exchange rate would influence revenue by CAD \$6.0 million.

- At the Eagle River Mill, average daily throughput rates further increased 10% in the fourth quarter to 648 tpd, exiting the quarter at 800 tpd, compared to 583 tpd in the third quarter.

## RESULTS OF OPERATIONS

	Three Months Ended Dec 31		Twelve Months Ended Dec 31	
	2014	2013	2014	2013
<i>Eagle River Mine</i>				
Tonnes milled	27,798	39,766	123,375	124,861
Recovered grade (g/t)	12.5	12.3	12.1	10.7
Production (oz)	11,183	15,726	48,190	42,850
<i>Mishi Mine</i>				
Tonnes milled	31,859	2,788	67,149	22,536
Recovered grade (g/t)	1.8	2.5	2.1	3.3
Production (oz)	1,798	221	4,567	2,360
Surface stockpile (tonnes)	25,513	81,443	25,513	81,443

## Detailed Operating Results and Quarterly Variances

	Q4 2014	Q3 2014	Positive / (Negative) Variance	Q4 2013	Positive / (Negative) Variance
<b><i>Milling</i></b>					
Total tonnes	59,657	53,626	6,031	42,554	17,103
Total tonnes/calendar day	648	582	66	463	185
Eagle River tonnes	27,798	33,377	(5,579)	39,766	(11,968)
Mishi tonnes	31,859	20,249	11,610	2,788	29,071
<b><i>Production</i></b>					
Total ounces	12,981	12,456	525	15,947	(2,966)
Eagle River ounces	11,183	10,873	310	15,726	(4,540)
Mishi ounces	1,798	1,583	215	221	1,577
Eagle River grade (g/t)	12.5	10.1	2.4	12.3	0.2
Mishi grade (g/t)	1.8	2.4	(0.6)	2.5	(0.7)
<b><i>Eagle River</i></b>					
Operating development (metres)	394	360	34	582	(188)
Capital development (metres)	762	743	19	493	269
Drilling (metres)	14,299	14,421	(122)	13,352	947
<b><i>Mishi Mine</i></b>					
Stockpile balance (tonnes)	25,513	46,153	(20,640)	81,443	(54,930)

Operating metrics demonstrate our progress on several important fronts:

- 1) Expanding mill throughput with planned maintenance and equipment upgrades
- 2) Increasing capital development and ore development to access more stoping complexes to facilitate higher mine production in the future
- 3) Proven and probable reserves increased by 57% at the Eagle River mine and 8% at Mishi Open Pit Mine in 2014, extending mine lives.

As planned, Mishi Open Pit operations recommenced during the fourth quarter with the drawdown of the Mishi stockpile as mill throughput increased. Mill throughput during the fourth quarter averaged 648 tpd, up 11% over the third quarter (582 tpd) and up 70% over the second quarter (382 tpd). Our target for 2015 is to average approximately 900 tpd with mill feed split evenly between Mishi Open Pit and the underground Eagle River Mine.

#### Detailed Financial Results (\$CAD) and Quarterly Variances

	Q4 2014	Q3 2014	Positive / (Negative) Variance	Q4 2013	Positive / (Negative) Variance
Gold sales (oz)	<b>15,188</b>	15,878	(690)	13,400	1,788
Realized price (\$/oz)	<b>1,375</b>	1,407	(32)	1,336	39
Revenue (\$000)	<b>20,922</b>	22,342	(1,420)	19,928	994
Operating cash cost (\$/oz) **	<b>1,012</b>	967	(45)	904	(108)
All-in sustaining cost (\$/oz) **	<b>1,370</b>	1,290	(80)	1,234	(136)
Cash flow from operations (\$million)	<b>8.4</b>	7.9	0.5	7.5	0.9

\*\* Costs/oz are on a sales basis

NOTE: This table includes non-IFRS performance measures. Please refer to the cautionary note on page 1.

#### All-in Sustaining Cost Analysis and Quarterly Variances, Eagle River Complex

	Q4 2014	Q3 2014	Positive / (Negative) Variance	Q4 2013	Positive / (Negative) Variance
Mining and processing costs	<b>15,377</b>	15,358	(19)	12,114	(3,170)
Inventory related adjustments †	<b>(2,256)</b>	(3,213)	(957)	(217)	2,039
Production cash cost	<b>13,121</b>	12,145	(976)	11,897	(1,224)
Royalties expense	<b>331</b>	345	14	397	66
General and administrative expenses	<b>766</b>	625	(141)	652	(114)
Exploration expenditure	<b>540</b>	365	(175)	957	417
Sustaining capital expenditure	<b>3,786</b>	3,789	3	2,416	(1,370)
All-in sustaining cost					
Production basis	<b>18,544</b>	17,269	(1,275)	16,319	(2,094)
Inventory related adjustments †	<b>2,256</b>	3,213	957	217	(2,039)
Sales basis	<b>20,800</b>	20,482	(323)	16,536	(4,264)

† Inventory related adjustments are adjustments made to mining and processing costs (cost of sales) in order for them to reflect the actual cash cost of production during the period.

NOTE: This table includes non-IFRS performance measures. Please refer to the cautionary note on page 1.

	<b>Q4 2014</b>	<b>Q3 2014</b>	<b>Positive / (Negative) Variance</b>	<b>Q4 2013</b>	<b>Positive / (Negative) Variance</b>
Production (oz)	<b>12,981</b>	12,456	525	15,947	(2,966)
Gold sales (oz)	<b>15,188</b>	15,878	(690)	13,400	1,788
Tonnes milled	<b>59,657</b>	53,626	6,031	42,554	17,103
<i>Production basis unit costs</i>					
Production cash cost (\$/oz CAD)	<b>1,011</b>	975	(36)	746	(265)
(\$/oz USD) ***	<b>869</b>	895	26	711	(158)
(\$/tonne CAD)	<b>220</b>	226	6	280	60
(\$/tonne USD) ***	<b>189</b>	208	19	266	77
All-in sustaining cost (\$/oz CAD)	<b>1,429</b>	1,386	(43)	1,023	(406)
(\$/oz USD) ***	<b>1,229</b>	1,273	44	975	(254)
(\$/tonne CAD)	<b>311</b>	322	11	383	72
(\$/tonne USD) ***	<b>267</b>	296	29	365	98
<i>Sales basis unit costs</i>					
Operating cash cost (\$/oz CAD)	<b>1,012</b>	967	(45)	904	(108)
(\$/oz USD) ***	<b>871</b>	888	17	861	(10)
(\$/tonne CAD)	<b>258</b>	286	28	285	27
(\$/tonne USD) ***	<b>222</b>	263	41	271	49
All-in sustaining cost (\$/oz CAD)	<b>1,370</b>	1,290	(80)	1,234	(136)
(\$/oz USD) ***	<b>1,178</b>	1,184	6	1,175	(3)
(\$/tonne CAD)	<b>349</b>	382	33	389	40
(\$/tonne USD) ***	<b>300</b>	351	51	370	70

\*\*\* USD figures have been translated at the average exchange rate as quoted by the Bank of Canada over the given period. The following USD/CAD rates have been used for the translation: Q4 2014 – 1.16, Q4 2014 Annual – 1.11, Q3 2014 – 1.09, Q4 2013 – 1.05, Q4 2013 Annual – 1.03

NOTE: This table includes non-IFRS performance measures. Please refer to the cautionary note on page 1.

Production cash costs increased during the quarter due to increased maintenance costs at the Eagle River Complex, as well as the increased cost resulting from the restart of operations at the Mishi Open Pit Mine.

## Exploration and Drilling Results

### *Eagle River Complex*

In 2014, we modestly increased drilling with the addition of a third underground rig, and dramatically increased mineral reserves. Eagle River proven and probable reserves increased 57% to 265,000 ounces at an average grade of 10.1 g/t and Mishi proven and probable reserves increased 8% to 121,000 ounces at an average grade of 2.1 g/t. Full disclosure of mineral reserves and resources estimates are available in the Company's press release dated January 29, 2015. A summary table demonstrating category quantities and grades is summarized below.

		<b>MINERAL RESERVES *</b>			
				Dec 31, 2014	Dec 31, 2013
Mine	Category	Tonnes	Grade (gAu/tonne)	Contained Gold (ounces)	
Eagle River	Proven	141,000	8.5	39,000	41,000
	Probable	675,000	10.4	226,000	128,000
	<b>Proven + Probable</b>	<b>816,000</b>	<b>10.1</b>	<b>265,000</b>	<b>169,000</b>
Mishi	Proven	159,000	2.4	12,000	16,000
	Probable	1,627,000	2.1	109,000	96,000
	<b>Proven + Probable</b>	<b>1,786,000</b>	<b>2.1</b>	<b>121,000</b>	<b>112,000</b>
<b>TOTAL</b>				<b>386,000</b>	<b>281,000</b>

\*Eagle River QP: George Mannard, P. Geo, Vice President Exploration

\*Mishi QP Daniel Lapointe, P. Geo, Mishi Superintendent

During the fourth quarter, the Company continued to generate exciting results from the recently recognized parallel 300 and 7 zones. These are detailed in the Company's press release dated December 4, 2014.

### 300 ZONE HIGHLIGHTS

- **EU-765**            **173.90 gAu/t over 2.15 m**
- **EU-759W**        **112.99 gAu/t over 2.00 m**
- **EU-780**            **79.13 gAu/t over 3.50 m**
- **EU-781**            **65.15 gAu/t over 4.00 m**
- **EU-782**            **230.19 gAu/t over 2.45 m**
- **EU-783**            **53.65 gAu/t over 2.35 m**

### NEW 7 ZONE STEPOUTS

- **EU-759W**        **20.41 gAu/t over 5.60 m**
- **EU-781**            **20.06 gAu/t over 3.70 m**
- **EU-782**            **29.54 gAu/t over 3.00 m**
- **EU-783**            **101.02 gAu/t over 2.65 m**

These very encouraging results contributed significantly to the 2014 reserve increase and stimulated immediate access development in order to incorporate these new zones into the mine plan as soon as possible. We expect initial development and production tonnage from the 300 zone in 2015.

### *Kiena Mine Complex*

In Quebec, the Kiena Mine Complex was kept on care and maintenance while we continued to study restoration requirements imposed by subsequent Mining Act Amendments.

A summer drilling program confirmed continuity of two parallel zones at the Dubuisson North prospect. Results included intersections of 45.05 gAu/t over 5.0 metres, 5.62 gAu/t over 4.2 metres and 5.41 gAu/t over 4.0 metres as summarized in a Press Release dated November 19, 2014.

While drilling a hole to maintain the status of the Kiena Mining Concession, a broad zone of typical S50-style mineralization, averaging 3.39 gAu/t over a corelength of 25.9 metres was encountered. Although the true width is currently unknown, this occurrence is located 300 metres east of previous mining activity in an area that has never been drilled. During the winter season 2015, we intend to mobilize a drill onto the ice to provide initial confirmation and delineation of this new "S50 EAST" discovery.

Also, planned for 2015, is an updated 43-101 technical disclosure report, including resource estimates for our contiguous, Val d'Or mining properties. This will provide management flexibility to decide the best path forward to realize value for this asset.

#### *Moss Lake Property*

The Moss Lake project was inactive in 2014. In 2015, we intend to initiate the communication and consultation procedures required under the new Mining Act in order to obtain a permit to explore our claims. Moss Lake remains our most significant gold resource and our most significant option on future gold prices and exchange rates.

### **SUMMARY OF QUARTERLY RESULTS**

<i>(in \$000 except per share data)</i>	<b>Q4/14</b>	<b>Q3/14</b>	<b>Q2/14</b>	<b>Q1/14</b>	<b>Q4/13</b>	<b>Q3/13</b>	<b>Q2/13</b>	<b>Q1/13</b>
Total revenue	<b>20,922</b>	22,342	16,044	23,133	19,928	16,669	21,709	21,420
Operating cash flow	<b>8,379</b>	7,856	4,652	7,215	7,532	2,313	1,832	1,575
Free cash flow	<b>4,292</b>	3,427	520	3,598	4,366	249	188	(2,425)
Net income (loss)	<b>2,589</b>	2,238	2,878	4,171	(1,782)	(2,095)	43	(34)
Earnings (loss) per share basic and diluted	<b>0.02</b>	0.02	0.03	0.04	(0.02)	(0.02)	0.00	(0.00)

NOTE: This table includes non-IFRS performance measures. Please refer to the cautionary note on page 1.

### **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2014, the Company had working capital of \$12.6 million compared to \$8.5 million at December 31, 2013. During the 2014, capital expenditures totalled \$16.3 million compared to \$10.9 million in 2013. Capital expenditures were concentrated in underground development, mill improvements/upgrades and mine equipment which resulted in \$3.8 million of equipment leasing contracts being signed. Of the \$16.3 million, \$2.7 million were non-recurring costs spent on mill upgrades and improvements. The Company expects sustaining capital to remain consistent in 2015 at a rate of about \$14.0 million annually. Our cash position increased to \$15.4 million from 10.7 million in the previous quarter.

The Company carries an inventory of gold. At December 31, 2014, this asset consisted of 1,562 ounces of gold with a market value of approximately \$2.2 million. Furthermore, the Mishi ore stockpile at the mill is estimated to contain about 1,900 ounces of recoverable gold, or approximately \$0.5 million, net of milling costs. Including these non-IFRS working capital adjustments, working capital would increase by approximately \$0.5 million.

<i>Calculation of adjusted working capital</i>	<i>(in millions)</i>
IFRS working capital	\$ 12.6
Gold in Mishi stockpile, net of milling costs	0.5
<b>Adjusted working capital</b>	<b>\$ 13.1</b>

The Company believes it has sufficient liquidity to carry out its mining, development and exploration programs. With current gold prices, and a favourable USD/CAD exchange rate, operations are capable of generating strong cash flow as evidenced by our results over the last five quarters.

The following table shows the timing of cash outflows relating to contractual obligations going forward.

<b>Contractual Obligations</b>	<b>Payments Due by Period (in thousands)</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 – 2 years</b>	<b>3 – 5 years</b>	<b>After 5 years</b>
Equipment leases	\$ 3,720	\$ 1,219	\$ 1,035	\$ 1,466	-
Convertible debentures	8,291	491	7,800	-	-
	<b>\$ 12,011</b>	<b>\$ 1,710</b>	<b>\$ 8,835</b>	<b>\$ 1,466</b>	<b>-</b>

## OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

Key management personnel and director compensation are comprised of the following:

	<b>Three Months Ended Dec 31</b>		<b>Twelve Months Ended Dec 31</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Salaries and short-term employee benefits	\$ 589	\$ 287	\$ 1,594	\$ 1,704
Post employment benefits	11	8	41	62
Share-based payments	85	83	197	231
	<b>\$ 685</b>	<b>\$ 732</b>	<b>\$ 1,832</b>	<b>\$ 1,997</b>

In fiscal 2014, the Company paid a total of \$14,690 in director's fees and \$159,000 in consulting fees to the undernoted companies, whose presidents were directors or former directors of the Company. These services were incurred in the normal course of operations for attendance at committee and board meetings as well as general corporate matters. All services were made on terms equivalent to those that prevail with arm's length transactions.

### Director's Fee

Capital Inter A World Inc.: \$14,690 – Marc Blais, President (former director of the Company)

### Consulting Fee

The Rosedale Group: \$137,000 – Rolly Uloth, President, fees for services as CEO of the Company  
\$ 22,000 – Information Technology support

## OUTLOOK

In 2015, production from the underground Eagle River Mine and Mishi Open Pit is forecasted between 55,000 – 57,000 ounces of gold. Mill throughput for the year is expected to average 900 tonnes per day, an increase of 72% over the 2014 average of 522 tonnes per day.

The Eagle River Mine will be going through a lower grade production cycle at its 811 zone in 2015 as we develop our high grade parallel zones to position for organic growth and a higher grade production cycle in 2016 and beyond. The 311 zone is being developed in the first half of 2015, and the 711 zone will be developed in the first half of 2017. Accordingly, 2016 will have two high grade zones in production and 2017 and beyond will have three. In the recent past, there has only been one high grade zone in production in one given year. These zones can be developed without material increases to current sustaining capital rates as they are located close to existing infrastructure. The Eagle River Underground Complex is expected to produce approximately 45,000 ounces in 2015.

With the resumption of mining activities at Mishi Open Pit, gold production is expected to increase to 11,000 ounces from 4,545 ounces in 2014.

2014 results have demonstrated the ability to generate profits and to self-fund growth over the short to medium term. To sustain ongoing operations and facilitate further growth and efficiencies the Company plans to continue its exploration programs at its Eagle River Mine. Also, the Company is commencing a drill program at its open pit Mishi Mine and a scoping study at Mishi to determine further mining and milling expansion scenarios. As well, a new tailings management area is being planned with commissioning in 2016. The Company is also investigating the feasibility of a potential shaft deepening, which could be deferred, pending development and expansion of the new parallel zone discoveries at higher mine elevations.

In Val d'Or, the Kiena Mine remains on care and maintenance with a planned exploration program for 2015 involving up to two drills on surface.

The Moss Lake project was inactive in 2014. In 2015, we intend to initiate the communication and consultation procedures required under the new Mining Act in order to obtain a permit to explore our claims. The Company views Moss Lake as an attractive asset at gold prices above CAD\$1,600/oz, and it remains our most significant gold resource and our most significant option on future gold prices and exchange rates.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

### CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

(i) *Exploration and evaluation expenditures*

Judgment is required in determining whether the respective costs are eligible for capitalization where applicable, and whether they are likely to be recoverable by future exploration, which may be based on assumptions about future events and circumstances. Estimates and assumptions made may change if new information becomes available.

(ii) *Equity component of convertible debentures*

The convertible debentures are classified as liabilities, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the liability being less than its face value. The discount is being accreted over the term of the debentures, utilizing the effective interest method which approximates the market rate at the date the debentures were issued. Management uses its judgment to determine an interest rate that would have been applicable to non-convertible debt at the time the debentures were issued.

### KEY SOURCES OF ESTIMATION UNCERTAINTY

(i) *Reserves*

Proven and probable reserves are the economically mineable parts of the Company's measured and indicated mineral resources that have been incorporated into the mine plan. The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret the data. The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body.

Changes in the proven and probable reserves or measured, indicated and inferred mineral resources estimates may impact the carrying value of mining properties and equipment, depletion, impairment assessments and the timing of decommissioning and remediation obligations.

(ii) *Depletion*

Mining properties are depleted using the UOP method over a period not to exceed the estimated life of the ore body based on recoverable ounces to be mined from proven and probable reserves.

Mobile and other equipment are depreciated, net of residual value over the useful life of the equipment but does not exceed the related estimated life of the mine based on proven and probable reserves.

The calculation of the UOP rate, and therefore the annual depletion expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production, expansion

of mineral reserves through exploration activities, differences between estimated and actual costs of mining and differences in the gold price used in the estimation of mineral reserves.

Significant judgment is involved in the determination of useful life and residual values for the computation of depletion and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

(iii) *Provision for decommissioning obligations*

The Company assesses its provision for decommissioning on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for decommissioning obligations requires management to make estimates of the future costs the Company will incur to complete the decommissioning work required to comply with existing laws and regulations at each mining operation. Also, future changes to environmental laws and regulations could increase the extent of decommissioning work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for decommissioning. The provision represents management's best estimate of the present value of the future decommissioning obligation. Actual future expenditures may differ from the amounts currently provided.

(iv) *Share-based payments*

The determination of the fair value of share-based payments is not based on historical cost, but is derived based on subjective assumptions input into an option pricing model. The model requires that management make forecasts as to future events, including estimates of the average future hold period of issued stock options before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period (using historical volatility as a reference); and the appropriate risk-free rate of interest. Share-based payments incorporate an expected forfeiture rate. The expected forfeiture rate is estimated based on historical forfeiture rates and expectations of future forfeiture rates, and is adjusted if the actual forfeiture rate differs from the expected rate.

The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's length transaction, given that there is no market for the options and they are not transferable. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made.

(v) *Deferred taxes*

Preparation of the consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which the Company operates. The process involves an estimate of the Company's current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and depletion, for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are included in the Company's consolidated statements of financial position.

An assessment is also made to determine the likelihood that the Company's deferred tax assets will be recovered from future taxable income.

Judgment is required to continually assess changing tax interpretations, regulations and legislation, to ensure liabilities are complete and to ensure assets are realizable. The impact of different interpretations and applications could be material.

(vi) *Recoverability of mining properties*

The Company's management reviews the carrying values of its mining properties on a regular basis to determine whether any write-downs are necessary. The recovery of amounts recorded for mining properties depends on confirmation of the Company's interest in the underlying

mineral claims, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. Management relies on life-of-mine (“LOM”) plans in its assessments of economic recoverability and probability of future economic benefit. LOM plans provide an economic model to support the economic extraction of reserves and resources. A long-term LOM plan and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body.

(vii) *Inventory – ore stockpile*

Expenditures incurred and depletion of assets used in mining and processing activities are deferred and accumulated as the cost of ore maintained in stockpiles. These deferred amounts are carried at the lower of cost or NRV. Impairments of ore in stockpiles resulting from NRV impairments are reported as a component of current period costs.

The allocation of costs to ore in stockpiles and the determination of NRV involve the use of estimates. There is a significant degree of uncertainty in estimating future milling costs, future milling levels, prevailing and long-term gold and silver prices, and the ultimate estimated recovery for ore.

## FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments disclosures requires the Company to provide information about: a) the significance of financial instruments for the Company’s financial position and performance and, b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the statement of financial position date, and how the Company manages those risks.

### Financial Instruments – Fair Values

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

<b>December 31, 2014</b>	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Cash	15,408	-	15,408	15,408
Trade and other receivables	1,834	-	1,834	1,834
Restricted cash	3,106	-	3,106	3,106
<b>Total assets</b>	<b>20,348</b>	<b>-</b>	<b>20,348</b>	<b>20,348</b>
Accounts payable and accrued liabilities	-	8,061	8,061	8,061
Obligations under capital lease	-	3,720	3,720	3,720
Long-term debt	-	6,262	6,262	6,670
<b>Total liabilities</b>	<b>-</b>	<b>18,043</b>	<b>18,043</b>	<b>18,451</b>
<b>December 31, 2013</b>	<b>Loans and Receivables</b>	<b>Other Financial Liabilities</b>	<b>Total Carrying Amount</b>	<b>Fair Value</b>
Cash	5,651	-	5,651	5,651
Trade and other receivables	1,982	-	1,982	1,982
Restricted cash	2,994	-	2,994	2,994
<b>Total assets</b>	<b>10,627</b>	<b>-</b>	<b>10,627</b>	<b>10,627</b>
Accounts payable and accrued liabilities	-	9,415	9,415	9,415
Obligations under capital lease	-	906	906	2,720
Long-term debt	-	5,996	5,996	5,968
<b>Total liabilities</b>	<b>-</b>	<b>16,317</b>	<b>16,317</b>	<b>18,103</b>

### **Determination of Fair Value**

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties. The Company uses the following methods and assumptions to estimate fair value of each class of financial instruments for which carrying amounts are included in the consolidated statements of financial position as follows:

Cash and restricted funds – The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Receivables – The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Other financial liabilities – Payables and accruals, obligations under finance leases, and convertible debentures are carried at amortized cost. The carrying amount of payables and accruals approximates fair value due to the short maturity of these financial instruments. The fair value of obligations under finance leases approximate their carrying values as the obligations are entered into at market interest rates. The fair value of the convertible debentures is based on the quoted market price.

The fair value hierarchy for financial instruments measured at fair value is Level 1 for convertible debentures. The Company does not have Level 2 or Level 3 inputs.

### **Financial Risk Management**

The Company is exposed to a number of different risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include: (1) market risks relating to commodity prices, foreign currency risk and interest rate risk; (2) liquidity risk; and, (3) credit risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and establishes and monitors risk management policies to: identify and analyze the risks faced by the Company; to set appropriate risk limits and controls; and to monitor risks and adherence to market conditions and the Company's activities.

#### **1) Market Risk**

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets and liabilities include commodity price risk, foreign currency exchange risk and interest rate risk.

##### *(a) Commodity price risk*

The Company's financial performance is closely linked to the price of gold which is impacted by world economic events that dictate the levels of supply and demand. The Company had no gold price hedge contracts in place as at or during the years ended December 31, 2014 and 2013.

##### *(b) Foreign currency exchange risk*

The Company's revenue is exposed to changes in foreign exchange rates as the Company's primary product, gold, is priced in U.S. dollars. The Company had no forward exchange rate contracts in place and no foreign currency holdings as at or during the years ended December 31, 2014 and 2013.

##### *(c) Interest rate risk*

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash has in the past included highly liquid investments that earn interest at market rates and interest paid on the

Company's convertible debentures is based on a fixed interest rate. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held, if any.

## 2) **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company believes it has access to sufficient capital through internally generated cash flows and equity and debt capital markets. Senior management is also actively involved in the review and approval of planned expenditures.

The following table shows the timing of cash outflows relating to payables and accruals, finance leases and convertible debentures:

### **December 31, 2014**

(in thousands)	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables and accruals	\$ 8,061	\$ -	\$ -	\$ -
Obligations under				
finance leases	\$ 1,219	\$ 1,035	\$ 1,466	\$ -
Convertible debentures	\$ 491	\$ 7,675	\$ -	\$ -

### **December 31, 2013**

(in thousands)	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables and accruals	\$ 9,415	\$ -	\$ -	\$ -
Obligations under				
finance leases	\$ 524	\$ 295	\$ 110	\$ -
Convertible debentures	\$ 491	\$ 983	\$ 7,185	\$ -

## 3) **Credit Risk**

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company minimizes its credit risk by selling its gold exclusively to financial institutions with forty-eight hour terms of settlement. The Company's receivables consist primarily of government refunds and credits. The Company estimates its maximum exposure to be the carrying value of cash, receivables and funds held against standby letters of credit.

The Company manages credit risk by maintaining bank accounts with Schedule 1 Canadian banks and investing only in Guaranteed Investment Certificates. The Company's cash is not subject to any external limitations.

## **Capital Risk Management**

The Company's objectives of capital management are intended to safeguard its ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital of the Company consists of items included in equity net of cash and cash equivalents:

	<b>December 31 2014</b>	December 31 2013
Total equity	\$ 96,063	\$ 84,034
Cash and cash equivalents	(15,408)	(5,651)
<b>Capital</b>	<b>\$ 80,655</b>	<b>\$ 78,383</b>

The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets. In order to maintain or adjust its capital structure, the Company may issue new shares, issue new debt or issue new debt to replace existing debt with different characteristics.

There is no restriction on the ability of the Company to pay dividends other than cash flow considerations. Dividend payments in the future will depend on the Company's ability to generate earnings.

To effectively manage its capital investments, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has sufficient liquidity to meet its operating and growth objectives.

The Company expects its current capital resources and projected cash flow from continuing operations to support further exploration and development of its mineral properties.

Neither the Company nor its subsidiaries are subject to any externally imposed capital requirements such as loan covenants or capital ratios.

There were no changes to the Company's approach to capital management during the current period.

## **RISKS AND UNCERTAINTIES**

The operations of the Company are speculative due to the high risk nature of its business which is the operation, exploration and development of mineral properties. In addition to risks described elsewhere herein, shareholders should note the following:

### **Nature of Mineral Exploration**

The exploration for and development of mineral deposits involves significant financial risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an orebody may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a site. It is impossible to ensure that the exploration programs planned by the Company will result in a profitable commercial mining operation.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices which are highly cyclical and government regulations. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

### **Mining Risks and Insurance**

The business of mining is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, labour disputes, encountering unusual or unexpected geologic formations, cave-ins, flooding and periodic interruptions due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or producing facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability. Insurance against environmental risks (including potential for pollution or other hazards as a result of disposal of waste products occurring from exploration and production) is not generally available to the Company or to other companies within the industry.

### **Government Regulations and Environmental Matters**

The Company's activities are subject to extensive federal, provincial and local laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment. Permits from a variety of regulatory authorities are

required for many aspects of mine operation and reclamation. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development of the Company's properties, the extent of which cannot be predicted. In the context of environmental permitting, including the approval of reclamation plans, the Company must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. It is possible that the costs and delays associated with compliance with such laws, regulations and permits could become such that the Company would not proceed with the development or operation of a mine.

The Company has obtained approval for its closure plan for the Eagle River Mill, Eagle River Mine, the Mishi-Magnacon Complex and the Kiena Mine and has provided security to cover estimated rehabilitation and closure costs. In the event of any future expansion or alteration of a mine on the Eagle River property or the Kiena Mine, the Company would likely be required to amend its closure plans which may require the provision of additional security.

#### **Reliance on Management**

The Company is heavily reliant on the experience and expertise of its executive officers. If any of these individuals should cease to be available to manage the affairs of the Company, its activities and operations could be adversely affected.

#### **Economic Conditions**

General levels of economic activity and recessionary conditions may have an adverse impact on the Company's business.

#### **Mineral Resource and Mineral Reserve Estimates**

There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve estimate is a function of the quality of available data and of the assumptions made and judgements 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 on the Company's financial position and results of operations.

#### **Competition**

The mining industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities in its search for, and the acquisition of, mineral properties as well as the recruitment and retention of qualified employees with technical skills and experience in the mining industry. There can be no assurance that the Company will be able to compete successfully with others in acquiring mineral properties, obtaining adequate financing and continuing to attract and retain skilled and experienced employees.

#### **Conflicts of Interest**

Certain officers and directors of the Company are, or may be, associated with other companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. Not every officer or director devotes all of their time and attention to the affairs of the Company.

#### **Insurance**

The Company carries insurance to protect against certain risks in such amounts as it considers adequate. Risks not insured against include environmental pollution, mine flooding or other hazards against which such companies cannot insure or against which they may elect not to insure.

### **Additional Funding Requirements**

Further exploration on, and development of, the Company's mineral resource properties, will require additional capital. In addition, a positive production decision on any of the Company's development projects would require significant capital for project engineering and construction. Accordingly, the continuing development of the Company's properties will depend upon the Company's ability to either generate sufficient funds internally or to obtain financing through the joint venturing of projects, debt financing, equity financing or other means. Although the Company has been successful in the past in obtaining financing through the sale of equity securities and the issuance of debt instruments, there can be no assurance that it will obtain adequate financing in the future.

### **SUMMARY OF SHARES ISSUED**

As of February 25, 2015, the Company's share information is as follows:

Common shares issued	<u>111,077,987</u>
Common share purchase options	<u>3,719,220</u>

### **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

#### **Disclosure Controls and Procedures**

In accordance with the requirements of National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings.*" the Company's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), have evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's CEO and CFO have concluded that as at December 31, 2014, the Company's disclosure controls and procedures to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms were effective.

#### **Internal Control over Financial Reporting**

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control over financial reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS
- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial instruments

The Company's management, with the participation of the CEO and CFO, assessed the effectiveness of the Company's internal controls over financial reporting and concluded that as at December 31, 2014, the Company's internal control over financial reporting was effective.

#### **Limitations of Controls and Procedures**

The Company's management, including the CEO and CFO, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Also, projections

of any evaluation of effectiveness to future periods are subject to the risk that any design will not succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

**Control Framework**

The Company's assessment of the effectiveness of its internal control is based on the framework and criteria established in "*Internal Control – Integrated Framework (1992 version)*" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company plans to transition to the "*2013 Internal Control – Integrated Framework*" issued by COSO during the 2015 fiscal year.

## Management's Responsibility for Financial Statements

The accompanying consolidated financial statements have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect management's best estimate and judgement based on currently available information.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded, liabilities are recognized and that the accounting systems provide timely and accurate financial reports.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities in respect of financial reporting and internal control. The Audit Committee of the Board of Directors meets periodically with management and the Company's independent auditors to discuss auditing matters and financial reporting issues. In addition, the Audit Committee reviews the annual consolidated financial statements before they are presented to the Board of Directors for approval.

The Company's independent auditors, Grant Thornton LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

February 25, 2015  
Toronto, Canada

*/s/ Brian Ma*  
Chief Financial Officer

## Independent auditor's report

### To the Shareholders of Wesdome Gold Mines Ltd.

We have audited the accompanying consolidated financial statements of Wesdome Gold Mines Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of total equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, 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 audits. We conducted our audits 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 judgment, 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Wesdome Gold Mines Ltd. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013, in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.



Toronto, Ontario  
February 26, 2015

Chartered Accountants  
Licensed Public Accountants

**Wesdome Gold Mines Ltd.**  
**Consolidated Statements of Financial Position**

(Expressed in thousands of Canadian dollars)

December 31	2014	2013
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 15,408	\$ 5,651
Receivables (Note 9)	1,834	1,982
Inventory (Note 10)	4,603	10,757
<b>Total current assets</b>	<b>21,845</b>	<b>18,390</b>
Restricted funds (Note 11)	3,106	2,994
Deferred income taxes (Note 20)	10,492	13,025
Mining properties, plant and equipment (Note 12)	47,042	35,118
Exploration properties (Note 14)	34,122	33,522
<b>Total assets</b>	<b>\$ 116,607</b>	<b>\$ 103,049</b>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 8,061	\$ 9,415
Current portion of obligations under finance leases (Note 15)	1,219	526
<b>Total current liabilities</b>	<b>9,280</b>	<b>9,941</b>
Obligations under finance leases (Note 15)	2,501	380
Convertible debentures (Note 16)	6,262	5,996
Decommissioning provisions (Note 17)	2,501	2,434
<b>Total liabilities</b>	<b>20,544</b>	<b>18,751</b>
<b>Equity</b>		
Equity attributable to owners of the Company		
Capital stock (Note 18)	129,270	125,352
Contributed surplus	2,088	2,150
Equity component of convertible debentures (Note 16)	932	932
Deficit	(36,227)	(44,400)
<b>Equity attributable to owners of the Company</b>	<b>96,063</b>	<b>84,034</b>
Non-controlling interest	-	264
<b>Total equity</b>	<b>96,063</b>	<b>84,298</b>
<b>Total liabilities and equity</b>	<b>\$ 116,607</b>	<b>\$ 103,049</b>

On behalf of the Board:

**"Rolly Uloth"**  
*Director*

**"Hemdat Sawh"**  
*Director*

See accompanying notes to the consolidated financial statements.

## Wesdome Gold Mines Ltd.

### Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars except for per share amounts)

Years ended December 31	2014	2013
<b>Revenue</b>		
Gold and silver bullion	\$ 82,441	\$ 79,726
<b>Operating expenses</b>		
Mining and processing	53,827	64,281
Depletion of mining properties	7,265	7,838
Production royalties	1,311	1,158
Corporate and general	2,711	3,436
Share based payments (Note 19)	517	349
Kiena care and maintenance costs	1,861	3,437
Impairment charges (Note 13)	-	633
<b>Total operating expenses</b>	<b>67,492</b>	<b>81,132</b>
Income (loss) from operations	14,949	(1,406)
Interest and other income	416	149
Interest on long-term debt	(842)	(785)
Other interest	(47)	(30)
Accretion of decommissioning provisions (Note 17)	(80)	(91)
Change in decommissioning provisions (Note 17)	13	202
Income (loss) before income tax	14,409	(1,961)
Income tax expense (Note 20)		
Deferred	2,533	1,907
Income tax expense	2,533	1,907
Net income (loss) and total comprehensive income (loss)	\$ 11,876	\$ (3,868)
<b>Net income (loss) and total comprehensive</b>		
Income (loss) attributable to:		
Non-controlling interest	\$ (26)	\$ (160)
Owners of the Company	11,902	(3,708)
	\$ 11,876	\$ (3,868)
<b>Basic and diluted earnings (loss) per share</b>		
Basic (Note 21)	\$ 0.11	\$ (0.04)
Diluted (Note 21)	\$ 0.11	\$ (0.04)
<b>Basic and diluted weighted average number</b>		
of common shares (000s)		
Basic (Note 21)	109,808	102,892
Diluted (Note 21)	110,196	102,892

*See accompanying notes to the consolidated financial statements.*

## Wesdome Gold Mines Ltd. Consolidated Statements of Total Equity

(Expressed in thousands of Canadian dollars)

	Capital Stock	Contributed Surplus			Equity Component of Convertible Debentures	Retained Earnings (Deficit)	Total Attributable to Owners of the Company	Non-controlling Interest	Total Equity
		Share Based Payments	Share Repurchases	Dilution Gains					
Balance, December 31, 2012	\$ 122,651	\$ 1,171	\$ 375	\$ 513	\$ 870	\$ (41,009)	\$ 84,571	\$ 417	\$ 84,988
Net loss for the year ended December 31, 2013	-	-	-	-	-	(3,708)	(3,708)	(160)	(3,868)
Shares issued to acquire Windarra Minerals Ltd.	2,811	-	-	-	-	-	2,811	-	2,811
Value attributed to options expired	-	(317)	-	-	-	317	-	-	-
Share-based payments (Note 19)	-	349	-	-	-	-	349	-	349
Shares purchased under normal course issuer bid (Note 18)	(110)	-	59	-	-	-	(51)	-	(51)
Subsidiary capital transactions	-	-	-	-	-	-	-	7	7
Change in deferred liability of equity component of convertible debentures (Note 16)	-	-	-	-	62	-	62	-	62
Balance, December 31, 2013	125,352	1,203	434	513	932	(44,400)	84,034	264	84,298
Net income (loss) for the year ended December 31, 2014	-	-	-	-	-	11,902	11,902	(26)	11,876
Shares issued to amalgamate Moss Lake Gold Mines Ltd. (Note 7)	4,117	-	-	-	-	-	4,117	-	4,117
Transfer of non-controlling interest (Note 7)	-	-	-	-	-	238	238	(238)	-
Change in equity due to Moss Lake amalgamation (Note 7)	-	-	-	-	-	(4,611)	(4,611)	-	(4,611)
Exercise of options	104	-	-	-	-	-	104	-	104
Value attributed to options exercised	48	(48)	-	-	-	-	-	-	-
Value attributed to options expired	-	(644)	-	-	-	644	-	-	-
Share based payments (Note 19)	-	517	-	-	-	-	517	-	517
Shares purchased under normal course issuer bid (Note 18)	(351)	-	113	-	-	-	(238)	-	(238)
Balance, December 31, 2014	\$ 129,270	\$ 1,028	\$ 547	\$ 513	\$ 932	\$ (36,227)	\$ 96,063	\$ -	\$ 96,063

See accompanying notes to the consolidated financial statements.

## Wesdome Gold Mines Ltd.

### Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

Years ended December 31	2014	2013
<b>Operating activities</b>		
Net income (loss)	\$ 11,876	\$ (3,868)
Depletion of mining properties	7,265	7,838
Accretion of discount on convertible debentures (Note 16)	266	236
Impairment charges (Note 13)	-	633
Loss on sale of equipment	169	27
Share-based payments (Note 19)	517	349
Deferred income taxes	2,533	1,907
Interest paid	576	550
Accretion of decommissioning provisions (Note 17)	80	91
Change in decommissioning provisions (Note 17)	(13)	(202)
	23,269	7,561
Net changes in non-cash working capital (Note 25)	4,833	5,692
Funds provided by operating activities	28,102	13,253
<b>Financing activities</b>		
Funds paid to repurchase common shares under NCIB (Note 18)	(238)	(51)
Exercise of options	104	-
Share issue cost to acquire Moss Lake Gold Mines Ltd. minority shareholders	(494)	-
Repayment of obligations under finance leases	(963)	(863)
Interest paid	(576)	(550)
Funds used by financing activities	(2,167)	(1,464)
<b>Investing activities</b>		
Additions to mining properties	(15,681)	(10,319)
Additions to exploration properties	(600)	(556)
Proceeds on sale of equipment	107	582
Funds held against standby letters of credit	(112)	(413)
Cash received on acquisition of property	-	6
Net changes in non-cash working capital (Note 25)	108	(71)
Funds used by investing activities	(16,178)	(10,771)
Increase in cash and cash equivalents	9,757	1,018
Cash and cash equivalents, beginning of year	5,651	4,633
Cash and cash equivalents, end of year	\$ 15,408	\$ 5,651
Cash and cash equivalents consist of:		
Cash	\$ 13,908	\$ 5,651
Banker's Acceptances (1.15%)	1,500	-
	\$ 15,408	\$ 5,651

See accompanying notes to the consolidated financial statements.

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# Wesdome Gold Mines Ltd.

## Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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### 1. DESCRIPTION OF BUSINESS

Wesdome Gold Mines Ltd. (“Wesdome Ltd.” or the “Company”) is a gold producer engaged in mining and related activities including exploration, extraction, processing and reclamation. The Company’s principal assets include the Eagle River Mine, the Mishi Mine and the Eagle River Mill located near Wawa, Ontario, and the Kiena Mining and Milling Complex and exploration properties located in Val D’Or, Quebec. The Company is a publicly traded company, continued under Part 1A of the Companies Act (Quebec) and its common shares are listed on the Toronto Stock Exchange (TSX: WDO). Wesdome’s head office is located at 8 King Street East, Suite 811, Toronto, ON, M5C 1B5.

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### 2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements are presented in Canadian dollars (“Cdn \$”), which is also the functional currency of the Company and its subsidiaries, which are detailed below.

	Subsidiary	Ownership
0976408 B.C. Ltd.	(“Windarra Minerals Ltd.” “Windarra”)	100%
2404027 Ontario Inc.	(“Moss Lake Gold Mines Ltd.” “MLGM”)	100% (2013: 56.8%)

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 25, 2015.

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### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Consolidation

These consolidated financial statements include the financial statements of the parent company and its wholly owned subsidiaries. All transactions and balances between the parent company and its subsidiaries are eliminated on consolidation.

Non-controlling interests in the Company’s less than wholly-owned subsidiary are classified as a separate component of equity. On initial recognition, non-controlling interests are measured at their proportionate share of the acquisition-date fair value of identifiable net assets of the related subsidiary acquired by the Company. Subsequent to the acquisition date, adjustments are made to the carrying amount of non-controlling interests for the non-controlling interests’ share of changes to the subsidiary’s equity. Adjustments to recognize the non-controlling interests’ share of changes to the subsidiary’s equity are made even if this results in the non-controlling interests having a deficit balance.

Changes in the Company’s ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interests is adjusted to reflect the change in the non-controlling interests’ relative interest in the subsidiary and the difference between the adjustment to the carrying amount of non-controlling interests and the Company’s share of proceeds received and/or consideration paid is recognized directly in equity and attributed to shareholders of the Company.

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## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (b) Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable from the sale of bullion and is recognized when an arrangement exists, risks pass to the buyer, the price is fixed, it is probable that the economic benefits will be realized, and collection is reasonably assured.

Interest and other revenue are reported on an accrual basis using the effective interest method.

##### (c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and highly liquid investments with maturities of less than three months.

##### (d) Inventory

Inventories consisting of gold bullion and ore stockpiles are recorded at the lower of production costs on a first-in, first-out basis and net realizable value ("NRV"). Production costs include costs related to mining, crushing, and mill processing, as well as applicable overhead, and depletion.

Ore stockpiles consist of coarse ore that has been extracted from the mine and is available for further processing. Costs are added to stockpiles based on the current mining cost per tonne and removed at an average cost per tonne.

Supplies are valued at the lower of average cost and replacement cost, which approximates NRV.

##### (e) Mining Properties, Plant and Equipment

###### (i) *Cost and valuation*

Mining properties, plant and equipment are carried at cost less accumulated depletion and any impairment in value. When an asset is disposed of, it is derecognized and the difference between its carrying value and net sales proceeds is recognized as a gain or loss in profit or loss.

###### (ii) *Mining properties, plant and equipment*

Mining properties, plant and equipment include expenditures incurred on properties under development, payments related to the acquisition of land and mineral rights and property, plant and equipment which are recorded at cost on initial acquisition. Cost includes the purchase price and the directly attributable costs of acquisition or construction required to bring an asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management.

Property acquisition and mine development costs are recorded at cost. Pre-production expenditures are capitalized until the commencement of production. Mine development costs incurred to expand operating capacity, develop new ore bodies or develop mine areas in advance of current production are capitalized. Mine development costs related to current period production are allocated to inventory as appropriate.

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## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (iii) Depletion and depreciation

Mine development costs, property, and other mining assets whose estimated useful life is the same as the remaining life of the mine are depleted over the mine's estimated life using the units-of-production method ("UOP") calculated based on proven and probable reserves. Equipment and other non-mining assets are depreciated on a straight-line basis over their estimated useful lives to their residual values.

Where components of an item of property, plant and equipment have a different useful life and cost that is significant to the total cost of the item, depreciation and depletion is calculated on each separate component.

Depreciation and depletion methods, useful lives and residual values are reviewed at a minimum at the end of each year.

##### (iv) Subsequent costs

Repairs and maintenance costs are expensed as incurred. However, expenditures on major maintenance rebuilds or overhauls are capitalized when it is probable that the expenditures will extend the productive capacity or useful life of an asset. Any remaining costs of previous overhauls relating to the same asset are derecognized. All other expenditures are expensed as incurred.

##### (v) Deferred stripping costs

Stripping costs incurred to prepare the ore body for extraction are capitalized as mine development costs (pre-stripping). Stripping costs incurred during the production phase of a mine are considered production costs and are included in the cost of inventory produced during the period in which stripping costs are incurred. Capitalized stripping costs are amortized on a UOP basis over the economically recoverable proven and probable reserves and measured and indicated resources to which they relate.

#### (f) Leased Assets

When the economic ownership of a leased asset is transferred to the lessee, the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the lower of the present value of minimum lease payments and the fair value of the leased asset and a corresponding amount is recognized as a finance lease liability.

Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Company. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed as part of finance costs.

The interest portion of lease payments is charged to profit or loss over the period of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

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## **Wesdome Gold Mines Ltd.**

### **Notes to the Consolidated Financial Statements**

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **(g) Exploration and Evaluation Costs**

Exploration expenditures reflect the costs related to the initial search for mineral deposits with economic potential or obtaining more information about existing mineral deposits. Exploration expenditures typically include costs associated with sampling, mapping, diamond drilling and other work involved in searching for ore. All expenditures relating to exploration activities are capitalized as incurred from the point at which the Company receives the legal right to explore.

Evaluation expenditures reflect costs incurred at exploration projects related to establishing the technical and commercial viability of developing mineral deposits identified through exploration or acquired through a business combination or asset acquisition.

Evaluation expenditures include the cost of:

- (i) establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve,
- (ii) determining the optimal methods of extraction and metallurgical and treatment processes,
- (iii) studies related to surveying, transportation and infrastructure requirements,
- (iv) permitting activities, and
- (v) economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

Costs in relation to these activities are capitalized as incurred under exploration properties until such time as the Company expects that mineral resources will be converted to mineral reserves within a reasonable period and mine development commences. Thereafter, accumulated exploration and evaluation costs for the project are reclassified to mining properties. Exploration and evaluation costs of abandoned properties are expensed in the period in which the project is abandoned.

##### **(h) Impairment of Non-Financial Assets**

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units ("CGUs")). The Company's CGUs are its individual operating mine sites. At the end of each reporting period, the Company reviews and evaluates its mining properties and equipment at the CGU level to determine whether there is any indication that these assets are impaired. If any such indication exists, the recoverable amount of the relevant CGU is estimated in order to determine the extent of impairment.

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## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The recoverable amount of a mine site is the greater of its fair value less costs to sell ("FVLCTS") and its value-in-use ("VIU"). The FVLCTS is estimated as the recoverable amount resulting from the sale of an asset or CGU, less the costs of disposal. The VIU is estimated as the discounted future pre-tax cash flows expected to be derived from a mine site. If the recoverable amount of a mine site is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Impairment losses are recognized as operating expenses in the period they are incurred. When an impairment loss reverses in a subsequent period, the carrying amount of the related asset is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset previously. Reversals of impairment losses are recognized in profit or loss in the period the reversals occur.

##### (i) Income Taxes

Income taxes are calculated using the liability method where current income taxes are recognized as an expense for the estimated income taxes payable for the current period.

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward, to the extent that it is probable that deductions, credits and tax losses can be utilized, and are measured using the enacted or substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred income taxes relating to the initial recognition of an asset or liability in a transaction that, at the time of the transaction, neither affects accounting nor taxable income or is the result of a business acquisition, are not recognized. The deferred tax relating to items recorded in other comprehensive income is linked to these items for reporting purposes.

On a consolidated basis the Company does not offset asset and liability amounts with those of the subsidiary and with amounts owing to different taxation authorities. Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off deferred tax assets and liabilities from the same taxation authority.

##### (j) Equity and Reserves

Capital stock represents the consideration received for shares that have been issued, net of related issuance costs. Amounts related to expired stock options are reclassified from the share based payments reserve to deficit upon expiry of the stock options.

Contributed surplus includes the value of share based payments, net of the value of expired grants; discounts, net of premiums on shares repurchased; and dilution gains and losses relating to non-controlling interest.

Deficit represents accumulated retained losses from all current and prior periods.

##### (k) Employee Benefits

*Salaries and short-term employee benefits*

Salaries and short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *Post-employment benefits*

Post-employment benefits include a defined contribution plan under which the Company pays fixed contributions through a separate entity. Under this plan, the Company will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense when due.

#### (I) Provisions

##### *(i) General*

Provisions are recognized when present obligations, as a result of a past event, will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Provisions are not recognized for future operating losses.

Provisions are based on the most reliable information available at the reporting date, including the risks and uncertainties associated with the current best estimate.

##### *(ii) Decommissioning Provisions*

The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company has made, and will continue to make expenditures to comply with such laws and regulations. Decommissioning and closure costs expected to be incurred in the future are estimated by the Company's management based on the information available to them.

Actual decommissioning and closure costs could be materially different from the current estimates. Any change in cost estimates, discount rates, or other assumptions should additional information become available would be accounted for on a prospective basis. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, and changes in estimates. Management considers the Bank of Canada bond rate related to the life of mine when determining the discount rate. The rate is subsequently adjusted for risk to allow for the indeterminate nature of the mine life.

The NPV of the future rehabilitation cost estimates arising from decommissioning of property, plant and equipment is recognized in the period in which it is incurred with an offsetting amount being recognized as an increase in the carrying amount of the corresponding mining asset. This asset is amortized on a UOP basis over the estimated life of the mine while the corresponding provisions accretes to its undiscounted value by the end of the mine's life.

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## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (m) Financial Instrument Classification and Measurement

Financial instruments are measured on initial recognition at fair value, and, in the case of financial instruments other than those classified as “fair value through profit and loss” (“FVTPL”), directly attributable transaction costs. Measurement of financial assets in subsequent periods depends on whether the financial instrument has been classified as FVTPL, “available-for-sale”, “held-to-maturity”, or “loans and receivables” as defined by IAS 39 - “*Financial Instruments*”:

##### *Recognition and Measurement*

Measurement of financial liabilities subsequent to initial recognition depends on whether they are classified as FVTPL or “other financial liabilities”.

Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities that are held for trading or designated upon initial recognition as at fair value through profit and loss. These financial instruments are measured at fair value with changes in fair values recognized in profit or loss.

Financial assets designated as available-for-sale are measured at fair value, with changes in fair values recognized in other comprehensive income (“OCI”), except when there is objective evidence that the asset is impaired, at which point the cumulative loss that had been previously recognized in OCI is recognized in profit or loss. Financial assets classified as held-to-maturity and loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method. Financial liabilities, other than financial liabilities classified as FVTPL, are measured in subsequent periods at amortized cost using the effective interest method.

Cash and cash equivalents, restricted funds and receivables, are classified as loans and receivables. Obligations under finance leases, the liability portion of convertible debentures, income tax payable, and payables and accruals are classified as other financial liabilities.

##### (n) Convertible Debentures

The holder has the right to demand that the Company pay all or part of the liability associated with the Company’s outstanding convertible notes in cash on the conversion date. Accordingly, the Company classifies the convertible notes as a financial liability with a conversion feature. The conversion feature is recognized initially at its fair value, as a separate component of equity. The liability component is recognized initially as the difference between the face value of the convertible notes as a whole and the value of conversion feature. The liability component is subsequently measured at amortized cost using the effective interest method.

Interest, gains and losses related to the liability component are recognized in profit or loss.

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## **Wesdome Gold Mines Ltd.**

### **Notes to the Consolidated Financial Statements**

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **(o) Share-based Payments**

The Company's share-based stock option plan is designed to advance the interests of the Company by encouraging employees, officers and directors to have equity participation in the Company through the acquisition of common shares. Stock options granted vest either immediately or over the term of the option. Stock options have an exercise price of no less than the closing price of the common shares on the Toronto Stock Exchange on the trading day immediately preceding the date on which the options are granted and are exercisable for a period not to exceed five years. The cost of these stock options is measured using the estimated fair value at the date of the grant determined using the Black-Scholes option pricing model

The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option and stock price volatility. The expected term of options granted is determined based on historical data on the average hold period before exercise, expiry or cancellation. Annually, the estimated forfeiture rate is adjusted for actual forfeitures in the period.

Expected volatility is estimated with reference to the historical volatility of the share price of the Company. The costs are recognized over the vesting period of the option. The total amount recognized as an expense is adjusted to reflect the number of options expected to vest at each reporting date. The corresponding credit for these costs is recognized in the share-based payment reserve in equity.

##### **(p) Operating Segments**

The Company operates in one industry segment, the gold mining and related activities industry including exploration, extraction, processing and decommissioning. All of the Company's operations are located within one geographical area.

##### **(q) Earnings per Share**

Basic earnings per share ("EPS") is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury method of calculating the weighted average number of common shares outstanding, except the if-converted method is used in assessing the dilution impact of convertible notes. The treasury method assumes that outstanding stock options with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period. The if-converted method assumes that all convertible notes have been converted in determining diluted EPS if they are in-the-money except where such conversion would be anti-dilutive.

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## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### 4. SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

#### CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

(i) *Exploration and evaluation expenditures*

Judgment is required in determining whether the respective costs are eligible for capitalization where applicable, and whether they are likely to be recoverable by future exploration, which may be based on assumptions about future events and circumstances. Estimates and assumptions made may change if new information becomes available.

(iii) *Equity component of convertible debentures*

The convertible debentures are classified as liabilities, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the liability being less than its face value. The discount is being accreted over the term of the debentures, utilizing the effective interest method which approximates the market rate at the date the debentures were issued. Management uses its judgment to determine an interest rate that would have been applicable to non-convertible debt at the time the debentures were issued.

#### KEY SOURCES OF ESTIMATION UNCERTAINTY

(i) *Reserves*

Proven and probable reserves are the economically mineable parts of the Company's measured and indicated mineral resources that have been incorporated into the mine plan. The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret the data. The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body.

Changes in the proven and probable reserves or measured, indicated and inferred mineral resources estimates may impact the carrying value of mining properties and equipment, depletion, impairment assessments and the timing of decommissioning and remediation obligations.

(ii) *Depletion*

Mining properties are depleted using the UOP method over a period not to exceed the estimated life of the ore body based on recoverable ounces to be mined from proven and probable reserves.

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## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### 4. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (continued)

The calculation of the UOP rate, and therefore the annual depletion expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production, expansion of mineral reserves through exploration activities, differences between estimated and actual costs of mining and differences in the gold price used in the estimation of mineral reserves

Significant judgment is involved in the determination of useful life and residual values for the computation of depletion and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

##### (iii) *Provision for decommissioning obligations*

The Company assesses its provision for decommissioning on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for decommissioning obligations requires management to make estimates of the future costs the Company will incur to complete the decommissioning work required to comply with existing laws and regulations at each mining operation. Also, future changes to environmental laws and regulations could increase the extent of decommissioning work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for decommissioning. The provision represents management's best estimate of the present value of the future decommissioning obligation. Actual future expenditures may differ from the amounts currently provided.

##### (iv) *Share-based payments*

The determination of the fair value of share-based payments is not based on historical cost, but is derived based on subjective assumptions input into an option pricing model. The model requires that management make forecasts as to future events, including estimates of the average future hold period of issued stock options before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period (using historical volatility as a reference); and the appropriate risk-free rate of interest. Share based payments incorporate an expected forfeiture rate. The expected forfeiture rate is estimated based on historical forfeiture rates and expectations of future forfeiture rates, and is adjusted if the actual forfeiture rate differs from the expected rate.

The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's length transaction, given that there is no market for the options and they are not transferable. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made.

##### (v) *Deferred taxes*

Preparation of the consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which the Company operates. The process involves an estimate of the Company's current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and depletion, for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are included in the Company's consolidated statements of financial position.

An assessment is also made to determine the likelihood that the Company's deferred tax assets will be recovered from future taxable income.

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## **Wesdome Gold Mines Ltd.**

### **Notes to the Consolidated Financial Statements**

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
Years ended December 31, 2014 and 2013

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#### **4. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (continued)**

Judgment is required to continually assess changing tax interpretations, regulations and legislation, to ensure liabilities are complete and to ensure assets are realizable. The impact of different interpretations and applications could be material.

(vi) *Recoverability of mining properties*

The Company's management reviews the carrying values of its mining properties on a regular basis to determine whether any write-downs are necessary. The recovery of amounts recorded for mining properties depends on confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. Management relies on life-of-mine ("LOM") plans in its assessments of economic recoverability and probability of future economic benefit. LOM plans provide an economic model to support the economic extraction of reserves and resources. A long-term LOM plan and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body.

(vii) *Inventory – ore stockpile*

Expenditures incurred and depletion of assets used in mining and processing activities are deferred and accumulated as the cost of ore maintained in stockpiles. These deferred amounts are carried at the lower of cost or NRV. Impairments of ore in stockpiles resulting from NRV impairments are reported as a component of current period costs.

The allocation of costs to ore in stockpiles and the determination of NRV involve the use of estimates. There is a significant degree of uncertainty in estimating future milling costs, future milling levels, prevailing and long-term gold and silver prices, and the ultimate estimated recovery for ore.

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#### **5. IMPACT OF CHANGES IN ACCOUNTING STANDARDS**

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

##### **IAS 32 – Financial Instruments: Presentation**

In December, 2011, the IASB issued "*Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*". The standard amends IAS 32, "*Financial Instruments: Presentation*" to provide clarifications on the application of the offsetting rules. The Company determined that the adoption of the amendments to IAS 32 did not result in any change in the financial statements.

##### **IFRIC 21 – Levies**

In May, 2013, IASB issued IFRIC 21, "*Levies*", an interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37, "*Provisions, Contingent Liabilities and Contingent Assets*". IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company determined that the adoption of IFRIC 21 did not result in any change in the financial statements.

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## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

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#### 6. UPCOMING CHANGES IN ACCOUNTING STANDARDS

##### **IFRS 9 – Financial Instruments: Classification and Measurement**

In July, 2014, the IASB reissued IFRS 9 which replaced IAS 39. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets – amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available for sale and loans and receivable categories.

This standard will be effective for periods beginning on or after January 1, 2018. The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

##### **IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 which replaces IAS 18 for the accounting of revenue. The standard establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

This standard will be effective for periods beginning on or after January 1, 2017. The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

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#### 7. AMALGAMATION OF MOSS LAKE GOLD MINES LTD.

On March 28, 2014, the Company acquired the remaining 43.2% of the outstanding minority held common shares of its subsidiary Moss Lake Gold Mines Ltd. ("MLGM") in order to consolidate and clarify the ownership of the Company's properties under one corporate entity. The shareholders of MLGM received 1 common share of Wesdome for every 3.85 common shares of MLGM. A total of 5,279,400 common shares were issued and valued at \$4,117,000.

The acquisition was accounted for as an equity transaction, which was recorded at a total amount of \$4,611,000.

The value of the equity issued to MLGM shareholders was calculated as follows:

Issuance of 5,279,400 shares	\$	4,117
Accrued transaction costs		494
Total consideration		4,611
Transfer of non-controlling interest to deficit		(238)
Amount recognized in deficit, March 28, 2014	\$	4,373

Pursuant to the amalgamation agreement, 883,116 stock options were issued by the Company to the former directors and officers of MLGM, representing the stock options of MLGM outstanding as at March 28, 2014, with figures adjusted accordingly for the exchange ratio between the Company and MLGM. These options were issued at a weighted average price of \$0.80, with a weighted average remaining life of 2.90 years. All the options were exercisable upon grant.

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**Wesdome Gold Mines Ltd.**  
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**8. ACQUISITION OF WINDARRA MINERALS LTD.**

On September 30, 2013, the Company acquired all of the outstanding common shares of Windarra Minerals Ltd. ("Windarra"). Windarra is a Canadian exploration company that holds gold properties in the Wawa, Ontario area. The shareholders of Windarra received 0.10 common share of Wesdome for each common share of Windarra. A total of 4,014,732 common shares were issued and valued at \$2,811,000.

The acquisition was accounted for as a purchase of assets and associated liabilities, which were assumed at a net cost of \$3,006,000. Assigned carrying amounts were based on their relative fair values at the acquisition date.

The purchase price was calculated as follows:

**Consideration paid**

Issuance of 4,014,732 shares	\$ 2,811
Accrued transaction costs	195
<b>Total consideration paid</b>	<b>\$ 3,006</b>

**Net assets acquired**

Cash and cash equivalents	\$ 6
Receivables	17
Marketable securities	8
Mineral properties	3,114
Payables and accruals	(139)
<b>Total net assets acquired</b>	<b>\$ 3,006</b>

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**9. RECEIVABLES**

	December 31 2014	December 31 2013
Mining duties refunds and tax credits	\$ 59	\$ 412
Value added taxes	950	856
Prepays, deposits and receivables	825	714
	<b>\$ 1,834</b>	<b>\$ 1,982</b>

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**10. INVENTORY**

	December 31 2014	December 31 2013
Gold in process	\$ 2,172	\$ 5,685
Supplies	1,521	1,401
Ore stockpiles	910	3,671
	<b>\$ 4,603</b>	<b>\$ 10,757</b>

Gold in process inventory consists of both gold doré and gold in process that is awaiting the completion of the final refining process, with the completion of the refining process into saleable gold conforming to London Bullion Market Association standard expected within one month of the financial statement date.

## Wesdome Gold Mines Ltd.

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#### 11. RESTRICTED FUNDS

	December 31 2014	December 31 2013
Relating to mine closure plans (Note 17)	\$ 2,531	\$ 2,579
Relating to hydro deposit	575	415
	<b>\$ 3,106</b>	<b>\$ 2,994</b>

Funds are being held in Guaranteed Investment Certificates at interest rates ranging from 1.01% to 1.40% (2013: 0.80% to 1.16%) maturing to December, 2015.

#### 12. MINING PROPERTIES, PLANT AND EQUIPMENT

Gross Carrying Amount	Eagle River Mine Complex	Kiena Mine Complex	Total
Balance, December 31, 2012	\$ 51,718	\$ 32,979	\$ 84,697
Additions	9,917	633	10,550
Disposals	(256)	(1,051)	(1,307)
Impairment charge (Note 13)	-	(633)	(633)
Transfers	279	(279)	-
Balance, December 31, 2013	61,658	31,649	93,307
Additions	19,402	57	19,459
Disposals	(557)	(96)	(653)
Transfers	60	(60)	-
Balance, December 31, 2014	<b>\$ 80,563</b>	<b>\$ 31,550</b>	<b>\$ 112,113</b>

  

Accumulated Depletion	Eagle River Mine Complex	Kiena Mine Complex	Total
Balance, December 31, 2012	\$ (20,508)	\$ (31,508)	\$ (52,016)
Depletion	(6,862)	(7)	(6,869)
Accumulated depletion on disposal	111	586	697
Balance, December 31, 2013	(27,259)	(30,929)	(58,188)
Depletion	(7,254)	(4)	(7,258)
Accumulated depletion on disposals	279	96	375
Balance, December 31, 2014	<b>\$ (34,234)</b>	<b>\$ (30,837)</b>	<b>\$ (65,071)</b>

  

Carrying Amount, December 31, 2013	\$ 34,398	\$ 720	\$ 35,118
Carrying Amount, December 31, 2014	<b>\$ 46,329</b>	<b>\$ 713</b>	<b>\$ 47,042</b>

#### Eagle River Mine Complex

The Eagle River Mine Complex consists of the Eagle River Mine, the Mishi Mine and the Eagle River Mill and all related infrastructure and equipment.

The Eagle River mine is subject to a 2% net smelter return royalty payable to the original vendors of the property.

#### Kiena Mine Complex

The Kiena Mine Complex consists of the Kiena Mine concession, Kiena Mill, related infrastructure and equipment and 165 mining claims in the Township of Dubuisson, Quebec.

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## Wesdome Gold Mines Ltd.

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#### 13. IMPAIRMENT CHARGES

In the first quarter of 2013, the Company received a report based on a preliminary LOM study which confirmed the estimated FVLCS and cast doubt on the economic viability of the Kiena Mine Complex. As a result of the report, the Company decided on March 7, 2013, that it would suspend mining operations at the Kiena Mine Complex by June 30, 2013. Consequently, the Company recorded an impairment charge of \$0.6 million relating to development costs incurred between December 31, 2012 and March 7, 2013, and no further non-equipment costs related to the Kiena Mine Complex have been capitalized subsequent to March 7, 2013.

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#### 14. EXPLORATION PROPERTIES

	Wesdome Group	Moss Lake	Mishi Group	Total
Balance, December 31, 2012	\$ 24,793	\$ 3,327	\$ 2,034	\$ 30,154
Exploration expenditures	-	254	-	254
Windarra acquisition	-	-	3,114	3,114
Balance, December 31, 2013	24,793	3,581	5,148	33,522
Exploration expenditures	<b>578</b>	<b>22</b>	-	<b>600</b>
Balance, December 31, 2014	<b>\$ 25,371</b>	<b>\$ 3,603</b>	<b>\$ 5,148</b>	<b>\$ 34,122</b>

On March 28, 2014, the Company completed an amalgamation with Moss Lake Gold Mines Ltd. resulting in the Company having full 100% ownership of all its exploration properties. The transaction was accounted for as an equity transaction. Refer to Note 7 for additional details.

#### The Wesdome Group Properties

The Wesdome Group Properties include the Wesdome, Shawkey, Siscoe and Siscoe-Extension, Mine École, Lamothe, Lamothe-Extension, Yankee Clipper and Callahan properties. These properties, in conjunction with the Kiena Mine Complex, are contiguous and are integrated into the Company's long term strategy of progressive exploration and development from a central infrastructure.

#### *Wesdome property*

The Company has a 100% interest in this property which consists of 51 claims totalling 2,003 acres and is located under de Montigny Lake in Vassan and Dubuisson Townships, Quebec and is contiguous to the Kiena Mine Complex. The property is subject to a 1% net smelter royalty.

#### *Shawkey properties*

The Company has a 100% interest in the Shawkey and the Shawkey South properties, which are contiguous to the Kiena Mine Complex and consist of four mining concessions and three mining claims, respectively, in Dubuisson Township, Quebec.

#### *Siscoe and Siscoe-Extension properties*

The Siscoe property is located in Dubuisson and Vassan Townships, Quebec and consists of two mining concessions. The Siscoe-Extension property consists of 13 contiguous claims. These properties are contiguous to the Kiena Mine Complex.

The Company owns a 100% interest in the Siscoe property and a 75% interest in the Siscoe-Extension property. The original vendor of these properties retains a 3% net smelter return royalty of which 1% can be purchased for \$500,000.

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## **Wesdome Gold Mines Ltd.**

### **Notes to the Consolidated Financial Statements**

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#### **14. EXPLORATION PROPERTIES (continued)**

##### *Mine École property*

The Mine École property is located in Dubuisson Township and consists of 23 claims located southeast and contiguous to the Shawkey property.

##### *Other properties*

Other properties consist of interests in the Lamothe, Lamothe-Extension, Yankee Clipper and Callahan properties which are contiguous to the Wesdome property.

The Lamothe and Callahan properties are subject to a 1% net smelter royalty and 8 of the 10 claims comprising the Yankee Clipper property are subject to a 2% net profits royalty.

##### **Moss Lake Properties**

The Moss Lake property is owned by Moss Lake Gold Mines Ltd. ("MLGM") which is obligated to pay underlying advance royalties of \$5,469 per quarter to the vendors of the Moss Lake property until commercial production is achieved. Upon commencement of commercial production, the property is subject to an 8.75% net profits royalty, as defined, to these underlying vendors in lieu of the underlying advance royalty.

MLGM owns a 100% interest in the Fountain Lake property which consists of 149 mining claims contiguous to the Moss Lake property to the east, west and south. This property is subject to a 2.5% net smelter return royalty payable to certain original vendors of the property. This royalty is subject to a buyback clause whereby the royalty may be reduced to a 1.5% net smelter return for consideration of \$1.0 million.

##### **The Mishi Group Properties**

The Mishi Group Properties include the Magnacon, Magnacon East, Mishi West and Pukaskwa properties. With the exception of the Pukaskwa property, these properties are contiguous with the Mishi Mine property, Eagle River Mine Complex (Note 12).

The Windarra amalgamation (Note 8) expands the Mishi-Magnacon contiguous leases and patented claims, consolidates ownership and eliminates most third party underlying royalties and mining rights. The now 100%-owned property centred on the Mishi mining operation covers a 12 kilometre long strike length of the Mishi Break – the main regional control on gold mineralization.

##### *Magnacon properties*

The eastern portion of the land package includes the 100% owned Magnacon and Magnacon East properties which are subject to underlying net smelter return royalties of 1.5% and 2.0%, respectively. They host the current mill and tailings infrastructure, significant historic underground workings and numerous gold prospects. As a consequence of the Windarra acquisition on September 30, 2013, the Company's ownership of the Magnacon East property increased from 75% to 100%.

##### *Pukaskwa properties*

The Pukaskwa exploration property is located 20 kilometres west of the mill and hosts several promising gold occurrences. As a result of the Windarra acquisition, it is now 100% owned by Wesdome, free and clear of any royalties or encumbrances. In June, 2012, the Company had written-off the carrying amount of the interest in the Pukaskwa property as a previous property option expired.

## Wesdome Gold Mines Ltd.

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#### 15. OBLIGATIONS UNDER FINANCE LEASES

The Company leases, with options to purchase, certain mining equipment. Future minimum payments under finance leases, together with the balance of the obligations under finance leases are as follows:

	December 31 2014	December 31 2013
Not later than one year	\$ 1,363	\$ 524
Later than one year and not later than five years	2,677	405
Total minimum lease payments	4,040	929
Less: Interest portion at the weighted average of 4.31% (2013: 4.48%)	320	23
Total obligations under finance leases, secured by equipment	3,720	906
Less: Current portion	1,219	526
Long-term portion	\$ 2,501	\$ 380

The cost of equipment under finance leases at December 31, 2014 is \$4,754,000 (2013: \$3,315,000) with related accumulated depreciation of \$462,000 (2013: \$1,320,000). These assets are included in mining properties and equipment.

#### 16. CONVERTIBLE DEBENTURES

The following table summarizes the changes in the liability and equity components of the convertible debentures bearing interest at 7% and maturing on May 31, 2017, during the years ended December 31, 2014 and 2013.

	December 31 2014	December 31 2013
<u>Liability component</u>		
Balance, beginning of year	\$ 5,996	\$ 5,760
Accretion	266	236
Balance, end of year	\$ 6,262	\$ 5,996
<u>Equity component</u>		
Balance, beginning of year	\$ 932	\$ 870
Change in deferred income tax liability	-	62
Balance, end of year	\$ 932	\$ 932

The liability components of these debentures were calculated, at the dates of issuance, as the present value of the principal and interest, at a rate approximating the interest rate that would have been applicable to non-convertible debt at the dates the debentures were issued. The liability components were recorded at amortized cost and are accreted to the principal amounts over the term of the convertible debentures by charges to interest expense using an effective interest rate of 12.50%.

The carrying value of the conversion option, \$932,000, which is net of issuance costs (\$57,000) and deferred income tax (\$272,000) has been recorded as a separate component in total equity.

At December 31, 2014 and 2013, the face value of debentures available for conversion at \$2.50 totalled \$7,021,000.

## Wesdome Gold Mines Ltd.

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#### 17. DECOMMISSIONING PROVISIONS

The Company is committed to a program of environmental protection at its operating mines, development projects and exploration sites. The Eagle River ore and waste rocks are not acid generating which minimizes the environmental risks of mining. Although the ultimate amount of decommissioning costs is uncertain, the Company estimates its future decommissioning costs for the Eagle River Mine, Mishi Mine and the mill to be about \$1.6 million and the Kiena Mining and Milling complex to be about \$1.4 million. The Company has provided \$2.5 million standby letters of credit to be held against these future environmental obligations.

The following table presents the reconciliation of the aggregate carrying amount of the obligation associated with the retirement of mining properties:

Balance, December 31, 2012	\$	2,545
Accretion expense		91
Change in decommissioning provision		(202)
Balance, December 31, 2013		2,434
Accretion expense		80
Change in decommissioning provision		(13)
Balance, December 31, 2014	\$	2,501

#### 18. CAPITAL STOCK

##### Authorized:

The authorized capital of the Company consists of an unlimited number of common shares without par value.

	Shares	Amount
<b>Issued:</b>		
Balance, December 31, 2012	101,879,659	\$ 122,651
Shares purchased under Normal Course Issuer Bid	(91,200)	(110)
Shares issued to acquire Windarra Minerals Ltd. (Note 8)	4,014,732	2,811
Balance, December 31, 2013	105,803,191	125,352
Exercise of options	174,448	152
Shares purchased under Normal Course Issuer Bid	(301,000)	(351)
Shares issued to acquire Moss Lake Gold Mines Ltd. (Note 7)	5,279,400	4,117
Balance, December 31, 2014	110,956,039	\$ 129,270

On March 4, 2013, the Company received approval from the TSX for a Normal Course Issuer Bid ("NCIB"), which allowed the Company to purchase, on the open market, up to 9,983,346 of its common shares and \$351,000 principal amount of debentures for cancellation over a period of one year to end on March 5, 2014. The Company purchased for cancellation a total of 91,200 common shares under this NCIB with a carrying value of \$110,000 for total cash consideration of \$51,000. When the cash cost is less than the carrying amount the difference is charged to contributed surplus; when it is greater it is charged to contributed surplus to the extent there is a balance related to share repurchases, with any remainder charged to retained earnings.

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#### 18. CAPITAL STOCK (continued)

On June 2, 2014, the Company received approval from the TSX for another NCIB, which allows the Company to purchase on the open market, up to 8,601,626 of its common shares and \$351,050 principal amount of its convertible debentures (Note 16) for cancellation over a period of one year to end on June 3, 2015. As at December 31, 2014, the Company purchased for cancellation a total of 301,000 common shares under this NCIB with a carrying value of \$351,000 for total cash consideration of \$237,000.

#### 19. COMMON SHARE PURCHASE PLAN

The Company has an equity settled common share purchase plan under which the Board of Directors may grant options to purchase common shares to qualified directors, officers, employees and consultants providing on-going services to the Company or any subsidiary of the Company. Prior to January 13, 2014, all options granted had a five year life with vesting periods based on the size of the option grant and at prices equal to the closing price for the day immediately preceding the date the options were granted.

On January 13, 2014, the Board of Directors approved a New Stock Option Plan. Under the terms of the New Stock Option Plan, all options will continue to have a five year life, with vesting periods based on the size of the option grant and at prices equal to the closing price for the day immediately preceding the date the options were granted. The maximum aggregate number of common shares under option at any time pursuant to the New Stock Option Plan will be 10% of the issued and outstanding common shares at the time of the grant.

No options were granted under the previous stock option plan between December 31, 2013, and January 13, 2014. As at December 31, 2014, 7,232,086 options to purchase common shares were available for grant under the New Stock Option plan.

The following table reflects the continuity for the years ended December 31, 2014 and 2013 of options granted under the plans.

	Options		Weighted Average Exercise Price	
	2014	2013	2014	2013
			\$	\$
Outstanding, beginning of year	<b>2,205,000</b>	1,608,000	<b>1.50</b>	2.17
Granted	<b>1,585,000</b>	990,000	<b>0.95</b>	0.67
Options issued resulting from amalgamation with Moss Lake (Note 7)	<b>883,116</b>	-	<b>0.80</b>	-
Exercised	<b>(174,448)</b>	-	<b>0.59</b>	-
Expired	<b>(630,000)</b>	(393,000)	<b>2.37</b>	2.08
Outstanding, end of year	<b>3,868,668</b>	2,205,000	<b>1.01</b>	1.50

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#### 19. COMMON SHARE PURCHASE PLAN (continued)

Range of exercise prices	Number outstanding	Outstanding Options		Exercisable Options	
		Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
less than \$1.00	2,532,824	3.38	0.71	1,574,074	0.70
\$1.00 - \$1.50	975,844	4.11	1.24	550,844	1.25
\$1.51 - \$2.00	25,000	2.04	1.58	25,000	1.58
\$2.01 - \$2.50	70,000	1.12	2.37	70,000	2.37
<u>\$2.51 - \$3.00</u>	<u>265,000</u>	<u>1.14</u>	<u>2.68</u>	<u>230,000</u>	<u>2.68</u>
	<u>3,868,668</u>	<u>3.36</u>	<u>1.01</u>	<u>2,449,918</u>	<u>1.06</u>

The fair value of the options granted was estimated on the date of grant using the Black-Scholes option pricing model. For the years ended December 31, 2014 and 2013, grant date fair value indicated was based on the following factors:

	2014	2013
Weighted average fair value, per option (\$)	0.52	0.36
Weighted average risk-free interest rate (%)	1.60	1.57
Weighted average volatility (%)	64.12	68.89
Expected life (years)	5.00	4.82
Dividend yield (%)	-	-

The estimated fair value of the options granted is expensed over the vesting period. The fair value compensation and contributed surplus relating to stock options was \$517,000 (2013: \$349,000). The average fair value of the common shares during the years ended December 31, 2014 and 2013 was \$0.83 (2013: \$0.60).

#### 20. INCOME TAXES

Deferred tax arising from temporary differences and unused tax losses are summarized as follows:

Deferred tax assets (liabilities)	January 1 2014	Recognized in equity	Recognized in profit and loss	December 31 2014
Unclaimed non-capital losses	\$ 1,375	\$ -	\$ 4	\$ 1,379
ITC credit	70	-	-	70
Unclaimed SR&ED expense	127	-	-	127
Eligible capital property	101	-	(7)	94
Deductible reclamation costs	647	-	16	663
Unclaimed financing costs	32	-	(11)	21
Ontario resource profit tax credit	812	-	101	913
Equity portion of convertible debenture	(272)	-	-	(272)
(Excess of carrying value of mining and exploration properties over tax basis)				
tax basis in excess of carrying value	10,133	-	(2,636)	7,497
Net deferred tax asset	\$ 13,025	\$ -	\$ (2,533)	\$ 10,492

## Wesdome Gold Mines Ltd.

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#### 20. INCOME TAXES (continued)

Deferred tax assets (liabilities)	January 1 2013	Recognized in equity	Recognized in profit and loss	December 31 2013
Unclaimed non-capital losses	\$ 1,370	\$ -	\$ 5	\$ 1,375
ITC credit	70	-	-	70
Unclaimed SR&ED expense	128	-	(1)	127
Eligible capital property	109	-	(8)	101
Deductible reclamation costs	679	-	(32)	647
Unclaimed financing costs	43	-	(11)	32
Ontario resource profit tax credit	662	-	150	812
Equity portion of convertible debenture	(334)	62	-	(272)
(Excess of carrying value of mining and exploration properties over tax basis)				
tax basis in excess of carrying value	12,143	-	(2,010)	10,133
<b>Net deferred tax asset</b>	<b>\$ 14,870</b>	<b>\$ 62</b>	<b>\$ (1,907)</b>	<b>\$ 13,025</b>

The following table reconciles the expected income tax expense/recovery at the combined Federal and Ontario statutory income tax rate 26.5% (2013: 26.5%) to the amounts recognized in the consolidated statements of income.

	2014	2013
Net income (loss) reflected in consolidated statements of income	\$ 14,409	\$ (1,961)
Expected income tax expense (recovery)	\$ 3,818	\$ (520)
Non-deductible expense	27	58
Change in statutory rates	100	-
Stock compensation expense	161	92
Derecognition of deferred tax asset, Quebec non-refundable credits	169	385
Other	(75)	137
Change in tax benefit not recognized	6	82
Impairment charge	(1,673)	1,673
<b>Tax expense</b>	<b>\$ 2,533</b>	<b>\$ 1,907</b>

Non-capital losses available for carry forward to reduce taxable income in future years expire in 2028 and 2029. No tax benefit has been recorded for the deductible temporary differences and federal and provincial non-capital losses, totaling \$4,240,000 and \$6,595,000, of MLGM and Windarra, respectively. Losses of \$2,492,000 will expire between 2015 and 2034.

The Company is subject to income tax laws in various jurisdictions. Tax laws are complex and potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes and deferred tax represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. The Company may be required to change its provision for income taxes or deferred tax balances when the ultimate deductibility of certain items is successfully challenged by taxing authorities or if estimates used in determining the amount of deferred tax asset to recognized change significantly, or when receipt of new information indicates the need for adjustment in the amount of deferred tax to be recognized. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income tax, deferred tax balances and the effective tax rate. Any such changes could materially affect the amounts reported in the consolidated financial statements in the year these changes occur.

## Wesdome Gold Mines Ltd.

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#### 21. EARNINGS PER SHARE AND DIVIDENDS

	2014	2013
Earnings (loss) available to common shareholders	\$ 11,902	\$ (3,708)
Weighted average number of shares,		
Basic	109,808,066	102,892,139
Diluted	110,196,493	102,892,139
Basic earnings (loss) per share	\$ 0.11	\$ (0.04)
Diluted earnings (loss) per share	\$ 0.11	\$ (0.04)
Number of shares excluded from diluted earnings (loss) per share calculation due to anti-dilutive effect:		
Options	1,982,516	2,205,000
Convertible debentures	2,808,400	2,808,400

#### 22. EMPLOYEE BENEFITS

	2014	2013
Salaries and short-term employee benefits	\$ 22,298	\$ 28,989
Post employment benefits	347	510
Share-based payments	516	348
	\$ 23,161	\$ 29,847

#### Allocation of employee benefits

	2014	2013
Salaries and employee benefits expensed to mining and processing expenses	\$ 20,288	\$ 26,924
Salaries and employee benefits capitalized	2,873	2,923
	\$ 23,161	\$ 29,847

#### 23. RELATED PARTY INFORMATION

Key management of the Company are its Board of Directors and members of executive management. Key management personnel remuneration includes the following expenses:

	2014	2013
Salaries and short-term employee benefits	\$ 1,594	\$ 1,704
Post employment benefits	41	62
Share-based payments	197	231
	\$ 1,832	\$ 1,997

In fiscal 2014, the Company paid a total of \$14,690 in directors' fees (2013: \$55,200) and \$159,000 in consulting fees (2013: \$76,908) to companies whose managing partners or presidents are directors or former directors of the Company. These services were incurred in the normal course of operations for attendance at committee and board meetings, general corporate matters, and technology consulting. All services were made on terms equivalent to those that prevail with arm's length transactions.

## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars except for per share amounts)  
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#### 24. FINANCIAL INSTRUMENTS – DISCLOSURES

Financial instruments disclosures requires the Company to provide information about: a) the significance of financial instruments for the Company's financial position and performance and, b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the statement of financial position date, and how the Company manages those risks.

##### Fair Values

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

December 31, 2014	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Cash	15,408	-	15,408	15,408
Trade and other receivables	1,834	-	1,834	1,834
Restricted cash	3,106	-	3,106	3,106
<b>Total assets</b>	<b>20,348</b>	<b>-</b>	<b>20,348</b>	<b>20,348</b>
Accounts payable and accrued liabilities	-	8,061	8,061	8,061
Obligations under capital lease	-	3,720	3,720	3,720
Long-term debt	-	6,262	6,262	6,670
<b>Total liabilities</b>	<b>-</b>	<b>18,043</b>	<b>18,043</b>	<b>18,451</b>
December 31, 2013	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Cash	5,651	-	5,651	5,651
Trade and other receivables	1,982	-	1,982	1,982
Restricted cash	2,994	-	2,994	2,994
<b>Total assets</b>	<b>10,627</b>	<b>-</b>	<b>10,627</b>	<b>10,627</b>
Accounts payable and accrued liabilities	-	9,415	9,415	9,415
Obligations under capital lease	-	906	906	2,720
Long-term debt	-	5,996	5,996	5,968
<b>Total liabilities</b>	<b>-</b>	<b>16,317</b>	<b>16,317</b>	<b>18,103</b>

The Company does not hold any Available-for-sale or Held-to-maturity instruments.

The fair value of cash and cash equivalents, receivables, and payables approximate their carrying amounts due to their short-term nature. The fair value of obligations under finance leases approximates their carrying values as the obligations are entered into at market interest rates. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

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## Wesdome Gold Mines Ltd.

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#### 24. FINANCIAL INSTRUMENTS – DISCLOSURES (continued)

The Company's convertible debentures are valued at fair values using Level 1 inputs. The Company does not have any Level 2 or 3 inputs.

##### Financial Risk Management

The Company is exposed to a number of different risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include: (1) market risks relating to commodity prices, foreign currency risk and interest rate risk; (2) liquidity risk; and, (3) credit risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and establishes and monitors risk management policies to: identify and analyze the risks faced by the Company; to set appropriate risk limits and controls; and to monitor risks and adherence to market conditions and the Company's activities.

##### 2) Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets and liabilities include commodity price risk, foreign currency exchange risk and interest rate risk.

##### (c) Commodity price risk

The Company's financial performance is closely linked to the price of gold which is impacted by world economic events that dictate the levels of supply and demand. The Company had no gold price hedge contracts in place as at or during the years ended December 31, 2014 and 2013.

##### (d) Foreign currency exchange risk

The Company's revenue is exposed to changes in foreign exchange rates as the Company's primary product, gold, is priced in U.S. dollars. The Company had no forward exchange rate contracts in place and no foreign currency holdings as at or during the years ended December 31, 2014 and 2013.

##### (c) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash has in the past included highly liquid investments that earn interest at market rates and interest paid on the Company's convertible debentures is based on a fixed interest rate. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held, if any.

##### 2) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company believes it has access to sufficient capital through internally generated cash flows and equity and debt capital markets. Senior management is also actively involved in the review and approval of planned expenditures.

The following table shows the timing of cash outflows relating to payables and accruals, finance leases and convertible debentures:

## Wesdome Gold Mines Ltd.

### Notes to the Consolidated Financial Statements

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#### 24. FINANCIAL INSTRUMENTS – DISCLOSURES (continued)

##### December 31, 2014

(in thousands)	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables and accruals	\$ 8,061	-	-	-
Obligations under finance leases	\$ 1,219	\$ 1,035	\$ 1,466	-
Convertible debentures	\$ 491	\$ 7,675	-	-

##### December 31, 2013

(in thousands)	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables and accruals	\$ 9,415	-	-	-
Obligations under finance leases	\$ 524	\$ 295	\$ 110	-
Convertible debentures	\$ 491	\$ 983	\$ 7,185	-

#### 3) Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company minimizes its credit risk by selling its gold exclusively to financial institutions with forty-eight hour terms of settlement. The Company's receivables consist primarily of government refunds and credits. The Company estimates its maximum exposure to be the carrying value of cash, receivables and funds held against standby letters of credit.

The Company manages credit risk by maintaining bank accounts with Schedule 1 Canadian banks and investing only in Guaranteed Investment Certificates. The Company's cash is not subject to any external limitations.

#### Capital Risk Management

The Company's objectives of capital management are intended to safeguard its ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital of the Company consists of items included in equity net of cash and cash equivalents:

	December 31 2014	December 31 2013
Total equity	\$ 96,063	\$ 84,034
Cash and cash equivalents	(15,408)	(5,651)
Capital	\$ 80,655	\$ 78,383

The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets. In order to maintain or adjust its capital structure, the Company may issue new shares, issue new debt or issue new debt to replace existing debt with different characteristics.

There is no restriction on the ability of the Company to pay dividends other than cash flow considerations. Dividend payments in the future will depend on the Company's ability to generate earnings.

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**Wesdome Gold Mines Ltd.**  
**Notes to the Consolidated Financial Statements**

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**24. FINANCIAL INSTRUMENTS – DISCLOSURES (continued)**

To effectively manage its capital investments, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has sufficient liquidity to meet its operating and growth objectives.

The Company expects its current capital resources and projected cash flow from continuing operations to support further exploration and development of its mineral properties.

Neither the Company nor its subsidiaries are subject to any externally imposed capital requirements such as loan covenants or capital ratios.

There were no changes to the Company's approach to capital management during the current period.

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**25. SUPPLEMENTAL CASH FLOW INFORMATION**

	2014	2013
<b>Net changes in non-cash working capital</b>		
Operating activities		
Receivables	\$ (255)	\$ 1,819
Payables and accruals	(1,083)	(3,682)
Gold inventory	6,267	6,143
Supplies and other	(96)	1,412
	<b>\$ 4,833</b>	<b>\$ 5,692</b>
Investing activities		
Receivables	\$ 403	\$ 497
Payables and accruals	(271)	(921)
Supplies and other	(24)	353
	<b>\$ 108</b>	<b>\$ (71)</b>
<b>Non-cash transactions:</b>		
Change to decommissioning provisions (Note 17)	\$ 13	\$ 202
Mining property assets acquired under finance leases	\$ 3,777	\$ 280
Amalgamation of Moss Lake (Note 7)	\$ 4,117	\$ -
Windarra acquisition (Note 8)	\$ -	\$ 2,811

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**26. INDEMNITIES**

The Company has agreed to indemnify its directors and officers, and certain of its employees in accordance with the Company's by-laws. The Company maintains insurance policies that may provide coverage against certain claims.

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**27. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified, where necessary, to conform with the current year's presentation.