



WESDOME GOLD MINES LTD.

CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2017

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

(Unaudited, expressed in thousands of Canadian dollars)

	<u>Notes</u>	<u>As of March 31, 2017</u>	<u>As of December 31, 2016</u>
<b>Assets</b>			
Current			
Cash and cash equivalents		\$ 29,593	\$ 26,760
Receivables and prepaids	3	3,544	2,782
Mining tax receivable		-	900
Inventories	4	<u>8,296</u>	<u>5,929</u>
Total current assets		41,433	36,371
Restricted funds	9(b)	-	6,920
Deferred income tax assets		6,569	7,009
Mining properties, plant and equipment	5	76,508	74,241
Exploration properties	6	<u>44,161</u>	<u>38,373</u>
Total assets		<u>\$ 168,671</u>	<u>\$ 162,914</u>
<b>Liabilities</b>			
Current			
Payables and accruals		\$ 13,660	\$ 11,831
Current portion of obligations under finance leases	7	2,344	2,079
Convertible debentures	8	<u>4,915</u>	<u>6,900</u>
Total current liabilities		20,919	20,810
Obligations under finance leases	7	4,516	4,223
Decommissioning provisions	9	<u>10,531</u>	<u>10,480</u>
Total liabilities		<u>35,966</u>	<u>35,513</u>
<b>Equity</b>			
Equity attributable to owners of the Company			
Capital stock	10	160,955	156,402
Contributed surplus		2,216	2,173
Equity component of convertible debentures	8	654	932
Deficit		<u>(31,120)</u>	<u>(32,106)</u>
Total equity attributable to owners of the Company		<u>132,705</u>	<u>127,401</u>
Total liabilities and equity		<u>\$ 168,671</u>	<u>\$ 162,914</u>

On behalf of the Board:

/s/ Duncan Middlemiss  
Director

/s/ Bill Washington  
Director



Wesdome Gold Mines Ltd.

See accompanying notes to the condensed interim consolidated financial statements.

**Wesdome Gold Mines Ltd.**  
**Condensed Interim Consolidated Statements of Income (Loss) and**  
**Comprehensive Income (Loss)**

(Unaudited, expressed in thousands of Canadian dollars except for per share amounts)

	<u>Notes</u>	<u>Three Months Ended</u> <u>March 31,</u>	
		<u>2017</u>	<u>2016</u>
<b>Revenues from gold sales</b>		<b>\$ 20,100</b>	<b>\$ 13,284</b>
<b>Cost of sales</b>	13	<b>16,118</b>	<b>15,839</b>
<b>Gross profit (loss)</b>		<b><u>3,982</u></b>	<b><u>(2,555)</u></b>
<b>Other expenses</b>			
Corporate and general		1,431	904
Share based payments	11	864	281
Kiena care and maintenance		<u>221</u>	<u>446</u>
		<b><u>2,516</u></b>	<b><u>1,631</u></b>
<b>Operating income (loss)</b>		<b>1,466</b>	<b>(4,186)</b>
Interest on long-term debt	14	<b>(260)</b>	<b>(249)</b>
Accretion of decommissioning provisions	9	<b>(78)</b>	<b>(54)</b>
Change in decommissioning provisions	9	<b>(94)</b>	<b>104</b>
Interest and other		<u>101</u>	<u>(80)</u>
<b>Income (loss) before income tax</b>		<b><u>1,135</u></b>	<b><u>(4,465)</u></b>
Income tax (expense) recovery			
Current		-	-
Deferred		<u>(440)</u>	<u>1,165</u>
		<b><u>(440)</u></b>	<b><u>1,165</u></b>
<b>Net income (loss) and total comprehensive income (loss)</b>		<b><u>\$ 695</u></b>	<b><u>\$ (3,300)</u></b>
<b>Earnings (loss) per share</b>			
Basic	12	<b>\$ 0.01</b>	<b>\$ (0.03)</b>
Diluted	12	<b>\$ 0.01</b>	<b>\$ (0.03)</b>
<b>Weighted average number of common shares (000s)</b>			
Basic	12	<b>130,658</b>	118,312
Diluted	12	<b>133,736</b>	118,312



Wesdome Gold Mines Ltd.

See accompanying notes to the condensed interim consolidated financial statements.

**Wesdome Gold Mines Ltd.**  
**Condensed Interim Consolidated Statements of Total Equity**

(Unaudited, expressed in thousands of Canadian dollars)

	<b>Notes</b>	<b>Capital Stock</b>	<b>Contributed Surplus</b>	<b>Equity Component of Convertible Debentures</b>	<b>Retained Earnings (Deficit)</b>	<b>Total Equity</b>
Balance, December 31, 2015		\$ 137,126	\$ 1,729	\$ 932	\$ (40,289)	\$ 99,498
Net loss for the period ended March 31, 2016		-	-	-	(3,300)	(3,300)
Exercise of options		545	-	-	-	545
Value attributed to options exercised		331	(331)	-	-	-
Value attributed to options expired		-	(301)	-	301	-
Share based payments	11	-	281	-	-	281
Balance, March 31, 2016		138,002	1,378	932	(43,288)	97,024
Net income for the period ended December 31, 2016		-	-	-	11,086	11,086
Exercise of options		811	-	-	-	811
Value attributed to options exercised		562	(562)	-	-	-
Value attributed to options expired		-	(96)	-	96	-
Share based payments		-	1,453	-	-	1,453
Shares issued to acquire Moss Lake area properties	6(i)	750	-	-	-	750
Shares issued under prospectus	10(i)	17,267	-	-	-	17,267
Share issue cost, net of tax	10(i)	(990)	-	-	-	(990)
Balance, December 31, 2016		156,402	2,173	932	(32,106)	127,401
Net income for the period ended March 31, 2017		-	-	-	695	695
Conversion of convertible debentures	8	2,075	-	-	-	2,075
Equity component of convertible debentures	8	-	-	(278)	278	-
Exercise of options	11	1,670	-	-	-	1,670
Value attributed to options exercised		808	(808)	-	-	-
Value attributed to options expired		-	(13)	-	13	-
Share based payments	11	-	864	-	-	864
<b>Balance, March 31, 2017</b>		<b>\$ 160,955</b>	<b>\$ 2,216</b>	<b>\$ 654</b>	<b>\$ (31,120)</b>	<b>\$ 132,705</b>



Wesdome Gold Mines Ltd.

See accompanying notes to the condensed interim consolidated financial statements.

# Wesdome Gold Mines Ltd.

## Condensed Interim Consolidated Statements of Cash Flows

(Unaudited, expressed in thousands of Canadian dollars)

	<u>Notes</u>	Three Months Ended	
		March 31,	
		2017	2016
<b>Operating activities</b>			
Net income (loss)		\$ 695	\$ (3,300)
Depletion and depreciation		2,145	1,252
Mining tax refund		900	-
Share based payments	11	864	281
Decommissioning provisions	9	172	(50)
Income tax expense (recovery)		440	(1,165)
Interest paid		86	47
Accretion of discount on convertible debentures	14	90	80
Loss on disposal of equipment		-	69
		5,392	(2,786)
Net changes in non-cash working capital	15	(1,074)	725
Funds provided (used) by operating activities		4,318	(2,061)
<b>Financing activities</b>			
Exercise of options	11	1,670	545
Repayment of obligations under finance leases		(645)	(403)
Interest paid		(86)	(47)
Funds provided by financing activities		939	95
<b>Investing activities</b>			
Additions to mining properties		(3,803)	(3,952)
Additions to exploration properties		(5,788)	(452)
Funds released from (held against) standby letters of credit	9(b)	6,920	(1,294)
Proceeds on sale of equipment		-	37
Net changes in non-cash working capital	15	247	303
Funds used by investing activities		(2,424)	(5,358)
Increase (decrease) in cash and cash equivalents		2,833	(7,324)
Cash and cash equivalents, beginning of period		26,760	15,424
Cash and cash equivalents, end of period		\$ 29,593	\$ 8,100
Cash and cash equivalents consist of:			
Cash		\$ 12,703	\$ 7,837
Term deposits		16,890	263
		\$ 29,593	\$ 8,100



Wesdome Gold Mines Ltd.

See accompanying notes to the condensed interim consolidated financial statements.

**Wesdome Gold Mines Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Three Months Ended March 31, 2017**

(Unaudited, tabular currency amounts expressed in thousands of Canadian dollars except for per share amounts)

**1. DESCRIPTION OF BUSINESS**

Wesdome Gold Mines Ltd. (“Wesdome” 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, together called the “Eagle River Mine Complex”, the Moss Lake property in Thunder Bay, Ontario, and the Kiena Mining and Milling Complex (“Kiena Mine 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, Ontario, Canada, M5C 1B5.

**2. BASIS OF PRESENTATION**

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – “*Interim Financial Reporting*” (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with IFRS have been condensed or omitted and these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016.

The accounting policies applied in preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company’s consolidated financial statements for the year ended December 31, 2016.

The preparation of condensed interim consolidated financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The interim results are not necessarily indicative of results for a full year. The critical judgments and estimates applied in the preparation of the Company’s condensed interim consolidated financial statements are consistent with those applied and disclosed in Note 3 to the Company’s consolidated financial statements for the year ended December 31, 2016.

These condensed interim consolidated financial statements are presented in Canadian dollars (“Cdn \$”), which is also the functional currency of the Company.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 3, 2017.

**3. RECEIVABLES AND PREPAIDS**

	<b>March 31, 2017</b>	December 31, 2016
Sales tax	\$ 2,760	\$ 2,006
Prepays, deposits and other	784	776
	<b><u>\$ 3,544</u></b>	<b><u>\$ 2,782</u></b>

#### 4. INVENTORIES

	<u>Note</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Gold in process	4(i)	\$ 4,653	\$ 1,708
Supplies		1,849	1,712
Ore stockpiles	4(ii)	1,794	2,509
		<u>\$ 8,296</u>	<u>\$ 5,929</u>

- (i) Gold in process inventory consists of both gold doré and gold in process that are awaiting the completion of the final refining process into saleable gold, expected within one month of the financial statement date.
- (ii) Ore stockpiles include Mishi stockpile carried at net realizable value of \$141,000 (2016: \$393,000) after a writedown of \$111,000 (2016: \$1,585,000).

Mine operating costs are comprised of mining and processing costs plus depletion and depreciation, and represent the cost of inventories recognized for the three month periods ended March 31, 2017 and 2016.

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

	<u>Note</u>	<u>Eagle River Mine Complex</u>			<u>Kiena Mine Complex</u>			<u>Total</u>
		<u>Mining Properties</u>	<u>Plant and Equipment</u>	<u>Subtotal</u>	<u>Mining Properties</u>	<u>Plant and Equipment</u>	<u>Subtotal</u>	
<b>Gross Carrying Amount</b>								
Balance, December 31, 2015		83,550	14,209	97,759	35,201	1,205	36,406	134,165
Additions		17,500	4,149	21,649	-	45	45	21,694
Decommissioning asset	9	2,542	-	2,542	-	-	-	2,542
Disposals		-	(953)	(953)	-	(561)	(561)	(1,514)
Balance, December 31, 2016		103,592	17,405	120,997	35,201	689	35,890	156,887
Additions		3,762	1,242	5,004	-	-	-	5,004
Decommissioning adjustment	9	(121)	-	(121)	-	-	-	(121)
<b>Balance, March 31, 2017</b>		<b><u>\$107,233</u></b>	<b><u>\$ 18,647</u></b>	<b><u>\$125,880</u></b>	<b><u>\$ 35,201</u></b>	<b><u>\$ 689</u></b>	<b><u>\$ 35,890</u></b>	<b><u>\$161,770</u></b>
<b>Accumulated Depletion and Write-downs</b>								
Balance, December 31, 2015		(34,384)	(6,461)	(40,845)	(35,201)	(771)	(35,972)	(76,817)
Depletion		(5,408)	(1,557)	(6,965)	-	(19)	(19)	(6,984)
Accumulated depletion on disposals		-	860	860	-	295	295	1,155
Balance, December 31, 2016		(39,792)	(7,158)	(46,950)	(35,201)	(495)	(35,696)	(82,646)
Depletion		(2,169)	(443)	(2,612)	-	(4)	(4)	(2,616)
<b>Balance, March 31, 2017</b>		<b><u>\$ (41,961)</u></b>	<b><u>\$ (7,601)</u></b>	<b><u>\$ (49,562)</u></b>	<b><u>\$ (35,201)</u></b>	<b><u>\$ (499)</u></b>	<b><u>\$ (35,700)</u></b>	<b><u>\$ (85,262)</u></b>
<b>Net carrying amount,</b>								
December 31, 2016		\$ 63,800	\$ 10,247	\$ 74,047	\$ -	\$ 194	\$ 194	\$ 74,241
<b>March 31, 2017</b>		<b><u>\$ 65,272</u></b>	<b><u>\$ 11,046</u></b>	<b><u>\$ 76,318</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 190</u></b>	<b><u>\$ 190</u></b>	<b><u>\$ 76,508</u></b>

##### (i) 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.

##### (ii) Kiena Mine Complex

The Kiena Mine Complex consists of the Kiena Mine concession, Kiena Mill, related infrastructure and equipment and land position in the Township of Dubuisson, Quebec.



## 6. EXPLORATION PROPERTIES

	<u>Notes</u>	<u>Kiena Group</u>	<u>Moss Lake Group</u>	<u>Mishi/Eagle Group</u>	<u>Total</u>
Balance, December 31, 2015		25,635	3,626	5,148	34,409
Acquisition	6(i)	-	1,314	-	1,314
Disposal	6(ii)	(7,000)	-	-	(7,000)
Exploration expenditures		<u>5,082</u>	<u>764</u>	<u>3,804</u>	<u>9,650</u>
Balance, December 31, 2016		23,717	5,704	8,952	38,373
Exploration expenditures		<u>3,061</u>	<u>1,325</u>	<u>1,402</u>	<u>5,788</u>
<b>Balance, March 31, 2017</b>		<b><u>\$ 26,778</u></b>	<b><u>\$ 7,029</u></b>	<b><u>\$ 10,354</u></b>	<b><u>\$ 44,161</u></b>

### (i) Acquisition

In May, 2016, the Company acquired from Canoe Mining Ventures Corp. (“Canoe Mining”) a 100% interest in the Coldstream and Coldstream East properties (“Coldstream”) and the Hamlin-Deaty Creek Property (“Hamlin”), which are near the Company’s Moss Lake properties located 100 kilometres due west of Thunder Bay, Ontario.

The Company paid or issued (as applicable) to Canoe Mining total consideration of \$1,250,000 as follows:

- (a) with respect to the purchase of the Coldstream portion of the properties:
  - (i) an aggregate of \$400,000 cash, and
  - (ii) 454,545 fully paid and non-assessable common shares valued at \$1.65 per common share in the capital of Wesdome for a total of \$750,000 non-cash consideration; and
- (b) with respect to the purchase of the Hamlin portion of the properties, an aggregate of \$100,000 cash.

The Company incurred legal and other costs of \$64,000 related to this acquisition.

### (ii) Disposal

In June, 2016, the Company sold certain mining claims, including the Joubi and Dubuisson Ouest properties and a portion of the Mine École property, in Val d’Or, Quebec, to Agnico Eagle Mines Limited (“Agnico Eagle”) for \$7,000,000. The transaction includes surface rights, drill core, resource and intellectual data, infrastructure and equipment, where applicable. As part of the transaction, Agnico Eagle granted Wesdome a 2% Net Smelter Royalty (“NSR”) on the Mine École property and a 3% NSR on the Joubi property.

### **The Kiena Group Properties (previously termed “The Wesdome Group Properties”)**

The Kiena 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 Kierna 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.

#### *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 Group Properties**

The Moss Lake Group Properties include Moss Lake, Coldstream and Hamlin properties which are located 100 kilometres due west of Thunder Bay, Ontario.

#### *Moss Lake*

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 \$1,000,000.

#### *Coldstream and Hamlin*

The Coldstream and Hamlin properties flank the Moss Lake property and include the former producing Coldstream Mine and East Coldstream gold deposit and their potential untested extensions. This acquisition also eliminates a historically inconvenient property boundary immediately along strike of the Moss Lake gold deposit. Some of these properties are subject to NSR's of up to 3%.

### **The Mishi/Eagle Group Properties**

The Mishi/Eagle 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 8).

#### *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.

#### *Pukaskwa properties*

The 100% owned Pukaskwa exploration property is located 20 kilometres west of the Eagle River Mill and hosts several promising gold occurrences.

## 7. 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:

	<b>March 31, 2017</b>	December 31, 2016
Not later than one year	\$ 2,538	\$ 2,268
Later than one year and not later than five years	<u>4,704</u>	<u>4,428</u>
Total minimum lease payments	7,242	6,696
Less: Interest portion at the weighted average interest rate of 2.69% (2015: 4.01%)	<u>382</u>	<u>394</u>
Total obligations under finance leases, secured by equipment	6,860	6,302
Less: Current portion	<u>2,344</u>	<u>2,079</u>
Long-term portion	<u>\$ 4,516</u>	<u>\$ 4,223</u>

The cost of equipment under finance leases at March 31, 2017 is \$10,784,000 (2016: \$9,883,000) with related accumulated depreciation of \$3,254,000 (2016: \$1,944,000). These assets are included in plant and equipment.

## 8. CONVERTIBLE DEBENTURES

	<b>March 31, 2017</b>	December 31, 2016
<b>Liability component</b>		
Balance, beginning of period/year	\$ 6,900	\$ 6,562
Conversion in the period/year	(2,075)	-
Accretion for the period/year	<u>90</u>	<u>338</u>
Balance, end of period/year	<u>\$ 4,915</u>	<u>\$ 6,900</u>
<b>Equity component</b>		
Balance, beginning of period/year	\$ 932	\$ 932
Conversion in the period/year	<u>(278)</u>	<u>-</u>
Balance, end of period/year	<u>\$ 654</u>	<u>\$ 932</u>

The convertible debentures have a face value of \$4,930,000 as at March 31, 2017 (2016: \$7,021,000), bearing interest at 7% and maturing on May 24, 2017, with conversion at \$2.50 per common share of the Company. The liability component of these debentures was calculated, at the date 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 date the debentures were issued. The liability component was recorded at amortized cost and is accreted to the principal amount over the term of the convertible debentures by charges to interest expense using an effective interest rate of 12.50%. The initial carrying value of the conversion option of \$932,000, which is net of issue costs (\$57,000) and deferred income tax (\$122,000) has been recorded as a separate component in total equity.

During the three month period ended March 31, 2017, \$2,091,000 of the convertible debentures, with an accreted value of \$2,075,000, were converted at the option of the debenture holders into 836,400 common shares of the Company. Accordingly, \$278,000 of the equity component was transferred to retained earnings.

## 9. DECOMMISSIONING PROVISIONS

The Company is committed to a program of environmental protection at its mines, development projects and exploration sites which are subject to various federal and provincial laws and regulations. The Eagle River and Mishi ores and waste rocks are not acid generating which minimizes the environmental risks of mining. The Magnacon Mine, which is located next to the Eagle River Mill, and the Kiena Mine Complex are both under care and maintenance.

The Company has recorded the decommissioning costs at its active and dormant mine sites on the basis of management's best estimates of future costs to settle the obligations on the closing date, based on information available on the reporting date. Although the ultimate amount of decommissioning costs is uncertain, the Company estimated its future decommissioning costs for the Eagle River Mine, Mishi Mine, Magnacon Mine and the Eagle River Mill (the "Eagle River Complex") to be about \$4,600,000 which has been discounted over a period of five years using a discount rate of 3.2%; and the Kiena Mine Complex complex to be about \$7,200,000 which has been discounted over a period of three years using a discount rate of 2.9%. The Company has provided \$6,920,000 (2016: \$6,920,000) standby letters of credit to be held against these future environmental obligations.

### a) Change in decommissioning provisions

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

	<u>Note</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Balance, beginning of period/year		\$ 10,480	\$ 7,958
Accretion expense for the period/year		78	224
Change in provisions		94	(244)
Changes to estimates			
Eagle River Complex	9(a)(i)	<u>(121)</u>	<u>2,542</u>
		<u>\$ 10,531</u>	<u>\$ 10,480</u>

- (i) In late 2016, the Company commissioned a third party consultant to revise the closure plans for the Eagle River Complex. These revised plans, when completed, will be submitted to the Ontario Ministry of Northern Development and Mines for their review and approval at which time additional standby letters of credit may be required. The Company has received preliminary revised estimates totalling \$4,554,000 in place of the previous estimated total of \$1,547,000. The additional \$3,007,000 decommissioning costs have been discounted to \$2,542,000 with a corresponding increase in mining assets as at December 31, 2016, using a risk-adjusted rate of 3.2% over 5 years. The Eagle River estimates have been adjusted for an additional year due to an increase in reserves resulting in \$121,000 decrease to the reclamation provision and corresponding decommissioning asset.

### b) Standby letters of credit and restricted funds

The Company has issued letters of credit to the Ontario and Québec governments as guarantees for the settlement of the decommissioning provisions underlying closure plans submitted for the Eagle River and Kiena Mine Complexes, respectively. These letters of credit were secured by cash as at December 31, 2016. As at March 31, 2017, the Company has available a credit facility of up to \$15,000,000 for the issuance of letters of credit as guarantees for the settlement of decommissioning provisions. This credit facility has an annual fee of 1% on issued amounts and eliminates the requirement to provide cash security for the letters of credit.

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Standby letters of credit:		
Eagle River Complex	\$ 1,546	\$ -
Kiena Mine Complex	<u>5,374</u>	<u>-</u>
	<u>\$ 6,920</u>	<u>\$ -</u>
Restricted funds:		
Eagle River Complex	\$ -	\$ 1,546
Kiena Mine Complex	<u>-</u>	<u>5,374</u>
	<u>\$ -</u>	<u>\$ 6,920</u>

## 10. CAPITAL STOCK

### Authorized:

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

	<u>Notes</u>	<u>Shares</u>	<u>Amount</u>
<b>Issued:</b>			
Balance, December 31, 2015		118,053,015	137,126
Prospectus issuance, net of issue cost and tax	10(i)	10,465,000	16,277
Acquisition of Coldstream and Hamlin properties	6(i)	454,545	750
Exercise of options		<u>1,337,516</u>	<u>2,249</u>
Balance, December 31, 2016		130,310,076	\$ 156,402
Conversion of convertible debentures	8	<u>836,400</u>	<u>2,075</u>
Exercise of options		<u>1,420,000</u>	<u>2,478</u>
<b>Balance, March 31, 2017</b>		<u><b>132,566,476</b></u>	<u><b>\$ 160,955</b></u>

### (i) Prospectus

On April 29, 2016, the Company closed a public offering of 10,465,000 common shares at a price of \$1.65 per common share, for total gross proceeds of approximately \$17,267,000, including the exercise in full of the over-allotment option by the underwriters. The Company paid underwriting commissions of approximately \$863,000 and legal and regulatory costs of \$387,000 for net proceeds of \$16,017,000. The deferred tax recovery of \$260,000 on total issue costs of \$1,250,000 was included in deferred tax assets.

## 11. COMMON SHARE PURCHASE PLAN

The Company has an equity settled common share purchase plan (the "Stock Option 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.

Under the terms of the Stock Option Plan, all options will continue to have a five year life, with vesting immediately or over a period of two years, and at prices equal to the closing price on 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 Stock Option Plan is 10% of the issued and outstanding common shares at the time of the grant. As at March 31, 2017, 7,864,959 options to purchase common shares were available for grant under the Stock Option Plan.

The following table reflects the continuity of options granted for the three months ended March 31, 2017, and for the year ended December 31, 2016.

	<u>March 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>
		\$		\$
Outstanding, beginning of period/year	<b>6,561,688</b>	<b>1.52</b>	4,980,178	1.07
Granted	<b>265,000</b>	<b>3.62</b>	3,235,000	2.08
Exercised	<b>(1,420,000)</b>	<b>1.18</b>	(1,337,516)	1.02
Expired	<b>(15,000)</b>	<b>1.74</b>	(275,974)	2.52
Forfeited	<u>-</u>	<u>-</u>	<u>(40,000)</u>	1.03
Outstanding, end of period/year	<u><b>5,391,688</b></u>	<b>1.71</b>	<u>6,561,688</u>	1.52

	<u>Outstanding Options</u>			<u>Exercisable Options</u>	
<u>Range of exercise prices</u>	<u>Number outstanding</u>	<u>Weighted average remaining life (years)</u>	<u>Weighted average exercise price \$</u>	<u>Number exercisable</u>	<u>Weighted average exercise price \$</u>
less than \$1.00	991,688	1.59	0.72	901,688	0.71
\$1.00 - \$1.50	1,325,000	3.42	1.21	881,250	1.20
\$1.51 - \$2.00	1,265,000	4.29	1.69	365,000	1.75
\$2.01 - \$2.50	1,545,000	4.72	2.46	160,000	2.46
\$2.51 - \$3.00	-	-	-	-	-
\$3.01 - \$4.00	<u>265,000</u>	4.92	3.62	<u>115,000</u>	3.62
	<u><b>5,391,688</b></u>	3.73	1.71	<u><b>2,422,938</b></u>	1.30

The weighted average share price on the date of exercise of stock options in 2017 was \$1.18 (2016: \$1.96). The fair value of the options granted was estimated on the date of grant using the Black-Scholes option pricing model. For the three months ended March 31, 2017, and for the year ended December 31, 2016, grant date fair value estimates were based on the following variables:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Weighted average fair value, per option (\$)	<b>1.54</b>	1.01
Weighted average risk-free interest rate (%)	<b>0.77</b>	0.76
Weighted average volatility (%)	<b>63</b>	69
Expected life (years)	<b>3</b>	4.6

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 \$864,000 for the three month period ended March 31, 2017 (2016: \$281,000). The average fair value of the options granted during the three month period ended March 31, 2017, was \$3.28 (2016: \$1.48).

## 12. EARNINGS (LOSS) PER SHARE

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Earnings (loss) available to common shareholders	<b>\$ 695</b>	\$ (3,300)
Weighted average number of shares, basic (000s)	<b>130,658</b>	118,312
Dilutive securities – options and debentures (000s)	<b>3,078</b>	-
Weighted average number of shares, diluted (000s)	<b><u>133,736</u></b>	<u>118,312</u>
Basic earnings (loss) per share	<b>\$ 0.01</b>	\$ (0.03)
Diluted earnings (loss) per share	<b>\$ 0.01</b>	\$ (0.03)
Number of shares excluded from diluted earnings per share calculation due to anti-dilutive effect: Options (000s)	<b>265</b>	-

## 13. COST OF SALES

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Mining and processing	<b>\$ 13,545</b>	\$ 14,389
Depletion and depreciation	<b>2,145</b>	1,252
Royalties	<b>428</b>	198
	<b><u>\$ 16,118</u></b>	<u>\$ 15,839</u>

Cost of sales represents the cost of inventories recognized for the three month periods ended March 31, 2017 and 2016.

## 14. INTEREST ON LONG-TERM DEBT

	<b>Notes</b>	<b>Three Months Ended March 31,</b>	
		<b>2017</b>	<b>2016</b>
Interest on convertible debentures	8	<b>\$ 114</b>	\$ 123
Accretion of discount on convertible debentures	8	<b>90</b>	80
Interest on obligations under finance leases	7	<b>56</b>	46
		<b><u>\$ 260</u></b>	<u>\$ 249</u>

## 15. SUPPLEMENTAL CASH FLOW INFORMATION

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Net changes in non-cash working capital</b>		
Operating activities		
Receivables and prepaids	<b>\$ (670)</b>	\$ 981
Payables and accruals	<b>1,463</b>	426
Gold in process and ore stockpiles	<b>(1,757)</b>	(706)
Supplies and other	<b>(110)</b>	24
	<b><u>\$ (1,074)</u></b>	<u>\$ 725</u>

Investing activities		
Receivables and prepaids	\$ (92)	\$ 190
Payables and accruals	366	107
Supplies and other	(27)	6
	<u>\$ 247</u>	<u>\$ 303</u>

**Non-cash transactions:**

Mining property assets acquired under finance leases	<u>\$ 1,203</u>	<u>\$ 1,140</u>
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**16. FINANCIAL INSTRUMENTS**

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:

<b>March 31, 2017</b>	<b>Loans and Receivables</b>	<b>Other Financial Liabilities</b>	<b>Total Carrying Amount</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 29,593	\$ -	\$ 29,593	\$ 29,593
Receivables and prepaids	<u>3,544</u>	-	<u>3,544</u>	<u>3,544</u>
Total assets	<u>\$ 33,137</u>	<u>\$ -</u>	<u>\$ 33,137</u>	<u>\$ 33,137</u>
Payables and accruals	\$ -	\$ 13,660	\$ 13,660	\$ 13,660
Obligations under capital lease	-	6,860	6,860	6,860
Convertible debentures	-	<u>4,915</u>	<u>4,915</u>	<u>7,922</u>
Total liabilities	<u>\$ -</u>	<u>\$ 25,435</u>	<u>\$ 25,435</u>	<u>\$ 28,442</u>
<b>December 31, 2016</b>	<b>Loans and Receivables</b>	<b>Other Financial Liabilities</b>	<b>Total Carrying Amount</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 26,760	\$ -	\$ 26,760	\$ 26,760
Receivables and prepaids	2,782	-	2,782	2,782
Restricted funds	<u>6,920</u>	-	<u>6,920</u>	<u>6,920</u>
Total assets	<u>\$ 36,462</u>	<u>\$ -</u>	<u>\$ 36,462</u>	<u>\$ 36,462</u>
Payables and accruals	\$ -	\$ 11,831	\$ 11,831	\$ 11,831
Obligations under capital lease	-	6,302	6,302	6,302
Convertible debentures	-	<u>6,900</u>	<u>6,900</u>	<u>7,723</u>
Total liabilities	<u>\$ -</u>	<u>\$ 25,033</u>	<u>\$ 25,033</u>	<u>\$ 25,856</u>

The fair value of cash and cash equivalents, receivables, restricted funds and payables approximate their carrying amounts due to their short-term nature. The fair value of obligations under finance leases approximates their carrying values due to current market rates and consistency of credit spread. 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).



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 and Capital Risk Management**

As at and during the period ended March 31 2017, the Company's financial risk exposure and its financial risk management practices were consistent with those disclosed and applied in Note 19 to the Company's consolidated financial statements for the year ended December 31, 2016.

## **17. QUEBEC EXPLORATION CREDITS CONTINGENCY**

The Company was reassessed by Revenu Québec in 2011 for exploration credits claimed in 2005 and 2006 relating to the Kiena exploration properties. The Company repaid \$5,220,000 including interest relating to these reassessments in 2011 in order to avoid further interest in the event of an unsuccessful appeal. The Company launched appeals of these reassessments and was successful for both years. In April 2016, Revenu Québec appealed the decisions of the Court of Quebec, however it was obligated to repay 50% of the reassessed amount which was received in July 2016.

The amount repaid in 2011 was included in the capitalized costs which were subsequently reclassified as mining properties in 2008 when Kiena went into production. The Kiena mining assets were subsequently written off after being placed on care and maintenance in 2013. Accordingly, the Company recorded the \$2,620,000 in the statement of income for the year ended December 31, 2016.

The Company will recognize as income the remaining \$2,600,000 balance pending an appeal favourable to the Company. In the unlikely event that Revenu Québec is successful upon appeal, then the Company will have to repay the \$2,620,000 received in July 2016.