



WESDOME GOLD MINES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED
MARCH 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

First Quarter Report March 31, 2012

This Management's Discussion and Analysis ("MD & A") dated May 10, 2012 should be read in conjunction with Wesdome Gold Mines Ltd.'s ("Wesdome" or "the Company") unaudited interim consolidated financial statements for the three months ended March 31, 2012, 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 current and previous years' Annual Information Forms ("AIF") and other corporate information, can be found at www.wesdome.com or 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 1305, Toronto, Ontario, Canada.

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

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.

OVERALL PERFORMANCE

The Company owns and operates the Eagle River mine complex in Wawa, Ontario and the Kiena mine complex in Val-d'Or, Quebec. In the first quarter, 2012, the Mishi Mine in Wawa commenced commercial production. The Eagle River mine commenced commercial production January 1, 1996 and the Kiena mine on August 1, 2006.

At March 31, 2012, the Company had \$6.2 million in working capital and 8,141 ounces of refined gold bullion in inventory. For the first three months of the year, revenue exceeded mining and processing costs by \$3.0 million and \$3.0 million in capital costs were incurred. Cash flow from operations totalled \$1.8 million and net earnings were flat, or \$0.00 per share.

The new Mishi Mine commenced production, Eagle River continued its steady performance and the Kiena Mine was in a development phase to assure steady production capacity from the second quarter onwards.

The first quarter is generally the most costly seasonally when winter weather increases energy consumption and snow removal costs. This year surface maintenance costs were further stretched by flooding associated with an ill-timed March spring breakup.

RESULTS OF OPERATIONS

Three months ended March 31 2012 2011

Eagle River Mine

Tonnes milled	39,086	43,627
Recovered grade (g/t)	5.9	5.6
Production (oz)	7,454	7,787
Sales (oz)	9,000	9,000
Bullion revenue (\$000)	15,338	12,481
Mining and processing costs (\$000)	13,467	5,802
Mine operating profit (\$000) *	1,871	6,679
Gold price realized (\$Cdn/oz)	1,703	1,384

Mishi Mine

Tonnes milled	19,103	-
Recovered grade (g/t)	2.3	-
Production (oz)	1,382	-
Sales (oz)	-	-

Kiena Mine Complex

Tonnes milled	59,967	70,997
Recovered grade (g/t)	1.9	2.8
Production (oz)	3,653	6,442
Sales (oz)	4,000	8,000
Bullion revenue (\$000)	6,707	11,113
Mining and processing costs (\$000)	5,556	8,882
Mine operating profit (\$000) *	1,151	2,231
Gold price realized (\$Cdn/oz)	1,671	1,385

Total

Production (oz)	12,489	14,229
Sales (oz)	13,000	17,000
Bullion inventory (oz)	8,141	10,135
Bullion revenue (\$000)	22,045	23,594
Mining and processing costs (\$000)	19,023	14,684
Mine operating profit (\$000) *	3,022	8,910
Gold price realized (\$Cdn/oz)	1,692	1,384

* The Company has included in this report certain non-IFRS performance measures, including mine operating profit and mining and processing costs to applicable sales. 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.

Mine operating profit excludes the following specific items included as operating expenses on the Consolidated Statements of Income: Depletion, Production royalties, Corporate and general, Share based compensation and Amortization of capital assets.

During the first quarter, combined operations produced 12,489 ounces of gold and 13,000 ounces were sold at an average price of \$1,692 per ounce. The bullion inventory is carried at the lower of market value or cost. Its cost is determined using a weighted average cost per ounce of the mines. At the end of the current quarter, it is being carried at a market value of \$13.6 million

(8,141 ounces at \$1,672 per ounce). This is due to the increasing cost per ounce at Kiena, as a result of the 40% decrease in gold production compared to the same period last year. This was also influenced by a development blitz during the first quarter to bring new production areas onstream, resulting in lower production levels during this process. The value of the bullion inventory currently recorded will be recognized as mining and processing costs in the second quarter when the gold is actually sold based on the first in, first out method used to account for inventory. The company currently holds its bullion inventory to take advantage of future gold price appreciation; however, current working capital requirements preclude the company from holding the inventory for longer than one quarter.

Mining and processing costs increased by 33% or \$4.3 million in the current quarter compared to the same period last year, due to the fact that production in the fourth quarter in 2011 of 12,722 ounces was 40% less than production in the fourth quarter of 2010 of 21,512 ounces. The reason for the drop in production was decreasing grade in 2011 at both mines. With inventory costs remaining relatively stable throughout, the effect of this was to increase the inventory cost per ounce, resulting in the increased mining and processing costs that were recognized on the statement of income and comprehensive income once the bullion inventory was sold in the following quarter, due to the matching of expenses to their related revenues when bullion is sold.

In the first quarter, gold sales exceeded mining and processing costs, resulting in a mine operating profit, or gross margin, of \$3.0 million. In addition to these direct operating costs, other costs, including royalties, corporate and general costs and net interest costs amounted to \$1.2 million.

The combined Eagle River and Mishi mining and milling operations demonstrated good progress. Despite the mill being down for 15 days for scheduled and unscheduled maintenance, the operations combined to produce 8,836 ounces of gold. Mishi's first mill run returned an average recovered grade of 2.3 gAu/tonne and recoveries averaging 93%. A total of 600,000 tonnes of waste was stripped and the stockpile was maintained at over 20,000 tonnes. This is very good productivity at the early stage development of this mine, particularly under harsh winter conditions. Drilling continues to demonstrate that the gold mineralization extends both to the east and west of the initial 5-year pit outline (Press Release dated November 22, 2011).

At Eagle River, development grades in the 811 Zone appear to be improving at depth as expected. Chip samples for the deepest level to date (705 metres) averaged 15.82 gAu/tonne and muck samples averaged 11.23 gAu/tonne. We expect to develop down to 741 metres this year. As reported in a press release dated February 29, 2012, recent drilling has now traced this zone to 1,000 metres at depth where hole EU-639 encountered 59.67 gAu/tonne over a true width of 1.81 metres. The zone remains open at depth.

The Kiena Mine in Val d'Or remains our biggest challenge. As previously reported, 2011 production suffered from severe dilution and lost ore caused by the caving in two small stopes. Development of new stopes fell behind due to a tight skilled labour market, lack of advance and financial stress on a key contractor (Press Releases dated June 14, August 15 and November 7, 2011). This put us in a development catch-up position for the first quarter, 2012 (Press Release dated March 15, 2012). During the first quarter, lateral development totalled 1,070 metres versus a planned 820 metres. We now have two large stopes, including the 388 Zone, in production.

In late April, 2012, the Company announced the implementation of a new mining plan at Kiena (Press Release dated April 25, 2012). This involves 20% cost reductions, a mandate to improve grades and development of the Martin Zone. The new plan is to be implemented as of May 2, 2012, and involves workforce attrition of 10%, dropping from 3 underground diamond drills to 2, deferral of summer surface drilling, a re-organization of the production shift schedule and finally, a reduction of planned mill throughput to 20,000 tonnes per month from 30,000 tonnes per month. The goal of the plan is to reduce costs and improve grades. It does not sacrifice development and features more selective mining and development of the Martin Zone. Stabilizing the cost structure and ensuring a longer term view at Kiena is a priority for us.

Encouraging drill results were released from both the Martin Zone (Press Release dated March 2, 2012) and the Northwest Zone (Press Release dated March 5, 2012). These serve to underscore Kiena's exploration potential and motivate management to develop a long term sustainable development and mining plan.

Summary of Quarterly Results

(in thousands except per share data)

	2012		2011	
	1 st Quarter	4 th Quarter	3 rd Quarter	2 nd Quarter
Total revenue	\$ 22,045	\$ 17,206	\$ 19,623	\$ 19,220
Net income (loss)	(308)	496	(1,616)	(1,094)
Earnings (loss) per share basic and diluted	(0.00)	0.00	(0.01)	(0.01)

	2011		2010	
	1 st Quarter	4 th Quarter	3 rd Quarter	2 nd Quarter
Total revenue	\$ 23,594	\$ 26,634	\$ 20,756	\$ 22,416
Net income (loss)	2,454	3,380	(118)	291
Earnings (loss) per share basic and diluted	0.02	0.03	(0.00)	0.00

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2012, the Company had working capital of \$6.2 million compared to \$7.2 million at December 31, 2011. During the first quarter, 2012, capital expenditures totalled \$3.0 million compared to \$3.8 million in the first quarter, 2011.

The Company traditionally maintains an inventory of refined gold bullion. At March 31, 2012, this liquid asset consisted of 8,141 ounces of gold with a market value of \$13.6 million.

On April 30, 2012, the Company announced its intention to issue an offering of convertible debentures for a principal amount of \$7.0 million. These will bear interest at 7% per annum payable semi-annually and will be convertible into common shares at \$2.50 per share.

Proceeds of this offering will be used to help redeem the existing debenture principal of \$10.9 million, maturing May 31, 2012.

Management believes we have sufficient liquidity to carry out our mining, development and exploration programs and prefers not to dilute shareholders' interest with equity issues.

With current gold prices our mining operations are capable of generating strong operating cash flow as they have in the past.

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

Contractual Obligations	Payments Due by Period (in thousands)				
	Total	Less than 1 year	1 – 2 years	3 – 5 years	After 5 years
Equipment leases	\$ 1,560	\$ 761	\$ 799	-	-
Convertible debentures	11,377	11,377	-	-	-
	\$ 12,937	\$ 12,138	\$ 799	-	-

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Key management personnel and director compensation comprised of the following:

Three months ended March 31	2012	2011
Salaries and short-term employee benefits	\$ 321	\$ 298
Post employment benefits	12	8
Fair value of share-based compensation	126	62
	<u>\$ 459</u>	<u>\$ 368</u>

In fiscal 2012, the Company paid \$15,500 in director's fees (2011: \$6,600) to companies whose managing partners are directors of the Company.

SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's interim 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 interim 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.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

(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 unit-of-production method ("UOP") 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 and measured and indicated resources.

Mobile and other equipment is 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 and measured and indicated resources.

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. The actual future expenditures may differ from the amounts currently provided.

(iv) Share-based payments

The determination of the fair value of share-based compensation 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. Stock-based compensation incorporates 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 interim 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 interim 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 the life-of-mine plans in its assessments of economic recoverability and probability of future economic benefit. Life-of-mine plans provide an economic model to support the economic extraction of reserves and resources. A long-term life-of-mine plan and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body.

(vii) *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.

(viii) *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.

FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

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:

	March 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Other financial liabilities:				
Convertible 7% debentures	\$ 10,880	\$ 10,932	\$ 10,726	\$ 11,040

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 balance sheets as follows:

Cash and cash equivalents 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 and the convertible 7% 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 the convertible 7% debentures is based on the quoted market price.

The fair value hierarchy for financial instruments measured at fair value is Level 1 for marketable securities. 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 three months ended March 31, 2012.

(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 three months ended March 31, 2012.

(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 and cash equivalents include 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.

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, mining taxes, capital leases and convertible debentures:

March 31, 2012

	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables & accruals	\$ 9,131	-	-	-
Finance leases	\$ 761	\$ 799	-	-
Convertible debentures	\$11,377	-	-	-

December 31, 2011

	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables & accruals	\$ 8,944	-	-	-
Finance leases	\$ 997	\$ 854	-	-
Convertible debentures	\$11,377	\$ -	-	-

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 accounts receivable consist primarily of government refunds and credits. The Company estimates its maximum exposure to be the carrying value of cash and cash equivalents, accounts receivable 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.

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.

In Ontario, the Company has obtained approval for its closure plan for the Eagle River mill, Eagle River mine and the Mishi-Magnacon complex and has provided security of approximately \$0.9 million to cover estimated rehabilitation and closure costs. In Quebec, the Company has obtained approval for its closure plan for the Kiena mine and milling complex and has provided security of approximately \$0.7 million 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 and could also be required to provide further 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 resources and mineral reserves 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 May 14, 2012, the Company's share information is as follows:

Common shares issued	<u>101,879,659</u>
Common share purchase options	<u>1,878,000</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 March 31, 2012, 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 applicable Canadian GAAP. 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 applicable Canadian GAAP
- 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 March 31, 2012, 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.

OUTLOOK

The Eagle River and Mishi operations are on track and offer significant flexibility in milling schedules. Kiena production, under the new plan, will be reduced to closer to 20,000 ounces. Our initial production forecast of 60,000 ounces in 2012 is most influenced by Eagle River grades which are demonstrating improvement. At this point we feel our Eagle River and Mishi operations have sufficient flexibility to meet, or exceed, forecasts.