



WESDOME GOLD MINES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2014

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## First Quarter Report March 31, 2014

The following Management's Discussion and Analysis ("MD&A") dated May 1, 2014 should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three months ended March 31, 2014, the audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2013, and the related annual MD&A.

The unaudited condensed interim consolidated financial statements and the accompany notes are prepared in accordance with International Accounting Standard ("IAS") 34 – "*Interim Financial Reporting*" as issued by the International Accounting Standards Board ("IASB").

The information contained in this MD&A is current to May 1, 2014, unless otherwise noted. There have been no material changes to disclosures as contained in the "Significant Judgment and Sources of Estimation Uncertainty", "Financial Instruments – Disclosure and Presentation" or "Risks and Uncertainties" sections of the Company's MD&A for the year ended December 31, 2013.

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 financial information relating to Wesdome, including the Company's Annual Information Form, can be found on the Company's website [www.wesdome.com](http://www.wesdome.com) or on the SEDAR website for Canadian regulatory filings at [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 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 HIGHLIGHTS

At March 31, 2014, the Company had \$12.1 million in working capital, compared to \$8.5 million as at December 31, 2013. In the first quarter of 2014, revenue exceeded production costs by \$9.7 million and \$4.5 million in capital costs were incurred, inclusive of new equipment leases. Cash flow from operations totalled \$7.2 million and net earnings of \$4.2 million were recorded.

In the first quarter, 13,730 ounces of gold were produced and 15,985 ounces were sold, as strong production in December 2013 was finally realized through gold sales. Overall, the Eagle River Complex produced 19% more gold in the current quarter than the same period in 2013. Total unit production costs per ounce decreased 25.7% to average \$977 per ounce for the period,

compared to \$1,315 during the same period last year. As at March 31, 2014, the Company had 4,778 ounces of gold inventory, compared to 7,034 ounces as at December 31, 2013.

On March 28, 2014, the Company completed an amalgamation with its subsidiary Moss Lake Gold Mines Ltd. ("MLGM"). This allowed the Company to clarify ownership of its exploration properties and to simplify its business.

We are investing aggressively in our milling operations and underground development. The goal is to put us in position to optimize future production rates and costs.

External factors which influenced costs included an extremely cold and snowy winter which resulted in Lake Superior freezing over. Energy costs and snow removal costs increased by about \$0.9 million compared to last winter.

On the revenue side, a 10% decline in the \$Cdn/\$US exchange rate helped us realize favourable gold prices averaging \$1,447 per ounce.

## RESULTS OF OPERATIONS

Three months ended March 31	2014	2013
<i>Eagle River Mine</i>		
Tonnes milled	30,486	27,961
Recovered grade (g/t)	13.0	11.5
Production (oz)	12,748	10,322
<i>Mishi Mine</i>		
Tonnes milled	12,027	11,410
Recovered grade (g/t)	2.5	3.3
Production (oz)	982	1,204
Surface stockpile (tonnes)	69,416	56,999
<i>Total Eagle River Complex</i>		
Tonnes milled	42,513	39,371
Production (oz)	13,730	11,526
Sales (oz)	15,985	10,000
Bullion revenue, Eagle River Complex (\$000) †	23,133	16,469
Production costs (\$000)		
Mining and processing costs (cost of sales) *	(13,411)	(9,444)
Inventory-related adjustments ††	(13)	(1,461)
Mine operating profit (\$000) *	9,709	5,564
<i>Total Mine Operations</i>		
Production (oz)	13,730	14,529
Production costs (\$000)		
Eagle River Complex	13,424	10,905
Kiena Mine Complex	-	8,210
Total production costs	13,424	19,115
Gold price realized per ounce	1,447	1,648
Production costs per ounce, Eagle River Complex	977	946
Total production costs per ounce	977	1,315

† Bullion revenue includes minor by-product silver sales

\* The Company has included in this report certain non-IFRS performance measures, including mine operating profit, mining and processing costs to applicable sales, and production costs. Production costs per ounce reflect actual mine operating costs incurred during the fiscal period divided by the number of ounces produced. 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.

†† Inventory-related adjustments are adjustments made to production costs in order for the Company's gold inventory to be valued at the lower of production cost on a first-in, first-out basis and at net realizable value, in accordance with its accounting policy under IFRS.

In the first quarter of 2014, bullion revenue exceeded production costs resulting in a mine operating profit of \$9.7 million, compared to \$5.6 million during the same period in 2013 at the Eagle River Complex. In addition to these direct operating costs, additional cash costs, including royalty payments, corporate and general costs, and interest payments amounted to \$1.7 million, which includes \$0.5 million of ongoing care and maintenance costs of the Kiena Mine Complex. This compares to \$1.2 million in the first quarter of 2013. Furthermore, the Company was the beneficiary of strong realized prices for its gold sales during the quarter, averaging \$1,447 per ounce, compared to an average spot price during the quarter of \$1,425, contributing an additional \$0.4 million directly to the Company's operating income.

At the Eagle River Mine, recovered grades increased to 13.0g Au/tonne. This is a 13% improvement compared to the first quarter of 2013, and a 21% improvement over recovered grades in 2013. A total of 12,748 ounces were produced from the Eagle River Mine, while the Mishi Mine contributed 982 ounces at a recovered grade of 2.5g Au/tonne, reducing the ore stockpile to 69,416 tonnes.

We took delivery of key items such as the drum filters and high density pumps for the mill upgrading project during the quarter. Installation and commissioning in the second quarter will ensure significant throughput increases in the second half, 2014. Additional feed will be sourced primarily from Mishi. The step by step process of scaling infrastructure to meet the sustainable production capacity of mining operations will continue.

Cost increases compared to last year's first quarter can be attributed to \$0.9 million of additional hydro, propane and snow removal costs resulting from the extraordinarily cold winter conditions experienced in 2014, \$0.5 million in repair costs at the Eagle River Mill, and \$0.7 million of additional expensed development expenditures resulting from a 17% increase in development compared to the first quarter of 2013.

Overall, this solid performance generated free cash flow (cash flow from operations less capital investments) of \$3.6 million in the current quarter. This went straight to improving the Company's working capital during the period.

### Summary of Quarterly Results

(in thousands except per share data)

	2014		2013	
	1 <sup>st</sup> Quarter	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter
Total revenue	\$ 23,133	\$ 19,928	\$ 16,669	\$ 21,709
Net income (loss)	4,171	(1,782)	(2,095)	43
Earnings (loss) per share basic and diluted	0.04	(0.02)	(0.02)	0.00
	2013		2012	
	1 <sup>st</sup> Quarter	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter
Total revenue	\$ 21,420	\$ 21,207	\$ 23,108	\$ 25,948
Net income (loss)	(34)	(46,464)	819	700
Earnings (loss) per share basic and diluted	0.00	(0.46)	0.01	0.01

## LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2014, the Company had working capital of \$12.1 million compared to \$8.5 million at December 31, 2013. During the first three months of 2014, capital expenditures totalled \$4.5 million compared to \$4.0 million in 2013. Capital expenditures were concentrated in underground development, mine and mill infrastructure. \$0.9 million of these expenditures were financed with equipment leases.

The Company carries an inventory of gold. At March 31, 2014, this liquid asset consisted of 4,778 ounces of gold with a market value of approximately \$6.8 million. The gold inventory is carried at the lower of cost or market, in this case at a cost of \$5.6 million. Furthermore, the Mishi ore stockpile at the mill is estimated to contain about 5,500 ounces of recoverable gold, or approximately \$4.6 million, net of milling costs. Including these non-IFRS working capital adjustments, working capital would increase to approximately \$17.9 million.

<i>Calculation of adjusted working capital</i>	<i>(in millions)</i>
IFRS working capital	12.1
Adjustment of gold inventory to market value	1.2
Gold in Mishi stockpile, net of milling costs	4.6
<u>Adjusted working capital</u>	<u>17.9</u>

Management believes we have sufficient liquidity to carry out our mining, development and exploration programs. With current gold prices, operations are capable of generating strong cash flow as evidenced by the recent quarterly results.

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	\$ 1,724	\$ 645	\$ 508	\$ 571	-
Convertible debentures	8,536	491	982	7,553	-
	<u>\$ 10,260</u>	<u>\$ 1,136</u>	<u>\$ 1,490</u>	<u>\$ 8,124</u>	<u>-</u>

## 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:

<u>Three months ended March 31</u>	<u>2014</u>	<u>2013</u>
Salaries and short-term employee benefits	\$ 312	\$ 365
Post employment benefits	9	12
Share-based payments	99	235
	<u>\$ 420</u>	<u>\$ 612</u>

In fiscal 2014, the Company paid a total of \$9,625 in directors' fees and \$28,333 in consulting fees to the following companies, whose managing partners or presidents are 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.

#### Directors Fees

- Capital Inter A World Inc.: \$9,625 – Marc Blais, President

#### Consulting Fees

- The Rosedale Group: \$28,333 – Rolly Uloth, President

### **OUTLOOK**

We expect to meet or exceed our forecast of 50,000 ounces of gold production in 2014, or a 10% increase from Eagle River and Mishi over 2013. Production will come primarily from the Eagle River Mine and the Mishi stockpile, and strong grades at the Eagle River Mine are expected to persist. Installation of key equipment in the second quarter, 2014, will result in capacity/efficiency gains in the second half. The additional feedstock will come primarily from the Mishi Mine.

At Mishi, reserves within the existing mine plan represent less than a third of the open pit resource base. Subject to positive in-fill drilling results and increased mill availability and capacity, we see significant potential for future expansion. Pit optimization studies will be initiated in the second quarter, 2014.

### **CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The critical accounting estimates used by the Company are discussed in detail in the 2013 annual MD&A for the year ended December 31, 2013, under the heading "Significant Judgments and Sources of Estimation Uncertainty", as well as the 2013 annual audited financial statements for the year ended December 31, 2013, in Note 4.

There have been no material changes to these estimates and judgments from December 31, 2013 up to the date of this MD&A.

### **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

The Company uses a mixture of cash, obligations under finance leases, convertible debentures, and equity to maintain an efficient capital structure and to ensure adequate liquidity exists to meet the cash needs of the business. The Company has classified its obligations under finance leases and convertible debentures as other financial liabilities measured at amortized cost.

The fair value of the obligations under finance leases are determined by calculating the discounted cash flows using market interest rates for financial instruments with similar characteristics. This fair value approximates the book value.

The fair value of the convertible debentures is determined with the quoted market price of the debentures, which are publicly traded.

The Company's approach to managing its financial risks are discussed in detail in the 2013 annual MD&A for the year ended December 31, 2013. The Company continues not to hold any gold hedging or currency exchange contracts as at or during the three months ended March 31, 2014.

### **RISKS AND UNCERTAINTIES**

Risks and uncertainties related to economic and industry factors and the Company's approach to the management of these risks are discussed in detail in the 2013 annual MD&A for the year ended December 31, 2013.

**SUMMARY OF SHARES ISSUED**

As of May 1, 2014, the Company's share information is as follows:

Common shares issued	<u>111,107,591</u>
Common share purchase options	<u>3,328,116</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, 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 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, 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.