



WESDOME GOLD MINES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED
JUNE 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter Report June 30, 2014

The following Management's Discussion and Analysis ("MD&A") dated July 31, 2014 should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the six months ended June 30, 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 July 31, 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 or on the SEDAR website for Canadian regulatory filings at 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 AND NON-IFRS PERFORMANCE MEASURES

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

The Company has included in this report certain non-IFRS performance measures, including, but not limited to, mine operating profit, mining and processing costs and cash costs. Cash 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.

OVERALL PERFORMANCE HIGHLIGHTS

At June 30, 2014, the Company had \$13.6 million in working capital, compared to \$8.5 million as at December 31, 2013. During the first half of 2014, revenue exceeded operating costs by \$16.1 million and \$7.8 million in capital investments were made. Cash flow from operations totalled \$13.5 million and net income of \$7.1 million was recorded.

In the second quarter, 13,590 ounces of gold were produced and 11,179 ounces were sold. Overall, the Eagle River Complex produced 49% more gold in the current quarter than the same period in 2013. Total cash costs per ounce decreased 30% to average \$859 (\$788USD) per ounce for the period, compared to \$1,218 (\$1,190USD) during the same period last year. As at June 30, 2014, the Company had 7,190 ounces of gold inventory, compared to 7,034 ounces as at December 31, 2013.

With our goals of expanding mine life while optimizing future production rates and costs, we are investing aggressively in diamond drilling, underground development, and mill refurbishment and upgrades. In addition, a new tailings management area is being designed, permitted and constructed to improve our costs, gold processing and environmental performances over the next two decades under current production rates.

During the second quarter, 2014, milling operations were suspended in May to control spring run-off. This resulted in only limited production from Mishi during the quarter, all sourced from the Mishi ore stockpile. Also, during the second quarter, the Canadian dollar gold price declined by about \$50 per ounce compared to the first quarter, 2014, resulting in a \$0.6 million reduction in bullion revenue.

RESULTS OF OPERATIONS

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|----------|--------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| <i>Eagle River Mine</i> | | | | |
| Tonnes mined and milled | 31,713 | 23,068 | 62,199 | 51,029 |
| Recovered grade (g/t) | 13.1 | 11.0 | 13.1 | 11.3 |
| Production (oz) | 13,386 | 8,194 | 26,134 | 18,516 |
| <i>Mishi Mine</i> | | | | |
| Tonnes milled | 3,014 | 8,338 | 15,041 | 19,748 |
| Recovered grade (g/t) | 2.1 | 3.5 | 2.5 | 3.4 |
| Production (oz) | 204 | 935 | 1,186 | 2,139 |
| Surface stockpile (tonnes) | 66,402 | 84,232 | 66,402 | 84,232 |
| <i>Total Eagle River Complex</i> | | | | |
| Tonnes milled | 34,727 | 31,406 | 77,240 | 70,777 |
| Production (oz) | 13,590 | 9,129 | 27,320 | 20,655 |
| Sales (oz) | 11,179 | 14,400 | 27,164 | 24,400 |
| Gold price realized (\$CAD/oz) | 1,398 | 1,447 | 1,427 | 1,546 |
| Bullion revenue (\$000) † | 16,044 | 20,863 | 39,177 | 37,332 |
| Mining and processing costs (cost of sales) (\$000) | (9,681) | (18,079) | (23,092) | (27,525) |
| Mine operating profit (\$000) | 6,363 | 2,784 | 16,085 | 9,807 |

† Bullion revenue includes by-product silver sales and carbon smelter returns.

Eagle River Cash Cost Analysis (Production Basis)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|---------|--------------------------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| Sales (oz) | 11,179 | 14,400 | 27,164 | 24,400 |
| Production (oz) | 13,590 | 9,129 | 27,320 | 20,655 |
| Cost of sales (\$000) | 9,681 | 18,079 | 23,092 | 27,525 |
| Inventory-related adjustments (\$000) ^{††} | 1,992 | (6,958) | 2,005 | (5,497) |
| Cash cost (\$000) | 11,673 | 11,121 | 25,097 | 22,028 |
| Cash cost (\$/oz CAD) | 859 | 1,218 | 919 | 1,066 |
| (\$/oz USD) ^{†††} | 788 | 1,190 | 838 | 1,049 |

^{††} Inventory-related adjustments are adjustments made to cash costs in order for them to reflect the actual cash cost of production during the period.

^{†††} US\$ figures have been translated at the average exchange rate as quoted by the Bank of Canada over the given period.

Eagle River All-In Sustaining Costs

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|-------|--------------------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| Cash cost (\$/oz) | 859 | 1,218 | 919 | 1,066 |
| Royalties (\$/oz) | 21 | 24 | 23 | 26 |
| Corporate G&A (\$/oz) | 46 | 75 | 48 | 65 |
| Exploration, development and sustaining capital (\$/oz) | 316 | 189 | 297 | 252 |
| All-in sustaining cost (\$/oz CAD) | 1,242 | 1,506 | 1,287 | 1,409 |
| (\$/oz USD) ^{†††} | 1,139 | 1,472 | 1,174 | 1,387 |

^{†††} US\$ figures have been translated at the average exchange rate as quoted by the Bank of Canada over the given period.

In the second quarter of 2014, bullion revenue exceeded costs of gold sales resulting in a mine operating profit of \$6.4 million, compared to \$2.8 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 \$1.5 million, which includes \$0.4 million of ongoing care and maintenance costs at the Kiena Mine Complex. Additionally, capital investments during the quarter totaled \$4.1 million.

The Eagle River Mine provided the bulk of millfeed producing 13,329 ounces of gold from 31,713 tonnes milled at an average recovered grade of 13.1 gAu/tonne. Mishi provided limited millfeed because the mill was down for one month to manage spring run-off.

This provided an opportunity to accelerate the mill refurbishment and expansion project. Significant upgrades include the installation of new drum filters and high density pumps. We expect significant increases in throughput and reliability in the second half of 2014.

Our goal is to progressively increase capacity and reliability of the mill and related infrastructure with low cost Mishi ore providing incremental increases in production. The key element over the medium term is construction of a new tailings management area. The permitting process is progressing, however, it is very difficult to predict precise timelines due to the complexity of regulatory oversight and process.

On June 27, 2014, we released results of shallow definition and stepout drilling at Mishi. Mineralization of potential economic merit has now been traced over a length of 1.75 kilometres and remains open in both directions. We have initiated scoping studies to assess the longer term potential of expanding resources, infrastructure and operations.

Overall, the second quarter, 2014, was satisfactory and generated free cash flow (cash flow from operations less capital investments) of \$1.1 million despite milling operations being suspended for one month. Year to date mining operations have generated \$5.7 million in free cash flow.

Summary of Quarterly Results

(in thousands except per share data)

| | 2014 | | 2013 | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter |
| Total revenue | \$ 16,044 | \$ 23,133 | \$ 19,928 | \$ 16,669 |
| Net income (loss) | 2,878 | 4,171 | (1,782) | (2,095) |
| Earnings (loss) per share basic and diluted | 0.03 | 0.04 | (0.02) | (0.02) |

| | 2013 | | 2012 | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter |
| Total revenue | \$ 21,709 | \$ 21,420 | \$ 21,207 | \$ 23,108 |
| Net income (loss) | 43 | (34) | (46,464) | 819 |
| Earnings (loss) per share basic and diluted | 0.00 | 0.00 | (0.46) | 0.01 |

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2014, the Company had working capital of \$13.6 million compared to \$8.5 million at December 31, 2013. During the first half of 2014, capital expenditures totalled \$7.8 million compared to \$5.6 million in 2013. Capital expenditures were concentrated in underground development, mine and mill infrastructure. An additional \$1.6 million of equipment leasing contracts were signed.

The Company carries an inventory of gold. At June 30, 2014, this liquid asset consisted of 7,190 ounces of gold with a market value of approximately \$10.1 million. The gold inventory is carried at the lower of cost or market, in this case at a cost of \$8.4 million. Furthermore, the Mishi ore stockpile at the mill is estimated to contain about 5,400 ounces of recoverable gold, or approximately \$4.3 million, net of milling costs. Including these non-IFRS working capital adjustments, working capital would increase to approximately \$19.6 million.

| <i>Calculation of adjusted working capital</i> | | <i>(in millions)</i> |
|--|--|----------------------|
| IFRS working capital | | \$ 13.6 |
| Adjustment of gold inventory to market value | | 1.7 |
| <u>Gold in Mishi stockpile, net of milling costs</u> | | <u>4.3</u> |
| <u>Adjusted working capital</u> | | <u>\$ 19.6</u> |

The Company believes it has sufficient liquidity to carry out its 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.

| Contractual Obligations | Payments Due by Period (in thousands) | | | | |
|-------------------------|---------------------------------------|---------------------|-----------------|----------------|------------------|
| | Total | Less than 1 year | 1 – 2 years | 3 – 5 years | After 5 years |
| Equipment leases | \$ 2,167 | \$ 830 | \$ 667 | \$ 670 | - |
| Convertible debentures | 8,414 | 491 | 7,923 | - | - |
| | <u>\$ 10,581</u> | <u>\$ 1,321</u> | <u>\$ 8,590</u> | <u>\$ 670</u> | <u>-</u> |

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--------------------------|----------------------------|---------------|--------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Salaries and short-term | | | | |
| employee benefits | \$ 358 | \$ 313 | \$ 698 | \$ 678 |
| Post employment benefits | 10 | 12 | 19 | 24 |
| Share based payments | 61 | 50 | 32 | 131 |
| | \$ 429 | \$ 375 | \$ 749 | \$ 833 |

In fiscal 2014, the Company paid a total of \$14,691 in director's fees and \$61,665 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.

Director's Fee

- Capital Inter A World Inc.: \$14,691 – Marc Blais, President

Consulting Fee

- The Rosedale Group: \$61,665 – Rolly Uloth, President

OUTLOOK

With production of more than 27,000 ounces of gold in the first half of 2014, our production guidance of 50,000 ounces for 2014 is revised upwards to 52,000 ounces. We expect greater volumes of lower grade ore in the second half of 2014 and more Mishi ore to be processed.

We are having a closer look at potential future expansion at Mishi given recent favourable drilling results.

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 six months ended June 30, 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 July 31, 2014, the Company’s share information is as follows:

| | |
|-------------------------------|--------------------|
| Common shares issued | <u>111,135,091</u> |
| Common share purchase options | <u>3,268,116</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 June 30, 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 June 30, 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.