WESDOME GOLD MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED

DECEMBER 31, 2011

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This Management's Discussion and Analysis ("MD & A") dated March 14, 2012 should be read in conjunction with Wesdome Gold Mines Ltd.'s ("Wesdome" or "the Company") audited consolidated financial statements for the year ended December 31, 2011, 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"). The December 31, 2011, consolidated financial statements are the Company's first annual consolidated financial statements prepared under IFRS. Consequently, the comparative figures for 2010 have been restated from generally accepted accounting principles in Canada ("Canadian GAAP") to comply with IFRS. The reconciliations of the statements of total equity and the statement of income and comprehensive income from the previously published Canadian GAAP are summarized in Note 27 to the December 31, 2011 consolidated financial statements.

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 gold mining operations in Wawa, Ontario and the Kiena mine complex in Val-d'Or, Quebec. It is developing the Mishi Mine in Wawa and the Dubuisson project in Val-d'Or. The Eagle River mine commenced commercial production January 1, 1996 and the Kiena mine on August 1, 2006.

At December 31, 2011, the Company had $7.2 million in working capital and 8,652 ounces of refined gold bullion in inventory. In 2011 revenue exceeded mining and processing costs by $14.6 million and $19.3 million in capital costs were incurred. Cash flow from operations totalled $4.9 million and net earnings were $0.2 million, or $0.00 per share.

Both mining operations are producing from lower grade areas and are pushing development of higher grade new production areas, which will progressively come onstream starting in 2012. In addition, a third mine, Mishi, is in the pre-production development phase.

More ounces of gold were sold than produced. Favourable gold prices have allowed us to secure development for future years, develop a new mine and invest in drilling to replace and increase reserves – all at reasonable costs during a transitional period of lower grade production and elevated investment.

External factors which favoured results include low interest rates and rising gold prices. We hope this continues. Also, energy prices stabilized and commodity-based input costs and consumables have stabilized or decreased.

Negative external conditions were dominated by extreme competition for the skilled and professional labour pool which is of insufficient size to support the booming resource development cycle. In this environment we are finding it more challenging to attain the rate of development advance we are accustomed to and believe, industry-wide, that costs will inflate further and that many projects likely will be delayed. On a more positive note, the tightening of risk capital and credit markets since the summer indicates that some of these competing projects may not get financed.

In light of these pressures, and very strict control of costs, operating costs increased only 3% to $65.0 million for the year ended December 31, 2011, compared to $63.3 million last year. Fortunately, realized gold prices increased 20%, or $254 Cdn per ounce, over this corresponding period.

SELECTED ANNUAL INFORMATION

(in thousands except income per common share)	**2011**	2010
Total revenue	**$ 79,643**	$ 89,383
Net income	**240**	5,271
Income per common share	**0.00**	0.05
Total assets	**151,823**	156,974
Long term financial liabilities	**2,433**	13,439

RESULTS OF OPERATIONS

	Three Months Ended Dec 31		**Twelve Months Ended Dec 31**	
	2011	2010	**2011**	2010
Eagle River Mine				
Tonnes milled	**48,639**	39,281	**182,449**	155,554
Recovered grade (g/t)	**5.2**	7.9	**4.8**	7.3
Production (oz)	**8,104**	10,004	**28,231**	36,712
Sales (oz)	**5,000**	10,000	**29,000**	40,000
Bullion inventory (oz)	**8,024**	8,793	**8,024**	8,793
Bullion revenue ($000)	**8,598**	14,013	**44,613**	50,690
Mining and processing costs ($000)	**5,604**	11,222	**29,448**	35,163
Mine operating profit ($000) *	**2,994**	2,791	**15,165**	15,527
Gold price realized ($Cdn/oz)	**1,717**	1,399	**1,536**	1,266

	Three Months Ended Dec 31		Twelve Months Ended Dec 31	
	2011	2010	**2011**	2010
Kiena Mine Complex				
Tonnes milled	**56,414**	84,751	**255,311**	285,527
Recovered grade (g/t)	**2.5**	4.2	**2.4**	3.5
Production (oz)	**4,618**	11,508	**19,516**	32,162
Sales (oz)	**5,000**	9,000	**23,000**	30,000
Bullion inventory (oz)	**628**	4,113	**628**	4,113
Bullion revenue ($000)	**8,608**	12,621	**35,030**	38,693
Mining and processing costs ($000)	**8,676**	6,276	**35,568**	28,134
Mine operating profit (loss) ($000) *	**(68)**	6,345	**(538)**	10,559
Gold price realized ($Cdn/oz)	**1,717**	1,398	**1,519**	1,286
Total				
Production (oz)	**12,722**	21,512	**47,747**	68,874
Sales (oz)	**10,000**	19,000	**52,000**	70,000
Bullion inventory (oz)	**8,652**	12,906	**8,652**	12,906
Bullion revenue ($000)	**17,206**	26,634	**79,643**	89,383
Mining and processing costs ($000)	**14,280**	17,498	**65,016**	63,297
Mine operating profit ($000) *	**2,926**	9,136	**14,627**	26,086
Gold price realized ($Cdn/oz)	**1,717**	1,398	**1,529**	1,275

* 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.

Bullion sales exceeded mining and processing costs resulting in a mine operating profit, or gross margin, of $14.6 million. In addition to these direct operating costs, additional cash costs, including royalty payments, corporate and general costs and interest costs totalled $6.3 million. We pride ourselves in running a tight ship with low corporate and general costs. The regulated implementation of IFRS accounting standards increased these costs significantly in 2010 and 2011. This is now behind us.

At the Eagle River Mine a large volume of low grade ore from development headings, salvage stopes in the old mine areas and surface stockpiles was processed. Combined with greater than expected dilution in main production stopes, the results represented the lowest grades of annual production to date. The Eagle River Mine produced 28,231 ounces of gold from 182,449 tonnes milled at a recovered grade of 4.8 gAu/tonne. We have made considerable progress in developing deeper levels of the high grade 811 Zone and as previously disclosed, expect to see significant improvements in grade and production starting in 2012 and moving forward.

At the Kiena Mine, production suffered from severe dilution and lost ore caused by caving in two salvage stopes during the first and second quarters. The mine schedule had been relying on these stopes in the transitional period while larger future production areas were being prepared. These unfavourable circumstances were further exacerbated by delayed development of the new production areas due to tight labour markets, lack of advance and financial stress on a key contractor. We have largely addressed these issues and are rapidly catching up on development. This catching up will extend through the first quarter, 2012 with production from higher grade areas scheduled for the second half of 2012. In 2011, the Kiena Mine produced 19,516 ounces of gold from 255,311 tonnes milled at an average recovered grade of 2.4 gAu/tonne.

At the Mishi Mine work commenced in August, 2011, and involves an 8-month pre-production period. This will be an open pit mining operation located just 2 kilometres west of the Eagle River Mill. We are proceeding with an initial 5-year mine plan. At year end 2011, approximately 21,000 tonnes of ore were stockpiled at the mill and scheduled for processing commencing in January, 2012.

In summary, 2011 was a disappointing year in terms of production. However, a committed investment in development and drilling has increased our reserves, built a third mine (Mishi) and put us in an advantageous position moving forwards. We expect a return to life-of-mine type grades over time at Eagle River, hope to get ahead on development at Kiena and look forward to the contribution of new production from Mishi.

Summary of Quarterly Results

(in thousands except per share data)	2011			
	4th Quarter	**3rd Quarter**	**2nd Quarter**	**1st Quarter**
Total revenue	$ 17,206	$ 19,623	$ 19,220	$ 23,594
Net income (loss)	496	(1,616)	(1,094)	2,454
Earnings (loss) per share basic and diluted	0.00	(0.01)	(0.01)	0.02

	2010			
	4th Quarter	**3rd Quarter**	**2nd Quarter**	**1st Quarter**
Total revenue	$ 26,634	$ 20,756	$ 22,416	$ 19,577
Net income (loss)	3,380	(118)	291	1,718
Earnings (loss) per share basic and diluted	0.03	(0.00)	0.00	0.02

Fourth Quarter

In the fourth quarter, 2011, Wesdome's production totalled 12,722 ounces of gold of which 10,000 ounces were sold at an average price of $1,717 per ounce. This performance showed improvement of 23% and 22% compared to production levels in the third and second quarters respectively.

At Eagle River production increased 18% and grade increased 13% compared to the third quarter, 2011 results. The Eagle River Mine produced 8,104 ounces of gold from 48,639 tonnes of ore milled at an average recovered grade of 5.2 gAu/tonne. Both grade and throughput were up.

At Kiena, production increased 33% and grade increased 32% compared to the third quarter, 2011 results. The Kiena Mine produced 4,618 ounces of gold from 56,414 tonnes of ore milled at an average recovered grade of 2.5 gAu/tonne. Work focused on development of new stopes. Once development catches up a steady production rhythm will result in higher levels of production. We expect this development catch up to continue in the first quarter, 2012 and scheduled production grades to pick up in the second half of 2012.

The new Mishi operation stockpiled 21,000 tonnes of development ore at the mill. The fourth quarter results of operations showed a marked improvement over disappointing second and third quarters. After an extended development cycle, our new generation of production areas and a new mine (Mishi) are coming onstream.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2011, the Company had working capital of $7.2 million compared to $28.8 million at December 31, 2010. The Company invested $19.1 million in exploration and development, $0.1 million on exploration properties, and $0.1 on capital equipment for a total of $19.3 million, compared to $19.4 million on exploration and development, $0.7 million on exploration properties, and $2.2 million on capital equipment for a total of $22.3 million in 2010.

The Company traditionally maintains an inventory of refined gold bullion. At December 31, 2011, the Company held 8,652 ounces of gold at a market value of $13.9 million. This practice increases the Company's leverage to gold prices and has proved rewarding during the bull market.

During the second quarter, long term debt, consisting of convertible 7% debentures due May 31, 2012, in the amount of $10.6 million, became a current liability. The Company believes the debentures will either be repaid or refinanced at a favourable rate of interest. The Company is confident it has sufficient flexibility to fund these obligations given the current strong gold market and recent improvements in production.

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

	Payments Due by Period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 year**	**1 – 2 years**	**3 – 5 years**	**After 5 years**
Equipment leases	$ 1,851	$ 997	$ 854	-	-
Convertible debentures	11,377	11,377	-	-	-
	$ 13,228	$ 12,374	$ 854	-	-

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 Dec 31		**Twelve months ended Dec 31**	
	2011	2010	**2011**	2010
Salaries and short-term employee benefits	**$ 355**	$ 307	**$ 1,266**	$ 1,130
Post employment benefits	**15**	8	**44**	36
Fair value of share-based compensation	**60**	17	**493**	256
	$ 430	$ 332	**$ 1,803**	$ 1,422

In fiscal 2011, the Company paid $23,900 in director's fees (2010: $13,500) to a company whose managing partner is a director of the Company, $Nil in consulting fees (2010: $36,440) to a company whose president is a former director of the Company.

SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

(vi) Recoverability of mining properties

The Company's management reviews the carrying values of its mining properties on a regular basis to determine whether any write-downs are necessary. The recovery of amounts recorded for mining properties depends on confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. Management relies on 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:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets						
Available-for-sale:						
Marketable securities	$ -	**$ -**	$ -	$ -	$ 211	$ 211
Financial Liabilities						
Other financial liabilities						
Convertible 7% debentures	$ 10,726	$ 11,040	$ 10,072	$ 11,696	$ 9,483	$ 11,122

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 year ended December 31, 2011 and 2010.

(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 year ended December 31, 2011 and 2010.

(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:

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**	**-**	**-**	**-**

December 31, 2010

	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables & accruals	$12,938	-	-	-
Finance leases	$ 1,422	$ 1,653	$ 198	-
Convertible debentures	$ 765	$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. While it is possible that the costs and delays associated with compliance with such laws, regulations and permits could become such that the Company would not proceed with the development or operation of a mine, the Company is not aware of any material environmental constraint affecting its properties that would preclude the economic development or operation of any specific property.

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. The Company believes it is currently in compliance in all material respects with the legislation described above.

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.

CHANGES TO ACCOUNTING POLICIES

Transition to International Financial Reporting Standards ("IFRS")

The Company has adopted IFRS for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Company provided information on its transition to IFRS in its March 31, 2011, Interim Management's Discussion and Analysis. The consolidated financial statements for the year ended December 31, 2011, are the first annual financial statements prepared under IFRS.

Also, Note 27 of our audited consolidated financial statements for the year ended December 31, 2011, contains a detailed description of our conversion to IFRS, including a line-by-line reconciliation of financial statements previously prepared under Canadian GAAP to those under IFRS.

Below please find a summary of the important elements regarding the transition:

IFRS 1 – "*First-time Adoption of International Financial Reporting Standards* ("IFRS 1") governs the first-time adoption of IFRS. IFRS 1, in general, requires accounting policies under IFRS to be applied retrospectively to determine the statement of financial position of the Company as of the transition date of January 1, 2010, and allows certain exemptions which the Company has elected to apply.

The Company's financial statements for the year ending December 31, 2011 are the first annual consolidated financial statements to comply with IFRS. The adoption of IFRS has not materially changed the Company's overall cash flows or operations, however, it has resulted in certain differences in recognition, measurement and disclosure as compared to Canadian generally accepted accounting principles ("Canadian GAAP").

In preparing the financial statements for the years ended December 31, 2011 and 2010, and the disclosures included in these financial statements, all comparative amounts have been restated to comply with IFRS, except where the Company has applied the optional exemptions and mandatory exceptions under IFRS 1. The Company's transition date is January 1, 2010 ("the transition date") and the Company prepared its opening IFRS statement of financial position at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 3. The Company has reconciled the following financial statements as prepared under Canadian GAAP to those prepared under IFRS for the following periods:

- Consolidated statements of financial position as at January 1, 2010 and December 31, 2010
- Consolidated statement of total equity as at December 31, 2010
- Consolidated statement of income and comprehensive income for the year ended December 31, 2010

IFRS 1 - "*First-time Adoption of International Financial Reporting Standards"* sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities charged or credited to retained earnings unless certain exemptions are applied. The Company has applied the following exceptions, exemptions, and changes to its opening statement of financial position dated January 1, 2010:

Exceptions

(i) *Financial instruments*

Financial assets and liabilities that had been de-recognized before January 1, 2004 under Canadian GAAP have not been recognized under IFRS.

(ii) *Estimates*

The Company has used estimates under IFRS that are consistent with those applied under Canadian GAAP unless there is objective evidence those estimates were in error.

Exemptions

(a) *Business combinations*

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 - "*Business Combinations"* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has utilized this election and has therefore applied IFRS 3 only to business combinations that occurred on or after January 1, 2010.

(b) *Share-based payment transactions*

The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP. There was no material impact on the financial statements of applying IFRS 2 to unvested options at the transition date. The rate of forfeiture of unvested options was minimal.

(c) *Compound financial instruments*

IAS 32 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating two portions of equity, the first portion is in retained earnings an d represents the cumulative interest accreted on the liability components, while the other portion represents the original equity component. The Company has utilized this IFRS 1 exemption to not require separation of these two portions if the liability component is no longer outstanding at the transition date.

(d) *Mineral property, plant and equipment – deemed cost*

IFRS 1 includes an election to use fair value or revaluation as deemed cost for property, plant and equipment, and is available on an asset-by-asset basis. The IFRS 1 election is separate from the policy choice available to measure long-lived assets at cost or under the revaluation model. The Company has elected to apply the IFRS 1 exemption to certain mobile equipment, which has resulted in an increase in mineral properties and equipment of $6.3 million as at January 1, 2010, with a corresponding increase in retained earnings.

(e) *Gain or loss on disposal of mining equipment*

As a result of the Company's revaluing its mining equipment as at January 1, 2010, disposals of equipment in 2010 resulted in a reduction in the gain on disposals of $0.2 million.

(f) *Decommissioning liability*

Under IFRS 1, an entity can elect not to retrospectively calculate the effect of each change in estimate that occurred prior to the transition date on the decommissioning asset and related depletion. Instead, it can elect to measure the liability at the transition date in accordance with IAS 37. The Company has elected to use the IFRS 1 exemption and has measured the decommissioning asset and liability accordingly. The effect was to increase mineral property and equipment and decommissioning liability by $0.2 million as at January 1, 2010.

Required Changes

(g) *Dilution reclassification*

Under IFRS, dilution gains or losses as a result of a change in percentage ownership of subsidiary companies are recorded in contributed surplus. The Company transferred $0.4 million from retained earnings to contributed surplus as at January 1, 2010.

(h) *Reclassification of flow-through shares*

The Company has issued flow-through shares in the past. IFRS requires the difference between quoted market price of the same class of share without the flow-through feature and the amount the investor pays for the shares, or premium, be recorded as a liability. The premium previously recorded in share capital in the amount of $1.1 million was transferred to retained earnings.

Under the terms of flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. Under IFRS the tax effect of the flow-through share renunciations are recorded in tax expense. The renunciations previously charged to share capital were transferred to retained earnings in the amount of $5.1 million.

The net effect was a decrease in retained earnings of $4.1 million.

(i) *Reclassification of share issuance costs*

IFRS requires that current and deferred taxes be recognized in equity or in other comprehensive income when they relate to transactions or events recognized in equity or other comprehensive income in either the current or a prior period. This concept impacts the balance of the Company's unclaimed financing fees as at January 1, 2010. IFRS requires the balance to be transferred from retained earnings to share capital. The balance of deferred taxes relating to unclaimed financing fees as at January 1, 2010 was $0.1 million.

(j) *Reclassification and revision of deferred taxes*

Under IFRS current future income taxes in the amount of $1.2 million were reclassified to deferred income taxes. On transition, a revision in deferred taxes in the amount of $0.1 million was recorded as a result of the tax impact of the following IFRS transitional adjustments:

- revaluation of mobile equipment at deemed cost
- re-measurement of the decommissioning liability at the transition date
- revision of depletion due to the change in measurement of depletion, and the subsequent impact on the valuation of the bullion inventory

Policy Changes

(k) *Depletion – Units-of-production*

The transition from tonnes to ounces as the Company's UOP resulted in an increase in the estimated accumulated depletion of $6.0 million as at January 1, 2010. Depletion for 2010 also decreased by $3.0 million, of which $0.2 million was applied to bullion inventory.

(l) *Contributed surplus – Expired warrants and options*

During the current fiscal year, after the issuance of the Company's first interim IFRS financial report, the Company changed its policy of accounting for contributed surplus. Under the new policy, the value of any expired warrants and options recorded to contributed surplus is reclassified to retained earnings at the time of expiry. This change resulted in an increase in retained earnings of $2.2 million as at January 1, 2010, and $0.1 million as at December 31, 2010.

(m) *Contributed surplus – Share repurchases*
During the current fiscal year, after the issuance of the Company's first interim IFRS financial report, the Company changed its policy of account for share repurchases. Under the new policy, premiums are first recorded to contributed surplus to the extent that there are discounts remaining, before being charged to retained earnings. This change resulted in an increase in retained earnings of $0.0 million as at January 1, 2010, and no change as at December 31, 2010.

Presentation Differences
Certain presentation differences between previous Canadian GAAP and IFRS have no impact on reported income or total equity.

Some assets and liabilities have been reclassified under IFRS at the transition date. A reclassification has been recorded for "non-controlling interest". "Deferred income taxes", "Dilution loss on Moss Lake Gold Mines Ltd." and "Loss on marketable securities" have also been reclassified on the December 31, 2010 financial statements.

Some line items are described differently (renamed) under IFRS compared to previous Canadian GAAP, although the assets and liabilities included in these line items are unaffected. These line items are as follows (with previous Canadian GAAP description in brackets):

Deferred taxes (Future taxes)
Equity attributable to owners of the parent (Shareholders' Equity)
Finance leases (Capital leases)
Provisions (Decommissioning liability)

Cash Flow Statement
The presentation of the cash flow statement in accordance with IFRS differs from the presentation of the cash flow statement in accordance with Canadian GAAP. The changes made to the statements of financial position and statements of income and comprehensive income have resulted in reclassifications of various amounts on the statement of cash flows.

Information Systems
IT implications were assessed with respect to additional information required under IFRS. No significant changes were required to operate the accounting system under IFRS.

Internal Controls
Management is responsible for ensuring that processes are in place to provide them with sufficient knowledge to support their certification of the financial statements and MD&A, more specifically assessing that the SEDAR filings are presenting fairly the results of the Company. Management is confident it can still certify its filings following the transition to IFRS.

Impact on the Business
The business processes of the Company were not affected significantly by IFRS. The Company has no foreign currency transactions, no defined benefit pension plan, no hedging activities, no debt or capital covenants. The Company doesn't expect to enter into flow-through financing arrangements. The Company has no compensation arrangements that were affected by the IFRS implementation. The Company's Stock Option Plan is not affected by ratios or financial targets.

Training and Communication
Key finance staff has attended and continue to attend various IFRS update and training courses. IFRS standard requirements have been communicated to other finance staff.

SUMMARY OF SHARES ISSUED

As of March 14, 2012, the Company's share information is as follows:

Common shares issued	101,908,159
Common share purchase options	1,828,000

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

In accordance with the requirements of National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*." the Company's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), have evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's CEO and CFO have concluded that as at December 31, 2011, 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 December 31, 2011, 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

In 2012 we expect higher output levels from each mine and a full year's contribution from the Mishi Mine. Overall production should exceed 60,000 ounces in 2012. We expect the Eagle River Mine to produce about 28,000 ounces from 160,000 tonnes at a recovered grade of 5.4 gAu/tonne, the Kiena Mine to produce about 23,000 ounces from 300,000 tonnes at a recovered grade of 2.4 gAu/tonne and the Mishi Mine to produce about 9,000 ounces from 150,000 tonnes at a recovered grade of 1.9 gAu/tonne. We believe these estimates are conservative with upside potential as progressive improvements in grade are realized.

We expect a slow first quarter at the Kiena Mine as we catch up on development and forecast stronger grades in the second half of the year when the upper portions of the 388 Zone come onstream. This low-grade, high cost operation is extremely leveraged to the gold price.

We are confident in Eagle River's potential to exceed forecasts. The Mishi Mine is just starting and requires a track record to be established to more confidently forecast production levels. Over Mishi's 5-year mine plan, each year will improve in sequence as the stripping ratio declines.

Nonetheless, our conservative forecast of 60,000 ounces in 2012 would represent a 25% improvement over 2011 production. We remain very optimistic regarding the gold market and continue to believe our assets demonstrate exceptional leverage to gold prices and the capacity to grow production over the short to medium term.