



Management's Discussion and Analysis

(in United States Dollars, unless otherwise stated)

For the year ended December 31, 2013



TABLE OF CONTENTS

OVERVIEW OF THE BUSINESS	3
HIGHLIGHTS.....	4
OUTLOOK AND STRATEGY	5
SUMMARIZED FINANCIAL AND OPERATING RESULTS.....	6
SUMMARY OF QUARTERLY FINANCIAL AND OPERATING RESULTS	10
YOUNG-DAVIDSON.....	12
EL CHANATE.....	14
EXPLORATION REVIEW.....	16
CONSOLIDATED EXPENSES	17
CONSOLIDATED INCOME TAX EXPENSE.....	18
FINANCIAL CONDITION	19
LIQUIDITY AND CAPITAL RESOURCES.....	20
CONTRACTUAL OBLIGATIONS	21
OUTSTANDING SHARE DATA.....	21
OFF-BALANCE SHEET ARRANGEMENTS	22
FINANCIAL INSTRUMENTS	22
TRANSACTIONS WITH RELATED PARTIES.....	22
NON-GAAP MEASURES	23
RISKS AND UNCERTAINTIES.....	27
CRITICAL ACCOUNTING ESTIMATES, POLICIES AND CHANGES.....	30
CONTROLS AND PROCEDURES	33
CAUTIONARY NOTE TO U.S. INVESTORS	34
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	34

This Management's Discussion and Analysis ("MD&A"), dated March 3, 2014, relates to the financial condition and results of the consolidated operations of AuRico Gold Inc. (the "Company"), and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2013, and notes thereto. The consolidated financial statements for the years ended December 31, 2013 and 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). All results are presented in United States dollars, unless otherwise stated.

The first, second, third and fourth quarters of the Company's fiscal year are referred to as "Q1", "Q2", "Q3" and "Q4", respectively.

Statements are subject to the risks and uncertainties identified in the Risks and Uncertainties and Cautionary Note regarding Forward-Looking Statements sections of this document. U.S. investors are also advised to refer to the section entitled Cautionary Note to U.S. Investors on page 34.

OVERVIEW OF THE BUSINESS

AuRico Gold Inc. is a Canadian gold producer with mines and projects in North America. The Company's operations include the Young-Davidson mine in Ontario, Canada and the El Chanate mine in Sonora, Mexico. The Company's project pipeline also includes exploration and development opportunities in Canada and Mexico.

Throughout this document, reference is made to results from both continuing and discontinued operations. Prior period results for properties that were sold during 2012 have been presented as discontinued operations. The sale of these properties had no effect on the Company's continuing operations. The Company's operations have been classified between continuing and discontinued operations as follows:

- Continuing operations: Young-Davidson mine, El Chanate mine, and Corporate and other. Corporate and other includes the Company's corporate offices, the Kemess mine, and other exploration properties.
- Discontinued operations: Ocampo mine and Venus and Los Jarros exploration properties (collectively, the "Ocampo mine"), El Cubo mine and Guadalupe y Calvo exploration property (collectively, the "El Cubo mine"), and Fosterville and Stawell mines and their related subsidiaries (collectively, the "Australian Operations").

The Company's common shares are listed on the Toronto Stock Exchange (TSX: AUQ) and the New York Stock Exchange (NYSE: AUQ). Further information about AuRico Gold Inc. can be found in the Company's regulatory filings, including the Annual Information Form, available on SEDAR at www.sedar.com, on EDGAR at www.sec.gov, and on the Company's website at www.auricogold.com.

The Company's performance is largely dependent on the price of gold, which directly affects the Company's profitability and cash flow. The price of gold is subject to volatile price movements during short periods of time and is affected by numerous factors, such as the strength of the US dollar, supply and demand, interest rates, and inflation rates, all of which are beyond the Company's control. During 2013, the price of gold averaged \$1,411 per ounce, a 15% decrease from the London PM Fix average of \$1,669 during 2012. During 2013, daily London PM Fix prices ranged between \$1,694 and \$1,192 per ounce.

At the Company's mine sites, a significant portion of the operating costs and capital expenditures are denominated in foreign currencies, including Mexican pesos and Canadian dollars. Therefore, fluctuations in these foreign currencies against the US dollar can significantly impact the Company's costs. The Mexican peso and Canadian dollar averaged approximately 12.8 to 1.0 US dollar and 1.03 to 1.0 US dollar, respectively, in 2013, compared to average rates of 13.2 to 1.0 US dollar and 1.0 to 1.0 US dollar, respectively, in 2012.

For additional information on the factors that affect the Company, see the discussion of Risks and Uncertainties on page 27.

HIGHLIGHTS

(in thousands, except ounces, per share amounts, all-in sustaining costs and total cash costs)

	Year Ended		Change (#)/(\$)	Change (%)
	December 31 2013	December 31 2012 ⁽¹⁾		
Gold ounces produced ⁽²⁾	161,100	100,284	60,816	61%
Pre-production gold ounces produced ⁽²⁾	31,502	26,999	4,503	17%
Total gold ounces produced	192,602	127,283	65,319	51%
Revenue from mining operations	\$ 227,631	\$ 163,622	\$ 64,009	39%
Loss from operations ⁽³⁾	\$ (178,087)	\$ (96,884)	\$ (81,203)	-84%
Net loss from continuing operations ⁽³⁾	\$ (176,770)	\$ (99,779)	\$ (76,991)	-77%
Net loss per share from continuing operations, basic ⁽³⁾	\$ (0.71)	\$ (0.35)	\$ (0.36)	-103%
Total cash	\$ 142,652	\$ 603,401	\$ (460,749)	-76%
Operating cash flow ⁽³⁾	\$ 63,266	\$ (7,231)	\$ 70,497	975%
Net free cash flow ⁽³⁾⁽⁴⁾	\$ (186,156)	\$ (368,731)	\$ 182,575	50%
Cash costs per gold ounce, net of by-product revenues and NRV adjustments ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	\$ 676	\$ 536	\$ 140	26%
All-in sustaining costs per gold ounce sold, net of by-product revenues and NRV adjustments ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾	\$ 1,181	\$ 1,259	\$ (78)	-6%

⁽¹⁾ Operating data and financial information includes the results from continuing operations only for the year ended December 31, 2012.

⁽²⁾ The Young-Davidson open pit mine declared commercial production on September 1, 2012, and is therefore excluded from consolidated cash costs and consolidated all-in sustaining costs prior to this date. In addition, the Young-Davidson underground mine declared commercial production on October 31, 2013, and therefore, all underground ounces are excluded from consolidated cash costs and consolidated all-in sustaining costs prior to this date. Pre-production ounces produced and sold are excluded from consolidated ounces produced and sold as these ounces were credited against capitalized project costs.

⁽³⁾ Certain comparative information has been restated as a result of the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which was applied prospectively to production stripping costs incurred on or after January 1, 2012. For further details, refer to the Critical Accounting Estimates, Policies and Changes section on page 30 or note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

⁽⁴⁾ See the Non-GAAP Measures section on page 23.

⁽⁵⁾ Gold ounces used to calculate cash costs include ounces sold at the El Chanate mine and ounces produced at the Young-Davidson mine for the years ended December 31, 2013 and 2012.

⁽⁶⁾ For further discussion on the net realizable value ("NRV") adjustments recognized on ore inventories at the El Chanate and Young-Davidson mines during the quarter and annual periods, refer to pages 13 and 15.

RECENT DEVELOPMENTS

- On March 3, 2014, the Company reported proven and probable reserves of 6.5 million gold ounces, a 0.3 million ounce decline from the 6.8 million gold ounces reported in 2012. This decline is due to 2013 depletion at El Chanate and at the Young-Davidson open pit. The Young-Davidson underground mine replaced all ounces mined during 2013.
- On January 4, 2014, the Company announced the declaration of a dividend of \$0.04 per share, which was paid on January 29, 2014 to shareholders of record at the close of business on January 14, 2014. The Company announced its inaugural dividend policy on February 21, 2013 whereby the Company paid a dividend of \$0.16 per share in 2013 (payable quarterly). Subsequent to 2013, the Company's dividend will be linked to operating cash flow, whereby the Company intends to pay out 20% of the operating cash flow generated in the preceding quarter.
- In January 2014, the Young-Davidson paste backfill plant was commissioned and completed its first pour. In 2011, the mine plan was re-engineered to utilize paste backfill to allow for significantly improved mining recovery and reduced dilution.
- On October 31, 2013, the Company declared commercial production at the Young-Davidson underground mine. Commissioning of the shaft hoisting system was a key project milestone that will support increased underground productivities and favourable unit cost efficiencies over the life of the mine.
- On June 11, 2013, the Company announced a dividend reinvestment plan, which commenced with the July 2013 dividend. Common shares issued under this plan will be issued at a 5% discount from the average market price of the common shares over the five day period preceding the relevant dividend payment date. The discount may be adjusted at a future date, but cannot exceed 5%.
- On January 29, 2013, the Company announced the successful repurchase and cancellation of 36,144,578 common shares at a price of \$8.30 per share under the Company's "modified Dutch auction" substantial issuer bid, for a total purchase price of \$300 million.

OUTLOOK AND STRATEGY

AuRico Gold Inc. is committed to being a leading low cost gold producer focused on growth in North America. The Company's mission is to deliver superior shareholder value by building a culture of excellence in every aspect of what we do, through organic growth, exploration, accretive industry consolidation, and commitment to socially responsible practices within the communities in which we work. The Company will continue to optimize its operations to deliver reliable, consistent and sustainable performance over the life of its mining operations. The Company's focus is on the production of high margin ounces combined with a disciplined approach to cost containment and capital spending along with a commitment to shareholder value creation.

The Company's primary focus for 2013 was completing the construction of the mid-shaft hoisting system and advancing underground development at Young-Davidson. This system was commissioned in October 2013, and the Company declared commercial production at the Young-Davidson underground mine on October 31, 2013. The shaft hoisting system has, and will continue to, facilitate significant increases in underground activities and corresponding cost efficiencies. In 2013, the Company accelerated underground development which resulted in 75% of the 2014 mine plan already being laterally accessed and 100% of the 2014 mine plan being vertically accessed. In 2014, the Company will continue to advance underground development to optimize available ore inventory, which is expected to position the mine for sustainable, period-over-period, productivity increases in 2014 and beyond. During 2014, Young-Davidson is anticipated to produce between 140,000 and 160,000 ounces, a 16% to 33% increase over 2013 production.

The Young-Davidson open pit will be fully depleted during the first half of 2014, at which time approximately 3.6 million tonnes of open pit ore will be stockpiled ahead of the mill facility for future processing. Subsequent to the cessation of open pit mining, mill feed from the underground mine will be supplemented by the stockpiled ore while underground mining levels ramp up to mill capacity.

Production from the El Chanate mine in 2014 is expected to be between 70,000 and 80,000 ounces, consistent with production in 2013. The Company is currently exploring extensions to both the northwest and southeast of the main pit with a goal to increase resources and potentially extend the life of the mine.

During 2014, the Company expects to produce 210,000 to 240,000 ounces of gold on a consolidated basis at all-in sustaining costs of approximately \$1,100 to \$1,200 per gold ounce, a 9% to 25% increase over 2013 production with consistent all-in sustaining costs. Capital expenditures for 2014 are forecast to be approximately \$125 - \$135 million, a decline of 46% to 42% from 2013. Consolidated operating cash flows will improve over the course of the year, mainly driven by forecasted margin improvements at Young-Davidson subsequent to the cessation of mining in the open pit and concurrent ramp up of production from the underground mine. Capital expenditures are forecasted to decline over the course of the year due to fewer capital projects in the second half of the year. Expenditures on underground development will be relatively consistent throughout the year.

The Company expects to spend approximately \$10 million on exploration during 2014. The 2014 exploration program will continue to focus on increasing mineral reserves and resources at the Company's existing operations, as well as continuing to explore new and previously identified targets at all properties.

During 2013, the London PM fix averaged \$1,411 per ounce, but the price of gold declined steadily throughout the year ending with a final London PM fix of \$1,205 on December 30, 2013. Gold prices have improved in early 2014 which, combined with significant Canadian dollar weakness, has improved the Company's outlook. Although, the Company expects capital expenditures to exceed operating cash flows in 2014 at current spot prices, primarily due to additional capital expenditures required at Young-Davidson in the first half of the year, the Company anticipates that free cash flow will improve over the course of the year. The Company has the ability to fund this forecasted shortfall with cash on hand as well as the remaining capacity under its credit facility.

On February 6, 2014, the Company provided 2014 guidance for the El Chanate and Young-Davidson mines. The press release is available on SEDAR at www.sedar.com, on EDGAR at www.sec.gov, and on the Company's website at www.auricogold.com.

SUMMARIZED FINANCIAL AND OPERATING RESULTS*(in thousands, except ounces, per share amounts, average realized prices, all-in sustaining costs and total cash costs)*

	Year Ended		Year Ended		Year Ended
	December 31		December 31		December 31
	2013		2012		2011
Continuing operations - Young-Davidson mine, El Chanate mine, and Corporate and other					
Gold ounces produced ⁽¹⁾	161,100		100,284		49,395
Gold ounces sold ⁽¹⁾	160,913		94,422		49,659
Pre-production gold ounces produced ⁽¹⁾	31,502		26,999		-
Pre-production gold ounces sold ⁽¹⁾	31,839		17,505		-
Cash costs per gold ounce, net of by-product revenues and NRV adjustments ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$ 676	\$	536	\$	449
Cash costs per gold ounce, net of by-product revenues ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$ 837	\$	536	\$	449
All-in sustaining costs per gold ounce sold, net of by-product revenues and NRV adjustments ⁽¹⁾⁽³⁾⁽⁴⁾	\$ 1,181	\$	1,259	\$	982
All-in sustaining costs per gold ounce sold, net of by-product revenues ⁽¹⁾⁽³⁾⁽⁴⁾	\$ 1,342	\$	1,259	\$	982
Revenue from mining operations	\$ 227,631	\$	163,622	\$	83,932
Production costs ⁽²⁾⁽⁵⁾	\$ 147,981	\$	61,599	\$	32,912
Loss from operations ⁽²⁾	\$ (178,087)	\$	(96,884)	\$	(6,811)
Net (loss) / earnings ⁽²⁾	\$ (176,770)	\$	(99,779)	\$	29,295
Net (loss) / earnings per share, basic ⁽²⁾	\$ (0.71)	\$	(0.35)	\$	0.16
Net (loss) / earnings per share, diluted ⁽²⁾	\$ (0.72)	\$	(0.35)	\$	0.03
Operating cash flow ⁽²⁾	\$ 63,266	\$	(7,231)	\$	(3,076)
Net free cash flow ⁽³⁾	\$ (186,156)	\$	(368,731)	\$	(111,054)
Discontinued operations - Ocampo mine, El Cubo mine, and Australian Operations					
Gold ounces produced	-		123,201		138,028
Silver ounces produced	-		2,983,924		4,728,151
Gold ounces sold	-		123,313		131,081
Silver ounces sold	-		2,807,754		4,516,975
Cash costs per gold ounce, net of by-product revenues, co-product revenues and NRV adjustments ⁽³⁾	\$ -	\$	478	\$	(296)
Cash costs per gold ounce, net of by-product and co-product revenues ⁽³⁾	\$ -	\$	563	\$	(296)
Revenue from mining operations	\$ -	\$	293,745	\$	366,183
Production costs ⁽⁵⁾	\$ -	\$	155,920	\$	122,417
Earnings from operations	\$ -	\$	56,320	\$	220,086
Net earnings	\$ -	\$	131,052	\$	147,564
Net earnings per share, basic	\$ -	\$	0.46	\$	0.80
Net earnings per share, diluted	\$ -	\$	0.46	\$	0.79
Operating cash flow	\$ -	\$	79,071	\$	184,900
Net free cash flow ⁽³⁾	\$ -	\$	(64,449)	\$	45,492

	Year Ended		Year Ended		Year Ended	
	December 31		December 31		December 31	
	2013		2012		2011	
Total						
Gold ounces produced ⁽¹⁾		161,100		223,485		187,423
Silver ounces produced		-		2,983,924		4,728,151
Gold ounces sold ⁽¹⁾		160,913		217,735		180,740
Silver ounces sold		-		2,807,754		4,516,975
Pre-production gold ounces produced ⁽¹⁾		31,502		26,999		-
Pre-production gold ounces sold ⁽¹⁾		31,839		17,505		-
Average realized gold price per ounce	\$	1,395	\$	1,678	\$	1,599
Average realized silver price per ounce	\$	-	\$	31.16	\$	34.97
Cash costs per gold ounce, net of by-product revenues, co-product revenues and NRV adjustments ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$	676	\$	503	\$	(92)
Cash costs per gold ounce, net of by-product and co-product revenues ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$	837	\$	551	\$	(92)
Revenue from mining operations	\$	227,631	\$	457,367	\$	450,115
Production costs ⁽²⁾⁽⁵⁾	\$	147,981	\$	217,519	\$	155,329
(Loss) / earnings from operations ⁽²⁾	\$	(178,087)	\$	(40,564)	\$	213,275
Net (loss) / earnings ⁽²⁾	\$	(176,770)	\$	31,273	\$	176,859
Net (loss) / earnings per share, basic ⁽²⁾	\$	(0.71)	\$	0.11	\$	0.96
Net (loss) / earnings per share, diluted ⁽²⁾	\$	(0.72)	\$	0.11	\$	0.82
Operating cash flow ⁽²⁾	\$	63,266	\$	71,840	\$	181,824
Net free cash flow ⁽³⁾	\$	(186,156)	\$	(433,180)	\$	(65,562)
Total cash	\$	142,652	\$	603,401	\$	179,444
Cash dividends per share, declared	\$	0.16	\$	Nil	\$	Nil

⁽¹⁾ The Young-Davidson open pit mine declared commercial production on September 1, 2012, and is therefore excluded from consolidated cash costs and consolidated all-in sustaining costs prior to this date. In addition, the Young-Davidson underground mine declared commercial production on October 31, 2013, and therefore, all underground ounces are excluded from consolidated cash costs and consolidated all-in sustaining costs prior to this date. Pre-production ounces produced and sold are excluded from consolidated ounces produced and sold as these ounces were credited against capitalized project costs.

⁽²⁾ Certain 2012 information has been restated as a result of the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which was applied prospectively to production stripping costs incurred on or after January 1, 2012. For further details, refer to the Critical Accounting Estimates, Policies and Changes section on page 30 or note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

⁽³⁾ See the Non-GAAP Measures section on page 23.

⁽⁴⁾ Gold ounces used to calculate cash costs include ounces sold at the El Chanate, Ocampo, El Cubo, Fosterville and Stawell mines and ounces produced at the Young-Davidson mine for years ended December 31, 2013, 2012 and 2011

⁽⁵⁾ Production costs do not include amortization and depletion or refining costs.

REVIEW OF ANNUAL FINANCIAL RESULTS

2013 versus 2012

During 2013, the Company sold 160,913 gold ounces at Young-Davidson and El Chanate, compared to sales of 94,422 gold ounces in 2012 when the Young-Davidson open pit mine contributed four months of sales subsequent to the declaration of commercial production on September 1, 2012. Revenues from continuing operations during 2013 increased to \$227.6 million, as compared to revenues from continuing operations of \$163.6 million in 2012. This \$64.0 million increase in revenue was due to an increase in ounces sold at the Young-Davidson mine, and was partially offset by lower realized gold prices in 2013. The Company sold 31,839 pre-production ounces at Young-Davidson during 2013, compared to 17,505 pre-production ounces sold during 2012. The related revenues from pre-production ounces were credited against capitalized costs.

The Company recognized a loss from continuing operations of \$178.1 million in 2013, compared to a loss from continuing operations of \$96.9 million in 2012. During the year, primarily as a result of the impact of lower gold prices, the Company recorded impairment charges of \$154.0 million on goodwill, property, plant and equipment and mining interests at the El Chanate mine. In addition, the Company recognized net realizable value ("NRV") adjustments on ore inventories at El Chanate and Young-Davidson of \$25.5 million and \$16.6 million, respectively (further discussion is provided on pages 13 and 15). In 2012, the Company recorded an impairment charge related to the El Chanate mine of \$127.0 million. Before these impairment charges and NRV adjustments, earnings from continuing operations were \$18.0 million, a 40% decrease compared to 2012. This decrease was primarily due to reduced realized gold prices during the year, offset by earnings from a full year of operations at the Young-Davidson open pit mine, which achieved commercial production on September 1, 2012, and two months of commercial production from the underground mine which achieved commercial production on October 31, 2013.

The Company reported a net loss from continuing operations of \$176.8 million in 2013, compared to a net loss from continuing operations of \$99.8 million in 2012. The increase in net loss was due to the higher losses from continuing operations mentioned above and a \$15.5 million increase in tax expense, offset by increases in foreign exchange gains of \$21.7 million. Foreign exchange gains resulted from the weakening of the Canadian dollar and Mexican peso relative to the US dollar.

During 2013, consolidated cash costs per gold ounce from continuing operations, net of by-product revenues and NRV adjustments were \$676, representing a 26% increase over 2012 cash costs per gold ounce of \$536. This year-over-year increase resulted from the addition of cash costs at the Young-Davidson open pit mine for a full year and higher average ore inventory costs at El Chanate. The higher costs at El Chanate were due to higher quantities of solution applied to the leach pad over the past year to accelerate recoveries and a reduction in capitalized stripping costs associated with the adoption of a new accounting standard. In 2012, cash costs per gold ounce included cash costs from the Young-Davidson open pit mine subsequent to the declaration of commercial production on September 1, 2012.

During 2013, all-in sustaining costs per gold ounce from continuing operations, net of by-product revenues and NRV adjustments, were \$1,181, representing a 6% decrease over 2012 all-in sustaining costs per gold ounce of \$1,259. The decrease is primarily due to decreased general and administration expenditures per gold ounce sold, offset by the addition of cash costs from the Young-Davidson open pit mine and increased cash costs at the El Chanate mine.

The Company reported operating cash flow from continuing operations of \$63.3 million during 2013, an increase of \$70.5 million from the prior year cash outflow of \$7.2 million. This increase in operating cash flow arose primarily as a result of additional operating cash flow contributed from the Young-Davidson mine, partially offset by lower operating cash flow at the El Chanate mine due to lower realized prices and higher cash costs per ounce. After deducting capital expenditures of \$249.4 million, primarily related to Young-Davidson, the Company's 2013 net free cash flow from continuing operations was an outflow of \$186.2 million.

2012 versus 2011

During 2012, the Company sold 217,735 gold ounces and 2,807,754 silver ounces compared to sales of 180,740 gold ounces and 4,516,975 silver ounces in 2011. This increase resulted from an additional quarter of gold ounces sold at the El Chanate mine, which was acquired after Q1 2011, and gold ounces sold at the Young-Davidson open pit mine subsequent to the declaration of commercial production on September 1, 2012. These increases were partially offset by a decline in ounces sold at Ocampo during the year. The decline in silver ounces sold was due to lower production at Ocampo during 2012.

Excluding ounces sold from discontinued operations, the Company sold 94,422 gold ounces in 2012, a 90% increase over 2011. During the year, revenues from continuing operations increased to \$163.6 million, as compared to revenues from continuing operations of \$83.9 million in 2011. This \$79.7 million, or 95%, increase in revenue was due to the increase in ounces sold at the El Chanate mine and the addition of ounces sold at the Young-Davidson mine.

Loss from operations, which is exclusive of discontinued operations, was \$96.9 million in 2012, compared to a loss from operations of \$6.8 million in 2011. During 2012, the Company recorded an impairment charge related to the El Chanate mine. Before the impairment charge of \$127.0 million, earnings from continuing operations were \$30.1 million in 2012, representing a \$36.9 million increase in earnings over the prior year. This increase was primarily a result of the increase in revenues mentioned previously, and was partially offset by related increases in production costs and amortization and depletion, and a \$12.0 million increase in reclamation, care and maintenance costs at Kemess South.

The Company reported a net loss from continuing operations of \$99.8 million in 2012, representing a \$129.1 million decrease from the Company's net earnings from continuing operations of \$29.3 million in 2011. Before the impairment charge of \$127.0 million, net earnings from continuing operations were \$27.2 million in 2012, representing a decrease of \$2.1 million over the prior year. The decrease in net earnings from continuing operations was primarily as a result of an \$18.9 million decrease in unrealized gains on the fair value of the option component of convertible senior notes and a \$20.3 million increase in foreign exchange losses. These decreases were partially offset by the increase in earnings from continuing operations discussed above, an \$11.3 million decline in tax expense, and a \$6.6 million gain on the sale of a 50% interest in the Orion advanced development project to Minera Frisco S.A.B. de C.V. during the fourth quarter of 2012. Including net earnings from discontinued operations of \$131.1 million, consolidated net earnings were \$31.3 million in 2012 compared to consolidated net earnings of \$176.9 million in 2011. Included in net earnings from discontinued operations is a \$69.5 million net gain on the sale of the Ocampo mine and Venus and Los Jarros exploration properties, a \$17.2 million net gain on the sale of the El Cubo mine and Guadalupe y Calvo exploration property, and a \$4.6 million net loss on the sale of the Australian Operations.

During 2012, consolidated cash costs per gold ounce from continuing operations were \$536, representing a 19% increase over 2011 cash costs of \$449. This increase was primarily due to higher cost ounces produced at Young-Davidson open pit subsequent to the declaration of commercial production on September 1, 2012, partially offset by a decline in cash costs at El Chanate due to optimization initiatives completed by the Company subsequent to the acquisition of the mine in early Q2 2011. Including cash costs from discontinued operations, total cash costs per ounce were \$551 in 2012, compared to a credit of \$92 per ounce in 2011 (due to co-product revenues exceeding cash costs). The increase in cash costs from discontinued operations is primarily due to lower production and the net realizable value adjustments recognized on ore in process heap leach inventory at Ocampo, as well as higher cost ounces produced at the El Cubo, Fosterville and Stawell mines during 2012.

The Company reported operating cash flow from continuing operations of negative \$7.2 million during 2012, a decrease of \$4.1 million from the prior year result of negative \$3.1 million. This decrease in operating cash flow arose primarily as a result of increased reclamation expenditures at Kemess South. Operating cash flow from Young-Davidson includes the build-up of stockpile and ore inventories during the year. After deducting capital expenditures of \$361.5 million, including capital expenditures of \$309.2 million at the Young-Davidson mine, the Company's 2012 net free cash flow from continuing operations was negative \$368.7 million.

SUMMARY OF QUARTERLY FINANCIAL AND OPERATING RESULTS

(in thousands, except ounces, per share amounts, average realized prices, all-in sustaining costs and total cash costs)

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Gold ounces produced ⁽¹⁾	46,017	38,456	38,186	38,441	43,603	43,181	55,828	80,873
Silver ounces produced ⁽¹⁾	-	-	-	-	301,951	478,497	1,091,092	1,112,384
Gold ounces sold ⁽¹⁾	39,855	40,185	41,540	39,333	45,385	36,804	53,255	82,291
Silver ounces sold ⁽¹⁾	-	-	-	-	313,575	492,335	909,960	1,091,884
Average realized gold price	\$ 1,257	\$ 1,332	\$ 1,369	\$ 1,627	\$ 1,721	\$ 1,664	\$ 1,616	\$ 1,700
Average realized silver price	\$ -	\$ -	\$ -	\$ -	\$ 32.79	\$ 29.87	\$ 29.07	\$ 33.02
Cash costs per gold ounce, net of by-product revenues and NRV adjustments ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾	\$ 771	\$ 628	\$ 655	\$ 635	\$ 650	\$ 427	\$ 425	\$ 532
Cash costs per gold ounce, net of by-product revenues ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾	\$ 1,284	\$ 497	\$ 848	\$ 635	\$ 650	\$ 340	\$ 588	\$ 532
All-in sustaining costs per gold ounce, sold net of by-product revenues and NRV adjustments ⁽¹⁾⁽³⁾	\$ 1,232	\$ 1,210	\$ 1,189	\$ 1,090	\$ 1,482	\$ 1,167	\$ 1,087	\$ 1,093
All-in sustaining costs per gold ounce, sold net of by-product revenues ⁽¹⁾⁽³⁾	\$ 1,807	\$ 1,087	\$ 1,382	\$ 1,090	\$ 1,482	\$ 1,167	\$ 1,087	\$ 1,093
Revenue from mining operations ⁽¹⁾	\$ 50,782	\$ 54,304	\$ 57,660	\$ 64,885	\$ 63,119	\$ 39,772	\$ 27,458	\$ 33,273
Production costs ⁽¹⁾⁽²⁾⁽⁴⁾	\$ 59,972	\$ 21,079	\$ 39,055	\$ 27,875	\$ 26,271	\$ 14,620	\$ 10,029	\$ 10,679
(Loss) / earnings from operations ⁽¹⁾⁽²⁾	\$ (104,158)	\$ 12,230	\$ (103,674)	\$ 17,515	\$ (113,929)	\$ 3,678	\$ 4,328	\$ 9,039
Net (loss) / earnings from continuing operations ⁽²⁾	\$ (106,412)	\$ 14,859	\$ (103,491)	\$ 18,274	\$ (135,142)	\$ 42,321	\$ 6,640	\$ (13,598)
Net earnings / (loss) from discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ 108,977	\$ (7,781)	\$ 15,043	\$ 14,813
Total net (loss) / earnings ⁽²⁾	\$ (106,412)	\$ 14,859	\$ (103,491)	\$ 18,274	\$ (26,165)	\$ 34,540	\$ 21,683	\$ 1,215
Net (loss) / earnings per share from continuing operations, basic ⁽²⁾	\$ (0.43)	\$ 0.06	\$ (0.42)	\$ 0.07	\$ (0.48)	\$ 0.15	\$ 0.03	\$ (0.05)
Net earnings / (loss) per share from discontinued operations, basic	\$ -	\$ -	\$ -	\$ -	\$ 0.39	\$ (0.03)	\$ 0.05	\$ 0.05
Total (loss) / earnings per share, basic ⁽²⁾	\$ (0.43)	\$ 0.06	\$ (0.42)	\$ 0.07	\$ (0.09)	\$ 0.12	\$ 0.08	\$ -
Net (loss) / earnings per share from continuing operations, diluted ⁽²⁾	\$ (0.43)	\$ 0.04	\$ (0.42)	\$ 0.04	\$ (0.48)	\$ 0.10	\$ (0.01)	\$ (0.05)
Net earnings / (loss) per share from discontinued operations, diluted	\$ -	\$ -	\$ -	\$ -	\$ 0.39	\$ (0.03)	\$ 0.05	\$ 0.05
Total (loss) / earnings per share, diluted ⁽²⁾	\$ (0.43)	\$ 0.04	\$ (0.42)	\$ 0.04	\$ (0.09)	\$ 0.07	\$ 0.04	\$ -
Operating cash flow from continuing operations ⁽²⁾	\$ 11,954	\$ 24,338	\$ 13,875	\$ 13,099	\$ (7,813)	\$ (5,653)	\$ (4,235)	\$ 10,470
Operating cash flow from discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ (528)	\$ 9,408	\$ 16,767	\$ 53,424
Total operating cash flow ⁽²⁾	\$ 11,954	\$ 24,338	\$ 13,875	\$ 13,099	\$ (8,341)	\$ 3,755	\$ 12,532	\$ 63,894
Net free cash flow from continuing operations ⁽³⁾	\$ (51,618)	\$ (55,734)	\$ (46,399)	\$ (32,405)	\$ (66,340)	\$ (83,097)	\$ (117,011)	\$ (102,283)
Net free cash flow from discontinued operations ⁽³⁾	\$ -	\$ -	\$ -	\$ -	\$ (23,784)	\$ (20,336)	\$ (22,175)	\$ 1,846
Total net free cash flow ⁽³⁾	\$ (51,618)	\$ (55,734)	\$ (46,399)	\$ (32,405)	\$ (90,124)	\$ (103,433)	\$ (139,186)	\$ (100,437)

⁽¹⁾ Operational data, including ounces produced and sold, and cash costs, include the results of both continuing and discontinued operations. Certain financial information, including revenues, production costs, and earnings from operations are exclusive of discontinued operations as the financial results of these operations are presented separately on the Consolidated Statements of Operations for the year ended December 31, 2012.

⁽²⁾ Certain comparative information has been restated as a result of the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which was applied prospectively to production stripping costs incurred on or after January 1, 2012. For further details, refer to the Critical Accounting Estimates, Policies and Changes section on page 30 or note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

⁽³⁾ See the Non-GAAP Measures section on page 23.

⁽⁴⁾ Production costs do not include amortization and depletion or refining costs.

⁽⁵⁾ Gold ounces include ounces sold at the El Chanate, Ocampo, El Cubo, Fosterville and Stawell mines and ounces produced at the Young-Davidson mine, for the year ended December 31, 2013 and 2012.

REVIEW OF FOURTH QUARTER FINANCIAL RESULTS

During the fourth quarter of 2013, the Company sold 39,855 gold ounces at the El Chanate and Young-Davidson mines, a 10% increase over sales of 36,137 gold ounces in Q4 2012. Revenues from continuing operations decreased from \$63.1 million in Q4 2012 to \$50.8 million in the fourth quarter of 2013. This \$12.3 million decrease in revenue was largely due to lower realized gold prices, offset by an increase in gold ounces sold during the fourth quarter of 2013 compared to prior year. The Company also sold 3,416 underground pre-production ounces at Young-Davidson during the fourth quarter of 2013 compared to 3,595 underground pre-production ounces during the fourth quarter of 2012. The related revenues from pre-production ounces were credited against capitalized costs.

The Company recognized a loss from continuing operations of \$104.2 million in the fourth quarter of 2013, compared to a loss from continuing operations of \$113.9 million in the same period of 2012. Included in loss from continuing operations are impairment charges on goodwill, property, plant and equipment and mining interests at the El Chanate mine of \$74.0 million and \$127.0 million in Q4 2013 and Q4 2012, respectively (further discussion is provided on page 15). During the fourth quarter of 2013, as a result of declining gold prices and revised additional processing costs, the Company recognized NRV adjustments on ore inventories at El Chanate and Young-Davidson. These adjustments totaled \$16.2 million at Young-Davidson and \$21.0 million at El Chanate (further discussion is provided on pages 13 and 15). In addition, amortization and depletion expense was \$18.1 million higher in Q4 2013 as compared to the prior year, due to the NRV adjustments previously discussed, increased depletion expense in the Young-Davidson open pit, and the addition of depletion expense in the Young-Davidson underground mine subsequent to the declaration of commercial production on October 31, 2013.

The Company reported a net loss from continuing operations of \$106.4 million in the fourth quarter of 2013, compared to a net loss of \$135.1 million in Q4 2012. The decrease in net loss was primarily as a result of the decrease in loss from continuing operations discussed previously, an increase in foreign exchange gains of \$3.7 million, an increase of \$21.3 million in other income, partially offset by an increase in tax expense of \$3.0 million. The increase in other income was associated largely with movement on mark-to-market gains and losses on investments and derivative instruments.

In the fourth quarter of 2013, cash costs per gold ounce from continuing operations, net of by-product revenues and NRV adjustments, were \$771, representing an 19% increase over Q4 2012 cash costs per gold ounce of \$650. This quarter-over-quarter increase was driven by higher cash costs at Young-Davidson resulting from a higher open pit operating strip ratio that resulted from waste movement in the quarter being ineligible for capitalization given the open pit mine life of less than one year. The stripping ratio during the quarter was 3.44:1 versus a year-to-date strip ratio of 1.49:1. In addition, cash costs at the El Chanate mine during the fourth quarter of 2013 were higher due to an increase in the average ore inventory costs per ounce over the past year.

In the fourth quarter of 2013, all-in sustaining costs per gold ounce from continuing operations, net of by-product revenues and NRV adjustments, were \$1,232, representing a 17% decrease over Q4 2012 all-in sustaining costs per gold ounce of \$1,482. This decrease is primarily due to a decrease in general and administrative expenses and sustaining capital expenditures per ounce.

The Company reported operating cash flow from continuing operations of \$12.0 million during the fourth quarter, an increase of \$19.8 million over the operating cash flow used in continuing operations of \$7.8 million in Q4 2012. This increase in operating cash flow arose primarily as a result of reduced reclamation activities in Q4 2013 and due to \$8.5 million in disposition-related fees paid in Q4 2012. After deducting capital expenditures of \$63.6 million, the Company's Q4 2013 net free cash flow from continuing operations was negative \$51.6 million.

YOUNG-DAVIDSON

The Company owns the Young-Davidson mine, located near the town of Matachewan in Northern Ontario, Canada. The property consists of contiguous mineral leases and claims totaling 4,733 hectares and is situated on the site of two past producing mines that produced one million ounces in the 1930s – 1950s. The Young-Davidson open pit mine achieved commercial production on September 1, 2012, upon the completion of construction activities associated with surface infrastructure and the processing plant, and upon achieving sustained targeted daily tonnage rates in both the open pit and mill.

On October 31, 2013, the Company declared commercial production at the Young-Davidson underground mine following the commissioning of the shaft hoisting system. Prior to declaration of commercial production all related revenues generated from ounces sold were credited against capitalized development costs.

The paste backfill plant has been commissioned and the first pour was completed in early January 2014. In 2011, the mine plan was re-engineered to utilize paste backfill to improve mining recoveries and reduce dilution.

YOUNG-DAVIDSON OPERATIONAL REVIEW

	Quarter Ended December 31 2013	Quarter Ended December 31 2012	Year Ended December 31 2013	Year Ended December 31 2012
Underground Operations				
Tonnes of ore mined	238,321	76,884	616,961	76,884
Average grade of gold ⁽¹⁾	3.10	3.29	2.83	3.29
Metres developed	2,986	1,683	9,992	6,858
Open Pit Operations				
Total tonnes mined	3,247,496	3,180,889	12,220,056	10,695,861
Tonnes of ore mined	730,677	719,757	3,202,358	2,803,729
Average grade of gold ⁽¹⁾	1.04	1.22	1.16	1.06
Tonnes stockpiled ahead of the mill	2,734,347	1,397,333	2,734,347	1,397,333
Average grade of gold ⁽¹⁾	0.81	0.87	0.81	0.87
Mill Operations				
Tonnes of ore processed	641,114	548,674	2,482,305	1,483,280
Average grade of gold ⁽¹⁾	2.04	1.69	1.79	1.36
Average gold recovery rate	88%	89%	87%	87%
Gold ounces produced	29,597	19,236	89,236	29,139
Pre-production gold ounces produced ⁽²⁾	3,509	7,127	31,502	26,999
Total gold ounces produced	33,106	26,363	120,738	56,138
Gold ounces sold	24,831	22,170	88,878	26,169
Pre-production gold ounces sold ⁽²⁾	3,416	3,595	31,839	17,505
Total gold ounces sold	28,247	25,765	120,717	43,674

⁽¹⁾ Grams per tonne.

⁽²⁾ Includes all underground ounces produced and sold prior to declaration of commercial production, and all open pit ounces produced and sold in 2012 prior to the declaration of commercial production.

The Company mined 238,321 ore tonnes, or 2,590 tonnes per day ("TPD"), from the Young-Davidson underground mine during the quarter, at a grade of 3.10 gold grams per tonne. This exceeded year-end targeted levels of 2,000 TPD with mine grades consistent with reserve grade estimates. In November and December of 2013, subsequent to the declaration of commercial production in the underground mine, the Company averaged approximately 3,000 TPD. During 2013, the Company mined 616,961 ore tonnes, or 1,690 TPD, at a grade of 2.83 gold grams per tonne. Ore grades from the underground mine have been at or above expected grades for areas developed during 2013. Q1 2014 underground productivity is expected to be consistent with Q4 2013, at approximately 2,500 TPD, with productivity increasing throughout the year and targeting an exit rate of 4,000 TPD at the end of the 2014.

During the quarter, the Company mined 3,247,496 tonnes, or 35,299 TPD, at the Young-Davidson open pit, including 730,677 ore tonnes at a grade of 1.04 gold grams per tonne. Total tonnes mined and ore tonnes mined were consistent with levels in the prior year. During 2013, the Company mined 3,202,358 ore tonnes at a grade of 1.16 gold grams per tonne, representing a 14% increase over ore tonnes mined in 2012. Both total tonnes mined and ore tonnes mined were higher in the current year as the Company was ramping up open pit operations in early 2012. As anticipated, open pit grades mine in 2013 were higher than the prior year, except during the fourth quarter when grades declined due to mine sequencing. At the end of Q4 2013, the Company had 2,734,347 tonnes of mid and low grade ore stockpiled ahead of the mill at an average grade of 0.81 gold grams per tonne. The majority of the low grade stockpile is expected to be processed near the end of the mine life.

During Q4 2013, the Company processed 641,114 tonnes, or 6,969 TPD, at the Young-Davidson mill facility, with gold grades averaging 2.04 grams per tonne. This represents a 17% increase over the 548,674 tonnes processed in Q4 2012 due to operational improvements made over the past year. Grades processed are significantly higher in the current year due to the higher grade underground ore being processed in 2013, whereas the majority of 2012 production was from the open pit. During 2013, the Company processed 2,482,305 tonnes, or 6,801 TPD, with gold grades averaging 1.79 grams per tonne. In 2012, the Company processed 1,483,280 tonnes, or 5,394 TPD, with gold grades averaging 1.36 grams per tonne. Annual tonnes processed are significantly higher in 2013, as the mill was not in operation until April 2012.

Young-Davidson produced 33,106 gold ounces during Q4 2013, including 3,509 pre-production ounces related to underground operations, compared to 26,363 ounces produced in Q4 2012. The significant increase in production is due to the higher tonnage processed and improved grades as compared to Q4 2012. During 2013, Young-Davidson produced 120,738 gold ounces, including 31,502 pre-production ounces related to underground operations. In 2012, the Company produced 56,138 gold ounces, including 26,999 pre-production ounces.

YOUNG-DAVIDSON FINANCIAL REVIEW

(in thousands, except total cash costs)

	Quarter Ended		Quarter Ended		Year Ended		Year Ended	
	December 31		December 31		December 31		December 31	
	2013		2012		2013		2012	
Revenue from mining operations	\$	31,420	\$	38,425	\$	124,439	\$	45,492
Production costs	\$	30,679	\$	17,823	\$	76,356	\$	21,301
Refining costs	\$	52	\$	49	\$	159	\$	49
Amortization and depletion	\$	22,133	\$	7,029	\$	47,385	\$	7,805
(Loss) / earnings from operations	\$	(24,393)	\$	13,369	\$	(2,410)	\$	16,109
Cash flow from operations	\$	10,063	\$	11,147	\$	56,442	\$	7,988
Capital expenditures	\$	(48,737)	\$	(44,960)	\$	(195,233)	\$	(309,232)
Net free cash flow ⁽¹⁾	\$	(38,674)	\$	(33,813)	\$	(138,791)	\$	(301,244)
Cash costs per gold ounce, net of by-product revenues and NRV adjustments ⁽¹⁾	\$	850	\$	744	\$	744	\$	708
Cash costs per gold ounce, net of by-product revenues ⁽¹⁾	\$	1,179	\$	744	\$	857	\$	708

⁽¹⁾ See the Non-GAAP Measures section on page 23.

During Q4 2013, the Company recognized revenues of \$31.4 million and a loss from operations of \$24.4 million at Young-Davidson. Revenue has been recognized only on ounces sold that were attributable to open pit production, and to underground production subsequent to declaration of commercial production on October 31, 2013. Revenue associated with underground pre-production has been credited against capitalized costs. The loss from operations is primarily due to an NRV adjustment of \$16.2 million, as discussed below, a decline in realized gold prices, an increase in depletion expense in the open pit, and the addition of depletion expense in the underground mine subsequent to the declaration of commercial production.

During 2013, the Company recognized revenues of \$124.4 million and a loss from operations of \$2.4 million at Young-Davidson compared to revenues of \$45.5 million and earnings from operations of \$16.1 million in 2012. Revenues have increased in 2013 as a result of more gold ounces sold, offset by lower realized prices per gold ounce. The loss from operations in 2013 resulted from a full year of amortization and depletion and the NRV adjustments discussed below.

At December 31, 2013, the Company recognized an NRV adjustment of \$16.2 million on ore inventory, of which \$9.8 million was recognized in Q4 production costs and \$6.4 million was recognized in Q4 amortization and depletion. NRV adjustments resulted from the decline in gold prices during the year and higher estimated future processing costs resulting in the carrying value of ore inventories exceeding their net realizable value. Continued declines in the gold price could result in NRV adjustments in future periods. Should metal prices appreciate, this NRV adjustment could be reversed in future periods. During 2013, the Company recognized net NRV adjustments of \$16.6 million on ore inventory, of which \$10.0 million was recognized in production costs and \$6.6 million was recognized in amortization and depletion.

During Q4 2013, capital expenditures at Young-Davidson of \$48.7 million exceeded operating cash flow of \$10.0 million, resulting in negative net free cash flow of \$38.7 million. Capital expenditures in Q4 2013 included \$20.0 million in site infrastructure, \$31.3 million in underground development, \$0.9 million in exploration expenditures and \$1.0 million in capitalized borrowing costs, which were partially offset by \$4.5 million in revenue from the sale of pre-production underground ounces. During 2013, capital expenditures at Young-Davidson of \$195.2 million exceeded operating cash flow of \$56.4 million, resulting in negative net free cash flow of \$138.8 million. Capital expenditures in 2013 included \$112.5 million in site infrastructure, \$99.5 million in underground development, \$18.5 million in capitalized stripping activities, \$3.9 million in exploration expenditures and \$6.2 million in capitalized borrowing costs, which were partially offset by \$45.4 million in revenue from the sale of pre-production underground ounces.

During Q4 2013, cash costs per gold ounce at the Young-Davidson mine, net of by-product revenues and the impact of NRV adjustments, were \$850, a 14% increase from Q4 2012. The increase was due primarily to the fourth quarter open pit operating strip ratio of 3.44:1 versus a year-to-date average of 1.49:1, and lower grades mined in the open pit. During 2013, cash costs per gold ounce at the Young-Davidson mine were \$744 compared to \$708 in 2012.

YOUNG-DAVIDSON EXPLORATION

On March 3, 2014, the Company reported updated reserves and resources at December 31, 2013, which included 3.6 million gold ounces of proven and probable reserves at Young-Davidson. Proven and probable reserves at Young-Davidson remained consistent with those reported at December 31, 2012. The slight decline in proven and probable reserves is entirely attributable to depletion in the Young-Davidson open pit; the Company replaced all ounces mined from the underground during 2013. Further details on the updated reserves and resources by category can be found in the Company's March 3, 2014 press release or in the Company's Annual Information Form, both of which can be found on the Company's website at www.auricogold.com.

During Q4 2013, the Company completed 5,202 metres of drilling at Young-Davidson bringing 2013 drilling to 17,789 metres. During the year, the Company carried out 50 kilometres of induced polarization geophysics on the southern portion of the property. Mechanical trenching of the anomalies that are close to surface was completed and two IP anomalies were drill tested.

EL CHANATE

The Company owns the El Chanate mine, located 37 kilometres northeast of the town of Caborca in the state of Sonora, Mexico. El Chanate consists of an open pit mine with heap leach processing facilities.

EL CHANATE OPERATIONAL REVIEW

	Quarter Ended December 31 2013	Quarter Ended December 31 2012	Year Ended December 31 2013	Year Ended December 31 2012
Open Pit Operations				
Total tonnes mined	9,060,830	9,366,003	35,666,946	35,083,471
Tonnes of ore mined	2,213,858	2,200,370	9,111,448	9,087,686
Capitalized stripping tonnes ⁽¹⁾	4,348,728	4,543,389	17,297,066	17,209,098
Average grade of gold ⁽²⁾	0.56	0.56	0.56	0.57
Tonnes stockpiled ahead of the heap leach pad	194,688	151,181	194,688	151,181
Average grade of gold ⁽²⁾	0.60	0.66	0.60	0.66
Crushing and Heap Leach Operations				
Tonnes of ore crushed and placed on the heap leach pad	1,623,098	1,676,909	6,725,081	6,970,007
Average grade of gold processed ⁽²⁾	0.69	0.68	0.70	0.68
Low grade ore placed on the heap leach pad	566,193	1,239,173	2,342,861	3,836,061
Average grade of gold processed ⁽²⁾	0.19	0.18	0.19	0.19
Total tonnes of ore processed	2,189,291	2,916,082	9,067,942	10,806,068
Average grade of gold processed ⁽²⁾	0.56	0.47	0.57	0.50
Gold ounces produced	16,420	14,782	71,864	71,145
Gold ounces sold	15,024	13,967	72,035	68,253

⁽¹⁾ Certain comparative information has been restated as a result of the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which was applied prospectively to production stripping costs incurred on or after January 1, 2012. For further details, refer to the Critical Accounting Estimates, Policies and Changes section on page 30 or note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

⁽²⁾ Grams per tonne.

During Q4 2013, the Company mined 9,060,830 tonnes at the El Chanate open pit, including 2,213,858 ore tonnes. Mining rates of 98,487 TPD were higher than the third quarter's rate of 87,336 TPD as contractor availability returned to normal levels. Q4 2013 mining rates were largely consistent with the average rate achieved during Q4 2012 of 101,804 TPD. During 2013, the Company mined 35,666,946 tonnes, or 97,718 TPD, consistent with 2012 mining rates.

Capitalized stripping activities totaled 4,348,728 tonnes during the fourth quarter of 2013, compared to 4,543,389 tonnes during Q4 2012. All of the capitalized stripping tonnes during the fourth quarter were mined as part of the southeast push-back of the pit. Overall, stripping activities at El Chanate represented a capital investment of \$6.3 million during the fourth quarter of 2013, compared to \$7.2 million in Q4 2012.

The Company crushed and placed 1,623,098 tonnes of ore from the open pit on the heap leach pad in Q4 2013, in line with targeted levels at an average rate of 17,642 TPD, compared with the average rate during Q4 2012 of 18,227 TPD. During Q4

2013, the Company also placed 566,193 tonnes, or 6,154 TPD, of low grade run-of-mine material on the heap leach pad. Total tonnes processed of 2,189,291 tonnes, or 23,797 TPD, represents a 25% decrease over stacking rates in the fourth quarter of 2012, primarily due to a decrease in low-grade run-of-mine material stacked. During 2013, the Company placed 9,067,942 tonnes of ore, or 24,844 TPD, a decline of 16% over the prior year-to-date stacking rates which was also due to a decline in low-grade run-of-mine material stacked.

The grade of ore crushed and placed averaged 0.69 gold grams per tonne during Q4 2013, which was consistent with the grade of ore crushed and placed during Q4 2012. On an annual basis, grades crushed and placed in 2013 were also consistent with those realized in 2012. During the fourth quarter and the full year, the grade of all material processed, including run-of-mine material, averaged 0.56 and 0.57 gold grams per tonne, respectively, which were higher than the same periods of the prior year. The primary reason for the increase in grades in 2013 was the decline in low grade run-of-mine material stacked in the current year as compared to the prior year.

The Company produced 16,420 gold ounces at El Chanate during the fourth quarter of 2013, an 11% increase over the prior year production of 14,782 gold ounces. Q4 2012 production was negatively impacted by a rupture of a pressure vessel in one of the Adsorption Desorption Refinery processing plants that caused a temporary shutdown of two of the three plants for 48 days during the quarter. In 2013, the Company produced 71,864 gold ounces, which was consistent with the 71,145 gold ounces produced in the prior year.

EL CHANATE FINANCIAL REVIEW

(in thousands, except total cash costs)

	Quarter Ended		Quarter Ended		Year Ended		Year Ended	
	December 31		December 31		December 31		December 31	
	2013		2012		2013		2012	
Revenue from mining operations	\$	19,362	\$	24,694	\$	103,192	\$	118,130
Production costs ⁽¹⁾	\$	29,293	\$	8,448	\$	71,625	\$	40,298
Refining costs	\$	87	\$	109	\$	367	\$	417
Amortization and depletion	\$	5,451	\$	2,439	\$	17,836	\$	10,431
(Loss) from operations ⁽¹⁾	\$	(91,343)	\$	(113,639)	\$	(143,632)	\$	(60,696)
Cash flow from operations ⁽¹⁾	\$	4,794	\$	3,146	\$	33,425	\$	43,069
Capital expenditures ⁽¹⁾	\$	(10,282)	\$	(12,181)	\$	(44,088)	\$	(44,681)
Net free cash flow ⁽¹⁾⁽²⁾	\$	(5,488)	\$	(9,035)	\$	(10,663)	\$	(1,612)
Cash costs per gold ounce, net of by-product revenues and NRV adjustments ⁽¹⁾⁽²⁾	\$	615	\$	520	\$	592	\$	462
Cash costs per gold ounce, net of by-product revenues ⁽¹⁾⁽²⁾	\$	1,491	\$	520	\$	813	\$	462

⁽¹⁾ Certain comparative information has been restated as a result of the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which was applied prospectively to production stripping costs incurred on or after January 1, 2012. For further details, refer to the Critical Accounting Estimates, Policies and Changes section on page 30 or note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

⁽²⁾ See the Non-GAAP Measures section on page 23.

The Company recognized a loss from operations at El Chanate of \$91.3 million during the fourth quarter of 2013, compared to a loss from operations of \$113.6 million in Q4 2012. Included in the loss from operations during Q4 2013 was an impairment charge of \$74.0 million that arose primarily as a result of lower gold price assumptions, an increase in the discount rate, and higher processing costs in the life of mine plan due to higher quantities of solution applied to the leach pad in future years. Impairment adjustments recorded at El Chanate in Q4 2012 were \$127.0 million. The loss from operations in Q4 2013 included an NRV adjustment of \$21.0 million at December 31, 2013 caused by a decline in realized gold prices and higher estimated future processing costs. In 2013, El Chanate recognized a \$143.6 million loss from operations, compared to a loss from operations of \$60.7 million in the prior year. This decline resulted primarily from larger impairment charges in 2013, an increase in production costs and amortization and depletion, and a decrease in revenues.

At December 31, 2013, the Company recognized an NRV adjustment of \$21.0 million on low grade ore inventory, of which \$19.3 million was recognized in Q4 production costs and \$1.7 million was recognized in Q4 amortization and depletion. NRV adjustments resulted from the decline in gold prices during the year and higher estimated future processing costs resulting in the carrying value of ore inventories exceeding their net realizable value. This adjustment was required for the portion of the heap leach pad where lower grade run-of-mine material is stacked. Continued declines in the gold price could result in NRV adjustments in future periods. Should metal prices appreciate, this NRV adjustment could be reversed in future periods. During 2013, the Company recognized net NRV adjustments of \$25.5 million on ore inventory, of which \$23.4 million was recognized in production costs and \$2.1 million was recognized in amortization and depletion.

During Q4 2013, capital expenditures at El Chanate of \$10.3 million exceeded operating cash flow of \$4.8 million, resulting in negative net free cash flow of \$5.5 million. Capital expenditures in Q4 2013 included \$6.3 million in capitalized stripping activities, \$1.3 million in other sustaining capital and optimization initiatives, \$2.0 million in exploration expenditures, and \$0.7 million in capitalized borrowing costs. During 2013, capital expenditures at El Chanate of \$44.1 million exceeded operating cash

flow of \$33.4 million, resulting in negative net free cash flow of \$10.7 million. Capital expenditures in 2013 included \$27.4 million in capitalized stripping activities, \$8.6 million in other sustaining capital and optimization initiatives, \$0.8 million in heap leach expansion, \$5.1 million in exploration expenditures, and \$2.2 million in capitalized borrowing costs. Net free cash flow declined on a year-to-date basis primarily due to the decline in revenue and an increase in production costs.

During Q4 2013, cash costs per gold ounce at the El Chanate mine, net of by-product revenues and the impact of NRV adjustments, were \$615, an increase of 18% over cash costs per gold ounce of \$520 in Q4 2012. During 2013, cash costs per gold ounce, net of by-product revenues and the impact of NRV adjustments, were \$592, an increase of 28% over 2012. These increases were due to higher average inventory costs as a result of higher quantities of solution applied to the leach pad over the past year to accelerate gold recoveries and a reduction in capitalized stripping costs associated with the adoption of a new accounting standard. In Q4 2013, the Company implemented a cost reduction program at El Chanate, including the renegotiation of contracts and a reduction in headcount.

EL CHANATE EXPLORATION

On March 3, 2014, the Company reported updated reserves and resources at December 31, 2013, which included 1.0 million gold ounces of proven and probable reserves at El Chanate. Proven and probable reserves declined at El Chanate during 2013 due to depletion. Further details on the updated reserves and resources by category can be found in the Company's March 3, 2014 press release or in the Company's Annual Information Form, both of which can be found on the Company's website at www.auricogold.com.

During Q4 2013, the Company completed 15,202 metres of reverse circulator drilling (95 holes) at El Chanate bringing the year-to-date total to 45,697 metres. In addition, five diamond core holes were drilled totaling 980 metres. Fifteen holes were completed in the Rono area (northwest of the pit), 41 holes were completed within the pit, and 39 holes were completed south east of the pit toward and within the Loma Prieta area.

The Company's September 12, 2013 press release highlights holes 775 and 776 located below the southeastern part of the pit. Subsequent to this press release, diamond core hole CHD 61, located in the same area as holes 775 and 776, intersected 81.25 metres of 2.12 gold grams per tonne, including 27.45 metres averaging 3.22 gold grams per tonne. The orientation and true thickness of this zone is unknown and a core drilling program in the early part of 2014 will be testing the orientation of this mineralization.

EXPLORATION REVIEW

KEMESS UNDERGROUND PROJECT

On March 3, 2014, the Company reported updated reserves and resources at December 31, 2013 which included 1.8 million gold ounces of proven and probable gold reserves at Kemess, consistent with reserves and resources reported at December 31, 2012. Further details on the updated reserves and resources by category can be found in the Company's March 3, 2014 press release or in the Company's Annual Information Form, both of which can be found on the Company's website at www.auricogold.com.

During Q4 2013, the Company drilled 4,116 metres at Kemess East (located approximately one kilometre from the Kemess Underground Project) bringing the year to date total to 13,333 metres. The Company will continue this drill program in 2014. Optimization work on the feasibility study is ongoing and is anticipated to significantly improve project economics.

EL CHANATE EXTENSION

On June 28, 2013, the Company entered into an option and joint venture agreement with Highvista Gold Inc., entitling the Company to earn up to a 70% interest in mineral rights along the Chanate Fault to the northwest of the El Chanate mine. Drilling this quarter totaled 2,377 metres in eleven holes on four target areas.

LAS LAJAS PROJECT

On June 13, 2013, the Company signed an option agreement with Minera Goldzone S.A. de C.V. to acquire a 100% interest in the Las Lajas Project, an 8,145 hectare property consisting of 6 contiguous mining concessions located in southern Sonora State, Mexico. Field work in this quarter consisted of twelve bulldozer trenches (1,277 metres) in two areas. This work is ongoing and a drilling program will be initiated toward the end of Q1 2014.

CONSOLIDATED EXPENSES

(in thousands)

	Year Ended		Year Ended		Year Ended
	December 31		December 31		December 31
	2013		2012 ⁽¹⁾		2011
Reclamation, care and maintenance costs	\$	4,417	\$	14,066	\$ 2,103
General and administrative	\$	27,677	\$	35,730	\$ 25,347
Exploration and business development	\$	1,014	\$	1,385	\$ 20,940
Impairment charges	\$	158,574	\$	128,537	\$ 2,153
Finance costs	\$	2,928	\$	2,237	\$ 2,078
Foreign exchange (gain) / loss	\$	(10,927)	\$	10,727	\$ (9,566)
Other income	\$	(10,167)	\$	(8,762)	\$ (38,650)
Equity in loss / (earnings) of jointly-controlled entity	\$	2,533	\$	(83)	\$ -

⁽¹⁾ Exclusive of discontinued operations as expenses relating to discontinued operations are presented separately in the Company's Consolidated Statements of Operations for the year ended December 31, 2012.

Reclamation, care and maintenance costs in 2013 and 2012 were comprised of site overhead and other costs relating to activities at Kemess South, a mine in the decommissioning stage. Annual reclamation expenses have declined from the prior year due to lower care and maintenance expenses at the Kemess site and due to the recognition of a \$6.0 million reclamation expense in the prior year, which was a result of additional reclamation activities conducted at Kemess South that had not previously been provided for in the Company's reclamation provision.

General and administrative costs include expenses relating to the overall management of the business that are not part of direct mine operating costs. These costs are generally incurred at the corporate offices located in Canada, but also include share-based compensation costs for key employees at all locations. Share-based compensation expense for 2013 was \$7.4 million, consistent with the \$7.4 million recognized in 2012. Overall, general and administrative costs for 2013 decreased by \$8.1 million over the prior year period primarily as a result of costs incurred during 2012 associated with the integration of Northgate Minerals Corporation as well as the weakening of the Canadian dollar.

During the year, the Company recognized \$158.6 million in impairment charges, including a \$154.0 million impairment charge on the El Chanate mine, and a \$4.6 million impairment charge related to various exploration properties. In addition, during Q2 2013 the Company recognized an \$18.7 million impairment charge on the retained interest royalty in the Australian Operations. The retained interest royalty grants the Company an interest in future net free cash flows to be generated by the Australian Operations which were disposed of in 2012. Once the Company updated its fair value estimate for changes in gold price assumptions at June 30, 2013, the result was lower than the current carrying value of the asset and an impairment charge was recognized. At December 31, 2013, due to the receipt of an updated life-of-mine plan from Crocodile Gold Corporation ("Crocodile Gold"), the Company reversed the impairment charge recognized in Q2 2013. The primary drivers of the increase in fair value at December 31, 2013 were an extension of mine life at the Fosterville mine and a strengthening of the US dollar versus the Australian dollar.

During 2013, foreign exchange gains and losses changed by \$21.7 million, from a loss of \$10.7 million in 2012 to a gain of \$10.9 million in 2013. The primary cause of the gain in the current year was the weakening of the Canadian dollar and Mexican peso, whereas the prior year loss was due primarily to the strengthening of the Mexican peso. The weakening of these currencies result in foreign exchange gains, while the strengthening of these currencies result in foreign exchange losses, primarily as a result of the Company's deferred income tax liabilities which are denominated in Canadian dollars and Mexican pesos and then translated into US dollars at each balance sheet date. The Company will continue to experience non-cash foreign currency gains or losses, primarily as a result of fluctuations between the US dollar, and both the Canadian dollar and Mexican peso.

During 2013, other income increased to \$10.2 million, from \$8.8 million in 2012, primarily as a result of a \$15.6 million unrealized gain on the fair value of the option component of convertible notes, offset by a \$7.4M unrealized loss on the fair value of contingent consideration. Other income in 2012 primarily consisted of a \$4.0 million unrealized gain on the option component of convertible notes, a \$6.6 million gain on the sale of 50% interest in the Orion property, offset by a \$3.9 million loss on extinguishment of debt.

During the year, the Company recognized its share of the loss relating to the Orion exploration project, which is accounted for a jointly-controlled entity using the equity method. This arrangement was agreed upon in December of 2012.

CONSOLIDATED INCOME TAX EXPENSE

The Company is subject to tax in various jurisdictions, including Mexico and Canada. There are a number of factors that can significantly impact the Company's effective tax rate including the geographic distribution of income, varying rates in different jurisdictions, the non-recognition of tax assets, mining allowances, foreign currency exchange rate movements, changes in tax laws and the impact of specific transactions and assessments.

In December 2013, the Mexican President passed the 2014 tax reform bill which introduces a Special Mining Duty and a New Extraordinary Mining Duty, both of which will be payable annually by all holders of productive mining concessions. The Special Mining Duty will be calculated as 7.5% of earnings before interest, taxes, depreciation and amortization as determined under Mexican income tax law, including certain specific deductions. The New Extraordinary Mining Duty will be computed as 0.5% of gold and silver sales. Both of these taxes are deductible for the purposes of calculating Mexican income tax. Other changes introduced with the tax reform bill include (i) the approval of a permanent 30% corporate income tax rate, (ii) the elimination of the immediate deduction of fixed assets, (iii) the abolishment of the Single Rate Tax Law (IETU), and (iv) the introduction of a new 10% dividend withholding tax to be levied on payments to individuals or foreign shareholders. The Company expects treaty benefits to be applicable to the 10% dividend withholding tax. This new tax reform bill resulted in an increase in deferred tax expense of \$4.9 million during the fourth quarter of 2013.

Due to the number of factors that can potentially impact the effective tax rate and the sensitivity of the tax provision to these factors, as discussed above, it is expected that the Company's effective tax rate will fluctuate in future periods.

During 2013, the Company recognized a current tax recovery of \$0.1 million and a deferred tax expense of \$14.5 million, compared to a current tax expense of \$6.6 million and a deferred tax recovery of \$7.8 million in 2012. The decrease in current tax expense primarily resulted from the lower taxable income at the El Chanate mine. The deferred tax expense recognized during 2013 resulted primarily from the weakening of the Canadian dollar relative to the US dollar, which caused an increase in taxable temporary differences associated with the Company's Canadian property, plant and equipment and mining interests. In the prior year, a strengthening Canadian dollar had the opposite effect, resulting in a deferred tax recovery. Deferred income tax expense in 2013 was also higher due to the new Mexican tax reform bill, as discussed above.

FINANCIAL CONDITION

(in thousands)

	As at December 31 2013	As at December 31 2012	As at December 31 2011	2013 versus 2012
Current assets ⁽¹⁾	\$ 291,939	\$ 743,654	\$ 537,126	Current assets decreased largely due to the completion of the substantial issuer bid during the year, which resulted in a cash outflow of \$301.1 million (including transaction costs), as well as a decline in cash on hand resulting from capital expenditures at Young-Davidson that were in excess of funds contributed from operations. These decreases are offset by an increase in inventories.
Long-term assets ⁽¹⁾	2,170,469	2,151,587	2,641,953	Long-term assets increased due to capital expenditures incurred in 2013, primarily at Young-Davidson, partially offset by impairment charges recorded in the second and fourth quarters of 2013.
Total assets	\$ 2,462,408	\$ 2,895,241	\$ 3,179,079	
Current liabilities	\$ 114,159	\$ 95,381	\$ 224,460	Current liabilities have increased as result of higher accounts payable and accruals balances at year-end due to capital expenditures incurred, primarily at Young-Davidson. Additionally, dividends payable did not exist at December 31, 2012.
Long-term financial liabilities	244,607	183,532	246,401	Long-term financial liabilities increased primarily due to \$75.0 million drawn on the Company's credit facility and new equipment financing obtained in Q4 2013. This increase is offset by a reduction in the fair value of the option component of convertible senior notes and equipment financing payments made during the year.
Other long-term liabilities	315,760	320,491	467,080	Other long-term liabilities were largely consistent between December 31, 2012 and December 31, 2013.
Total liabilities	\$ 674,526	\$ 599,404	\$ 937,941	
Shareholders' equity ⁽¹⁾	\$ 1,787,882	\$ 2,295,837	\$ 2,241,138	Shareholders' equity decreased primarily as a result of the completion of the substantial issuer bid during the first quarter, the net loss recognized, and dividends declared during the year.

⁽¹⁾ Certain comparative information has been restated as a result of the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which was applied prospectively to production stripping costs incurred on or after January 1, 2012. For further details, refer to the Critical Accounting Estimates, Policies and Changes section on page 30 or note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

The Company's strategy for managing liquidity is based on achieving positive cash flows from operations to internally fund operating and capital requirements. Material increases or decreases in the Company's liquidity and capital resources will be substantially determined by the success or failure of the Company's operations, exploration, development and construction programs, its ability to obtain equity or other sources of financing, the price of gold, and currency exchange rates. Refer to the Outlook and Strategy section on page 5 for near term factors that could influence the Company's cash balance. Future commitments that could impact the Company's liquidity are disclosed in the Contractual Obligations section on page 21.

CASH FLOW

(in thousands)

	Year Ended		Year Ended	
	December 31		December 31	
	2013	2012	2012	2011
Cash flow from / (used in) operating activities ⁽¹⁾⁽²⁾	\$ 63,266	\$ (7,231)	\$ (3,076)	
Cash flow (used in) / from investing activities ⁽¹⁾⁽²⁾	(272,380)	554,287	(20,756)	
Cash flow (used in) / from financing activities ⁽¹⁾	(250,745)	(53,198)	51,905	
Effect of foreign exchange rates on cash ⁽¹⁾	(890)	(1,109)	62	
(Decrease) / increase in cash from continuing operations	(460,749)	492,749	28,135	
Decrease in cash from discontinued operations	-	(68,792)	38,167	
Total cash, beginning of period	603,401	179,444	113,142	
Total cash, end of period	\$ 142,652	\$ 603,401	\$ 179,444	

⁽¹⁾ Exclusive of discontinued operations as cash flows from discontinued operations is presented separately in the Company's Consolidated Statement of Cash Flows for the year ended December 31, 2012.

⁽²⁾ Certain comparative information has been restated as a result of the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which was applied prospectively to production stripping costs incurred on or after January 1, 2012. For further details, refer to the Critical Accounting Estimates, Policies and Changes section on page 30 or note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

In 2013, operating activities contributed cash flows of \$63.3 million, as compared to 2012 when operating activities from continuing operations used cash of \$7.2 million. The increase in operating cash flow is primarily due to cash flow contributed from the Young-Davidson open pit mine for the full year in 2013 and from the Young-Davidson underground mine for November and December of 2013. This was partially offset by a decline in year-to-date operating cash flow due to a decline in the realized prices of gold and increased production costs at El Chanate during 2013.

In 2013, investing activities used cash of \$272.4 million compared to \$554.3 million in investing cash inflows in 2012. Cash flow used in investing activities in 2013 was largely comprised of the purchase of \$21.3 million of investments and capital expenditures of \$249.4 million. The contribution of cash from investing activities in 2012 included \$99.2 million in proceeds received on the disposition of the El Cubo and Guadalupe y Calvo assets, \$641.4 million in proceeds received on the disposition of the Ocampo assets, \$108.2 million in proceeds received on the sale of investments, and \$44.8 million in proceeds received on the disposition of the Australian assets. These proceeds were offset by capital expenditures of \$361.5 million.

In 2013, financing activities used cash of \$250.7 million compared to 2012 when financing activities used \$53.2 million. The increase in cash used was primarily due to the \$301.1 million paid to complete the substantial issuer bid during Q1 2013 and \$27.7 million in dividend payments subsequent to the introduction of a dividend program in early 2013, offset by proceeds of \$75.0 million received on the Company's credit facility. Prior year financing outflows were primarily due to net payments made on the credit facility.

In 2012, cash flows from discontinued operations decreased the Company's cash balance by \$68.8 million.

CREDIT FACILITY

On January 31, 2013, the Company amended the revolving credit facility, which reduced the borrowing capacity from \$250 million to \$150 million. The credit facility carries an interest rate of LIBOR plus 2.25% to 3.50%, depending on the net leverage ratio of the Company, and matures on April 25, 2016. No payments are due until the maturity date, which may be extended upon mutual agreement by all parties. At December 31, 2013, the Company had drawn \$75.0 million under this revolving facility.

The Company was in compliance with all loan covenants at December 31, 2013. At December 31, 2013, the Company amended the leverage ratio covenant, which is determined as indebtedness compared to annual EBITDA, such that indebtedness is net of cash held.

CONVERTIBLE DEBT

The Company has \$167.0 million in convertible senior notes which pay interest semi-annually at a rate of 3.50% per annum, and mature on October 1, 2016. The holders of the notes may, within specified time periods, convert their notes prior to July 1, 2016 under the following circumstances: (1) the closing sale price of the Company's shares exceeds 130% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding quarter; (2) the trading price per \$1,000 principal amount of the convertible note is equal to or less than 97% of the product of the closing sale price of the Company's common shares and the applicable conversion rate; (3) the convertible notes are called for redemption by the Company; (4) upon the occurrence of specified corporate transactions; and (5) a "delisted event" occurs and is continuing. In addition, the notes will be unconditionally convertible at the option of the holder from July 1, 2016 to the business day immediately preceding the maturity date of the notes. Following the payment of dividends on January 29, 2014, the conversion rate is 94.3882 common shares per \$1,000 principal amount of notes, which represents a conversion price of approximately \$10.59 per common share.

INVESTMENTS

At December 31, 2013, the Company held investments with a fair market value of \$15.6 million, which consisted primarily of common shares of publicly traded companies. Investments in common shares of publicly traded companies are classified as either held-for-trading or available-for-sale investments. Unrealized losses on available-for-sale investments during 2013 totaled \$5.3 million (2012 - \$0.1 million unrealized loss) which were offset by \$0.2 million in losses reclassified to net earnings (2012 - \$nil). Realized and unrealized gains on equity securities and warrants classified at fair value through profit or loss during 2013 totaled \$0.5 million (2012 - \$1.4 million).

During the year ended December 31, 2013, the Company purchased shares in various publicly listed entities at a total cost of \$20.8 million. In some of these transactions, warrants were also acquired, at a total cost of \$0.5 million.

CONTRACTUAL OBLIGATIONS

A summary of the Company's contractual obligations at December 31, 2013 is as follows:

(in thousands)

	Total	Less than 1 year	1 – 3 years	3 – 4 years	4 – 5 years	Greater than 5 years
Trade payables and accrued liabilities	\$ 76,923	\$ 76,923	\$ -	\$ -	\$ -	\$ -
Dividend payable	9,960	9,960	-	-	-	-
Current income tax liability	3,966	3,966	-	-	-	-
Debt	261,612	7,454	254,158	-	-	-
Equipment financing obligations	18,746	6,492	8,991	2,316	947	-
Future purchase commitments	10,981	10,981	-	-	-	-
Total	\$ 382,188	\$ 115,776	\$ 263,149	\$ 2,316	\$ 947	\$ -

OUTSTANDING SHARE DATA

The Company's share capital was comprised of the following as at December 31, 2013:

	December 31, 2013	December 31, 2012
Authorized:		
Unlimited number of common shares		
Issued:		
Common shares	247,569,811	282,326,547

The decline in shares outstanding between December 31, 2012 and December 31, 2013 was due to the completion of a substantial issuer bid, which resulted in the purchase and cancellation of 36,144,578 common shares worth \$300 million.

The following table sets out the common shares, stock options, deferred share units, performance share units, and restricted share units outstanding as at the date of this MD&A:

	March 3, 2014
Common shares	247,983,891
Stock options	11,059,807
Deferred share units	250,833
Performance share units	359,354
Restricted share units	431,889
	260,085,774

In addition, the Company had outstanding convertible notes with an implied conversion price of \$10.59 per share that could result in the issuance of 15,762,829 common shares.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

FINANCIAL INSTRUMENTS

The Company seeks to manage its exposure to fluctuations in commodity prices, interest rates and foreign exchange rates by entering into derivative financial instruments from time to time.

The Company recognized gains of \$0.1 million on forward contracts that settled during the year ended December 31, 2013. At December 31, 2013, the Company had no foreign exchange derivatives outstanding.

As at December 31, 2012, the Company held forward contracts to hedge against the risk of an increase in the value of the Mexican peso versus the US dollar. These currency hedges had been previously accounted for as cash flow hedges of specified, peso-denominated costs at the Ocampo mine until hedge accounting was discontinued at September 30, 2012 due to the forecasted transactions no longer being highly probable as a result of the proposed disposition of the mine. The Company recognized a loss on discontinuance of hedge accounting of \$1.9 million that was included in other income on the Consolidated Statement of Operations for the year ended December 31, 2012.

During the three months ended December 31, 2012, a gain of \$0.2 million was recognized in net earnings relating to these forward contracts. In addition, three forward contracts settled during the nine months ended September 30, 2012, prior to the discontinuation of hedge accounting, resulting in a net loss of \$2.3 million.

The Company also holds certain financial instruments as investments and therefore is inherently exposed to various risk factors including currency risk, credit risk, market price risk, and liquidity risk.

TRANSACTIONS WITH RELATED PARTIES

The Company utilizes a Mexican corporation, Caborca Industrial S.A. de C.V. ("Caborca Industrial"), for mining support services at the El Chanate mine, including the payment of mining salaries and related costs. Caborca Industrial is 100% owned by the Company's Chief Executive Officer and Executive Vice President, Corporate Affairs, and is consolidated in accordance with IFRS 10, *Consolidated Financial Statements*. The Company's Chief Executive Officer and Executive Vice President, Corporate Affairs receive no financial benefits as a result of their ownership of this entity.

Other than as discussed in the paragraph above, no director, senior officer, principal holder of securities or any associate or affiliate thereof of the Company has any interest, directly or indirectly, in material transactions with the Company or any of its direct or indirect wholly-owned subsidiaries.

The Company has a joint venture interest in the Orion exploration project, located in Nayarit, Mexico. Nayarit Gold de Mexico, S.A. de C.V., a company with ownership of this project, is 50% owned by the Company and 50% owned by Minera Frisco, S.A.B. de C.V., and is accounted for as a jointly-controlled entity. The Company provides management services and may, from time-to-time, contribute cash or other assets to the jointly-controlled entity. At December 31, 2013, the Company had a receivable from the jointly-controlled entity of \$1.4 million.

The Company has a long-term incentive plan under which share-based compensation, including stock options, deferred share units, performance share units, and restricted share units may be granted to directors, officers, employees, and consultants of the Company. The purpose of the plan is to attract, retain and motivate persons of training, experience and leadership as

directors, officers, employees and consultants of the Company and its subsidiaries, to advance the long-term interests of the Company by providing such persons with the opportunity and incentive, through equity-based compensation, to acquire an ownership interest in the Company, and to promote a greater alignment of interests between such persons and shareholders of the Company. For the purpose of the plan, a consultant is defined as an individual who is engaged by the Company, under a written contract, to provide services on an ongoing basis and who spends a significant amount of time on the Company's business and affairs. The definition of consultant also includes an individual whose services are engaged through a corporation.

NON-GAAP MEASURES

The Company has included various non-GAAP measures throughout this document. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, management, analysts and investors use this information to evaluate the Company's operating and economic performance. However, these non-GAAP measures do not have any standardized meaning, and should not be considered in isolation from or as a substitute for performance measures prepared in accordance with GAAP. Other companies may calculate these measures differently.

CASH COST PER OUNCE CALCULATION

Cash cost per ounce is a non-GAAP performance measure that management uses to better assess the Company's performance for the current period and its expected performance in the future. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this measure to evaluate the Company's performance and cash generating capabilities. This measure is calculated by adjusting production and refining costs as recorded in the Company's consolidated financial statements for by-product revenues, production costs associated with unsold ounces, and production costs associated with acquisition-date fair value adjustments. The calculation of cash costs per gold ounce measures the benefit of any by-product silver that is produced in conjunction with gold as a credit against the cost of producing gold. A number of other gold producers present their costs net of the contribution from silver and other non-gold by-product sales. The Company believes that presenting this measure on this basis allows management, analysts and investors to better assess performance against other gold producers, and to better understand the importance of non-gold revenue on the Company's cost structure.

The following provides a reconciliation of cash cost per ounce to the consolidated financial statements:

(in thousands, except ounces and cash cost per gold ounce)

	Quarter Ended		Quarter Ended		Year Ended		Year Ended	
	December 31		December 31		December 31		December 31	
	2013		2012		2013		2012	
Continuing operations - Young-Davidson mine, El Chanate mine, and Corporate and other								
Production costs ⁽¹⁾	\$	59,972	\$	26,271	\$	147,981	\$	61,599
Refining costs	\$	139	\$	158	\$	526	\$	466
Inventory and other adjustments ⁽²⁾	\$	(2,135)	\$	(3,912)	\$	(10,216)	\$	(5,831)
Total cash costs	\$	57,976	\$	22,517	\$	138,291	\$	56,234
Divided by gold equivalent ounces ⁽³⁾		45,150		34,204		163,599		99,450
Total cash cost per gold equivalent ounce	\$	1,284	\$	658	\$	845	\$	565
Total cash costs (per above)	\$	57,976	\$	22,517	\$	138,291	\$	56,234
By-product revenues ⁽⁴⁾	\$	(665)	\$	(946)	\$	(3,272)	\$	(4,042)
Total cash costs, net of by-product revenues	\$	57,311	\$	21,571	\$	135,019	\$	52,192
Divided by gold ounces ⁽⁵⁾		44,621		33,203		161,271		97,392
Total cash cost per gold ounce, net of by-product revenues	\$	1,284	\$	650	\$	837	\$	536
Total cash costs, net of by-product revenues (per above)	\$	57,311	\$	21,571	\$	135,019	\$	52,192
NRV adjustments ⁽⁶⁾	\$	(22,907)	\$	-	\$	(25,969)	\$	-
Total cash costs, net of by-product revenues and NRV adjustments	\$	34,404	\$	21,571	\$	109,050	\$	52,192
Divided by gold ounces		44,621		33,203		161,271		97,392
Total cash cost per gold ounce, net of by-product revenues and NRV adjustments	\$	771	\$	650	\$	676	\$	536

⁽¹⁾ Certain comparative information has been restated as a result of the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which was applied prospectively to production stripping costs incurred on or after January 1, 2012. For further details, refer to the Critical Accounting Estimates, Policies and Changes section on page 30 or note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

⁽²⁾ Inventory adjustments include amortization of the inventory fair value adjustments relating to the El Chanate purchase price allocations (including \$7.5 million relating to NRV adjustments for the year ended December 31, 2013) as well as the movement in costs associated with unsold gold ounces at Young-Davidson. The total of these adjustments for the three months and years ended December 31, 2013 and 2012 were as follows:

El Chanate	\$	(6,415)	\$	(589)	\$	(10,560)	\$	(5,396)
Young-Davidson	\$	4,280	\$	(3,323)	\$	344	\$	(435)
	\$	(2,135)	\$	(3,912)	\$	(10,216)	\$	(5,831)

⁽³⁾ Gold equivalent ounces include silver ounces produced / sold converted to gold equivalent based on the ratio of the realized sales prices of the commodities.

⁽⁴⁾ By-product revenue is defined as the revenue from a secondary metal or mineral that is recovered during processing, and is included in Revenue from mining operations in the Company's financial statements. The total by-product silver revenues adjustments for the three months and year ended December 31, 2013 and 2012 were as follows:

El Chanate	\$	(562)	\$	(709)	\$	(2,881)	\$	(3,763)
Young-Davidson	\$	(103)	\$	(237)	\$	(391)	\$	(279)
	\$	(665)	\$	(946)	\$	(3,272)	\$	(4,042)

⁽⁵⁾ Gold ounces include ounces sold at the El Chanate mine and ounces produced at the Young-Davidson mine for the three months and year ended December 31, 2013 and 2012.

⁽⁶⁾ The NRV adjustments related to production costs recognized during the three months and years ended December 31, 2013 and 2012 were as follows:

El Chanate	\$	(13,156)	\$	-	\$	(15,919)	\$	-
Young-Davidson	\$	(9,751)	\$	-	\$	(10,050)	\$	-
	\$	(22,907)	\$	-	\$	(25,969)	\$	-

(in thousands, except ounces and cash cost per gold ounce)

	Quarter Ended		Quarter Ended		Year Ended		Year Ended	
	December 31		December 31		December 31		December 31	
	2013		2012		2013		2012	
Discontinued operations - Ocampo mine, El Cubo mine, and Australian Operations								
Production and refining costs ⁽¹⁾	\$	-	\$	20,691	\$	-	\$	157,437
Divided by gold equivalent ounces sold ⁽²⁾		-		15,222		-		175,870
Total cash cost per gold equivalent ounce	\$	-	\$	1,359	\$	-	\$	895
Total production and refining costs (per above)	\$	-	\$	20,691	\$	-	\$	157,437
Stawell by-product revenues	\$		\$	-	\$		\$	(541)
Co-product silver revenues ⁽³⁾	\$	-	\$	(10,282)	\$	-	\$	(87,495)
Total cash costs, net of by-product and co-product revenues	\$	-	\$	10,409	\$	-	\$	69,401
Divided by gold ounces sold		-		9,248		-		123,313
Total cash cost per gold ounce, net of by-product and co-product revenues	\$	-	\$	1,126	\$	-	\$	563
Total cash costs, net of by-product and co-product revenues (per above)	\$	-	\$	10,409	\$	-	\$	69,401
Ocampo NRV adjustments	\$	-	\$	(5,486)	\$	-	\$	(10,492)
Total cash costs, net of by-product revenues, co-product revenues and NRV adjustments	\$	-	\$	4,923	\$	-	\$	58,909
Divided by gold ounces sold		-		9,248		-		123,313
Total cash cost per gold ounce, net of by-product revenues, co-product revenues and NRV adjustments	\$	-	\$	532	\$	-	\$	478

⁽¹⁾ Production and refining costs of discontinued operations are presented separately as net earnings from discontinued operations in the Consolidated Statements of Operations for the year ended December 31, 2012.

⁽²⁾ Gold equivalent ounces include silver ounces produced / sold converted to gold equivalent based on the ratio of the realized sales prices of the commodities.

⁽³⁾ Co-product revenue is defined as revenue which arises from more than one primary source. The Company's El Cubo and Ocampo mines, which were disposed of in 2012, recognized co-product revenue from the sale of gold and silver, which was included in Revenue from mining operations in the Company's financial statements. The total co-product silver revenue adjustments for the three months and year ended December 31, 2012 were as follows:

Ocampo	\$	-	\$	(10,282)	\$	-	\$	(72,308)
El Cubo	\$	-	\$	-	\$	-	\$	(15,187)
	\$	-	\$	(10,282)	\$	-	\$	(87,495)

ALL-IN SUSTAINING COST PER OUNCE CALCULATION

All-in sustaining cost per ounce is a non-GAAP performance measure developed by the World Gold Council that reflects all of the expenditures that are required to produce an ounce of gold from current operations. The World Gold Council is a non-regulatory, non-profit, market development organization that was established in 1987 whose members include global senior mining companies. The Company is not a member of the World Gold Council, and was not involved in the development of the all-in sustaining cost measure. However, the Company believes that this measure will be useful to external users in assessing operating performance and the ability to generate free cash flow from current operations. This measure uses cash costs per ounce as its basis, and also includes sustaining capital expenditures, general and administrative expenses, sustaining exploration and evaluation costs, and accretion and depletion of reclamation provisions at operating sites. As this measure seeks to reflect the full cost of producing gold at current operations, it excludes capital expenditures to develop new operations and to materially enhance production or reserves at existing operations. Certain other cash expenditures, including tax payments, increases in inventory, dividends and other financing costs, are also excluded.

The following provides a reconciliation of all-in sustaining cost per ounce to the consolidated financial statements:

(in thousands, except ounces and all-in sustaining cost per gold ounce)

	Quarter Ended		Quarter Ended		Year Ended		Year Ended	
	December 31		December 31		December 31		December 31	
	2013		2012		2013		2012	
Continuing operations - Young-Davidson mine, El Chanate mine, and Corporate and other								
Total cash costs, net of by-product revenues (see above)	\$	57,311	\$	21,571	\$	135,019	\$	52,192
General and administrative	\$	6,909	\$	11,639	\$	27,677	\$	35,730
Young-Davidson inventory adjustments	\$	(4,280)	\$	3,323	\$	(344)	\$	435
Sustaining capital expenditures ⁽¹⁾	\$	11,799	\$	16,889	\$	52,697	\$	30,134
Accretion and depletion of reclamation provisions	\$	260	\$	122	\$	891	\$	376
Total all-in sustaining costs, net of by-product revenues	\$	71,999	\$	53,544	\$	215,940	\$	118,867
Divided by gold ounces sold		39,855		36,137		160,913		94,422
All-in sustaining cost per gold ounce sold, net of by-product revenues⁽²⁾	\$	1,807	\$	1,482	\$	1,342	\$	1,259
Total all-in sustaining costs, net of by-product revenues (per above)	\$	71,999	\$	53,544	\$	215,940	\$	118,867
NRV adjustments	\$	(22,907)	\$	-	\$	(25,969)	\$	-
Total all-in sustaining costs, net of by-product revenues and NRV adjustments	\$	49,092	\$	53,544	\$	189,971	\$	118,867
Divided by gold ounces sold		39,855		36,137		160,913		94,422
All-in sustaining cost per gold ounce sold, net of by-product revenues and NRV adjustments	\$	1,232	\$	1,482	\$	1,181	\$	1,259

⁽¹⁾ Sustaining capital expenditures are defined as those expenditures which do not increase annual gold ounce production at a mine site and exclude all expenditures at growth projects and certain expenditures at operating sites which are deemed expansionary in nature. Total sustaining capital for the three months and years ended December 31, 2013 and 2012 is calculated as follows:

Capital expenditures per cash flow statement	\$	63,572	\$	58,527	\$	249,422	\$	361,500
Less: Young-Davidson non-sustaining capital	\$	(38,195)	\$	(32,559)	\$	(151,917)	\$	(294,445)
Less: El Chanate non-sustaining capital	\$	(9,025)	\$	(7,693)	\$	(34,707)	\$	(29,334)
Less: Kemess non-sustaining capital	\$	(4,553)	\$	(1,386)	\$	(10,101)	\$	(7,587)
	\$	11,799	\$	16,889	\$	52,697	\$	30,134

⁽²⁾ The non-GAAP measure all-in sustaining cash cost per gold ounce is calculated for continuing operations only. Discontinued operations are excluded for the three months and year ended December 31, 2012.

Non-sustaining capital expenditures include underground shaft and mine development, the paste backfill plant and exploration expenditures at Young-Davidson, and the south-east open pit expansion and exploration expenditures at El Chanate.

NET FREE CASH FLOW

Net free cash flow represents an indication of the Company's continuing capacity to generate discretionary cash flow from operations, comprising cash flows from operating activities net of total capital expenditures. It does not necessarily represent the cash flow in the period available for management to use at its discretion, which may be affected by other sources and non-discretionary uses of cash.

The following is a reconciliation of net free cash flow to the consolidated financial statements:

(in thousands)

	Quarter Ended		Quarter Ended		Year Ended		Year Ended	
	December 31		December 31		December 31		December 31	
	2013		2012		2013		2012	
Operating cash flow from continuing operations ⁽¹⁾⁽²⁾	\$	11,954	\$	(7,813)	\$	63,266	\$	(7,231)
Less: Capital expenditures of continuing operations ⁽¹⁾⁽²⁾	\$	(63,572)	\$	(58,527)	\$	(249,422)	\$	(361,500)
Net free cash flow from continuing operations	\$	(51,618)	\$	(66,340)	\$	(186,156)	\$	(368,731)
Operating cash flow from discontinued operations	\$	-	\$	(528)	\$	-	\$	79,071
Less: Capital expenditures of discontinued operations	\$	-	\$	(23,256)	\$	-	\$	(143,520)
Net free cash flow from discontinued operations	\$	-	\$	(23,784)	\$	-	\$	(64,449)
Operating cash flow ⁽²⁾	\$	11,954	\$	(8,341)	\$	63,266	\$	71,840
Less: Capital expenditures ⁽²⁾	\$	(63,572)	\$	(81,783)	\$	(249,422)	\$	(505,020)
Net free cash flow	\$	(51,618)	\$	(90,124)	\$	(186,156)	\$	(433,180)

⁽¹⁾ Operating cash flow and capital expenditures of continuing operations are exclusive of discontinued operations as cash flows from discontinued operations are presented separately on the Company's Consolidated Statements of Cash Flows for the year ended December 31, 2012.

⁽²⁾ Certain comparative information has been restated as a result of the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which was applied prospectively to production stripping costs incurred on or after January 1, 2012. For further details, refer to the Critical Accounting Estimates, Policies and Changes section on page 30 or note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

RISKS AND UNCERTAINTIES

The Company's business contains significant risk due to the nature of mining, exploration, and development activities. Certain risk factors listed below are related to the mining industry in general, while others are specific to the Company. Included in the risk factors below are details on how management seeks to mitigate these risks wherever possible. For additional discussion of these and other risk factors, please refer to the Company's Annual Information Form, which is available on the Company's website at www.auricogold.com, on SEDAR at www.sedar.com, and on EDGAR at www.sec.gov.

NATURE OF MINERAL EXPLORATION AND MINING

Because mines have limited lives based on proven and probable mineral reserves, the Company will be required to continually replace and expand its mineral reserves as its mines produce gold and silver. The Company's ability to maintain or increase its annual production of gold and silver in the future will be dependent in significant part on its ability to identify and acquire additional commercially viable mineral properties, bring new mines into production, and expand mineral reserves at existing mines.

Mineral resource exploration and development is a highly speculative business, characterized by a number of significant risks including, among others, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. There can be no assurance that the Company will successfully acquire additional mineral rights. While the discovery of additional ore-bearing structures may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration and development programs of the Company will result in profitable commercial mining operations. The profitability of the Company's operations will be, in part, directly related to the cost and success of its exploration and development programs, which may be affected by a number of factors.

Mining is inherently dangerous and subject to conditions or events beyond the Company's control, which could have a material adverse effect on the Company's business. Mining involves various types of risks and hazards, including, but not limited to: environmental hazards; industrial accidents; metallurgical and other processing problems; unusual or unexpected rock formations; structural cave-ins or slides; seismic activity; flooding; fires; periodic interruptions due to inclement or hazardous weather conditions; variations in grade, deposit size, density and other geological problems; mechanical equipment performance

problems; unavailability of materials and equipment; labour force disruptions; unanticipated or significant changes in the costs of supplies; and unanticipated transportation costs. Where considered practical to do so, the Company maintains insurance against risks in the operation of its business in amounts which it believes to be reasonable. Such insurance, however, contains exclusions and limitations on coverage. The Company may suffer a material adverse effect on its business if it incurs losses related to any significant events that are not covered by its insurance policies.

RESERVE ESTIMATES

Mineral resource and reserve figures are based upon estimates made by Company personnel and independent geologists. These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. There can be no assurance that these estimates will be accurate; that reserves, resources or other mineralization figures will be accurate; or that this mineralization can be mined or processed profitably. Mineralization estimates for the Company's properties may require adjustments or downward revisions based upon further exploration or development work or actual production experience. In addition, the grade of ore ultimately mined, if any, may differ from that indicated by drilling results. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in-production scale. The reserve and resource estimates have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for gold and silver may render portions of the Company's mineralization uneconomic and result in reduced reported mineralization. Any material reductions in estimates of mineralization, or of the Company's ability to extract this mineralization, could have a material adverse effect on the Company's results of operations or financial condition.

FOREIGN OPERATIONS

The Company has foreign property interests located in Mexico are subject to the laws and regulations of that country. As a result, the Company's mining investments are subject to the risks normally associated with the conduct of business in foreign countries. The Company believes the present attitude of the governments of the country and states in which the property interests are located to foreign investment and mining to be favourable; however, any variation from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Company.

The risks of conducting business in a foreign country may include, among others, invalidation of governmental orders and permits, corruption, uncertain political and economic environments, sovereign risk, war (including in neighbouring states), civil disturbances and terrorist acts, arbitrary changes in laws or policies of particular countries, the failure of foreign parties to honour contractual relations, corruption, foreign taxation, delays in obtaining or the inability to obtain necessary governmental permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on gold exports, instability due to economic under-development, inadequate infrastructure and increased financing costs. In addition, the enforcement of the Company's legal rights to exploit its properties may not be recognized by the government of Mexico by its court systems. These risks may limit or disrupt the Company's operations, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization or expropriation without fair compensation.

RISKS AND UNCERTAINTIES ASSOCIATED WITH DIVESTITURES

On May 4, 2012, the Company completed the sale of the Australian Operations for consideration of CAD \$55 million in cash, 20 million Crocodile Gold shares, and deferred cash payments based on life-of-mine free cash flow derived from the Stawell and Fosterville mines. To the extent that the deferred cash payments are conditional upon free cash flow derived from the Stawell and Fosterville mines, the Company's ability to derive the full value from the sale of the Australian Operations is dependent on the future operational performance from the Stawell and Fosterville mines, the price of gold, the Australian dollar to United States dollar exchange rate, and other factors outside of the Company's control. During the fourth quarter of 2012, the Company sold its entire equity interest in Crocodile Gold.

On July 13, 2012, the Company completed the sale of the El Cubo mine and Guadalupe y Calvo exploration property for consideration of \$100 million in cash, 11,037,528 Endeavour Silver Corporation shares and deferred cash payments to be paid upon the gold price exceeding specified levels and upon the occurrence of certain mine operating performance conditions during the three years following the closing date of the transaction. The Company's ability to derive the full value from the sale is dependent on factors outside of its control, which may affect whether it receives the contingent payments. During the fourth quarter of 2012, the Company sold its entire equity interest in Endeavour Silver Corporation.

ENVIRONMENTAL LAWS AND REGULATIONS

The Company's exploration and production activities in Mexico and Canada are subject to regulation by governmental agencies under various environmental laws. These laws address emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Environmental legislation in many countries is evolving and the trend has been towards stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and increasing responsibility for companies and their officers, directors and employees. Compliance with environmental laws and regulations may require significant capital outlays on behalf of the Company and may

cause material changes or delays in the Company's intended activities. There can be no assurance that future changes in environmental regulations will not adversely affect the Company's business.

PROPERTY RIGHTS, PERMITS AND LICENSING

The Company's current and anticipated future operations, including further exploration, development activities and expansion or commencement of production on the Company's properties, require certain permits and licenses from various levels of governmental authorities. The Company may also be required to obtain certain property rights to access, or use, certain of its properties in order to proceed to development. There can be no assurance that all licenses, permits or property rights required for the expansion and construction of mining facilities and the conduct of mining operations will be obtainable on reasonable terms or in a timely manner, or at all, that such terms may not be adversely changed, that required extension will be granted, or that the issuance of such licenses, permits or property rights will not be challenged by third parties. Delays in obtaining or a failure to obtain such licenses, permits or property rights or extension thereto; challenges to the issuance of such licenses, permits or property rights, whether successful or unsuccessful; changes to the terms of such licenses, permits or property rights; or a failure to comply with the terms of any such licenses, permits or property rights obtained; could have a material adverse impact on the Company.

UNCERTAINTIES OF TITLE

The Company cannot guarantee that title to its properties will not be challenged. Title insurance is generally not available for mineral properties and the Company's ability to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be severely constrained. The Company's mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. A successful challenge to the precise area and location of these claims could result in the Company being unable to operate on its properties as permitted or being unable to enforce its rights with respect to its properties.

COMMODITY PRICE RISK

The profitability of the Company's gold mining operations will be significantly affected by changes in the market prices for gold. Gold prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for gold, the level of interest rates, the rate of inflation, investment decisions by large holders of gold, including governmental reserves, and stability of exchange rates can all cause significant fluctuations in gold prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems, and political developments. The prices of gold have fluctuated widely and future serious price declines could cause continued commercial production to be impractical. Depending on the prices of gold, cash flow from mining operations may not be sufficient to cover costs of production and capital expenditures. If, as a result of a decline in gold prices, revenues from metal sales were to fall below operating costs, production may be discontinued.

INTEREST RATE RISK

The Company is exposed to interest rate risk on its variable rate debt. At December 31, 2013, the Company had drawn \$75.0 million on its credit facility at an interest rate of 2.67%. The applicable interest rate may change depending on the Company's leverage ratio during the period, but would range between LIBOR plus 2.25% to 3.50% for LIBOR loans. The Company has not entered into any agreements to hedge against unfavourable changes in interest rates, but may actively manage its exposure to interest rate risk in the future.

FOREIGN CURRENCY EXCHANGE RATE RISK

Metal sales revenues for the Company are denominated in US dollars. The Company is primarily exposed to currency fluctuations relative to expenditures that are denominated in Canadian dollars and Mexican pesos, such as payments for labour, operating supplies and property, plant and equipment. These potential currency fluctuations could have a significant impact on production costs and capital expenditures and thereby, the net free cash flow of the Company. The Company is also exposed to the impact of currency fluctuations on its monetary assets and liabilities.

CREDIT RISK

Credit risk relates to accounts receivable and other contracts, and arises from the possibility that any counterparty to an instrument fails to perform. The Company only transacts with highly-rated counterparties and a limit on contingent exposure has been established for each counterparty based on the counterparty's credit rating.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company may from time to time employ derivative products in respect of commodities, interest rates and/or currencies. Derivative products are generally used to manage the risks associated with, among other things, changes in commodity prices and foreign currency exchange rates.

The use of derivative instruments involves certain inherent risk including credit risk, market risk and liquidity risk. For derivatives, credit risk is created when the fair value is positive. When the fair value of a derivative is negative, no credit risk is assumed. The Company mitigates credit risk by entering into derivatives with high quality counterparties, limiting the amount of

exposure to each counterparty, and monitoring the financial condition of the counterparties. Market risk is the risk that the fair value of a derivative might be adversely affected by a change in underlying commodity prices or currency exchange rates, and that this in turn affects the Company's financial condition. The Company manages market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The Company generally mitigates liquidity risk by spreading out the maturity of its derivatives over time.

CRITICAL ACCOUNTING ESTIMATES, POLICIES AND CHANGES

ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The following is a list of the accounting policies that the Company believes are critical, due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported.

(i) *Ore inventories*

Finished goods, work-in-process, heap leach ore and stockpile ore are valued at the lower of the average cost or NRV. NRV is the difference between the estimated future realizable gold prices based on prevailing and long-term prices, less estimated costs to complete production into a saleable form. The assumptions used in the valuation of work-in-process inventories include estimates of gold ounces contained in the ore stacked on leach pads, assumptions of the amount of gold ounces stacked that is expected to be recovered from the leach pads, the amount of gold ounces in mill circuits and in stockpiles, the costs to complete the processing of ore inventory, and an assumption of the gold prices expected to be realized when the gold ounces are recovered. Write-downs of ore in stockpiles, ore on leach pads, in-process and finished metal inventories resulting from NRV impairments are reported as a component of current period costs. The primary factors that influence the need to record write-downs include prevailing and long-term gold prices and prevailing costs for production inputs such as labour, fuel and energy, and materials and supplies, as well as realized ore grades and actual production levels. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in NRV because of changed economic circumstances, the amount of the write-down or a portion thereof is reversed so that the new carrying amount is the lower of the cost and the revised NRV. The reversal is limited to the amount of the original write-down for inventory still on hand.

Ore on leach pads is ore that is placed on pads where it is saturated with a chemical solution that dissolves the gold contained in the ore. Costs are attributed to the leach pads based on current mining costs, including applicable depletion and amortization relating to mining operations, incurred up to the point of placing the ore on the pad. Costs are removed from the leach pad based on the average cost per recoverable ounce of gold on the leach pad as the gold is recovered. Estimates of recoverable gold ounces on the leach pads are calculated from the quantities of ore placed on the pads, the grade of ore placed on the leach pads and an estimated percentage of recovery. Timing and ultimate recovery of gold ounces contained on leach pads can vary significantly from the estimates. The ounces of recoverable gold placed on the leach pads are reconciled to the balance of gold actually recovered (metallurgical balancing), by comparing the grades of ore placed on the leach pads to actual ounces recovered. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and the engineering estimates are refined based on actual results over time. The ultimate recovery of gold ounces from a pad will not be known until the leaching process is completed.

The allocation of costs to ore in stockpiles, ore on leach pads and in-process inventories and the determination of NRV involve the use of estimates. There is a high degree of judgement in estimating future costs, future production levels, proven and probable mineral reserve estimates, gold prices, and the ultimate estimated recovery of ore on leach pads. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying value of inventories.

(ii) *Mineral reserves and resources used to measure depletion and amortization*

The Company records depletion and amortization expense based on the estimated useful economic lives of long-lived assets. Property, plant and equipment are amortized on a straight-line basis over their estimated useful lives. Mining interests are amortized using the units of production method over proven and probable reserves of the mine and the portion of mineralization expected to be classified as reserves. Changes in reserves and resources estimates are generally calculated at the end of each year and cause amortization expense to increase or decrease prospectively. The estimation of quantities of reserves and resources is complex, requiring significant subjective assumptions that arise from the evaluation of geological, geophysical, engineering and economic data for a given ore body. This data could change over time as a result of numerous factors, including new information gained from development activities, evolving production history and a reassessment of the viability of production under different economic conditions. Changes in data and/or assumptions could cause reserves and resources estimates to substantially change from period to period. Actual production could differ from amounts expected based on reserves and resources, and an adverse change in gold prices could make a reserve or resource uneconomic to mine. Variations from estimates could also occur in actual ore grades and gold recovery rates. A key trend that could reasonably impact reserves and resources estimates is rising market mineral prices, because the mineral price assumption is closely related to the trailing three-year average market price. As this assumption rises, it could result in an upward revision to reserves

and resources estimates as mineralization not previously classified as a reserve or resource becomes economic at higher gold prices.

(iii) *Goodwill and non-financial assets*

Goodwill and other non-financial assets are assessed for impairment at the cash-generating unit level, on at least an annual basis, by comparing the calculated recoverable amount to the cash-generating unit's carrying amount. If the recoverable amount of the cash-generating unit exceeds its carrying amount, goodwill is considered not to be impaired. If the carrying amount of a cash-generating unit exceeds its recoverable amount, a potential impairment exists. Significant estimates are made in calculating the recoverable amount of a cash-generating unit, including estimates of future costs to produce proven and probable reserves, future gold prices, foreign exchange rates and discount rates.

(iv) *Deferred income taxes and valuation allowances*

The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of the changes.

Each period, the Company evaluates the likelihood of whether or not some portion or all of each deferred income tax asset and investment tax credits will be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, market gold prices, production costs, quantities of proven and probable gold reserves, interest rates and foreign currency exchange rates.

(v) *Reclamation provisions*

Reclamation provisions arise from the acquisition, development, construction and normal operation of mining property, plant and equipment, due to government controls and regulations that protect the environment and public safety on the closure and reclamation of mining properties. The Company records the fair value of a reclamation obligation in the financial statements when it is incurred, and either capitalizes this amount as an increase in the carrying amount of the related asset or, if the mine is in the decommissioning stage, records the amount as an expense. The fair values are measured by discounting the best estimate of the expected value of future cash flows required to reclaim the property upon mine closure, which are discounted to their present value for each mine operation. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money specific to the country in which the mine is located. Significant estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. The Company prepares estimates of the timing and expected value of future cash flows when the liability is incurred, which are updated to reflect changes in facts and circumstances. Future changes in regulations, laws or enforcement could adversely affect operations; and any instances of non-compliance with laws or regulations that result in fines or injunctions or delays in projects, or any unforeseen environmental contamination at, or related to, the mining properties could result in significant costs.

The principal factors that can cause the expected value of future cash flows to change are: the construction of new processing facilities; changes in the quantities of material in reserves and a corresponding change in the life of mine plan; changing ore characteristics that ultimately impact the environment; changes in water quality that impact the extent of water treatment required; and changes in laws and regulations governing the protection of the environment. In general, as the end of the mine life nears, the reliability of estimates of expected cash flows increases, but earlier in the mine life, the estimation of a reclamation provision is inherently more subjective. Significant estimates are made in calculating the fair value of reclamation provisions. Expected cash flows relating to reclamation provisions could occur over periods up to twenty years and the assessment of the extent of any necessary environmental remediation work is highly subjective. Considering all of these factors that go into the determination of a reclamation provision, the fair value of reclamation provisions can materially change over time.

(vi) *Contingent consideration receivable*

The Company makes estimates of amounts receivable in order to value the retained interest royalty. Future amounts receivable under these arrangements will be impacted by future gold prices, future production from the Fosterville and Stawell mines in Victoria, Australia, future foreign exchange rates, as well as related operating and capital expenditures required to sustain that production.

ACCOUNTING POLICIES AND CHANGES

The accounting policies applied in the consolidated financial statements for the year ended December 31, 2013 are consistent with those used in the Company's Consolidated Financial Statements for the year ended December 31, 2012, with the exception of the following accounting policies adopted on January 1, 2013:

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, provides guidance on the recognition and measurement of stripping costs associated with surface mining operations. IFRIC 20 differentiates between two benefits that could accrue to an entity from stripping activities: (1) usable ore that can be used to produce inventory, and (2) improved access to further quantities of material that will be mined in future periods. IFRIC 20 provides guidance on when and how to account separately

for these two benefits, as well as how to initially and subsequently measure them. If the costs of the stripping activity asset versus inventory produced are not separately identifiable, an entity is required to allocate production stripping costs between the two based on a relevant production measure. IFRIC 20 has been applied prospectively to the Company's production stripping costs incurred on or after January 1, 2012, as all historical stripping costs were associated with an identifiable component of the ore body.

The adoption of this interpretation resulted in an increase of \$3.3 million in inventory, an increase of \$3.3 million in long-term inventory, a decline of \$8.6 million in property, plant and equipment & mining interests, and an increase of \$2.0 million in deficit in the Consolidated Balance Sheets as at December 31, 2012. The adoption of this interpretation also resulted in an increase of \$2.0 million in production costs in the Consolidated Statements of Operations for the year ended December 31, 2012, which decreased both the Company's basic and diluted earnings per share by \$0.01. For the year ended December 31, 2012, the adoption of this interpretation decreased expenditures on property, plant and equipment, mining interests and intangible assets by \$8.6 million, and decreased the cash outflow from non-cash operating working capital by \$6.6 million, in the Consolidated Statements of Cash Flows.

IFRS 10, *Consolidated Financial Statements*, replaces the consolidated financial statements section of IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purposes Entities*, in its entirety. IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities, regardless of the nature of relationship. The new standard introduces a revised definition of control, and provides additional guidance on how to apply the control principle in a number of situations. There was no impact on the Company's consolidated financial statements upon the adoption of this standard.

IFRS 11, *Joint Arrangements*, replaces IAS 31, *Interests in Joint Ventures*, and requires the Company to classify its interest in a joint arrangement as either a joint operation or a joint venture. For a joint venture, the Company will account for its interest in the net assets of the joint venture using the equity method of accounting. The Company will no longer have the option to proportionately consolidate its share of the net assets, revenues and expenses of joint ventures. There was no impact on the Company's consolidated financial statements upon the adoption of this standard, as the Company previously accounted for its interest in a joint venture using the equity method of accounting.

IFRS 12, *Disclosure of Interests in Other Entities*, outlines the disclosures required surrounding an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities, to enable users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption. These disclosure requirements have been incorporated into the Company's consolidated financial statements.

IFRS 13, *Fair Value Measurement*, is a single source of fair value measurement guidance under IFRS. IFRS 13 clarifies the definition of fair value, provides a clear framework for measuring fair value, and enhances the disclosures about fair value measurements. IFRS 13 is not only limited to financial instruments, but also applies to fair value measurement in other IFRS, such as impairment and employee future benefits. These disclosure requirements have been incorporated into the Company's consolidated financial statements.

IFRS 7, *Financial Instruments: Disclosures*, and IAS 32, *Financial Instruments: Presentation*, were amended to address offsetting financial assets and financial liabilities in the financial statements. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the balance sheet or that are subject to master netting arrangements or similar arrangements. There was no impact on the Company's consolidated financial statements upon the adoption of this amendment.

IAS 1, *Presentation of Financial Statements*, was amended to revise the presentation of other comprehensive income, requiring entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently, with subtotals for each group. There was no impact on the Company's consolidated financial statements upon the adoption of this amendment as all items are reclassifiable subsequently to net earnings.

The Company also adopted the amendments to IAS 19, *Employee Benefits*, IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, which did not have an impact on the Company's consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

For the purposes of preparing and presenting the Company's consolidated financial statements, the Company has adopted all standards and interpretations issued other than those discussed below. These standards have not been adopted because they are not effective for the Company until subsequent to December 31, 2013. Standards and interpretations issued, but not yet adopted, include:

	<u>Effective for the Company</u>
IFRS 9, <i>Financial Instruments</i>	To be determined
IFRIC 21, <i>Levies</i>	January 1, 2014
Amendments to IAS 32, <i>Financial Instruments: Presentation</i>	January 1, 2014

IFRS 9, *Financial Instruments*, proposes to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The replacement standard has three main phases, the first of which provides new guidance for the classification and measurement of financial assets and liabilities, including elimination of the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables, in exchange for the classification of financial assets and liabilities into the categories of either financial assets measured at amortized cost or financial assets measured at fair value. The second part, which is currently an exposure draft, provides guidance for amortized cost and impairment methodology for financial assets. The third part, which is also currently an exposure draft, proposes a revised general hedge accounting model. The IASB recently suspended the originally planned effective date of January 1, 2015 and at present the effective date has not been determined. The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

IFRIC 21, *Levies*, sets out criteria for the recognition of liabilities for levies imposed by governments. The IFRIC identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Company is currently evaluating the impact of this interpretation on its consolidated financial statements.

The proposed amendments to IAS 32, *Financial Instruments: Presentation*, clarify situations in which an entity has a legally enforceable right to set-off a financial liability and financial asset. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

CONTROLS AND PROCEDURES

(i) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation or reports filed or submitted under the U.S. Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the applicable time periods, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. As of December 31, 2013, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of disclosure controls and procedures as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934 and in *National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings* under the Canadian Securities Administrators Rules and Policies. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as at December 31, 2013, the Company's disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed in reports filed or submitted by the Company under United States and Canadian securities legislation was recorded, processed, summarized and reported within the time periods specified by the legislation.

(ii) Management's Report on Internal Control Over Financial Reporting

Management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, and used the 1992 framework issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal controls over financial reporting for the year ended December 31, 2013. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2013, and provided reasonable assurance of the reliability of the Company's financial reporting and preparation of the financial statements. The Company's internal control over financial reporting 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 IFRS. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

CAUTIONARY NOTE TO U.S. INVESTORS

Cautionary Note to U.S. Investors Concerning Measured, Indicated and Inferred Resources: This MD&A uses the terms "measured", "indicated" and "inferred" resources. We advise investors that while those terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission does not recognize them. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or other economic studies. United States investors are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be converted into mineral reserves. United States investors are also cautioned not to assume that all or any part of an inferred mineral resource exists, or is economically or legally mineable.

Cautionary Note to U.S. Investors Concerning International Financial Reporting Standards: The consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (see note 2 to the consolidated financial statements for the year ended December 31, 2013). These accounting principles differ in certain material respects from accounting principles generally accepted in the United States of America. The Company's reporting currency is the United States dollar unless otherwise noted.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information as defined under Canadian and U.S. securities laws. All statements, other than statements of historical fact, are, or may be deemed to be, forward-looking statements. The words "expect", "believe", "anticipate", "will", "intend", "estimate", "forecast", "budget" and similar expressions identify forward-looking statements. Forward-looking statements include information as to strategy, plans or future financial or operating performance, such as the Company's expansion plans, project timelines, production plans, projected cash flows or capital expenditures, cost estimates, projected exploration results, reserve and resource estimates and other statements that express management's expectations or estimates of future performance.

Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements, including: uncertainty of production and cost estimates; fluctuations in the price of gold and foreign exchange rates; the uncertainty of replacing depleted reserves; the risk that the Young-Davidson shaft will not perform as planned; the risk that mining operations do not meet expectations; the risk that projects will not be developed accordingly to budgets or timelines, changes in laws in Canada, Mexico and other jurisdictions in which the Company may carry on business; risks of obtaining necessary licenses, permits or approvals for operations or projects such as Kemess; disputes over title to properties; the speculative nature of mineral exploration and development; risks related to aboriginal title claims; compliance risks with respect to current and future environmental regulations; disruptions affecting operations; opportunities that may be pursued by the Company; employee relations; availability and costs of mining inputs and labor; the ability to secure capital to execute business plans; volatility of the Company's share price; continuation of the dividend and dividend reinvestment plan; the effect of future financings; litigation; risk of loss due to sabotage and civil disturbances; the values of assets and liabilities based on projected future cash flows; risks arising from derivative instruments or the absence of hedging; adequacy of internal control over financial reporting; changes in credit rating; and the impact of inflation.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained herein. Such statements are based on a number of assumptions which may prove to be incorrect, including assumptions about: business and economic conditions; commodity prices and the price of key inputs such as labour, fuel and electricity; credit market conditions and conditions in financial markets generally; revenue and cash flow estimates, production levels, development schedules and the associated costs; ability to procure equipment and supplies and on a timely basis; the timing of the receipt of permits and other approvals for projects and operations; the ability to attract and retain skilled employees and contractors for the operations; the accuracy of reserve and resource estimates; the impact of changes in currency exchange rates on costs and results; interest rates; taxation; and ongoing relations with employees and business partners. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.



Consolidated Financial Statements

(in United States Dollars, unless otherwise stated)

December 31, 2013



Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AuRico Gold Inc. (the "Company") and the information in this annual report are the responsibility of management and have been reviewed and approved by the Company's board of directors (the "Board of Directors"). The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. In preparation of these consolidated financial statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Management believes that such estimates, which have been properly reflected in the accompanying consolidated financial statements, are based on the best estimates and judgements of management. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Company's systems of internal control over financial reporting. These systems are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. The Chief Executive Officer and Chief Financial Officer have assessed and concluded on the design and operating effectiveness of internal control over financial reporting.

The Board of Directors oversees management's responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Company. This Committee meets with management and the Company's independent auditors, KPMG LLP, to ensure that management is properly fulfilling its financial reporting responsibilities, review the consolidated financial statements, and recommend approval by the Board of Directors. The Audit Committee provides full and unrestricted access to the independent auditors and also meets with the independent auditors, without the presence of management, to discuss the scope and results of their audit, the adequacy of internal control over financial reporting, and the quality of financial reporting.

The consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, in accordance with Canadian generally accepted auditing standards and in accordance with the standards of the Public Company Accounting Oversight Board (United States).

A blue ink signature of Scott Perry, consisting of a stylized 'S' and 'P' followed by a long horizontal line.

Scott Perry
President and Chief Executive Officer

A blue ink signature of Robert Chausse, written in a cursive style.

Robert Chausse
Executive Vice President and Chief Financial Officer

March 3, 2014



KPMG LLP
Chartered Professional Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of AuRico Gold Inc.

We have audited the accompanying consolidated financial statements of AuRico Gold Inc., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AuRico Gold Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AuRico Gold Inc.'s internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2014 expressed an unqualified opinion on the effectiveness of AuRico Gold Inc.'s internal control over financial reporting.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 3, 2014



KPMG LLP
Chartered Professional Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of AuRico Gold Inc.

We have audited AuRico Gold Inc.'s internal control over financial reporting as of December 31, 2013, based on *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AuRico Gold Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting under the heading Controls and Procedures in Management's Discussion and Analysis for the year ended December 31, 2013. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting 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 generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Page 2

In our opinion, AuRico Gold Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AuRico Gold Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2013, and our report dated March 3, 2014 expressed an unmodified opinion on those consolidated financial statements.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 3, 2014



CONSOLIDATED BALANCE SHEETS


(in thousands of United States dollars)

	2013	2012 Restated (Note 3(a))
<hr/>		
As at December 31		
<hr/>		
ASSETS		
Current assets		
Cash and cash equivalents (Note 5)	\$ 142,652	\$ 603,401
Restricted cash (Note 16(d))	2,204	2,362
Receivables (Note 6)	29,254	29,503
Current income tax receivable	27,936	30,977
Inventories (Note 7)	84,643	74,077
Prepays and deposits	<u>5,250</u>	<u>3,334</u>
	291,939	743,654
Non-current assets		
Investments (Note 8)	15,551	111
Long-term inventories (Note 7)	93,696	85,979
Investment in jointly-controlled entity (Note 9)	17,930	20,463
Other long-term assets (Note 10)	71,988	83,289
Property, plant and equipment & mining interests (Note 11 and 13)	1,675,955	1,558,706
Intangible assets (Note 12 and 13)	53,656	54,825
Goodwill (Note 12 and 13)	<u>241,693</u>	<u>348,214</u>
	<u>\$ 2,462,408</u>	<u>\$ 2,895,241</u>
LIABILITIES		
Current liabilities		
Trade payables and accrued liabilities	\$ 76,923	\$ 59,478
Dividend payable (Note 18(b))	9,960	-
Current income tax liability	3,966	6,040
Derivative liabilities and other liabilities (Note 14)	-	5,499
Current portion of debt and equipment financing obligations (Note 15)	7,355	5,038
Current portion of provisions (Note 16)	<u>15,955</u>	<u>19,326</u>
	114,159	95,381
Non-current liabilities		
Debt and equipment financing obligations (Note 15)	244,194	167,497
Option component of convertible senior notes (Note 15 and 26)	413	16,035
Provisions (Note 16)	28,580	32,360
Deferred income tax liability (Note 17)	<u>287,180</u>	<u>288,131</u>
	<u>674,526</u>	<u>599,404</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 18)	2,021,837	2,307,978
Contributed surplus	55,945	50,881
Deficit	(284,632)	(62,917)
Accumulated other comprehensive loss (Note 19)	<u>(5,268)</u>	<u>(105)</u>
	<u>1,787,882</u>	<u>2,295,837</u>
	<u>\$ 2,462,408</u>	<u>\$ 2,895,241</u>

Commitments and contingencies (Note 11 and Note 25)

Signed on behalf of the Board:


Scott Perry, Director


Ronald Smith, Director

See accompanying notes to the consolidated financial statements



CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of United States dollars)

	2013	2012 Restated (Note 3(a))
For the years ended December 31		
Revenue from mining operations	\$ 227,631	\$ 163,622
Cost of sales:		
Production costs (Note 7)	147,981	61,599
Refining costs	526	466
Amortization and depletion (Note 7)	65,529	18,723
Reclamation, care and maintenance costs	4,417	14,066
Total cost of sales	<u>218,453</u>	<u>94,854</u>
General and administrative	27,677	35,730
Exploration and business development	1,014	1,385
Impairment charges (Note 13)	158,574	128,537
Loss from operations (Note 20)	<u>(178,087)</u>	<u>(96,884)</u>
Finance costs	(2,928)	(2,237)
Foreign exchange gain / (loss)	10,927	(10,727)
Other income (Note 21)	10,167	8,762
Equity in (loss) / earnings of jointly-controlled entity (Note 9)	<u>(2,533)</u>	<u>83</u>
Loss before income taxes	<u>(162,454)</u>	<u>(101,003)</u>
Deferred income tax expense / (recovery) (Note 17)	14,456	(7,849)
Current income tax (recovery) / expense (Note 17)	<u>(140)</u>	<u>6,625</u>
	<u>14,316</u>	<u>(1,224)</u>
Net loss from continuing operations	\$ (176,770)	\$ (99,779)
Net earnings from discontinued operations (Note 29(d))	<u>-</u>	<u>131,052</u>
Net (loss) / earnings	<u>\$ (176,770)</u>	<u>\$ 31,273</u>
(Loss) / earnings per share (Note 22)		
Basic loss per share from continuing operations	\$ (0.71)	\$ (0.35)
Basic earnings per share from discontinued operations	<u>-</u>	<u>0.46</u>
Basic (loss) / earnings per share	<u>\$ (0.71)</u>	<u>\$ 0.11</u>
Diluted loss per share from continuing operations	\$ (0.72)	\$ (0.35)
Diluted earnings per share from discontinued operations	<u>-</u>	<u>0.46</u>
Diluted (loss) / earnings per share	<u>\$ (0.72)</u>	<u>\$ 0.11</u>
Weighted average shares outstanding (Note 22)		
Basic	250,398,043	282,194,197
Diluted	265,729,061	282,194,197



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of United States dollars)

	2013	2012 Restated (Note 3(a))
For the years ended December 31		
Net (loss) / earnings	\$ (176,770)	\$ 31,273
Items that may be reclassified subsequently to net (loss) / earnings:		
Other comprehensive loss from continuing operations:		
Unrealized loss on investments	(5,331)	(34)
Reclassification of accumulated losses on investments to earnings	168	-
Tax effect	-	(78)
Total other comprehensive loss from continuing operations	<u>(5,163)</u>	<u>(112)</u>
Other comprehensive income from discontinued operations:		
Unrealized gain on derivatives designated as cash flow hedges	-	5,458
Reclassification of realized losses on cash flow hedges to earnings	-	4,179
Foreign exchange gain on translation	-	(538)
Unrealized loss on investments and reclassification of losses to earnings	-	58
Reclassification of foreign exchange loss on translation to earnings (Note 29(d))	-	2,173
Total other comprehensive income from discontinued operations	<u>-</u>	<u>11,330</u>
Total other comprehensive (loss) / income	<u>(5,163)</u>	<u>11,218</u>
Comprehensive (loss) / income	<u>\$ (181,933)</u>	<u>\$ 42,491</u>



CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

	2013	2012 Restated (Note 3(a))
For the years ended December 31		
OPERATING ACTIVITIES		
Net loss from continuing operations	\$ (176,770)	\$ (99,779)
Payments of disposition-related costs	-	(8,504)
Payments to settle derivative liabilities	(528)	(317)
Payments to settle other liabilities	(2,750)	-
Payments to settle provisions	(3,628)	(9,099)
Items not affecting cash (Note 23)	261,755	154,841
Change in non-cash operating working capital (Note 23)	<u>(14,813)</u>	<u>(44,373)</u>
Operating cash flows from continuing operations	<u>63,266</u>	<u>(7,231)</u>
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment, mining interests and intangible assets	(249,422)	(361,500)
Proceeds from issuance of shares in a subsidiary (Note 9)	-	27,000
Increase in restricted cash	(1,686)	(4,774)
Purchase of investments (Note 8)	(21,272)	-
Sale of investments (Note 8)	-	108,230
Proceeds from disposition of Australian Operations, net of cash sold (Note 29(a))	-	44,755
Proceeds from disposition of El Cubo and Guadalupe y Calvo, net of cash sold (Note 29(b))	-	99,157
Proceeds from disposition of Ocampo, net of cash sold and taxes paid (Note 29(c) and Note 23)	<u>-</u>	<u>641,419</u>
Investing cash flows from continuing operations	<u>(272,380)</u>	<u>554,287</u>
FINANCING ACTIVITIES		
Repayment of debt and equipment financing obligations	(4,866)	(131,377)
Proceeds from debt and equipment financing obligations	79,813	78,851
Payment of dividends	(27,720)	-
Payment of financing fees on debt	-	(1,877)
Proceeds from exercise of stock options	3,094	1,205
Shares repurchased and cancelled (Note 18(a))	<u>(301,066)</u>	<u>-</u>
Financing cash flows from continuing operations	<u>(250,745)</u>	<u>(53,198)</u>
Impact of foreign exchange on cash	<u>(890)</u>	<u>(1,109)</u>
Net (decrease) / increase in cash from continuing operations	(460,749)	492,749
Net decrease in cash from discontinued operations (Note 29(d))	-	(68,792)
Cash and cash equivalents, beginning of period	<u>603,401</u>	<u>179,444</u>
Cash and cash equivalents, end of period	<u>\$ 142,652</u>	<u>\$ 603,401</u>



CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of United States dollars)

	2013	2012 Restated (Note 3(a))
For the year ended December 31		
Capital stock		
Balance, beginning of period	\$ 2,307,978	\$ 2,301,419
Shares repurchased and cancelled (Note 18(a))	(295,536)	-
Shares issued through dividend reinvestment plan	1,969	-
Shares issued as payment for disposition-related services	-	1,736
Shares issued through employee share purchase plan	2,008	1,892
Shares issued on redemption of deferred share units	499	314
Shares issued for cash pursuant to exercise of stock options	3,094	1,205
Fair value of share-based compensation on stock options exercised	<u>1,825</u>	<u>1,412</u>
Balance, end of period	<u>\$ 2,021,837</u>	<u>\$ 2,307,978</u>
Contributed surplus		
Balance, beginning of period	\$ 50,881	\$ 45,232
Fair value of deferred share units redeemed	(499)	(314)
Fair value of share-based compensation on stock options exercised	(1,825)	(1,412)
Share-based compensation	<u>7,388</u>	<u>7,375</u>
Balance, end of period	<u>\$ 55,945</u>	<u>\$ 50,881</u>
Deficit		
Balance, beginning of period	\$ (62,917)	\$ (94,190)
Dividends declared (Note 18(b))	(39,592)	-
Premium on shares repurchased and cancelled (Note 18(a))	(5,353)	-
Net (loss) / earnings	<u>(176,770)</u>	<u>31,273</u>
Balance, end of period	<u>\$ (284,632)</u>	<u>\$ (62,917)</u>
Accumulated other comprehensive loss		
Balance, beginning of period	\$ (105)	\$ (11,323)
Other comprehensive (loss) / income	<u>(5,163)</u>	<u>11,218</u>
Balance, end of period	<u>\$ (5,268)</u>	<u>\$ (105)</u>
Total shareholders' equity	<u>\$ 1,787,882</u>	<u>\$ 2,295,837</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

1. Corporate information

AuRico Gold Inc. and its subsidiaries (collectively, the "Company" or "AuRico Gold") are engaged in the mining, development and exploration of resource properties. AuRico Gold Inc., the ultimate parent, is a publicly traded company with common shares listed on the Toronto Stock Exchange (TSX: AUQ) and the New York Stock Exchange (NYSE: AUQ). The Company is incorporated and domiciled in Canada and its head office and registered office is located at 110 Yonge Street, Suite 1601, Toronto, Ontario, M5C 1T4.

The consolidated financial statements of the Company and its subsidiaries were authorized for issue in accordance with a resolution of the Board of Directors dated March 3, 2014.

2. Basis of preparation and statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective for the year ended December 31, 2013.

These consolidated financial statements have been prepared using the historical cost convention, other than for certain financial instruments, which are measured in accordance with the policy disclosed in note 3(r).

3. Summary of significant accounting policies

(a) Adoption of new accounting standards

The Company adopted the following accounting standards and amendments to accounting standards, effective January 1, 2013:

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, provides guidance on the recognition and measurement of stripping costs associated with surface mining operations. IFRIC 20 differentiates between two benefits that could accrue to an entity from stripping activities: (1) usable ore that can be used to produce inventory, and (2) improved access to further quantities of material that will be mined in future periods. IFRIC 20 provides guidance on when and how to account separately for these two benefits, as well as how to initially and subsequently measure them. If the costs of the stripping activity asset versus inventory produced are not separately identifiable, an entity is required to allocate production stripping costs between the two based on a relevant production measure. IFRIC 20 has been applied prospectively to the Company's production stripping costs incurred on or after January 1, 2012, as all historical stripping costs were associated with an identifiable component of the ore body.

The adoption of this interpretation resulted in an increase of \$3,330 in inventory, an increase of \$3,276 in long-term inventory, a decline of \$8,564 in property, plant and equipment & mining interests, and an increase of \$1,958 in deficit in the Consolidated Balance Sheets as at December 31, 2012. The adoption of this interpretation also resulted in an increase of \$1,958 in production costs in the Consolidated Statements of Operations for the year ended December 31, 2012, which decreased both the Company's basic and diluted earnings per share by \$0.01. For the year ended December 31, 2012, the adoption of this interpretation decreased expenditures on property, plant and equipment, mining interests and intangible assets by \$8,564, and decreased the cash outflow from non-cash operating working capital by \$6,606, in the Condensed Consolidated Statements of Cash Flows.

IFRS 10, *Consolidated Financial Statements*, replaces the consolidated financial statements section of IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purposes Entities*, in its entirety. IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities, regardless of the nature of relationship. The new standard introduces a revised definition of control, and provides additional guidance on how to apply the control principle in a number of situations. There was no impact on the Company's consolidated financial statements upon the adoption of this standard.

IFRS 11, *Joint Arrangements*, replaces IAS 31, *Interests in Joint Ventures*, and requires the Company to classify its interest in a joint arrangement as either a joint operation or a joint venture. For a joint venture, the Company will account for its interest in the net assets of the joint venture using the equity method of accounting. The Company will no longer have the option to proportionately consolidate its share of the net assets, revenues and expenses of joint ventures. There was no impact on the Company's consolidated financial statements upon the adoption of this standard, as the Company previously accounted for its interest in a joint venture using the equity method of accounting.

IFRS 12, *Disclosure of Interests in Other Entities*, outlines the disclosures required surrounding an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities, to enable users of financial

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

statements to evaluate the nature of, and risks associated with, its interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption. These disclosure requirements have been incorporated into the Company's consolidated financial statements.

IFRS 13, *Fair Value Measurement*, is a single source of fair value measurement guidance under IFRS. IFRS 13 clarifies the definition of fair value, provides a clear framework for measuring fair value, and enhances the disclosures about fair value measurements. IFRS 13 is not only limited to financial instruments, but also applies to fair value measurement in other IFRS, such as impairment and employee future benefits. These disclosure requirements have been incorporated into the Company's consolidated financial statements.

IFRS 7, *Financial Instruments: Disclosures*, and IAS 32, *Financial Instruments: Presentation*, were amended to address offsetting financial assets and financial liabilities in the financial statements. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the balance sheet or that are subject to master netting arrangements or similar arrangements. There was no impact on the Company's consolidated financial statements upon the adoption of this amendment.

IAS 1, *Presentation of Financial Statements*, was amended to revise the presentation of other comprehensive income, requiring entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently, with subtotals for each group. There was no impact on the Company's consolidated financial statements upon the adoption of this amendment as all items are reclassifiable subsequently to net earnings.

The Company also adopted the amendments to IAS 19, *Employee Benefits*, IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, which did not have an impact on the Company's consolidated financial statements.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and the following subsidiaries:

Company	Principal activity	Country of incorporation
AuRicoGold Chihuahua, S.A. de C.V., SOFOM E.N.R.	Administrative services	Mexico
AuRico Gold Holdings Inc.	Holding company	Canada
AuRico Gold Luxembourg S.à.r.l	Administrative services	Luxembourg
AuRico Gold (USA), Inc.	Administrative services	United States of America
Capital Gold Corporation	Holding company	United States of America
Leadville Mining & Milling Holding Corporation	Holding company	United States of America
Minera Santa Rita, S. de R.L. de C.V.	Gold and silver mining	Mexico
Nayarit Gold Inc.	Holding company	Canada
Oro de Altar, S.A. de C.V.	Holding company	Mexico

These subsidiaries are controlled by the Company, and are wholly-owned. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Company also consolidates the accounts of Caborca Industrial S.A. de C.V., a Mexican corporation wholly-owned by two senior officers of the Company, which provides mining support services to the Company's El Chanate mine. This entity is consolidated in accordance with *IFRS 10, Consolidated Financial Statements*.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(c) Investments in joint ventures

The Company accounts for investments in joint ventures using the equity method of accounting. The carrying value of the Company's investments in joint ventures represents the cost of the investment, including the Company's share of retained earnings and losses subsequent to formation. At the end of each reporting period, the Company assesses its investments in joint ventures for any indicators of impairment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

(d) Foreign currency

Functional and presentation currency

These consolidated financial statements are expressed in United States dollars ("US dollars"), which is the functional currency of the Company and the presentation currency of the consolidated financial statements. The functional currency of all of the Company's subsidiaries is also the US dollar.

Translation of transactions and balances into the functional currency

Transactions in currencies other than an entity's functional currency ("foreign currencies") are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at that date. Foreign currency non-monetary items that are measured in terms of historical cost are not retranslated.

Exchange differences are recognized in net earnings in the period in which they arise. Unrealized gains and losses due to movements in exchange rates on cash and cash equivalents held in foreign currencies are shown separately on the Consolidated Statements of Cash Flows.

(e) Revenue recognition

Revenue from the sale of gold, silver and doré, including by-product revenue, is recognized when persuasive evidence of a sale arrangement exists, the risks and rewards of ownership pass to the purchaser, including title risk, the selling price is measurable, and collectability is probable. The risks and rewards of ownership are considered to have been transferred when title passes to the customer. Revenue from the sale of gold, silver and doré is measured at the fair value of the consideration received or receivable, and may be subject to adjustment once final weights and assays are determined.

(f) Cash and cash equivalents

The Company considers deposits in banks, certificates of deposits, and short-term investments with original maturities of three months or less from the acquisition date as cash and cash equivalents.

(g) Inventories

Supplies inventory

Supplies inventory consists of mining supplies and consumables used in the operation of the mines, and is valued at the lower of average cost and net realizable value.

Ore stockpiles inventory

Stockpiles represent ore that has been mined and is available for further processing. The carrying value of stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained ounces (based on assay data) and the estimated metallurgical recovery rates (based on the expected processing method). Stockpile ore tonnages are verified by periodic surveys. Costs are allocated to stockpiles based on the current mining cost per tonne incurred up to the point of stockpiling the ore, including applicable overhead, depletion and amortization relating to mining operations, and are removed at the average cost per tonne. Ore stockpiles inventory is measured at the lower of cost and net realizable value.

Ore in process inventory

The recovery of gold and silver is achieved through milling and heap leaching processes. Costs are added to ore on leach pads and in the mill based on the current stockpiled mining cost and current processing cost, including applicable overhead, depletion and amortization relating to mining and processing operations. Costs are removed from ore on leach pads and in the mill as ounces are recovered, based on the average cost per recoverable ounce of gold and silver in ore in process inventory. Ore in process inventory is measured at the lower of cost and net realizable value.

Finished goods inventory

Finished goods inventory consists of gold, silver and doré bars, and is valued at the lower of cost and net realizable value.

For all classes of ore inventory, net realizable value is calculated as the difference between the estimated future metal revenue based on prevailing and / or long-term metal prices as appropriate, and estimated costs to complete production into a saleable form.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

(h) Long-lived assets

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated amortization and accumulated impairment losses. The initial cost of an asset is comprised of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the reclamation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment, and is measured at the lower of the present value of the minimum lease payments and the fair value of the leased asset.

Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the asset will flow to the Company, and the costs can be measured reliably. This would include costs related to the refurbishment or replacement of major components of an asset, when the refurbishment results in a significant extension in the physical life of the component. All other repairs and maintenance costs are recognized in earnings as incurred.

The cost of property, plant and equipment, less any applicable residual value, is allocated over the estimated useful life of the asset on a straight-line basis, or on a unit-of-production basis if that method is more reflective of the allocation of benefits among periods. Amortization commences on an asset when it has been fully commissioned and is available for use. Amortization rates applicable to each category of property, plant and equipment, with the exception of land, are as follows:

Asset	Useful life
Leasehold improvements	3 years
Equipment under finance lease	2-10 years
Mobile equipment	2-10 years
Other equipment	2-20 years
Processing plant	2-20 years
Shaft and underground infrastructure	Unit-of-production
Vehicles	3-4 years
Buildings	7-20 years
Office equipment	2-9 years

When components of an item of property, plant and equipment have different useful lives than those noted above, they are accounted for as separate items of property, plant and equipment. Each asset or component's estimated useful life is determined considering its physical life limitations; however this physical life cannot exceed the remaining life of the mine at which the asset is utilized. Estimates of remaining useful lives and residual values are reviewed annually. Any changes in estimates of useful lives are accounted for prospectively from the date of the change.

Exploration and evaluation assets

Expenditures incurred prior to the Company obtaining the right to explore are expensed in the period in which they are incurred.

Exploration and evaluation expenditures include costs such as exploratory drilling, sample testing, costs of pre-feasibility studies, and for qualifying assets, borrowing costs. Subsequent to obtaining the legal right to explore, these costs are capitalized on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. All capitalized exploration and evaluation expenditures are monitored for indications of impairment, to ensure that exploration activities related to the property are continuing and/or planned for the future. If an exploration property does not prove viable, all unrecoverable costs associated with the project are written off.

Exploration and evaluation assets are not depleted. These amounts are reclassified from exploration and evaluation assets to mining interests once the work completed to date supports the future development of the property and management intends to develop the property. Prior to being reclassified to mining interests, exploration and evaluation assets are assessed for impairment.

Mining interests

All expenditures to ready the property for production are capitalized within mining interests, other than those costs related to the construction of related property, plant and equipment, which are capitalized within construction in progress. Expenditures capitalized to mining interests include all costs directly related to development activity and a proportion of overhead costs related to development activity. Any proceeds from the sale of metals during the development and



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

commissioning phase of a project are netted against the expenditures being capitalized. The development and commissioning phase ceases upon the commencement of commercial production.

Subsequent to the commencement of commercial production, further development expenditures incurred with respect to a mining interest are capitalized as part of the mining interest, when it is probable that additional future economic benefits associated with the expenditure will flow to the Company. Otherwise, such expenditures are classified as a cost of production.

Upon commencement of commercial production, mining interests are depleted over the life of the mine using the unit-of-production method based on estimated proven and probable reserves of the mine and the portion of mineralization from measured, indicated and inferred resources expected to be classified as reserves. The Company determines the portion of mineralization expected to be classified as reserves by considering the degree of confidence in the economic extraction of the resource, which is affected by long-term metal price assumptions, cut-off grade assumptions, and drilling results. These assessments are made on a mine-by-mine basis.

The expected useful lives used in depletion calculations are determined based on the facts and circumstances associated with the mining interest. Any changes in estimates of useful lives are accounted for prospectively from the date of the change.

Commercial production

Commercial production is reached when an open pit or underground mine is in the condition necessary for it to be capable of operating in the manner intended by management. The Company considers a range of factors when determining whether commercial production has been reached, which may include the completion of all required major capital expenditures, the demonstration of continuous production near the level required by the design capacity of the processing facilities, and the demonstration of continuous throughput levels at or above a target percentage of the design capacity. The Company assesses the ability to sustain production and throughput over a period of approximately one to three months, depending on the complexity of the operation, prior to declaring that commercial production has been reached.

Capitalized stripping costs

Pre-production stripping costs are capitalized as part of the cost of constructing a mine.

Mining costs associated with stripping activities during the production phase of a mine are capitalized only if the Company can identify the component of the ore body for which access is obtained, the costs associated with the related stripping activities can be measured reliably, and the activities represent a future benefit to the mining interest, in that access is gained to sources of reserves and resources that will be produced in future periods that would otherwise not have been accessible. Production stripping costs are allocated between inventory and capital based on the expected volume of waste extracted for a given volume of ore production. The expected volume of waste to be allocated to inventory is determined with reference to the life of mine stripping ratio of a particular mine or deposit, with the remaining amount allocated to capital. The amount of waste capitalized is calculated by multiplying the stripping tonnes mined during the period by the current mining cost per tonne in the open pit.

Capitalized stripping costs are depleted over the expected reserves and resources benefiting from the stripping activity using the unit-of-production method based on estimated proven and probable reserves, and the portion of mineralization expected to be classified as reserves.

Investment tax credits

Investment tax credits are earned as a result of incurring eligible exploration and development expenses prior to commercial production. Investment tax credits are accounted for as a reduction to property, plant and equipment or mining interests. Investment tax credits also arise as a result of incurring eligible research and development expenses and these credits are recorded as a reduction to the related expenses.

Derecognition

Upon replacement of a major component, or upon disposal or abandonment of a long-lived asset, the carrying amounts of the assets are derecognized with any associated gains or losses recognized in net earnings.

(i) Intangible assets

Identifiable intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses or at fair value on the date of acquisition. Identifiable intangible assets with a finite useful life are amortized on a straight-line basis over their expected useful life, unless another method represents a more accurate allocation of the expense over their useful



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

life. Amortization of the retained interest royalty is determined using the unit-of-production method based on the ounces of production that are expected to generate the cash flows that will be attributable to the Company, and will commence once the Company becomes entitled to receive cash flows. Amortization expense resulting from intangible assets is included in amortization and depletion expense on the Consolidated Statements of Operations. The estimated useful lives of the Company's intangible assets with a finite useful life are as follows:

Asset	Useful life
Transmission rights	8-20 years
Software	1-3 years
Retained interest royalty	Units of production

(j) Goodwill

Goodwill represents the difference between the consideration transferred and the fair value of the identifiable net assets acquired, and is not amortized. Goodwill, upon acquisition, is allocated to the cash-generating unit ("CGU") or group of CGUs expected to benefit from the related business combination for the purposes of impairment testing. A CGU is defined as the smallest identifiable group of assets that generates cash inflows, which are largely independent of the cash inflows from other assets. Each of the Company's operating mines is a CGU for purposes of goodwill impairment testing.

(k) Impairment of non-financial assets and goodwill

The carrying amounts of non-financial assets, excluding inventories and deferred income tax assets, are reviewed for impairment at each reporting date, or whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. Reviews are undertaken on an asset-by-asset basis, except where the recoverable amount for an individual asset cannot be determined, in which case the review is undertaken at the CGU level.

On an annual basis, the Company evaluates the carrying amount of CGUs to which goodwill has been allocated to determine whether such carrying amount may be impaired. To accomplish this, the Company compares the recoverable amount of a CGU to its carrying amount. This evaluation is performed more frequently if there is an indication that a CGU may be impaired.

If the carrying amount of a CGU or non-financial asset exceeds the recoverable amount, being the higher of its fair value less costs to sell and its value-in-use, an impairment loss is recognized in net earnings as the excess of the carrying amount over the recoverable amount. With respect to CGUs, impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

Where the recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine or production plans. The mine plan is the basis for forecasting production output in each future year and for forecasting production costs. For value-in-use calculations, production costs and output in the mine plan may be revised to reflect the continued use of the asset in its present form.

Non-financial assets that have suffered an impairment are tested for a possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. In these instances, the impairment loss is reversed to the recoverable amount but not beyond the carrying amount, net of amortization, that would have arisen if the prior impairment loss had not been recognized. Goodwill impairments are not reversed.

(l) Impairment of financial assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets, other than those classified as fair value through profit or loss, is impaired. Financial assets include receivables and investments. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset that negatively impact the estimated future cash flows of the financial asset or the group of financial assets.

(m) Provisions

Reclamation provisions

The Company's mining and exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing, and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. The timing of these expenditures is dependent upon a number of factors including the life of the mine, the operating licence conditions, and the laws, regulations, and environment in which the mine operates.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

Reclamation provisions are recognized at the time an environmental disturbance occurs and are measured at the Company's best estimate of the expected value of future cash flows required to reclaim the disturbance, which are discounted to their present value for each mine operation. Expected future cash flows reflect the risks and probabilities that alternative estimates of cash flows could be required to settle the obligation. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money specific to the currency in which the cash flows are expected to be paid. The discount rate does not reflect risks for which the cash flows have been adjusted. Significant estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are based on existing environmental and regulatory requirements or, if more stringent, Company policies that give rise to a constructive obligation.

Upon initial recognition of a reclamation provision, the corresponding cost is capitalized as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of reclamation and rehabilitation activities is recognized in mining interests and depreciated in accordance with the Company's policy for the related asset. The provision is progressively increased over the life of the operation as the effect of discounting unwinds, creating an expense included in finance costs on the Consolidated Statements of Operations.

Reclamation provisions are adjusted for changes in estimates. Such adjustments, which are not the result of the current production of inventory, are accounted for as a change in the corresponding capitalized cost, except where a reduction in the provision is greater than the unamortized capitalized cost of the related assets. In the latter case, the capitalized cost is reduced to nil and the remaining adjustment is recognized in reclamation, care and maintenance costs on the Consolidated Statements of Operations. If reclamation and restoration costs are incurred as a consequence of the production of inventory, the costs are recognized as a cost of that inventory. Factors influencing such changes in estimates include revisions to estimated reserves, resources and lives of mines; developments in technologies; regulatory requirements and environmental management strategies; changes in estimated costs of anticipated activities, including the effects of inflation and movements in foreign exchange rates; and movements in interest rates affecting the discount rate applied.

Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense and included in finance costs on the Consolidated Statements of Operations.

(n) Employee benefits

Short-term employee benefits

The Company accrues liabilities for short-term employee benefits such as wages, salaries, bonuses, paid vacation, and other benefits expected to be settled within 12 months from the end of the reporting period. The liabilities for short-term benefits are measured on an undiscounted basis at the amounts expected to be paid when the liabilities are settled. These amounts are recognized in accounts payable, with offsetting charges to cost of sales (production costs) or general and administrative expense.

Termination benefits

The Company accrues liabilities for involuntary termination and severance benefits when the termination has been communicated to the employee, and the employee acknowledges receipt. The liabilities for termination benefits are measured at their nominal amounts based on amounts expected to be paid when the liabilities are settled.

(o) Share-based compensation

The Company measures all equity-settled share-based awards made to employees and others providing similar services (collectively, "employees") based on the fair value of the options or units on the date of grant.

The grant date fair value of options is estimated using an option pricing model and is recognized over the vesting period of the options as compensation expense, with a corresponding increase to equity. The fair values of the Company's deferred share units, equity-settled restricted share units and performance share units are determined based on the market value of the Company's shares on the date of grant, and is expensed over the vesting period based on the estimated number of awards that are expected to vest.

The Company awards cash-settled share-based compensation to certain employees in the form of restricted share units. In accounting for these awards, the Company recognizes the fair value of the amount payable to employees as compensation



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

expense as they are earned, based on the estimated number of units that are expected to vest. The corresponding liability is re-measured at fair value on each reporting date and upon settlement, with changes in fair value recognized in net earnings for the period. The fair value of restricted share units is determined by reference to the Company's share price when the units are awarded or re-measured.

The Company also maintains an employee share purchase plan. Under this plan, contributions by the Company's employees are matched to a specific percentage by the Company and are recognized as an expense when the Company's obligation to contribute arises.

Share-based arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions regardless of how the equity instruments are obtained by the Company. These share-based arrangements are measured at the fair value of goods or services received unless the fair value of the goods or services cannot be reliably measured, in which case they are measured at the fair value of the equity instruments issued.

(p) Income taxes

Income tax expense is comprised of current and deferred income tax. Current and deferred income taxes are recognized in net earnings except to the extent that they relate to a business combination, or to items recognized directly in equity or other comprehensive income.

Current income taxes

Current income tax expense represents the income tax expected to be payable on the Company's taxable earnings for the year using rates that are enacted or substantively enacted at the balance sheet date. Taxable earnings differ from accounting earnings reported in the Consolidated Statements of Operations due to differences in timing of amounts deductible or taxable for tax purposes and due to exclusions of items that are not taxable or deductible. Current income tax includes adjustments for tax expense expected to be payable or recoverable in respect of previous periods.

Deferred income taxes

Deferred income tax assets and liabilities represent income taxes expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Company's consolidated financial statements and the corresponding tax basis used in the computation of taxable earnings. Deferred income tax assets also represent income taxes expected to be recoverable on unused tax losses and tax credits carried forward. Deferred income tax is calculated using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income taxes are measured using the enacted or substantively enacted tax rates at the balance sheet date that are expected to be in effect when the differences reverse or when unclaimed losses are utilized. Deferred income tax liabilities are generally recognized for all taxable temporary differences, with some exceptions described below. Deferred income tax assets are recognized to the extent that it is probable that taxable earnings will be available against which deductible temporary differences, unused tax losses and tax credits can be used. Neither deferred income tax liabilities, nor deferred income tax assets, are recognized as a result of temporary differences that arise from (a) the initial recognition of goodwill, (b) a transaction, other than a business combination, that affects neither accounting earnings nor taxable earnings, or (c) differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset to the extent there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the entity intends to settle current income tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and adjusted to the extent that it is no longer probable that sufficient taxable earnings will be available to allow the benefit, or all or part of the asset, to be utilized. To the extent that an asset not previously recognized fulfils the criteria for asset recognition, a deferred income tax asset is recognized.

(q) Earnings per share

Basic earnings per share is calculated based on the weighted average number of common shares and common share equivalents outstanding for the period. Diluted earnings per share is determined by adjusting the weighted average number of common shares and common share equivalents outstanding and earnings attributable to common shareholders of the Company for the dilutive effects of the potential conversion of all outstanding convertible senior notes, and the potential exercise of all outstanding options and warrants issued using the treasury stock method. The treasury stock method



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

assumes that proceeds received from the exercise of the in-the-money stock options and warrants issued are used to repurchase shares at the average market price for the period.

(r) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “held-to-maturity investments”, “loans and receivables”, “financial liabilities at fair value through profit or loss”, or “other financial liabilities”.

The Company’s financial instruments are classified and subsequently measured as follows:

<u>Asset / Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash and cash equivalents	Fair value through profit or loss	Fair value
Receivables	Loans and receivables	Amortized cost
Contingent consideration	Fair value through profit or loss	Fair value
Investments	Available-for-sale and fair value through profit or loss	Fair value
Warrants held	Fair value through profit or loss	Fair value
Restricted cash	Fair value through profit or loss	Fair value
Payables, provisions and other liabilities	Other financial liabilities	Amortized cost
Debt and equipment financing obligations	Other financial liabilities	Amortized cost
Option component of convertible senior notes	Fair value through profit or loss	Fair value
Derivatives	Fair value through profit or loss	Fair value

Financial assets and financial liabilities classified as fair value through profit or loss are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income.

Investments in equity securities classified as either available-for-sale financial assets or financial assets at fair value through profit or loss are accounted for at their fair value, which is determined based on the last quoted market price. Changes in the market value of available-for-sale equity securities as well as the related foreign exchange and tax impact, if any, are accounted for in accumulated other comprehensive income until the equity securities are sold or are determined to be other-than-temporarily impaired. When available-for-sale equity securities are sold or are determined to be other-than-temporarily impaired, the related accumulated change in accumulated other comprehensive income is reversed and the actual gain or loss on disposal, or the impairment charge, is recognized in net earnings. Changes in market value of equity securities at fair value through profit or loss, as well as the related foreign exchange and tax impact, if any, are recognized in net earnings in the period in which they occur.

Warrants held are classified as financial assets at fair value through profit or loss and measured at fair value using a pricing model. Unrealized gains or losses related to changes in fair value are reported in other income in the Consolidated Statements of Operations.

Convertible senior notes, under the terms of which the Company has the right to settle all or part of the instrument in cash on the conversion date, are classified as a financial liability with an embedded derivative. The debt component of the convertible senior notes is presented within debt and equipment financing obligations on the Consolidated Balance Sheets, and is initially recognized as the difference between the fair value of the financial instrument as a whole and the fair value of the embedded derivative. The debt component is subsequently recognized at amortized cost using the effective interest rate method. The embedded derivative represents the conversion feature (option component, see note 15) and is classified as a financial liability at fair value through profit or loss. The embedded derivative is subsequently recognized at fair value with changes in fair value recognized in net earnings. Interest expense relating to the debt component is also recognized in net earnings, with the exception of interest expense capitalized as borrowing costs in accordance with note 3(h).

Fair values are based on quoted market prices where available, or where no active market exists, fair values are estimated using a variety of valuation techniques and models. These valuation techniques and models include recent arm’s length market transactions, reference to current market value of another instrument which is substantially the same, and discounted cash flow analysis, cash flow models, and option pricing models.

Transaction costs, other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are combined with the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest rate method. If future modifications are made to a financial asset or liability that are not considered to be substantial, the transaction costs related to this modification are combined with the carrying amount, and



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

amortized over the life of the instrument using the effective interest rate method. If future modifications are made that are considered to be substantial, the transaction costs related to the modification are expensed, along with any remaining unamortized costs.

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless exempted from derivative treatment as an own-use instrument. All changes in fair value are recorded in net earnings unless they are designated in a valid cash flow hedging relationship (note 3(s)), in which case changes in fair value are recorded in accumulated other comprehensive income.

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all of the risks and rewards of ownership. Financial liabilities are derecognized when they have been settled by the Company, or when an obligation expires. In instances where a financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with any difference recognized in the Consolidated Statements of Operations.

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Balance Sheets only if there is an enforceable legal right to offset the recognized amounts and the intention is to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(s) Hedges

Hedging relationships that meet documentation requirements, and that can be proven to be effective both at the inception and over the term of the relationship qualify for hedge accounting. At the inception of the transaction, the Company documents the relationship between hedging instruments and hedged items, the method for assessing effectiveness, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company makes an assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized as other comprehensive income and are presented within equity as accumulated other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in net earnings. Amounts accumulated in equity are recycled to net earnings in the period in which the hedged item will affect net earnings. However, when the forecasted transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the related asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecasted transaction is ultimately recognized in net earnings. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss existing in accumulated other comprehensive income is immediately charged to net earnings.

(t) Assets held for sale and discontinued operations

Non-current assets, or disposal groups comprised of assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured at the lower of their carrying amount and fair value less costs to sell, with the exception of financial assets and deferred income tax assets, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on re-measurement are recognized in net earnings from discontinued operations. Subsequent gains are not recognized in excess of any cumulative past impairment losses. The Company presents assets held for sale separately from the Company's other assets and separately from liabilities directly associated with the assets held for sale. Liabilities associated with assets held for sale are presented separately from the Company's other liabilities.

A discontinued operation is a component of the Company that has either been disposed of or that is classified as held for sale. A component of the Company is comprised of operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. Net earnings of a discontinued operation and any gain or loss on disposal are combined and presented as net earnings from discontinued operations in the Consolidated Statements of Operations.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

(u) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The Company's operating segments, before aggregation, have been identified as the Company's individual operating and development stage mines. Aggregation of one or more operating segments into a single operating segment is permitted if aggregation is consistent with the core principle of the standard, the operating segments have similar economic characteristics, and the operating segments have a number of other similarities, including similarities in the nature of their products, production processes, and regulatory environment. The Company's reportable segments are consistent with the identified operating segments and consist of the geographical regions in which the Company operates.

(v) Standards issued but not yet adopted

For the purposes of preparing and presenting the Company's consolidated financial statements, the Company has adopted all standards and interpretations issued other than those discussed in this note. These standards have not been adopted because they are not effective for the Company until subsequent to December 31, 2013. Standards and interpretations issued, but not yet adopted include:

	<u>Effective for the Company</u>
IFRS 9, <i>Financial Instruments</i>	To be determined
IFRIC 21, <i>Levies</i>	January 1, 2014
Amendments to IAS 32, <i>Financial Instruments: Presentation</i>	January 1, 2014

IFRS 9, *Financial Instruments*, proposes to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The replacement standard has three main phases, the first of which provides new guidance for the classification and measurement of financial assets and liabilities, including elimination of the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables, in exchange for the classification of financial assets and liabilities into the categories of either financial assets measured at amortized cost or financial assets measured at fair value. The second part, which is currently an exposure draft, provides guidance for amortized cost and impairment methodology for financial assets. The third part, which is also currently an exposure draft, proposes a revised general hedge accounting model. The IASB recently suspended the originally planned effective date of January 1, 2015 and at present the effective date has not been determined. The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

IFRIC 21, *Levies*, sets out criteria for the recognition of liabilities for levies imposed by governments. The IFRIC identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Company is currently evaluating the impact of this interpretation on its consolidated financial statements.

The proposed amendments to IAS 32, *Financial Instruments: Presentation*, clarify situations in which an entity has a legally enforceable right to set-off a financial liability and financial asset. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

4. Critical accounting estimates and judgements

Many of the amounts included in the Consolidated Balance Sheets require management to make estimates and judgements. Accounting estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Critical accounting estimates

The following is a list of the accounting estimates that the Company believes are critical, due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liabilities, revenue or expense being reported. Actual results may differ from these estimates.

- The Company makes estimates of gold and silver recoverable from ore stacked on leach pads in the determination of ore in process inventory. The quantities of recoverable gold and silver placed on the leach pads are reconciled to the quantities of gold and silver actually recovered (metallurgical balancing), by comparing the estimate of contained ounces placed on the leach pads to actual ounces recovered. The nature of the leaching process inherently limits the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and the engineering estimates are refined based on actual results over time. The ultimate recovery of gold and silver from a pad will not be known until the leaching process is completed. Leach pad recovery estimates are used in the determination of the Company's inventories.

- The Company makes estimates of the quantities of proven and probable reserves of the mine and the portion of mineralization expected to be classified as reserves. The estimation of quantities of reserves and resources is complex, requiring significant subjective assumptions that arise from the evaluation of geological, geophysical, engineering and economic data for a given ore body. This data could change over time as a result of numerous factors, including new information gained from development activities, evolving production history and a reassessment of the viability of production under different economic conditions. Reserve estimates are used in the calculation of depletion expense and to calculate the recoverable amount of a CGU, and to forecast the life of the mine. The Company has forecasted a mine life of 10 years for El Chanate and 20 years for Young-Davidson.
- The Company forecasts prices of commodities, exchange rates, production costs, discount rates, and recovery rates. These estimates may change the economic status of reserves and may result in reserves and resources being revised. In addition, these estimates are used to calculate the recoverable amount of a CGU for the purpose of impairment testing.
- The Company values inventory at the lower of cost and net realizable value. The calculation of net realizable value relies on forecasted gold prices, forecasted exchange rates, and estimated costs to complete the processing of ore inventory.
- The Company amortizes its property, plant and equipment, net of residual value, over the estimated useful life of each asset, not to exceed the life of the mine at which the asset is utilized. The physical life of these assets, and related components, may differ from the Company's estimate, which would result in an adjustment to amortization and depletion expense.
- The Company makes estimates of the likelihood of whether or not all or some portion of each deferred income tax asset and investment tax credits will be realized, which is impacted by interpretation of tax laws and regulations, historic and future expected levels of taxable income, timing of reversals of taxable temporary timing differences, and tax planning initiatives. Levels of future taxable income are affected by, among other things, market gold prices, production costs, quantities of proven and probable gold reserves, interest rates, and foreign currency exchange rates.
- The Company makes estimates of the timing and amount of expenditures required to settle the Company's reclamation provisions. The principal factors that can cause expected future expenditures to change are: the construction of new processing facilities; changes in the quantities of material in reserves and a corresponding change in the life of mine plan; changing ore characteristics that ultimately impact the environment; changes in water quality that impact the extent of water treatment required; and changes in laws and regulations governing the protection of the environment. In general, as the end of the mine life nears, the reliability of expected cash flows increases, but earlier in the mine life, the estimation of a reclamation provision is inherently more subjective.
- The Company makes estimates of amounts receivable in order to value the retained interest royalty. Future amounts receivable will be impacted by future gold prices, future production from the Fosterville and Stawell mines in Victoria, Australia, future foreign exchange rates, as well as related operating and capital expenditures required to sustain that production.

Critical accounting judgements

The following are critical judgements that management has made in the process of applying accounting policies that may have a significant impact on the amounts recognized in the consolidated financial statements.

- The Company makes judgements about whether or not indicators of impairment, or indicators of a reversal of impairment, exist at each reporting period. For all assets, this determination impacts whether or not a detailed impairment assessment is performed at December 31, 2013 and 2012. These judgements did not impact cash generating units that contain goodwill at December 31, 2013, as these are required to be tested for impairment regardless of whether or not an indicator exists.
- The Company is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income taxes, due to the complexity of legislation.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

- The Company makes judgements about which indicators to consider when evaluating whether a mine has reached commercial production, which may impact the timing and amount of depreciation and depletion, the amount of revenue recognized in the Consolidated Statements of Operations, and the amount of costs capitalized to mine development during 2013 and 2012.

5. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	December 31 2013	December 31 2012
Cash	\$ 141,125	\$ 603,401
Short-term deposits	1,527	-
	<u>\$ 142,652</u>	<u>\$ 603,401</u>

6. Receivables

	December 31 2013	December 31 2012
Trade receivables	\$ 1,012	\$ 1,639
Value-added tax receivable	14,888	9,651
Advances	1,658	526
Other	11,696	17,687
	<u>\$ 29,254</u>	<u>\$ 29,503</u>

Included in other receivables at December 31, 2013 is an insurance receivable of \$10,254 (December 31, 2012 - \$10,956) relating to the settlement of a lawsuit (see note 16(d)), and a receivable from the Company's jointly-controlled entity (see note 9) of \$1,442 (December 31, 2012 - \$358). In the prior year, other receivables also included a purchase price adjustment receivable from Endeavour Silver Corp. ("Endeavour") (see note 29(b)) of \$6,373.

Included in value-added tax receivable was \$7,340 and \$7,548 collectable from the Government of Canada and Government of Mexico, respectively, at December 31, 2013 (December 31, 2012 - \$5,663 and \$3,988, respectively).

The Company has not recorded a provision for doubtful trade receivables as there is no indication that the debtors will not meet their payment obligations.

7. Inventories

	December 31 2013	December 31 2012 Restated (Note 3(a))
Supplies	\$ 17,391	\$ 15,020
Ore stockpiles	35,122	27,274
Ore in process	117,984	109,840
Finished goods	7,842	7,922
	<u>178,339</u>	<u>160,056</u>
Less: Long-term inventories	<u>(93,696)</u>	<u>(85,979)</u>
	<u>\$ 84,643</u>	<u>\$ 74,077</u>

During the year ended December 31, 2013, the carrying value of El Chanate and Young-Davidson ore inventories exceeded their net realizable values due to a decline in realized gold prices and higher estimated future processing costs. As a result, the Company recognized net realizable valuation adjustments of \$42,069 which impacted production costs and amortization and depletion. Ore stockpile and ore in process inventories include mining and processing costs, along with amortization and depletion related to mining and processing operations. The net realizable value adjustments were allocated on a pro-rata basis between production costs and amortization and depletion based on their relative values. Inventories carried at fair value less cost to sell totaled \$74,074 at December 31, 2013 (December 31, 2012 - \$nil).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The impact on production costs and amortization and depletion is as follows:

	Year ended	
	December 31 2013	December 31 2012
Operating production costs	\$ 114,555	\$ 61,599
Net realizable value adjustment		
El Chanate	23,376	-
Young-Davidson	10,050	-
Production costs	<u>\$ 147,981</u>	<u>\$ 61,599</u>
Operating amortization and depletion	\$ 56,886	\$ 18,723
Net realizable value adjustment		
El Chanate	2,083	-
Young-Davidson	6,560	-
Amortization and depletion	<u>\$ 65,529</u>	<u>\$ 18,723</u>

Ore in process inventory at December 31, 2013 included \$6,095 (December 31, 2012 - \$16,697) related to the excess of the fair value of El Chanate inventory over its carrying value at the acquisition date, which is being charged to earnings as the related inventory is sold.

8. Investments

	December 31, 2013		Year ended December 31, 2013	
	Cost	Fair value	Unrealized gains/(losses) included in OCI	Realized & unrealized gains/(losses) included in earnings
	December 31, 2012			
Securities – available-for-sale	\$ 20,948	\$ 15,510	\$ (5,163)	\$ (168)
Securities – fair value through profit or loss	235	-	-	(47)
Warrants – fair value through profit or loss	494	41	-	(450)
	<u>\$ 21,677</u>	<u>\$ 15,551</u>	<u>\$ (5,163)</u>	<u>\$ (665)</u>
	December 31, 2012		Year ended December 31, 2012	
	Cost	Fair value	Unrealized gains/(losses) included in OCI	Realized & unrealized gains/(losses) included in earnings
	December 31, 2012			
Securities – available-for-sale	\$ 170	\$ 64	\$ (34)	\$ -
Securities – fair value through profit or loss	235	47	-	1,367
Warrants – fair value through profit or loss	80	-	-	(13)
	<u>\$ 485</u>	<u>\$ 111</u>	<u>\$ (34)</u>	<u>\$ 1,354</u>

Unrealized losses on available-for-sale investments totalled \$5,331 (2012 - \$34 unrealized loss) which were offset by \$168 in losses reclassified to net earnings. All losses recognized on available-for-sale investments during the year, as well as associated foreign exchange losses, were recorded in other comprehensive income on the Consolidated Statements of Operations.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

Realized and unrealized losses on equity securities classified at fair value through profit or loss totalled \$497 (2012 - \$1,367). Foreign exchange gains and losses on equity securities measured at fair value through profit or loss are included in foreign exchange gain / (loss) in the Consolidated Statements of Operations.

During the year ended December 31, 2013, the Company purchased shares in various publicly listed entities with a total cost of \$20,778. In some of these transactions, warrants were also acquired, with a total cost of \$494. The cost of the shares and warrants were determined based on their fair value on the date of acquisition.

As part of the consideration received upon the disposition of the Company's Australian operations on May 4, 2012, the Company received 20 million shares of Crocodile Gold Corporation ("Crocodile Gold"). These shares were classified as financial assets at fair value through profit or loss and initially recognized at a fair value of \$9,642. On October 23, 2012, these shares were sold for gross proceeds of \$7,449, less transaction costs of \$201, resulting in net proceeds of \$7,248.

As part of the consideration received upon the disposition of the El Cubo mine and Guadalupe y Calvo exploration property on July 13, 2012, the Company received 11,037,528 common shares of Endeavour. These shares were classified as financial assets at fair value through profit or loss and initially recognized at a fair value of \$87,746. On October 22, 2012, these shares were sold for gross proceeds of \$95,511, less transaction costs of \$1,910, resulting in net proceeds of \$93,601.

During 2011, the Company received 2,500,000 shares of Golden Queen Mining Company Ltd. through the exercise of warrants. The shares received were classified as financial assets at fair value through profit or loss and initially recognized at a fair value of \$4,562. During 2012, these shares were sold for gross proceeds of \$6,683, less transaction costs of \$50, resulting in net proceeds of \$6,633. During 2012, the Company also sold other equity securities for net proceeds of \$748.

9. Investment in jointly-controlled entity

On December 14, 2012, Minera Frisco, S.A. de C.V. ("Minera Frisco") acquired a 50% interest in the Orion development project ("Orion"), located in Nayarit Mexico (refer to note 29 for further information). In accordance with the purchase and sale agreement, the Company issued shares representing 50% ownership interest of Nayarit Gold de Mexico, S.A. de C.V., a subsidiary with ownership of this project, to Minera Frisco in exchange for \$27 million. Both the Company and Minera Frisco have 50% ownership in the entity and equal representation on the Board of Directors of the joint venture company. As a result, it was determined that the Company and Minera Frisco have joint control over the joint venture company.

The book value of the major classes of assets and liabilities of Orion on the date of sale were as follows:

	<u>Book Value</u>
Current assets	\$ 244
Property, plant and equipment & mining interests	53,800
Current liabilities	(382)
Deferred income tax liability	<u>(12,902)</u>
Net assets	\$ 40,760

In 2012, the Company treated the sale of the 50% interest in Orion to Minera Frisco as a contribution of assets to the joint venture. Upon the recognition of \$27,000 of cash consideration received and the derecognition of 50% of the Company's net interest in Orion, the Company recognized a gain of \$6,620. The gain is included in other income on the Consolidated Statements of Operations.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The following table contains selected financial information for a 100% interest in the jointly-controlled entity at December 31, 2013 and 2012:

	December 31 2013	December 2012
Current assets	308	240
Property, plant and equipment & mining interests	54,836	53,800
Total assets	<u>\$ 55,144</u>	<u>\$ 54,040</u>
Current liabilities	1,467	376
Deferred income tax liability	17,817	12,738
Total liabilities	<u>\$ 19,284</u>	<u>\$ 13,114</u>
Net assets of jointly-controlled entity	<u>\$ 35,860</u>	<u>\$ 40,926</u>
Ownership interest	50%	50%
Net investment in jointly-controlled entity	<u>17,930</u>	<u>20,463</u>
Net investment, beginning of year	<u>\$ 20,463</u>	<u>\$ 20,380</u>
Share of net (loss) / earnings during the period	<u>(2,533)</u>	<u>83</u>
Net investment, end of year	<u>\$ 17,930</u>	<u>\$ 20,463</u>

Included in current liabilities of the jointly-controlled entity at December 31, 2013 was a payable due to the Company of \$1,442 (December 31, 2012 - \$358). The Company has included a corresponding amount in receivables on the Consolidated Balance Sheets at December 31, 2013.

At December 31, 2013, the Company did not have any significant commitments or contingent liabilities related to this jointly-controlled entity.

10. Other long-term assets

	December 31 2013	December 31 2012
Restricted cash in closure bonds	<u>\$ 26,249</u>	<u>\$ 27,729</u>
Other restricted cash	5,230	4,184
Investment tax credits recoverable	36,508	39,021
Contingent consideration (Note 26)	-	7,395
Deposits on property, plant and equipment	4,001	4,960
	<u>\$ 71,988</u>	<u>\$ 83,289</u>

Restricted cash in closure bonds consists of cash and short-term deposits pledged by the Company relating to site closure and reclamation obligations at Kemess South, a mine in the decommissioning stage, and Young-Davidson.

Other restricted cash consists of letters of credit issued against certain of the Company's bank accounts relating to site infrastructure, site closure, and other mine activities.

The Company's investment tax credits ("ITC") recoverable relate to ITCs earned primarily on expenditures at Young-Davidson. These ITCs will be used to reduce income taxes payable in the future and have been netted against the cost of the related items of property, plant and equipment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

11. Property, plant and equipment & mining interests

	Plant and equipment	Mining interests		Exploration and evaluation	Total
		Depletable	Non- depletable		
Cost					
At December 31, 2011	\$ 651,708	\$ 638,600	\$ 850,785	\$ 211,251	\$ 2,352,344
Additions	226,648	133,495	69,921	7,903	437,967
Reclassifications	-	54,071	(54,071)	-	-
Disposals	(334,531)	(620,434)	(60,610)	(152,744)	(1,168,319)
Restatement (a)	-	(8,564)	-	-	(8,564)
At December 31, 2012	\$ 543,825	\$ 197,168	\$ 806,025	\$ 66,410	\$ 1,613,428
Additions	123,133	62,516	71,238	6,237	263,124
Reclassifications	-	853,408	(853,408)	-	-
Disposals	(5,792)	-	-	-	(5,792)
At December 31, 2013	\$ 661,166	\$ 1,113,092	\$ 23,855	\$ 72,647	\$ 1,870,760
Accumulated amortization and depletion and impairment charges					
At December 31, 2011	\$ (132,660)	\$ (126,911)	\$ -	\$ (59,973)	\$ (319,544)
Amortization and depletion	(35,271)	(44,650)	-	-	(79,921)
Impairment charges	-	-	-	(1,537)	(1,537)
Disposals	149,469	135,301	-	61,510	346,280
At December 31, 2012	\$ (18,462)	\$ (36,260)	\$ -	\$ -	\$ (54,722)
Amortization and depletion	(27,789)	(62,441)	-	-	(90,230)
Impairment charges	(12,279)	(35,200)	(4,574)	-	(52,053)
Disposals	2,200	-	-	-	2,200
At December 31, 2013	\$ (56,330)	\$ (133,901)	\$ (4,574)	\$ -	\$ (194,805)
Carrying value					
At December 31, 2012	\$ 525,363	\$ 160,908	\$ 806,025	\$ 66,410	\$ 1,558,706
At December 31, 2013	\$ 604,836	\$ 979,191	\$ 19,281	\$ 72,647	\$ 1,675,955



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The carrying values by mine are as follows:

	Plant and equipment	Mining interests		Exploration and evaluation	Total
		Depletable	Non- depletable		
El Chanate	\$ 35,307	\$ 84,975	\$ 10,945	\$ -	\$ 131,227
Young-Davidson	540,537	894,216	8,336	-	1,443,089
Corporate and other	28,992	-	-	72,647	101,639
At December 31, 2013	\$ 604,836	\$ 979,191	\$ 19,281	\$ 72,647	\$ 1,675,955
El Chanate	\$ 44,793	\$ 108,952	\$ 7,544	\$ -	\$ 161,289
Young-Davidson	450,753	51,956	798,481	-	1,301,190
Corporate and other	29,817	-	-	66,410	96,227
At December 31, 2012 (a)	\$ 525,363	\$ 160,908	\$ 806,025	\$ 66,410	\$ 1,558,706

- (a) The El Chanate depletable mining interests balance at December 31, 2012 was restated to reflect the adoption of IFRIC 20, which has been applied prospectively to the Company's production stripping costs incurred on or after January 1, 2012. Refer to note 3(a) for further details.

During the year ended December 31, 2013, \$8,409 (year ended December 31, 2012 - \$12,166) of borrowing costs associated with capital projects were capitalized within property, plant and equipment & mining interests on the Consolidated Balance Sheets. The applicable capitalization rate for general borrowings was 5.82% (year ended December 31, 2012 - 5.08%). During the year ended December 31, 2012, \$7,902 of borrowing costs related to the convertible senior notes were capitalized to Young-Davidson mine development as specific borrowings until the declaration of commercial production on September 1, 2012. Subsequent to the declaration of commercial production, the borrowing costs related to the convertible senior notes have been included in general borrowing costs.

The carrying value of equipment pledged as security for related equipment financing obligations at December 31, 2013 was \$22,175 (December 31, 2012 - \$21,299).

The carrying value of construction in progress at December 31, 2013 was \$70,025 (December 31, 2012 - \$105,791), including \$69,249 (December 31, 2012 - \$99,165) relating to projects at the Young-Davidson mine.

The Company has made commitments to acquire property, plant and equipment totalling \$10,981 at December 31, 2013 (December 31, 2012 - \$9,580).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

12. Intangible assets and goodwill

Included in intangible assets is the retained interest royalty received as part of consideration from the disposition of the Australian operations (see note 29(a)) and the rights to use the capacity of power lines connecting the El Chanate and Young-Davidson mines to national / provincial electricity grids ("transmission rights").

	Intangible assets					Total
	Goodwill	Retained interest royalty	Transmission rights	Software	Total intangible assets	
Cost						
At December 31, 2011	\$ 582,013	\$ -	\$ 22,087	\$ 2,648	\$ 24,735	\$ 606,748
Additions	-	34,004	2,950	784	37,738	37,738
Disposals	(106,799)	-	(4,019)	(1,193)	(5,212)	(112,011)
At December 31, 2012	475,214	34,004	21,018	2,239	57,261	532,475
Additions	-	-	-	370	370	370
At December 31, 2013	\$ 475,214	\$ 34,004	\$ 21,018	\$ 2,609	\$ 57,631	\$ 532,845
Accumulated amortization and impairment charges						
At December 31, 2011	\$ (106,799)	\$ -	\$ (1,045)	\$ (1,855)	\$ (2,900)	\$ (109,699)
Amortization	-	-	(1,401)	(620)	(2,021)	(2,021)
Impairment charges	(127,000)	-	-	-	-	(127,000)
Disposals	106,799	-	1,336	1,149	2,485	109,284
At December 31, 2012	(127,000)	-	(1,110)	(1,326)	(2,436)	(129,436)
Amortization	-	-	(847)	(692)	(1,539)	(1,539)
Impairment charges	(106,521)	-	-	-	-	(106,521)
At December 31, 2013	\$ (233,521)	\$ -	\$ (1,957)	\$ (2,018)	\$ (3,975)	\$ (237,496)
Carrying value						
At December 31, 2012	\$ 348,214	\$ 34,004	\$ 19,908	\$ 913	\$ 54,825	\$ 403,039
At December 31, 2013	\$ 241,693	\$ 34,004	\$ 19,061	\$ 591	\$ 53,656	\$ 295,349

13. Impairment

Non-financial assets and CGUs are tested for impairment or a reversal of impairment whenever there are indicators that an impairment has occurred or should be reversed. CGUs containing goodwill are tested for impairment each year at December 31. For the purpose of testing for impairment, or a reversal of impairment, the recoverable amounts for non-financial assets and CGUs are based on fair value less costs of disposal ("FVLCD") calculations. When observable market prices are not available for the asset, FVLCD is calculated using a discounted cash flow methodology taking into account the assumptions that would be made by market participants. Management projects cash flows over the remaining life of each mine using forecasted production and costs per the Company's life of mine plans and the long-term forecasted price of gold to project future revenues. The Company does not use growth rates in determining cash flow projections. The fair value of these non-financial assets are based on unobservable inputs (level 3 of fair value hierarchy, refer to note 26).

The key assumptions used in determining FVLCD at December 31, 2013 were gold prices, discount rates, operating costs, capital expenditures, foreign exchange rates and net asset value ("NAV") multiples. Of these assumptions, reasonably possible changes in gold prices, discount rates, operating costs, and NAV multiples could have caused the carrying value of the Company's El Chanate CGU and Young-Davidson CGU to exceed their recoverable amounts, as outlined below in (a) and (b).

The Company develops long-term gold price forecasts by reference to numerous external analyst forecasts. The long-term gold pricing used in the impairment tests approximated the mean of these forecasts, after adjusting for outliers. The Company used a gold price of \$1,300 per ounce for all future production in its impairment test (December 31, 2012 - range of \$1,825 to \$1,425 per ounce).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The Company forecasts production, operating costs and capital expenditures based on expected life of mine plans developed from technical reports and historical cost experience.

The discount rates used by the Company in calculating FVLCD were based on the weighted average cost of capital applicable to each property. The rates chosen reflect a market participant's view of the risk inherent in the cash flows associated with each property.

The discount rates used for each test are summarized as follows:

	December 31 2013	December 31 2012
EI Chanate CGU	6.50%	6.00%
Young-Davidson CGU	5.25%	5.00%

Gold companies can trade at a market capitalization greater than their estimated discounted cash flows. This "NAV multiple" represents the multiple applied to the estimated discounted cash flows to arrive at the trading price. The NAV multiple is generally understood to take into account a variety of additional value factors such as the exploration potential of the mineral property, namely the ability to find and produce more metal than what is currently included in the life of mine plan, and the benefit of gold price optionality. A NAV multiple of 1.0 and 1.05 (December 31, 2012 – 1.0 and 1.15) was applied to the estimated discounted cash flows for EI Chanate and Young-Davidson, respectively.

The results of impairment evaluations conducted are summarized as follows:

(a) *EI Chanate CGU*

The carrying value of goodwill resulting from the acquisition of Capital Gold has been allocated to the EI Chanate CGU, which is comprised of all assets and liabilities related to the EI Chanate mine. At December 31, 2013, the carrying value of the EI Chanate CGU exceeded its recoverable amount by \$74,000, which resulted in an impairment charge. This charge consisted of a reduction of goodwill of \$26,521 and a reduction in property, plant and equipment and mining interests of \$47,479. The related income tax impact was a deferred tax recovery of \$15,373.

At June 30, 2013, the carrying value of the EI Chanate CGU exceeded its recoverable amount by \$80,000, which resulted in recognizing an impairment charge related entirely to goodwill. The primary contributors to this impairment charge were the revised short-term and long-term gold price assumptions used in the June 30, 2013 test as compared to the assumptions used in the test performed at December 31, 2012.

The total impairment charge recorded for the year ending December 31, 2013 was \$154,000. After the deferred tax recovery of \$15,373, the total net impairment charge for the year ending December 31, 2013 was \$138,627.

The key assumptions used in the fair value measurement at December 31, 2013 were consistent with the assumptions used at June 30, 2013, as discussed above, with the exception of: (1) reduction in gold price assumptions from a range of \$1,300 to \$1,400 per ounce at June 30, 2013 to \$1,300 for all future production at December 31, 2013, (2) an increase in the discount rate from 6.0% to 6.5%, and (3) higher processing costs in the life of mine plan due to higher quantities of solution applied to the leach pad for all future production.

(b) *Young-Davidson CGU*

The carrying value of goodwill resulting from the acquisition of Northgate has been allocated to the Young-Davidson CGU, which is comprised of all assets and liabilities related to the Young-Davidson mine. At December 31, 2013, the recoverable amount of the Young-Davidson CGU exceeded its carrying value by \$140,695.

It is estimated that the following reasonably possible changes in key assumptions would cause the carrying value of the Young-Davidson CGU to exceed its recoverable amount:

- Increase in discount rate to 6.35%
- 4.93% decline in gold price assumptions
- 9.90% strengthening of the Canadian dollar
- 14.50% increase in operating costs
- Decrease in NAV multiple to 0.96



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

(c) *Retained interest royalty*

At June 30, 2013, the carrying value of the retained interest royalty exceeded its recoverable amount of \$15,316 by \$18,688, which resulted in an impairment charge. As a result of the impairment charge, the Company also recorded a deferred tax recovery of \$2,186, which resulted in a net impairment charge of \$16,502. The primary contributors to this impairment charge were the revised short-term and long-term gold price assumptions used in the June 30, 2013 test. The remaining assumptions, including the life of mine plan, were the same as was utilized by the Company for the December 31, 2012 impairment test.

At December 31, 2013, due to the receipt of an updated life of mine plan from Crocodile Gold, the Company determined that an indicator of impairment reversal existed and conducted an impairment test at that date. Utilizing the updated life of mine plan, adjusted for the Company's gold price and foreign exchange rate assumptions, it was determined that the recoverable amount of this asset exceeded its original carrying value of \$34,004 and, as a result, an impairment reversal of \$18,688 was recorded. The Company also recorded a deferred tax expense of \$2,103 related to this reversal.

The Company determined the fair value of the retained interest royalty using a valuation model, which was based on the combined free cash flow expected to be generated by the Australian Operations (refer to note 29(a)). This model used a discounted cash flow methodology taking into account the assumptions that would be made by market participants. The key assumptions used in determining the fair value of these payments were future production, gold prices, operating costs, capital expenditures, foreign exchange rates and the discount rate. The Company relied on the forecasted future production, operating costs and capital expenditures contained within the updated life of mine received from Crocodile Gold. In determining the fair value of the retained interest royalty at December 31, 2013, the Company used a gold price forecast of \$1,300 per ounce, an average Australian to US dollar forward exchange rate of 1.16 to 1 USD, an average Australian dollar to Canadian dollar forward exchange rate of 1.06 to 1 CAD, and a discount rate of 12%.

The key assumptions used in the fair value measurement at December 31, 2013 were consistent with the assumptions used at June 30, 2013, as discussed above, with the exception of: (1) an extension of mine life at the Fosterville mine at December 31, 2013, (2) a strengthening of the USD resulted in higher Australian dollar revenues, and (3) a decline in gold price assumptions from a range of \$1,300 to \$1,400 per ounce at June 30, 2013 to \$1,300 per ounce for all future production at December 31, 2013.

During the year ended December 31, 2013, the impairment charge recognized on June 30, 2013 and its subsequent reversal did not have an impact on net loss, other than the difference in deferred tax expense/recovery noted above.

(d) *Other*

During the year ended December 31, 2013, the Company impaired various brownfield exploration assets due to unsuccessful drilling results during the year. As a result, the Company recognized an impairment charge of \$4,574 in the Consolidated Statements of Operations, which also impacted the carrying value of non-depletable mining interests at December 31, 2013.

During the year ended December 31, 2012, the Company discontinued its exploration program on the La Bandera exploration property, which was reported in Corporate and Other. As a result, the Company recognized an impairment charge of \$1,537 and a tax recovery of \$400, for a net impairment charge of \$1,137 in the Consolidated Statements of Operations.

14. **Derivative liabilities and other liabilities**

During the year ended December 31, 2013, 1,585,000 warrants issued by the Company expired, including 750,000 warrants with an exercise price of CAD \$10.13 that expired on April 8, 2013 and 835,000 warrants with an exercise price of CAD \$9.52 that expired on October 26, 2013. As the warrants were issued in a foreign currency, they met the definition of a derivative instrument and were classified as financial liabilities at fair value through profit or loss. They were initially measured at the fair value of the services provided and were re-measured at fair value at the end of each reporting period, with gains and losses recognized in other income in the Consolidated Statements of Operations until exercised or expired. At December 31, 2012, these warrants had a fair value of \$1,401 (see note 26).

During 2013 and 2012, the Company held forward contracts to hedge against the risk of an increase in the value of the Mexican peso versus the US dollar. These forward contracts are described in further detail in note 26. At December 31, 2013, the Company had no forward contracts outstanding. At December 31, 2012, these forward contracts had a negative fair value of \$1,348, which was included in the current portion of derivative liabilities on the Consolidated Balance Sheet.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

At December 31, 2012, the current portion of other liabilities included the liability associated with a consultancy agreement. The consultancy agreement obligation was non-interest bearing, and was recorded at fair value using a discount rate of 7%. In January 2013, the Company made a one-time payment of \$2,750 to settle this liability.

15. Debt and equipment financing obligations

	December 31 2013	December 31 2012
(a) Revolving credit facility	\$ 75,000	\$ -
(b) Convertible senior notes	157,133	153,910
(c) Equipment financing obligations	17,522	18,625
(d) Other	1,894	-
	<u>251,549</u>	<u>172,535</u>
Less: Current portion of debt and equipment financing obligations	<u>(7,355)</u>	<u>(5,038)</u>
	<u>\$ 244,194</u>	<u>\$ 167,497</u>

The estimated future minimum payments under debt and equipment financing obligations are as follows:

2014	\$ 13,946
2015	\$ 12,074
2016	\$ 251,075
2017	\$ 2,316
2018	\$ 947

(a) *Revolving credit facility*

On January 31, 2013, the Company amended its revolving credit facility, which reduced the amount available from \$250,000 to \$150,000. The amended credit facility carries an interest rate of LIBOR plus 2.25% to 3.50%, depending on the leverage ratio of the Company. The facility matures on April 25, 2016 and may be extended upon mutual agreement by all parties. No payments under the facility are due until the maturity date.

At December 31, 2013, the Company amended the leverage ratio covenant, which is determined as indebtedness compared to annual EBITDA, such that indebtedness is net of cash held. The credit facility contains various covenants that include (a) an interest coverage ratio of at least 3:1, measured by rolling interest incurred compared to annual earnings before interest, tax, depreciation, and amortization ("EBITDA"), (b) a leverage ratio of no more than 3:1, measured by net indebtedness at the end of the period compared to annual EBITDA, (c) a tangible net worth of at least \$557,600 plus 50% of the net proceeds of all equity issued by the Company and 50% of cumulative positive net earnings for each fiscal quarter subsequent to September 30, 2011, and (d) proven and probable reserves of at least 2,000,000 ounces. The facility is secured by a first-ranking lien on all present and future assets, property and undertaking of the Company. At December 31, 2013, the Company was in compliance with all covenants.

During the year ended December 31, 2013, the Company received proceeds of \$75,000 (December 31, 2012 - \$66,410) and made repayments of \$nil (December 31, 2012 - \$127,790). At December 31, 2013, the Company had \$75,000 drawn against this revolving facility (December 31, 2012 - \$nil).

(b) *Convertible senior notes*

The Company has \$167,000 of convertible senior notes (the "notes") that were originally issued in October 2010. The notes pay interest semi-annually at a rate of 3.50% per annum, and mature on October 1, 2016.

The holders of the notes may, within specified time periods, convert their notes prior to July 1, 2016 under the following circumstances: (1) the closing sale price of the Company's shares exceeds 130% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding quarter; (2) the trading price per \$1,000 principal amount of the convertible note is equal to or less than 97% of the product of the closing sale price of the Company's common shares and the applicable conversion rate; (3) the convertible notes are called for redemption by the Company; (4) upon the occurrence of specified corporate transactions; and (5) a "delisted event" occurs and is continuing. In addition, the notes will be unconditionally convertible at the option of the holder from July 1, 2016 to the business day immediately preceding the maturity date of the notes. Following the payment of dividends on January 29, 2014, the conversion rate is 94.3882 common shares per \$1,000 principal amount of notes,



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

which represents a conversion price of approximately \$10.59 per share. Upon conversion, the Company may settle the obligation either in common shares, or in cash at an equivalent value.

For the year ended December 31, 2013, the Company recorded interest expense, including the amortization of the discount, of \$9,068 (year ended December 31, 2012 - \$8,917) in relation to the debt component of the notes, at an effective interest rate of 5.89% (year ended December 31, 2012 - 5.89%). Of this amount, \$7,461 (year ended December 31, 2012 - \$7,902) was capitalized to mine development and \$1,607 (year ended December 31, 2012 - \$1,015) was recognized as a finance cost in the Consolidated Statements of Operations. The option component of the notes, which is accounted for as an embedded derivative, is re-measured at fair value at each reporting date. The fair value of the option component was determined to be \$413 at December 31, 2013 (December 31, 2012 - \$16,035), resulting in an unrealized gain of \$15,622 (year ended December 31, 2012 - \$4,046) that was recognized in other income on the Consolidated Statements of Operations for the year ended December 31, 2013 (see note 21). At December 31, 2013, \$167,000 (December 31, 2012 - \$167,000) of convertible senior notes remained outstanding at a carrying value of \$157,133 (December 31, 2012 - \$153,910) for the debt component and \$413 (December 31, 2012 - \$16,035) for the option component.

(c) *Equipment financing obligations*

The Company has entered into financing obligations for equipment, which expire at various dates between 2015 and 2018 and that are secured by the financed assets. Interest payable on the various obligations ranges from a fixed rate of 2.71% to 5.77%. During the year ended December 31, 2013, the Company received proceeds of \$4,813 (year ended December 31, 2012 - \$12,441) from equipment financing arrangements.

(d) *Other*

During the year, the Company purchased lands near its El Chanate mine and entered into loan agreements as part of the consideration. The majority of these balances are payable in one year.

16. Provisions

	December 31 2013	December 31 2012
(a) Reclamation provisions	\$ 28,245	\$ 32,943
(b) Royalty interests provision	-	2,086
(c) Provision for restricted share unit plan	792	1,895
(d) Provision for lawsuit	12,458	13,318
Other	3,040	1,444
	<u>44,535</u>	<u>51,686</u>
Less: Current portion of provisions	<u>(15,955)</u>	<u>(19,326)</u>
	<u>\$ 28,580</u>	<u>\$ 32,360</u>

(a) *Reclamation provisions*

The Company's reclamation provisions consist of reclamation and rehabilitation costs for each of the Company's operating mines and Kemess South. The present value of the combined provision is currently estimated at \$28,245 (December 31, 2012 - \$32,943), reflecting ongoing payments relating to Kemess South, and future payments that will commence in 8 - 20 years for the Company's operating mines. Significant reclamation activities include land rehabilitation, demolition and decontamination of mine facilities, monitoring, and other costs.

The Company estimates the costs to conduct significant reclamation activities based on the most recent experience and cost data available for the applicable mine. These expected expenditures are then risk-adjusted by considering the time remaining until reclamation activities commence, recent industry experience in the region, and other relevant factors. This current cost estimate is then inflated to the estimated date of settlement using the rate disclosed below.

The undiscounted value of the reclamation costs liability is \$42,263 (December 31, 2012 - \$42,128). The discount rates used in estimating the obligation were determined based on the yields from government bonds from the country in which the related mine operates, with a term to maturity similar to the estimated timing of future payments. The inflation rates used were determined based on external forecasts for inflation in the country in which the related mine operates.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The discount and inflation rates used are summarized as follows:

	December 31 2013	December 31 2012
Discount rates		
El Chanate	6.33%	5.52%
Young-Davidson	3.24%	2.36%
Kemess South	1.95%	1.38%
Inflation rates		
El Chanate	3.10%	3.30%
Young-Davidson	2.00%	2.00%
Kemess South	2.00%	2.00%

Changes to the reclamation and closure cost obligation balance during the year were as follows:

	December 31 2013
Reclamation provisions, beginning of period	\$ 32,943
Obligations incurred and revisions to estimates	(4,621)
Accretion expense	769
Reclamation expenditures	(846)
Reclamation provisions, end of period	28,245
Less: Current portion	(583)
	<u>\$ 27,662</u>

Of the \$4,621 of adjustments made to reclamation provisions during the year, \$3,718 was credited against capital expenditures and included in property, plant and equipment & mining interests on the Consolidated Balance Sheets and \$903 was recognized as a reduction of expenses in reclamation, care and maintenance costs on the Consolidated Statements of Operations.

(b) *Royalty interests provision*

During the year ended December 31, 2013, the Company settled a royalty payable to Royal Gold Inc., which arose upon the purchase of the El Chanate property in 2001. Settlement of the liability occurred through the payment of net smelter returns up to a maximum amount. Changes to the royalty interests provision balance during the year were as follows:

	December 31 2013
Royalty interests provision, beginning of period	\$ 2,086
Accretion expense	21
Payments of royalties	(2,107)
Royalty interests provision, end of period	<u>\$ -</u>

(c) *Provision for restricted share unit plan*

The Company provides a Restricted Share Unit ("RSU") plan for directors, officers, employees, and consultants of the Company. Each unit entitles the participant to receive a cash payment equal to the market price of one share as of the RSU vesting date, one share, or any combination of cash and shares equal to the market price of one share as of the RSU vesting date. The Company records RSUs to be cash-settled in provisions and RSUs to be share-settled within Shareholders' Equity. Cash-settled RSUs vest equally over a period of not more than three years, and at the end of a vesting period, they may be redeemed for cash based on the Company's volume-weighted average closing share price for the five days immediately preceding the redemption date. A total of 26,974 cash-settled RSUs, with a grant date fair value of \$192, were granted during the year ended December 31, 2013 (year ended December 31, 2012 - 161,700 RSUs with a grant date fair value of \$1,481). In accounting for these awards, the Company recognizes the fair value of the units as compensation expense as they are earned, based on the estimated number of units that are expected to vest. At December 31, 2013,



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

279,254 RSUs were outstanding, including 125,461 vested units (December 31, 2012 - 347,428 RSUs outstanding including 103,563 vested units).

(d) *Provision for lawsuit*

The Company was named as a defendant in a claim originally filed by Ed J. McKenna, which was certified as a class action lawsuit with damages sought from \$80 million to \$160 million. On October 5, 2012, the Company reached an agreement to settle this class action lawsuit, subject to approval of the court and the right of the Company to terminate the agreement under certain circumstances. The Company has recognized a provision of \$12,458 relating to this lawsuit, which was partially offset by a corresponding insurance receivable of \$10,254 (refer to note 6 for further information), for a net settlement amount of \$2,204. At December 31, 2013, the net settlement amount is being held in escrow pending settlement of the lawsuit, and is included in restricted cash on the Consolidated Balance Sheets. The provision is included in the current portion of provisions on the Consolidated Balance Sheets as it is payable as at December 31, 2013.

17. Income taxes

The following table represents the major components of income tax expense / (recovery) recognized in the Consolidated Statements of Operations for the year ended December 31, 2013:

	December 31 2013	December 31 2012
Current income tax (recovery) / expense	\$ (140)	\$ 6,625
Deferred income tax expense / (recovery)	14,456	(7,849)
Provision for income taxes	<u>\$ 14,316</u>	<u>\$ (1,224)</u>

The following table reconciles the expected income tax expense / (recovery) at the statutory income tax rate to the amounts recognized in the Consolidated Statements of Operations for the year ended December 31, 2013:

	December 31 2013	December 31 2012
Loss before income taxes	\$ (162,454)	\$ (101,003)
Income tax rate	25.20%	25.30%
Expected income tax recovery based on above rates	(40,938)	(25,554)
Effect of higher tax rates in foreign jurisdictions	(14,643)	(297)
Non-deductible stock option expense	1,583	2,085
Non-taxable gain on change to joint venture accounting	-	(1,633)
Effect of non-deductible goodwill impairment	37,513	35,941
Impact of local mining taxes	7,037	(1,284)
Impact of changes in tax rates applicable to temporary differences	3,207	-
Permanent differences	(1,185)	131
Change in unrecognized temporary differences	-	1,185
Impact of foreign exchange	21,742	(11,798)
Provision for income taxes	<u>\$ 14,316</u>	<u>\$ (1,224)</u>

The statutory tax rate for 2013 was 25.20% (2012 – 25.30%). This represents a decrease of 0.1%, primarily attributable to a change in provincial allocation for the year ended December 31, 2013.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The following reflects the deferred income tax liability at December 31, 2013:

	December 31 2013	December 31 2012
Accounting value of mineral properties and capital assets in excess of tax value	\$ 281,457	\$ 289,142
Accounting value of inventories in excess of tax value	34,670	30,203
Unrealized foreign exchange (loss) / gain	(619)	1,514
Other taxable / (deductible) temporary differences	883	(6,548)
Non-capital losses carried forward	(29,211)	(26,180)
Deferred income tax liability	<u>\$ 287,180</u>	<u>\$ 288,131</u>

The change in deferred income tax liability is explained as follows:

	December 31 2013	December 31 2012
Balance, beginning of year	\$ 288,131	\$ 429,525
Deferred income tax expense / (recovery) recognized in net earnings from continuing operations	14,456	(7,849)
Deferred income tax recovery recognized in net earnings from discontinued operations	-	(1,932)
Impact of foreign exchange	(15,216)	19,358
Deferred income tax recovery recognized in other comprehensive income	-	78
Deferred income tax liability recognized in retained earnings	(191)	-
Deferred income tax liability derecognized on disposition of El Cubo and Guadalupe y Calvo	-	(51,719)
Deferred income tax liability derecognized on disposition of Ocampo	-	(86,428)
Deferred income tax liability derecognized on disposition of 50% interest in Orion	-	(12,902)
Deferred income tax liability	<u>\$ 287,180</u>	<u>\$ 288,131</u>

The Company has tax loss carryforwards expiring in the following years:

	Canada	Mexico	United States	Total
2014	\$ 3,845	\$ -	\$ -	\$ 3,845
2023	-	9,390	-	9,390
2024	940	-	-	940
2025	7,285	-	-	7,285
2026	18,297	-	-	18,297
2027	5,971	-	1,448	7,419
2028	27,532	-	5,751	33,283
2029	12,934	-	7,831	20,765
2030	5,879	-	5,248	11,127
2031	14,089	-	-	14,089
2032	15,697	-	14	15,711
At December 31, 2013	<u>\$ 112,469</u>	<u>\$ 9,390</u>	<u>\$ 20,292</u>	<u>\$ 142,151</u>

The Company has unrecognized deferred income tax assets in respect of aggregate loss carryforwards, deductible temporary differences and unused tax credits of \$28,649 (December 31, 2012 - \$27,965).

At December 31, 2013, the Company has unrecognized deferred income tax liabilities on taxable temporary differences of \$174,485 (December 31, 2012 - \$163,961) for taxes that would be payable on the unremitted earnings of certain subsidiaries of the Company.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

18. Shareholders' equity

(a) Capital stock

Authorized:

Unlimited number of common shares.
The Company's shares have no par value.

Issued and outstanding:

	December 31, 2013		December 31, 2012	
	Number of common shares	Ascribed value	Number of common shares	Ascribed value
Balance, beginning of period	282,326,547	\$ 2,307,978	281,605,752	\$ 2,301,419
Shares repurchased and cancelled	(36,144,578)	(295,536)	-	-
Shares issued as payment for disposition-related services	-	-	211,991	1,736
Shares issued through employee share purchase plan	390,032	2,008	240,103	1,892
Shares issued through dividend reinvestment plan	467,797	1,969	-	-
Shares issued on redemption of deferred share units	71,845	499	34,419	314
Shares issued on exercise of stock options	458,168	3,094	234,282	1,205
Fair value of share-based compensation	-	1,825	-	1,412
Balance, end of period	247,569,811	\$ 2,021,837	282,326,547	\$ 2,307,978

On January 29, 2013, the Company repurchased and cancelled 36,144,578 common shares under a "modified Dutch auction" substantial issuer bid, for a total purchase price of \$301,066, including transaction costs. Of the \$301,066 paid, \$295,536 was recognized in capital stock to reduce the book value of the shares repurchased and the premium paid, including transaction costs, of \$5,353 was recognized in deficit.

(b) Dividends

On February 21, 2013, the Company announced an inaugural dividend policy, whereby the Company would pay an annual dividend of \$0.16 per share in 2013 (payable quarterly). Subsequent to 2013, the dividend will be linked to operating cash flow, whereby the Company intends to pay out 20% of operating cash flow generated in the preceding quarter. At December 31, 2013, subsequent to approval of the fourth quarter dividend by the Company's Board of Directors, the Company recognized a dividend payable of \$9,960, which was charged directly to deficit in the Consolidated Balance Sheets. The Company announced the declaration of the dividend of \$0.04 per share on January 3, 2014, payable to shareholders of record on January 14, 2014. The dividend was paid on January 29, 2014. During the year ended December 31, 2013, the Company declared \$39,592 in dividends, or \$0.16 per share.

On June 11, 2013, the Company announced a dividend reinvestment plan, whereby shareholders may elect to reinvest dividends in additional common shares of the Company, commencing with the July 2013 dividend. Common shares issued under this plan will be issued at a 5% discount from the average market price of the common shares over the five day period preceding the relevant dividend payment date. The discount may be adjusted at a future date, but cannot exceed 5%. During the year ended December 31, 2013, the Company issued 467,797 shares with a total value of \$1,969 under this plan.

(c) Stock options (in Canadian dollars)

The Company has a long-term incentive plan under which share-based compensation, including stock options, deferred share units, performance share units, and restricted share units may be granted to directors, officers, employees, and consultants of the Company. The maximum number of common shares that may be reserved and set aside for issuance under the plan is 6.5% of the common shares outstanding at the time of granting the award (on a non-diluted basis). Stock options are generally exercisable for a maximum period of five to seven years from the grant date, and have vesting periods of three to four years or as determined by the Company's Board of Directors.

Stock option disclosures are in Canadian dollars as the Canadian dollar is the source currency of the Company's stock option grants.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The fair value of the options granted during the year-to-date was calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	December 31 2013	December 31 2012
Dividend yield	2.27%	0%
Expected volatility	55.06%	56.11%
Risk free interest rate	1.25%	1.25%
Expected life	2.98 years	3.39 years
Exercise price	\$ 4.90	\$ 7.94
Share price	\$ 4.92	\$ 7.85
Grant date fair value	\$ 1.62	\$ 3.12

Expected volatility was determined based on historical share price volatility over the expected life of the option granted.

	December 31, 2013		December 31, 2012	
	Options	Weighted average price	Options	Weighted average price
Outstanding, beginning of period	10,239,564	\$ 8.24	9,088,553	\$ 8.93
Granted	3,251,179	\$ 4.90	3,056,268	\$ 7.93
Forfeited	(167,500)	\$ 9.87	(255,000)	\$ 9.66
Expired	(1,551,775)	\$ 8.39	(1,415,975)	\$ 12.28
Exercised	(458,168)	\$ 6.76	(234,282)	\$ 5.14
Outstanding, end of period	11,313,300	\$ 7.29	10,239,564	\$ 8.24
Options exercisable, end of period	5,171,118	\$ 8.19	5,614,646	\$ 8.08

During the year ended December 31, 2013, employees, consultants, officers and directors of the Company exercised 458,168 options (year ended December 31, 2012 - 234,282) for total proceeds of \$3,091 (year ended December 31, 2012 - \$1,198). The weighted average share price at the date of exercise for stock options exercised during the year ended December 31, 2013 was \$7.39 (year ended December 31, 2012 - \$8.47).

Set forth below is a summary of the outstanding options to purchase common shares as at December 31, 2013:

Option Price	Options outstanding			Options exercisable	
	Number outstanding	Weighted average exercise price	Average life (yrs)	Number exercisable	Weighted average exercise price
\$ 2.51 - 4.00	305,684	\$ 2.96	2.31	275,684	\$ 2.84
\$ 4.01 - 6.00	2,392,378	\$ 4.05	4.91	34,675	\$ 5.50
\$ 6.01 - 7.00	1,610,500	\$ 6.71	3.85	1,048,750	\$ 6.73
\$ 7.01 - 7.50	888,226	\$ 7.15	4.01	179,750	\$ 7.33
\$ 7.51 - 9.00	3,482,174	\$ 8.11	3.92	1,831,172	\$ 8.08
\$ 9.01 - 9.50	762,500	\$ 9.29	4.82	391,250	\$ 9.29
\$ 9.51 - 10.00	919,143	\$ 9.72	3.37	759,892	\$ 9.74
\$ 10.01 - 10.50	200,000	\$ 10.09	3.79	100,000	\$ 10.09
\$ 10.51 - 11.00	250,000	\$ 10.95	4.87	125,000	\$ 10.95
\$ 11.01 - 12.50	502,695	\$ 11.38	1.72	424,945	\$ 11.32
Total	11,313,300			5,171,118	



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

(d) *Employee share purchase plan*

The Company has an Employee Share Purchase Plan which enables employees to purchase Company shares through payroll deduction. Employees can contribute up to 10% of their annual base salary, and the Company will match 75% of the employees' contributions. The common shares are purchased based on the volume weighted average closing price of the last five days prior to the end of the quarter. During the year ended December 31, 2013, the Company recognized \$781 as an expense (year ended December 31, 2012 - \$699) related to this plan. At December 31, 2013, \$217 of the expense was payable by the Company (December 31, 2012 - \$182).

(e) *Deferred share unit plan*

The Company awards Deferred Share Units ("DSUs") as an alternative form of compensation for employees, officers, consultants, and members of the Company's Board of Directors. Each unit entitles the participant to receive one common share of the Company from treasury upon redemption. DSUs are measured on the grant date using the Company's closing price on that date. A total of 67,795 DSUs (year ended December 31, 2012 - 38,310) were granted during the year ended December 31, 2013 with a grant date fair value of \$366 (year ended December 31, 2012 - \$331). A total of 71,845 DSUs were redeemed during the year ended December 31, 2013 (year ended December 31, 2012 - 34,419). At December 31, 2013, 248,596 DSUs were vested and outstanding (December 31, 2012 - 252,646).

(f) *Performance share unit plan*

The Company awards Performance Share Units ("PSUs") as an alternative form of compensation for employees, officers, consultants, and members of the Company's Board of Directors. Each unit entitles the participant to receive a cash payment equal to the market price of one share as of the PSU vesting date, one share, or any combination of cash and shares equal to the market price of one share as of the PSU vesting date, assuming certain performance conditions are met. PSUs are measured using the volume weighted average closing price of the last five days prior to granting of the units. A total of 348,040 equity-settled PSUs were granted during the year ended December 31, 2013 (year ended December 31, 2012 - nil). For the year ended December 31, 2013, the Company incurred an expense of \$44 on 348,040 PSUs outstanding, of which none were vested at December 31, 2013 (December 31, 2012 - nil).

(g) *Restricted share unit plan*

The Company awards Restricted Share Units ("RSUs") as an alternative form of compensation for employees, officers, consultants, and members of the Company's Board of Directors. Each unit entitles the participant to receive a cash payment equal to the market price of one share as of the RSU vesting date, one share, or any combination of cash and shares equal to the market price of one share as of the RSU vesting date. The Company records RSUs to be cash-settled in provisions and RSUs to be share-settled within shareholders' equity. RSUs are measured using the volume weighted average closing price of the last five days prior to granting of the units. A total of 356,155 equity-settled RSUs were granted during the year ended December 31, 2013 (year ended December 31, 2012 - nil). For the year ended December 31, 2013, the Company incurred an expense of \$472 on 356,155 RSUs outstanding, of which 35,843 were vested at December 31, 2013 (December 31, 2012 - nil).

19. Accumulated other comprehensive loss

Accumulated other comprehensive loss related to investments made by the Company was impacted by the other comprehensive loss during the year ended December 31, 2013:

Balance, beginning of period	\$ (105)
Other comprehensive loss - continuing operations	<u>(5,163)</u>
Balance, end of period	<u>\$ (5,268)</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

20. Loss from operations

The Company's loss from operations includes the following expenses presented by function:

	Year ended	
	December 31	December 31
	2013	2012
Cost of sales	\$ 372,453	\$ 221,854
General and administrative	27,677	35,730
Exploration and business development	5,588	2,922
	<u>\$ 405,718</u>	<u>\$ 260,506</u>

Cost of sales for the year ended December 31, 2013 includes impairment charges of \$154,000 relating to the El Chanate mine (year ended December 31, 2012 - \$127,000). These impairment charges are discussed further in note 13.

Included in general and administrative expense for the year ended December 31, 2013 is \$7,388 of share-based compensation expense (year ended December 31, 2012 - \$7,375).

Included in exploration and business development for the years ended December 31, 2013 and 2012 are impairment charges of \$4,574 related to brownfield exploration properties included in non-depletable mining interests, and \$1,537 related to exploration properties, respectively. These impairment charges are discussed further in note 13.

The following employee benefits expenses are included in cost of sales, general and administrative, and exploration and business development expenses:

	Year ended	
	December 31	December 31
	2013	2012
Salaries and benefits	\$ 26,821	\$ 28,184
Share-based compensation	7,946	9,530
Other	180	211
	<u>\$ 34,947</u>	<u>\$ 37,925</u>

21. Other income

	Year ended	
	December 31	December 31
	2013	2012
Fair value adjustment on option component of convertible senior notes (Note 26)	\$ 15,622	\$ 4,046
Unrealized (loss) / gain on contingent consideration (Note 26)	(7,395)	1,568
Unrealized and realized gains on derivative assets and liabilities (Note 26)	2,183	1,713
Interest income	951	1,626
Unrealized loss on investments (Note 8)	(497)	(146)
Reclassification of accumulated losses on available-for-sale investments (Note 8)	(168)	-
Realized gain on investments (Note 8)	-	1,500
Loss on extinguishment of debt	-	(3,945)
Loss on discontinuance of hedge accounting (Note 26)	-	(1,882)
Net provision for lawsuit (Note 16)	-	(2,362)
Gain on sale of 50% interest in Orion (Note 9)	-	6,620
Other	(529)	24
	<u>\$ 10,167</u>	<u>\$ 8,762</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

22. (Loss) / earnings per share

Basic (loss) / earnings per share is calculated based on the weighted average number of common shares and common share equivalents outstanding during the years ended December 31, 2013 and 2012. Diluted (loss) / earnings per share is based on the assumption that stock options, convertible debentures and other share-based instruments issued that have an exercise price less than the average market price of the Company's common shares during the period have been exercised on the later of the beginning of the year and the date granted. Net earnings and basic weighted average shares outstanding are reconciled to diluted net earnings and diluted weighted average shares outstanding, respectively, as follows:

	Year ended	
	December 31 2013	December 31 2012
Net loss from continuing operations	\$ (176,770)	\$ (99,779)
Dilution adjustments:		
Convertible senior notes	(14,730)	-
Diluted net (loss) from continuing operations	(191,500)	(99,779)
Net earnings from discontinued operations	-	131,052
Diluted net (loss) / earnings	<u>\$ (191,500)</u>	<u>\$ 31,273</u>
Basic weighted average shares outstanding	250,398,043	282,194,197
Dilution adjustments:		
Convertible senior notes	15,331,018	-
Diluted weighted average shares outstanding	<u>265,729,061</u>	<u>282,194,197</u>

The following items were excluded from the computation of diluted weighted average shares outstanding for the years ended December 31, 2013 and 2012 because their effect would have been anti-dilutive:

	Year ended	
	December 31 2013	December 31 2012
Stock options	11,007,616	10,239,564
Warrants issued	-	1,585,000
Restricted share units	55,749	-
Performance share units	6,328	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

23. Supplemental cash flow information

	Year ended	
	December 31 2013	December 31 2012
Items not affecting cash:		
Impairment charges	\$ 158,574	\$ 128,537
Amortization and depletion	65,529	18,723
Net realizable value adjustments	33,426	-
Fair value adjustment on option component of convertible senior notes	(15,622)	(4,046)
Unrealized foreign exchange (gain) / loss	(11,810)	10,663
Unrealized loss / (gain) on contingent consideration	7,395	(1,568)
Share-based compensation, net of forfeitures	7,388	7,375
Deferred income tax expense / (recovery)	14,456	(7,849)
Equity in loss / (earnings) of jointly-controlled entity	2,533	(83)
Unrealized and realized gains on derivative assets and liabilities	(2,183)	(1,713)
Unrealized loss on investments	497	146
Reclassification of accumulated losses on available-for-sale investments	168	-
Realized gain on sale of investments	-	(1,500)
Loss on extinguishment of debt	-	3,436
Loss on discontinuance of hedge accounting	-	1,882
Net provision for lawsuit	-	2,362
Other non-cash items	1,404	(1,524)
	<u>\$ 261,755</u>	<u>\$ 154,841</u>
Change in non-cash operating working capital:		
Receivables	\$ (1,800)	\$ 5,495
Current income tax receivable	8,507	(6,993)
Prepays and deposits	(380)	(69)
Inventories	(35,806)	(58,057)
Trade payables and accrued liabilities	19,696	15,370
Current income tax liability	(5,030)	(119)
	<u>\$ (14,813)</u>	<u>\$ (44,373)</u>
Supplemental information:		
Interest paid	\$ 7,104	\$ 10,961
Interest received	\$ 994	\$ 1,424
Income taxes paid ⁽¹⁾	\$ 4,728	\$ 103,608
Non-cash transactions:		
Receipt of Endeavour shares upon disposition of El Cubo and Guadalupe y Calvo	\$ -	\$ 87,746
Receipt of Crocodile Gold shares upon disposition of Australian operations	\$ -	\$ 9,642
Unwinding of discount on convertible notes capitalized to mining interests	\$ 2,897	\$ 2,654
Interest payable capitalized to mining interests	\$ 935	\$ 1,160
Shares issued in exchange for disposition-related services	\$ -	\$ 1,736

⁽¹⁾Included in income taxes paid for the year ended December 31, 2012 is \$77,096 in taxes paid on the sale of the Ocampo mine on December 14, 2012. Refer to note 29(c) for further information.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

24. Related party disclosures

Related party transactions in 2013 included the compensation of the Company's key management personnel and a receivable from the jointly-controlled entity that holds the Orion development project, disclosed in note 9. The Company's key management personnel include the Company's executives and members of the Board of Directors. The compensation of key management personnel was as follows:

	Year ended	
	December 31	December 31
	2013	2012
Short-term employee benefits	\$ 6,047	\$ 10,164
Long-term benefits	39	63
Termination benefits	-	1,737
Share-based compensation	4,497	5,281
	<u>\$ 10,583</u>	<u>\$ 17,245</u>

25. Commitments and contingencies

Commitments

Young-Davidson royalty agreements

The Company is subject to two royalty agreements on certain claims on the Young-Davidson property. The first royalty agreement requires the Company to pay a minimum of \$1.50 per tonne of ore mined and processed. The second royalty agreement requires the Company to pay \$1.00 per tonne of ore mined and processed, as well as an additional royalty of 5% of the increase in gold price per ounce recovered above the base price of gold of \$270.00 per ounce for each ounce recovered.

Contingencies

The Company is also involved in legal proceedings arising in the ordinary course of its business. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the Company's financial position, results of operations or cash flows.

26. Financial instruments and risk management

Fair values of financial instruments

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy. The Company does not have any non-recurring fair value measurements, other than the fair value of non-financial assets disclosed in note 13. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable or unobservable, as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are based on inputs which have a significant effect on fair value that are observable, either directly or indirectly from market data; and
- Level 3 inputs are unobservable (supported by little or no market activity).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

	December 31, 2013		December 31, 2012	
	Level 1	Level 2	Level 1	Level 2
Cash	\$ 142,652	\$ -	\$ 603,401	\$ -
Restricted cash	33,683	-	34,219	-
Financial assets at fair value through profit or loss				
Equity investments (a)	-	-	47	-
Warrants held (b)	-	41	-	-
Contingent consideration (c)	-	-	-	7,395
Available-for-sale financial assets				
Equity investments (a)	15,510	-	64	-
Financial liabilities at fair value through profit or loss				
Option component of convertible senior notes (d)	-	(413)	-	(16,035)
Currency forwards (e)	-	-	-	(1,348)
Warrants issued (b)	-	-	-	(1,401)
	<u>\$ 191,845</u>	<u>\$ (372)</u>	<u>\$ 637,731</u>	<u>\$ (11,389)</u>

The methods of measuring each of these financial assets and liabilities have not changed during the past year. The Company does not have any financial assets or liabilities measured at fair value based on unobservable inputs (Level 3). The fair values of financial instruments measured at amortized cost approximate their carrying amounts which, for the convertible senior notes, was calculated using the convertible bond valuation model described in (d) below.

(a) *Equity investments*

The Company's equity investments, both available-for-sale and at fair value through profit or loss, are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy. The fair value of investment securities is calculated as the closing market price of the investment equity security multiplied by the quantity of shares held by the Company.

(b) *Warrants held and issued*

The fair value of warrants, both held and issued, that are not traded on an active market is determined using a Black Scholes pricing model based on assumptions that are supported by observable current market conditions and as such are classified within Level 2 of the fair value hierarchy.

(c) *Contingent consideration*

The Company calculates the fair value of the contingent consideration using a valuation model, which is based on the rolling twelve month average gold price exceeding specified levels during the three years following the closing date of the transaction. The valuation model uses a risk-neutral valuation approach paired with a Monte Carlo numerical method that relies on simulated weekly gold prices over the remaining term, which ends on July 13, 2015, using a gold price of \$1,205 per ounce as the initial spot price within the simulation model at December 31, 2013 (December 31, 2012 - initial spot price of \$1,674 per ounce). As the valuation of the contingent consideration is dependent on inputs derived from observable data, it is classified within Level 2 of the fair value hierarchy. The contingent consideration asset is included within other long-term assets on the Consolidated Balance Sheets.

The fair value of the contingent consideration at December 31, 2013 is \$nil. However, for the year ended December 31, 2012, changes in gold price assumptions would have had the following impact on net (loss) / earnings:

	December 31 2012
5% increase in gold prices	\$ 2,601
5% decrease in gold prices	\$ (2,215)

(d) *Option component of convertible senior notes*

The Company calculates the fair value of the option component of convertible senior notes using a convertible bond valuation model, which uses inputs, including the Company's share price, volatility of the notes, and credit spreads. Because the valuation is dependent on inputs derived from observable market data, the option component of the



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

convertible senior notes is classified within Level 2 of the fair value hierarchy. The fair value was calculated using the following assumptions:

	December 31 2013	December 31 2012
Volatility	30%	25%
Credit spreads	4.70%	3.50%

Changes in these assumptions would have the following impact on net (loss) / earnings for the year ended December 31, 2013 and 2012:

	December 31 2013	December 31 2012
5% increase in volatility	\$ (557)	\$ (4,714)
5% decrease in volatility	\$ 298	\$ 4,666
0.5% increase in credit spreads	\$ (29)	\$ (779)
0.5% decrease in credit spreads	\$ 27	\$ 758

(e) *Currency forwards*

The fair value of forward contracts is determined using forward pricing spreads in effect at the balance sheet date. These spreads are supported by observable market conditions and are classified within Level 2 of the fair value hierarchy. The use of reasonably possible alternative assumptions would not significantly affect the Company's results.

Risks

In the normal course of operations, the Company is exposed to credit risk, liquidity risk and the following market risks: commodity price, market price, interest rate and foreign currency exchange rate. The Company has developed a risk management process to identify, analyze and assess these and other risks, and has formed a Risk Committee to monitor all significant risks to the Company. The Board of Directors has overall responsibility for the oversight of the Company's risk management framework, and receives regular reports from the Risk Committee.

Commodity price risk

The profitability of the Company's mining operations will be significantly affected by changes in the market price for gold. Gold prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for gold, the level of interest rates, the rate of inflation, investment decisions by large holders of gold, including governmental reserves, and the stability of exchange rates can all cause significant fluctuations in gold prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems, and political developments. From time to time, the Company will enter into zero cost collars or other financial instruments to manage short term commodity price fluctuations. At December 31, 2013 and 2012, the Company did not have any commodity-related financial instruments outstanding.

Market price risk

The Company is exposed to fluctuations in the fair value of investments made in equity securities and warrants. A 10% increase or reduction in each company's share price at December 31, 2013 would have increased or reduced other comprehensive (loss) / income by \$1,555 and net (loss) / earnings by \$nil (December 31, 2012 - \$6 and \$5).

As discussed above, the fair value of the option component of the convertible senior notes is also affected by fluctuations in the Company's share price.

Interest rate risk

The Company is exposed to interest rate risk on its variable rate debt. The Company has not entered into any agreements to hedge against unfavourable changes in interest rates. If interest rates had been 0.5% higher during the year ended December 31, 2013, net (loss) / earnings would have decreased by \$44 (December 31, 2012 - \$684). This analysis assumes that other variables remain constant (a 50 basis points decrease in interest rates would have had the equal but opposite effect) and that none of the additional interest is capitalized to capital projects. At December 31, 2013, the Company had no variable rate debt outstanding.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

Interest payable on the Company's convertible senior notes is fixed at a rate of 3.50% and interest payable on the Company's equipment financing arrangements is fixed at rates between 2.71% and 5.77%.

Foreign currency exchange rate risk

Metal sales revenues for the Company are denominated in US dollars. During 2012, the Company received sales proceeds in Australian dollars for the Company's Australian operations, prior to their disposition. The Company is primarily exposed to currency fluctuations relative to the US dollar on expenditures that are denominated in Canadian dollars and Mexican pesos, but was also exposed to currency fluctuations on expenditures denominated in Australian dollars for the periods prior to the disposition of the Australian operations in 2012. These potential currency fluctuations could have a significant impact on production costs and thereby, the profitability of the Company. The Company is also exposed to the impact of currency fluctuations on its monetary assets and liabilities.

At December 31, 2013, the Company's balance sheet exposure to foreign currency exchange rate risk in Canadian dollars ("CAD") and Mexican pesos ("MXN") was as follows:

	CAD	MXN
Cash and cash equivalents	\$ 23,118	\$ 24,932
Restricted cash	2,345	-
Receivables	18,954	101,094
Current income tax receivable	25,899	46,977
Investments	16,540	-
Other long-term assets	72,328	-
Payables and accrued liabilities	(72,787)	(34,063)
Dividend payable	(2,236)	-
Current income tax liability	(3,351)	(5,549)
Debt and equipment financing obligations	(13,519)	-
Provisions	(17,266)	(754)
Deferred income tax liability	(242,720)	(772,525)
Net balance sheet exposure	<u>\$ (192,695)</u>	<u>\$ (639,888)</u>

At December 31, 2012, the Company's balance sheet exposure to foreign currency exchange rate risk in Canadian dollars ("CAD"), Mexican pesos ("MXN") was as follows:

	CAD	MXN
Cash and cash equivalents	\$ 25,198	\$ 18,387
Restricted cash	2,345	-
Receivables	15,218	52,231
Current income tax receivable	23,863	90,671
Investments	98	-
Other long-term assets	70,418	-
Payables and accrued liabilities	(49,134)	(38,205)
Current income tax liability	(3,861)	(22,925)
Debt and equipment financing obligations	(18,531)	-
Other liabilities	-	(35,653)
Provisions	(15,884)	-
Deferred income tax liability	(221,224)	(852,311)
Net balance sheet exposure	<u>\$ (171,494)</u>	<u>\$ (787,805)</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

A 10% strengthening of these currencies against the US dollar at each balance sheet date would have impacted net losses by the amounts shown below. This analysis assumes that other variables, in particular interest rates, remain constant.

	December 31 2013	December 31 2012
Translation of net CAD exposure	\$ (18,117)	\$ (15,670)
Translation of net MXN exposure	(4,885)	(5,524)

During 2013, the Company held forward contracts to hedge against the risk of an increase in the value of the Mexican peso versus the US dollar. During the year ended December 31, 2013, a gain of \$112 was recognized in net earnings on settlement of these forward contracts. As at December 31, 2013, the Company had no foreign exchange derivatives outstanding.

Outstanding US dollar to Mexican peso contracts at December 31, 2012 had a negative fair value of \$1,348, which was included in the current portion of derivative liabilities on the Consolidated Balance Sheets. During 2012, these currency hedges had been accounted for as cash flow hedges of specified, peso-denominated costs at the Ocampo mine. However, hedge accounting was discontinued at September 30, 2012 due to the forecasted transactions no longer being highly probable as a result of the potential disposition of the mine. Subsequent to discontinuation of hedge accounting, all changes in the fair value of these contracts, along with any realized gains or losses on settlement, were recognized in net earnings. Prior to September 30, 2012, these amounts had all been recognized in other comprehensive income. Upon the discontinuation of hedge accounting, these amounts were reclassified from other comprehensive income to net earnings. This resulted in the recognition of a loss on discontinuance of hedge accounting of \$1,882 included in other income on the Consolidated Statements of Operations for the year ended December 31, 2012.

During the three months ended December 31, 2012, a gain of \$218 was recognized in net earnings relating to these forward contracts. Three forward contracts settled during the nine months ended September 30, 2012, prior to the discontinuation of hedge accounting, resulting in a net loss of \$2,297. The recognition of this hedging loss resulted in a \$747 increase in production costs, a \$529 increase in inventory, a \$149 increase in general and administrative costs, and an \$872 increase in mining interests.

Credit risk

Credit risk relates to receivables and other contracts, and arises from the possibility that any counterparty to an instrument fails to perform. For cash and cash equivalents, restricted cash, and receivables, the Company's credit risk is limited to the carrying amount on the balance sheet. The Company manages credit risk by transacting with highly-rated counterparties and establishing a limit on contingent exposure for each counterparty based on the counterparty's credit rating. Exposure on receivables is limited as the Company sells its products to a small number of organizations, on which the historical level of defaults is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages this risk through regular monitoring of its cash flow requirements to support ongoing operations and expansionary plans. The Company ensures that there are sufficient committed loan facilities to meet its business requirements, taking into account anticipated cash flows from operations and holdings of cash and cash equivalents.

The contractual maturities of financial liabilities are outlined in note 15.

27. Capital management

The primary objective of managing the Company's capital is to ensure that there is sufficient available capital to support the long-term growth strategy of the Company in a way that optimizes the cost of capital and shareholder returns, and ensures that the Company remains in a sound financial position. There were no changes to the Company's overall capital management approach during the current year.

The capital of the Company consists of items included in shareholders' equity and debt and equipment financing obligations. The Company manages and makes adjustments to the capital structure as opportunities arise in the market place, as and when borrowings mature, or when funding is required. This may take the form of raising equity or debt, or may result in the Company repurchasing equity or debt.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The Company monitors capital through the gross debt to total equity ratio, and targets a ratio of less than 25%. As at December 31, 2013, the ratio of gross debt to total equity was 14.07% (December 31, 2012 - 7.52%), calculated as follows:

	December 31 2013	December 31 2012
Current portion of debt and equipment financing obligations	\$ 7,355	\$ 5,038
Debt and equipment financing obligations	244,194	167,497
Gross debt	<u>251,549</u>	<u>172,535</u>
Shareholders' equity	<u>\$ 1,787,882</u>	<u>\$ 2,295,837</u>
Gross debt / Shareholders' equity	<u>14.07%</u>	<u>7.52%</u>

28. Segmented information

The Company's reportable segments are consistent with the Company's operating segments and consist of the geographical regions in which the Company operates. In determining the Company's segment structure, the Company considered the basis on which management, including the chief operating decision maker, reviews the financial and operational performance of the Company, and whether any of the Company's mining operations share similar economic, operational and regulatory characteristics. The Company has two reportable segments, as follows:

- Mexico: El Chanate mine
- Canada: Young-Davidson mine

Corporate and other consists of the Company's corporate offices and exploration properties. Discontinued operations consist of the Fosterville mine and Stawell mine in Australia, as well as the Ocampo mine, the El Cubo mine and Guadalupe y Calvo exploration property in Mexico. Refer to note 29 for further information on the Company's discontinued operations.

The following are the operating results by reportable segment:

	Year ended December 31, 2013			
	Mexico	Canada	Corporate and other	Total
Revenue from mining operations	\$ 103,192	\$ 124,439	\$ -	\$ 227,631
Production costs	71,625	76,356	-	147,981
Refining costs	367	159	-	526
Amortization and depletion	17,836	47,385	308	65,529
Reclamation, care and maintenance costs	-	-	4,417	4,417
General and administrative	1,371	-	26,306	27,677
Exploration and business development	-	-	1,014	1,014
Impairment charges	155,625	2,949	-	158,574
	<u>246,824</u>	<u>126,849</u>	<u>32,045</u>	<u>405,718</u>
Loss from operations	<u>\$ (143,632)</u>	<u>\$ (2,410)</u>	<u>\$ (32,045)</u>	<u>\$ (178,087)</u>
Expenditures on property, plant and equipment, mining interests & intangible assets	<u>\$ 44,088</u>	<u>\$ 195,233</u>	<u>\$ 10,101</u>	<u>\$ 249,422</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

	Year ended December 31, 2012				
	Mexico	Canada	Corporate and other	Total	Discontinued operations
Revenue from mining operations	\$ 118,130	\$ 45,492	\$ -	\$ 163,622	\$ 293,745
Production costs	40,298	21,301	-	61,599	155,920
Refining costs	417	49	-	466	1,517
Amortization and depletion	10,431	7,805	487	18,723	43,625
Reclamation, care and maintenance costs	-	-	14,066	14,066	-
General and administrative	680	228	34,822	35,730	12,595
Exploration and business development	-	-	1,385	1,385	911
Impairment charges	127,000	-	1,537	128,537	22,857
	<u>178,826</u>	<u>29,383</u>	<u>52,297</u>	<u>260,506</u>	<u>237,425</u>
(Loss) / earnings from operations	\$ (60,696)	\$ 16,109	\$ (52,297)	\$ (96,884)	\$ 56,320
Expenditures on property, plant and equipment, mining interests & intangible assets	\$ 44,681	\$ 309,232	\$ 7,587	\$ 361,500	\$ 143,520

The following are total assets by reportable segment:

	Mexico	Canada	Corporate and other	Total
Total assets at December 31, 2013	\$ 265,028	\$ 1,822,533	\$ 374,847	\$ 2,462,408
Total assets at December 31, 2012	\$ 396,733	\$ 1,669,632	\$ 828,876	\$ 2,895,241

Total non-current assets, excluding long-term financial assets, by geographical region, are as follows:

	December 31 2013	December 31 2012
Mexico	\$ 217,294	\$ 345,927
Canada	1,865,636	1,718,985
	<u>\$ 2,082,930</u>	<u>\$ 2,064,912</u>

Goodwill by reportable segment is as follows:

	December 31 2013	December 31 2012
Mexico	\$ -	\$ 106,521
Canada	241,693	241,693
	<u>\$ 241,693</u>	<u>\$ 348,214</u>

Goodwill recognized in the Mexico reportable segment relates to the El Chanate CGU. Goodwill recognized in the Canada reportable segment relates to the Young-Davidson CGU.

The Company's revenue is derived from the sale of gold and silver in Mexico and Canada, as disclosed above. Prior to the disposition of the Australian operations, the Ocampo mine, and the El Cubo mine, the Company sold all gold and silver produced to four customers. The Company now sells all gold and silver produced to two customers. The Company is not economically dependent on these customers for the sale of its product because gold and silver can be sold through numerous commodity market traders worldwide.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

29. Discontinued operations

(a) Australian operations

On May 4, 2012, the Company completed the sale of the Fosterville and Stawell mines and their related subsidiaries (collectively, the "Australian Operations") to Crocodile Gold. The consideration received was comprised of CAD \$55 million in cash, 20 million Crocodile Gold common shares, and additional payments based on the future life-of-mine free cash flows, as defined in the agreement, from the Fosterville and Stawell mines (the "retained interest royalty"). Per the agreement, once the cumulative free cash flow generated by the mines subsequent to closing has reached CAD \$60 million, the Company will receive 100% of the next CAD \$30 million of cumulative free cash flow in excess of CAD \$60 million, and 50% of the next CAD \$30 million of cumulative free cash flow in excess of CAD \$90 million. In addition, the Company will receive 20% of any cumulative free cash flow in excess of CAD \$120 million. The results of the Australian Operations up to the date of disposal have been presented as discontinued operations within these consolidated financial statements.

During the year ended December 31, 2012, the Company recognized an impairment charge of \$22,857 that resulted from the carrying value of the Australian net assets exceeding the estimated fair value of the consideration less costs to sell, measured at March 31, 2012.

The Company also recognized a loss on disposal of \$1,736 that resulted from the carrying value of the Australian net assets exceeding the estimated fair value of consideration received in the transaction, measured at May 4, 2012. The impairment charge and the loss on disposal have been included in net earnings from discontinued operations in the Consolidated Statements of Operations for the year ended December 31, 2012.

The carrying value of major classes of assets and liabilities as well as the fair value of consideration as at the date of disposal were as follows:

Cash and cash equivalents	\$ 10,487
Receivables	2,174
Inventories	20,645
Prepays and deposits	1,092
Other long-term assets	11,845
Property, plant and equipment & mining interests	106,986
Trade payables and accrued liabilities	(18,449)
Current portion of debt and equipment financing obligations	(5,608)
Current portion of provisions	(11,075)
Debt and equipment financing obligations	(2,386)
Provisions	(15,087)
Net carrying value	<u>\$ 100,624</u>
Cash	\$ 55,242
Crocodile Gold shares	9,642
Retained interest royalty	<u>34,004</u>
Total fair value of consideration received	<u>\$ 98,888</u>

The Company determined the fair value of the retained interest royalty using a valuation model, which was based on the combined free cash flow expected to be generated by the Fosterville and Stawell mines. This model uses a derivative valuation approach that relies on the gold forward curve, the US dollar to Australian dollar exchange rate forward curve, and the Canadian dollar to Australian dollar exchange rate forward curve to estimate cash flows. The key assumptions used in determining the fair value of these payments were future production, gold prices, operating costs, capital expenditures and the discount rate. The Company forecasted future production, operating costs and capital expenditures based on the expected life-of-mine plans developed from technical reports and historical cost experience. In determining the fair value of the retained interest royalty, the Company assumed an initial spot gold price of \$1,642 per ounce, an average realized life of mine gold price of \$1,679 per ounce, and a credit-adjusted discount rate of 12.5%. The retained interest royalty is included in intangible assets on the Consolidated Balance Sheets and will be amortized into earnings as the Company becomes entitled to free cash flows.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

Changes in the assumptions used in determining the fair value of the retained interest royalty at May 4, 2012 would have resulted in an increase / (decrease) in net earnings from discontinued operations for the year ended December 31, 2012:

5% increase in gold prices	\$ 5,911
5% decrease in gold prices	\$ (5,761)
1% increase in discount rate	\$ (776)
1% decrease in discount rate	\$ 798
5% increase in operating costs	\$ (3,682)
5% decrease in operating costs	\$ 3,879

(b) *El Cubo mine and Guadalupe y Calvo exploration property*

On July 13, 2012, the Company completed the sale of the El Cubo mine and Guadalupe y Calvo exploration property ("El Cubo and Guadalupe y Calvo") to Endeavour, through the acquisition by Endeavour of all of the shares of Mexgold Resources Inc., a wholly owned subsidiary of the Company with ownership of these assets. The consideration was comprised of \$100 million in cash, 11,037,528 Endeavour common shares, \$30 million in contingent payments to be paid upon the gold price exceeding specified levels and \$20 million in contingent payments to be paid upon the occurrence of certain mine operating performance conditions during the three years following the closing date of the transaction.

The results of El Cubo and Guadalupe y Calvo up to the date of disposal have been presented as discontinued operations within these consolidated financial statements. The El Cubo mine had previously been reported in the Mexico reportable segment and the Guadalupe y Calvo exploration property had previously been reported in Corporate and Other.

During the year ended December 31, 2012, the Company recognized a gain on disposal of \$21,785 that resulted from the estimated fair value of the consideration received in the transaction exceeding the carrying value of the El Cubo and Guadalupe y Calvo net assets, measured at July 13, 2012. The gain on disposal has been included in net earnings from discontinued operations in the Consolidated Statements of Operations for the year ended December 31, 2012.

The carrying value of major classes of assets and liabilities as well as the fair value of consideration as at the date of disposal were as follows:

Cash and cash equivalents	\$ 843
Receivables	8,133
Inventories	6,853
Property, plant and equipment & mining interests	223,573
Other assets	230
Trade payables and accrued liabilities	(7,513)
Provisions	(2,239)
Deferred income tax liability	(51,719)
Net carrying value	<u>\$ 178,161</u>
Cash	\$ 100,000
Endeavour shares	87,746
Purchase price adjustment receivable	6,373
Contingent consideration	5,827
Total fair value of consideration received	<u>\$ 199,946</u>

The initial contingent consideration asset fair value of \$5,827 relates to the \$30 million in contingent payments to be paid upon the gold price exceeding specified levels. This asset has been accounted for as a derivative, and has been included in other long-term assets on the Consolidated Balance Sheets. The fair value of the \$20 million in contingent payments based on the occurrence of certain mine operating performance conditions was determined to be \$nil at the disposition date as the Company determined that it was not likely that these conditions would be met. Refer to note 26 for further information on the key assumptions and valuation methodology used in determining the fair value of the contingent consideration asset. The model used to calculate the fair value of the contingent consideration asset at July 13, 2012 used an initial gold price of \$1,588 per ounce.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

Changes in the assumptions used in determining the fair value of the contingent consideration at July 13, 2012 would have the resulted in an increase / (decrease) in net earnings from discontinued operations for the year ended December 31, 2012:

5% increase in gold prices	\$ 2,129
5% decrease in gold prices	\$ (1,625)

(c) *Ocampo mine*

On December 14, 2012, the Company completed the sale of the Ocampo mine and the Venus and Los Jarros exploration properties (collectively, the "Ocampo mine") to Minera Frisco S.A.B. de C.V. ("Minera Frisco"), through the disposition of all of the shares of AuRicoGold de Mexico S.A. de C.V., a wholly owned subsidiary of the Company with ownership of these assets. As part of the transaction, Minera Frisco also acquired a 50% interest in the Orion development project, located in Nayarit, Mexico (refer to note 9 for further information). The consideration was comprised of \$750 million in cash, including \$27 million for Minera Frisco's 50% interest in the Orion development project.

The results of the Ocampo mine up to the date of disposal have been presented as discontinued operations within these consolidated financial statements. The Ocampo mine had previously been reported in the Mexico reportable segment.

During 2012, the Company recognized total net realizable value adjustments of \$16,070. These adjustments were required as the carrying value of Ocampo ore in process heap leach inventory exceeded its net realizable value.

During the year ended December 31, 2012 the Company recognized a gain on disposal of \$150,793 that resulted from the fair value of the consideration received in the transaction exceeding the carrying value of the net assets of the Ocampo mine, measured at December 14, 2012. The Company recognized tax expense on disposal of \$72,114. Of this amount, \$39,168 was recognized during the three months ended September 30, 2012 because, at that time, it became probable that the temporary differences associated with the Company's investment in the Ocampo mine would reverse in the foreseeable future. The remaining income tax expense of \$32,946 was recognized during the three months ended December 31, 2012. The net gain on disposal has been included in net earnings from discontinued operations in the Consolidated Statements of Operations for the year ended December 31, 2012.

The carrying value of major classes of assets and liabilities as well as the fair value of consideration as at the date of disposal were as follows:

Cash and cash equivalents	\$ 4,485
Receivables	29,368
Inventories	95,042
Prepays and deposits	1,660
Long-term inventories	10,691
Other long-term assets	1,104
Property, plant and equipment & mining interests	540,008
Intangible assets	2,718
Trade payables and accrued liabilities	(19,427)
Current portion of debt and equipment financing obligations	(1,186)
Provisions	(5,828)
Deferred income tax liability	(86,428)
Net carrying value	<u>\$ 572,207</u>
Total fair value of cash consideration received	<u>\$ 723,000</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

(d) *Results from discontinued operations*

During the year ended December 31, 2012, the results of these discontinued operations are presented as net earnings from discontinued operations in the Consolidated Statements of Operations and as a net decrease in cash and cash equivalents from discontinued operations in the Consolidated Statements of Cash Flows.

	<u>Year Ended</u> <u>December 31</u> <u>2012</u>
Net (loss) / earnings from discontinued operations:	
Australian operations	
Revenue from mining operations	\$ 87,267
Cost of sales	(57,288)
General and administrative	(495)
Exploration and business development	(911)
Impairment charge	<u>(22,857)</u>
Earnings from operations	5,716
Foreign exchange loss	(40)
Other income	<u>92</u>
Earnings before income taxes prior to disposition	5,768
Income tax expense	<u>-</u>
Net earnings prior to disposition	5,768
Loss on disposal	(1,736)
Disposition-related costs	(1,034)
Income tax recovery on disposal	366
Reclassification of foreign exchange loss on translation from other comprehensive income to earnings	<u>(2,173)</u>
Net earnings	<u>\$ 1,191</u>
El Cubo and Guadalupe y Calvo	
Revenue from mining operations	\$ 29,613
Cost of sales	(23,741)
General and administrative	<u>(748)</u>
Earnings from operations	5,124
Foreign exchange loss	(3,403)
Other loss	<u>(65)</u>
Earnings before income taxes prior to disposition	1,656
Income tax expense	<u>(25)</u>
Net earnings prior to disposition	1,631
Gain on disposal	21,785
Disposition-related costs	(1,928)
Income tax expense on disposal	<u>(2,617)</u>
Net earnings	<u>\$ 18,871</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

	<u>Year Ended</u> <u>December 31</u> <u>2012</u>
Ocampo mine	
Revenue from mining operations	\$ 176,865
Cost of sales	(120,033)
General and administrative	<u>(11,352)</u>
Earnings from operations	45,480
Foreign exchange loss	(5,535)
Other income	<u>1,436</u>
Earnings before income taxes prior to disposition	41,381
Income tax recovery	<u>91</u>
Net earnings	<u>\$ 41,472</u>
Gain on disposal	150,793
Disposition-related costs	(9,161)
Income tax expense on disposal	<u>(72,114)</u>
Net earnings prior to disposition	<u>\$ 110,990</u>
Net earnings from discontinued operations	<u>\$ 131,052</u>
Net decrease in cash from discontinued operations:	
Australian operations	
Operating cash flows	\$ 25,958
Investing cash flows	(25,744)
Financing cash flows	(2,103)
Impact of foreign exchange on cash	<u>31</u>
Net decrease in cash	<u>\$ (1,858)</u>
El Cubo and Guadalupe y Calvo	
Operating cash flows	\$ 4,008
Investing cash flows	(13,471)
Financing cash flows	-
Impact of foreign exchange on cash	<u>(21)</u>
Net decrease in cash	<u>\$ (9,484)</u>
Ocampo mine	
Operating cash flows	\$ 49,105
Investing cash flows	(104,305)
Financing cash flows	(3,056)
Impact of foreign exchange on cash	<u>806</u>
Net decrease in cash	<u>\$ (57,450)</u>
Net decrease in cash from discontinued operations	<u>\$ (68,792)</u>