



## **Management's Discussion and Analysis**

(in United States Dollars, unless otherwise stated)

For the year ended December 31, 2014



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*This Management's Discussion and Analysis ("MD&A"), dated February 19, 2015, 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 years ended December 31, 2014 and 2013, and notes thereto. The consolidated financial statements for the years ended December 31, 2014 and 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). All results are presented in United States dollars ("US dollar" or "\$"), 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 33.*

## **OVERVIEW OF THE BUSINESS**

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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.

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 for the year ended December 31, 2014, available on SEDAR at [www.sedar.com](http://www.sedar.com), on EDGAR at [www.sec.gov](http://www.sec.gov), and on the Company's website at [www.auricogold.com](http://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 2014, the London PM Fix price of gold averaged \$1,266 per ounce, a 10% decrease from the London PM Fix average of \$1,411 during 2013. During 2014, daily London PM Fix prices ranged between \$1,142 and \$1,385 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 and cash flow. The Mexican peso and Canadian dollar averaged approximately 13.3 to 1.0 US dollar and 1.1 to 1.0 US dollar, respectively, in 2014, compared to average rates of 12.8 to 1.0 US dollar and 1.03 to 1.0 US dollar, respectively, in 2013.

For additional information on the factors that affect the Company, see the discussion of Risks and Uncertainties on page 25.

## HIGHLIGHTS

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

	Year Ended		Year Ended		Change	Change
	December 31 2014	December 31 2013	December 31 2014	December 31 2013		
Gold ounces produced <sup>(1)</sup>	224,032	161,100			62,932	39%
Pre-production gold ounces produced <sup>(1)</sup>	-	31,502			(31,502)	-100%
Total gold ounces produced	224,032	192,602			31,430	16%
Revenue from mining operations	\$ 291,182	\$ 227,631	\$	\$	63,551	28%
Loss from operations	\$ (154,705)	\$ (178,087)	\$	\$	23,382	13%
Net loss from operations	\$ (169,648)	\$ (176,770)	\$	\$	7,122	4%
Operating cash flow	\$ 60,414	\$ 63,266	\$	\$	(2,852)	-5%
Cash costs per gold ounce, net of by-product revenues and NRV adjustments <sup>(1)(2)(3)(4)</sup>	\$ 779	\$ 676	\$	\$	103	15%
All-in sustaining costs per gold ounce sold, net of by-product revenues and NRV adjustments <sup>(1)(2)(4)</sup>	\$ 1,200	\$ 1,181	\$	\$	19	2%

<sup>(1)</sup> 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 the revenue from these ounces was credited against capitalized project costs.

<sup>(2)</sup> See the Non-GAAP Measures section on page 22.

<sup>(3)</sup> For 2014, cash costs per gold ounce are calculated using gold ounces sold at the El Chanate and Young-Davidson mines. For 2013, cash costs per gold ounce were calculated using gold ounces sold at the El Chanate mine and ounces produced at the Young-Davidson mine.

<sup>(4)</sup> For further discussion on the net realizable value ("NRV") adjustments recognized on ore inventories at the Young-Davidson and El Chanate mines during the quarter and annual periods, refer to pages 7 and 9, respectively.

## ANNUAL DEVELOPMENTS

- On February 19, 2015, the Company reported proven and probable reserves of 6.3 million gold ounces, a 0.2 million ounce decrease from the 6.5 million gold ounces reported in 2013. The decrease is due to mining depletion at all operating mines and a reduction in overall slope angles at El Chanate, partially offset by an increase in underground ounces at Young-Davidson.
- On February 19, 2015, the Company's Board of Directors approved a dividend of \$0.023 per share, payable to shareholders of record on March 2, 2015.
- On January 21, 2015, the Company announced an initial National Instrument 43-101 compliant indicated resource of 2.1 million gold equivalent ounces and an inferred resource of 3.4 million gold equivalent ounces at the Kemess East deposit, located one kilometre east of the previously delineated Kemess Underground deposit and 6.5 kilometres north of the Kemess mill facility. The Kemess Property is located in north-central British Columbia, Canada, approximately 430 kilometres northwest of Prince George.
- On January 14, 2015, the Company finalized the agreement to terminate the deferred cash payment arrangement ("retained interest royalty") with Crocodile Gold Corporation. As consideration for this termination, the Company received \$20 million Canadian dollars ("CAD") in cash and net smelter royalties on future production from the Fosterville and Stawell mines of 2% and 1%, respectively.
- On November 20, 2014, the Company completed a private placement with Carlisle Goldfields Limited ("Carlisle") in which the Company invested CAD \$5.6 million in exchange for 19.9% of the outstanding common shares of Carlisle. In conjunction with the private placement, the Company entered into an agreement on November 11, 2014 with respect to Carlisle's Lynn Lake Gold Camp ("Lynn Lake Project"), located in Lynn Lake, Manitoba, pursuant to which the Company acquired a 25% interest in the Lynn Lake Project for an initial cash contribution of CAD \$5.0 million.
- On November 6, 2014, the Company's Board of Directors approved a dividend of \$0.00225 per share, payable to shareholders of record on November 17, 2014, and paid on December 1, 2014. On August 7, 2014, the Company's Board of Directors approved a dividend of \$0.00375 per share, payable to shareholders of record on August 18, 2014, and paid on September 2, 2014. On May 8, 2014, the Company's Board of Directors approved a dividend of \$0.02 per share, payable to shareholders of record on May 20, 2014, and paid on June 3, 2014.
- On April 3, 2014, the Company paid \$173.0 million, including \$0.03 million of accrued interest, to complete the cash tender offer initially announced on March 6, 2014 to redeem the outstanding convertible senior notes. The consideration offered and paid was \$1,040 per \$1,000 note outstanding plus accrued and unpaid interest to the payment date. The Company received tender offers for \$166.4 million of the \$167.0 million principal amount outstanding.
- On March 27, 2014, the Company completed an offering of \$315.0 million senior secured notes due 2020. The notes were issued with a coupon of 7.75% and sold at 96.524% of par, resulting in net proceeds to the Company of \$304.1 million. The

Company repaid the \$75.0 million drawn against the credit facility on March 28, 2014 after the completion of the senior secured notes offering. The completion of this offering enabled the Company to extend the maturity date of outstanding debt and provides additional cash for general corporate purposes, which may include funding capital expenditures to support organic growth.

## 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.

In 2014, the Company continued to advance underground development at Young-Davidson to optimize the exploitation of ore reserves, which is expected to position the mine for sustainable, period-over-period, productivity increases in 2015 and beyond. The shaft hoisting system has, and will continue to, facilitate significant increases in underground activities and corresponding cost efficiencies. During the year, accelerated capital investment initiatives supported higher than expected productivity throughout the underground operation and resulted in Young-Davidson exceeding the year-end target of 4,000 tonnes per day ("TPD"). With productivity remaining ahead of schedule, the operation is well positioned to achieve the 2015 year-end target of 6,000 TPD and an ultimate productivity level of 8,000 TPD at the end of 2016. During 2015, Young-Davidson is anticipated to produce between 160,000 and 180,000 ounces, a 2% to 15% increase over 2014 production. Capital expenditures are expected to decrease by up to 37% in 2015, and will continue to focus on advancing underground development.

Young-Davidson open pit mining operations ceased during the second quarter of 2014 as the short-life open pit was fully depleted. As of December 31, 2014, approximately 2.5 million tonnes of open pit ore, at an average grade of 0.75 grams per tonne, was stockpiled ahead of the mill facility for future processing. Going forward, 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 is expected to be between 65,000 and 75,000 ounces in 2015, consistent with production in 2014. Capital expenditures are anticipated to decrease by up to 33% in 2015, reflecting reduced year-over-year open pit stripping requirements.

During 2015, the Company expects to produce 225,000 to 255,000 ounces of gold on a consolidated basis at all-in sustaining costs of approximately \$1,000 to \$1,100 per gold ounce, representing up to a 14% increase over 2014 production. Mine site capital expenditures for 2015 are forecasted to be approximately \$102.5 million to \$115.0 million, a decline of up to 36% from 2014. Consolidated operating cash flows are expected to improve in 2015, mainly driven by forecasted margin improvements at Young-Davidson due to the ramp up of the underground mine and a weak Canadian dollar.

The Company expects to spend approximately \$12.0 million to \$23.0 million on exploration during 2015. The exploration program will focus on upgrading and increasing mineral resources at the Company's Kemess and Lynn Lake projects, in addition to the Company's existing operations.

During 2014, the London PM Fix price of gold averaged \$1,266 per ounce, a 10% decrease from the London PM Fix average of \$1,411 during 2013. At current gold prices, operating cash flow from the Company's operating mines is forecasted to be sufficient to fund all capital expenditures and mine site exploration. The Company has the ability to fund any shortfall with cash on hand, and also has the full capacity available under its \$150.0 million credit facility.

On February 19, 2015, the Company provided 2015 guidance for the El Chanate and Young-Davidson mines. The press release is available on SEDAR at [www.sedar.com](http://www.sedar.com), on EDGAR at [www.sec.gov](http://www.sec.gov), and on the Company's website at [www.auricogold.com](http://www.auricogold.com).

## 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 during 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.

In January 2014, the Young-Davidson paste backfill plant was commissioned and completed its first pour. In 2012, the mine plan was re-engineered to utilize paste backfill to allow for significantly improved mining recovery and reduced dilution.

In February 2014, the Company received the necessary permits to increase the daily processing limit of the Young-Davidson mill facility to 10,000 TPD from the previous 8,000 TPD. While the mill facility is expected to average approximately 8,000 TPD in 2015, this future increase in throughput capacity will provide considerable flexibility as the underground mine continues ramping up to its target of 8,000 TPD at the end of 2016. This productivity upgrade provides organic growth optionality that could permit early treatment of the longer term stockpile inventory, and potentially enhance the Company's future cash flow profile.

### YOUNG-DAVIDSON OPERATIONAL REVIEW

	Quarter Ended December 31 2014	Quarter Ended December 31 2013	Year Ended December 31 2014	Year Ended December 31 2013
<b>Underground Operations</b>				
Tonnes of ore mined	380,922	238,321	1,288,295	616,961
Average grade of gold <sup>(1)</sup>	3.05	3.10	3.07	2.83
Metres developed	3,438	2,986	14,024	9,992
<b>Open Pit Operations</b>				
Total tonnes mined	-	3,247,496	3,392,509	12,220,056
Tonnes of ore mined	-	730,677	1,343,083	3,202,358
Average grade of gold <sup>(1)</sup>	-	1.04	0.99	1.16
Tonnes stockpiled ahead of the mill	2,495,739	2,734,347	2,495,739	2,734,347
Average grade of gold <sup>(1)</sup>	0.75	0.81	0.75	0.81
<b>Mill Operations</b>				
Tonnes of ore processed	713,676	641,114	2,812,954	2,482,305
Average grade of gold <sup>(1)</sup>	1.97	2.04	1.97	1.79
Average gold recovery rate	88%	88%	88%	87%
Gold ounces produced	40,945	29,597	156,753	89,236
Pre-production gold ounces produced <sup>(2)</sup>	-	3,509	-	31,502
Total gold ounces produced	40,945	33,106	156,753	120,738
Gold ounces sold	42,143	24,831	161,591	88,878
Pre-production gold ounces sold <sup>(2)</sup>	-	3,416	-	31,839
Total gold ounces sold	42,143	28,247	161,591	120,717

<sup>(1)</sup> Grams per tonne.

<sup>(2)</sup> Includes all underground ounces produced and sold prior to declaration of commercial production on October 31, 2013.

The Company mined 380,922 ore tonnes, or 4,140 TPD, from the Young-Davidson underground mine during Q4 2014, at a grade of 3.05 gold grams per tonne, exceeding the year-end target of 4,000 TPD. During the year ended December 31, 2014, the Company mined 1,288,295 ore tonnes, or 3,530 TPD, at a grade of 3.07 gold grams per tonne. Mining rates increased significantly from the 2,590 TPD and 1,690 TPD realized during the quarter and year ended December 31, 2013, respectively, due to the commissioning of the mid-shaft crushing and hoisting system and the declaration of commercial production in the fourth quarter of 2013, in addition to planned productivity improvements. Further productivity improvements in 2015 are anticipated to position the Company to achieve targets of 6,000 TPD by the end of 2015 and 8,000 TPD by the end of 2016.

The Young-Davidson open pit mine ceased operations in early June 2014 when it reached the end of its planned life. Prior to ceasing operations, the Company mined 1,343,083 ore tonnes in the open pit in 2014 at a grade of 0.99 gold grams per tonne. At the end of Q4 2014, the Company had 2,495,739 tonnes of low grade open pit ore stockpiled ahead of the mill at an average grade of 0.75 gold grams per tonne.

During Q4 2014, the Company processed 713,676 tonnes, or 7,757 TPD, at the Young-Davidson mill facility, with gold grades averaging 1.97 grams per tonne, representing an 11% increase over the 641,114 tonnes processed in Q4 2013. The increased throughput resulted from continued operating efficiencies, and was also enabled by the receipt of the 10,000 TPD permit. Mill recoveries during the fourth quarter were 88%, consistent with the same period in the prior year. During the year ended

December 31, 2014, the Company processed 2,812,954 tonnes, or 7,707 TPD, at the Young-Davidson mill facility, with gold grades averaging 1.97 grams per tonne. This represents a 13% increase over the 2,482,305 tonnes processed in the same period of the prior year.

Young-Davidson produced 40,945 gold ounces during Q4 2014 compared to 33,106 total ounces produced in Q4 2013. This significant increase in production was due to the higher mill throughput as described above. The benefit of increased high grade underground ore processed was partially offset by a decrease in the grade of open pit stockpiled ore processed. Q4 2014 represents the eleventh consecutive quarterly increase in gold production at Young-Davidson. During the year ended December 31, 2014, Young-Davidson produced 156,753 gold ounces compared to 120,738 produced during the prior year. This result was consistent with the Company's 2014 guidance for Young-Davidson of 140,000 to 160,000 gold ounces produced during the year.

## 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	
	2014		2013		2014		2013	
Revenue from mining operations	\$	51,057	\$	31,420	\$	204,923	\$	124,439
Production costs	\$	30,517	\$	30,679	\$	138,159	\$	76,356
Refining costs	\$	73	\$	52	\$	195	\$	159
Amortization and depletion	\$	20,153	\$	22,133	\$	97,820	\$	47,385
Earnings / (loss) from operations	\$	79	\$	(24,393)	\$	(31,486)	\$	(2,410)
Cash flow from operations	\$	32,038	\$	10,063	\$	63,062	\$	56,442
Capital expenditures	\$	(22,913)	\$	(48,737)	\$	(137,174)	\$	(195,233)
Net free cash flow <sup>(1)</sup>	\$	9,125	\$	(38,674)	\$	(74,112)	\$	(138,791)
Cash costs per gold ounce, net of by-product revenues and NRV adjustments <sup>(1)(2)</sup>	\$	719	\$	850	\$	825	\$	744
Cash costs per gold ounce, net of by-product revenues <sup>(1)(2)</sup>	\$	719	\$	1,179	\$	845	\$	857

<sup>(1)</sup> See the Non-GAAP Measures section on page 22.

<sup>(2)</sup> For 2014, cash costs per gold ounce are calculated based on ounces sold. For 2013, cash cost per gold ounces are calculated based on ounces produced.

During Q4 2014, Young-Davidson recognized revenue of \$51.1 million and earnings from operations of \$0.1 million compared to revenues of \$31.4 million and a loss from operations of \$24.4 million in Q4 2013. Revenues increased in Q4 2014 as a result of increased gold ounces sold, partially offset by lower realized gold prices. In addition, in Q4 2013, revenue associated with underground pre-production ounces sold prior to the declaration of commercial production on October 31, 2013 was credited against capitalized costs. In 2014, Young-Davidson recognized revenue of \$204.9 million and a loss from operations of \$31.5 million.

Q4 2014 production costs were \$30.5 million compared to \$30.7 million in the fourth quarter of 2013. In addition, Q4 2014 cash costs per gold ounce, net of by-product revenues and NRV adjustments, were \$719, representing a 15% decrease from the same period in 2013. The decreased cost per ounce was due primarily to the increase in the underground contribution to overall site production, and the favourable weakening of the Canadian dollar in the current quarter as compared to the prior year.

Production costs for the year ended December 31, 2014 were \$138.2 million compared to \$76.4 million in 2013. Production costs increased due to the addition of underground costs subsequent to the declaration of commercial production on October 31, 2013. Prior to that date, production costs related to underground ounces produced were capitalized. In 2014, cash costs per gold ounce, net of by-product revenues and NRV adjustments, were \$825; an 11% increase from 2013 and 3% higher than the Company's 2014 guidance of \$800 per ounce. The increased cost per ounce was due primarily to a higher open pit operating strip ratio, higher open pit mining cost per tonne and lower grade of open pit ore processed, partially offset by the weakened Canadian dollar during the year.

During the year, the Company recognized net non-cash NRV adjustments of \$5.5 million on low grade long-term stockpile inventory due to a decline in the price of gold. Of this amount, \$3.3 million was recognized in production costs and \$2.2 million was recognized in amortization and depletion. During 2013, as a result of a decrease in the gold price and higher estimated future processing costs, the Company recognized an NRV adjustment of \$16.6 million, of which \$10.0 million was recognized in production costs and \$6.6 million was recognized in amortization and depletion.

The loss from operations in the year ended December 31, 2014 resulted from higher production costs and amortization and depletion expense as compared to the same period in 2013. Amortization and depletion expense increased due to the addition of depletion expense from the underground mine, and the depletion of stripping costs capitalized in prior periods as the open pit approached the end of its mine life. Amortization and depletion expense per ounce declined in the second half of 2014, subsequent to the cessation of mining in the open pit.

The Company reported a \$21.9 million quarter-over-quarter increase in operating cash flow driven by the increased production noted previously, and a decline in operating costs per ounce. During Q4 2014, the Young-Davidson mine also generated net free cash flow of \$9.1 million. Capital expenditures in Q4 2014 included \$9.6 million in site infrastructure, and \$13.3 million in underground development. During the year ended December 31, 2014, capital expenditures at Young-Davidson of \$137.2 million exceeded operating cash flow of \$63.1 million resulting in negative net free cash flow of \$74.1 million. Capital expenditures in the year ended December 31, 2014 included \$56.5 million in site infrastructure, \$78.6 million in underground development, and \$2.1 million in capitalized borrowing costs. During 2014, \$17.7 million of construction-related accounts payable balances from 2013 were paid and included in capital expenditures.

As a result of accelerated capital investment during the first nine months of the year the Company increased its 2014 capital expenditure forecast at Young-Davidson on August 7, 2014, from approximately \$110 million to approximately \$135 million. Accelerated capital investment initiatives included underground development rates exceeding plan and the sinking of the MCM shaft being ahead of schedule. Full year capital expenditures, after adjusting for \$2.1 million of capitalized borrowing costs, were consistent with the revised guidance.

## 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 2014	Quarter Ended December 31 2013	Year Ended December 31 2014	Year Ended December 31 2013
<b>Open Pit Operations</b>				
Total tonnes mined	8,243,372	9,060,830	34,073,324	35,666,946
Tonnes of ore mined	1,765,835	2,213,858	8,683,292	9,111,448
Capitalized stripping tonnes	4,752,524	4,348,728	14,582,767	17,297,066
Average grade of gold <sup>(1)</sup>	0.59	0.56	0.50	0.56
Tonnes stockpiled ahead of the heap leach pad	31,466	194,688	31,466	194,688
Average grade of gold <sup>(1)</sup>	0.70	0.60	0.70	0.60
<b>Crushing and Heap Leach Operations</b>				
Tonnes of ore crushed and placed on the heap leach pad	1,532,859	1,623,098	6,788,223	6,725,081
Average grade of gold processed <sup>(1)</sup>	0.64	0.69	0.60	0.70
Tonnes of low grade ore placed on the heap leach pad	231,836	566,193	2,058,289	2,342,861
Average grade of gold processed <sup>(1)</sup>	0.20	0.19	0.20	0.19
Total tonnes of ore processed	1,764,695	2,189,291	8,846,512	9,067,942
Average grade of gold processed <sup>(1)</sup>	0.58	0.56	0.50	0.57
Gold ounces produced	15,638	16,420	67,279	71,864
Gold ounces sold	16,506	15,024	66,375	72,035

<sup>(1)</sup> Grams per tonne.

During Q4 2014, the Company mined 8,243,372 tonnes at the El Chanate open pit, including 1,765,835 ore tonnes, at an average grade of 0.59 gold grams per tonne. During 2014, the Company mined 34,073,324 tonnes, including 8,683,292 ore tonnes, at an average grade of 0.50 gold grams per tonne. While ore tonnes mined remained relatively consistent year-over-year, the decrease in average grades during 2014 compared to the prior year was due to mine sequencing.

Capitalized stripping activities totaled 4,752,524 and 14,582,767 tonnes during Q4 2014 and the year ended December 31, 2014, respectively, compared to 4,348,728 and 17,297,066 tonnes during the same periods in 2013, respectively. The decrease during 2014 was due to the completion of the southeast push-back of the pit in 2013. Stripping activities at El Chanate represented a capital investment of \$7.6 million during the fourth quarter of 2014, compared to an investment of \$6.3 million in Q4 2013.

The Company crushed and placed 1,532,859 tonnes of open pit ore on the heap leach pad in Q4 2014, at an average rate of 16,662 TPD, compared to the average rate during Q4 2013 of 17,642 TPD. During Q4 2014, the Company also placed 231,836 tonnes of low grade run-of-mine material on the heap leach pad. Total tonnes processed in Q4 2014 of 1,764,695 tonnes, or 19,181 TPD, were lower than total tonnes processed in Q4 2013 of 2,189,291, primarily due to the decrease in low grade run-of-mine ore. During 2014, the Company crushed and placed 6,788,223 tonnes of ore at an average rate of 18,598 TPD, consistent with the 18,425 TPD stacking rate in 2013.

The grade of ore crushed and placed averaged 0.64 gold grams per tonne during Q4 2014 compared to an average grade of 0.69 gold grams per tonne in Q4 2013. Annual grades crushed and placed in 2014 averaged 0.60 gold grams per tonne compared to an average grade of 0.70 gold grams per tonne in 2013. The variances in grades in the current year periods versus prior year periods were largely due to the effects of mine sequencing. During Q4 2014, the grade of all material processed, including run-of-mine material, averaged 0.58 grams per tonne placed compared to 0.56 grams per tonne placed in Q4 2013.

During the quarter and year-to-date, El Chanate produced 15,638 and 67,279 gold ounces, respectively, compared to production of 16,420 and 71,864 gold ounces in the same periods of the prior year. The decrease period-over-period is primarily a result of the lower grade of crushed ore placed in 2014 as compared to the prior year. Total 2014 production was slightly below the lower end of the Company's 2014 guidance of 70,000 ounces produced.

#### 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	
	2014		2013		2014		2013	
Revenue from mining operations	\$	20,137	\$	19,362	\$	86,259	\$	103,192
Production costs	\$	26,745	\$	29,293	\$	61,150	\$	71,625
Refining costs	\$	107	\$	87	\$	400	\$	367
Amortization and depletion	\$	9,868	\$	5,451	\$	23,262	\$	17,836
Loss from operations <sup>(1)</sup>	\$	(107,523)	\$	(91,343)	\$	(90,243)	\$	(143,632)
Cash flow from operations	\$	3,176	\$	4,794	\$	15,737	\$	33,425
Capital expenditures <sup>(2)</sup>	\$	(8,689)	\$	(10,282)	\$	(29,611)	\$	(44,088)
Net free cash flow <sup>(3)</sup>	\$	(5,513)	\$	(5,488)	\$	(13,874)	\$	(10,663)
Cash costs per gold ounce, net of by-product revenues and NRV adjustments <sup>(3)</sup>	\$	816	\$	615	\$	669	\$	592
Cash costs per gold ounce, net of by-product revenues <sup>(3)</sup>	\$	1,486	\$	1,491	\$	852	\$	813

<sup>(1)</sup> Earnings from operations includes general and administrative expenses and impairment charges.

<sup>(2)</sup> Capital expenditures include \$3.4 million and \$5.1 million in exploration expenditures for the years ended December 31, 2014 and 2013, respectively.

<sup>(3)</sup> See the Non-GAAP Measures section on page 22.

The Company recognized revenue at El Chanate of \$20.1 million during Q4 2014, compared to revenue of \$19.4 million in Q4 2013. During the year ended December 31, 2014, the Company recognized revenue at El Chanate of \$86.3 million, compared to revenue of \$103.2 million during the year ended December 31, 2013. This annual decrease in revenue was due to a decline in ounces sold in 2014 and a lower average realized gold price.

The Company recognized a loss from operations at El Chanate of \$107.5 million during Q4 2014, compared to a loss from operations of \$91.3 million in Q4 2013. Included in the loss from operations in Q4 2014 was an impairment charge of \$90.0 million that arose primarily from a decrease in gold reserve estimates, an increase in strip ratio, which indicates an increase in the amount of waste tonnes required to access a tonne of ore, and an increase in future processing costs on a per ounce basis. Reserve estimates decreased and the strip ratio increased primarily due to a reduction in overall slope angles. The reduction in planned slope angles came after an external geotechnical review of geotechnical drilling, mapping, and slope performance. The Company also recorded an impairment charge in Q4 2013 of \$74.0 million. The loss from operations in Q4 2014 also included a non-cash NRV adjustment on ore inventory of \$16.4 million at December 31, 2014, of which \$12.7 million was recognized in production costs and \$3.7 million was included in amortization and depletion. The NRV adjustment was caused by a decrease in estimated future gold prices and an increase in future estimated processing costs. In Q4 2013, El Chanate recorded an NRV adjustment of \$21.0 million, of which \$19.3 million was recognized in production costs and \$1.7 million was included in amortization and depletion.

Losses from operations in the year ended December 31, 2014 were \$90.2 million, compared to prior year losses from operations of \$143.6 million. This reduction in losses resulted primarily from larger impairment charges and NRV adjustments in 2013, offset by lower revenue and production costs. During the year ended December 31, 2013, the Company recorded total impairment charges of \$154.0 million at El Chanate. During the year ended December 31, 2014, the Company recorded total NRV adjustments at El Chanate of \$18.0 million, compared to total NRV adjustments of \$25.5 million recorded during the year ended December 31, 2013. Earnings from operations before impairment charges and NRV adjustments were \$18.6 million in 2014 compared to \$37.5 million in 2013. This year-over-year decline is due to a decrease in gold ounces sold, a lower average realized gold price, and an increase in amortization and depletion recorded during 2014.

Cash costs per gold ounce, net of by-product revenues and NRV adjustments, were \$816 in the fourth quarter of 2014, an increase of 33% over cash costs per gold ounce, net of by-product revenues and NRV adjustments, of \$615 in the fourth quarter of 2013. The quarter-over-quarter increase was due to an increase in the average cost of ore inventories, which resulted from

lower grades stacked in the first half of the year and an increase in the operating strip ratio. Cash costs per gold ounce, net of by-product revenues and NRV adjustments, were \$669 in 2014, an increase of 13% over cash costs per gold ounce, net of by-product revenues and NRV adjustments, of \$592 in the same period of prior year. El Chanate's cash costs were consistent with the Company's 2014 guidance of between \$625 and \$725 per ounce.

During Q4 2014, capital expenditures of \$8.7 million at El Chanate exceeded operating cash flows of \$3.2 million, resulting in negative net free cash flow of \$5.5 million. Capital expenditures in Q4 2014 included \$7.6 million in capitalized stripping activities, \$0.4 million in other sustaining capital and optimization initiatives, and \$0.7 million in exploration expenditures. During the year ended December 31, 2014, capital expenditures at El Chanate of \$29.6 million exceeded operating cash flows of \$15.7 million, resulting in negative free cash flow of \$13.9 million. Operating cash flow in 2014 was impacted by a delay in the collection of \$3.3 million related to 2013 income taxes receivable. Capital expenditures at El Chanate in 2014 included \$23.5 million in capitalized stripping activities, \$2.7 million in other sustaining capital and optimization initiatives, and \$3.4 million in exploration expenditures. Excluding \$3.4 million of exploration expenditures, total capital expenditures at El Chanate were \$26.2 million, 5% higher than the Company's 2014 guidance of approximately \$25 million.

## EXPLORATION REVIEW

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On February 19, 2015, the Company reported updated reserves and resources as at December 31, 2014. Further details on the updated reserves and resources by category can be found in the Company's February 19, 2015 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](http://www.auricogold.com).

### KEMESS

During Q4 2014, the Company continued an exploration program at Kemess East (located approximately one kilometre from the Kemess Underground Project). In Q4 2014, the Company completed 251 metres of drilling and an airborne geophysical survey totaling 1,111 line kilometres.

On January 21, 2015, the Company announced an initial National Instrument 43-101 compliant indicated resource of 2.1 million gold equivalent ounces and an inferred resource of 3.4 million gold equivalent ounces at the Kemess East deposit. Further details can be found in the Company's January 21, 2015 and February 19, 2015 press releases, or in the Company's Annual Information Form, all of which can be found on the Company's website at [www.auricogold.com](http://www.auricogold.com).

### EL CHANATE

During Q4 2014, the Company completed 13 holes consisting of 1,836 metres of reverse circulation drilling, and 6 core holes consisting of 1,663 metres of drilling northwest and southeast of the open pit along the trend of the El Chanate deposit.

During Q4 2014, geological field work continued on the El Chanate extension. This work was conducted in connection with the Company's option to earn a 70% interest in claims along the Chanate Fault to the northwest of the mine.

### LYNN LAKE

On November 11, 2014, the Company announced a strategic partnership with Carlisle in the Lynn Lake Gold Camp ("Lynn Lake Project"). Under the agreement the Company has acquired a 25% interest in the Lynn Lake Project for an initial cash contribution of CAD \$5.0 million and can earn up to a 60% interest by funding CAD \$20.0 million on the project over a three-year period and delivering a feasibility study within that time period.

### LAS LAJAS PROJECT

During Q4 2014, the Company continued geological mapping and trenching.

### SANTA FE PROJECT

During Q4 2014, the Company drilled 12 diamond drill holes consisting of 1,983 metres. The target on this property is low sulfidation epithermal gold and silver mineralization typical of this deposit type in the Sierra Madre region of Mexico.

## 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	
	2014		2013		2012	
<b>Continuing operations - Young-Davidson mine, El Chanate mine, and Corporate and other</b>						
Gold ounces produced <sup>(1)</sup>		224,032		161,100		100,284
Gold ounces sold <sup>(1)</sup>		227,966		160,913		94,422
Pre-production gold ounces produced <sup>(1)</sup>		-		31,502		26,999
Pre-production gold ounces sold <sup>(1)</sup>		-		31,839		17,505
Cash costs per gold ounce, net of by-product revenues and NRV adjustments <sup>(1)(2)(3)(4)</sup>	\$	779	\$	676	\$	536
Cash costs per gold ounce, net of by-product revenues <sup>(1)(2)(3)(4)</sup>	\$	847	\$	837	\$	536
All-in sustaining costs per gold ounce sold, net of by-product revenues and NRV adjustments <sup>(1)(3)(4)</sup>	\$	1,200	\$	1,181	\$	1,259
All-in sustaining costs per gold ounce sold, net of by-product revenues <sup>(1)(3)(4)</sup>	\$	1,268	\$	1,342	\$	1,259
Revenue from mining operations	\$	291,182	\$	227,631	\$	163,622
Production costs <sup>(2)(5)</sup>	\$	199,309	\$	147,981	\$	61,599
Loss from operations <sup>(2)</sup>	\$	(154,705)	\$	(178,087)	\$	(96,884)
Net loss <sup>(2)</sup>	\$	(169,648)	\$	(176,770)	\$	(99,779)
Net loss per share, basic <sup>(2)</sup>	\$	(0.68)	\$	(0.71)	\$	(0.35)
Net loss per share, diluted <sup>(2)</sup>	\$	(0.68)	\$	(0.72)	\$	(0.35)
Earnings before interest, taxes, depreciation, and amortization <sup>(3)</sup>	\$	(43,960)	\$	(109,213)	\$	(80,043)
Operating cash flow <sup>(2)</sup>	\$	60,414	\$	63,266	\$	(7,231)
Net free cash flow <sup>(3)</sup>	\$	(128,415)	\$	(186,156)	\$	(368,731)
<b>Discontinued operations - Ocampo mine, El Cubo mine, and Australian Operations<sup>(6)</sup></b>						
Gold ounces produced		-		-		123,201
Silver ounces produced		-		-		2,983,924
Gold ounces sold		-		-		123,313
Silver ounces sold		-		-		2,807,754
Cash costs per gold ounce, net of by-product revenues, co-product revenues and NRV adjustments <sup>(3)</sup>	\$	-	\$	-	\$	478
Cash costs per gold ounce, net of by-product and co-product revenues <sup>(3)</sup>	\$	-	\$	-	\$	563
Revenue from mining operations	\$	-	\$	-	\$	293,745
Production costs <sup>(5)</sup>	\$	-	\$	-	\$	155,920
Earnings from operations	\$	-	\$	-	\$	56,320
Net earnings	\$	-	\$	-	\$	131,052
Net earnings per share, basic	\$	-	\$	-	\$	0.46
Net earnings per share, diluted	\$	-	\$	-	\$	0.46
Operating cash flow	\$	-	\$	-	\$	79,071
Net free cash flow <sup>(3)</sup>	\$	-	\$	-	\$	(64,449)

	Year Ended		Year Ended		Year Ended	
	December 31		December 31		December 31	
	2014		2013		2012	
<b>Total</b>						
Gold ounces produced <sup>(1)</sup>		224,032		161,100		223,485
Silver ounces produced		-		-		2,983,924
Gold ounces sold <sup>(1)</sup>		227,966		160,913		217,735
Silver ounces sold		-		-		2,807,754
Pre-production gold ounces produced <sup>(1)</sup>		-		31,502		26,999
Pre-production gold ounces sold <sup>(1)</sup>		-		31,839		17,505
Average realized gold price per ounce	\$	1,265	\$	1,395	\$	1,678
Average realized silver price per ounce	\$	-	\$	-	\$	31.16
Cash costs per gold ounce, net of by-product revenues and NRV adjustments <sup>(1)(2)(3)(4)</sup>	\$	779	\$	676	\$	503
Cash costs per gold ounce, net of by-product revenues <sup>(1)(2)(3)(4)</sup>	\$	847	\$	837	\$	551
Revenue from mining operations	\$	291,182	\$	227,631	\$	457,367
Production costs <sup>(2)(5)</sup>	\$	199,309	\$	147,981	\$	217,519
Loss from operations <sup>(2)</sup>	\$	(154,705)	\$	(178,087)	\$	(40,564)
Net (loss) / earnings <sup>(2)</sup>	\$	(169,648)	\$	(176,770)	\$	31,273
Net (loss) / earnings per share, basic <sup>(2)</sup>	\$	(0.68)	\$	(0.71)	\$	0.11
Net (loss) / earnings per share, diluted <sup>(2)</sup>	\$	(0.68)	\$	(0.72)	\$	0.11
Operating cash flow <sup>(2)</sup>	\$	60,414	\$	63,266	\$	71,840
Net free cash flow <sup>(3)</sup>	\$	(128,415)	\$	(186,156)	\$	(433,180)
Total cash	\$	89,031	\$	142,652	\$	603,401
Cash dividends per share, declared	\$	0.026	\$	0.16	\$	Nil

<sup>(1)</sup> 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. 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 revenue from these ounces was credited against capitalized project costs.

<sup>(2)</sup> 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 note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

<sup>(3)</sup> See the Non-GAAP Measures section on page 22.

<sup>(4)</sup> For the year ended December 31, 2014, cash costs per gold ounce are calculated using gold ounces sold at the El Chanate and Young-Davidson mines. For the year ended December 31, 2013, cash costs per gold ounce are calculated using gold ounces sold at the El Chanate mine and gold ounces produced at the Young-Davidson mine. For the year ended December 31, 2012, cash costs per gold ounce are calculated using ounces sold at the El Chanate, Ocampo, El Cubo, Fosterville and Stawell mines and ounces produced at the Young-Davidson mine.

<sup>(5)</sup> Production costs do not include amortization and depletion or refining costs.

<sup>(6)</sup> The Company disposed of the Ocampo, El Cubo, Fosterville and Stawell mines in 2012, and reclassified the results from these operations as discontinued operations.

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**REVIEW OF ANNUAL FINANCIAL RESULTS**

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**2014 versus 2013**

During 2014, the Company sold 227,966 gold ounces at Young-Davidson and El Chanate, compared to sales of 160,913 gold ounces in 2013. Revenue during 2014 increased to \$291.2 million, as compared to \$227.6 million in 2013. This \$63.6 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 2014. The Company also sold 31,839 pre-production ounces at Young-Davidson during 2013, however, the related revenue was credited against capitalized costs.

The Company recognized a loss from operations of \$154.7 million in 2014, compared to a loss from operations of \$178.1 million in 2013. During the year ended December 31, 2014, the Company recorded an impairment charge of \$90.0 million on property, plant and equipment and mining interests at the El Chanate mine. During the year ended December 31, 2013, 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 NRV adjustments of \$23.5 million during the year ended December 31, 2014 compared to total NRV adjustments of \$42.1 million during the year ended December 31, 2013.

Before impairment charges and NRV adjustments, losses from operations were \$39.5 million in 2014, compared to earnings from operations of \$22.6 million in the same period of 2013. The year-over-year reduction in earnings from operations resulted from increased cash costs, as discussed below, and increased amortization and depletion expense during 2014. Amortization and depletion expense increased due to the addition of depletion expense from the Young-Davidson underground mine and the depletion of stripping costs capitalized in prior periods as the Young-Davidson open pit approached the end of its mine life.

During 2014, consolidated cash costs per gold ounce, net of by-product revenues and NRV adjustments, were \$779, representing a 15% increase over cash costs per gold ounce of \$676 in 2013. This year-over-year increase was primarily due to a higher open pit operating strip ratio, higher open pit mining cost per tonne, and lower grade of open pit ore processed at Young-Davidson. In addition, an increase in the average cost of ore inventories at El Chanate also contributed to the increased cash costs.

The Company reported a net loss of \$169.6 million in 2014, compared to a net loss from operations of \$176.8 million in 2013. Included in net loss for 2014 was a \$28.1 million increase in income tax recovery compared to 2013. This was offset by a \$27.4 million increase in other losses, a \$2.4 million increase in foreign exchange losses, and a \$17.0 million increase in finance costs due to interest on the senior secured notes issued in March 2014. Other losses increased primarily due to a \$15.6 million loss on the modification of the Company's convertible senior notes, which resulted from the cash tender offer announced during Q1 2014, and amortization on the retained interest royalty of \$13.3 million.

During 2014, consolidated all-in sustaining costs per gold ounce, net of by-product revenues and NRV adjustments, were \$1,200, representing a 2% increase over all-in sustaining costs per gold ounce, net of by-product revenues and NRV adjustments, of \$1,181 in 2013. The increase was due to higher Young-Davidson open pit cash costs noted above, partially offset by an increase in gold ounces sold in 2014. The Company's consolidated all-in sustaining costs per ounce were consistent with 2014 guidance.

In 2014, the Company reported EBITDA of negative \$44.0 million, compared to EBITDA of negative \$109.2 million in 2013. This increase was primarily due to lower impairment charges recorded in 2014, as discussed previously, and a \$63.6 million increase in revenue recorded in the current year resulting from increased ounces sold at the Young-Davidson mine. These items were offset by increased production costs at Young-Davidson and El Chanate in 2014, as discussed previously.

The Company reported operating cash flow of \$60.4 million during 2014, a decrease of \$2.9 million from operating cash flow of \$63.3 million in the same period in prior year. This decrease in operating cash flow arose primarily as a result of a reduction in the operating cash flow contribution from El Chanate. After deducting capital expenditures of \$188.8 million, the Company's net free cash flow from operations for 2014 was an outflow of \$128.4 million.

**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 2013, 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 NRV adjustments on ore inventories at El Chanate and Young-Davidson of \$25.5 million and \$16.6 million, respectively. 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 \$4.1 million increase in foreign exchange losses, offset by a \$10.2 million increase in income tax recoveries. 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 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.

In 2013, the Company reported EBITDA of negative \$109.2 million compared to EBITDA of negative \$80.0 million in 2012. The decline in EBITDA is primarily due to the increase in production costs, amortization and depletion expense, and impairment charges mentioned above. These decreases in EBITDA were partially offset by an increase in revenues that resulted from a full year of operations at the Young-Davidson open pit 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.

## 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 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Gold ounces produced	56,583	57,037	56,198	54,214	46,017	38,456	38,186	38,441
Gold ounces sold	58,649	56,970	58,277	54,070	39,855	40,185	41,540	39,333
Average realized gold price	\$ 1,202	\$ 1,280	\$ 1,283	\$ 1,297	\$ 1,257	\$ 1,332	\$ 1,369	\$ 1,627
Cash costs per gold ounce, net of by-product revenues and NRV adjustments <sup>(1)(3)</sup>	\$ 746	\$ 706	\$ 801	\$ 870	\$ 771	\$ 628	\$ 655	\$ 635
Cash costs per gold ounce, net of by-product revenues <sup>(1)(3)</sup>	\$ 935	\$ 784	\$ 801	\$ 870	\$ 1,284	\$ 497	\$ 848	\$ 635
All-in sustaining costs per gold ounce, sold, net of by-product revenues and NRV adjustments <sup>(1)</sup>	\$ 1,129	\$ 1,101	\$ 1,191	\$ 1,390	\$ 1,232	\$ 1,210	\$ 1,189	\$ 1,090
All-in sustaining costs per gold ounce, sold, net of by-product revenues <sup>(1)</sup>	\$ 1,317	\$ 1,179	\$ 1,191	\$ 1,390	\$ 1,807	\$ 1,087	\$ 1,382	\$ 1,090
Revenue from mining operations	\$ 71,194	\$ 73,505	\$ 75,530	\$ 70,953	\$ 50,782	\$ 54,304	\$ 57,660	\$ 64,885
Production costs <sup>(2)</sup>	\$ 57,262	\$ 45,463	\$ 48,691	\$ 47,893	\$ 59,972	\$ 21,079	\$ 39,055	\$ 27,875
(Loss) / earnings from operations	\$ (115,011)	\$ (7,337)	\$ (16,293)	\$ (16,064)	\$ (104,158)	\$ 12,230	\$ (103,674)	\$ 17,515
Net (loss) / earnings	\$ (108,259)	\$ (15,722)	\$ (16,776)	\$ (28,891)	\$ (106,412)	\$ 14,859	\$ (103,491)	\$ 18,274
Net (loss) / earnings per share	\$ (0.43)	\$ (0.06)	\$ (0.07)	\$ (0.12)	\$ (0.43)	\$ 0.06	\$ (0.42)	\$ 0.07
Net (loss) / earnings per share, diluted	\$ (0.43)	\$ (0.06)	\$ (0.07)	\$ (0.12)	\$ (0.43)	\$ 0.04	\$ (0.42)	\$ 0.04
Earnings before interest, taxes, depreciation and amortization	\$ (87,309)	\$ 22,344	\$ 22,904	\$ (1,899)	\$ (80,069)	\$ 28,637	\$ (91,432)	\$ 33,651
Operating cash flow	\$ 28,486	\$ 2,788	\$ 4,649	\$ 24,491	\$ 11,954	\$ 24,338	\$ 13,875	\$ 13,099
Net free cash flow <sup>(1)</sup>	\$ (12,938)	\$ (47,889)	\$ (36,467)	\$ (31,121)	\$ (51,618)	\$ (55,734)	\$ (46,399)	\$ (32,405)

<sup>(1)</sup> See the Non-GAAP Measures section on page 22.

<sup>(2)</sup> Production costs do not include amortization and depletion or refining costs.

<sup>(3)</sup> Gold ounces includes ounces sold at the El Chanate. For the Young-Davidson mine, gold ounces includes ounces sold in 2014 and ounces produced in 2013.

## REVIEW OF FOURTH QUARTER FINANCIAL RESULTS

During the fourth quarter of 2014, the Company sold 58,649 gold ounces at the El Chanate and Young-Davidson mines, a 47% increase over 39,855 gold ounces sold in Q4 2013. Revenue increased from \$50.8 million in Q4 2013 to \$71.2 million in the fourth quarter of 2014. This \$20.4 million increase in revenue was largely due to the increase in gold ounces sold during Q4 2014, partially offset by lower realized gold prices. The Company also sold 3,416 underground pre-production ounces at Young-Davidson during the fourth quarter of 2013, however, the related revenue from pre-production ounces sold was credited against capitalized costs.

The Company recognized a loss from operations of \$115.0 million in the fourth quarter of 2014, compared to a loss from operations of \$104.2 million in the same period of 2013. The increase in loss from operations in 2014 was due to impairment charges on the El Chanate mine of \$90.0 million compared to impairment charges of \$74.0 million in Q4 2013. During the fourth quarter of 2014, the Company also recognized NRV adjustments on ore in process heap leach inventory at El Chanate of \$16.4 million. Comparatively, in Q4 2013 the Company recognized NRV adjustments totaling \$16.2 million on the low grade long-term stockpile inventory at Young-Davidson and \$21.0 million on the heap leach inventory at El Chanate. In addition, the increase in loss from operations was due to increased amortization and depletion costs which were higher in Q4 2014 as compared to Q4 2013 due to the addition of depletion expense from the Young-Davidson underground mine.

Q4 2014 cash costs per gold ounce, net of by-product revenues and NRV adjustments, were \$746, a 3% decrease from Q4 2013. This quarter-over-quarter decrease was primarily due to increased underground contribution to overall site production at Young-Davidson and a weaker Canadian dollar compared to prior year, partially offset by an increase in average cost of ore inventories at El Chanate.

The Company reported a net loss of \$108.3 million in the fourth quarter of 2014, compared to a net loss of \$106.4 million in Q4 2013. Net loss increased in the current quarter as a result of the higher loss from operations discussed previously. This increase was offset by a \$14.7 million increase in income tax recovery as discussed on page 17. In addition, contributing to net loss in 2014 was a \$3.8 million increase in financing costs due to interest incurred on the senior secured notes issued in March 2014, and a \$1.0 million increase in foreign exchange loss quarter-over-quarter, primarily due to a weaker Canadian dollar.

In the fourth quarter of 2014, all-in sustaining costs per gold ounce, net of by-product revenues and NRV adjustments, decreased by 8% to \$1,129, as compared to all-in sustaining costs per gold ounce, net of by-product revenues and NRV

adjustments, of \$1,232 in Q4 2013. This decrease was due to lower general and administrative expenditures and increased gold ounces sold, partially offset by the higher Young-Davidson open pit cash costs noted previously.

The Company reported EBITDA of negative \$87.3 million in Q4 2014, compared to EBITDA of negative \$80.1 million in Q4 2013. This quarter-over-quarter decrease in EBITDA is primarily due to higher impairment charges recorded in Q4 2014, compared to Q4 2013, as discussed previously. These items are offset by a \$20.4 million quarter-over-quarter increase in revenue largely due to the increase in gold ounces sold in Q4 2014.

The Company reported operating cash flow of \$28.5 million during the fourth quarter, an increase of \$16.5 million over operating cash flow of \$12.0 million in Q4 2013. This increase in operating cash flow was primarily due to increased gold ounces sold at Young-Davidson resulting in higher revenues during the current quarter as compared to the prior year. After deducting capital expenditures of \$41.4 million, the Company's Q4 2014 net free cash flow was negative \$12.9 million.

## CONSOLIDATED EXPENSES

(in thousands)

	Year Ended		Year Ended		Year Ended	
	December 31		December 31		December 31	
	2014		2013		2012 <sup>(1)</sup>	
Reclamation, care and maintenance costs	\$	5,971	\$	4,417	\$	14,066
General and administrative <sup>(2)</sup>	\$	25,921	\$	27,677	\$	35,730
Exploration and business development	\$	1,001	\$	1,014	\$	1,385
Impairment charges	\$	91,622	\$	158,574	\$	128,537
Finance costs	\$	19,910	\$	2,928	\$	2,237
Foreign exchange loss <sup>(3)</sup>	\$	6,639	\$	4,289	\$	179
Other loss / (income)	\$	17,201	\$	(10,167)	\$	(8,762)
Equity in loss / (earnings) of associate and jointly-controlled entity	\$	171	\$	2,533	\$	(83)

<sup>(1)</sup> 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.

<sup>(2)</sup> General and administrative expense includes share-based compensation expense.

<sup>(3)</sup> Foreign exchange losses in 2013 and 2012 have been restated as a result of the retrospective application of a voluntary change in accounting policy related to the presentation of foreign exchange gains and losses on deferred tax assets and liabilities. For further details, refer to note 3 of the consolidated financial statements for the year ended December 31, 2014.

Reclamation, care and maintenance costs in 2014 and 2013 were comprised of site overhead and other costs relating to activities at Kemess South, a mine in the decommissioning stage. Facilities at the Kemess site are being kept on care and maintenance pending the outcome of the Kemess Underground Project and Kemess East.

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 costs for 2014 were \$7.2 million, compared to \$7.4 million in 2013. Overall, general and administrative costs for 2014 decreased by \$1.8 million over 2013, as the costs incurred in Q1 2014 related to the corporate restructuring were more than offset by lower travel expenses and professional fees in 2014. After excluding share-based compensation costs of \$7.2 million and corporate restructuring costs of \$2.0 million, general administrative costs were \$16.8 million, lower than the 2014 guidance of \$20.0 million, primarily due to lower travel costs and professional fees than planned.

Exploration and business development costs in 2014 were largely consistent with the same period in 2013.

During 2014, the Company recognized \$91.6 million in impairment charges, including the \$90.0 million impairment charge on the El Chanate mine, that was previously discussed, and a \$1.6 million impairment charge on exploration properties due to discontinuation of activity at these properties. During 2013, 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 due to discontinuation of exploration at these properties.

Finance costs increased by \$17.0 million in 2014 as compared to 2013 primarily as a result of additional interest incurred by the Company on the senior secured notes issued in March 2014, and lower capitalized interest due to fewer ongoing capital projects in 2014.

During 2014, foreign exchange losses increased by \$2.4 million compared to 2013, primarily as a result of a weakening in the Canadian dollar and Mexican peso during the year. The Company will continue to experience non-cash foreign currency gains or losses on monetary assets and liabilities, primarily as a result of fluctuations between the US dollar, and both the Canadian dollar and Mexican peso.

During 2014, the Company recorded other losses of \$17.2 million compared to other income of \$10.2 million in 2013. Other losses in the current year are primarily due to a \$15.6 million loss recognized in Q1 2014 on the modification of convertible

senior notes, amortization of \$13.3 million on the retained interest royalty, and a \$2.5 million reclassification of accumulated losses on available-for-sale investments from other comprehensive income to earnings. These amounts were partially offset by \$6.6 million in unrealized and realized gains on investments, royalty income of \$2.5 million from Crocodile Gold Corporation, and \$3.2 million in net proceeds received on the transfer of a litigation claim. In 2013, other income was comprised of a \$15.6 million unrealized gain on the fair value of the option component of convertible notes, offset by a \$7.4 million unrealized loss on the fair value of contingent consideration.

During 2014, the Company recognized its share of losses relating to the Lynn Lake and Orion exploration projects, which are accounted for as an associate and jointly-controlled entity, respectively, using the equity method.

#### **CONSOLIDATED INCOME TAX EXPENSE**

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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. 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 Q4 2014, the Company recognized a current tax recovery of \$3.1 million and a deferred tax recovery of \$14.3 million, compared to a current tax recovery of \$3.7 million and a deferred tax expense of \$1.1 million in Q4 2013. The increase in deferred tax recovery during the quarter is due primarily to a larger deferred tax recovery on impairment charges.

For the year ended December 31, 2014, the Company recognized a current tax recovery of \$2.7 million and a deferred tax recovery of \$26.3 million, compared to a current tax recovery of \$0.1 million and a deferred tax recovery of \$0.8 million in 2013. The current year tax recovery is due to the reversal of a reserve in the current year. The increase in deferred tax recovery is due to a larger deferred tax recovery on impairment charges, foreign exchange gains on translation of Canadian dollar and Mexican peso denominated deferred income tax liabilities, and the accounting amortization of property, plant and equipment and mining interests exceeding the amortization recognized in the determination of net income for tax purposes. These increases were offset by the weakening of the Canadian dollar relative to the US dollar, which caused an increase in taxable temporary differences.

## FINANCIAL CONDITION

*(in thousands)*

	As at December 31 2014	As at December 31 2013	As at December 31 2012	2014 versus 2013
Current assets	\$ 183,954	\$ 291,939	\$ 743,654	Current assets decreased during 2014, primarily due to the reduction in accounts receivable of \$15.2 million, the collection of \$21.7 million in income taxes receivable, and a net decrease in cash of \$53.6 million.
Long-term assets	2,097,872	2,170,469	2,151,587	Long-term assets decreased due to impairment charges at El Chanate, the sale of investments, and amortization of property, plant, and equipment and intangible assets. These declines were offset by capital expenditures incurred in 2014.
<b>Total assets</b>	<b>\$ 2,281,826</b>	<b>\$ 2,462,408</b>	<b>\$ 2,895,241</b>	
Current liabilities	\$ 52,121	\$ 114,159	\$ 95,381	Current liabilities have decreased due to a \$34.9 million decline in accounts payable and accrued liabilities outstanding at period end, as well as the payment of dividends payable at December 31, 2013 and the settlement of the McKenna lawsuit in April 2014.
Long-term financial liabilities	308,064	244,607	183,532	Long-term financial liabilities increased primarily due to the completion of the senior secured notes offering, partially offset by the repayment of amounts outstanding under the Company's credit facility and convertible senior notes.
Other long-term liabilities	290,431	315,760	320,491	Other long-term liabilities decreased due to a decline in deferred income tax liabilities at December 31, 2014.
<b>Total liabilities</b>	<b>\$ 650,616</b>	<b>\$ 674,526</b>	<b>\$ 599,404</b>	
Shareholders' equity	\$ 1,631,210	\$ 1,787,882	\$ 2,295,837	Shareholders' equity decreased primarily as a result of the net loss recognized in 2014, and dividends declared in 2014.

## 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, and development programs, the ability to obtain equity or other sources of financing, the price of gold, and currency exchange rates. The declaration and payment of dividends is at the discretion of the Board of Directors and will depend on the Company's financial results, cash requirements, future prospects, and other factors deemed relevant by the Board. 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. Management believes that the working capital at December 31, 2014, together with future cash flows from operations and the available credit facility, is sufficient to support the Company's planned and foreseeable commitments, and dividends, if declared.

### CASH FLOW

(in thousands)

	Year Ended December 31 2014	Year Ended December 31 2013	Year Ended December 31 2012
Cash flow from / (used in) operating activities <sup>(1)(2)</sup>	\$ 60,414	\$ 63,266	\$ (7,231)
Cash flow (used in) / from investing activities <sup>(1)(2)</sup>	(150,801)	(272,380)	554,287
Cash flow from / (used in) financing activities <sup>(1)</sup>	38,126	(250,745)	(53,198)
Effect of foreign exchange rates on cash <sup>(1)</sup>	(1,360)	(890)	(1,109)
(Decrease) / increase in cash and cash equivalents from continuing operations	(53,621)	(460,749)	492,749
Decrease in cash from discontinued operations	-	-	(68,792)
Total cash and cash equivalents, beginning of period	142,652	603,401	179,444
Total cash and cash equivalents, end of period	\$ 89,031	\$ 142,652	\$ 603,401

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 note 3(a) to the consolidated financial statements for the year ended December 31, 2013.

In 2014, operating activities contributed cash flows of \$60.4 million, as compared to 2013 when operating activities contributed cash of \$63.3 million. Operating cash flow decreased in the 2014 primarily as a result of higher cash costs, interest payments made on the Company's senior secured notes, the payment of accounts payable at Young-Davidson, and lower operating cash flow at El Chanate, as discussed previously. These amounts were largely offset by increased revenues due to higher production in 2014 as compared to the same period in the prior year and collection of \$21.7 million in income taxes receivable in Q1 2014.

In 2014, investing activities used cash of \$150.8 million compared to \$272.4 million used in 2013. Year-to-date, cash flow used in investing activities was comprised of capital expenditures of \$188.8 million, which was partially offset by a \$14.8 million decrease in restricted cash and \$23.3 million in proceeds received from the sale of investments. Cash flow used in investing activities in 2013 included capital expenditures of \$249.4 million and the purchase of investments of \$21.3 million.

In 2014, cash flow contributed by financing activities included \$304.1 million in proceeds from the senior secured notes offering, offset by \$14.4 million in dividend payments and \$254.1 million in repayments of long term debt and equipment financing leases, which included repayments of \$75.0 million on the outstanding credit facility and \$173.0 million on the convertible senior notes. Cash flow used in financing activities in 2013 was largely comprised of \$301.1 million paid to complete a substantial issuer bid and the payment of \$27.7 million in dividends. This was partially offset by proceeds of \$75.0 million received on the Company's credit facility.

### FLOW-THROUGH SHARES

On September 17, 2014, the Company completed a flow-through share issuance for gross proceeds of \$4.6 million (CAD \$5.0 million). As a result, the Company issued 833,334 common shares at a price of CAD \$6.00 per share. Pursuant to the terms of the flow-through share agreement, the Company is required to incur and renounce these expenditures to subscribers by December 31, 2015. All proceeds will be used to fund exploration expenditures at the Company's Kemess property.

### SENIOR SECURED NOTES

On March 27, 2014, the Company completed an offering of \$315.0 million senior secured notes (the "secured notes"), secured against the assets of the Company. Proceeds from this offering were used to repay \$166.4 million of the Company's outstanding convertible senior notes, to repay \$75.0 million drawn under the Company's credit facility and for general corporate purposes. These

secured notes were sold at 96.524% of par, resulting in total proceeds of \$304.1 million. The secured notes pay interest in semi-annual installments on April 1 and October 1 of each year, commencing on October 1, 2014, at a rate of 7.75% per annum, and mature on April 1, 2020. No principal payments are due until the maturity date. These notes contain transaction-based restrictive covenants that limit the Company's ability to incur additional indebtedness in certain circumstances. There are no covenants that are based on the Company's historical financial performance.

The senior secured notes indenture grants the Company the option to prepay the notes prior to the maturity of the instruments, and specifies a premium during each applicable time period. These prepayment options have been accounted for as embedded derivatives, and are outlined below:

- Subsequent to April 1, 2017, the secured notes may be repurchased at 103.875% of par value
- Subsequent to April 1, 2018, the secured notes may be repurchased at 101.938% of par value
- Subsequent to April 1, 2019, the secured notes may be repurchased at 100% of par value

The fair value of the prepayment option embedded derivative was \$6.7 million at December 31, 2014, and was offset against the carrying amount of the secured notes.

#### CREDIT FACILITY

The Company has access to a \$150.0 million revolving credit facility, which 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 principal payments are due until the maturity date, which may be extended upon mutual agreement by all parties. During 2014, the Company repaid the \$75.0 million drawn under this facility and, as a result, had no amounts drawn under this revolving facility at December 31, 2014. The Company was in compliance with all loan covenants at December 31, 2014.

#### CONVERTIBLE DEBT

On March 6, 2014, the Company announced a cash tender offer to redeem all of the outstanding convertible senior notes. The consideration offered was \$1,040 per \$1,000 note plus accrued and unpaid interest to the payment date. On April 3, 2014, the Company paid \$173.0 million to complete this offer, resulting in the redemption of \$166.4 million convertible senior notes. The remaining \$0.6 million of convertible senior notes remain outstanding.

At the end of 2014, the Company had \$0.6 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 December 1, 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, 2014, the Company held investments with a fair market value of \$0.2 million, which consisted primarily of common shares of publicly traded companies. Investments in common shares of publicly traded companies are classified as available-for-sale investments. Realized and unrealized gains on available-for-sale investments totaled \$9.1 million for the year ended December 31, 2014 (year ended December 31, 2013 - unrealized losses of \$5.3 million).

During the year ended December 31, 2014, the Company sold shares in various publicly listed entities for total proceeds of \$23.3 million.

**CONTRACTUAL OBLIGATIONS**

A summary of the Company's contractual obligations at December 31, 2014 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	\$ 42,046	\$ 42,046	\$ -	\$ -	\$ -	\$ -
Debt	450,429	24,685	49,712	24,413	24,413	327,206
Equipment financing obligations	17,662	6,597	7,876	2,262	927	-
Future purchase commitments	9,189	9,189	-	-	-	-
Total	\$ 519,326	\$ 82,517	\$ 57,588	\$ 26,675	\$ 25,340	\$ 327,206

**OUTSTANDING SHARE DATA**

The Company's share capital was comprised of the following as at December 31, 2014:

	December 31, 2014	December 31, 2013
<b>Authorized:</b>		
Unlimited number of common shares		
<b>Issued:</b>		
Common shares	249,648,617	247,569,811

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:

	February 19, 2015
Common shares	249,978,342
Stock options	13,094,101
Deferred share units	253,210
Performance share units	565,216
Restricted share units	629,176
	264,520,045

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 up to 60,974 common shares.

**OFF-BALANCE SHEET ARRANGEMENTS**

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

**FINANCIAL INSTRUMENTS**

During the year ended December 31, 2014, the Company issued \$315.0 million of secured notes, redeemed \$166.4 million of convertible notes and sold investments for total proceeds of \$23.3 million. Refer to the Liquidity and Capital Resources section on page 19 for further information on these 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.

As at December 31, 2014, the Company held option contracts to protect against the risk of an increase in the value of the Canadian dollar and Mexican peso versus the US dollar. Details of these option contracts for the purchase of local currencies and sale of US dollars, which settle on a monthly basis, are summarized in the table below.

Period covered	Contract	Local Currency	Local currency per month	Local currency total	Call option per USD	Put option per USD
30-Jan-15 31-Dec-15	Collar	CAD	7,500	90,000	1.1111	1.2246
30-Jan-15 31-Dec-15	Collar	MXN	30,000	360,000	14.00	15.71

These contracts had a negative fair value of \$0.4 million at December 31, 2014, all of which has been recognized in other (loss) / income within the Consolidated Statements of Operations for the year ended December 31, 2014.

During 2013, the Company held forward contracts to protect 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 \$0.1 million was recognized in net loss on settlement of these forward contracts.

## 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 Chief Operating Officer, and is consolidated in accordance with IFRS 10, *Consolidated Financial Statements*. The Company's Chief Executive Officer and Chief Operating Officer 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, 2014, the Company had a receivable from the jointly-controlled entity of \$2.1 million (December 31, 2013 - \$1.4 million).

As discussed previously, the Company completed a private placement with Carlisle in which the Company invested CAD \$5.6 million in exchange for 19.9% of the outstanding common shares of Carlisle. In conjunction with the private placement, the Company entered into an agreement on November 11, 2014 with respect to Carlisle's Lynn Lake Gold Camp. Under the agreement, the Company has acquired a 25% interest in the Lynn Lake Project and can earn up to a 60% interest by funding CAD \$20.0 million on the project over a three-year period and delivering a feasibility study within that time period. The Company will be managing exploration and technical work related to a future feasibility study on the Lynn Lake Project. At December 31, 2014, the Company has included an advance of \$0.8 million in other long-term assets which relates to ongoing work on the Lynn Lake Project.

## EVENTS AFTER THE REPORTING PERIOD

### (a) Termination of retained interest royalty

On January 14, 2015, the Company finalized the agreement to terminate the retained interest royalty from Crocodile Gold and received CAD \$20.0 million in cash consideration, along with net smelter royalties on future production from the Fosterville and Stawell mines of 2% and 1%, respectively.

### (b) Declaration of dividend

On February 19, 2015, the Company's Board of Directors approved a dividend of \$0.023 per share, payable to shareholders of record on March 2, 2015.

## 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 and NRV adjustments, production costs associated with unsold ounces, production costs unrelated to current period ounces sold, production costs associated with acquisition-date fair value adjustments, and production costs associated with NRV 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	
	2014		2013		2014		2013	
Production costs	\$	57,262	\$	59,972	\$	199,309	\$	147,981
Refining costs	\$	180	\$	139	\$	595	\$	526
Inventory and other adjustments <sup>(1)</sup>	\$	(1,893)	\$	(2,135)	\$	(3,798)	\$	(10,216)
Total cash costs	\$	55,549	\$	57,976	\$	196,106	\$	138,291
Divided by gold equivalent ounces <sup>(2)</sup>		59,244		45,150		230,270		163,599
<b>Total cash cost per gold equivalent ounce</b>	<b>\$</b>	<b>938</b>	<b>\$</b>	<b>1,284</b>	<b>\$</b>	<b>852</b>	<b>\$</b>	<b>845</b>
Total cash costs (per above)	\$	55,549	\$	57,976	\$	196,106	\$	138,291
By-product revenues <sup>(3)</sup>	\$	(715)	\$	(665)	\$	(2,915)	\$	(3,272)
Total cash costs, net of by-product revenues	\$	54,834	\$	57,311	\$	193,191	\$	135,019
Divided by gold ounces <sup>(4)</sup>		58,649		44,621		227,966		161,271
<b>Total cash cost per gold ounce, net of by-product revenues</b>	<b>\$</b>	<b>935</b>	<b>\$</b>	<b>1,284</b>	<b>\$</b>	<b>847</b>	<b>\$</b>	<b>837</b>
Total cash costs, net of by-product revenues (per above)	\$	54,834	\$	57,311	\$	193,191	\$	135,019
NRV adjustments <sup>(5)</sup>	\$	(11,067)	\$	(22,907)	\$	(15,500)	\$	(25,969)
Total cash costs, net of by-product revenues and NRV adjustments	\$	43,767	\$	34,404	\$	177,691	\$	109,050
Divided by gold ounces		58,649		44,621		227,966		161,271
<b>Total cash cost per gold ounce, net of by-product revenues and NRV adjustments</b>	<b>\$</b>	<b>746</b>	<b>\$</b>	<b>771</b>	<b>\$</b>	<b>\$779</b>	<b>\$</b>	<b>\$676</b>

<sup>(1)</sup> Inventory and other adjustments include amortization of the inventory fair value adjustments relating to the El Chanate purchase price allocations, costs unrelated to current period ounces sold, 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, 2014 and 2013 were as follows:

El Chanate	\$	(1,893)	\$	(6,415)	\$	(2,720)	\$	(10,560)
Young-Davidson	\$	-	\$	4,280	\$	(1,078)	\$	344
	\$	(1,893)	\$	(2,135)	\$	(3,798)	\$	(10,216)

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

<sup>(3)</sup> 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 years ended December 31, 2014 and 2013 were as follows:

El Chanate	\$	(430)	\$	(562)	\$	(2,248)	\$	(2,881)
Young-Davidson	\$	(285)	\$	(103)	\$	(667)	\$	(391)
	\$	(715)	\$	(665)	\$	(2,915)	\$	(3,272)

<sup>(4)</sup> For the three months and year ended December 31, 2014, cash costs per gold ounce are calculated using gold ounces sold at the El Chanate and Young-Davidson mines. For the three months and year ended December 31, 2013, cash costs per gold ounce are calculated using gold ounces sold at the El Chanate mine and gold ounces produced at the Young-Davidson mine.

<sup>(5)</sup> The total NRV adjustments recognized during the three months and years ended December 31, 2014 and 2013 were as follows:

El Chanate	\$	(11,067)	\$	(13,156)	\$	(12,160)	\$	(15,919)
Young-Davidson	\$	-	\$	(9,751)	\$	(3,339)	\$	(10,050)
	\$	(11,067)	\$	(22,907)	\$	(15,500)	\$	(25,969)

#### 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	
	2014		2013		2014		2013	
Total cash costs, net of by-product revenues (see above)	\$	54,834	\$	57,311	\$	193,191	\$	135,019
General and administrative	\$	5,338	\$	6,909	\$	25,921	\$	27,677
Young-Davidson inventory adjustments	\$	-	\$	(4,280)	\$	-	\$	(344)
Sustaining capital expenditures <sup>(1)</sup>	\$	16,799	\$	11,799	\$	68,649	\$	52,697
Accretion and depletion of reclamation provisions	\$	294	\$	260	\$	1,200	\$	891
Total all-in sustaining costs, net of by-product revenues	\$	77,265	\$	71,999	\$	288,961	\$	215,940
Divided by gold ounces sold		58,649		39,855		227,966		160,913
<b>All-in sustaining cost per gold ounce sold, net of by-product revenues</b>	<b>\$</b>	<b>1,317</b>	<b>\$</b>	<b>1,807</b>	<b>\$</b>	<b>1,268</b>	<b>\$</b>	<b>1,342</b>
Total all-in sustaining costs, net of by-product revenues (per above)	\$	77,265	\$	71,999	\$	288,961	\$	215,940
NRV adjustments	\$	(11,067)	\$	(22,907)	\$	(15,500)	\$	(25,969)
Total all-in sustaining costs, net of by-product revenues and NRV adjustments	\$	66,198	\$	49,092	\$	273,461	\$	189,971
Divided by gold ounces sold		58,649		39,855		227,966		160,913
<b>All-in sustaining cost per gold ounce sold, net of by-product revenues and NRV adjustments</b>	<b>\$</b>	<b>1,129</b>	<b>\$</b>	<b>1,232</b>	<b>\$</b>	<b>1,200</b>	<b>\$</b>	<b>1,181</b>

<sup>(1)</sup> 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, 2014 and 2013 is calculated as follows:

Capital expenditures per cash flow statement	\$	41,424	\$	63,572	\$	188,829	\$	249,422
Less: Young-Davidson non-sustaining capital	\$	(14,900)	\$	(38,195)	\$	(97,282)	\$	(151,917)
Less: El Chanate non-sustaining capital	\$	-	\$	(9,025)	\$	(1,271)	\$	(34,707)
Less: Corporate and other non-sustaining capital	\$	(9,725)	\$	(4,553)	\$	(21,627)	\$	(10,101)
	\$	16,799	\$	11,799	\$	68,649	\$	52,697

Non-sustaining capital expenditures include Young-Davidson mine development that is considered to be growth, expenditures associated with sinking the MCM shaft, additional equipment and infrastructure as the Company continues to ramp up production at Young-Davidson, and exploration expenditures at El Chanate.

**EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION, AND AMORTIZATION ("EBITDA")**

EBITDA represents net earnings before interest, taxes, depreciation, and amortization. EBITDA is an indicator of the Company's ability to generate liquidity by producing operating cash flow to fund working capital needs, service debt obligations, and fund capital expenditures.

The following is a reconciliation of EBITDA to the consolidated financial statements:

(in thousands)

	Quarter Ended		Quarter Ended		Year Ended		Year Ended	
	December 31		December 31		December 31		December 31	
	2014		2013		2014		2013	
Net loss	\$	(108,259)	\$	(106,412)	\$	(169,648)	\$	(176,770)
Add back:								
Finance costs	\$	5,175	\$	1,352	\$	19,910	\$	2,928
Amortization and depletion	\$	30,092	\$	27,649	\$	121,468	\$	65,529
Amortization included in other (loss) / income	\$	3,033	\$	-	\$	13,288	\$	-
Deferred income tax (recovery) / expense	\$	(14,263)	\$	1,071	\$	(26,278)	\$	(760)
Current income tax recovery	\$	(3,087)	\$	(3,729)	\$	(2,700)	\$	(140)
<b>EBITDA</b>	<b>\$</b>	<b>(87,309)</b>	<b>\$</b>	<b>(80,069)</b>	<b>\$</b>	<b>(43,960)</b>	<b>\$</b>	<b>(109,213)</b>

**NET FREE CASH FLOW**

Net free cash flow represents an indication of the Company's continuing capacity to generate 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	
	2014		2013		2014		2013	
Operating cash flow	\$	28,486	\$	11,954	\$	60,414	\$	63,266
Less: Capital expenditures	\$	(41,424)	\$	(63,572)	\$	(188,829)	\$	(249,422)
<b>Net free cash flow</b>	<b>\$</b>	<b>(12,938)</b>	<b>\$</b>	<b>(51,618)</b>	<b>\$</b>	<b>(128,415)</b>	<b>\$</b>	<b>(186,156)</b>

**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](http://www.auricogold.com), on SEDAR at [www.sedar.com](http://www.sedar.com), and on EDGAR at [www.sec.gov](http://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.

#### EFFECT OF INDEBTEDNESS ON FINANCIAL CONDITION

The Company has a significant amount of secured indebtedness. The Company's level of indebtedness, including the secured notes issued on March 27, 2014, could have material and adverse consequences to the Company and the Company's securityholders, including:

- making it more difficult for the Company to satisfy its obligations to pay interest and to pay principal when due;
- limiting the Company's ability to obtain additional financing to repay existing indebtedness, fund future working capital, capital expenditures, acquisitions or other general corporate requirements, or requiring the Company to make non-strategic divestitures;
- requiring a substantial portion of the Company's cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for payment of cash dividends, working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing the Company's vulnerability to general adverse economic and industry conditions;
- limiting the Company's flexibility in planning for and reacting to changes in the industry in which it competes;
- placing the Company at a disadvantage compared to other, less leveraged competitors; and
- increasing the Company's cost of borrowing.

The Company may not be able to generate sufficient cash to service all of its indebtedness, including the secured notes, and may be forced to take other actions to satisfy its obligations under such indebtedness, which may not be successful. The Company's ability to make scheduled payments on or refinance its debt obligations depends on its financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond its control. The Company may be unable to maintain a level of cash flows from operating activities sufficient to permit it to pay the principal, premium, if any, and interest on the Company's indebtedness.

If the Company's cash flows and capital resources are insufficient to fund its debt service obligations, it could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance its indebtedness. The Company may not be able to effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternatives may not allow the Company to meet its scheduled debt service obligations. The Company's revolving credit facility and the indenture governing the secured notes will restrict its ability to dispose of assets and use the proceeds from those dispositions and may also restrict its ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. The Company may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Should the Company incur additional debt, this could increase the risks to its financial condition described above.

**EFFECT OF INDEBTEDNESS ON THE COMPANY'S CURRENT AND FUTURE OPERATIONS**

The Company's revolving credit facility and the indenture governing the secured notes contain a number of restrictive covenants that impose significant operating and financial restrictions on the Company and may limit its ability to engage in acts that may be in the Company's long-term best interest. The Company's failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in a cross-default under other debt instruments and the acceleration of all its debt. The restrictions include, without limitation, restrictions on its ability to:

- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem its capital stock;
- prepay, redeem or repurchase certain debt;
- make loans and investments;
- sell, transfer or otherwise dispose of assets;
- incur or permit to exist certain liens;
- enter into transactions with affiliates;
- enter into agreements restricting its subsidiaries' ability to pay dividends; and
- consolidate, amalgamate, merge or sell all or substantially all of the Company's assets.

**RATING OF THE COMPANY'S DEBT SECURITIES**

The Company's debt currently has a non-investment grade rating, and any rating assigned could be lowered or withdrawn entirely by a rating agency, if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. Any future lowering of the Company's ratings likely would make it more difficult or more expensive to obtain additional debt financing.

**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.

**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**

At December 31, 2014, the Company did not have any amount drawn on its credit facility. If an amount is drawn, the Company is exposed to interest rate risk on its variable rate debt. 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 any 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, recovery rates, and discount rates.

*(iv) Amortization of property, plant and equipment*

The Company amortizes 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.

*(v) 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.

*(vi) 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 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.

*(vii) Retained interest royalty*

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, 2014 are consistent with those used in the Company's Consolidated Financial Statements for the year ended December 31, 2013, with the exception of the following accounting policies adopted on January 1, 2014:

*Foreign exchange gains and losses on deferred tax assets and liabilities*

The consolidated financial statements reflect the retrospective application of a voluntary change in accounting policy adopted in 2014 to classify, in the Consolidated Statements of Operations, foreign exchange gains and losses arising on the translation of deferred income tax assets and liabilities within deferred income tax recovery instead of within foreign exchange losses, as previously reported. The change in accounting policy has been adopted in accordance with IAS 12, *Income Taxes*, which provides a policy choice to classify exchange differences arising from translation of deferred income tax assets and liabilities within deferred income tax expense / (recovery). The Company considers the classification of these exchange differences within deferred income tax recovery in the Consolidated Statements of Operations to be the most useful to financial statement users and, consequently, that this presentation results in reliable and more relevant information.

The following table outlines the effect of this accounting policy change for the years ended December 31, 2014 and 2013:

	Prior to restatement	Restatement Impact	Subsequent to Restatement
For the year ended December 31, 2014 (in millions):			
Foreign exchange gains / (losses)	\$ 18.7	\$ (25.4)	\$ (6.6)
Deferred income tax recovery	0.9	25.4	26.3
Net loss	(169.6)	-	(169.6)
For the year ended December 31, 2013 (in millions):			
Foreign exchange gains / (losses)	\$ 10.9	\$ (15.2)	\$ (4.3)
Deferred income tax (expense) / recovery	(14.5)	15.2	0.8
Net loss	(176.8)	-	(176.8)

*Flow-through share financing*

The Company may issue flow-through common shares to finance a portion of its Canadian exploration program. Pursuant to the Canadian Income Tax Act and the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. Proceeds received from flow-through share agreements are separated into a liability and share capital. The liability, which represents the obligation to renounce flow-through exploration expenditures, is calculated as the excess of cash consideration received over the market price of the Company's shares on the agreement's closing date. Upon qualifying exploration expenditures being incurred, the Company derecognizes the liability and recognizes it as other income. The related deferred tax expense is also recognized at the time the expenditures are incurred.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced, in accordance with the Canadian Income Tax Act flow-through regulations. When applicable, the estimated tax payable is accrued until paid.

*Other changes in accounting policy*

IFRIC 21, *Levies*, sets out criteria for the recognition of liabilities for levies imposed by governments. IFRIC 21 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. There was no impact on the Company's consolidated financial statements upon the adoption of this interpretation.

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. There was no impact on the Company's consolidated financial statements upon the adoption of these amendments.

Amendments to IAS 36, *Impairment of assets*, address the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce a requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. There was no impact on the Company's consolidated financial statements upon the adoption of these amendments.

**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 below. These standards have not been adopted because they are

not effective for the Company until subsequent to December 31, 2014. Standards and interpretations issued, but not yet adopted, include:

	<u>Effective for the Company</u>
Amendments to IAS 19, Employee Benefits	January 1, 2015
Amendments to IAS 16, Property, Plant and Equipment	January 1, 2016
Amendments to IAS 28, Investments in Associates and Joint Ventures	January 1, 2016
Amendments to IAS 38, Intangibles	January 1, 2016
Amendments to IFRS 10, Consolidated Financial Statements	January 1, 2016
Amendments to IFRS 11, Joint Arrangements	January 1, 2016
IFRS 15, Revenue from Contracts with Customers	January 1, 2017
IFRS 9, Financial Instruments	January 1, 2018

In November 2013, the IASB issued amendments to IAS 19, *Employee Benefits*, which clarify benefit and medical cost actuarial assumptions used in calculation of the present value of defined benefit obligations and current service cost. These amendments are effective for annual periods beginning on or after July 1, 2014. This amendment is not anticipated to impact the Company's consolidated financial statements as there are no defined benefit obligations.

In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangibles*. These amendments prohibit the use of revenue-based depreciation methods for property, plant and equipment and limit the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively. These amendments are not anticipated to impact the Company's consolidated financial statements as revenue-based depreciation or amortization methods are not used.

In September 2014, the IASB issued amendments to IAS 28, *Investments in Associates and Joint Ventures*, and IFRS 10, *Consolidated Financial Statements*. These amendments address a conflict between IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. These amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

In May 2014, the IAS issued amendments to IFRS 11, *Joint Arrangements*. The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The standard replaces IAS 11, *Construction Contracts*; IAS 18, *Revenue*; IFRIC 13, *Customer Loyalty Programmes*; IFRIC 15, *Agreements for the Construction of Real Estate*; IFRIC 18, *Transfer of Assets from Customers*; and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*. This standard establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is effective for annual periods beginning on or after January 1, 2017, and permits early adoption. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*, which will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The replacement standard provides a new model for the classification and measurement of financial instruments. The IASB has determined the revised effective date for IFRS 9 will be for annual periods beginning on or after January 1, 2018. The Company will evaluate the impact of the change to the consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

## **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, 2014, 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, 2014, 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 2013 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, 2014. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2014, 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.

There were no changes in the Company's internal control over financial reporting that occurred during the three months ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

KPMG LLP, an independent registered public accounting firm, has audited management's assessment of the effectiveness of internal control over financial reporting, and have expressed their opinion in their report included with the Company's annual consolidated financial statements.

**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" or "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, 2014). 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 and expected sustainable productivity increases, expected increases in underground activities and corresponding cost efficiencies, expected drilling targets, expected sustaining costs, expected improvements in cashflows and margins, expectations of changes in capital expenditures, forecasted cash shortfalls and the Company's ability to fund them, cost estimates, projected exploration results, reserve and resource estimates, expected mill production rates and use of the stockpile inventory, expected mill recoveries, sufficiency of working capital for future commitments 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 at the time of making such statements, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors and assumptions underlying the forward-looking statements in this document include, but are not limited to: changes to current estimates of mineral reserves and resources; fluctuations in the price of gold; changes in foreign exchange rates (particularly the Canadian dollar, Mexican peso and U.S. dollar); the impact of inflation; changes in our credit rating; any decision to declare a quarterly dividend; employee relations; litigation; disruptions affecting operations; availability of and increased costs associated with mining inputs and labor; development delays at the Young-Davidson mine; operating or technical difficulties in connection with mining or development activities; inherent risks associated with mining and mineral processing; the risk that the Young-Davidson and El Chanate mines may not perform as planned; uncertainty with the Company's ability to secure capital to execute its business plans; the speculative nature of mineral exploration and development, including the risks of obtaining necessary licenses and permits, including the necessary licenses, permits, authorizations and/or approvals from the appropriate regulatory authorities for the Kemess Underground project;

contests over title to properties; changes in national and local government legislation in Canada, Mexico and other jurisdictions in which the Company does or may carry on business in the future; risk of loss due to sabotage and civil disturbances; the impact of global liquidity and credit availability and the values of assets and liabilities based on projected future cash flows; risks arising from holding derivative instruments; business opportunities that may be pursued by the Company, as well as those factors discussed under "Risk Factors" in the Company's most recent Annual Information Form.

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.

In particular, forward-looking information included in this document includes, but is not limited to: (1) production estimates and production growth rates, which assume accuracy of projected ore grade, mining rates, recovery timing and recovery rate estimates and may be impacted by unscheduled maintenance, labour and contractor availability; (2) capital expenditures and other cash costs, which assume foreign exchange rates and accuracy of production estimates, and may be impacted by unexpected maintenance, the need to hire external resources and accelerated capital plans; (3) profits and free cash flow, which assume production and expenditure estimates and may be impacted by gold prices, production estimates, and the timing of payments, and (4) reserves and resources which are forward looking statements by their nature involving implied assessment, and may be impacted by metal prices, future drilling results, operating costs, mining recoveries and dilution rates.

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. For additional detail regarding risk factors affecting the Company, refer to the Company's Annual Information Form for the year ended December 31, 2014.



## **Consolidated Financial Statements**

(in thousands of United States Dollars, unless otherwise stated)

December 31, 2014



### **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 handwritten signature in blue ink, appearing to read "Scott Perry", with a long horizontal flourish extending to the right.

Scott Perry  
President and Chief Executive Officer

A handwritten signature in blue ink, appearing to read "Robert Chausse", with a long horizontal flourish extending to the right.

Robert Chausse  
Executive Vice President and Chief Financial Officer

February 19, 2015



**KPMG LLP**  
Bay Adelaide Centre  
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## **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, 2014 and December 31, 2013, 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.



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*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, 2014 and December 31, 2013, 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.

*Comparative Information*

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements which indicates that the comparative information presented for the year ended December 31, 2013 has been restated.

*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, 2014, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 19, 2015 expressed an unqualified opinion on the effectiveness of AuRico Gold Inc.'s internal control over financial reporting.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly 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  
February 19, 2015



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## **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, 2014, based on criteria established in Internal Control – Integrated Framework (2013) 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, appearing under the heading Controls and Procedures in Management's Discussion and Analysis for the year ended December 31, 2014. 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.



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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.

In our opinion, AuRico Gold Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (2013) 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, 2014 and 2013, 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, 2014, and our report dated February 19, 2015 expressed an unqualified opinion on those consolidated financial statements.

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

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada  
February 19, 2015



## CONSOLIDATED BALANCE SHEETS

(in thousands of United States dollars)

As at	December 31 2014	December 31 2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 25)	\$ 89,031	\$ 142,652
Restricted cash (Note 16(b))	-	2,204
Receivables (Note 6)	14,076	29,254
Current income tax receivable	5,166	27,936
Inventories (Note 7)	73,116	84,643
Prepays and deposits	<u>2,565</u>	<u>5,250</u>
	183,954	291,939
<b>Non-current assets</b>		
Investments (Note 8)	184	15,551
Long-term inventories (Note 7)	103,156	93,696
Investments in associate and joint venture (Note 9)	23,434	17,930
Other long-term assets (Note 10)	51,042	71,988
Property, plant and equipment & mining interests (Notes 11 and 13)	1,638,730	1,675,955
Intangible assets (Notes 12 and 13)	39,633	53,656
Goodwill (Notes 12 and 13)	<u>241,693</u>	<u>241,693</u>
	<u>\$ 2,281,826</u>	<u>\$ 2,462,408</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities	\$ 42,046	\$ 76,923
Dividend payable (Note 18(b))	-	9,960
Current income tax liability	407	3,966
Derivative liabilities (Note 25)	447	-
Current portion of debt and equipment financing obligations (Note 14)	6,308	7,355
Obligation to renounce flow-through exploration expenditures (Note 15)	857	-
Current portion of provisions (Note 16)	<u>2,056</u>	<u>15,955</u>
	52,121	114,159
<b>Non-current liabilities</b>		
Debt and equipment financing obligations (Note 14)	308,064	244,194
Option component of convertible senior notes (Note 14)	-	413
Provisions (Note 16)	29,529	28,580
Deferred income tax liability (Note 17)	<u>260,902</u>	<u>287,180</u>
	<u>650,616</u>	<u>674,526</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 18)	2,029,991	2,021,837
Contributed surplus	62,316	55,945
Deficit	(460,848)	(284,632)
Accumulated other comprehensive loss	<u>(249)</u>	<u>(5,268)</u>
	<u>1,631,210</u>	<u>1,787,882</u>
	<u>\$ 2,281,826</u>	<u>\$ 2,462,408</u>

Commitments and contingencies (Notes 11 and 24)

Events after the reporting period (Note 28)

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, except per share amounts)

	2014	2013 Restated (Note 3)
For the years ended December 31		
Revenue from mining operations	\$ 291,182	\$ 227,631
Cost of sales:		
Production costs (Note 7)	199,309	147,981
Refining costs	595	526
Amortization and depletion (Note 7)	121,468	65,529
Reclamation, care and maintenance costs	5,971	4,417
Total cost of sales	<u>327,343</u>	<u>218,453</u>
General and administrative	25,921	27,677
Exploration and business development	1,001	1,014
Impairment charges (Note 13)	91,622	158,574
Loss from operations (Note 19)	<u>(154,705)</u>	<u>(178,087)</u>
Finance costs	(19,910)	(2,928)
Foreign exchange loss	(6,639)	(4,289)
Other (loss) / income (Note 20)	(17,201)	10,167
Equity in loss of associate and joint venture (Note 9)	(171)	(2,533)
Loss before income taxes	<u>(198,626)</u>	<u>(177,670)</u>
Deferred income tax recovery (Note 17)	(26,278)	(760)
Current income tax recovery (Note 17)	(2,700)	(140)
	<u>(28,978)</u>	<u>(900)</u>
Net loss	<u>\$ (169,648)</u>	<u>\$ (176,770)</u>
Loss per share (Note 21)		
Basic loss per share	\$ (0.68)	\$ (0.71)
Diluted loss per share	\$ (0.68)	\$ (0.72)
Weighted average shares outstanding (Note 21)		
Basic	248,889,636	250,398,043
Diluted	248,889,636	265,729,061



## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of United States dollars)

For the years ended December 31	2014	2013
Net loss	\$ (169,648)	\$ (176,770)
Items that may be reclassified subsequently to net loss:		
Unrealized gain / (loss) on investments (Note 8)	2,512	(5,331)
Reclassification of accumulated losses on investments to net loss (Note 8)	2,507	168
Total other comprehensive income / (loss)	5,019	(5,163)
Comprehensive loss	\$ (164,629)	\$ (181,933)



## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

For the years ended December 31	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (169,648)	\$ (176,770)
Proceeds from settlement of derivative liabilities	-	(528)
Payments to settle other liabilities	-	(2,750)
Payments to settle provisions	(3,924)	(3,628)
Non-cash adjustments to reconcile net loss to operating cash flows (Note 22)	238,281	261,755
Change in non-cash operating working capital (Note 22)	<u>(4,295)</u>	<u>(14,813)</u>
Operating cash flows	<u>60,414</u>	<u>63,266</u>
<b>INVESTING ACTIVITIES</b>		
Expenditures on property, plant and equipment, mining interests & intangible assets	(188,829)	(249,422)
Proceeds from retained interest royalty (Note 12)	2,463	-
Decrease / (increase) in restricted cash	14,778	(1,686)
Purchase of investments (Note 8)	-	(21,272)
Sale of investments (Note 8)	23,284	-
Investment in associate (Note 9(b))	(5,674)	-
Proceeds received on transfer of litigation claim (Note 20(a))	<u>3,177</u>	<u>-</u>
Investing cash flows	<u>(150,801)</u>	<u>(272,380)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of debt and equipment financing obligations (Note 14)	(254,143)	(4,866)
Proceeds from debt and equipment financing obligations (Note 14)	309,982	79,813
Payment of financing fees on debt	(7,838)	-
Payment of dividends (Note 18(b))	(14,443)	(27,720)
Proceeds from exercise of stock options	2	3,094
Shares repurchased and cancelled (Note 18(a))	-	(301,066)
Proceeds from issuance of flow-through shares (Note 15)	<u>4,566</u>	<u>-</u>
Financing cash flows	<u>38,126</u>	<u>(250,745)</u>
Impact of foreign exchange on cash	<u>(1,360)</u>	<u>(890)</u>
Net decrease in cash	(53,621)	(460,749)
Cash and cash equivalents, beginning of period	<u>142,652</u>	<u>603,401</u>
Cash and cash equivalents, end of period	<u>\$ 89,031</u>	<u>\$ 142,652</u>



## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of United States dollars)

For the years ended December 31	2014	2013
<b>Capital stock</b>		
Balance, beginning of period	\$ 2,021,837	\$ 2,307,978
Shares repurchased and cancelled (Note 18(a))	-	(295,536)
Shares issued through dividend reinvestment plan	1,924	1,969
Shares issued on redemption of restricted share units	445	-
Shares issued through employee share purchase plan	2,323	2,008
Shares issued on redemption of deferred share units	359	499
Shares issued for cash pursuant to exercise of stock options	2	3,094
Fair value of share-based compensation on stock options exercised	4	1,825
Shares issued through flow-through share agreement (Note 15)	3,097	-
Balance, end of period	\$ 2,029,991	\$ 2,021,837
<b>Contributed surplus</b>		
Balance, beginning of period	\$ 55,945	\$ 50,881
Fair value of restricted share units redeemed	(445)	-
Fair value of deferred share units redeemed	(359)	(499)
Fair value of share-based compensation on stock options exercised	(4)	(1,825)
Share-based compensation	7,179	7,388
Balance, end of period	\$ 62,316	\$ 55,945
<b>Deficit</b>		
Balance, beginning of period	\$ (284,632)	\$ (62,917)
Dividends declared (Note 18(b))	(6,568)	(39,592)
Premium on shares repurchased and cancelled (Note 18(a))	-	(5,353)
Net loss	(169,648)	(176,770)
Balance, end of period	\$ (460,848)	\$ (284,632)
<b>Accumulated other comprehensive loss from available-for-sale investments</b>		
Balance, beginning of period	\$ (5,268)	\$ (105)
Other comprehensive income / (loss)	5,019	(5,163)
Balance, end of period	\$ (249)	\$ (5,268)
<b>Total shareholders' equity</b>	<b>\$ 1,631,210</b>	<b>\$ 1,787,882</b>

## 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. 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 February 19, 2015.

### 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, 2014.

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 4(t).

### 3. Change in accounting policy and retrospective restatement

The consolidated financial statements reflect the retrospective application of a voluntary change in accounting policy adopted in 2014 to classify, in the Consolidated Statements of Operations, foreign exchange gains and losses arising on the translation of deferred income tax assets and liabilities within deferred income tax recovery instead of within foreign exchange losses, as previously reported. The change in accounting policy has been adopted in accordance with IAS 12, *Income Taxes*, which provides a policy choice to classify exchange differences arising from translation of deferred income tax assets and liabilities within deferred income tax expense / (recovery). The Company considers the classification of these exchange differences within deferred income tax recovery in the Consolidated Statements of Operations to be the most useful to financial statement users and, consequently, that this presentation results in reliable and more relevant information.

The following table outlines the effect of this accounting policy change for the years ended December 31, 2014 and 2013:

	Prior to restatement	Restatement Impact	Subsequent to Restatement
For the year ended December 31, 2014:			
Foreign exchange gains / (losses)	\$ 18,729	\$ (25,368)	\$ (6,639)
Deferred income tax recovery	910	25,368	26,278
Net loss	(169,648)	-	(169,648)
For the year ended December 31, 2013:	Reported	Restatement	Restated
Foreign exchange gains / (losses)	\$ 10,927	\$ (15,216)	\$ (4,289)
Deferred income tax (expense) / recovery	(14,456)	15,216	760
Net loss	(176,770)	-	(176,770)

### 4. 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, 2014:

IFRIC 21, *Levies*, sets out criteria for the recognition of liabilities for levies imposed by governments. IFRIC 21 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. There was no impact on the Company’s consolidated financial statements upon the adoption of this interpretation.

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



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mechanism provides for net settlement or gross settlement that is equivalent to net settlement. There was no impact on the Company's consolidated financial statements upon the adoption of these amendments.

Amendments to IAS 36, *Impairment of assets*, address the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce a requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. There was no impact on the Company's consolidated financial statements upon the adoption of these amendments.

### (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 Nova Scotia Ltd.	Administrative services	Canada
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 associates and joint ventures

The Company accounts for investments in associates and joint ventures using the equity method of accounting. The carrying value of the Company's investments in associates and 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 for any indicators of impairment.

### (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 loss in the period in which they arise. Exchange differences on deferred foreign tax assets and liabilities are presented as deferred tax expense / (recovery) on the Consolidated Statements of Operations. 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



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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. 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, to the extent determined recoverable, 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.

### **(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 any 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 net loss as incurred.



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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
Mobile equipment	2-10 years
Other equipment	2-20 years
Processing plant	2-20 years
Shaft and underground infrastructure	Unit-of-production
Vehicles	3-6 years
Buildings	7-20 years
Office equipment	2-8 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 expensed in the period in which that determination is made.

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 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.



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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 loss.

#### **(i) Intangible assets**

Identifiable intangible assets are recorded at fair value on the date of acquisition. Subsequent to initial recognition, they are recorded at cost less accumulated amortization and accumulated impairment losses. 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 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 commenced once the Company became entitled to receive cash flows. Amortization expense resulting from intangible assets, other than the retained interest royalty, is included in amortization and depletion expense on the Consolidated Statements of Operations. Amortization and depletion for the retained interest royalty is included in other (loss) / income on the Consolidated Statements of Operations. The estimated useful lives of the Company's intangible assets with a finite useful life are as follows:

<u>Asset</u>	<u>Useful life</u>
Transmission rights	7-20 years
Software	1-3 years
Retained interest royalty	Units of production

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### **(j) Goodwill**

Goodwill represents the difference between the consideration transferred in a business combination 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 loss 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 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 previously been impaired are tested for a possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed, or may have partially 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) Impairment of investments in associate and joint venture**

The carrying amounts of investments in associate and joint venture 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. Indicators of impairment include observable data suggesting a measurable decrease in the estimated future cash flows of the joint venture or associate operations. If the carrying amount of an associate or joint venture 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 loss as the excess of the carrying amount over the recoverable amount.

### **(n) Flow-through shares**

The Company may issue flow-through common shares to finance its Canadian exploration program. Pursuant to the Canadian Income Tax Act and the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. Proceeds received from flow-through share agreements are separated into a liability and share capital. The liability, which represents the obligation to renounce flow-through exploration expenditures, is calculated as the excess of cash consideration received over the market price of the Company’s shares on the agreement’s



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closing date. Upon qualifying exploration expenditures being incurred, the Company derecognizes the liability and recognizes it as other income. The related deferred tax expense is also recognized at the time the expenditures are incurred.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced, in accordance with the Canadian Income Tax Act flow-through regulations. When applicable, the estimated tax payable is accrued until paid.

### **(o) 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.

Reclamation provisions are recognized at the time an environmental disturbance occurs and are measured at the Company's best estimate of the expected future cash flows required to reclaim the disturbance for each mine operation, which are adjusted to reflect inflation, and discounted to their present value. The inflation rate used is determined based on external forecasts for inflation in the country in which the related mine operates. 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 instances where the capitalized cost of the related assets is nil, or will be reduced to nil, the remaining adjustment is recognized as a gain or loss 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.

### **(p) 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 trade payables and accrued liabilities, with offsetting charges to cost of sales (production costs) or general and administrative expense.



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### **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 on an undiscounted basis at the amounts expected to be paid when the liabilities are settled.

### **(q) 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 as compensation expense over the vesting period, based on the number of options that are expected to vest. A corresponding increase is recognized in equity. The fair values of the Company's deferred share units, performance share units, and equity-settled restricted 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 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 loss 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.

### **(r) Income taxes**

Income tax expense is comprised of current and deferred income tax. Current and deferred income taxes are recognized in net loss 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



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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.

### (s) Loss per share

Basic loss per share is calculated based on the weighted average number of common shares and common share equivalents outstanding for the period. Diluted loss per share is calculated using the treasury method, except when assessing the dilution impact of convertible senior notes, restricted share units and performance shares units, where the if-converted method is used. The treasury method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares, are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average market price of the common shares for the period. The if-converted method assumes that all convertible senior notes, restricted share units, and performance share units have been converted in determining fully diluted loss per share if they are in-the-money, except where such conversion would be anti-dilutive.

### (t) 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:

Asset / Liability	Classification	Subsequent Measurement
Cash and cash equivalents	Fair value through profit or loss	Fair value
Receivables	Loans and receivables	Amortized cost
Prepayment option embedded derivative	Fair value through profit or loss	Fair value
Contingent consideration	Fair value through profit or loss	Fair value
Investments	Available-for-sale	Fair value
Warrants held	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 loss. Financial assets classified as available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income (“OCI”).

Investments in equity securities classified as available-for-sale financial assets 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 reclassified to net loss.

The senior secured notes represent a financial liability with an embedded derivative. The debt component of the senior secured notes is presented within debt and equipment financing obligations on the Consolidated Balance Sheets. The embedded derivative, which is an option that represents a derivative asset to the Company, will be recognized as an offset to debt and equipment financing obligations on the Consolidated Balance Sheets. The debt component 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. Subsequently, the debt component is recognized at amortized cost using the effective interest rate method. The embedded derivative represents the prepayment option and is classified as a financial asset at fair value through profit or loss. The embedded derivative is subsequently recognized at fair value with changes in fair value recognized in net loss. Interest



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expense relating to the debt component is also recognized in net loss, with the exception of interest expense capitalized as borrowing costs in accordance with note 4(h).

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, represent 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 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 loss. Interest expense relating to the debt component is also recognized in net loss, with the exception of interest expense capitalized as borrowing costs in accordance with note 4(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 for similar instruments, reference to current market value of another instrument which is substantially the same, discounted cash flow analysis, 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 modifications are made to a financial liability that are not considered to be substantial, the transaction costs related to this modification are combined with the carrying amount, and amortized over the life of the instrument using the effective interest rate method. If modifications are made that are considered to be substantial, the transaction costs related to the modification are expensed.

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 loss unless they are designated in a valid cash flow hedging relationship (note 4(u)), 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.

### **(u) 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 loss. Amounts accumulated in equity are recycled to net loss in the period in which the hedged item will affect net loss. 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 loss. 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 loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### (v) 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.

### (w) Standards issued but not yet adopted

For the purposes of preparing and presenting the Company's consolidated financial statements, the Company has adopted all applicable 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, 2014. Standards and interpretations issued, but not yet adopted include:

	Effective for the Company
Amendments to IAS 19, <i>Employee Benefits</i>	January 1, 2015
Amendments to IAS 16, <i>Property, Plant and Equipment</i>	January 1, 2016
Amendments to IAS 28, <i>Investments in Associates and Joint Ventures</i>	January 1, 2016
Amendments to IAS 38, <i>Intangibles</i>	January 1, 2016
Amendments to IFRS 10, <i>Consolidated Financial Statements</i>	January 1, 2016
Amendments to IFRS 11, <i>Joint Arrangements</i>	January 1, 2016
IFRS 15, <i>Revenue from Contracts with Customers</i>	January 1, 2017
IFRS 9, <i>Financial Instruments</i>	January 1, 2018

In November 2013, the IASB issued amendments to IAS 19, *Employee Benefits*, which clarify benefit and medical cost actuarial assumptions used in calculation of the present value of defined benefit obligations and current service cost. These amendments are effective for annual periods beginning on or after July 1, 2014. This amendment is not anticipated to impact the Company's consolidated financial statements as there are no defined benefit obligations.

In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangibles*. These amendments prohibit the use of revenue-based depreciation methods for property, plant and equipment and limit the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively. These amendments are not anticipated to impact the Company's consolidated financial statements as revenue-based depreciation or amortization methods are not used.

In September 2014, the IASB issued amendments to IAS 28, *Investments in Associates and Joint Ventures*, and IFRS 10, *Consolidated Financial Statements*. These amendments address a conflict between IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. These amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

In May 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements*. The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The standard replaces IAS 11, *Construction Contracts*; IAS 18, *Revenue*; IFRIC 13, *Customer Loyalty Programmes*; IFRIC 15, *Agreements for the Construction of Real Estate*; IFRIC 18, *Transfer of Assets from Customers*; and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*. This standard establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is effective for annual periods beginning on or after January 1, 2017, and permits early adoption. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*, which will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The replacement standard provides a new model for the classification and measurement of financial



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instruments. The IASB has determined the revised effective date for IFRS 9 will be for annual periods beginning on or after January 1, 2018. The Company will evaluate the impact of the change to the consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

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### 5. 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 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 values inventory at the lower of cost and net realizable value. The calculation of net realizable value relies on forecasted gold prices, estimated grades of ore on stockpiles and heap leach pads, forecasted exchange rates, and estimated costs to complete the processing of ore inventory.
- 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 9 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 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 impact 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



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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 future cash flows in order to calculate the recoverable amount of the retained interest royalty for the purpose of impairment testing. Future cash flows are 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, 2014 and 2013. These judgements did not impact cash generating units that contain goodwill at December 31, 2014, or 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.
- 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.

### **6. Receivables**

	December 31 2014	December 31 2013
Trade receivables	\$ 396	\$ 1,012
Value-added tax receivable	10,814	14,888
Advances	767	1,658
Other	2,099	11,696
	<u>\$ 14,076</u>	<u>\$ 29,254</u>

Included in value-added tax receivable was \$3,535 and \$7,279 collectible from the Government of Canada and Government of Mexico, respectively, at December 31, 2014 (December 31, 2013 - \$7,340 and \$7,548, respectively).

Included in other receivables at December 31, 2014 is a receivable from the Company's joint venture (see note 9) of \$2,099 (December 31, 2013 - \$1,442). In the prior year, other receivables also included an insurance receivable of \$10,254 relating to the settlement of a lawsuit (see note 16(b)).

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 2014	December 31 2013
Supplies	\$ 20,286	\$ 17,391
Ore stockpiles	22,025	35,122
Ore in process	132,035	117,984
Finished goods	1,926	7,842
	<u>176,272</u>	<u>178,339</u>
Less: Long-term inventories	<u>(103,156)</u>	<u>(93,696)</u>
	<u>\$ 73,116</u>	<u>\$ 84,643</u>

During the years ended December 31, 2014 and 2013, the carrying value of the El Chanate ore in process heap leach inventory and the Young-Davidson low grade stockpile inventory exceeded their net realizable values. As a result, the



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Company recognized net realizable value adjustments, 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 totaling \$23,534 for the year ended December 31, 2014 (2013 - \$42,069) have been allocated on a pro-rata basis between production costs and amortization and depletion based on their relative values at December 31, 2014 and 2013.

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

	Year ended	
	December 31 2014	December 31 2013
Operating production costs	\$ 182,085	\$ 114,555
Net realizable value adjustment		
El Chanate	13,885	23,376
Young-Davidson	3,339	10,050
Production costs	\$ 199,309	\$ 147,981
Operating amortization and depletion	\$ 115,158	\$ 56,886
Net realizable value adjustment		
El Chanate	4,139	2,083
Young-Davidson	2,171	6,560
Amortization and depletion	\$ 121,468	\$ 65,529

Ore inventories carried at net realizable value totalled \$141,038 at December 31, 2014 (December 31, 2013 - \$74,074).

Ore in process inventory at December 31, 2014 included \$3,383 (December 31, 2013 - \$6,095) 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 net loss as the related inventory is sold.



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### 8. Investments

	December 31, 2014		Year ended December 31, 2014	
	Cost	Fair value	Unrealized gains/(losses) included in OCI	Realized & unrealized gains/(losses) included in net loss
	Securities - available for sale	\$ 1,964	\$ 184	\$ 2,512
Reclassification to net loss	-	-	2,507	(2,507)
	\$ 1,964	\$ 184	\$ 5,019	\$ 4,124
Securities - fair value through profit or loss	235	-	-	-
Warrants - fair value through profit or loss	494	-	-	(42)
	\$ 2,693	\$ 184	\$ 5,019	\$ 4,082

	December 31, 2013		Year ended December 31, 2013	
	Cost	Fair value	Unrealized gains/(losses) included in OCI	Realized & unrealized gains/(losses) included in net loss
	Securities - available for sale	\$ 20,948	\$ 15,510	\$ (5,331)
Reclassification to net loss	-	-	168	(168)
	\$ 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)
	\$ 21,677	\$ 15,551	\$ (5,163)	\$ (665)

During the year ended December 31, 2014, the Company sold shares in various publicly listed entities for total proceeds of \$23,284.

During the year ended December 31, 2013, the Company purchased shares and warrants with a total cost of \$21,272. The cost of the shares and warrants were determined based on their fair value on the date of acquisition.



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### 9. Investments in associate and joint venture

#### (a) Orion development project

The Company and Minera Frisco S.A. de C.V. ("Minera Frisco") each own shares representing a 50% ownership interest in Nayarit Gold de Mexico, S.A. de C.V., an entity with ownership of the Orion development project. The Company and Minera Frisco have joint control over the joint venture company.

The following table contains selected financial information for a 100% interest in the joint venture at December 31, 2014 and 2013:

	December 31 2014	December 2013
Current assets	338	308
Property, plant and equipment & mining interests	55,828	54,836
Total assets	<u>\$ 56,166</u>	<u>\$ 55,144</u>
Current liabilities	2,343	1,467
Deferred income tax liability	18,219	17,817
Total liabilities	<u>\$ 20,562</u>	<u>\$ 19,284</u>
Net assets of joint venture	<u>\$ 35,604</u>	<u>\$ 35,860</u>
Ownership interest	50%	50%
Net investment in joint venture	<u>\$ 17,802</u>	<u>\$ 17,930</u>
Net investment, beginning of year	<u>\$ 17,930</u>	<u>\$ 20,463</u>
Share of net loss during the period	<u>(128)</u>	<u>(2,533)</u>
Net investment, end of year	<u>\$ 17,802</u>	<u>\$ 17,930</u>

Included in current liabilities of the joint venture at December 31, 2014 was a payable due to the Company of \$2,099 (December 31, 2013 - \$1,442). The Company has included a corresponding amount in receivables on the Consolidated Balance Sheets at December 31, 2014 and 2013.

At December 31, 2014, the Company did not have any significant commitments or contingent liabilities related to this joint venture.

#### (b) Investment in Carlisle Goldfields Limited ("Carlisle")

On November 11, 2014, the Company announced that it had formed a strategic partnership with Carlisle on properties within the Lynn Lake Gold Camp in northern Manitoba, Canada. As part of this partnership, the Company subscribed to 70,600,000 common shares of Carlisle, representing approximately 19.9% of the issued and outstanding common shares, for total consideration of \$4,993 (CAD \$5,648). After including transaction fees, the total opening cost base of the investment was \$5,674. In addition, the Company entered into a separate agreement with respect to the Lynn Lake development project, and acquired a 25% interest in the project for \$4,415 (CAD \$5,000). These amounts have been recognized within property, plant and equipment & mining interests on the Consolidated Balance Sheets. The Company has the option to earn up to an additional 35% interest by funding CAD \$20,000 on the development of the project and delivering a feasibility study within a three-year time period.



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The Company has concluded that it has significant influence over the financial and operating policy decisions of Carlisle and, therefore, has used the equity method of accounting for this investment in associate. The following table contains the continuity of the Company's investment in Carlisle at December 31, 2014:

	December 31 2014
Net investment, beginning of year	-
Investment in associate during period	5,674
Share of net loss during the period	(42)
Net investment, end of year	\$ 5,632

### 10. Other long-term assets

	December 31 2014	December 31 2013
Restricted cash in closure bonds	\$ 16,007	\$ 26,249
Other restricted cash	717	5,230
Investment tax credits recoverable	33,347	36,508
Deposits on property, plant and equipment, and mining interests	971	4,001
	\$ 51,042	\$ 71,988

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. At December 31, 2013, restricted cash in closure bonds also included an amount related to reclamation obligations at Young-Davidson (note 24).

At December 31, 2014, other restricted cash included amounts relating to the repayment of the convertible senior notes (note 14(c)). At December 31, 2013, other restricted cash consisted of letters of credit issued against certain of the Company's bank accounts relating to site infrastructure, site closure, and other mine activities. During the year ended December 31, 2014, the Company provided other forms of security against these letters of credit.

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.

Included in deposits on property, plant, and equipment, and mining interests at December 31, 2014 is an advance of \$788 (December 31, 2013 - \$nil) to Carlisle relating to ongoing work on the Lynn Lake development project (see note 9).



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### 11. Property, plant and equipment & mining interests

	Plant and equipment	Mining interests		Exploration and evaluation	Total
		Depletable	Non-depletable		
<b>Cost</b>					
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
Additions	64,328	85,706	7,271	20,252	177,557
Reclassifications	-	11,775	(11,775)	-	-
Disposals	(7,758)	-	-	-	(7,758)
At December 31, 2014	\$ 717,736	\$ 1,210,573	\$ 19,351	\$ 92,899	\$ 2,040,559
<b>Accumulated amortization and depletion and impairment charges</b>					
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)
Amortization and depletion	(32,798)	(86,808)	-	-	(119,606)
Impairment charges	(22,316)	(67,684)	(1,006)	(616)	(91,622)
Disposals	4,204	-	-	-	4,204
At December 31, 2014	\$ (107,240)	\$ (288,393)	\$ (5,580)	\$ (616)	\$ (401,829)
<b>Carrying value</b>					
At December 31, 2013	\$ 604,836	\$ 979,191	\$ 19,281	\$ 72,647	\$ 1,675,955
At December 31, 2014	\$ 610,496	\$ 922,180	\$ 13,771	\$ 92,283	\$ 1,638,730

The carrying values by component are as follows:

	Plant and equipment	Mining interests		Exploration and evaluation	Total
		Depletable	Non-depletable		
El Chanate	\$ 9,403	\$ 29,173	\$ 1,304	\$ -	\$ 39,880
Young-Davidson	573,485	893,007	12,467	-	1,478,959
Corporate and other	27,608	-	-	92,283	119,891
At December 31, 2014	\$ 610,496	\$ 922,180	\$ 13,771	\$ 92,283	\$ 1,638,730
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

During the year ended December 31, 2014, \$5,286 (year ended December 31, 2013 - \$8,409) 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 8.09% (year ended December 31, 2013 - 5.82%).



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The carrying value of equipment pledged as security for related equipment financing obligations at December 31, 2014 was \$23,945 (December 31, 2013 - \$22,175).

The carrying value of construction in progress at December 31, 2014 was \$57,057 (December 31, 2013 - \$70,025).

The Company has made commitments to acquire property, plant and equipment totaling \$9,189 at December 31, 2014 (December 31, 2013 - \$10,981).

### 12. Intangible assets and goodwill

Included in intangible assets are the rights to use the capacity of power lines connecting the El Chanate and Young-Davidson mines to national / provincial electricity grids (“transmission rights”), software assets, and the retained interest royalty.

	Intangible assets					Total
	Goodwill	Retained interest royalty	Transmission rights	Software	Total intangible assets	
<b>Cost</b>						
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
Additions	-	-	254	321	575	575
At December 31, 2014	\$ 475,214	\$ 34,004	\$ 21,272	\$ 2,930	\$ 58,206	\$ 533,420
<b>Accumulated amortization and impairment charges</b>						
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)
Amortization	-	(13,288)	(1,044)	(266)	(14,598)	(14,598)
At December 31, 2014	\$ (233,521)	\$ (13,288)	\$ (3,001)	\$ (2,284)	\$ (18,573)	\$ (252,094)
<b>Carrying value</b>						
At December 31, 2013	\$ 241,693	\$ 34,004	\$ 19,061	\$ 591	\$ 53,656	\$ 295,349
At December 31, 2014	\$ 241,693	\$ 20,716	\$ 18,271	\$ 646	\$ 39,633	\$ 281,326

As part of the consideration received from the sale of the Fosterville and Stawell mines (collectively, the “Australian Operations”) on May 4, 2012 to Crocodile Gold Corporation (“Crocodile Gold”), the Company received a retained interest royalty. Per the agreement, once the cumulative free cash flow generated by the mines subsequent to closing reached CAD \$60 million, the Company would 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 would receive 20% of any cumulative free cash flow in excess of CAD \$120 million.

During 2014, the Company was notified that the Australian Operations had generated in excess of CAD \$60 million and, as a result, received proceeds of \$2,463 from Crocodile Gold (year ended December 31, 2013 - \$nil). Consistent with the Company’s accounting policy, amortization of the retained interest royalty commenced once the Company became entitled to receive cash flows under this arrangement. During the year ended December 31, 2014, the Company recognized amortization expense of \$13,288 on the retained interest royalty, which reduced the carrying value of this asset to \$20,716.

On December 22, 2014, the Company announced that it had entered into an agreement with Crocodile Gold to amend the original purchase and sale agreement, subject to regulatory approvals, such that the retained interest royalty intangible asset would be terminated. As consideration for the termination of the retained interest royalty, the Company will receive a CAD \$20 million payment in cash upon closing and will be granted a net smelter return royalty of 2% from the Fosterville mine and 1%



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from the Stawell mine. The Fosterville royalty will commence upon closing and the Stawell mine royalty will commence on the earlier of January 1, 2016 or the date immediately following the production of 10,000 ounces from the Big Hill Project. The agreement was finalized on January 14, 2015 following the receipt of regulatory approval (see note 28).

### 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 25).

The key assumptions used in determining FVLCD at December 31, 2014 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 Young-Davidson CGU to exceed their recoverable amounts, as outlined below in (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 range of \$1,250 to \$1,300 per ounce for all future production in its impairment tests (December 31, 2013 - \$1,300 per ounce).

The Company forecasts production, operating costs and capital expenditures based on expected life of mine plans developed from technical reports and historical 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 2014	December 31 2013
EI Chanate CGU	6.75%	6.50%
Young-Davidson CGU	5.50%	5.25%

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, 2013 – 1.0 and 1.05) 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 EI Chanate CGU is comprised of all assets and liabilities related to the EI Chanate mine. At December 31, 2014, the Company updated its mine plan at EI Chanate. The revised mine plan contained a decrease in gold reserve estimates, an increase in strip ratio, which indicates an increase in the amount of waste tonnes required to access a tonne of ore, and an increase in future processing costs on a per ounce basis. Reserve estimates decreased and the strip ratio increased primarily due to a reduction in overall slope angles. The reduction in planned slope angles came after an external geotechnical review of geotechnical drilling, mapping, and slope performance. This change was considered an indicator of impairment and resulted in the Company performing an impairment test at December 31, 2014. At December 31, 2014, the carrying value of the EI Chanate CGU exceeded its recoverable amount by \$90,000, which resulted in an impairment charge. This charge



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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consisted of a reduction in property, plant and equipment and mining interests of \$90,000. The related income tax impact was a deferred tax recovery of \$28,647.

At December 31, 2013, the carrying value of the El 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 El Chanate CGU exceeded its recoverable amount by \$80,000, which resulted in recognizing an impairment charge related entirely to goodwill. The primary contributors to the impairment charges in 2013 were the revised short-term and long-term gold price assumptions.

The total impairment charge recorded for the year ended December 31, 2013 was \$154,000.

### (b) *Young-Davidson CGU*

The carrying value of goodwill resulting from the acquisition of Northgate Minerals Corporation 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, 2014, the recoverable amount of the Young-Davidson CGU exceeded its carrying value by \$194,793 (December 31, 2013 - \$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 6.96%
- 6.89% decline in gold price assumptions
- 14.68% strengthening of the Canadian dollar
- 19.67% increase in operating costs
- Decrease in NAV multiple to 0.93

### (c) *Retained interest royalty*

At December 31, 2014, there were no indicators of impairment of the retained interest royalty held by the Company, and therefore, no impairment test was performed.

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. 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.

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.

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, 2014, the Company discontinued various brownfield exploration programs, and recognized an impairment charge of \$1,622 and a deferred tax recovery of \$475.

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.

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### 14. Debt and equipment financing obligations

	December 31 2014	December 31 2013
(a) Revolving credit facility	\$ -	\$ 75,000
(b) Senior secured notes	296,755	-
(c) Convertible senior notes	624	157,133
(d) Equipment financing obligations	16,525	17,522
(e) Other	468	1,894
	<u>314,372</u>	<u>251,549</u>
Less: Current portion of debt and equipment financing obligations	<u>(6,308)</u>	<u>(7,355)</u>
	<u>\$ 308,064</u>	<u>\$ 244,194</u>

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

2015	\$ 31,282
2016	\$ 29,649
2017	\$ 27,939
2018	\$ 26,675
2019	\$ 25,339
2020 and thereafter	\$ 327,206

#### (a) *Revolving credit facility*

The Company has access to a \$150,000 revolving credit facility that 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.

The credit facility contains various covenants that include (a) an interest coverage ratio of at least 3:1, (b) a leverage ratio of no more than 3:1, (c) a minimum tangible net worth, 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, 2014, the Company was in compliance with all covenants.

During the year ended December 31, 2014, the Company made a repayment of \$75,000 (year ended December 31, 2013 - \$nil).

#### (b) *Senior secured notes*

On March 27, 2014, the Company completed an offering of \$315,000 senior secured notes (the "secured notes"), secured by a second-ranking lien on all present and future assets, property and undertaking of the Company. These secured notes were sold at 96.524% of par, resulting in total proceeds of \$304,051. The secured notes pay interest in semi-annual installments on April 1 and October 1 of each year, commencing on October 1, 2014, at a rate of 7.75% per annum, and mature on April 1, 2020. The Company incurred transaction costs of \$7,838, which have been offset against the carrying amount of the secured notes and are amortized using the effective interest rate method. These notes contain transaction-based restrictive covenants that limit the Company's ability to incur additional indebtedness in certain circumstances. There are no covenants that are based on the Company's historical financial performance.

The senior secured notes indenture grants the Company the option to prepay the notes prior to the maturity of the instruments, and specifies a premium during each applicable time period. These prepayment options have been accounted for as embedded derivatives, and are outlined below:

- Subsequent to April 1, 2017, the secured notes may be repurchased at 103.875% of par value
- Subsequent to April 1, 2018, the secured notes may be repurchased at 101.938% of par value
- Subsequent to April 1, 2019, the secured notes may be repurchased at 100% of par value



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The fair value of the prepayment option embedded derivative was \$5,954 at March 27, 2014, and was offset against the carrying amount of the secured notes. The model used to calculate this fair value is described in note 25. The initial fair value was calculated using the following assumptions:

	March 27 2014
Volatility	32%
Credit spreads	5.54%

Changes in these assumptions would have the following impact on net loss for the year ended December 31, 2014:

	March 27 2014
2% increase in volatility	\$ 567
2% decrease in volatility	\$ (567)
0.5% increase in credit spreads	\$ (756)
0.5% decrease in credit spreads	\$ 851

At December 31, 2014, the fair value of the prepayment option embedded derivatives of \$6,741 (refer to note 25) was offset against the carrying amount of the secured notes. The difference between the fair value at December 31, 2014 and March 27, 2014 is recognized in other (loss) / income (refer to note 20).

### (c) *Convertible senior notes*

On March 6, 2014, the Company announced a cash tender offer to redeem all of the outstanding convertible senior notes ("convertible notes"). The consideration offered was \$1.04 per \$1.00 note plus accrued and unpaid interest to the payment date. The Company received tender offers for \$166,354 of the \$167,000 principal amount outstanding. This was considered a substantial modification of the existing arrangement with the holders of the Company's convertible notes. As a result, the Company de-recognized the convertible notes on the date of substantial modification. The convertible notes were re-recognized at their fair value on the same date. This resulted in a loss on modification of \$15,645, which has been included in other (loss) / income on the Consolidated Statement of Operations for the year ended December 31, 2014 (refer to note 20). On April 3, 2014, the Company paid \$173,041 including \$32 of accrued interest, to complete the cash tender offer to redeem the outstanding convertible notes tendered.

At December 31, 2014, convertible notes with a principal amount of \$646 (December 31, 2013 - \$167,000) remained outstanding at a carrying value of \$624 (December 31, 2013 - \$157,133) for the debt component and \$nil (December 31, 2013 - \$413) for the option component. These notes pay interest semi-annually at a rate of 3.5% 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 December 1, 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 share. Upon conversion, the Company may settle the obligation either in common shares, or in cash at an equivalent value.

As required by conditions surrounding the completion of the secured notes offering, at December 31, 2014, the Company has restricted \$680 of proceeds from the secured notes offering for repayment of all principal and interest relating to any convertible notes that were not tendered. These restricted proceeds are included within other long-term assets on the Consolidated Balance Sheets at December 31, 2014.

### (d) *Equipment financing obligations*

The Company has entered into financing obligations for equipment, which expire at various dates between 2015 and 2019 and that are secured by the financed assets. Interest payable on the various obligations ranges from fixed rates of 2.71% to



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5.77%. During the year ended December 31, 2014, the Company received proceeds of \$5,931 (year ended December 31, 2013 - \$4,813) from equipment financing arrangements.

(e) *Other*

During 2013, the Company purchased land near the El Chanate mine and entered into loan agreements as part of the consideration. During the year ended December 31, 2014, the Company made repayments of \$1,426 on these loan agreements (year ended December 31, 2013 - \$nil).

### 15. Flow-through shares

On September 17, 2014, the Company completed a flow-through financing for gross proceeds of \$4,566 (\$5,000 CAD). As a result, the Company issued 833,334 common shares at a price of CAD \$6.00 per share.

Pursuant to the terms of the flow-through agreement, the Company is required to incur and renounce \$5,000 CAD in qualifying Canadian Exploration Expenses to subscribers by December 31, 2015. As at December 31, 2014, \$3,091 CAD in exploration expenses are remaining to be incurred.

Of the \$4,566 in proceeds received, \$3,097 was recorded as share capital and \$1,469 was recorded as an obligation to renounce flow-through exploration expenditures on the Consolidated Balance Sheets. The following is a continuity schedule of the liability portion of the flow-through share issuance:

	<u>December 31, 2014</u>
Obligation to renounce flow-through exploration expenditures	\$ 1,469
Reduction of obligation upon incurring expenses	(612)
Balance, end of year	<u>\$ 857</u>

### 16. Provisions

	<u>December 31 2014</u>	<u>December 31 2013</u>
(a) Reclamation provisions	\$ 29,178	\$ 28,245
(b) Provision for lawsuit	-	12,458
Other	<u>2,407</u>	<u>3,832</u>
	31,585	44,535
Less: Current portion of provisions	<u>(2,056)</u>	<u>(15,955)</u>
	<u>\$ 29,529</u>	<u>\$ 28,580</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 \$29,178 (December 31, 2013 - \$28,245), reflecting ongoing payments relating to Kemess South, and future payments that will commence in 9 - 20 years for the Company's operating mines. The undiscounted value of the reclamation provision at December 31, 2014 is \$38,903 (December 31, 2013 - \$42,263). 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, and then discounted to present value.



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The discount and inflation rates used are summarized as follows:

	December 31 2014	December 31 2013
Discount rates		
El Chanate	5.90%	6.33%
Young-Davidson	2.41%	3.24%
Kemess South	1.34%	1.95%
Inflation rates		
El Chanate	3.25%	3.10%
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 2014
Reclamation provisions, beginning of period	\$ 28,245
Obligations incurred and revisions to estimates	570
Accretion expense	851
Reclamation expenditures	(488)
Reclamation provisions, end of period	29,178
Less: Current portion	(424)
	<u>\$ 28,754</u>

Of the \$570 of adjustments made to reclamation provisions during the year, \$1,175 was capitalized and included in property, plant and equipment & mining interests on the Consolidated Balance Sheets and \$605 was recognized as a recovery in reclamation, care and maintenance costs on the Consolidated Statements of Operations.

(b) *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 ranging 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. At December 31, 2013, the net settlement amount was held in escrow pending settlement of the lawsuit, and was included in restricted cash on the Consolidated Balance Sheets. Following the completion of the claims administration process which was conducted pursuant to a court-approved settlement agreement, funds related to this lawsuit were distributed by an administrator to eligible class members in April 2014. At the settlement payment date, the Company reduced the current portion of provisions on the Consolidated Balance Sheets by \$12,016, which was partially offset by a corresponding decrease in receivables of \$9,890 and restricted cash of \$2,126, the latter of which represents the net settlement amount paid by the Company.



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### 17. Income taxes

The following table represents the major components of income tax recovery recognized in the Consolidated Statements of Operations for the years ended December 31, 2014 and 2013:

	December 31 2014	December 31 2013 Restated (Note 3)
Current income tax recovery	\$ (2,700)	\$ (140)
Deferred income tax recovery	(26,278)	(760)
Provision for income taxes	<u>\$ (28,978)</u>	<u>\$ (900)</u>

Included within deferred income tax recovery for the year ended December 31, 2014 is a foreign exchange gain of \$25,368 (year ended December 31, 2013 – foreign exchange gain of \$15,216) that arose on the translation of deferred tax assets and liabilities.

The following table reconciles the expected income tax recovery at the statutory income tax rate to the amounts recognized in the Consolidated Statements of Operations for the years ended December 31, 2014 and 2013:

	December 31 2014	December 31 2013 Restated (Note 3)
Loss before income taxes	\$ (198,626)	\$ (177,670)
Income tax rate	25.21%	25.20%
Expected income tax recovery based on above rates	(50,074)	(44,773)
Effect of higher tax rates in foreign jurisdictions	(5,413)	(14,643)
Non-deductible stock option expense	1,470	1,583
Non-deductible loss on settlement of debt	2,251	-
Effect of non-deductible goodwill impairment	-	37,513
Impact of local mining taxes	(2,242)	7,037
Impact of changes in tax rates applicable to temporary differences	-	3,207
Permanent differences	(399)	(1,185)
Change in unrecognized temporary differences	959	-
Impact of foreign exchange	24,470	10,361
Provision for income taxes	<u>\$ (28,978)</u>	<u>\$ (900)</u>

The statutory tax rate for 2014 was 25.21% (2013 – 25.20%), which is consistent with the prior year.

The following reflects the deferred income tax liability at December 31, 2014 and December 31, 2013:

	December 31 2014	December 31 2013
Accounting value of mineral properties and capital assets in excess of tax value	\$ 251,149	\$ 281,457
Accounting value of inventories in excess of tax value	38,147	34,670
Unrealized foreign exchange loss	-	(619)
Other taxable temporary differences	2,974	883
Non-capital losses carried forward	(31,368)	(29,211)
Deferred income tax liability	<u>\$ 260,902</u>	<u>\$ 287,180</u>



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

	December 31 2014	December 31 2013 Restated (Note 3)
Balance, beginning of year	\$ 287,180	\$ 288,131
Deferred income tax recovery recognized in net loss	(26,278)	(760)
Deferred income tax liability recognized in retained earnings	-	(191)
Deferred income tax liability	<u>\$ 260,902</u>	<u>\$ 287,180</u>

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

	Canada	Mexico	United States	Total
2023	-	5,514	-	5,514
2024	862	13,367	-	14,229
2025	6,679	-	-	6,679
2026	14,388	-	-	14,388
2027	5,474	-	1,448	6,922
2028	25,242	-	5,760	31,002
2029	11,858	-	7,831	19,689
2030	5,223	-	5,248	10,471
2031	12,940	-	-	12,940
2032	26,417	-	-	26,417
At December 31, 2014	<u>\$ 109,083</u>	<u>\$ 18,881</u>	<u>\$ 20,287</u>	<u>\$ 148,251</u>

The Company has unrecognized deferred income tax assets in respect of aggregate loss carryforwards, deductible temporary differences and unused tax credits of \$60,743 (December 31, 2013 - \$28,649).

At December 31, 2014, the Company has unrecognized deferred income tax liabilities on taxable temporary differences of \$167,919 (December 31, 2013 - \$174,485) for taxes that would be payable on the unremitted earnings of certain subsidiaries of the Company.



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### 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, 2014		December 31, 2013	
	Number of common shares	Ascribed value	Number of common shares	Ascribed value
Balance, beginning of period	247,569,811	\$ 2,021,837	282,326,547	\$ 2,307,978
Shares repurchased and cancelled	-	-	(36,144,578)	(295,536)
Shares issued through dividend reinvestment plan	488,253	1,924	467,797	1,969
Shares issued through employee share purchase plan	594,690	2,323	390,032	2,008
Shares issued on redemption of restricted share units	109,916	445	-	-
Shares issued on redemption of deferred share units	52,065	359	71,845	499
Shares issued on exercise of stock options	548	2	458,168	3,094
Fair value of share-based compensation on stock options exercised	-	4	-	1,825
Shares issued through flow-through financing (Note 15)	833,334	3,097	-	-
Balance, end of period	<u>249,648,617</u>	<u>\$ 2,029,991</u>	<u>247,569,811</u>	<u>\$ 2,021,837</u>

During the year ended December 31, 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, the premium paid, including transaction costs, of \$5,353 was recognized in deficit, and \$177 was recognized as deferred tax.

#### (b) Dividends

Commencing in 2014, quarterly dividends representing 20% of operating cash flow generated in the preceding quarter were declared and paid as follows:

- On May 8, 2014, the Company's Board of Directors approved a dividend of \$0.02 per share, payable to shareholders of record on May 20, 2014, and paid on June 3, 2014.
- On August 7, 2014, the Company's Board of Directors approved a dividend of \$0.00375 per share, payable to shareholders of record on August 18, 2014, and paid on September 2, 2014.
- On November 6, 2014, the Company's Board of Directors approved a dividend of \$0.00225 per share, payable to shareholders of record on November 17, 2014, and paid on December 1, 2014.

The fourth quarter dividend was declared on February 19, 2015 (refer to note 28).

In 2013, the Company declared an annual dividend of \$0.16 per share (\$0.04 paid quarterly).

#### (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.



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The fair value of the options granted during the years ended December 31, 2014 and 2013 were calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	December 31 2014	December 31 2013
Dividend yield	2.57%	2.27%
Expected volatility	56.13%	55.06%
Risk free interest rate	1.04%	1.25%
Expected life	2.76 years	2.98 years
Exercise price	\$ 4.03	\$ 4.90
Share price	\$ 3.83	\$ 4.92
Grant date fair value	\$ 1.14	\$ 1.62

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

	December 31, 2014		December 31, 2013	
	Options	Weighted average price	Options	Weighted average price
Outstanding, beginning of period	11,313,300	\$ 7.29	10,239,564	\$ 8.24
Granted	3,349,645	\$ 4.03	3,251,179	\$ 4.90
Forfeited	(117,917)	\$ 7.02	(167,500)	\$ 9.87
Expired	(770,795)	\$ 10.73	(1,551,775)	\$ 8.39
Exercised	(548)	\$ 2.85	(458,168)	\$ 6.76
Outstanding, end of period	<u>13,773,685</u>	\$ 6.42	<u>11,313,300</u>	\$ 7.29
Options exercisable, end of period	<u>7,144,059</u>	\$ 7.61	<u>5,171,118</u>	\$ 8.19

During the year ended December 31, 2014, employees, consultants, officers and directors of the Company exercised 548 options (year ended December 31, 2013 - 458,168) for total proceeds of \$2 (year ended December 31, 2013 - \$3,091). The weighted average share price at the date of exercise for stock options exercised during the year ended December 31, 2014 was \$5.05 (year ended December 31, 2013 - \$7.39).

Set forth below is a summary of the outstanding options to purchase common shares as at December 31, 2014:

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	325,136	\$ 3.01	1.47	285,136	\$ 2.88
\$ 4.01 - 6.00	5,689,523	\$ 4.04	4.51	819,731	\$ 4.10
\$ 6.01 - 7.00	1,491,500	\$ 6.70	2.87	1,251,500	\$ 6.69
\$ 7.01 - 7.50	888,226	\$ 7.15	3.01	501,466	\$ 7.20
\$ 7.51 - 9.00	3,235,507	\$ 8.11	3.01	2,454,592	\$ 8.10
\$ 9.01 - 9.50	722,500	\$ 9.29	3.84	554,375	\$ 9.29
\$ 9.51 - 10.00	771,543	\$ 9.74	2.12	730,009	\$ 9.75
\$ 10.01 - 10.50	150,000	\$ 10.09	3.30	112,500	\$ 10.09
\$ 10.51 - 11.00	250,000	\$ 10.95	3.87	187,500	\$ 10.95
\$ 11.01 - 12.50	249,750	\$ 11.61	2.43	247,250	\$ 11.61
Total	<u>13,773,685</u>			<u>7,144,059</u>	

(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, 2014, the Company recognized \$1,061 as an expense (year ended December 31, 2013 - \$781) related to this plan. At December 31, 2014, \$278 of the expense was payable by the Company (December 31, 2013 - \$217).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The following is a summary of the Deferred Share Units (“DSUs”), Performance Share Units (“PSUs”), and share-settled Restricted Share Units (“RSUs”) outstanding during the years ended December 31, 2014 and 2013:

	Year ended	
	December 31 2014	December 31 2013
<b>Deferred Share Units (e)</b>		
Granted	52,599	61,683
Grant date fair value	\$ 228	\$ 337
Dividend-equivalent units granted	4,080	6,112
Dividend-equivalent units grant date fair value	\$ 28	\$ 29
Redeemed	52,065	71,845
<b>Performance Share Units (f)</b>		
Granted	270,082	345,089
Grant date fair value	\$ 959	\$ 559
Dividend-equivalent units granted	7,107	2,951
Dividend-equivalent units grant date fair value	\$ 28	\$ 14
Expense	\$ 546	\$ 44
Redeemed	-	-
<b>Restricted Share Units (g)</b>		
Granted	392,764	353,580
Grant date fair value	\$ 1,349	\$ 1,553
Dividend-equivalent units granted	6,590	2,575
Dividend-equivalent units grant date fair value	\$ 29	\$ 12
Expense	\$ 1,076	\$ 472
Redeemed	109,916	-

(e) *Deferred share unit plan*

The Company awards Deferred Share Units 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 volume weighted average closing share price of the last five days prior to that date. At December 31, 2014, 253,210 DSUs were vested and outstanding (December 31, 2013 - 248,596).

(f) *Performance share unit plan*

The Company awards Performance Share Units 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 share price of the last five days prior to granting of the units. At December 31, 2014, 625,223 PSUs were outstanding (December 31, 2013 - 348,040). At December 31, 2014, no outstanding PSUs had vested (December 31, 2013 - nil).

(g) *Restricted share unit plan*

The Company awards Restricted Share Units 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 that will be cash-settled as liabilities and RSUs that will be share-settled within shareholders’ equity. RSUs are measured using the volume weighted average closing share price of the last five days prior to granting of the units. At December 31, 2014, 636,769 RSUs were outstanding (December 31, 2013 - 356,155). At December 31, 2014, 82,395 of the outstanding RSUs had vested (December 31, 2013 - 35,843).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

### 19. Loss from operations

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

	Year ended	
	December 31	December 31
	2014	2013
Cost of sales	\$ 417,343	\$ 372,453
General and administrative	25,921	27,677
Exploration and business development	2,623	5,588
	<u>\$ 445,887</u>	<u>\$ 405,718</u>

Cost of sales for the year ended December 31, 2014 includes impairment charges of \$90,000 relating to the El Chanate mine (year ended December 31, 2013 - \$154,000). These impairment charges are discussed further in note 13.

Included in general and administrative expense for the year ended December 31, 2014 is \$7,179 of share-based compensation expense (year ended December 31, 2013 - \$7,388).

Included in exploration and business development for the year ended December 31, 2014 are impairment charges of \$1,622 related to exploration properties. Included in exploration and business development for the year ended December 31, 2013 are impairment charges of \$4,574 related to brownfield exploration properties included in non-depletable mining interests. 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
	2014	2013
Salaries and benefits	\$ 42,021	\$ 26,821
Share-based compensation	8,151	7,946
Other	173	180
	<u>\$ 50,345</u>	<u>\$ 34,947</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

### 20. Other (loss) / income

	Year ended	
	December 31 2014	December 31 2013
Loss on modification of convertible notes (Note 14(c))	\$ (15,645)	\$ -
Amortization expense from retained interest royalty (Note 12)	(13,288)	-
Income from retained interest royalty (Note 12)	2,463	-
Unrealized and realized gains / (losses) on investments (Note 8)	6,589	(497)
Reclassification of accumulated losses on available-for-sale investments (Note 8)	(2,507)	(168)
Income from transfer of litigation claim (a)	3,177	-
Interest income	1,063	951
Fair value adjustment on option component of convertible senior notes (Note 25)	413	15,622
Unrealized loss on contingent consideration	-	(7,395)
Unrealized and realized losses / (gains) on derivative assets and liabilities (Note 25)	(447)	2,183
Reduction of obligation to renounce flow-through exploration expenditures (Note 15)	612	-
Fair value adjustment on prepayment option embedded derivative (Note 25)	788	-
Other	(419)	(529)
	<u>\$ (17,201)</u>	<u>\$ 10,167</u>

(a) *Income from transfer of litigation claim*

During the year ended December 31, 2014, the Company transferred its claim in bankruptcy proceedings that resulted from past losses on auction-rate securities for net proceeds of \$3,177.

### 21. Loss per share

Net loss and basic weighted average shares outstanding are reconciled to diluted net loss and diluted weighted average shares outstanding, respectively, as follows:

	Year ended	
	December 31 2014	December 31 2013
Net loss	\$ (169,648)	\$ (176,770)
Dilution adjustments:		
Convertible senior notes	-	(14,730)
Diluted net loss	<u>\$ (169,648)</u>	<u>\$ (191,500)</u>
Basic weighted average shares outstanding	248,889,636	250,398,043
Dilution adjustments:		
Convertible senior notes	-	15,331,018
Diluted weighted average shares outstanding	<u>248,889,636</u>	<u>265,729,061</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of United States dollars unless otherwise stated)

The following items were excluded from the computation of diluted weighted average shares outstanding for the years ended December 31, 2014 and 2013 because their effect would have been anti-dilutive:

	Year ended	
	December 31 2014	December 31 2013
Stock options	13,773,685	11,007,616
Convertible senior notes	60,974	-
Restricted share units	554,374	55,749
Performance share units	625,223	6,328

### 22. Supplemental cash flow information

	Year ended	
	December 31 2014	December 31 2013 Restated (Note 3)
Non-cash adjustments to reconcile net loss to operating cash flows:		
Impairment charges	\$ 91,622	\$ 158,574
Amortization and depletion	121,468	65,529
Loss on modification of convertible notes	15,645	-
Amortization of retained interest royalty	13,288	-
Unrealized foreign exchange loss	5,238	3,406
Unrealized and realized (gains) / losses on investments	(6,589)	497
Share-based compensation, net of forfeitures	7,179	7,388
Net realizable value adjustments	17,224	33,425
Reclassification of accumulated losses on available-for-sale investments	2,507	168
Income from retained interest royalty	(2,463)	-
Deferred income tax recovery	(26,278)	(760)
Fair value adjustment on option component of convertible senior notes	(413)	(15,622)
Reduction of obligation to renounce flow-through exploration expenditures	(612)	-
Equity in loss of associate and joint venture	171	2,533
Unrealized loss on contingent consideration	-	7,395
Unrealized and realized losses / (gains) on derivative assets and liabilities	447	(2,183)
Fair value adjustment on prepayment option embedded derivative	(788)	-
Other non-cash items	635	1,405
	<u>\$ 238,281</u>	<u>\$ 261,755</u>
Change in non-cash operating working capital:		
Receivables	\$ 2,176	\$ (1,800)
Current income tax receivable	22,014	8,507
Prepays and deposits	2,359	(380)
Inventories	(15,090)	(35,806)
Trade payables and accrued liabilities	(12,515)	19,696
Current income tax liability	(3,239)	(5,030)
	<u>\$ (4,295)</u>	<u>\$ (14,813)</u>
Supplemental information:		
Interest paid	\$ 17,048	\$ 7,104
Interest received	\$ 870	\$ 994
Income taxes paid	\$ 1,999	\$ 4,728



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 23. Related party disclosures

Related party transactions in 2014 included the compensation of the Company's key management personnel, a receivable from the joint venture that holds the Orion development project, and an advance to the associate entity that holds the Lynn Lake development project, as disclosed in notes 9 and 10.

Related party transactions in 2013 included the compensation of the Company's key management personnel and a receivable from the joint venture that holds the Orion development project.

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 2014	December 31 2013
Short-term employee benefits	\$ 5,349	\$ 6,047
Long-term benefits	101	39
Termination benefits	1,306	-
Share-based compensation	4,746	4,497
	<u>\$ 11,502</u>	<u>\$ 10,583</u>

### 24. 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. The Company recognized \$1,377 and \$870 relating to these arrangements in the years ended December 31, 2014 and 2013. Total royalties recognized during 2014 were based upon 400,886 ore tonnes processed.

##### *Surety bond*

The Company has indemnified a third-party company providing a surety bond required as security for closure plans at Young-Davidson. The Company is obligated to replace this security in an event of default, and is obligated to repay any reclamation or closure costs due. The Company's guarantee under the surety bond expires on completion of these closure obligations, which is estimated to be in 20 years, consistent with the estimated remaining life of the Young-Davidson mine.

#### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 25. 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 those 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).

	December 31, 2014		December 31, 2013	
	Level 1	Level 2	Level 1	Level 2
Cash	\$ 89,031	\$ -	\$ 141,125	\$ -
Short term deposits	-	-	1,527	-
Financial assets at fair value through profit or loss				
Warrants held (a)	-	-	-	41
Prepayment option embedded derivative (b)	-	6,741	-	-
Available-for-sale financial assets				
Equity investments (c)	184	-	15,510	-
Financial liabilities at fair value through profit or loss				
Option component of convertible senior notes (d)	-	-	-	(413)
Currency options (e)	-	(447)	-	-
	<u>\$ 89,215</u>	<u>\$ 6,294</u>	<u>\$ 158,162</u>	<u>\$ (372)</u>

The methods of measuring each of these financial assets and liabilities have not changed during 2014. 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, except for the senior secured notes, approximate their carrying amounts at December 31, 2014. The fair value of the senior secured notes was \$289,800 at December 31, 2014 compared to a carrying value of \$296,755, which includes the value of the prepayment option embedded derivative included in the table above. The fair value of this liability was determined using a market approach with reference to observable market prices for identical assets traded in an active market.

#### (a) Warrants held

The fair value of warrants held 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.

#### (b) Prepayment option embedded derivative

The secured notes (as discussed in note 14) contain prepayment options which represent embedded derivatives that require bifurcation from the host contract. The prepayment options are measured at fair value and offset against the carrying value of the secured notes on the Consolidated Balance Sheets, with changes in the fair value recognized as unrealized gains / (losses) in other (loss) / income on the Consolidated Statements of Operations (note 20).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The Company measures the fair value of the secured note embedded derivative using the Black-Karasinski model of interest rate uncertainty within a FinCAD callable / puttable bond model. Because the valuation is dependent on inputs derived from observable market data, the embedded derivative component of the secured notes is classified within Level 2 of the fair value hierarchy. The fair value was calculated using the following assumptions:

	December 31
	<u>2014</u>
Volatility	41%
Credit spreads	6.78%

Changes in these assumptions would have the following impact on net loss for the year ended December 31, 2014:

	December 31
	<u>2014</u>
2% increase in volatility	\$ 473
2% decrease in volatility	\$ (473)
0.5% increase in credit spreads	\$ (693)
0.5% decrease in credit spreads	\$ 788

### (c) *Equity investments*

The Company's available-for-sale equity investments 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.

### (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 convertible senior notes is classified within Level 2 of the fair value hierarchy. The fair value of the option component of convertible senior notes at December 31, 2014 is \$nil. The fair value at December 31, 2013 was calculated using the following assumptions:

	December 31
	<u>2013</u>
Volatility	30%
Credit spreads	4.70%

For the year ended December 31, 2013, changes in these assumptions would have the following impact on net loss:

	December 31
	<u>2013</u>
5% increase in volatility	\$ (557)
5% decrease in volatility	\$ 298
0.5% increase in credit spreads	\$ (29)
0.5% decrease in credit spreads	\$ 27

### (e) *Currency options*

The fair value of option contracts is determined using a market approach with reference to observable market prices for identical assets traded in an active market. These 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### *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, 2014 and 2013, 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, 2014 would have increased or reduced other comprehensive loss by \$18 (December 31, 2013 - \$1,555).

### *Interest rate risk*

When amounts are drawn under its credit facility, the Company is exposed to interest rate risk on this variable rate debt. At December 31, 2014, the Company had no variable rate debt outstanding. If interest rates had been 0.5% higher during the year ended December 31, 2013, net loss would have increased by \$44. 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.

The fair value of the prepayment option embedded derivative is also impacted by fluctuations in interest rates. Refer to the previous discussion on the fair value of these options for a sensitivity of the fair value of these notes to changes in significant assumptions.

### *Foreign currency exchange rate risk*

Metal sales revenues for the Company are denominated in US dollars. The Company is exposed to currency fluctuations relative to the US dollar on expenditures that are denominated in Canadian dollars and Mexican pesos. 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, 2014, the Company's balance sheet exposure to foreign currency exchange rate risk in Canadian dollars ("CAD") and Mexican pesos ("MXN") was as follows:

	<u>CAD</u>	<u>MXN</u>
Cash and cash equivalents	\$ 29,135	\$ 3,862
Receivables	4,559	112,067
Current income tax receivable	815	65,839
Investments	213	-
Other long-term assets	59,184	-
Payables and accrued liabilities	(33,760)	(39,990)
Current income tax liability	(86)	(4,907)
Debt and equipment financing obligations	(2,072)	(2,760)
Provisions	(2,734)	(754)
Deferred income tax liability	<u>(266,493)</u>	<u>(460,091)</u>
Net balance sheet exposure	<u>\$ (211,239)</u>	<u>\$ (326,734)</u>



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At December 31, 2013, 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	\$ 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>

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 2014	December 31 2013
Translation of net CAD exposure	\$ (18,209)	\$ (18,117)
Translation of net MXN exposure	(2,215)	(4,885)

As at December 31, 2014, the Company held option contracts to protect against the risk of an increase in the value of the Canadian dollar and Mexican peso versus the US dollar. Details of these option contracts for the purchase of local currencies and sale of US dollars, which settle on a monthly basis, are summarized in the table below.

Period covered	Contract	Local Currency	Local currency per month	Local currency total	Call option per USD	Put option per USD	
30-Jan-15	31-Dec-15	Collar	CAD	7,500	90,000	1.1111	1.2246
30-Jan-15	31-Dec-15	Collar	MXN	30,000	360,000	14.00	15.71

These contracts had a negative fair value of \$447 at December 31, 2014, all of which has been recognized in other (loss) / income within the Consolidated Statements of Operations (note 20).

During 2013, the Company held forward contracts to protect 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 loss on settlement of these forward contracts.

### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The contractual maturities of financial liabilities are outlined in note 14.

### 26. 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.

The Company monitors capital through the gross debt to total equity ratio, and targets a ratio of less than 25%. As at December 31, 2014, the ratio of gross debt to total equity was 19.27% (December 31, 2013 - 14.07%), calculated as follows:

	December 31 2014	December 31 2013
Current portion of debt and equipment financing obligations	\$ 6,308	\$ 7,355
Debt and equipment financing obligations	308,064	244,194
Gross debt	<u>314,372</u>	<u>251,549</u>
Shareholders' equity	<u>\$ 1,631,210</u>	<u>\$ 1,787,882</u>
Gross debt / Shareholders' equity	<u>19.27%</u>	<u>14.07%</u>

### 27. 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.

The following are the operating results by reportable segment:

	Year ended December 31, 2014			
	Mexico	Canada	Corporate and other	Total
Revenue from mining operations	\$ 86,259	\$ 204,923	\$ -	\$ 291,182
Production costs	61,150	138,159	-	199,309
Refining costs	400	195	-	595
Amortization and depletion	23,262	97,820	386	121,468
Reclamation, care and maintenance costs	-	-	5,971	5,971
General and administrative	919	-	25,002	25,921
Exploration and business development	-	-	1,001	1,001
Impairment charges	90,771	235	616	91,622
	<u>176,502</u>	<u>236,409</u>	<u>32,976</u>	<u>445,887</u>
Loss from operations	<u>\$ (90,243)</u>	<u>\$ (31,486)</u>	<u>\$ (32,976)</u>	<u>\$ (154,705)</u>
Expenditures on property, plant and equipment, mining interests & intangible assets	<u>\$ 29,611</u>	<u>\$ 137,174</u>	<u>\$ 22,044</u>	<u>\$ 188,829</u>



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	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	\$ (143,632)	\$ (2,410)	\$ (32,045)	\$ (178,087)
Expenditures on property, plant and equipment, mining interests & intangible assets	\$ 44,088	\$ 195,233	\$ 10,101	\$ 249,422

The following are total assets by reportable segment:

	Mexico	Canada	Corporate and other	Total
Total assets at December 31, 2014	\$ 183,075	\$ 1,833,404	\$ 265,347	\$ 2,281,826
Total assets at December 31, 2013	\$ 265,028	\$ 1,822,533	\$ 374,847	\$ 2,462,408

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

	December 31 2014	December 31 2013
Mexico	\$ 151,774	\$ 217,294
Canada	1,889,240	1,865,636
	<u>\$ 2,041,014</u>	<u>\$ 2,082,930</u>

Goodwill recognized in the Canada reportable segment totalled \$241,693 at December 31, 2014, and 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. The Company 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.

### 28. Events after the reporting period

#### (a) Termination of retained interest royalty

On January 14, 2015, the Company finalized the agreement to terminate the retained interest royalty from Crocodile Gold and received CAD \$20 million in cash consideration, along with net smelter royalties on future production from the Fosterville and Stawell mines. Refer to note 12 for further information.

#### (b) Declaration of dividend

On February 19, 2015, the Company's Board of Directors approved a dividend of \$0.023 per share, payable to shareholders of record on March 2, 2015.