



2006 ANNUAL REPORT



Corporate information

Directors

Eldon Bennett

Toronto, Ontario
Managing Partner, Aird & Berlis LLP.

Marc Blais*

Saint-Lambert, Québec
President and CEO, Dyanacor Mines Inc.

Paul Cregheur

Harricana Ouest, Québec
President and CEO, Wesdome Gold Mines Ltd.

Roger Jolicoeur*

Dubuisson, Québec
President, RWJ Mining Consulting

Jean Martineau*

Blainville, Québec
Chairman of the Board of Directors, Dynacor Mines Inc.

Donald D. Orr, CA†

Toronto, Ontario
Secretary-Treasurer, Wesdome Gold Mines Ltd.

Donovan Pollitt

Toronto, Ontario
VP Corporate Development, Wesdome Gold Mines Ltd.

Rolly Uloth†

Burlington, Ontario
President, R.W. Uloth Inc.

* Audit committee member

† Compensation committee member

Annual Meeting

The Annual Meeting of Shareholders will be held at St. Andrew's Club & Conference Centre
150 King Street West, 27th Floor
Toronto, Ontario M5H 1J9
on Thursday, June 28th, 2007 at 4:00 p.m.

Officers

Paul D. Cregheur

President and CEO

Donald D. Orr, CA

Secretary-Treasurer

Benoit Laplante, P.Eng., MScA

Vice President - Operations

George N. Mannard, P.Geo, MScA

Vice President - Exploration

Donovan Pollitt

Vice President - Corporate Development

Senior Staff

Kiena Complex

Roger Toussaint

Mine Superintendent

Gabriel R. Maurice

Human Resources

Stephane Dubois, Eng.

Chief Engineer

Paul Arscott, P.Geo

Chief Geologist

David Delisle, CMA

Chief Accountant

Eagle River Mine

Ron Price

Mine Manager

Rene Lamothe

Underground Superintendent

Colin Kirkpatrick

Mill Superintendent

Allan MacDonald

Human Resources

John Plecash

Chief Geologist

David Boulay

Surface Superintendent

Gilbert Wahl

Safety and Training Director

Head Office

8 King Street East, Suite 1305,
Toronto, Ont. M5C 1B5
Tel: (416) 360-3743
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email: info@wesdome.com

Kiena Mine

950 chemin Kienawisik, C.P. 268
Val d'Or, Québec J9P 4P3
Tel: (819) 738-4031
Fax: (819) 738-5452

Eagle River Mine

93 Mission Road, PO Box 1520
Wawa, Ont. P0S 1K0
Wawa Office
Tel: (705) 856-2718
Fax: (705) 856-7173
Mine Site
Tel: (705) 856-2721
Fax: (705) 856-2879

Transfer Agent and Registrar

Computershare Trust Company of Canada
Toronto, Ont.
Tel: (416) 981-9633
www.computershare.com

Auditors

Grant Thornton LLP
Toronto, Ontario
www.grantthornton.ca

Legal Counsel

Heenan Blaikie, LLP
Toronto, Ontario
www.heenan.ca

Stock Exchange Listing

Toronto Stock Exchange
Symbol: WDO
www.tse.com

Message to **shareholders**

2006 was an extraordinary year, a very busy one indeed, with major events and milestones on the corporate level, the exploration and development front and in production. These undertakings set the stage for growth in production going forward and established a platform from which we can progressively explore and generate value from our large, strategically located land positions.

On the corporate level, we completed the merger of River Gold Mines Ltd. and Wesdome Gold Mines Inc. on February 1, 2006, creating a company with integrated mining and milling infrastructure and large prospective property holdings both in the Wawa mining camp and the Val d'Or mining camp. The merged company then completed an equity financing raising the capital to complete pre-production development at Kiena and commence commercial production on August 1, 2006. Subsequent to year end, we completed an option agreement on the McKenzie Break property, which should ensure work will advance on this property and it offers shareholders equity exposure to potential success on this and other prospective properties in the Malartic camp.

Finally, the Company announced on April 17, 2007, its intent to explore a business combination with its 33% shareholder Western Québec Mines Inc. Such a combination would bring prospective contiguous claims into the fold, reduce red tape and enhance clarity and value in the marketplace.

The exploration and development activities were highlighted by high grade discoveries in the western portion of the Eagle River mine. Drilling results in the 811 zone included 57.17 gAu/tonne over 3.4 metres true width, 80.77 gAu/tonne over 2.8 metres true width, 70.25 gAu/tonne over 4.9 metres true width, 69.94 gAu/tonne over 7.2 metres true width and 55.15 gAu/tonne over 2.0 metres true width. These stunning results represent the continuous core of a high grade lens centred at a depth of 350 metres and remaining open at depth. Results here and at the 808 zone were instrumental in increasing ore reserves this year. Our Wawa operations have produced 830,000 ounces of gold since 1995 and again this year demonstrated an ability to replace reserves.

At Kiena, exploration and development work was focused on definition drilling and stope development. This work provided the basis for mine planning and upgrading of resources to reserves. Reserves and resources grew despite 94,000 tonnes of depletion primarily through the addition of marginal grade, partially developed resources in the vicinity of old workings. Of particular note were favourable results from drifting along the Martin zone located 1.2 kilometres east of the shaft. This drifting, combined with favourable definition drilling results, may lead to a new production area at Kiena. This is a new structure that has not previously been exploited at Kiena. The 330 east exploration drift will provide a base for further exploration of the Martin zone and provide underground access to the Shawkey 22 zone near year end, 2007. This is our principle exploration target in 2007 and demonstrates potential for significant size once the bulk grade is determined by underground workings.

Fast track pre-production development and construction work at Kiena led to an August 1, 2006 production start-up. Mill refurbishing, tailings expansion construction and establishment of underground infrastructure at Kiena involved a significant undertaking by staff and contractors who should be congratulated. Did we commence commercial production too soon? This is debatable and we prefer to err on the conservative side which as operators means expensing costs rather than dressing up short-term financial statements.

In 2006, the Company's operations produced 52,969 ounces of gold. Eagle River exceeded forecasts of 3,000 ounces per month producing 43,669 ounces during the calendar year. Kiena produced 9,300 ounces, well below forecast. At Kiena, the bulk of production came from marginal grade, previously developed stopes while development of higher grade stopes proceeded. This will continue in 2007 with 16,000 ounces forecast for the first half and 24,000 for the second half of the year. Eagle River will continue to produce steadily during the first half of 2007, but production will decline in the second half as development of the high grade western portion of the mine accelerates. In all, 70,000 ounces of production are forecast in 2007 putting us in great shape for a strong 2008, with uninterrupted production of above average grade from both mines.

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Message to **shareholders**

Elsewhere, Wesdome's 62% owned subsidiary Moss Lake Gold Mines Ltd. commissioned an independent 43-101 report including mineral resource estimates. This study estimated inferred resources based on closely spaced historic drilling of 56.1 million tons grading 0.027 ounces of gold per ton, or 1.5 million contained ounces. This includes 39 million tons grading 0.035 ounces per ton, or 1.36 million contained ounces. The report provides recommendations for a Preliminary Economic Assessment and open pit optimization studies. The Company's equity interest in this resource approaches 1.0 million contained ounces and the gold price continues to rise. We feel the proposed study would go a long way in establishing the cost estimates and economic models required to decide on how best to realize value from this asset.

Finally, after well more (I hesitate to count) than forty years in the mines, I am hanging up my boots as of May 1, 2007. The Company has assembled an enviable collection of land and infrastructure in two proven Canadian gold mining camps. Competent, experienced people are in place and the gold price is finally doing what we all knew it would do! There is still a bit of work to complete, but the stage has been set for growth in production going forward. The exploration potential of our properties is some of the best I have ever seen. I am confident that persistence and good fortune on the exploration front will continue to enhance and generate value from Wesdome's large, strategically located properties for decades to come.

On behalf of the Board of Directors,

A handwritten signature in blue ink, consisting of a large, stylized initial 'P' followed by a long horizontal line extending to the right.

Paul Cregheur

President

April 18, 2007

FOR THE YEAR ENDED DECEMBER 31, 2006

This is the first annual financial report for Wesdome Gold Mines Ltd. (the "Company"). The Company was created by the merger of River Gold Mines Ltd. ("River Gold") and Wesdome Gold Mines Inc. ("Wesdome Inc.") on February 1, 2006. The merger has been accounted for as a reverse takeover with Wesdome Inc. as the accounting acquirer. Therefore, the results of operations of River Gold have been consolidated from February 1, 2006 onwards and the comparative year results are those of Wesdome Inc. The following discussion and analysis of the operations, results and financial position for the year ended December 31, 2006, should be read in conjunction with the December 31, 2006 audited financial statements and their related notes. Wesdome Inc. was not a producing mining company during the comparative periods. For a complete understanding of the comparative results, this year's report should be read in conjunction with both River Gold's and Wesdome Inc.'s audited financial statements for the year ended December 31, 2005.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in Canadian dollars unless otherwise indicated and the effective date of this report is March 16, 2007.

FORWARD LOOKING STATEMENTS

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

DISCLOSURE CONTROLS AND PROCEDURES

Management, including the Chief Executive Officer and Chief Financial Officer, has established and maintained disclosure controls and procedures in order for us to provide reasonable assurance that material information relating to the Company is made known to us in a timely manner, particularly during the period in which the annual filings were being prepared. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of the date of this report and believes them to be effective in providing such reasonable assurance.

OVERALL PERFORMANCE

The Company owns the Eagle River gold mining operations in Wawa, Ontario and the Kiena Mining Complex in Val d'Or, Quebec. The Eagle River mine has been operating since 1996 and completed its first full year of production since operations were scaled down in late 2005. The Kiena mine was in pre-production development stage until August 1, 2006 when commercial production commenced.

At year end, the Company had working capital of \$9.4 million. From an operating view, cash operating costs exceeded revenues by \$0.79 million. The net loss of \$9.5 million was essentially composed of non-cash items plus the \$0.79 million. Eagle River exceeded forecasts generating good mine operating profits, while Kiena came in below expectations generating a mine operating loss. Kiena's start-up was characterized by low grade ore and mechanical downtime issues. Operations are expected to improve progressively. Capital costs for the Company totalled \$22.5 million, including \$12.4 million for Kiena prior to production and \$5.6 million subsequently. \$2.0 million of the \$22.5 million capital costs were financed through mining equipment leases which will be paid in subsequent periods. Eagle River incurred \$4.5 million in capital expenditures with major items including mill tailings pond expansion, equipment and underground development.

The Company's cash flow from operations was negative \$0.8 million primarily as a result of a slow start-up at Kiena.

The industry is experiencing an increased demand for materials and consumables and a shortage of skilled labour which are combining to put pressure on costs. We are hopeful that gold price increases will outpace increases in labour and material costs.

SELECTED ANNUAL INFORMATION

(in thousands except loss per common share)	2006	2005	2004
Total revenue	\$ 31,298	\$ 87	\$ 92
Net loss	9,482	1,278	772
Loss per common share	0.11	0.03	0.02
Total assets	96,230	47,490	43,379
Long term financial liability	4,866	3,574	2,098

Comparable periods are for Wesdome Gold Mines Inc., the accounting acquirer in the merger of Wesdome Gold Mines Inc. and River Gold Mines Ltd. on February 1, 2006. Wesdome Gold Mines Inc. was not a producing company so the period to period variations do not clearly reflect the continuity of operations.

RESULTS OF OPERATIONS

Eagle River Mine

	Three Months to Dec 31, 2006	Eleven Months to Dec 31, 2006	Twelve Months to Dec 31, 2006
Tonnes milled	36,200	125,400	135,100
Recovered grade (g/t)	8.9	9.9	10.1
Ounces produced	10,385	40,001	43,669
Ounces sold	9,500	38,600	42,600
Bullion inventory (oz)	5,086	5,086	5,086
Bullion revenue (\$x1000)	6,744	26,644	
- Operating + development costs (\$x1000)	5,985	21,724	
Mine operating profit	759	4,920	
Gold price realized (\$Cdn/oz)	710	663	

Kiena Mine Complex

	Three Months to Dec 31, 2006	Five Months to Dec 31, 2006
Tonnes milled	50,700	94,200
Recovered grade (g/t)	2.9	3.1
Ounces produced	4,800	9,300
Ounces sold	5,400	6,100
Bullion inventory (oz)	2,700	2,700
Gold in process (oz)	500	500
Bullion revenue (\$x1000)	3,790	4,269
- Operating + development costs (\$x1000)	5,165	8,248
Mine operating loss	1,375	3,979
Gold price realized (\$Cdn/oz)	702	700

Since the February 1, 2006 merger, bullion revenue totalled \$30.9 million from 46,300 ounces sold at an average price of Cdn\$668 per ounce. In addition to the ounces sold, some 7,800 ounces of gold remained unsold and are carried at December 31, 2006 market value of \$740 per ounce as gold bullion on the balance sheet. Revenue for this gold will be recognized in the fiscal period in which it is sold.

For combined operations, the costs of sales totalled \$29.9 million resulting in a gross profit, or mine operating profit of \$1.0 million, or about \$20 per ounce.

The Eagle River mine generated a mine operating profit of \$4.9 million over the eleven month period, while Kiena generated a mine operating loss of \$3.9 million over the five month period since production commenced. Eagle River production exceeded forecasts. However, production at Kiena was below forecast as both throughput and grades were lower due to the mining sequence and availability of equipment. This slow start-up resulting from teething issues is expected to ease over time as higher grade stopes come onstream and ongoing development provides more flexibility in the mine plan.

Tight labour and equipment markets and increased materials costs are affecting the industry in general. Not only is this producing inflationary pressure on costs, but it is challenging our ability to get underground work accomplished within the time frames we are accustomed to.

SUMMARY OF QUARTERLY RESULTS

(in thousands except per share data)	2006 ¹			
	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
Total revenue	\$ 10,765	\$ 10,018	\$ 6,336	\$ 4,178
Net loss	3,885	2,879	713	2,005
Loss per share – basic and diluted	0.04	0.03	0.01	0.03

(in thousands except per share data)	2005 ²			
	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
Total revenue	\$ 25	\$ 10	\$ 25	\$ 26
Net loss	454	268	309	247
Loss per share – basic and diluted	0.01	0.01	0.01	0.00

¹ Includes River Gold's results from February 1, 2006

² Wesdome Gold Mines Inc.

The quarterly variations for 2006 are the result of a first quarter of two months production at Eagle River, a second quarter of three months production at Eagle River, a third quarter of three months production at Eagle River and two months production at Kiena and a fourth quarter of three months production each at Eagle River and Kiena. Comparatively, 2005 results reflect those of the pre-merger Wesdome Gold Mines Inc., which was not a producing mine.

The net losses are essentially composed of non-cash items as previously described. Another factor that influences the interpretation of these figures is the gold sale practices. A total of 7,800 ounces of gold were unsold during the year and not recognized as revenue. This revenue will be recognized in future fiscal periods in which the gold is sold.

In general, the summary of quarterly results for 2006 is irregular and variable due to the February 1, 2006, merger and the August 1, 2006, start-up of production for Kiena and its associated start-up issues. Going forward with both mines in production and Kiena attaining better production levels, this quarterly information will provide more meaningful results.

FOURTH QUARTER

The fourth quarter was the first full quarter of commercial production for the Kiena mine. Both gold grades and throughput were low due to the mining sequence and availability of equipment. This slow start-up, coupled with continued capital spending resulted in a mine operating loss and net cash outflows that were larger than anticipated.

At the Eagle River mine, bullion revenue exceeded operating and development costs generating a mine operating profit sufficient to cover capital spending required to establish an infrastructure for future mining in the western portion of the mine.

These specific operating issues are expected to ease over time resulting in improved financial condition and cash flows. A \$0.9 million flow-through share issue completed December 29, 2006, will help finance the exploration drift to the Shawkey property easing the self financing abilities of the mine as production finds its long term rhythm.

LIQUIDITY AND CAPITAL RESOURCES

In 2006, financing activities generated \$20.3 million from a public offering plus an additional \$5.0 million from warrants being exercised. These funds were earmarked for pre-production development and capital expenditures required to commence production at Kiena. In 2006, the Eagle River mine was self funding.

At December 31, 2006, the Company had working capital of \$9.4 million. Capital cost estimates to maintain and increase capacity in 2007 include \$8.5 million in capital expenditures on equipment and development at Kiena and \$5.3 million in development and infrastructure at Eagle River. At Eagle River operating activities are expected to fund commitments for the first half of the year. During the second half of the year, production will decrease as investment in developing the west end of the mine continues. This investment will put Eagle River in shape to maintain or increase capacity through mid 2009.

At Kiena, production is projected to increase progressively in the first half of the year. As development of new production areas proceeds, the risk and tightness in the production schedule should ease. The exploration drift to the Shawkey 22 zone will be partially funded by the \$0.9 million flow-through share financing completed in December. A recently initiated review of the operating budget, mine plan and capital investment schedule at Kiena will provide more clarity on capital requirements and, if necessary, the Company will consider financing initiatives to provide adequate investment and working capital.

Contractual Obligations

	Total	Payments Due by Period (in thousands)			After 5 years
		Less than 1 year	1 – 3 years	4 – 5 years	
Equipment leases	\$ 2,857	\$ 1,187	\$ 1,670	-	-
Mishi pit	980	980	-	-	-
Total contractual obligations	\$ 3,837	\$ 2,167	\$ 1,670	-	-

TRANSACTIONS WITH RELATED PARTIES

In the year ended December 31, 2006 Western Québec charged the Company \$615,371 for professional services (2005: \$241,570) which were charged to corporate and general expense. These transactions were in the normal course of operations and were measured at the exchange amounts.

Payables and accruals at December 31, 2006 and 2005, include \$77,104 and \$437,174, respectively, due to Western Québec.

On February 15, 2006, the Company borrowed from Western Québec the sum of \$1,800,000 with interest at the rate of 8% per annum, payable semi-annually on August 15 and February 15 of each year. In conjunction with the Company's financing in March, 2006, Western Québec exercised its option to accept non-assessable treasury shares as full payment of the loan and interest. As a result, the Company issued 824,637 common shares at a price of \$2.20 per share to Western Québec.

In fiscal 2006, the Company paid \$122,911 for the supervision of the Kiena mill to a company owned by a Director.

Capital stock share issue costs include \$237,600 (2005: \$60,883) of agency fees paid to a company controlled by a former Director. This company also received broker warrants to purchase 90,000 common shares at a price of \$2.20 per share at any time until March 23, 2007. In 2005, this company received broker warrants to purchase 29,575 common shares at a price of \$1.62 per share at any time until July 21, 2006 and 40,589 common shares at a price of \$1.50 per share at any time until August 10, 2006.

CRITICAL ACCOUNTING ESTIMATES

(i) Mining properties and plant and equipment

In accordance with the Company's accounting policies, amortization commences when a property is put into commercial production and is calculated on the unit of production method over the expected economic life of the mine. Depreciation is calculated once the asset is placed in service, using straight-line method over its estimated useful life.

Mineral reserve and mineral resource estimates are not precise and also depend on statistical inferences drawn from drilling and other data, which may prove to be unreliable. Future production could differ radically from mineral reserve estimates for the following reasons:

- (a) Mineralization or formation could be different from those predicted by drilling, sampling and similar tests;
- (b) The grade of mineral reserves may vary significantly from time to time and there can be no assurance that any particular level of gold may be recovered from the mineral reserves, and
- (c) Declines in the market price of gold may render the mining of some or all of the Company's mineral reserves uneconomic.

Any of these factors may require the Company to reduce its mineral reserve and mineral resource estimates, change its production estimates or increase its costs. Changes in reserve quantities would cause corresponding changes in amortization expense in periods subsequent to the reserve revision, and could result in impairment of the carrying amount of property, plant and equipment. Management conducts periodic reviews of its mineral properties to determine if write-downs are required. With the exception of the McKenzie Break property, which the Company wrote-down to reflect the sale agreement entered into with Britannica Resources Inc., management estimated that no other write-downs were required in 2006.

(ii) Reclamation and closure costs obligations

Environmental laws and regulations relating to the protection of the environment are continually changing and generally becoming more restrictive. Wesdome has made, and intends to make in the future, expenditures to comply with such laws and regulations. The Company has recorded a liability and corresponding asset for the fair value of obligations for reclamation and closure costs. The Company estimates its future closure costs for the Eagle River mine, Mishi mine and the mill are estimated to be \$0.7 million with an additional \$0.7 million for the Kiena complex.

(iii) Significant estimates and assumptions, also those related to the recoverability of mining and exploration properties, include estimated useful lives of equipment, valuation assumptions, determination as to whether costs are capitalized or expensed and stock compensation. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high risk nature of its business which is the operation, exploration and development of mineral properties. In addition to risks described elsewhere herein, shareholders should note the following:

Nature of Mineral Exploration

The exploration for and development of mineral deposits involves significant financial risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an orebody may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a site. It is impossible to ensure that the exploration programs planned by the Company will result in a profitable commercial mining operation.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices which are highly cyclical and government regulations. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Mining Risks and Insurance

The business of mining is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, labour disputes, encountering unusual or unexpected geologic formations, cave ins, flooding and periodic interruptions due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or producing facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability. Insurance against environmental risks (including potential for pollution or other hazards as a result of disposal of waste products occurring from exploration and production) is not generally available to the Company or to other companies within the industry.

Government Regulations and Environmental Matters

The Company's activities are subject to extensive federal, provincial and local laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment. Permits from a variety of regulatory authorities are required for many aspects of mine operation and reclamation. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development of the Company's properties, the extent of which cannot be predicted. In the context of environmental permitting, including the approval of reclamation plans, the Company must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. While it is possible that

the costs and delays associated with compliance with such laws, regulations and permits could become such that the Company would not proceed with the development or operation of a mine, the Company is not aware of any material environmental constraint affecting its properties that would preclude the economic development or operation of any specific property.

In Ontario, the Company has obtained approval for its closure plan for the Eagle River mill, Eagle River mine and the Mishi-Magnacon complex and has provided security of approximately \$0.7 million to cover estimated rehabilitation and closure costs. In the event of any future expansion or alteration of a mine on the Eagle River property, the Company would likely be required to amend its closure plan and could also be required to provide further security. In Quebec, the Company has obtained approval for its closure plan for the Kiena mine and mill and has provided security of approximately \$0.7 million to cover estimated rehabilitation and closure costs. In the event of any future expansion or alteration of the Kiena mine, the Company would likely be required to amend its closure plan and could also be required to provide additional security. The Company believes it is currently in compliance in all material respects with the legislation described above.

Reliance on Management

The Company is heavily reliant on the experience and expertise of its executive officers. If any of these individuals should cease to be available to manage the affairs of the Company, its activities and operations could be adversely affected.

Economic Conditions

General levels of economic activity and recessionary conditions may have an adverse impact on the Company's business.

Reserves

Mineral reserves published by the Company are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved.

Competition

The mining industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities in its search for, and the acquisition of, mineral properties as well as the recruitment and retention of qualified employees with technical skills and experience in the mining industry. There can be no assurance that the Company will be able to compete successfully with others in acquiring mineral properties, obtaining adequate financing and continue to attract and retain skilled and experienced employees.

Conflicts of Interest

Certain officers and directors of the Company are associated with other companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. Not every officer or director devotes all of their time and attention to the affairs of the Company.

Gold Price Volatility

The profitability of the Company's operations may be significantly affected by changes in the market price of gold and other mineral commodities. Metal prices fluctuate widely and are affected by numerous factors beyond the Company's control. The level of interest rates, the rate of inflation, world supply of mineral commodities and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political systems and developments. The price of mineral commodities has fluctuated widely in recent years, and future serious price declines could cause commercial production to be uneconomic.

Insurance

The Company carries insurance to protect against certain risks in such amounts as it considers adequate. Risks not insured against include environmental pollution, mine flooding or other hazards against which such companies cannot insure or against which they may elect not to insure.

Additional Funding Requirements

Further exploration on, and development of, the Company's mineral resource properties, will require additional capital. In addition, a positive production decision on any of the Company's development projects would require significant capital for project engineering and construction. Accordingly, the continuing development of the Company's properties will depend upon the Company's ability to obtain financing through the joint venturing of projects, debt financing, equity financing or other means. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that it will obtain adequate financing in the future.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, term deposits, receivables, payables and accruals and obligations under capital leases. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair value of these financial instruments approximate the carrying values.

SUMMARY OF SHARES ISSUED

As of March 14, 2007, the Company's share information is as follows:

Common shares issued	90,541,535
Common share purchase options	2,752,750
Common share purchase warrants	654,085

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial Reporting

Management is responsible for certifying the design of the Company's internal control over financial reporting ("ICFR") as required by Multilateral Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings."

Our ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable Canadian GAAP. ICFR should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable Canadian GAAP
- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial instruments.

Because of its inherent limitations, ICFR 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.

Management, including the Chief Executive Officer and Chief Financial Officer, carried out an assessment of the design of the Company's internal controls over financial reporting and concluded that the following disclosable weaknesses existed as at December 31, 2006.

Segregation of Duties

Segregation of duties is a basic, key internal control and one of the most difficult to achieve. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business.

Due to limited resources adequate segregation of duties within the accounting group was not achieved. This creates a risk that inaccurate journal entries could be made and not corrected on a timely basis. The result is that the Company is highly reliant on the performance of mitigating procedures during its financial close processes and in order to ensure the financial statements present fairly in all material respects.

Management will review the current assignment of responsibilities and where possible improve on segregation. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to ICFR whereby more effective mitigating controls will be adopted.

Disclosure Controls

The CEO and CFO are responsible for establishing and maintaining the disclosure controls and procedures and have so certified, as required by Multilateral Instrument 52-109. These officers have evaluated the effectiveness of the Company's disclosure controls and procedures and have concluded that the disclosure controls and procedures at the Company provide management a reasonable level of assurance information required to be disclosed by the Company on a continuous basis and in annual and interim filings or other reports is recorded, processed, summarized and reported or disclosed on a timely basis as required.

It should be noted that while the CEO and CFO believe that the Company's disclosure controls and internal control procedures provide a reasonable level of assurance that they are effective, they do not expect disclosure controls and internal control procedures over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

ANNUAL INFORMATION FORM

The Company's current and previous years' Annual Information Forms (AIF) and other corporate information can be found on our web site www.wesdomegoldmines.com and on Sedar www.sedar.com.

OUTLOOK

We are currently forecasting approximately 70,000 ounces of production in 2007, with 30,000 ounces from Eagle River and 40,000 ounces from Kiena. Kiena is currently undertaking a detailed planning revision and more clarity on the forecast will emerge shortly. At Kiena, the first half will be slow as we continue production from low grade stopes and invest in development. The second half will be stronger. At Eagle River the first half will be strong and the second half will involve a net investment to develop the high grade 808 and 811 zones in the west end of the mine. These areas remain open at depth and will provide production until at least mid-2009.

We continue to forecast a very strong 2008 with full-year above average grade production from both mines.

The accompanying consolidated financial statements and all of the data included in this annual report have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimate and judgement based on currently available information.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded, liabilities are recognized and that the accounting systems provide timely and accurate financial reports.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities in respect of financial reporting and internal control. The Audit Committee of the Board of Directors meets periodically with management and the Company's independent auditors to discuss auditing matters and financial reporting issues. In addition, the Audit Committee reviews the annual consolidated financial statements before they are presented to the Board of Directors for approval.

The Company's independent auditors, Grant Thornton LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

Toronto, Canada
March 16, 2007



Donald D. Orr
Secretary-Treasurer

AUDITORS' REPORT

To the Shareholders of Wesdome Gold Mines Inc.

We have audited the consolidated balance sheets of Wesdome Gold Mines Ltd. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 16, 2007, except as to Note 23
which is as of May 4, 2007



Grant Thornton LLP
Chartered Accountants
Licensed Public Accountants

December 31	2006	2005
Assets		
Current		
Cash and cash equivalents	\$ 5,262,530	\$ 127,767
Term deposits	47,721	32,448
Gold bullion (Note 19)	5,796,006	-
Receivables (Note 4)	9,301,938	3,991,343
Supplies and other	1,225,928	-
	21,634,123	4,151,558
Funds held against letters of guarantee (Note 5)	2,477,075	671,215
Capital assets (Note 6)	12,428	1,738,704
Mining properties (Note 7)	53,012,950	-
Exploration properties (Note 8)	17,259,661	38,120,720
Property held for sale (Note 9)	1,828,105	2,807,476
	\$ 96,224,342	\$ 47,489,673
Liabilities		
Current		
Payables and accruals	\$ 11,215,497	\$ 2,808,720
Current portion of obligations under capital leases	1,044,809	-
	12,260,306	2,808,720
Obligations under capital leases (Note 10)	1,497,326	-
Reclamation obligation	1,009,000	354,000
Future income taxes (Note 15)	2,360,000	3,220,000
	17,126,632	6,382,720
Minority interest in Moss Lake Gold Mines Ltd.	438,642	-
Shareholders' Equity		
Capital stock (Note 11)	88,889,627	42,204,970
Common share purchase warrants (Note 13)	81,022	749,328
Contributed surplus (Note 14)	1,938,737	920,549
Deficit	(12,250,318)	(2,767,894)
	78,659,068	41,106,953
	\$ 96,224,342	\$ 47,489,673

Nature and continuation of operations (Note 1)

Environmental risks (Note 19)

On behalf of the Board



Rowland Uloth
Director



Paul Cregheur
Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT



Years Ended December 31	2006	2005
Revenue		
Gold and silver bullion	\$ 30,912,397	\$ -
Interest and other	385,226	86,703
	31,297,623	86,703
Costs and expenses		
Operating costs	22,782,407	-
Development costs	7,190,236	-
Amortization of mining properties	7,936,543	-
Write-down of property held for sale (Note 9)	959,371	-
Production royalties	448,539	-
Corporate and general	1,477,158	860,397
Stock compensation expense	668,110	269,987
Interest on long term debt	111,773	-
Other interest	74,600	189,717
Amortization of office equipment	-	18,121
Accretion of reclamation obligation	44,417	26,000
	41,693,154	1,364,222
Loss before the following	(10,395,531)	(1,277,519)
Dilution gain on Moss Lake Gold Mines Ltd.	21,778	-
Net loss before income tax and minority interest	(10,373,753)	(1,277,519)
Recovery of future income taxes	860,000	-
Minority interest	31,329	-
Net loss	(9,482,424)	(1,277,519)
Deficit, beginning of year	(2,767,894)	(1,490,375)
Deficit, end of year	\$ (12,250,318)	\$ (2,767,894)
Loss per common share (Note 16)		
Basic and diluted	\$ (0.11)	\$ (0.03)

See accompanying notes to the consolidated financial statements.

Years Ended December 31	2006	2005
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net loss	\$ (9,482,424)	\$ (1,277,519)
Amortization of mining properties	7,936,543	-
Loan interest paid with issuance of shares	14,201	-
Write-down of property held for sale (Note 9)	959,371	-
Dilution gain on Moss Lake Gold Mines Ltd.	(21,778)	-
Minority interest	(31,329)	-
Stock compensation expense	668,110	269,987
Amortization of office equipment	-	18,121
Future income taxes	(860,000)	-
Accretion of reclamation obligation	44,417	26,000
	(772,889)	(963,411)
Net changes in non-cash working capital (Note 20)	(2,692,484)	30,055
	(3,465,373)	(933,356)
Financing activities		
Common shares and warrants issued net of costs (Note 11)	20,296,619	4,864,299
Loan from Western Québec Mines Inc.	1,800,000	-
Exercise of options	331,132	-
Exercise of warrants	4,956,180	-
Shares issued by a subsidiary of the company to third parties	50,000	-
Repayment of obligations under capital leases	(817,387)	-
	26,616,544	4,864,299
Net changes in non-cash working capital (Note 20)	(28,907)	28,030
	26,587,637	4,892,329
Investing activities		
Mining and exploration properties	(16,210,613)	(8,828,057)
Property held for sale	(30,000)	2,628
Cash acquired upon amalgamation (Note 3)	303,361	-
Transaction costs (Note 3)	(599,702)	-
Capital assets (Note 6)	(12,428)	5,424
Proceeds on option to sell property (Note 9)	50,000	-
Funds held against letters of guarantee	(49,931)	-
	(16,549,313)	(8,820,005)
Net changes in non-cash working capital (Note 20)	(1,422,915)	(1,780,675)
	(17,972,228)	(10,600,680)
Increase (decrease) in cash and cash equivalents	5,150,036	(6,641,707)
Cash and cash equivalents, beginning of year	160,215	6,801,922
Cash and cash equivalents, end of year	\$ 5,310,251	\$ 160,215

Supplemental disclosure (Note 20)

See accompanying notes to the consolidated financial statements.

1. THE COMPANY AND NATURE AND CONTINUATION OF OPERATIONS

Wesdome Gold Mines Ltd. ("Wesdome Ltd." or the "Company") is a publicly traded company, continued under Part 1A of the Companies Act (Quebec) and its common shares are listed on the TSX Exchange. On December 31, 2006 and 2005, 32% and 42%, respectively, of the Company's common shares were owned by Western Québec Mines Inc. ("Western Québec"), a publicly traded company listed on The TSX Exchange.

On February 1, 2006, the Company completed the merger of Wesdome Gold Mines Inc. ("Wesdome Inc.") and River Gold Mines Ltd. ("River Gold"). The merger has been accounted for as an acquisition of River Gold by Wesdome Inc. The results of operations of River Gold have been consolidated from February 1, 2006, onwards.

The merger involved the amalgamation of Wesdome Inc. with a wholly-owned subsidiary of River Gold, 9162-6812 Québec Inc. Immediately prior to the amalgamation, River Gold filed articles of amendment (i) changing its name to "Wesdome Gold Mines Ltd." and (ii) consolidating the outstanding River Gold common shares on the basis that 1.538461538 of a common share of River Gold (each a "Pre-Consolidation River Share") become one post-consolidation River Gold common share (each a "Wesdome Ltd. Share"); i.e. each Pre-Consolidation River Gold Share became 0.65 of a Wesdome Ltd. Share. Upon the amalgamation, each common share in the capital of Wesdome Inc. was exchanged for a Wesdome Ltd. Share and the shareholders of Wesdome Inc. became shareholders of the combined entity. The amalgamation has been accounted for as a reverse takeover as described in Note 3.

The Company is engaged in the mining, exploration and development of resource properties in Canada. As reflected in these financial statements, the Company has not generated sustainable operating capital from its business activities and has relied on equity and debt financing to meet its obligations. Management is of the opinion that future operating, exploration and development costs, beyond those financed through continuing operations, can continue to be financed through debt, equity or sale of exploration properties. While the Company has been successful in the past, there can be no assurance it will be able to raise sufficient funds in the future. These financial statements have been prepared on a going concern basis which assumes the Company will be successful in generating sustainable operating cash flow from its ongoing mining activities and accessing sufficient financing to carry out its ongoing mine development and exploration plans.

The Company's principal assets are the Kiena complex, Eagle River mine, Mishi mine and the Eagle River mill.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and reflect the following significant accounting policies.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, Wesdome Resources Limited, 9162-6812 Québec Inc. and Moss Lake Gold Mines Ltd. ("MLGM").

Wesdome Resources Limited and 9162-6812 Québec Inc. are wholly-owned subsidiaries. At December 31, 2006, the Company owned 61% of the issued shares of MLGM.

Estimates, risks and uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the period. Significant estimates and assumptions include those related to the recoverability of mineral properties and deferred exploration expenditures, estimated useful lives of capital assets and mineral properties, asset retirement obligations and stock compensation expense. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly. The carrying value of the Company's principal assets could be subject to material adjustment in the event that the Company is not successful in generating operating cash flow and financing for its development and exploration activities.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and highly liquid term deposits with original maturities of three months or less.

Gold bullion

Gold bullion represents saleable gold doré or gold bullion and is valued at the average cost incurred prior to the refining process, plus refining costs. As a result, the ounces produced but not sold as at December 31, 2006 are not included in revenue for the period but instead are carried as inventory on the balance sheet at the lower of cost of production and market value.

The Company did not hold purchased gold bullion at anytime during 2006.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization of capital assets used for exploration is capitalized to exploration properties.

Amortization is provided over the expected useful lives using the following methods and annual rates:

Exploration and mining equipment	- 30% declining balance
Office equipment	- 20% straight line

Upon commencement of production, related capital assets are reclassified to mining properties.

Mining properties

Mining properties are carried at cost less accumulated amortization.

All costs associated with preproduction and development activities, including the cost of construction or acquisition of mine buildings, power lines and equipment, are capitalized as incurred. Capitalized costs also include costs incurred during the exploration stage transferred from exploration properties.

Amortization of mine buildings and mills, equipment and preproduction and development costs commences when a property is put into commercial production, and is calculated on the unit of production method over the expected economic life of the mine.

The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties.

Development costs incurred to expand the capacity of an operating mine, develop new ore bodies or develop mine areas substantially in advance of current production are capitalized and charged to operations calculated on the unit of production method over the expected economic life of the mine.

Development costs related to current production are expensed as incurred.

Exploration and development properties

Each property is accounted for as a separate project. All direct costs related to the acquisition and exploration of a property are capitalized as incurred. If a property proceeds to development, these costs become part of the preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties.

Impairment of long-lived assets

The Company monitors events and changes in circumstances which may require an assessment of the recoverability of its long-lived assets. If required, the Company would assess recoverability using estimated undiscounted future operating cash flows. If the carrying amount of an asset is not recoverable, an impairment loss is recognized in operations, measured by comparing the carrying amount of the asset to its fair value.

Asset retirement and reclamation obligation

Future costs to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site have been recognized and recorded as a liability at fair value, assuming a credit adjusted risk-free discount rate of 5% and the expected timing of payment of the cash flows to settle the obligation was 5 years. The liability is accreted over time through periodic charges to operations. In addition, the asset retirement cost was capitalized as part of the asset's carrying value and is amortized over the asset's useful life. Subsequent to the initial recognition of the asset retirement obligation and associated asset retirement cost any changes resulting from a revision to either timing or amount of estimated cash flows are prospectively reflected in the year those estimates change.

During the year ended December 31, 2006, the accretion expense in relation to the liability was \$44,417 (2005 - \$26,000).

Stock-based compensation plan

The Company has adopted the recognition of compensation expense for grants of stock options to qualifying directors, officers, employees and consultants providing on-going services to the Company or any subsidiary of the Company, based on the estimated fair value at the grant date.

Flow-through shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregoing tax benefits to the Company, the carrying value of the shares issued is reduced by the tax

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005



effect of the tax benefits renounced to subscribers. The foregone tax benefit is recognized at the time of the renouncement provided there is reasonable assurance that the expenditures will be incurred. The Company recorded a \$1,450,000 future income tax liability related to flow-through shares issued in 2005, and reduced share capital accordingly.

Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

Loss per common share

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

3. BUSINESS COMBINATION

On February 1, 2006 the Company acquired 100% of the outstanding shares of Wesdome Inc. The merger of Wesdome Inc. and River Gold Mines Ltd. has been accounted for as a reverse takeover of River Gold, with Wesdome Inc. as the accounting acquirer. The results of operations of River Gold have been consolidated from February 1, 2006 onwards. As Wesdome Inc. is considered to be the accounting acquirer, its assets, liabilities, deficit and results of operations are included in the financial statements at their historical carrying values on the basis that Wesdome Inc. is the continuing entity. The purchase price was \$19.6 million, as summarized below, funded through the issuance of 30.2 million common shares (Note 11).

Value of 30.2 million Wesdome Ltd. common shares	\$ 18,291
Value of 928,200 fully vested stock options	463
Value of 1,137,500 warrants	214
Transaction costs	600
	<u>\$ 19,568</u>

In accordance with the purchase method of accounting, the purchase cost has been allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition.

The following table sets forth an allocation of the purchase cost to assets and liabilities acquired, based on estimates of fair value.

(in thousands)	Purchase Price Allocation
Cash	\$ 303
Gold bullion	2,382
Receivables	534
Supplies and other	1,425
Funds held against letters of guarantee	1,756
Mining properties	18,263
Exploration properties	2,600
Total assets	27,263
Current liabilities	5,260
Obligations under capital leases	1,392
Reclamation obligations	599
Minority interest	444
Total liabilities	\$ 7,695
Net assets acquired	19,568

4. RECEIVABLES

	2006	2005
Mining duties refunds and tax credits	\$ 5,557,564	\$ 2,870,000
Proceeds from bullion sales	1,538,600	-
Goods and services tax	1,035,157	650,361
Prepays	535,194	105,678
CSST	173,365	-
Deposits	120,214	190,000
Receivable from issue of flow-through shares	73,006	-
Other	268,838	175,304
	<u>\$ 9,301,938</u>	<u>\$ 3,991,343</u>

5. FUNDS HELD AGAINST LETTERS OF GUARANTEE

	Dec 31 2006	Dec 31 2005
Relating to mine closure plans (Note 19)	\$ 1,478,063	\$ 671,215
Relating to hydro deposit	468,740	-
Relating to capital leases	530,272	-
	<u>\$ 2,477,075</u>	<u>\$ 671,215</u>

Funds are being held in Guaranteed Investment Certificates at interest rates ranging from 2.90% to 3.20% (2005: 2.15%) and maturing to November 2007 (2005: January 2006).

6. CAPITAL ASSETS

	2006	2005
Cost		
Exploration and mining equipment	\$ 2,727,608	\$ 1,196,680
Office equipment	118,408	90,607
Kiena mill	2,478,823	1,075,000
	<u>5,324,839</u>	<u>2,362,287</u>
Accumulated amortization		
Exploration and mining equipment	697,006	591,014
Office equipment	39,340	32,569
Kiena mill	-	-
	<u>736,346</u>	<u>623,583</u>
Net book value		
Exploration and mining equipment	2,030,602	605,666
Office equipment	79,068	58,038
Kiena mill	2,478,823	1,075,000
	<u>4,588,493</u>	<u>1,738,704</u>
Reclassification as mining properties (Note 7)	(4,576,065)	-
	<u>\$ 12,428</u>	<u>\$ 1,738,704</u>

7. MINING PROPERTIES

The Eagle River mining properties consist of the Eagle River mine, the Mishi mine and the Eagle River mill.

The Wesdome Group Properties include the Kiena mine complex, Wesdome, Shawkey, Siscoe and Siscoe-Extension, Lamothe, Lamothe-Extension, Yankee Clipper and Callahan properties.

(in thousands)	Eagle River	Wesdome Group	Total
Mining properties acquired (Note 3)	\$ 18,263	\$ -	\$ 18,263
Reclassification			
- exploration properties (Note 8)	-	28,279	28,279
- capital assets (Note 6)	-	4,576	4,576
Additions	4,902	5,631	10,533
	23,165	38,486	61,651
Less: Accumulated amortization	6,850	1,788	8,638
	<u>\$ 16,315</u>	<u>\$ 36,698</u>	<u>\$ 53,013</u>

The Eagle River Properties

The Eagle River mine is subject to a 2% net smelter return royalty payable to the original vendors of the property.

The Mishi mine is subject to royalty payments of \$1 per tonne for open pit mining and \$2 per tonne for underground mining in respect of ore mined and milled from the underlying claims in excess of 700,000 tonnes.

The Wesdome Group Properties

The Wesdome Group Properties include the Kiena mine complex, Wesdome, Shawkey, Siscoe and Siscoe-Extension, Lamothe, Lamothe-Extension, Yankee Clipper and Callahan properties. These properties are contiguous and are integrated into the Company's long term strategy of progressive exploration and development from a central infrastructure.

Wesdome Group classified as Mining Properties

Kiena Mine Complex

The Kiena mine complex consists of the Kiena mine concession, Kiena mill, other mining assets and 165 mining claims in the Township of Dubuisson, Quebec.

In December 2003, the Company acquired from Western Québec its right to purchase the Kiena mine complex from McWatters Mining Inc. ("MMI"). The value ascribed to Western Québec's right to acquire the Kiena mine complex was \$385,000 and the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005



Company issued to Western Québec 350,000 shares at \$1.10 per share. Under the terms of the agreement with MMI, the Company paid the remaining \$2,800,000 to MMI.

In 2004, the Company re-purchased from MMI all of the royalty and production entitlements for cash consideration of \$2.2 million and the payment of approximately \$725,000 for certain obligations of MMI.

The Kiena mine tailings dam is subject to a mine closure plan as approved by the Quebec Ministry of Natural Resources. In January 2004, the Company posted the required 70% standby letter of credit of \$671,215.

The Kiena Mine commenced commercial production effective August 1, 2006.

Wesdome property

The Company has a 100% interest in this property which consists of 51 claims totalling 2,003 acres and is located under de Montigny Lake in Vassan and Dubuisson Townships, Quebec and is contiguous to the Kiena mine complex.

The property is subject to a 1% net smelter royalty.

Shawkey properties

In December 2003, the Company acquired from Western Québec, the Shawkey and the Shawkey South properties, which are contiguous to the Kiena mine complex and

consist of four mining concessions and three mining claims, respectively, in Dubuisson Township, Quebec. The acquisition price was determined by an independent valuator, which was settled by issuance of 4,300,000 shares of the Company at \$1.10 per share for a total consideration of \$4,730,000.

Siscoe and Siscoe-Extension properties

The Siscoe property is located in Dubuisson and Vassan Townships, Quebec and consists of two mining concessions. The Siscoe-Extension property is located within the mining camp of Val d'Or, Quebec and consists of 13 contiguous claims. These properties are contiguous to the Kiena mine complex.

The Company owns a 100% interest in the Siscoe property and a 75% interest in the Siscoe-Extension property. The original vendor of these properties retains a 3% net smelter return royalty of which 1% can be purchased for \$500,000.

Other Properties

Other properties consist of interests in the Lamothe, Lamothe-Extension, Yankee Clipper and Callahan properties. These properties are contiguous to the Wesdome property.

The Lamothe and Callahan properties are subject to a 1% net smelter royalty and eight of the ten claims comprising the Yankee Clipper property are subject to a 2% net profits royalty.

8. EXPLORATION PROPERTIES

	Wesdome Group (Note 7)	Moss Lake	Magnacon	Other	Total
(in thousands)					
Balance, December 31, 2004	\$ 29,023	\$ -	\$ -	\$ -	\$ 29,023
Exploration expenditures	11,861	-	-	-	11,861
Amortization of exploration and mining equipment	270	-	-	-	270
Mining duties refund and tax credits	(2,668)	-	-	-	(2,668)
Advance royalty payments	-	-	-	-	-
Net proceeds from buillion produced	(365)	-	-	-	(365)
Balance, December 31, 2005	38,121	-	-	-	38,121
Cost of property (Note 3)	-	1,585	1,000	15	2,600
Exploration expenditures	9,830	85	-	-	9,915
Amortization of exploration and mining equipment	106	-	-	-	106
Mining duties refund and tax credits	(4,438)	-	-	-	(4,438)
Advance royalty payments	-	-	-	-	-
Net proceeds from buillion produced	(765)	-	-	-	(765)
Reclassification as mining properties (Note 7)	(28,279)	-	-	-	(28,279)
Balance, December 31, 2006	\$ 14,575	\$ 1,670	\$ 1,000	\$ 15	\$ 17,260

Moss Lake Properties

The Moss Lake property is owned by MLGM which is obligated to pay underlying advance royalties of \$5,469 per quarter to the vendors of the Moss Lake property until commercial production is achieved. Upon commencement of commercial production, the property is subject to a 8.75% net profits royalty, as defined, to these underlying vendors in lieu of the underlying advance royalty.

MLGM owns a 100% interest in the Fountain Lake property which consists of 149 mining claims contiguous to the Moss Lake property to the east, west and south. This property is subject to a 2.5% net smelter return royalty payable to certain original vendors of the property. This royalty is subject to a buyback clause whereby the royalty may be reduced to 1.5% net smelter return for consideration of \$1.0 million.

Magnacon Properties

In 2000, River Gold acquired a 75% joint venture interest in the Magnacon properties for total cash and legal costs of \$551,268 and entered into a joint venture agreement with the two companies holding the remaining 25% interest. Under the terms of the agreement, River Gold was required to unilaterally spend an aggregate of not less than \$2 million on these properties by March 3, 2004 which requirement was fulfilled in fiscal 2003.

The Company, as operator, is entitled to management fees equal to 7.5% for exploration expenditures, 5% for development expenditures and 2.5% for operating expenditures. The joint venture is committed to pay net smelter royalties of 1.5% to an unrelated party and 0.5% to the Company on the Magnacon property, and 2% to unrelated parties on the adjacent property.

As the joint venture partners are in default regarding reimbursement to the Company of their share of expenditures subsequent to December 31, 2003, the Company has reflected 100% of the exploration expenditures incurred in 2005 and 2004 on the Magnacon properties. In the third quarter of 2005, River Gold wrote down the properties to \$1,000,000, which is considered to be the liquidation value of the property. No exploration expenditures were incurred during 2006.

9. PROPERTY HELD FOR SALE

In December 2003, the Company acquired from Western Québec, the McKenzie Break property consisting of ten mining claims in the Townships of Fiedmont and Courville, Quebec. The acquisition price was determined by an independent valuator, which was settled by the issuance of 2,000,000 shares of the Company at \$1.10 per share for a total consideration of \$2,200,000.

On November 27, 2006, the Company entered into an agreement with Britannica Resources Corporation ("Britannica") to sell 100% of the McKenzie Break property. Upon signing, Britannica made an initial non-refundable payment of \$50,000 for the exclusive right to carry out a three month due diligence on the property. Britannica is required to make a cash payment of \$550,000 and issue \$200,000 in fully paid and non-assessable common shares of the corporation on February 27, 2007, to keep the option in force for one year. To keep the option in force for a second year, Britannica is required to make a cash payment of \$500,000 and issue \$200,000 in fully paid and non-assessable common shares of the corporation on the first anniversary. To acquire the property, Britannica is required to make a cash payment of \$400,000 and issue \$100,000 in fully paid and non-assessable common shares of the corporation on the second anniversary. The Company retains a royalty of 1,000 ounces of gold payable annually from the project, after the project has produced an initial production of 250,000 ounces of gold. The gold value may be payable in common shares at the time of the payment.

Subsequent to year-end, on February 27th, 2007, Britannica made the required \$550,000 cash payment and 425,532 common shares valued at \$200,000.

Based on this payment schedule management determined that the carrying value of McKenzie Break exceeded expected cash flows. As such, the Company determined the fair value of the property using discounted cash flows and recorded a write-down in the amount of \$959,371.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005



10. OBLIGATIONS UNDER CAPITAL LEASES

The Company leases, with options to purchase, certain mining equipment. Future minimum payments under capital leases, together with the balance of the obligations under capital leases are as follows:

	Dec 31 2006
2007	\$ 1,186,882
2008	842,659
2009	452,421
2010	375,159
Total minimum lease payments	2,857,121
Less: Interest portion at the weighted average of 6.75% in 2006	314,986
Total obligations under capital leases, secured by equipment	2,542,135
Less: Current portion	1,044,809
Long term portion	\$ 1,497,326

11. CAPITAL STOCK

Authorized:

The authorized capital of the Company consists of an unlimited number of common shares without par value.

Issued:	Shares	Amount
Balance, December 31, 2004	42,933,782	\$ 39,652,023
Flow-through shares, net of costs of \$611,025	3,122,200	4,072,275
Value attributed to warrants on private placement	-	(749,328)
Exercise of warrants	400,000	680,000
Tax benefits on renounced flow-through expenditures	-	(1,450,000)
Balance, December 31, 2005	46,455,982	42,204,970
Acquisition of River Gold Mines Ltd. (Note 3)	30,205,328	18,291,428
Common shares, net of costs of \$1,524,848	9,496,800	19,368,112
Flow-through shares, net of costs of \$51,099	408,169	928,507
Value attributed to warrants on share issue	-	(306,022)
Conversion of Western Québec loan (Note 17)	824,637	1,814,201
Exercise of options	241,500	331,132
Exercise of warrants	2,862,369	4,956,180
Warrants exercised	-	906,593
Broker warrants exercised	-	165,260
Options exercised	-	229,266
Balance, December 31, 2006	90,494,785	\$ 88,889,627

On August 10, 2005, the Company completed a private placement for the sale of 3,122,200 units at a price of \$1.50 for aggregate gross proceeds of \$4,683,300. Each unit consists of one flow-through common share and one-half of one common share purchase warrant. Each whole warrant entitled the holder to purchase one non-flow-through common share upon payment of \$1.70 per common share until August 10, 2006. Each unit has been apportioned \$1.26 to flow-through common share and \$0.24 to one-half of one common share purchase warrant.

In connection with the August 10, 2005 flow-through private placement, Wesdome Inc. issued 202,943 broker warrants to purchase 202,943 non flow-through common shares at a price of \$1.50 per share at any time until August 10, 2006. The broker warrants with a fair value of \$112,024, were charged to capital stock.

On February 1, 2006, the Company acquired River Gold Mines Ltd. by way of an amalgamation of Wesdome Inc. with a wholly-owned subsidiary of River Gold. As a result, the Company issued 30,205,348 shares to River Gold shareholders.

On March 23, 2006, the Company completed a public offering of 9,000,000 common shares at a price of \$2.20 per share for gross proceeds of \$19,800,000. On April 21, 2006, in connection with this offering, the Company completed the sale of 496,800 shares for proceeds of \$1,092,960 pursuant to an over-allotment option exercised by the underwriters.

On March 23, 2006, Western Québec exercised its option to be repaid debt owing to it in the amount of 824,637 common shares of the Company at a price of \$2.20 per share in accordance with a loan agreement dated February 16, 2006. This represents full and final payment and discharge of Western Québec's loan to Wesdome Ltd. in the principal amount of \$1,800,000 plus accrued interest.

On July 21, 2006, 958,750 common share purchase warrants issued July 21, 2005 and assumed by the Company following the merger were exercised at a price of \$1.85 per share for gross proceeds of \$1,773,063. In addition, 147,876 broker warrants were exercised at a price of \$1.62 per share for gross proceeds of \$238,875. A total of 178,750 common share purchase warrants expired unexercised.

On August 10, 2006, 1,552,800 common share purchase warrants issued August 10, 2005 were exercised at a price of \$1.70 per share for gross proceeds of \$2,639,760. In addition, 202,943 broker warrants were exercised at a price of \$1.50 per share for gross proceeds of \$304,415. A total of 8,300 common share purchase warrants expired unexercised.

On December 29, 2006 the Company completed a private placement of 408,169 units of the Company. Each unit consists of one flow-through common share and one-half of one common share purchase warrant at a purchase price of \$2.40 per unit. Each whole warrant is exercisable into one non flow-through common share upon payment of \$2.60 per common share for a period of 12 months from December 29, 2006. Each unit has been apportioned \$2.00 to flow-through common share and \$0.40 to one-half of one common share purchase warrant.

12. COMMON SHARE PURCHASE PLAN

The Company has a common share purchase plan under which the Board of Directors may grant options to purchase common shares to qualified directors, officers, employees and consultants providing on-going services to the Company or any subsidiary of the Company. The maximum aggregate number of common shares under option at any time pursuant to the Plan is set at 5,000,000 of which 2,520,500 are available to be issued.

The following table reflects the continuity for the years ended December 31, 2006 and 2005 of options granted under the plan.

	Option		Weighted Average Exercise Price	
	2006	2005	2006	2005
Outstanding, beginning of year	1,300,000	1,220,000	\$ 1.37	\$ 1.40
Granted	815,000	210,000	2.20	1.40
Assumed on acquisition	906,750	-	3.01	-
Exercised	(241,500)	-	(1.38)	-
Expired	(300,750)	(130,000)	(2.36)	(1.70)
Outstanding, end of year	2,479,500	1,300,000	\$ 2.12	\$ 1.37

The following information applies to options outstanding and exercisable at December 31, 2006.

Exercise Prices	Number Outstanding	Remaining Contractual Life	Number Exercisable
\$ 1.20	100,000	2.75 years	60,000
\$ 1.30	490,000	2.00 years	294,000
\$ 1.38	3,250	3.50 years	3,250
\$ 1.40	50,000	3.00 years	30,000
\$ 1.40	200,000	3.25 years	80,000
\$ 1.46	159,000	4.00 years	159,000
\$ 1.52	3,250	3.50 years	3,250
\$ 1.54	19,500	3.75 years	19,500
\$ 1.54	58,000	4.00 years	58,000
\$ 1.69	12,750	3.75 years	12,750
\$ 1.80	125,000	2.25 years	75,000
\$ 1.91	13,000	3.25 years	13,000
\$ 1.92	6,500	3.75 years	6,500
\$ 2.14	3,250	3.25 years	3,250
\$ 2.15	97,500	3.25 years	97,500
\$ 2.17	3,250	3.25 years	3,250
\$ 2.20	755,000	4.50 years	415,000
\$ 3.23	19,500	3.00 years	19,500
\$ 3.46	58,500	3.00 years	58,500
\$ 3.54	9,750	2.75 years	9,750
\$ 4.08	139,750	2.50 years	139,750
\$ 4.62	97,500	2.25 years	97,500
\$ 5.12	55,250	1.25 years	55,250
	2,479,500		1,713,500

The fair value of the options granted in fiscal 2006 and 2005 was estimated on the date of grant using the Black-Scholes option pricing model. For fiscal years 2006 and 2005 the weighted average fair value per share price of \$0.82 (2005: \$0.69) was calculated using the following weighted average assumptions: dividend yield of 0%, expected volatility of 55% (2005: 79%), risk-free interest rate of 4.5% (2005: 3.5%) and expected life of 2.5 years.

The estimated fair value of the options is expensed over the vesting period. The fair value compensation and contributed surplus relating to stock options was \$668,110 for 2006 and \$269,987 for 2005.

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13. WARRANTS

The following table reflects the continuity of warrants for the year ended December 31, 2006.

Expiry Date	Exercise Price	Number of common shares					Closing Balance	\$
		Opening Balance	Issued	Exercised	Expired			
July 21, 2006	\$1.85	-	1,137,500	(958,750)	(178,750)	-	-	
July 21, 2006	\$1.62	-	147,876	(147,876)	-	-	-	
August 10, 2006	\$1.70	1,561,100	-	(1,552,800)	(8,300)	-	-	
August 10, 2006	\$1.50	202,943	-	(202,943)	-	-	-	
March 23, 2007 (a)	\$2.20	-	450,000	-	-	450,000	-	
December 29, 2007	\$2.60	-	204,085	-	-	204,085	81,022	
		1,764,043	1,939,461	(2,862,369)	(187,050)	654,085	81,022	

The following table reflects the continuity of warrants for the year ended December 31, 2005.

Expiry Date	Exercise Price	Number of common shares					Closing Balance	\$
		Opening Balance	Issued	Exercised	Expired			
April 23, 2005	\$2.20	1,110,000	-	-	(1,110,000)	-	-	
November 25, 2005	\$1.70	400,000	-	(400,000)	-	-	-	
August 10, 2006	\$1.70	-	1,561,100	-	-	1,561,100	749,328	
August 10, 2006 (a)	\$1.50	-	400,000	-	-	202,943	-	
		1,510,000	1,764,043	(400,000)	(1,110,000)	1,764,043	749,328	

(a) Value of broker warrants included in contributed surplus.

			Number of warrants	Total
Opening balance, December 31, 2004	\$	-		
Value of warrants issued during the year		749,328		
Closing balance, December 31, 2005		749,328		
Value of warrants issued during the year		81,022		
Value of warrants exercised during the year		(693,094)		
Value of warrants expired during the year		(56,234)		
	\$	81,022		

	Number of warrants	Total
Value attributed to warrants on private placement	204,085	\$ 81,022

The fair value of the 204,085 common share purchase warrants issued in 2006, have been estimated at \$81,022 using the Black Scholes model for pricing options. The following weighted average fair value per warrant of \$0.397 with an exercise price of \$2.60 per share was calculated using the following weighted average assumptions: dividend yield of 0%, expected volatility of 55%, risk-free interest rate of 4.5% and expected life of 1 year. These warrants entitle the holder to purchase one common share of the Company at a price of \$2.60 per share until December 29, 2007.

	Number of warrants	Total
Value attributed to warrants on private placement	450,000	\$ 225,000

The fair value of the 450,000 common share purchase broker warrants issued in 2006, have been estimated at \$225,000 using the Black Scholes model for pricing options. The following weighted average fair value per warrant of \$0.50 with an exercise price of \$2.20 per share was calculated using the following weighted average assumptions: dividend yield of 0%, expected volatility of 55%, risk-free interest rate of 2.5% and expected life of 1 year. These warrants entitle the holder to purchase one common share of the Company at a price of \$2.20 per share until March 23, 2007.

14. CONTRIBUTED SURPLUS

	Stock based compensation	Valuation of expired warrants	Fair value of broker warrants	Total
Balance, December 31, 2004	\$ 453,216	\$ 85,322	\$ -	\$ 538,538
Stock based compensation	269,987	-	-	269,987
Value attributed to broker warrants	-	-	112,024	112,024
Balance, December 31, 2005	723,203	85,322	112,024	920,549
Stock based compensation	668,110	-	-	668,110
Value attributed to options exercised	(229,266)	-	-	(229,266)
Value attributed to broker warrants	-	-	225,000	225,000
Value attributed to warrants exercised	-	-	(165,260)	(165,260)
Value attributed to warrants expired	-	56,234	-	56,234
Value of fully vested stock options	463,370	-	-	463,370
Balance, December 31, 2006	\$ 1,625,417	\$ 141,556	\$ 171,764	\$ 1,938,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. INCOME TAXES

The following table reconciles the expected income tax (expense) recovery at the statutory income tax rate 36.12% (2005: 31.02%) to the amounts recognized in the consolidated statements of operations.

	2006	2005
Net loss reflected in consolidated statements of operations	\$ 10,373,753	\$ 1,277,519
Expected income tax recovery	3,747,000	396,000
Dilution gain	8,000	-
Adjustment to reflect differing jurisdictional tax rates	(292,000)	-
Non-deductible expense	(22,000)	(3,000)
Resource allowance	16,000	-
Stock compensation expense	(241,000)	(85,000)
Valuation allowance	(2,356,000)	(308,000)
Future income tax recovery	\$ (860,000)	\$ -

The following table reflects future income tax assets (liabilities) at December 31, 2006 and 2005.

	2006	2005
Future income tax assets (liabilities)		
Excess of unclaimed resource pools and undepreciated capital cost over carrying value of mining and exploration properties (a)	\$ 14,621,000	\$ 668,000
Unclaimed non capital losses	3,518,000	-
Eligible capital property	148,000	-
Deductible Reclamation costs	325,000	110,000
Unclaimed financing costs	608,000	163,000
Less valuation allowance	(18,660,000)	(743,000)
Recognized future tax assets (a)	560,000	198,000
Excess of carrying value of mining and exploration properties over unclaimed resource pools and undepreciated capital cost (a)	(1,208,000)	(2,528,000)
Taxable mining duties refunds and credits	(1,712,000)	(890,000)
Net future tax liabilities	\$ (2,360,000)	\$ (3,220,000)

(a) The Company, Wesdome Gold Mines Ltd (formerly "River Gold Mines Ltd") and its subsidiary Moss Lake Gold Mines Ltd. have resource pools and undepreciated capital cost in excess of the carrying value of the mining and exploration properties. There is no plan in place to be able to utilize these tax assets to offset the excess of carrying value of mining and exploration properties over unclaimed resource pools and undepreciated capital cost in the Company's other subsidiaries. Accordingly a net future tax liability is recognized. The only future tax assets recognized are those in these other subsidiary that are expected to offset the future tax liabilities.

The federal non capital losses expire as follows: 2007 - \$209,000; 2008 - \$239,000; 2009 - \$298,000; 2013 - \$501,000; 2014 - \$4,028,000; 2025 - \$585,000 and 2026 - \$6,658,000.

Flow-through shares

During 2006, under the terms of flow-through agreements, the Company issued 408,169 flow-through shares and is required to spend \$979,606 on qualifying exploration expenditures prior to December 29, 2007. The renunciations were not filed until 2007 and therefore no liability has been recorded at year-end.

During 2005, under the terms of flow-through agreements, the Company issued 3,122,200 flow-through shares and was required to spend \$4,683,300 on qualifying exploration expenditures. As at December 31, 2005, this amount had been spent.

16. LOSS PER COMMON SHARE

The basic and diluted loss per common share is based on a weighted average number of shares outstanding of 83,468,906 for 2006 and 44,196,452 for 2005. The effect of common share purchase options and warrants on the net loss in 2006 and 2005 is not reflected as to do so would be anti-dilutive.

17. RELATED PARTY INFORMATION

Under the terms of the management agreement which expired May 31, 2005, Western Québec, as manager, provided technical and administrative support and carried out annual exploration programs on the Company's exploration properties. Western Québec was entitled to an administrative fee, expressed as a percentage of allowable costs (as defined and including capital expenditures) of 7.5% during the exploration phase, 5% during the development and preproduction phase and 2.5% after commencement of commercial production. Administrative fees charged in 2005 amounted to \$333,293, all of which were charged to exploration properties.

In fiscal 2006, Western Québec charged the Company \$615,371 (2005: \$241,570) for professional services which was charged to corporate and general expense. These transactions were in the normal course of operations and were measured at the exchange amounts.

Payables and accruals at December 31, 2006 and 2005, include \$77,104 and \$437,174, respectively, due to Western Québec.

Capital stock share issue costs include \$237,600 (2005: \$60,883) of agency fees paid to a company controlled by a former Director. This company also received broker warrants to purchase 90,000 common shares at a price of \$2.20 per share at any time until March 23, 2007. In 2005, this company received broker warrants to purchase 29,575 common shares at a price of \$1.62 per share at any time until July 21, 2006 and 40,589 common shares at a price of \$1.50 per share at any time until August 10, 2006.

On February 15, 2006, the Company borrowed from Western Québec the sum of \$1,800,000 with interest at the rate of 8% per annum, payable semi-annually on August 15 and February 15 of each year. In conjunction with the Company's financing in March, 2006, Western Québec exercised its option to accept non-assessable treasury shares as full payment of the loan and interest. As a result, the Company issued 824,637 common shares at a price of \$2.20 per share to Western Québec.

In fiscal 2006, the Company paid \$122,911 for the supervision of the Kiena mill to a company owned by a Director.

18. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, term deposits, receivables, payables and accruals and obligations under capital leases. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair value of these financial instruments approximate the carrying values.

19. ENVIRONMENTAL RISKS

Environmental risks

Wesdome Ltd. is committed to a program of environmental protection at its operating mines, development projects and exploration sites. Management believes that it was in compliance with government regulations in 2006. The Eagle River ore and waste rocks are not acid generating and help minimize the environmental risks of mining. Although the ultimate amount of reclamation and closure costs is uncertain, the Company estimates its future closure costs for the Eagle River mine, Mishi mine and the mill are estimated to be about \$0.7 million and the Kiena mine and mill are estimated to be about \$0.7 million. The Company has provided \$1.5 million letters of guarantee to be held against these future environmental obligations.

Commodity price risk

The profitability of the Company is directly related to the market price of gold produced. The Company does not engage in hedging of its production. At December 31, 2006 the Company had 7,790,839 ounces of unsold gold bullion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. SUPPLEMENTAL CASH FLOW INFORMATION

	2006	2005
Net changes in non-cash working capital		
Operating activities		
Receivables	\$ (2,016,709)	\$ (63,909)
Payables and accruals	1,838,029	93,964
Gold inventory	(2,712,678)	-
Supplies and other	198,874	-
	<u>\$ (2,692,484)</u>	<u>\$ 30,055</u>
Financing activities		
Receivables	\$ (73,006)	\$ 28,030
Payables and accruals	44,099	-
	<u>\$ (28,907)</u>	<u>\$ 28,030</u>
Investing activities		
Receivables	\$ (2,687,564)	\$ (1,914,829)
Payables and accruals	1,264,649	134,154
	<u>\$ (1,422,915)</u>	<u>\$ (1,780,675)</u>
Cash and cash equivalents consist of:		
Cash	\$ 5,262,530	\$ 127,767
Term deposits (interest rate of 2.90% (2005: 2.63%))	47,721	32,448
	<u>\$ 5,310,251</u>	<u>\$ 160,215</u>
Non-cash transactions:		
Amortization of exploration and mining equipment capitalized to exploration properties	\$ 105,991	\$ 270,000
Fair value of broker warrants charged to capital stock	\$ -	\$ 112,024
Issuance of 824,637 common shares as repayment of Western Québec loan and interest (Note 17)	\$ 1,814,201	\$ -
Depreciation capitalized to inventory	\$ 701,457	\$ -

21. INDEMNITIES

The Company has agreed to indemnify its directors and officers, and certain of its employees in accordance with the Company's by-laws. The Company maintains insurance policies that may provide coverage against certain claims.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified, where necessary, to conform with the current year's presentation.

23. SUBSEQUENT EVENTS

Debenture Offering

On April 23, 2007 the Company announced a private placement offering of senior unsubordinated convertible debentures ("Debentures") in the aggregate principal amount of C\$15 million (the "Offering") to be marketed on a best efforts basis. The term of the Debentures will be five years from the date of closing of the Offering. The Debentures will bear interest at a rate of 7% per annum payable semi-annually and will be convertible into common shares of the Company: (i) during the first two years, at \$2.25 per common share; and (ii) after two years, at \$3.25 per common share. The Company intends to use the net proceeds from the Offering for corporate development and general working capital purposes. The offering is expected to close on or about May 15, 2007 and is subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the approval of the Toronto Stock Exchange.

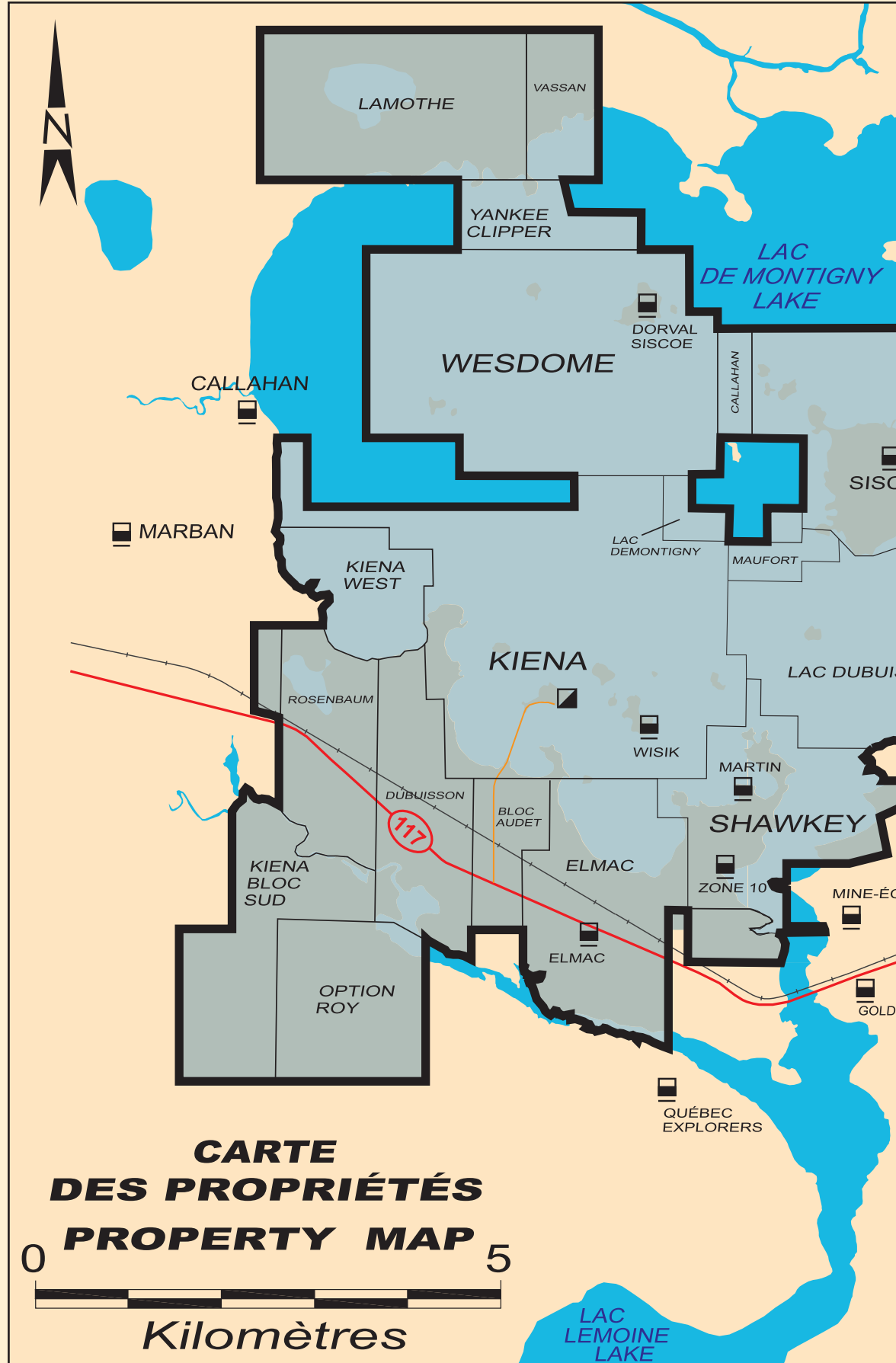
Proposed Merger

On April 17, 2007 the Company announced its proposed business combination (the "Transaction") with Western Québec Mines Inc. ("Western Québec"). Western Québec owns approximately 33% of the outstanding common shares of the Company and owns 1,000 hectares of land in the Val d'Or region, contiguous to the Company's Val d'Or assets and Agnico-Eagle's Goldex project. A business combination would increase the Company's landholdings in the area by 31% and give the Company an expanded, contiguous and dominant land position in the Val d'Or Camp.

On May 4, 2007 the Company further announced that it is expected that the Transaction will proceed by way of a plan of arrangement under the Companies Act (Québec) pursuant to which the Company will acquire all of the outstanding common shares of Western Québec ("WQM Shares") from the holders of the WQM Shares in exchange for the issuance of common shares of the Company ("Wesdome Shares"). As a result of the Transaction, Western Québec would become a wholly-owned subsidiary of the Company and the holders of WQM Shares would become shareholders of the Company. The Boards have agreed on an exchange ratio (the "Exchange Ratio") for the Transaction of 1.45 Wesdome Shares for every WQM Share held. The Boards believe that this ratio is in keeping with market pricing over the past three months.

The Transaction is expected to be minimally dilutive to the Company's shareholders as Western Québec currently owns 30,129,500 Wesdome Shares (or approximately 33%) of the 90,541,535 outstanding Wesdome Shares (as of May 4, 2007). Based on the Exchange Ratio, the Company would issue approximately 36,495,266 new Wesdome Shares to holders of WQM Shares. Of the 36,495,266 Wesdome Shares to be issued, 30,129,500 will in effect be to replace the Wesdome Shares currently held by Western Québec (which will be cancelled following the completion of the Transaction). The remaining 6,365,766 Wesdome Shares to be issued will in effect be the consideration for the acquisition by the Company of Western Québec's other assets. As such, following completion of the Transaction, the number of Wesdome Shares is expected to increase by only 6,365,766 Wesdome Shares.

Property Map



Carte des propriétés

