OSISKO MINING CORPORATION

. . . .

Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

March 12, 2012

Independent Auditor's Report

To the Shareholders
of Osisko Mining Corporation

We have audited the accompanying consolidated financial statements of Osisko Mining Corporation, which comprise the consolidated balance sheets as at December 31, 2011 and 2010 and January 1, 2010 and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and 2010, and the related notes which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2800, Montréal, Quebec, Canada H3B 2G4
T: +1 514 205 5000, F: +1 514 876 1502, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Osisko Mining Corporation as at December 31, 2011 and 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] Chartered accountant auditor permit no. 14707

Osisko Mining Corporation
Consolidated Balance Sheets
As at December 31, 2011 and 2010 and January 1, 2010

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

	Notes	December 31, 2011	December 31, 2010	January 1, 2010
		$	$	$
Assets				
Current assets				
Cash and cash equivalents		100,670	358,493	673,777
Short-term investments		-	17,068	84,064
Restricted cash		14,485	11,176	16,212
Accounts receivable	8	39,419	30,731	30,149
Mining taxes receivable		-	2,058	7,610
Inventories	9	47,552	-	-
Prepaid expenses and other assets		7,174	7,329	790
		209,300	426,855	812,602
Non-current assets				
Restricted cash		26,878	11,202	16,134
Investment in an associate	10	1,698	2,158	2,802
Other investments	11	16,041	40,851	6,919
Property, plant and equipment	12	1,801,325	1,477,818	504,305
Deferred income and mining taxes	13	14,000	-	-
		2,069,242	1,958,884	1,342,762
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	14	74,562	73,519	46,996
Current portion of long-term debt	15	86,485	70,405	6,155
Provisions and other liabilities	16	824	-	-
		161,871	143,924	53,151
Non-current liabilities				
Long-term debt	15	245,139	217,481	173,914
Provisions and other liabilities	16	6,038	3,494	355
Deferred income and mining taxes	13	2,126	-	-
		415,174	364,899	227,420
Equity attributable to Osisko Mining Corporation shareholders				
Share capital	17	1,656,034	1,606,051	1,111,326
Warrants	17	13,166	13,166	5,871
Contributed surplus		55,909	43,390	24,272
Equity component of convertible debentures	15	8,005	8,005	8,005
Accumulated other comprehensive income		(9,397)	11,019	-
Deficit		(69,649)	(87,646)	(34,132)
		1,654,068	1,593,985	1,115,342
		2,069,242	1,958,884	1,342,762

APPROVED ON BEHALF OF THE BOARD

(signed) William A. MacKinnon, Director

(signed) Sean Roosen, Director

The notes are an integral part of the consolidated financial statements.

Osisko Mining Corporation
Consolidated Statements of Income (Loss)
For the years ended December 31, 2011 and 2010

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

	Notes	2011 $	2010 $
Revenues		263,408	-
Mine operating costs			
Production costs		(158,886)	-
Royalties		(3,284)	-
Depreciation and depletion		(21,786)	-
Earnings from mine operations		79,452	-
General and administrative expenses		(30,707)	(31,955)
Exploration and corporate development expenses		(23,585)	(2,473)
Other losses		(485)	(240)
Earnings (loss) from operations		24,675	(34,668)
Interest income		2,318	3,363
Finance costs		(17,676)	-
Foreign exchange gain (loss)		(1,148)	2,751
Share of loss of associate		(460)	(644)
Other gains		3,288	9,672
Earnings (loss) before income and mining taxes		10,997	(19,526)
Income and mining tax recovery	13	7,000	1,700
Net earnings (loss)		17,997	(17,826)
Net earnings (loss)	21		
Basic		0.05	(0.05)
Diluted		0.05	(0.05)

Net earnings (loss) are solely attributable to Osisko Mining Corporation shareholders.

Additional information related to the statement of income (loss) 19

The notes are an integral part of the consolidated financial statements.

Osisko Mining Corporation
Consolidated Statements of Comprehensive Income (Loss)
For the years ended December 31, 2011 and 2010
(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

	2011	2010
	$	$
Net earnings (loss)	17,997	(17,826)
Other comprehensive income (loss):		
Changes in fair value of available-for-sale financial assets		
Unrealized gain (loss)	(17,075)	11,949
Income tax effect	1,022	(1,600)
Disposal of available-for-sale financial assets		
Reclassification to statement of income of realized loss (gain)	(5,041)	770
Income tax effect	678	(100)
Other comprehensive income (loss), net of income taxes	(20,416)	11,019
Comprehensive loss	(2,419)	(6,807)

Comprehensive loss is solely attributable to Osisko Mining Corporation shareholders.

Osisko Mining Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

	Notes	2011	2010
		$	$
Operating activities			
Net earnings (loss)		17,997	(17,826)
Adjustments for:			
Interest income		(2,318)	(3,363)
Share-based compensation		10,779	13,630
Depreciation		22,277	473
Finance costs		17,675	-
Write-off of property, plant and equipment		16,451	240
Unrealized foreign exchange loss (gain)		1,657	(2,875)
Share of loss of associate		460	644
Loss (gain) on sale of available-for-sale financial assets		(5,041)	770
Unrealized net loss (gain) on financial assets at fair value through profit and loss		10,119	(7,217)
Deferred gain - premium on flow-through shares		(7,849)	(3,748)
Provisions and other liabilities		1,220	-
Income and mining tax recovery		(7,000)	(1,700)
Other non-cash gain		(639)	-
		75,788	(20,972)
Change in non-cash working capital items	22	9,912	186
Net cash flows from operating activities		85,700	(20,786)
Investing activities			
Net decrease in short-term investments		17,068	66,996
Net decrease (increase) in restricted cash		(18,985)	9,968
Acquisition of investments		(13,783)	(31,947)
Proceeds on disposal of investments		12,038	17,185
Property, plant and equipment, net of government credits		(356,787)	(497,960)
Acquisition of assets		-	33,881
Interest received		2,525	3,234
Net cash flows from investing activities		(357,924)	(398,643)
Financing activities			
Long-term debt		-	75,000
Debt issuance costs		(640)	(946)
Finance lease payments		(8,419)	(11,098)
Long-term debt repayments		(3,333)	-
Issuance of common shares, net of issue expenses		39,477	41,189
Interest paid		(12,684)	-
Net cash flows from financing activities		14,401	104,145
Decrease in cash and cash equivalents		(257,823)	(315,284)
Cash and cash equivalents – beginning of year		358,493	673,777
Cash and cash equivalents – end of year	22	100,670	358,493
Interest paid, including interest expensed and capitalized		17,456	8,096

The notes are an integral part of the consolidated financial statements.

Osisko Mining Corporation

Consolidated Statements of Changes in Equity
For the years ended December 31, 2011 and 2010

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

		Equity attributable to Osisko Mining Corporation Shareholders								
	Number of common shares outstanding	Share capital	Warrants	Contributed surplus	Equity component of convertible debentures	Accumulated other comprehen-sive income	Deficit	Total	Non-controlling interest	Total equity
		$	$	$	$	$	$	$	$	$
Balance – January 1, 2011	381,760,065	1,606,051	13,166	43,390	8,005	11,019	(87,646)	1,593,985	-	1,593,985
Loss for the period	-	-	-	-	-	-	17,997	17,997	-	17,997
Other comprehensive income (loss), net of taxes	-	-	-	-	-	(20,416)	-	(20,416)	-	(20,416)
Comprehensive loss for the period	-	-	-	-	-	(20,416)	17,997	(2,419)	-	(2,419)
Deferred income taxes on past share issue costs	-	3,174	-	-	-	-	-	3,174	-	3,174
Issue of flow-through shares	1,823,968	24,723	-	-	-	-	-	24,723	-	24,723
Share options:										
Share-based compensation	-	-	-	15,407	-	-	-	15,407	-	15,407
Fair value of options exercised	-	2,622	-	(2,622)	-	-	-	-	-	-
Proceeds from exercise of options	906,431	5,837	-	-	-	-	-	5,837	-	5,837
Replacement share options:										
Fair value of replacement options exercised	-	266	-	(266)	-	-	-	-	-	-
Proceeds from exercise of options	42,122	278	-	-	-	-	-	278	-	278
Employee share purchase plan	166,267	2,341	-	-	-	-	-	2,341	-	2,341
Payment of interest	208,620	2,840	-	-	-	-	-	2,840	-	2,840
Property payments	579,000	8,268	-	-	-	-	-	8,268	-	8,268
Share issue costs	-	(366)	-	-	-	-	-	(366)	-	(366)
Balance – December 31, 2011	385,486,473	1,656,034	13,166	55,909	8,005	(9,397)	(69,649)	1,654,068	-	1,654,068
Balance – January 1, 2010	336,287,092	1,111,326	5,871	24,272	8,005	-	(34,132)	1,115,342	-	1,115,342
Loss for the period	-	-	-	-	-	-	(17,826)	(17,826)	-	(17,826)
Other comprehensive income, net of taxes	-	-	-	-	-	11,019	-	11,019	-	11,019
Comprehensive income (loss) for the period	-	-	-	-	-	11,019	(17,826)	(6,807)	-	(6,807)
Acquisition of Brett Resources (notes 6(b)(iv) and 7)	30,020,141	306,205	-	11,481	-	-		317,686	90,780	408,466
Acquisition of non-controlling interest in Brett Res.	8,899,820	126,468	-	-	-	-	(35,688)	90,780	(90,780)	-
Issue of flow-through shares	982,827	14,192	-	-	-	-	-	14,192	-	14,192
Share options:										
Share-based compensation	-	-	-	22,159	-	-	-	22,159	-	22,159
Fair value of options exercised	-	4,009	-	(4,009)	-	-	-	-	-	-
Proceeds from exercise of options	1,820,502	9,119	-	-	-	-	-	9,119	-	9,119
Replacement share options:										
Fair value of replacement options exercised	-	10,513	-	(10,513)	-	-	-	-	-	-
Proceeds from exercise of options	1,830,054	6,664	-	-	-	-	-	6,664	-	6,664
Warrants:										
Issue to lenders	-	-	7,636	-	-	-	-	7,636	-	7,636
Fair value of warrants exercised	-	341	(341)	-	-	-	-	-	-	-
Proceeds from exercise of warrants	1,100,000	8,206	-	-	-	-	-	8,206	-	8,206
Employee share purchase plan	78,409	838	-	-	-	-	-	838	-	838
Payment of interest	657,920	7,525	-	-	-	-	-	7,525	-	7,525
Property payments	83,300	1,166	-	-	-	-	-	1,166	-	1,166
Share issue costs	-	(521)	-	-	-	-	-	(521)	-	(521)
Balance – December 31, 2010	381,760,065	1,606,051	13,166	43,390	8,005	11,019	(87,646)	1,593,985	-	1,593,985

The notes are an integral part of the consolidated financial statements.

1. Nature of activities

Osisko Mining Corporation and its subsidiaries (together "Osisko" or the "Company") are engaged in the business of acquiring, exploring, developing and operating gold properties, with interests substantially in Canada. Osisko is a public company traded on the TSX and on the Deutsche Börse and is incorporated and domiciled in Canada. The address of its registered office is 1100, avenue des Canadiens-de-Montréal, Suite 300, Montréal, Québec.

The Company's operations, development projects and exploration activities are concentrated mostly in its wholly owned Canadian Malartic gold property in the Abitibi Gold Belt, immediately south of the Town of Malartic, Québec and on its wholly owned Hammond Reef gold property located near the town of Atikokan and approximately 170 kilometres west of the City of Thunder Bay, in Western Ontario. The Canadian Malartic mine reached commercial production on May 19, 2011.

The recoverability of the amounts shown for property, plant and equipment is dependent on future profitable production or proceeds from the disposal of properties.

2. Basis of presentation and adoption of IFRS

The accompanying consolidated financial statements have been prepared in accordance with *Canadian generally accepted accounting principles* as set out in Part 1 of the *Handbook of the Canadian Institute of Chartered Accountants* ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate the *International Financial Reporting Standards* ("IFRS"), as published by the *International Accounting Standards Board*, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the first annual consolidated financial statements of the Company prepared in accordance with IFRS as published by the IASB. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Subject to certain transition elections disclosed in note 6, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 6 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010, that were prepared in accordance with Canadian GAAP.

The Board of Directors approved the consolidated financial statements on March 12, 2012.

3. Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

(a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets at fair value.

3. Significant accounting policies (continued)

(b) Consolidation

The Company's financial statements consolidate the accounts of Osisko Mining Corporation and its subsidiaries. All intercompany transactions, balances and unrealized gains or losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities which the Company controls by having the power to govern the financial and operating policies and, generally, more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Osisko and are de-consolidated from the date that control ceases. Accounting policies of subsidiaries are consistent with the policies adopted by Osisko.

(c) Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the parent Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity and associate in the Osisko group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Osisko Mining Corporation's functional currency.

(ii) Transactions and balances

Foreign currency transactions, including revenues and expenses, are translated into the functional currency at the rate of exchange prevailing on the date of each transaction or valuation when items are re-measured. Monetary assets and liabilities denominated in currencies other than the operation's functional currencies are translated into the functional currency at exchange rates in effect at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of those transactions and from period-end translations are recognized in the statement of income.

Foreign exchange gains and losses are presented in the statement of income within *foreign exchange gain or loss*.

Non-monetary assets and liabilities are translated at historical rates, unless such assets and liabilities are carried at market value, in which case, they are translated at the exchange rate in effect at the date of the balance sheet. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

3. Significant accounting policies (continued)

(e) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

All financial instruments are required to be measured at fair value on initial recognition. The fair value is based on quoted market prices, unless the financial instruments are not traded in an active market. In this case, the fair value is determined by using valuation techniques like the Black-Scholes option pricing model or other valuation techniques.

Measurement in subsequent periods depends on the classification of the financial instrument. At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within *other gains or losses* in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity other than: i) those that the Company upon initial recognition designates as at fair value through profit or loss; ii) those that the Company designates as available-for-sale; and iii) those that meet the definition of loans and receivables. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than twelve months from the end of the reporting period, which are classified as current assets.

Held-to-maturity financial assets are stated at amortized cost, using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the financial assets are derecognized or impaired, as well as through the amortization process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. Loans and receivables are included in current assets, except for instruments with maturities greater than twelve months after the end of the reporting period, which are classified as non-current assets.

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of income as part of interest income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in other gains or losses.

Available-for-sale financial assets are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

(v) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities and long-term debt. Accounts payable and liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

The Company has classified its financial instruments as follows:

Category	Financial instrument
Financial assets and liabilities at fair value through profit and loss	Investments in warrants
Loans and receivables	Bank balances and cash on hand Guaranteed investment certificates Deposits in escrow Amounts receivable
Held to maturity	Short-term debt securities Bonds deposited as a guarantee for mine rehabilitation costs
Available-for-sale financial assets	Investments in shares and equity instruments, other than in warrants
Financial liabilities at amortized cost	Accounts payable and accrued liabilities Long-term debt

3. Significant accounting policies (continued)

(f) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (a "loss event") and that loss event has an impact on the estimated cash flows of the financial assets that can be reliably estimated. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost

The impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment losses as well as reversals are recognized in the statement of income.

(ii) *Available-for-sale financial assets*

The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to the statement of income.

Impairment losses on available-for-sale equity financial assets are not reversed.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other highly liquid short-term investments with original maturities of three months or less.

(h) Refundable tax credits for mining exploration expenses

The Company is entitled to a refundable tax credit on qualified mining exploration expenses incurred in the province of Québec. The credit is accounted for against the exploration expenses incurred.

(i) Inventory

Material extracted from mines is classified as either ore or waste. Ore represents material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Raw materials are comprised of ore in stockpiles. Ore is accumulated in stockpiles that are subsequently processed into gold in a saleable form. Work in process represents gold in the processing circuit that has not completed the production process, and is not yet in a saleable form. Finished goods inventory represents gold in saleable form that has not yet been sold. Mine operating supplies represent commodity consumables and other raw materials used in the production process, as well as spare parts and other maintenance supplies that are not classified as capital items.

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs incurred, based on a normal production capacity, in bringing each product to its present location and condition. Cost of inventories includes direct labor, materials and contractor expenses, including non-capitalized stripping costs; depreciation on property, plant and equipment including capitalized stripping costs; and an allocation of mine site overhead costs. As ore is sent to the mill for processing, costs are reclassified out of inventory based on the average cost per tonne of the stockpile.

3. Significant accounting policies (continued)

(i) Inventory (continued)

The Company records provisions to reduce inventory to net realizable value to reflect changes in economic factors that impact inventory value and to reflect present intentions for the use of slow moving and obsolete supplies inventory. Net realizable value is determined with reference to relevant market prices less applicable variable selling expenses. Provisions recorded also reflect an estimate of the remaining costs of completion to bring the inventory into its saleable form. Provisions are also recorded to reduce mine operating supplies to net realizable value, which is generally calculated by reference to its salvage or scrap value, when it is determined that the supplies are obsolete. Provisions are reversed to reflect subsequent recoveries in net realizable value where the inventory is still on hand.

(j) Investments in associates

Associates are entities over which the Company has significant influence, but not control. The financial results of the Company's investments in its associates are included in the Company's results according to the equity method. Subsequent to the acquisition date, the Company's share of profits or losses of associates is recognized in the statement of income and its share of other comprehensive income or loss of associates is included in the other comprehensive income (loss) account.

Unrealized gains on transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of income.

The Company assesses at each year-end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the statement of income.

(k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced.

Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

3. Significant accounting policies (continued)

(k) Property, plant and equipment (continued)

Depreciation is calculated to amortize the cost of the property, plant and equipment less their residual values over their estimated useful lives using the straight-line method and following periods by major categories:

Producing assets	Unit of production
Leasehold improvements	Lease term
Furniture and office equipment	3-5 years
Exploration equipment and facilities	3-20 years
Mining and construction fleet	7-10 years

Depreciation of property, plant and equipment, if related to exploration, is expensed or capitalized to exploration and evaluation expenditures according to the capitalization policy of exploration and evaluation expenditures. Depreciation of property, plant and equipment, if related to mine development expenditures, is capitalized in mine development costs. These amounts will be recognized in the consolidated statement of income through depreciation of property, plant and equipment when they are put into production. For those which are not related to exploration and development activities, depreciation expense is recognized directly in the consolidated statement of income.

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of *other gains or losses* in the statement of income.

Exploration and evaluation expenditures

Expenditures incurred on activities that precede exploration for and evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately.

Exploration expenditures includes rights in mining properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits.

Mining rights are recorded at acquisition cost or at fair value in the case of a devaluation caused by an impairment of value. Mining rights and options to acquire undivided interests in mining rights are depreciated only as these properties are put into production. These costs are written off when properties are abandoned or when cost recovery or access to resources is uncertain. Proceeds from the sale of mineral properties are applied in reduction of related carrying costs and any excess or shortfall is recorded as a gain or loss in the consolidated statements of income. In the case of partial sale, if the carrying costs exceed the proceeds, only the losses are recorded.

Exploration expenditures also typically include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore like topographical, geological, geochemical and geophysical studies. Generally, expenditures relating to exploration activities are expensed as incurred. Capitalization of exploration expenditures commence when it is more likely than not (i.e. probable) that future economic benefits will be realized. The assessment of probability is based on factors such as the level of exploration and the degree of management's confidence in the ore body.

3. Significant accounting policies (continued)

(k) Property, plant and equipment (continued)

Exploration and evaluation expenditures reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition. Exploration and evaluation expenditures include the cost of:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve;
- determining the optimal methods of extraction and metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

Exploration and evaluation expenditures are capitalized if management determines that there is sufficient evidence to support probability of generating positive economic returns in the future. When a mine project moves into the development phase, exploration and evaluation expenditures are capitalized to mine development costs. If an exploration and evaluation activity does not prove viable, all irrecoverable costs with the project are written off.

Exploration and evaluation expenditures include overhead expenses directly attributable to the related activities.

Cash flows attributable to capitalized exploration and evaluation costs are classified as investing activities in the consolidated statement of cash flows under the heading *property, plant and equipment*.

Mine development costs

The mine development phase generally begins after completion of a feasibility study and the decision by management to proceed with the commercial development of a project and ends upon the commencement of commercial production. Mine development expenditures include transferred exploration and evaluation expenses as well as costs incurred in accessing the ore body.

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of mining overburden and waste materials is referred to as stripping. Stripping costs incurred in order to provide initial access to the ore body (referred to as pre-production stripping) are capitalized as mine development costs.

Stripping costs incurred during the production stage ("production phase stripping") are accounted for as current period production costs unless these costs result in a future economic benefit. Production phase stripping costs generate a future economic benefit when the related stripping activity: (i) provides access to ore to be mined in the future; (ii) increases the fair value of the mine as access to future mineral reserves becomes less costly; (iii) increases the productive capacity or extends the productive life of the pit. Such production phase stripping costs are capitalized as mine development costs. For periods where production phase stripping activity generates a future economic benefit, factors such as the length and intensity of the stripping campaign are considered to determine the amount of production stripping costs incurred that is related to current production versus the amount that relates to the future economic benefit.

Assets under construction are included in mine development costs until they are brought into working condition for their intended use, at which point they are transferred to producing assets and depreciation begins. Assets under construction include borrowing costs and the estimated present value of related asset retirement obligations at recognition.

Once a project enters commercial production, mine development costs related to this project are depreciated on a unit-of-production basis.

3. Significant accounting policies (continued)

(k) Property, plant and equipment (continued)

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as finance costs in the statement of income in the period in which they are incurred.

Impairment

The carrying value of property, plant and equipment is reviewed regularly and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Property, plant and equipment that are not depreciated are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less cost to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Expected future cash flows for property, plant and equipment are based on estimates of future metal prices and foreign exchange rates, proven and probable reserves, estimated value beyond proven and probable reserves, and future operating, capital, and reclamation cost assumptions.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(l) Convertible debentures

The liability and equity components of convertible debentures are presented separately on the consolidated balance sheet starting from initial recognition.

The liability component is recognized initially at the fair value, by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows that do not have an associated conversion option. Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest method; the liability component is increased by accretion of the discounted amounts to reach the nominal value of the debentures at maturity.

The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability from the amount of the debentures and is presented in shareholders' equity as equity component of convertible debenture. The equity component is not re-measured subsequent to initial recognition except on conversion or expiry. A deferred tax liability is recognized with respect to any temporary difference that arises from the initial recognition of the equity component separately from the liability component. The deferred tax is charged directly to the carrying amount of the equity component. Subsequent changes in the deferred tax liability are recognized through the statement of income.

Transaction costs are distributed between liability and equity on a pro-rata basis of their carrying amounts.

3. Significant accounting policies (continued)

(m) Provisions

Provisions for environmental restoration, restructuring costs and legal claims, where applicable, are recognized when: (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The increase in the provision due to passage of time is recognized as finance costs. Changes in assumptions or estimates are reflected in the period in which they occur.

Provision for environmental restoration represents the legal and constructive obligations associated with the eventual closure of the Company's property, plant and equipment. These obligations consist of costs associated with reclamation and monitoring of activities and the removal of tangible assets. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, excluding the risks for which future cash flow estimates have already been adjusted.

(n) Current and deferred income tax

Mining taxes represent Canadian provincial taxes levied on mining operations and are classified as income taxes since such taxes are based on a percentage of mining profits.

Current income and mining taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income and mining tax charge is the expected tax payable on the taxable income for the year, using the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Company, its subsidiaries and its joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Deferred income and mining taxes

The Company uses the asset and liability method of accounting for income and mining taxes. Under this method, deferred income and mining tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income and mining tax assets and liabilities are measured using enacted or substantively enacted tax rates (and laws) that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred income and mining tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Significant accounting policies (continued)

(n) Current and deferred income tax (continued)

Deferred income and mining tax assets and liabilities are presented as non-current and are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income or mining taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(o) Share capital and warrants

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period where the transaction occurs.

(p) Flow-through shares

The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The difference (''premium'') between the amount recognized in common shares and the amount the investors pay for the shares is recognized as a deferred gain which is reversed into earnings when eligible expenditures have been made. The Company recognizes a deferred tax liability for flow-through shares and a deferred tax expense, at the moment the eligible expenditures are made.

(q) Revenue recognition

Revenues include sales of refined gold and silver. Revenues from the sale of refined gold and silver are recognized when persuasive evidence exists that the significant risks and rewards of ownership have passed to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the sale price can be measured reliably, the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably. These conditions are generally satisfied when the metal is delivered to the counterparty of the transaction.

(r) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Company leases certain equipment. Leases of equipment for which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased equipment and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term debt. The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(s) Share-based compensation

Share option plan

The Company offers a share option plan for its directors, officers, employees and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

3. Significant accounting policies (continued)

(s) Share-based compensation (continued)

Any consideration paid on exercise of share options is credited to share capital. The contributed surplus resulting from share-based compensation is transferred to share capital when the options are exercised.

Deferred and restricted share units

Deferred share units ("DSU") and restricted share units ("RSU") may be granted to employees, directors and officers as part of their long-term compensation package entitling them to receive payout in cash based on the Company's share price at the relevant time. A liability for DSU and RSU is measured at fair value on the grant date and is subsequently adjusted at each balance sheet date for changes in fair value according to the estimation made by management of the number of DSU and RSU that will eventually vest. The liability is recognized over the vesting period, with a corresponding charge to share-based compensation.

(t) Earnings per share

The calculation of earnings per share ("EPS") is based on the weighted average number of shares outstanding for each period. The basic EPS is calculated by dividing the profit or loss attributable to the equity owners of Osisko Mining Corporation by the weighted average number of common shares outstanding during the period.

The computation of diluted EPS assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the income per share. The treasury stock method is used to determine the dilutive effect of the warrants, share options and the if-converted method is used for convertible debentures. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants, share options and convertible debentures.

4. Accounting standards issued but not yet applied

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt any of these standards.

IAS 1, *Presentation of Financial Statements,* ("IAS 1")

IAS 1 was amended to change the disclosure of items presented in Other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. This amendment is required to be applied for years beginning on or after July 1, 2012.

IFRS 9, *International Financial Reporting Standard,* ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

4. Accounting standards issued but not yet applied *(continued)*

IFRS 9, *International Financial Reporting Standard,* ("IFRS 9") *(continued)*

Requirements for financial liabilities were added in October 2010, and they largely carried forward existing requirements in IAS 39*,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for years beginning on or after January 1, 2015.

IFRS 10, *Consolidated Financial Statements*, ("IFRS 10")

IFRS 10 replaces parts of IAS 27, *Consolidated and Separate Financial Statements* and all of SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The remainder of IAS 27, *Separate Financial Statements*, now contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates only when an entity prepares separate financial statements and is therefore not currently applicable in the Company's consolidated financial statements.

IFRS 11, *Joint Arrangements*, ("IFRS 11")

IFRS 11 replaces IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 requires a single method, known as the equity method, to account for interests in jointly controlled entities which is consistent with the accounting treatment currently applied to investments in associates. IAS 28, *Investments in Associates and Joint Ventures*, was amended as a consequence of the issuance of IFRS 11. In addition to prescribing the accounting for investment in associates, it now sets out the requirements for the application of the equity method when accounting for joint ventures.

IFRS 12, *Disclosure of Interest in Other Entities*, ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The standard includes disclosure requirements for entities covered under IFRS 10 and IFRS 11.

IFRS 13, *Fair Value Measurement*, ("IFRS 13")

IFRS 13 provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

IFRIC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*, ("IFRIC 20")

On October 19, 2011, the IFRS Interpretation Committee published IFRIC 20 that applies to all types of natural resources that are extracted using the surface mining activity process. IFRIC 20 clarifies the requirements for accounting for stripping costs in the production phase of a surface mine. It provides guidance on when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

5. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company also makes estimates and assumptions concerning the future. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

The more significant areas requiring the use of management estimates and assumptions relate to ore reserves and estimates of recoverable gold that are the basis of future cash flow estimates for asset impairments/reversals and unit-of-production depreciation and depletion calculations; environmental rehabilitation obligations; income and mining taxes; share-based compensation and the fair value and accounting treatment of financial instruments.

The Company is also exposed to numerous legal risks. The outcome of currently pending and future proceedings cannot be predicted with certainty. Thus, an adverse decision in a lawsuit could result in additional costs that are not covered, either wholly or partly, under insurance policies and that could significantly influence the business and results of operations.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the estimates and judgements applied by management that most significantly affect the Company's consolidated financial statements. These estimates and judgements have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The judgements that management has applied in the application of accounting policies, and the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Impairment of assets

<u>Property, plant and equipment</u>

The Company's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalized where it is considered likely to be recoverable by future exploitation. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalized the expenditure, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalized amount will be written off to the statement of income.

Development activities commence after project sanctioning by senior management. Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist such that development may be sanctioned. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalized exploration and evaluation expenditure. Such estimates and assumptions may change as new information becomes available. If, after having started the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the income statement.

The Company's recoverability of its recorded value of its property, plant and equipment (including mining properties and associated deferred expenditures) is based on market conditions for metals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale.

5. Critical accounting estimates and judgements *(continued)*

(i) Impairment of assets (continued)

Property, plant and equipment *(continued)*

On an ongoing basis, the Company evaluates each mining property and project on results to date to determine the nature of exploration, other assessment and development work that is warranted in the future. If there is little prospect of future work on a property or project being carried out within a three year period from completion of previous activities, the deferred expenditures related to that property or project are written off or written down to the estimated amount recoverable unless there is persuasive evidence that an impairment allowance is not required. The amounts shown for mineral properties and for mineral property evaluation costs represent costs incurred to date net of mining duties and tax credits less write-downs, if appropriate, and are not intended to reflect present or future values.

The recoverable amounts of property, plant and equipment are based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management. These cash flow projections are based on expected recoverable ore reserves, selling prices of ores and operating costs. Any changes in the quality and quantity of recoverable ore reserves, expected selling prices and operating costs could materially affect the estimated fair value of mining assets, which could result in material write-downs or write-offs in the future.

Available-for-sale equity investment

The Company follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Company's management evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the volatility of the investment and the financial health and business outlook for the investee, including factors such as the current and expected status of the investee's exploration projects and changes in financing cash flows.

(ii) Ore reserves and mineral resource estimates

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpretation of the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body.

The Company estimates and reports ore reserves under the principles contained within the National Instrument 43-101 ("NI-43-101") for the Standards of Disclosure for Mineral Projects in Canada. The NI 43-101 requires the use of reasonable investment assumptions – including:

(a) Future production estimates – which include proved and probable reserves, resource estimates and committed expansions;

(b) Expected future commodity prices, based on current market price, forward prices and the Company's assessment of the long-term average price; and

(c) Future cash costs of production, capital expenditure and rehabilitation obligations.

Consequently, management will form a view of forecast sales prices, based on current and long-term historical average price trends. For example, if current prices remain below long-term historical averages for an extended period of time, management may assume that lower prices will prevail in the future and as a result, those lower prices are used to estimate reserves under the NI 43-101. Lower price assumptions generally result in lower estimates of reserves.

5. Critical accounting estimates and judgements *(continued)*

(ii) Ore reserves and mineral resource estimates *(continued)*

As the economic assumptions used may change and as additional geological information is produced during the operation of a mine, estimates of reserves may change. Such changes may impact the Company's reported financial position and results which include:

(a) The carrying value of exploration property, plant and equipment may be affected due to changes in estimated future cash flows;

(b) Depreciation and amortization charges in profit or loss may change where such charges are determined using the units of production method, or where the useful life of the related assets change;

(c) Provisions for rehabilitation and environmental provisions may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities; and

(d) The recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

(iii) Estimated useful life of mining assets

All mining assets are amortized using the units-of-production method where the mine operating plan calls for production from well-defined ore reserve over proved and probable reserves. For mobile and other equipment, the straight-line method is applied over the estimated useful life of the asset which does not exceed the estimated mine life based on proved and probable ore reserve as the useful lives of these assets are considered to be limited to the life of the relevant mine.

The calculation of the units-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable ore reserve. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserve.

Management estimates the useful lives of mining assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of mining assets for any period as well as their net recoverable value amounts are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of changes in the ore reserves, of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's mining assets in the future, therefore affecting the amortization and net realizable value of these assets.

5. Critical accounting estimates and judgements *(continued)*

(iv) Production start date

The Company assesses the stage of each mine construction project to determine when a mine moves into the production stage. The criteria used to assess the start date are determined by the unique nature of each mine construction project and include factors such as the complexity of a plant and its location. The Company considers various relevant criteria to assess when the mine is substantially complete and ready for its intended use and moves into the production stage.

Some of the criteria would include but are not limited to the following:

- the level of capital expenditure compared to the construction cost estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- ability to produce gold in saleable form (within specifications and the de minimis rule); and
- ability to sustain ongoing production of gold.

When a mine construction project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to mining asset additions or improvements, underground mine development or ore reserve development.

(v) Provision for environmental rehabilitation obligations

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Company recognizes management's best estimate for decommissioning and restoration obligations in the period in which they are incurred. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision. Such changes could similarly impact the useful lives of assets depreciated on a straight-line-basis, where those lives are limited to the life of mine.

(vi) Income and mining taxes

The Company is subject to income and mining taxes in some jurisdictions. Significant judgement is required in determining the total provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(vii) Share-based compensation

The factors affecting share-based compensation include estimates of when stock options and compensation warrants might be exercised and stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's shares and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes option pricing model; however, the future volatility is uncertain and the model has its limitations.

6. Transition to IFRS

The effect of the Company's transition from Canadian GAAP to IFRS, as described in note 2, is summarized in this note as follows:

a) Transition elections;
b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS;
c) Adjustments to the statement of cash flows.

(a) Transition elections

IFRS 1, *First Time Adoption of IFRS*, offers the possibility to utilize certain exemptions from full retrospective application of IFRS. The Company evaluated the options available and elected to adopt the following transition exemptions:

(i) Borrowing costs

This exemption allows the Company to adopt IAS 23, *Borrowing Costs*, prospectively from any date no later than January 1, 2010. The Company has elected January 1, 2010 as transition date to prospectively adopt IAS 23.

(ii) Business combinations

The Company elected to apply IFRS relating to business combinations prospectively from January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date have been carried forward without adjustment.

(iii) IFRIC 4, Determining whether an arrangement contains a lease ("IFRIC 4")

In accordance with IFRS 1, the Company has elected to apply the transitional provisions in IFRIC 4 at the date of transition to all arrangements other than those entered into or modified since January 1, 2005, as such arrangements have already been assessed under requirements similar to those of IFRIC 4. No impact resulted from the review of arrangements.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

6. Transition to IFRS *(continued)*

(b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

		December 31, 2010			January 1, 2010		
	Note 6 (b)	**Canadian GAAP**	**Adj.**	**IFRS**	**Canadian GAAP**	**Adj.**	**IFRS**
Assets							
Current assets							
Cash and cash equivalents		358,493	-	358,493	673,777	-	673,777
Short-term investments		17,068	-	17,068	84,064	-	84,064
Restricted cash		11,176	-	11,176	16,212	-	16,212
Accounts receivable	(i)	32,789	(2,058)	30,731	37,759	(7,610)	30,149
Mining taxes receivable	(i)	-	2,058	2,058	-	7,610	7,610
Other current assets		7,329	-	7,329	790	-	790
		426,855	-	426,855	812,602	-	812,602
Non-current assets							
Restricted cash		11,202	-	11,202	16,134	-	16,134
Investment in an associate	(ii)	-	2,158	2,158	-	2,802	2,802
Other investments	(ii)	38,527	(2,158)	40,851	5,732	(2,802)	6,919
	(iii)		4,482			3,989	
Property, plant and equipment	(iv)	1,587,682	(109,864)	1,477,818	504,305	-	504,305
		2,064,266	(105,382)	1,958,884	1,338,773	3,989	1,342,762
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	(v)	73,311	208	73,519	46,047	949	46,996
Current portion of long-term debt		70,405	-	70,405	6,155	-	6,155
		143,716	208	143,924	52,202	949	53,151
Non-current liabilities							
Long-term debt		217,481	-	217,481	173,914	-	173,914
Deferred tax liabilities	(iv)	111,294	(111,294)	-	-	-	-
Provisions		3,494	-	3,494	355	-	355
		475,985	(111,086)	364,899	226,471	949	227,420
Equity attributable to Osisko shareholders							
Share capital	(iv)	1,574,257	37,118	1,606,051	1,116,229	-	1,111,326
	(v)		(5,324)			(4,903)	
Warrants		13,166	-	13,166	5,871	-	5,871
Contributed surplus		43,390	-	43,390	24,272	-	24,272
Equity component of convertible debenture	(vi)	11,036	(3,031)	8,005	11,036	(3,031)	8,005
Accumulated other comprehensive income		11,019	-	11,019	-	-	-
Deficit	(iii)	(64,587)	4,482	(87,646)	(45,106)	3,989	(34,132)
	(iv)		(35,688)			-	
	(v)		5,116			3,954	
	(vi)		3,031			3,031	
		1,588,281	5,704	1,593,985	1,112,302	3,040	1,115,342
		2,064,266	(105,382)	1,958,884	1,338,773	3,989	1,342,762

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

6. Transition to IFRS *(continued)*

(b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS (continued)

	Note 6 (b)	Year ended December 31, 2010 Cdn GAAP[1]	Adj.	IFRS
Expenses				
General and administrative expenses		31,955	-	31,955
Exploration and corporate development		2,473	-	2,473
Other expenses		240	-	240
Operating loss		(34,668)	-	(34,668)
Interest income		3,363	-	3,363
Foreign exchange gain		2,751	-	2,751
Share of equity investee loss		(644)	-	(644)
Other gains	(iii)	5,431	493	9,672
	(v)		3,748	
Loss before income taxes		(23,767)	4,241	(19,526)
Income tax recovery (expense)	(v)	4,286	(2,586)	1,700
Profit (loss) attributable to Osisko shareholders		(19,481)	1,655	(17,826)
Other comprehensive income				
Net gain on available-for-sale financial assets, net of deferred income taxes of $1,600,000		10,349	-	10,349
Net realized loss on available-for-sale financial assets, net of deferred income tax recovery of $100,000		670	-	670
Total comprehensive income (loss)		(8,462)	1,655	(6,807)
Profit (loss) per share				
Basic and diluted		(0.05)	-	(0.05)

(1) Certain Canadian GAAP figures have been reclassified to conform with the Company's IFRS financial statement presentation (note 6 (b)(vii)).

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

6. Transition to IFRS *(continued)*

(b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS (continued)

Explanatory notes

(i) Under IFRS (IAS 1, *Presentation of Financial Statements*), income and mining taxes receivable or payable must be presented on a specific heading on the balance sheet while under Canadian GAAP, they were included within *accounts receivable* or *accounts payable and accrued liabilities*.

(ii) Under IFRS (IAS 1), investments in associates must be presented on a specific heading on the balance sheet while under Canadian GAAP, all investments were presented under the same heading. As a result, the Company now presents its investment in Bowmore Exploration Limited under *investment in an associate*. Investments other than in associates are presented under *other investments*.

(iii) Under Canadian GAAP, the warrants held by the Company in an associate were considered to form part of the investment in such associate and, accordingly, were not recorded at fair value. Under IFRS (IAS 39), these warrants are considered stand-alone derivative financial instruments and are recorded at fair value with subsequent changes recorded in the statement of income. As a result, the Company increased its other investments and decreased its deficit at the transition date (January 1, 2010) by $3,989,000 and adjusted its other gains or (losses) on the statement of income by $493,000 for the year ended December 31, 2010.

(iv) In 2010, the Company acquired 100% ownership of Brett Resources in two stages. The transaction was accounted for as an acquisition of assets under Canadian GAAP, which is consistent with IFRS requirements. However, two adjustments were required in relation to this acquisition of assets and are presented below.

→ Under IFRS, the fair value of the shares issued at the transaction dates (and the cash paid) must be used to evaluate the cost of the assets acquired and no adjustments are permitted. In addition, the purchase of additional subsidiary shares once control is obtained must be accounted for as an equity transaction, which affected the second and final acquisition of shares of Brett Resources.

As a result, the following adjustments were made:

	May 19, 2010	**August 13, 2010**	**Net impact as at December 31, 2010**
Increase (decrease)	**$**	**$**	**$**
Property, plant and equipment	25,517	(24,087)	1,430
Share capital	25,517	11,601	37,118
Retained earnings	-	(35,688)	(35,688)

→ Under Canadian GAAP, deferred taxes must be calculated in relation to acquired assets and assumed liabilities, whereas under IFRS, when the assets are not acquired in a business combination and, at the time of acquisition, neither accounting profit nor taxable profit are affected, therefore no deferred taxes are recorded.

As a result, the following adjustments were made:

	May 19, 2010	**August 13, 2010**	**Net impact as at December 31, 2010**
Increase (decrease)	**$**	**$**	**$**
Property, plant and equipment	(79,071)	(32,223)	(111,294)
Deferred tax liabilities	(79,071)	(32,223)	(111,294)

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

6. Transition to IFRS *(continued)*

(b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS (continued)

Summary of adjustments by period:

Increase (decrease)	December 31, 2010 $	January 1, 2010 $
Property, plant and equipment	(109,864)	-
Deferred tax liabilities	(111,294)	-
Share capital	37,118	-
Retained earnings	(35,688)	-

(v) Under Canadian GAAP, when flow-through shares are issued, they are initially recorded in share capital at their issue price. On the date the expenses are renounced (by filing the prescribed forms) to the investors, a deferred tax liability is recognized as a cost of issuing the shares (a reduction in share capital). Under IFRS, flow-through shares are recognized based on the quoted price of the existing shares on the date of the issue. The difference (''premium'') between the amount recognized in share capital and the amount the investors pay for the shares is recognized as a deferred gain which is reversed into earnings as eligible expenditures are made. The tax effect resulting from the renunciation is recorded as a deferred tax expense when eligible expenditures have been made.

(vi) Under Canadian GAAP, if a compound financial instrument like a convertible debenture can be settled without incurring taxes, there is no temporary difference. The component of a compound financial instrument classified as a liability will normally be different from the tax basis of the instrument. If the liability component were to be settled for its carrying amount, this would otherwise give rise to taxable or deductible amounts that would be included in the determination of taxable income. However, Canadian GAAP recognizes that settlement of the instrument in accordance with its terms, either through settlement on maturity or conversion, might not result in the incidence of tax to the issuer. Therefore, when an entity is able to settle the instrument without the incidence of tax, the tax basis of the liability component is considered to be the same as its carrying amount and there is no temporary difference.

IFRS specifically requires the recognition of deferred taxes arising on the liability component of compound financial instruments. Hence, a deferred tax liability is recognized with respect to any temporary difference that arises from the initial recognition of the equity component separately from the debt component. The deferred tax is charged directly to the carrying amount of the equity component. Subsequent changes in the deferred tax liability are recognized through the statement of income.

(vii) Under IFRS, the Company has elected to present the statement of income by function to be in line with industry practice. Therefore, adjustments to the classification of expenses were made for the year ended December 31, 2010 and are presented in note 19.

(c) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on the statement of cash flows, except that, under IFRS, the Company has elected to classify cash flows related to interest in a consistent manner as operating, investing or financing activities each period. Under Canadian GAAP, cash flows related to interest received or paid were classified as operating activities.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

7. Acquisition of Brett Resources Inc.

On May 19, 2010, the Company acquired 88,294,532 common shares of Brett Resources Inc. (the "Brett Shares"), representing approximately 77.13% of Brett's issued and outstanding shares. The principal asset of Brett is a 100% interest in the Hammond Reef gold project located in Ontario. Each Brett shareholder who has accepted the offer received 0.34 common shares of the Company and $0.0001 in cash for each Brett Share held. All of Brett's outstanding share options have been exchanged for fully vested options ("replacement share options") of the Company using the same share exchange ratio as for the common shares.

A total of 30,020,141 Osisko shares and 1,971,118 replacement share options were issued valued at $306,205,000 and $11,481,000, respectively, as a consideration for the acquisition of 77.13% of the outstanding common shares of Brett. The following assumptions were used with the Black-Scholes option pricing model to calculate the fair value of the replacement share options issues: dividend of 0%; volatility of 65%; risk-free interest rate of 0.58% and expected life of 30 to 90 days. The weighted average fair value of the replacement share options is $5.82.

On August 13, 2010, the Company acquired all the remaining 26,176,023 common shares of Brett under the same terms as the initial investment. A total of 8,899,820 Osisko shares were issued valued at $126,468,000.

The transaction has been accounted for as a purchase of assets.

The total purchase price of $374,988,000 was allocated to the assets acquired and the liabilities assumed based on the fair value of the total consideration paid. All financial assets acquired and financial liabilities assumed were recorded at fair value.

The purchase price was calculated as follows:

Consideration paid	**$**
Issuance of 30,020,141 common shares	306,205
Issuance of 1,971,118 replacement share options (at fair value)	11,481
Fair value of non-controlling interest	90,780
Cash	4
Transaction costs	3,829
Less: Cash and cash equivalents acquired	(37,311)
	374,988

Net assets acquired	**$**
Current assets	3,157
Mineral property	375,221
Property and equipment	1,408
Current liabilities	(4,798)
	374,988

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

8. Accounts receivable

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Refundable tax credits	10,491	8,554	8,477
Sales and fuel taxes	13,830	9,616	12,066
Interest income receivable	159	366	166
Advances to suppliers and other receivables(i)	14,939	12,195	9,440
	39,419	30,731	30,149

(i) Advances to suppliers and other receivables are classified as current assets. As of December 31, 2011, an amount of $2,729,000 (nil as at December 31 and January 1, 2010) is not expected to be collected within one year.

9. Inventories

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Finished products	8,581	-	-
Work-in-process	13,729	-	-
Stockpiles(i)	6,631	-	-
Mine supplies	18,611	-	-
	47,552	-	-

(i) Inventories are classified as current assets. As of December 31, 2011, an amount of $6,428,000 is not expected to be processed within one year.

10. Investment in an associate

	2011	2010
	$	$
Balance – January 1	2,158	2,802
Share of equity associate	(460)	(644)
Balance – December 31	1,698	2,158

Bowmore Exploration Ltd.

On July 3, 2009, the Company made an investment of $3,000,000 in Bowmore Exploration Ltd. (“Bowmore”) in exchange of 15,000,000 common shares and 7,500,000 warrants, representing a 35.2% interest on a diluted basis (30.4% on a non-diluted basis) as at December 31, 2011. Each warrant entitles the Company to acquire one common share of Bowmore at a price of $0.35 for a period of 48 months from the investment date, provided that after two years have elapsed from the closing date, and upon the closing trading price of Bowmore’s common shares being at or above the price of $0.75 for 10 consecutive trading days, the warrants shall expire on the earlier of (i) the expiry date of such warrants, or (ii) such date which is 30 days after the first business day following the date Bowmore provides written notice to the warrants holders that the warrants will expire at the end of such 30-day period.

As the Company exercises significant influence over Bowmore, it has accounted for the investment using the equity method. Based on the quoted market price of the common shares, the investment in Bowmore is valued at $6,225,000 as at December 31, 2011 ($13,050,000 as at December 31, 2010 and $10,650,000 as at January 1, 2010).

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

10. Investment in an associate *(continued)*

The following table summarizes financial information about Bowmore:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Assets	6,334	5,300	6,605
Liabilities	213	522	486
Revenues for the year(i)	-	-	N/A
Loss for the year(i)	(589)	(2,086)	N/A

(i) Not applicable for January 1, 2010 as the date represents the opening balance sheet following the transition to IFRS

The Company has not incurred any contingent liabilities or other commitments relating to its investments in this associate.

11. Other investments

	2011	2010
	$	$
Available for sale (marketable securities)		
Balance – January 1	28,670	1,955
Acquisitions	14,423	31,951
Dispositions	(6,997)	(17,955)
Net loss (gain) transfer from equity	(5,041)	770
Net gain (loss) transfer to equity	(17,075)	11,949
Balance – December 31	13,980	28,670
Financial assets at fair value through profit and loss (warrants)		
Balance – January 1	12,181	4,964
Net loss (gain)	(10,120)	7,217
Balance – December 31	2,061	12,181
	16,041	40,851

The investments are mainly held in common shares and warrants of Canadian publicly traded companies.

The fair values of the investments in common shares are based on the quoted market prices of those shares on a recognized stock exchange at the end of each reporting period.

The fair values of the warrants are based on the quoted market prices of the warrants on a recognized stock exchange when they are traded. Otherwise, the fair values of the warrants are determined using the Black-Scholes option pricing model.

The unrealized gains and losses on available-for-sale investments are recognized in the consolidated statement of comprehensive income and the gains and losses on financial assets at fair value are recognized through the profit and loss in the statement of income.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

12. Property, plant and equipment

	Exploration and evaluation	Mine development[i]	Producing assets[ii]	Total
	$	$	$	$
Balance – January 1, 2010				
Cost	88,002	418,479	-	506,481
Accumulated depreciation	-	(2,176)	-	(2,176)
Net book value	88,002	416,303	-	504,305
Year ended December 31, 2010				
Opening net book value	88,002	416,303	-	504,305
Additions, net of government credits	77,389	488,096	-	565,485
Acquisition of a subsidiary	375,221	1,408	-	376,629
Asset retirement obligations	-	3,139	-	3,139
Amortization of debt issuance cost	-	3,001	-	3,001
Interests capitalized	-	17,444	-	17,444
Share-based compensation capitalized	1,850	6,678	-	8,528
Depreciation	-	(5,855)	-	(5,855)
Depreciation capitalized	354	5,028	-	5,382
Write-off	(240)	-	-	(240)
Closing net book value	542,576	935,242	-	1,477,818
Balance – December 31, 2010				
Cost	542,576	943,636	-	1,486,212
Accumulated depreciation	-	(8,394)	-	(8,394)
Net book value	542,576	935,242	-	1,477,818
Year ended December 31, 2011				
Opening net book value	542,576	935,242	-	1,477,818
Additions, net of government credits[v]	84,155	99,266	179,576	362,997
Asset retirement obligations	-	530	1,251	1,781
Amortization of debt issuance cost	-	3,179	-	3,179
Interests capitalized	-	8,260	-	8,260
Share-based compensation capitalized	1,781	1,467	1,067	4,315
Depreciation	(1,139)	(3,055)	(30,477)	(34,671)
Depreciation capitalized	1,173	2,894	-	4,067
Transfers to stockpile inventories	-	(8,342)	-	(8,342)
Transfers to current assets	-	(1,509)	-	(1,509)
Transfers between categories[iii]	(115,071)	(1,037,447)	1,152,518	-
Disposition	(119)	-	-	(119)
Write-off[iv]	(15,966)	(485)	-	(16,451)
Closing net book value	497,390	-	1,303,935	1,801,325
Balance – December 31, 2011				
Cost	499,258	-	1,345,132	1,844,390
Accumulated depreciation	(1,868)	-	(41,197)	(43,065)
Net book value	497,390	-	1,303,935	1,801,325

(i) Including assets under construction and equipment under finance lease having respective net book values of $848,673,000 and $78,888,000 as at December 31, 2010 and $381,832,000 and $31,377,000 as at January 1, 2010.

(ii) Including assets under construction and equipment under finance lease having respective net book values of $102,687,000 and $115,917,000 as at December 31, 2011.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

12. Property, plant and equipment *(continued)*

(iii) Effective May 19, 2011, the Company determined that commercial production has been achieved at the Canadian Malartic mine and ore processing mill complex. Therefore, assets have been transferred from exploration and evaluation and mine development to producing assets.

In 2011, the Company claimed $1,937,000 ($13,743,000 in 2010) in refundable tax credit on qualified mining exploration expenses incurred in the province of Québec. The credit is accounted for against the exploration expenses incurred.

(iv) The Company terminated its participation in the Duparquet Mining Camp Project, the Goldboro Project and five other grassroots projects and has written-off the costs capitalized in relation to these projects.

(v) In August 2011, the Company purchased back a 1% royalty interest from Géoconseils Jack Stock Limitée in consideration for the issuance of 460,000 common shares of Osisko. This royalty was encumbering a portion of the Canadian Malartic and Barnat deposits and is part of a 2.5% gross metal royalty interest that was granted as a result of the acquisition of certain claims of the Canadian Malartic property in March 2006. Following this purchase, 60% of the recoverable gold ounces at the Canadian Malartic mine will be subject to a 1.5% net smelter or gross metal royalty.

All property, plant and equipment are pledged as a security with CPPIB Credit Investments Inc. for a secured loan of $150,000,000.

13. Income and mining taxes

(i) <u>Income and mining tax recovery</u>

	2011	2010
	$	**$**
Deferred income and mining taxes (note 13 (ii)):		
Origination and reversal of temporary differences	(12,976)	1700
Recognition of previously unrecognized tax assets	19,976	-
Income and mining tax recovery	7,000	1,700

Following the commencement of the operations at the Canadian Malartic mine in 2011, and based on the profits generated since then and the future profitability expectations of the Company, the tax assets were recognized in 2011 as it is probable that it will be realized due to the Company’s expected future profitability.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

13. Income and mining taxes *(continued)*

(i) Income and mining tax recovery *(continued)*

The provision for income and mining taxes presented in the consolidated financial statements differs from the theoretical amount that would arise using the weighted average tax rate applicable to income of the consolidated entities, as a result of the following:

	2011	2010
	$	$
Net earnings (loss) before taxes	10,997	(19,526)
Combined income and mining tax recovery (expense)	(4,167)	7,654
Tax effects of:		
Impact of changes in tax rates of deferred income taxes	1,280	147
Income not subject to taxes	2,170	1,121
Non-refundable tax credits	4,615	8,729
Portion of capital gain (loss) not taxable (deductible)	(722)	623
Share-based compensation	(3,061)	(4,135)
Expenses renounced under flow-through shares	(10,000)	(6,922)
Other non-deductible expenses	-	(78)
Recognition of tax attributes not previously benefited	19,976	-
Unrecognition of tax attributes not previously benefited	-	(4,341)
Non-taxable refundable mining duty credits	-	(1,493)
Net non-deductible expenses for mining duties	(2,762)	-
Others	(329)	395
Deferred income and mining tax recovery	7,000	1,700

The weighted statutory tax rates are 37.9% in 2011 and 39.2% in 2010. The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Company operates and includes the mining duty tax rate. The decrease is mainly due to the reduction of the federal income tax rate in 2011 from 18.0% to 16.5%.

(ii) Deferred Income and mining taxes

The analysis of the deferred income and mining tax assets and liabilities is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Deferred tax assets:			
Deferred income and mining tax assets to be recovered after more than 12 months	33,290	25,167	8,905
Deferred income and mining tax assets to be recovered within 12 months	33,960	-	-
	67,250	25,167	8,905
Deferred tax liabilities:			
Deferred income and mining tax liabilities to be recovered after more than 12 months	(55,376)	(25,167)	(8,905)
Deferred income and mining tax liability to be recovered within 12 months	-	-	-
	(55,376)	(25,167)	(8,905)
Deferred income and mining tax asset (net)	11,874	-	-

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

13. Income and mining taxes *(continued)*

(ii) Deferred Income and mining taxes *(continued)*

The gross movement on the deferred income and mining taxes accounts is as follows:

	2011	2010
	$	$
Balance - January 1	-	-
Income statement recovery (note 13 (i))	7,000	1,700
Tax recovery (expense) relating to components of other comprehensive income	1,700	(1,700)
Tax recovery directly to equity	3,174	-
Balance – December 31	11,874	-

The components that give rise to deferred income and mining tax assets are as follows:

Deferred income and mining tax assets	Asset retirement obligations	Share and debt issue expenses	Non refundable tax credits	Tax losses	Others	Total
	$	$	$	$	$	$
As at January 1, 2010	34	2,750	1,675	4,446	-	8,905
Charged/(credited) to the income statement	456	700	5,340	9,321	445	16,262
As at December 31, 2010	490	3,450	7,015	13,767	445	25,167
Charged/(credited) to the income statement	1,707	(1,754)	11,146	26,461	1,349	38,909
Charge directly to equity	-	3,174	-	-	-	3,174
As at December 31, 2011	2,197	4,870	18,161	40,228	1,794	67,250

Deferred income and mining tax liabilities	Mining assets	Investments	Convertible debentures	Total
	$	$	$	$
As at January 1, 2010	(5,687)	(187)	(3,031)	(8,905)
Charged/(credited) to the income statement	(13,768)	(1,338)	544	(14,562)
Charge/(credit) to other comprehensive income	-	(1,700)	-	(1,700)
As at December 31, 2010	(19,635)	(3,225)	(2,487)	(25,167)
Charged/(credited) to the income statement	(33,876)	1,423	544	(31,909)
Charge/(credit) to other comprehensive income	-	1,700	-	1,700
As at December 31, 2011	(53,511)	(102)	(1,943)	(55,376)

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

13. Income and mining taxes *(continued)*

(ii) Deferred Income and mining taxes *(continued)*

Deferred income and mining tax assets are recognized for deductible temporary differences, tax loss carry-forwards and non-refundable unused tax credits to the extent that the realization of the related tax benefit through future taxable profits is probable.

(iii) Losses carried forwards

The Company has non capital loss carry forwards for Canadian income tax purposes of approximately $150,942,000 which may be used to reduce taxable income on or prior to 2030. The Company has cumulative Canadian exploration and cumulative Canadian development expenses and mining assets unamortized capital cost of approximately $1,140,264,000 which may be carried forward indefinitely, subject to certain restrictions, to reduce taxable income in the future.

14. Accounts payable and accrued liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Trade payables	29,085	14,754	37,084
Other payables	8,052	4,166	1,060
Accrued liabilities	37,425	54,599	8,852
	74,562	73,519	46,996

15. Long-term debt

	2011	2010
	$	$
Balance – January 1	287,886	180,069
New debt – loans	-	75,000
Transaction costs – loans	(19)	(8,582)
New debt – obligations under finance lease[i]	45,297	50,565
Transaction costs – obligations under finance lease[i]	(621)	-
Repayment of debt – loans	(3,333)	-
Repayment of debt – obligations under finance lease	(8,420)	(11,098)
Accretion expense – convertible debentures	2,023	1,805
Amortization of transaction costs	7,151	3,001
Foreign exchange revaluation impact	1,660	(2,874)
Balance – December 31	331,624	287,886

i) In August 2011, the Company entered into a new finance lease agreement for additional mining equipment. The agreement contains similar terms to the previous finance lease agreements.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

15. Long-term debt *(continued)*

The summary of the long-term debt is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Loans(i)	166,667	170,000	95,000
Convertible debentures(ii)	67,778	65,756	63,951
Obligations under finance lease(iii)	105,630	67,069	30,507
Long-term debt	340,075	302,825	189,458
Debt issuance costs	(8,451)	(14,939)	(9,389)
Long-term debt, net of issuance costs	331,624	287,886	180,069
Current portion	86,485	70,405	6,155
Non-current portion	245,139	217,481	173,914
	331,624	287,886	180,069

The repayment schedule of the long-term debt is as follows:

	Loans	Convertible debentures	Obligations under finance lease	Total
	$	$	$	$
2012	65,000	-	25,088	90,088
2013	65,000	-	25,808	90,808
2014	35,000	75,000	24,284	134,284
2015	1,667	-	29,287	30,954
2016	-	-	10,936	10,936
	166,667	75,000	115,403	357,070
Less: imputed interest	-	-	(9,773)	(9,773)
	166,667	75,000	105,630	347,297

(i) Secured debt financing with CPPIB Credit Investments Inc. ("CPPIB"). The loan bears interest at a rate of 7.5% per annum payable in cash on a quarterly basis. The principal is payable on or before the maturity date based on cash flow availability, the maturity date being on October 31, 2014. The loan is secured by a pledge of all Company owned assets. The first tranche of $75,000,000 was drawn in November 2009 and the Company granted CPPIB 7,000,000 warrants exercisable on or before September 24, 2014, at a price of $10.75 per warrant. Transaction costs amounted to $7,114,000 including the fair value of $5,530,000 assigned to the warrants. The second tranche of $75,000,000 was drawn on December 31, 2010 and the Company granted CPPIB 5,500,000 warrants exercisable on or before December 31, 2015 at a price of $19.25 each. Transaction costs amounted to $7,837,000 including the fair value of $7,636,000 assigned to the warrants. Considering the debt issuance costs, the effective interest rates on the first and second tranches of the loan are respectively 9.7% and 11.5%.

Unsecured debt financing of $20,000,000 with Fonds de solidarité FTQ ("Fonds"). The loan bears interest at a rate of 9.5% per annum payable semi-annually in shares or cash prior to commercial production and in cash thereafter. The principal is payable in a minimum of 48 equal monthly instalments commencing on May 9, 2011. The loan has a seven-year term. The Company also granted Fonds 1,100,000 warrants exercisable within 60 months from closing at a price of $7.46 each. A fair value of $341,000 was assigned to these warrants and is included in the total transaction costs of $833,000. The warrants were fully exercised in May 2010. Considering the debt issuance costs, the effective interest rate on the loan is 10.6%.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

15. Long-term debt *(continued)*

(ii) Senior non-guaranteed debentures for $37,500,000 with Investissement Québec ("IQ") and $37,500,000 with Caisse de dépôt et placement du Québec ("CDPQ"), convertible at the discretion of IQ and CDPQ and into the Company's shares at a price of $9.18 per share. The debentures bear interest at a rate of 7.5% per annum payable on a quarterly basis in shares until commercial production and in cash thereafter. The debentures have a five-year term maturing on November 9, 2014.

At initial recognition, the net proceeds after transaction costs of $1,554,000 amounted to $73,446,000. Of this amount, the liability and equity components represented $62,410,000 net of transaction costs of $1,320,000 (included in debt issuance costs) and $11,036,000 ($8,005,000 net of the income tax effect) net of transaction costs of $234,000, respectively. The effective interest rate used is 11.5% representing the estimated market rate at closing that the Company would obtain for similar financing without the conversion option.

(iii) Obligations under capital lease with CAT Financial Services Limited ("CAT") in four tranches. Tranche A bears interest at the one-month London Inter-Bank Offer Rate (the "LIBOR") plus 2.75%. The capital and interest are payable in 60 monthly instalments commencing on the day of delivery of the equipment. Tranche B bears interest at three-month LIBOR plus 2.75% and a credit spread based on the indicative pricing for a five-year medium term note. Tranche C and Tranche D bear interest at the three-month LIBOR plus 3.65%. The capital and interest of Tranches B, C and D are payable in 15 quarterly instalments commencing on the day of delivery of the equipment. Total transaction costs amounted to $1,404,000 (including transaction costs of US$1,316,000). The Company has purchase options for the equipment at the end of the leases, which it intends to exercise.

For the year ended December 31, 2011, interest expenses of $11,441,000 ($20,446,000 in 2010) were capitalized to *Property, plant and equipment*, including amortization of transaction fees of $3,181,000 ($3,001,000 in 2010) and accretion of $739,000 ($1,805,000 in 2010), representing 100% of the finance costs on the long-term debt until the beginning of commercial production.

Both the secured debt financing with CPPIB and the senior non-guaranteed debentures with IQ and CDPQ include covenants that require the Company to maintain certain financial ratios and meet certain non-financial requirements. As at December 31, 2011, all such ratios were in conformity with the requirements.

16. Provisions and other liabilities

			2011			2010
	Asset retirement obligations(1)	Restricted share units(2)	Total	Asset retirement obligations(1)	Restricted share units(2)	Total
	$	$	$	$	$	$
Balance – January 1	3,494	-	3,494	355	-	355
Accretion expense	327	-	327	29	-	29
New liabilities	1,669	1,372	3,041	3,110	-	3,110
Liabilities settlement	-	-	-	-	-	-
Balance – December 31	5,490	1,372	6,862	3,494	-	3,494
Current portion	-	824	824	-	-	-
Long-term portion	5,490	548	6,038	3,494	-	3,494
	5,490	1,372	6,862	3,494	-	3,494

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

16. Provisions and other liabilities *(continued)*

(1) The asset retirement obligations represent the legal and contractual obligations associated with the eventual closure of the Company's mining assets. These obligations consist of costs associated with reclamation and monitoring of activities and the removal of tangible assets. At December 31, 2011, the estimated inflation-adjusted undiscounted cash flows required to settle the asset retirement obligations amounts to $11,116,000. The disbursements are expected to be made between 2014 and 2026 as per the mining plan.

(2) The Restricted Share Units Plan is described in note 18.

17. Share capital and warrants

Common shares

Authorized
Unlimited number of common shares, without par value

Issued and fully paid
385,486,473 common shares

Capital management

Capital is defined as shareholders' equity and long-term debt, including the current portion and the debt issuance costs. The Company's objective is to minimize the cost of capital while ensuring availability without restricting the Company's upside exposure to the price of gold. In 2011, the Company entered into a new finance lease agreement of US$56,250,000 for the acquisition of additional mining equipments and used US$45,574,000. In 2010, the Company exercised its option to draw another $75,000,000 in debt from CPPIB and used US$72,463,000 from the finance lease agreement. The following table presents the capital of the Company:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Long-term debt	331,624	287,886	180,069
Shareholders' equity	1,654,068	1,593,985	1,115,342
	1,985,692	1,881,871	1,295,411

Shareholder Rights Plan

In 2010, the Company adopted a shareholder rights plan (the "Rights Plan") designed to ensure that Osisko's shareholders are treated fairly in the event of a take-over bid for Osisko's common shares and that Osisko's Board of Directors and shareholders will have adequate time to evaluate any unsolicited take-over bid and, if appropriate, to evaluate and pursue other alternatives to maximize shareholder value. The Rights Plan is not intended to block take-over bids, but includes "Permitted Bid" provisions which will prevent the dilutive effects of the Rights Plan from operating if a take-over bid is made by way of a take-over bid circular that, among other things, remains open for a minimum of 60 days and is accepted by a specified proportion of the common shares held by independent shareholders. The Rights Plan will be triggered by an acquisition, other than pursuant to a Permitted Bid, of 20% or more of the outstanding common shares of Osisko or the commencement of a take-over bid that is not a Permitted Bid.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

17. Share capital and warrants *(continued)*

Employee share purchase plan

On May 8, 2008, the shareholders of the Company approved the establishment of an employee share purchase plan (the "Plan"). Under the terms of the Plan, the Company contributes an amount equal to 60% of the eligible employee's contribution towards the acquisition of shares from the treasury on a quarterly basis. A maximum of 2.5% of the issued and outstanding common shares are reserved for issuance under the Plan.

Eligible employees may contribute up to the lower of 10% of their basic annual gross salary or $15,000 in any given year. The number of common shares issued to insiders of the Company within one year and issuable to insiders of the Company at any time under the Plan or combined with all other share compensation arrangements, cannot exceed 10% of the issued and outstanding common shares. The share price for the shares to be issued each quarter will be determined by the 5-day trading average at the end of each such quarter. The Company's portion will vest on every January 1st of the calendar year following the contribution.

Warrants

The following table details the changes in the Company's warrants:

			2011			2010
	Number of warrants	Amount	Weighted average exercise price	Number of warrants	Amount	Weighted average exercise price
		$	$		$	$
Balance – January 1	12,500,000	13,166	14.49	8,100,000	5,871	10.30
Granted to lenders (note 15)	-	-	-	5,500,000	7,636	19.25
Exercised	-	-	-	(1,100,000)	(341)	7.46
Balance – December 31	12,500,000	13,166	14.49	12,500,000	13,166	14.49

The following table summarizes the Company's warrants outstanding as at December 31, 2011:

Expiry date	Number of warrants	Exercise price
		$
September 24, 2014	7,000,000	10.75
December 31, 2015	5,500,000	19.25
	12,500,000	

The Company may accelerate the expiry date of the warrants if the shares of Osisko trade at a 50% premium to the exercise price for a period of 15 consecutive days.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

17. Share capital and warrants *(continued)*

The warrants, when issued, are accounted for at their fair value determined by the Black-Scholes option pricing model based on the following weighted average assumptions:

	2011	2010
Dividend per share	-	0%
Volatility	-	65%
Risk-free interest rate	-	2%
Expected life	-	60 months
Weighted average fair value of warrants granted	-	$1.39

18. Share-based payments

Share options

The Company has a share option plan (the “Option Plan”) offered to its directors, officers, management, employees and consultants. Options may be granted at an exercise price determined by the Board of Directors but shall not be less than the closing market price of the common shares of the Company on the TSX on the day prior to their grant. No participant shall be granted an option which exceeds 5% of the issued and outstanding shares of the Company at the time of granting of the option. The number of common shares issued to insiders of the Company within one year and issuable to the insiders of the Company at any time under the Option Plan or combined with all other share compensation arrangements, cannot exceed 10% of the issued and outstanding common shares. The duration and the vesting period are determined by the Board of Directors. However, the expiry date may not exceed 10 years after the date of granting.

The following table summarizes information about the Company’s share options outstanding:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Balance – January 1	13,471,728	7.77	9,619,500	5.30
Granted	2,737,300	13.67	5,585,000	11.15
Replacement options issued (note 7)	-	-	1,971,118	3.81
Exercised	(906,431)	6.44	(1,820,502)	5.01
Replacement options exercised	(42,122)	6.59	(1,830,054)	3.64
Forfeited	(170,000)	12.08	(53,334)	5.70
Balance – December 31	15,090,475	8.88	13,471,728	7.77
Options exercisable – December 31	10,775,668	7.38	7,677,558	5.80

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

18. Share-based payments *(continued)*

The following table summarizes the Company's share options as at December 31, 2011:

	Options outstanding			Options exercisable	
Exercise price range	**Number**	**Weighted average exercise price**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average exercise price**
$		$			$
1.97 – 2.20	1,962,134	2.20	1.7	1,962,134	2.20
4.18 – 5.88	2,351,100	5.39	0.7	2,351,100	5.39
6.59 – 8.70	2,963,907	7.69	2.8	2,910,573	7.67
10.56 – 12.98	5,316,034	11.23	3.6	3,396,028	11.18
13.69 – 14.98	2,497,300	13.82	4.6	155,833	14.19
	15,090,475	8.88	2.9	10,775,668	7.38

The options, when granted, are accounted for at their fair value determined by the Black-Scholes option pricing model based on the vesting period and on the following weighted average assumptions:

	2011	2010
Dividend per share	0%	0%
Volatility	56%	65%
Risk-free interest rate	1%	2%
Expected life	36 months	36 months
Weighted average share price	$13.67	$11.15
Weighted average fair value of options granted	$5.21	$4.93

The expected volatility was determined by calculating the historical volatility of the Company's common share price back from the date of grant and for a period corresponding to the expected life of the options. When computing historical volatility, management may disregard an identifiable period of time in which it considers that its share price was extraordinarily volatile because of a specific event that is not expected to recur during the expected life of the option. In addition, if the Company's share price was extremely volatile for an identifiable period of time, for instance, due to a general market decline, management may place less weight on its volatility during that period of time.

The fair value of the share options is amortized over the vesting period. In 2011, the total share-based compensation related to share options amounted to $15,406,000 ($22,159,000 in 2010) of which $4,163,000 ($8,529,000 in 2010) were capitalized to *property, plant and equipment*.

Deferred and restricted share units

Under the Company's Deferred Share Unit Plan and Restricted Share Unit Plan, DSU and RSU can be granted to directors, officers and employees as part of their long-term compensation package, entitling them to receive payout in cash. The value of the payout is determined by multiplying the number of DSU and RSU vested at the payout date by the closing price of the Company's shares on the day prior to the payout date. The value of the payout is determined at each reporting date based on the closing price of the Company's shares at the reporting date. The fair value is amortized over the vesting period.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

18. Share-based payments *(continued)*

In 2011, 83,700 DSU were granted to directors, vesting at the grant date and payable at the end of the employment period of each director. In addition, 429,900 RSU were granted to officers and employees, vesting and payable three years after the grant date. As of December 31, 2011, the total share-based compensation expense related to the DSU and RSU plans for the 2011 grants totaled $1,372,000, of which $152,000 were capitalized to *property, plant and equipment*. As at December 31, 2011, 83,700 DSU were vested.

The following table summarizes the carrying value of the DSU and RSU outstanding and the fair value of the vested DSU and RSU as at December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Carrying value	Intrinsic value of vested units	Carrying value	Intrinsic value of vested units
	$	$	$	$
Current portion	824	824	-	-
Long-term portion	548	-	-	-
	1,372	824	-	-

The carrying value of the DSU and RSU is included in *Provisions other liabilities* in the balance sheet (note 16).

19. Detail of expenses

Expenses by nature

	2011	2010
	$	$
Materials, supplies and consumables	101,075	-
Employee benefit expense (see below)	56,754	23,354
Contractors and other external services	37,768	4,062
Depreciation and write-off of property, plant and equipment	47,011	713
Communication and promotion expenses	4,904	1,486
Royalties	4,332	-
Other expenses	7,920	5,053
	259,764	34,668
Variation in inventories	(21,031)	-
	238,733	34,668

Employee benefit expense

	2011	2010
	$	$
Salaries and wages	45,511	9,724
Share-based compensation	11,243	13,630
Total	56,754	23,354

19. Detail of expenses *(continued)*

Other gains (losses)

	2011	2010
	$	$
Net unrealized gain (loss) on financial assets at fair value through profit and loss	(10,120)	7,217
Net realized gain (loss) on available-for-sale financial assets	5,041	(770)
Gain - premium on flow-through shares	7,849	3,748
Others	518	(523)
Total	3,288	9,672

20. Key management

Key management includes directors (executive and non-executive) and senior executives. In 2011, key management participated in non-brokered private placements by the Company and acquired 72,050 flow-through shares (77,000 in 2010) for gross proceeds of $1,273,000 ($1,348,000 in 2010). The flow-through shares were acquired under the same terms and conditions set forth for all subscribers.

The compensation paid or payable to key management for employee services is presented below:

	2011	2010
	$	$
Salaries and short-term employee benefits	8,506	4,838
Share-based compensation	8,842	11,499
	17,348	16,337

21. Earnings (loss) per share

	2011	2010
	$	$
Profit (loss) attributable to shareholders of Osisko Mining Corporation	17,997	(17,826)
Basic weighted average number of common shares outstanding (in thousands)	383,372	360,413
Dilutive effect of share options	5,242	-
Dilutive effect of warrants	1,319	-
Dilutive effect of convertible debentures	-	-
Diluted weighted average number of common shares	389,933	360,413
Earnings (loss) per share		
Basic	0.05	(0.05)
Diluted(i)	0.05	(0.05)

(i) As a result of the loss for the year ended December 31, 2010, diluted loss per share was calculated from the basic weighted average shares outstanding because to do otherwise would be anti-dilutive.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

22. Cash flow information

	2011	2010
	$	$
Changes in non-cash working capital items		
Decrease (increase) in accounts receivable	(6,957)	14,016
Increase in inventories	(35,631)	-
Decrease (increase) in prepaid expenses and other current assets	1,664	(4,560)
Increase (decrease) in accounts payable and accrued liabilities	50,836	(9,270)
	9,912	186
Cash and cash equivalents consist of:		
Cash	25,716	37,398
Cash equivalents	74,954	321,095
	100,670	358,493

23. Financial instruments

The Company's activities are exposed to financial risks: market risks (including interest rate risk and foreign currency risk), credit risk and liquidity risk.

(a) Market risks

(i) Fair value

The fair value of the investments in shares without significant influence is determined using the quoted market price on a recognized securities exchange at the balance sheet dates. The fair value of the investments in warrants is determined using the Black-Scholes option pricing model at each balance sheet date as they are not traded on a recognized securities exchange. The Company has determined that the fair value of the other financial assets as well as the fair value of accounts payable and accrued liabilities and provisions approximates their carrying amount.

The fair value of the financial liabilities that do not approximate their carrying amount as at December 31, 2011 and 2010 and as at January 1, 2010 is summarized as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$	$	$
Financial liabilities						
Other liabilities						
Long-term debt	340,075	353,536	302,825	314,287	189,458	192,877

Fair value estimates are made at the balance sheet date, based on relevant market information like actual interest rates and interest risk spread and other information about the financial instruments.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

23. Financial instruments *(continued)*

(a) Market risks (continued)

(ii) Fair value hierarchy

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs for the asset or liability that are not based on observable market data.

				Assets measured at fair value December 31, 2011
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets at fair value through profit and loss				
Investments in warrants	-	-	2,061	2,061
Available for sale				
Investments in shares, without significant influence	13,980	-	-	13,980

				Assets measured at fair value December 31, 2010
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets at fair value through profit and loss				
Investments in warrants	-	-	12,181	12,181
Available for sale				
Investments in shares, without significant influence	28,670	-	-	28,670

				Assets measured at fair value January 1, 2010
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets at fair value through profit and loss				
Investments in warrants	-	-	4,964	4,964
Available for sale				
Investments in shares, without significant influence	1,955	-	-	1,955

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

23. Financial instruments *(continued)*

(a) Market risks (continued)

(ii) Fair value hierarchy (continued)

For those fair value measurements included in Level 3 of the fair value hierarchy, a reconciliation from the beginning balance to the ending balance is provided below:

	Reconciliation of long-term investments measured at fair value based on level 3 inputs	
	2011	**2010**
	$	**$**
Balance – January 1	12,181	4,964
Unrealized change in fair value[i]	(10,120)	7,217
Balance – December 31	2,061	12,181

(i) Recognized in the *Consolidated Statements of Income (Loss)* under *Other gains*.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's interest rate risk is primarily related to cash and cash equivalents, short-term investments and restricted cash, which bear interest at fixed rates. However, as these investments come to maturity within a short period of time, the impact would likely be not significant.

Other current financial assets and financial liabilities are not exposed to interest rate risk because they are non-interest bearing.

The loans and the debentures bear interest at a fixed rate and are not exposed to interest rate risk. The capital lease obligations are subject to market sensitivity of the LIBOR. For 2011, a fluctuation of 5% of the LIBOR would have no significant impact on the consolidated financial statements.

The Company does not use derivatives to mitigate its exposure to interest rate risk.

(iv) Foreign currency risk

The Company is exposed to currency fluctuations in the acquisition of mining assets manufactured outside of Canada and denominated in foreign currencies. As at December 31, 2011, the Company has commitments of US$17,542,000 for the acquisition of mining equipment.

Also, the Company holds balances in cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and obligations under capital lease in various currencies and is therefore exposed to gains or losses on foreign exchange. The Company does not use derivatives to mitigate its exposure to foreign currency risk.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

23. Financial instruments *(continued)*

(a) Market risks (continued)

(iv) Foreign currency risk *(continued)*

As at December 31, 2011 and 2010 and as at January 1, 2010, the balances in foreign currencies were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	US Dollars	US Dollars	US Dollars
Cash and cash equivalents	18,591	2,470	19,966
Restricted cash	-	1,944	8,854
Accounts receivable and advances	1,672	4,639	8,305
Accounts payable and accrued liabilities	(2,797)	(769)	(4,413)
Obligations under capital lease	(102,904)	(67,433)	(29,149)
Net balance	**(85,438)**	**(59,149)**	**3,563**
Equivalent in Canadian dollars	**(86,890)**	**(58,830)**	**3,729**

Based on the balances as at December 31, 2011, a 5% fluctuation in the exchange rates on that date would have resulted in a variation of approximately $4,350,000 in net earnings, before income taxes.

(v) Commodity price risk

The future profitability of the Company is directly related to the market price of gold. Fluctuations in the gold price could create volatility in the Company's future cash flows and the future reported amounts for sales and production costs in its consolidated statement of income and comprehensive income, both on a period-to-period basis and compared with operating budgets and forecasts. The Company is not counterparty to any financial instruments exposed to commodity price risks.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, short-term investments, restricted cash, and advances to suppliers and other receivables. The Company reduces its credit risk by investing its cash and cash equivalents, short-term investments and restricted cash in guaranteed investment certificates, treasury bills, bankers acceptances and commercial paper issued by Canadian chartered banks and Canadian and provincial governments. With regards to advances to suppliers and other receivables, a credit analysis is performed on the suppliers assuring the risk to the Company as being minimal.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

23. Financial instruments *(continued)*

(b) Credit risk (continued)

The carrying amount representing the maximum credit exposure of the Company by class of financial assets are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Held to maturity:			
Short-term debt securities	37,046	151,331	310,321
Bonds deposited as a guarantee for mine rehabilitation costs	23,903	-	-
	60,949	151,331	310,321
Loans and receivable:			
Bank balances and cash on hand	25,716	37,398	381,971
Guaranteed investment certificates	79,271	207,554	91,300
Amounts receivable	14,939	12,195	9,440
Deposits in escrow	-	1,656	6,595
	119,926	258,803	489,306

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company manages the liquidity risk by continuously monitoring actual and projected cash flows, taking into account the requirements related to the Canadian Malartic mine and other mining properties and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on mergers, acquisitions or other major investment or divestitures. The Company also manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 17. As at December 31, 2011, cash and cash equivalents are invested in guaranteed investment certificates and short-term debt securities having maturity dates of January and February 2012. As a result, the Company estimates that with the projected profits and the current liquidity position, it has enough funds available to meet its financial liabilities and future financial liabilities from its commitments for the current year.

The following table summarizes the Company's financial liabilities as at December 31, 2011 and 2010 and as at January 1, 2010:

	December 31, 2011		
	Less than one year	Between one and three years	More than three years
	$	$	$
Accounts payable and accrued liabilities	74,562	-	-
Long-term debt	90,088	225,092	41,890
	164,650	225,092	41,890

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

23. Financial instruments *(continued)*

(c) Liquidity risk (continued)

	December 31, 2010		
	Less than one year	**Between one and three years**	**More than three years**
	$	**$**	**$**
Accounts payable and accrued liabilities	73,519	-	-
Long-term debt	71,709	130,170	116,159
	145,228	130,170	116,159

	January 1, 2010		
	Less than one year	**Between one and three years**	**More than three years**
	$	**$**	**$**
Accounts payable and accrued liabilities	46,996	-	-
Long-term debt	7,383	77,909	118,178
	54,379	77,909	118,178

Amounts denominated in US dollars or subject to variable interest rates are determined based on the spot rates at the relevant date.

24. Operating segments

The Company has currently only one operating segment.

25. Related party transactions

Related party transactions occurred in the normal course of business and were made on terms equivalent to those that prevail in arm's length transactions. They were recorded at the exchange value, which is the consideration determined and agreed to by the related parties.

In 2011 and 2010, the Company closed non-brokered private placements with funds, certain accredited investors, employees and officers. In 2011, the Company issued 934,915 flow-through shares at a price of $17.50 per share for gross proceeds of $16,361,000 and 889,053 flow-through shares at a price of $18.00 per share for gross proceeds of $16,003,000. In 2010, the Company issued 982,827 flow-through shares at a price of $17.50 per share for gross proceeds of $17,199,000. The employees and officers have subscribed to the flow-through shares under the same terms and conditions set forth for all subscribers for a total of 106,323 shares (107,600 in 2010) for gross proceeds of $1,875,000 ($1,883,000 in 2010).

In 2010, the Company acquired from an officer an office building for $1,753,000.

(tabular amounts expressed in thousands of Canadian dollars, except per share amounts)

26. Commitments

The Company is committed to minimum amounts under long-term lease agreements for office space, which expire in 2014. As at December 31, 2011, minimum commitments remaining under these leases were approximately $1,151,000 over the following years:

	$
2012	509
2013	326
2014	316
	1,151

Canadian Malartic project

As at December 31, 2011, the total purchase commitments on the construction of the Canadian Malartic expansion project and for additional mining equipment amount to approximately $30,433,000.

Restricted cash

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Current			
Guarantees for letters of credit(i)	11,485	9,520	9,617
Deposits in escrow(ii)	3,000	1,656	6,595
	14,485	11,176	16,212
Non-current			
Guarantees for letters of credit(i)	2,935	11,202	16,134
Deposits in escrow(ii)	40	-	-
Deposit with the Government of Québec(iii)	23,903	-	-
	26,878	11,202	16,134

(i) The Company has entered into irrevocable letters of credit in favour of suppliers with respect to contracts and purchase orders for equipment and services. As at December 31, 2011, the letters of credit outstanding amount to $14,420,000 and expire between 2012 and 2015. The suppliers may draw on the letters of credit in the event of a default by the Company under the terms of the contracts or the purchase orders. The letters of credit are 100% secured by guaranteed investment certificates.

(ii) The Company has deposits in escrow amounting to $3,040,000 as at December 31, 2011, including $3,000,000 as a guarantee for the restoration of the southern neighbourhood of the Town of Malartic.

(iii) In October 2011, the Company deposited a Government of Québec bond of $22,100,000 ($23,903,000 including accrued interests) with the Québec Government, maturing in October 2013, representing 50% of the financial guarantee of $44,200,000 required to cover the entire future cost of rehabilitating the Canadian Malartic mine site. The balance of the guarantee will be remitted in two subsequent payments of $11,050,000 each, to be made on or around September 1, 2012 and September 1, 2013.

26. Commitments *(continued)*

Flow-through shares

The Company is committed to incur Canadian exploration expenditures by December 31, 2012 and to transfer these expenditures to the subscribers of its flow-through shares underwritings completed in 2011. As at December 31, 2011, the balance of these commitments amounts to approximately $1,036,000.

Installation of a new 120 kV electrical transmission line for the Canadian Malartic project

The Company has signed in 2009 an agreement with Hydro-Québec for the installation of a new electrical transmission line for the Canadian Malartic mine. The power line is currently in use and is the property of Hydro-Québec. Hydro-Québec has initially incurred the installation costs, and the Company is committed for a period of five years to using the electricity line up to an amount to cover the total cost of installation, which is estimated at $21,838,000 including interest calculated at 5.69% amounting to $3,284,000. As at December 31, 2011, the total obligation of the Company amount to $15,151,000, including interest of $964,000. The Company has secured this agreement with a letter of credit having a balance of $14,187,000 as at December 31, 2011.