

# Management's Discussion and Analysis

## FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis ("MD&A") provides a review of the performance of Northgate Minerals Corporation ("Northgate" or the "Corporation"). Northgate's performance over the past three years is analyzed to highlight various trends and issues. Risks that can be expected to impact future operations are also discussed. These issues and risks may cause actual results to differ materially from those described in forward-looking statements contained in the MD&A. Where used, the words "anticipate", "expect", "intended", "forecast", "should", and similar expressions are intended to identify forward-looking statements.

Northgate expressly disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

## INTRODUCTION

This MD&A of the results of operations and liquidity and capital resources of Northgate Minerals Corporation ("Northgate" or the "Corporation") for the 2004 through 2006 fiscal years should be read in conjunction with the consolidated financial statements and related notes. All of the financial information presented herein is expressed in US dollars, unless otherwise stated. The accompanying consolidated financial statements and related notes are presented in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These statements, together with the following discussion and analysis dated March 1, 2007, are intended to provide shareholders with a reasonable basis for assessing the operational and financial performance of Northgate, as well as certain forward-looking statements relating to Northgate's potential future performance. Additional information can be found in the Corporation's fourth quarter MD&A dated March 1, 2007, the Annual Information Form ("AIF"), which is filed with Canadian regulators on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) and the Corporation's annual report Form 40F, which is filed with the United States Securities and Exchange Commission ("SEC") at [www.sec.gov](http://www.sec.gov).

## OVERVIEW

Northgate is a gold and copper mining company focused on operations and opportunities in the Americas. Its principal assets are the Kemess South mine in north-central British Columbia, the adjacent Kemess North project and the Young-Davidson property in northern Ontario. The Kemess North project is currently the subject of an environmental review process, which is administered by a three-member panel appointed by the Federal and Provincial governments. The panel is expected to complete its review and issue its report and recommendations in mid-2007 to the Federal and Provincial Ministers of Environment. The Ministers will then be in a position to make a decision on the project, and if favourable, will allow the various Federal and Provincial agencies to issue the necessary development permits. Northgate's common shares trade on the Toronto Stock Exchange under the symbol NGX and on the American Stock Exchange under the symbol NXG.

Over the past five years, the Kemess South mine has produced an average of 294,000 ounces of gold and 76 million pounds of copper per year. After a year of lower production in 2005, when the eastern end of the pit was mined out, production rebounded in 2006 to 310,296 ounces of gold and 81.2 million pounds of copper as mining operations moved to the western end of the pit. Production is forecast to be 285,000 ounces of gold and 74.5 million pounds of copper for 2007.

A commonly used performance metric in the gold mining industry is the net cash cost to produce an ounce of gold (see non-GAAP measures on page 27). This metric is calculated by subtracting the net by-product revenues from non-gold metals from the actual cash cost of production. Over the past three years, the Canadian dollar has strengthened steadily relative to the US dollar, and the costs of a variety of mining and milling inputs such as diesel fuel, steel grinding balls and labour have escalated dramatically primarily as a result of the worldwide boom in the mining and commodities sector. In isolation, these cost increases would have had an adverse effect on Kemess' US dollar denominated net cash cost per ounce. However, in 2006 and to a lesser extent in 2005, the net cash cost of production has been positively influenced by dramatically higher copper and silver prices, which have increased the size of the by-product credit and dramatically reduced the net cash cost of gold production. The net cash cost of gold production at Kemess in 2006 dropped below zero for the first time in the history of the mine as a result of strong copper prices and record copper production.

As a result of higher metal production and significant increases of 36% and 83% in average gold and copper prices, respectively, Northgate reported record earnings before income taxes for 2006 of \$123,595,000, which was 346% higher than the earnings figure of \$27,731,000 reported in 2005.

#### KEY PERFORMANCE INDICATORS

A summary of the key performance indicators for 2004 through 2006 is shown in the table below.

| (Thousands of dollars, except foreign exchange rate,<br>per share, per ounce and per pound amounts) | 2006       | 2005       | 2004       |
|---|------------|------------|------------|
| Revenue   | \$ 411,313 | \$ 257,302 | \$ 232,797 |
| Net earnings before income taxes  | 123,595    | 27,731     | 37,707     |
| Net earnings for the year   | 106,742    | 39,557     | 32,796     |
| Net earnings per basic common share   | 0.50       | 0.20       | 0.16       |
| Net earnings per diluted common share   | 0.48       | 0.20       | 0.16       |
| Total assets  | 515,631    | 309,006    | 273,930    |
| Long-term liabilities   | 43,421     | 35,102     | 54,302     |
| Metal production  |            |            |            |
| Gold (ounces)   | 310,296    | 279,962    | 303,475    |
| Copper (thousands pounds)   | 81,209     | 73,722     | 78,291     |
| Metal prices  |            |            |            |
| Gold (London Bullion Market – \$ per ounce)   | 604        | 445        | 409        |
| Copper (London Metal Exchange Cash – \$ per pound)  | 3.05       | 1.67       | 1.30       |
| Foreign exchange rate (US\$/CDN\$)  | 0.88       | 0.83       | 0.77       |
| Net cash cost (\$ per ounce) <sup>(1)</sup>   | (56)       | 205        | 135        |

(1) The net cash cost of production per ounce of gold is calculated by subtracting the net by-product revenue from copper and silver from total site operating costs (including royalties and all waste stripping costs) and dividing this amount by the number of gold ounces contained in concentrate produced.

#### GOLD & COPPER MARKETS

The gold price (US\$ per troy ounce) on the London Bullion Market spent the first three months of 2006 in the \$530 to \$570 range before making an extremely rapid ascent to a peak of \$725 on May 12. While the gold price did not remain at the \$700 level for very long, it did consolidate quite nicely in the \$590 to \$630 range for the second half of the year. The most remarkable facet of the \$100 per ounce rise in the price of gold during 2006 was the fact that it occurred without any significant decline in the value of the US dollar versus its Canadian counterpart. As a result,

gold producers in Canada and many other jurisdictions outside the US saw their profit margins increase for the first time in several years. As has been the case for the past several years, the gold price during 2006 was influenced by a variety of factors including economic developments in the United States, geopolitical events in various regions of the world and increased investment demand for gold.

The price of copper on the London Metal Exchange ("LME") (US\$ per pound) began the year at \$2.08 and skyrocketed to a peak of \$3.99 on May 12, largely as a consequence of frenzied investment fund demand fueled by the perception that limitless copper demand from China would push copper stocks in the world to even lower levels. While the days of \$4.00 copper were brief, copper prices remained above \$3.00 for most of the last seven months of 2006 even as demand in China cooled and copper consumers ran their stocks down in response to higher prices. In the final two months of 2006, fund sentiment turned against copper as the new house construction sector in the US weakened dramatically and prices dropped by 10% to end the year at \$2.86. In the early weeks of 2007, the decline in copper prices accelerated until prices reached a low of \$2.37 at which point evidence of renewed demand from China pushed the price back up above \$2.60.

On the supply side of the copper market, 2006 saw numerous small production shortfalls at copper mines and smelters and refineries resulting from labour disruptions and equipment failures that are common during prolonged periods of high capacity utilization. During the year, there were a variety of announcements by existing copper miners of capital projects that will increase the mine-life of existing operations but there were only a few new mines that went into production. While there are now a reasonable number of large copper mining projects being contemplated, there has yet to be any firm commitment to the construction of the type of copper mega projects that brought an end to the last copper price cycle in the mid 1990s. In the absence of such commitments, and given the increasingly long lead times for bringing new mines into production, management expects copper prices to remain well above the historic average for several more years.

Northgate's Kemess South mine produces a gold-copper concentrate, which is shipped to Xstrata Plc.'s Horne smelter in Rouyn-Noranda, Quebec, for smelting and refining. During 2006, annual terms for the processing of concentrates rose to \$95 per tonne of concentrate and \$0.095 per pound of copper (\$95/9.5) from \$85/8.5 in 2005. In both 2005 and 2006, the annual terms included a price participation arrangement that required Kemess to pay an additional processing fee equal to 10% of the difference between the prevailing copper price in the month of settlement and \$0.90 per pound. As a result of strong competition for copper concentrates from recently constructed copper smelters in developing nations such as China and India, annual terms for 2007 have declined substantially from 2006 levels to settle at \$60/6.0 and the additional price participation fee has been eliminated.

## RESULTS OF OPERATIONS

For the year ended December 31, 2006, Northgate recorded consolidated net earnings of \$106,742,000 or \$0.48 per diluted common share compared with net earnings of \$39,557,000 or \$0.20 per diluted common share in 2005 and \$32,796,000 or \$0.16 per diluted common share in 2004. Earnings in 2006 included a large non-cash future income tax expense of \$11,447,000, which reflected the utilization of tax losses and other tax deductions previously recognized for accounting purposes to offset taxable income. This non-cash expense reduced the future income tax asset that was set up in 2005 when a non-cash future income tax recovery of \$13,937,000 was recorded to reflect the expectation that Northgate's tax shields would be used in future periods. Earnings in 2004 included a future income tax expense of \$2,634,000 related to the realization of tax losses and other tax deductions, the benefit of which were recognized in 2003. Per share data is based on the weighted average diluted number of shares outstanding of 222,892,929, 202,858,866 and 200,567,253 in 2006, 2005 and 2004, respectively.

The balance of this section contains a detailed discussion of the factors contributing to Northgate's financial results from 2004 through 2006.

#### Kemess South Mine Performance

Gold and copper production in 2006 rebounded to record levels from the lower than average levels recorded in 2005, when lower grade hypogene ore from the outer edges of the eastern end of the Kemess South pit was being mined out. Mining activities in 2006 focused on higher grade hypogene and supergene ore in the western region of the open pit and will continue in this region during the remaining life of the Kemess South mine. A more complete summary of operations for the three years is shown in the table below.

|  | 2006              | 2005       | 2004       |
|--|-------------------|------------|------------|
| Tonnes mined (ore plus waste)          | <b>43,045,000</b> | 51,234,000 | 56,000,000 |
| Stripping ratio (waste/ore)            | <b>1.50</b>       | 1.62       | 1.90       |
| Tonnes milled (ore)                    | <b>18,234,000</b> | 17,995,000 | 18,589,000 |
| Tonnes milled per day (tonnes per day) | <b>49,956</b>     | 49,302     | 50,791     |
| Gold grade (grams per metric tonne)    | <b>0.763</b>      | 0.723      | 0.735      |
| Copper grade (%)                       | <b>0.244</b>      | 0.229      | 0.231      |
| Gold recovery (%)                      | <b>69</b>         | 67         | 69         |
| Copper recovery (%)                    | <b>83</b>         | 81         | 83         |
| Gold production (ounces)               | <b>310,296</b>    | 279,962    | 303,475    |
| Copper production (thousands pounds)   | <b>81,209</b>     | 73,722     | 78,291     |

Tonnes of ore and waste mined from the open pit have declined steadily over the past three years as the pit has deepened and haul distances have increased. In 2007, total tonnes mined is expected to plateau at approximately 45 million tonnes before dropping substantially to less than 25 million tonnes per year in future years as the Kemess South mine approaches the end of its life and waste stripping drops dramatically. The unit cost for mining in 2006 increased to CDN\$1.49 per tonne compared with CDN\$1.20 per tonne in 2005 and to CDN\$0.93 per tonne in 2004. The unit cost increases over the past two years were primarily the result of the significant decrease in the total tonnes mined, increased prices for diesel fuel, higher labour costs and increased maintenance costs.

Mill throughput at Kemess in 2006 was approximately the same as it was in the two preceding years. The minor differences between the various years were the result of slightly different ore hardness factors and mill availability figures. Mill availability was over 91% during the year, up from 89.5% during 2005 when an unscheduled labour-related disruption in February cost the mill five days of production.

Average gold and copper recoveries in 2006 returned to 2004 levels of 69% and 83%, respectively, from the depressed levels of 67% and 81% recorded in 2005 when the mill processed a large amount of hard lower grade hypogene ore from the eastern end of the open pit, which had inherently lower metal recoveries. Metal recoveries in 2007 are expected to be equivalent to the 2006 figures.

The average unit cost of production in 2006 rose to CDN\$8.65 per tonne milled, which was 5% higher than the figure of CDN\$8.25 per tonne milled recorded in 2005 and 20% higher than the figure of CDN\$7.19 per tonne milled recorded in 2004. Unit cost increases from year to year have resulted from increased mining costs and from a 10% increase in milling costs that occurred in 2005 when higher steel costs drove up the cost of steel grinding balls. The Kemess South mine's net cash cost of production dropped dramatically in 2006 to negative \$56 per ounce from \$205 per ounce in 2005 and \$135 per ounce in 2004. The large decrease in net

cash cost in 2006 was the result of substantially higher copper prices, which increased the size of the net by-product credit applied against site costs. The increase in net cash cost recorded between 2004 and 2005 was a consequence of substantial increases in treatment and refining charges for concentrate, increased site operating costs, lower gold and copper production and the stronger CDN\$/US\$ exchange rate, which more than offset the slightly higher by-product credit generated by higher copper prices in 2005.

The Kemess South mine is forecast to produce 285,000 ounces of gold and 74.5 million pounds of copper during 2007, at a net cash cost of approximately negative \$10 per ounce, net of copper by-product credits calculated at a price of \$2.50 per pound using an exchange rate of CDN\$/US\$1.18.

### Financial Performance

**Revenue:** Northgate's total revenues for the year ended December 31, 2006, increased to \$411,313,000 from \$257,302,000 in 2005 and \$232,797,000 in 2004. Revenue increases over the three-year period were the result of dramatic increases in gold and copper prices. Metal sales in 2006 consisted of 305,107 ounces of gold and 80,019,000 pounds of copper compared with 279,093 ounces of gold and 74,055,000 pounds of copper in 2005. Sales of gold and copper in 2006 were approximately 9% and 8% higher, respectively, than they were in 2005 due to the large increase in metal production that occurred as mining activities moved from lower grade ore in the eastern end of the open pit to the higher grade core of the Kemess South deposit in the western end of the pit. The net realized metal prices received on metal sales during the past three years are shown in the following table.

|                                      | 2006    | 2005    | 2004    |
|--------------------------------------|---------|---------|---------|
| Gold sales (ounces)                  | 305,107 | 279,093 | 311,214 |
| Copper sales (thousands pounds)      | 80,019  | 74,055  | 80,025  |
| Realized gold price (\$ per ounce)   | 534     | 427     | 387     |
| Realized copper price (\$ per pound) | 2.95    | 1.87    | 1.30    |

During 2006, Northgate continued to manage the price risk on its un-priced copper receivables by entering into forward LME sales contracts to fix the price of copper contained in its quarterly copper sales. At December 31, 2006, a total volume of 6,650 metric tonnes of forward copper sales contracts were outstanding to fix the price of copper metal sales recorded in 2006. As a result of these quarterly hedging activities, Northgate realized an average price of \$2.95 per pound for its copper sales in 2006. In the fourth quarter of 2005, Northgate entered into forward sales contracts to fix the price of copper delivered prior to December 31, 2005. A total volume of 13,375 metric tonnes of copper were sold forward using LME contracts maturing from January 2006 through May 2006 at an average forward price of \$1.98 per pound. By entering into these forward sales contracts, Northgate also realized an average price of \$1.87 per pound on its sales in 2005. In 2004, Northgate received the average spot LME price for copper on its copper sales.

During the fourth quarter of 2006, Northgate entered into forward sales contracts to fix the price for 47% of its estimated 2007 copper production. A total volume of 15,000 metric tonnes were sold forward using LME contracts maturing from May 2007 through April 2008 at an average price of \$3.15 per pound and remained outstanding at the end of the year.

All forward sales contracts are mark-to-market at the end of each quarter using LME closing prices for the relevant future contract months and the resulting gain or loss is included in Northgate's revenues. At December 31, 2006, this figure was an unrealized gain of \$15,488,000 (of which \$11,854,000 is included in concentrate settlements and other receivables and, for contracts expiring in 2008, \$3,634,000 is included in other assets). At December 31, 2005, this figure was an unrealized loss of \$755,000 (included in accounts payable and accrued liabilities).

The realized prices for gold over the three year period from 2004 through 2006 have differed from the average London Bullion Market prices in each year, as a result of Northgate's gold hedging activities. In 2006, Northgate settled forward sales contracts for 79,000 ounces that were originally scheduled for settlement in the second quarter of 2006 and through 2007. The total cost associated with settling and closing out the contracts for the 79,000 ounces was \$25,397,000 of which \$16,814,000 was recognized in revenue in 2006 when the sales associated with the forward contracts occurred. The balance of \$8,583,000 will be recognized in 2007 when the sales associated with the forward contracts occur. In 2005, Northgate settled forward sales contracts for 122,000 ounces of gold, including 79,750 ounces of forward contracts originally scheduled for settlement in the second half of 2005 and the first half of 2006. The total loss associated with settling and closing out the contracts for the 79,750 ounces was \$10,146,000 of which \$5,585,000 was recognized in revenue in 2005 and the balance of \$4,561,000 was recognized in 2006. In 2004, 69,000 ounces of gold forward sales were closed out at a cost of \$6,915,000. As a result of Northgate's hedging activities, its realized prices for gold during 2006, 2005 and 2004 were lower than the London Bullion Market average for these periods by \$70, \$18 and \$22, respectively.

**Cost of sales:** Cost of sales in 2006 was \$224,584,000 compared with \$178,411,000 in 2005 and \$146,081,000 in 2004. The cost of sales has escalated in each of the past three years as a result of the strengthening Canadian dollar, higher treatment and refining charges for copper concentrate, increased Canadian dollar denominated production costs and slightly higher concentrate freight charges. The increase in the cost of sales was smaller than it would have otherwise been in 2005, as a result of the lower metal sales recorded.

**Administrative and general expenses:** Administrative and general expenses totalled \$8,209,000 in 2006 compared with \$6,128,000 in the previous year and \$6,083,000 in 2004. Costs increased dramatically in 2006 from the two prior years as a result of an increase in the number of corporate employees in support of the Young-Davidson project and other growth initiatives, higher stock option costs related to the increase in Northgate's share price, higher spending on regulatory and legislative compliance costs related to Northgate's Sarbanes-Oxley 404 compliance project, and one-time expenses related to the amalgamation of a Northgate group of companies, which was completed on August 1, 2006.

**Depreciation and depletion:** Depreciation and depletion expenses were \$35,591,000 in 2006 compared with \$38,009,000 in 2005 and \$36,408,000 in 2004. The decrease in depreciation and depletion in 2006 was due to a 12% decrease in the tonnes of ore mined in 2006 compared to 2005, which was partially offset by an increase in the amortization rate in 2006 as a result of 2005 capital expenditures. Amortization of most of Northgate's mineral property, plant and equipment is based on the unit-of-production method as ore is mined from the Kemess South pit.

**Net interest income:** Northgate recorded net interest income of \$4,013,000 in 2006 compared to net interest expenses of \$2,391,000 in 2005 and \$3,049,000 in 2004. Since Northgate repaid its credit facility on February 15, 2006, its cash balances have grown substantially and interest income has exceeded the interest expense arising from capital leases for mobile equipment at Kemess.

**Exploration:** Exploration expenses during 2006 were \$11,449,000 compared with \$3,915,000 in 2005 and \$3,134,000 in 2004. The threefold increase in total exploration expenses in 2006 was a direct result of exploration activities at the Young-Davidson property that was acquired in November 2005. A total of \$7,716,000 was spent at Young-Davidson in 2006 on a combination of surface based diamond drilling and the initial development activities associated with the underground exploration project that commenced in the third quarter of the year. Northgate also devoted a total of \$2,500,000 to exploration activities within the Kemess camp, which was allocated to a deep penetrating induced polarization survey of the Kemess North area, diamond drilling at Kemess East and exploration drilling in the area surrounding the Kemess South pit.

**Capital expenditures:** Capital expenditures, including those financed by the assumption of capital lease obligations, increased to \$15,199,000 in 2006 compared to \$14,044,000 in 2005 and \$24,017,000 in 2004. Major capital expenditures in 2006 included \$2,487,000 for several new pieces of mobile mining equipment, \$6,748,000 for ongoing construction of the Kemess South tailings dam and \$4,478,000 related to Kemess North permitting activities.

**Other expenses:** Other expenses during 2006 included \$5,000,000 for the settlement of the Jamestown legal action and a variety of costs related to Northgate's unsuccessful attempt to acquire Aurizon Mines Ltd.

**Future income tax expense:** Earnings in 2006 included a large non-cash future income tax expense of \$11,447,000, which reflected the utilization of tax losses and other tax deductions previously recognized for accounting purposes to offset taxable income. This expense utilized some of the \$13,937,000 future income tax asset that was recorded in the prior year.

### SUMMARY OF QUARTERLY RESULTS

The table below summarizes selected quarterly operating and financial results of the previous eight quarters. Northgate's quarterly revenues have increased steadily over the period as a result of increasing copper and gold prices although past and future results do vary from quarter to quarter as a result of variations in metal production, which is a function of the ore grade being processed, and the throughput and recoveries achieved during processing.

| (Thousands of dollars,<br>except foreign exchange rate,<br>per share, per ounce and<br>per pound amounts) | 2006 Quarter Ended |           |           |           | 2005 Quarter Ended |           |           |           |
|---|--------------------|-----------|-----------|-----------|--------------------|-----------|-----------|-----------|
|   | Dec 31             | Sep 30    | Jun 30    | Mar 31    | Dec 31             | Sep 30    | Jun 30    | Mar 31    |
| Revenue   | \$118,239          | \$102,667 | \$105,348 | \$ 85,059 | \$ 95,651          | \$ 64,631 | \$54,461  | \$42,559  |
| Earnings (loss) for the period  | 19,790             | 14,902    | 50,315    | 21,735    | 44,527             | 8,765     | (3,342)   | (10,393)  |
| Earnings (loss) per share   |                    |           |           |           |                    |           |           |           |
| Basic   | \$ 0.09            | \$ 0.07   | \$ 0.23   | \$ 0.10   | \$ 0.21            | \$ 0.04   | \$ (0.02) | \$ (0.05) |
| Diluted   | \$ 0.09            | \$ 0.07   | \$ 0.22   | \$ 0.10   | \$ 0.21            | \$ 0.04   | \$ (0.02) | \$ (0.05) |
| Metal production  |                    |           |           |           |                    |           |           |           |
| Gold (ounces)   | 81,746             | 74,789    | 76,127    | 77,634    | 94,405             | 75,665    | 59,352    | 50,540    |
| Copper (thousands pounds)   | 21,254             | 19,602    | 18,071    | 22,282    | 24,701             | 16,917    | 17,427    | 14,677    |
| Metal Prices  |                    |           |           |           |                    |           |           |           |
| Gold (London Bullion Market –<br>\$ per ounce)  | 614                | 622       | 627       | 554       | 486                | 439       | 427       | 427       |
| Copper (LME Cash –<br>\$ per pound)   | 3.21               | 3.48      | 3.27      | 2.24      | 1.95               | 1.70      | 1.54      | 1.48      |

Note: the figures in the table reflect Northgate's change in accounting policy for metal inventories.

In 2006, metal production was balanced throughout the year whereas in 2005, metal production in the second half of the year was dramatically higher than in the first half of the year when lower grade ore at the edges of the eastern end of the Kemess South open pit was being processed.

### LIQUIDITY & CAPITAL RESOURCES

**Working capital:** At December 31, 2006, Northgate had working capital of \$297,957,000 compared with working capital of \$65,515,000 at December 31, 2005. The substantial increase in working capital was the result of strong cash flow from the Kemess South mine during 2006, the elimination of the project loan facility of \$13,700,000 and the exercise of common share purchase warrants primarily during the fourth quarter of 2006, which brought \$99,998,000 into Northgate's treasury. Cash and cash equivalents at the end of 2006 amounted to \$262,199,000 compared with \$50,639,000 at the end of 2005.

**Cash flow from operations:** Cash flow from operations was \$146,612,000 in 2006 compared to \$49,039,000 in 2005 and \$74,807,000 in 2004. Cash flow from operations in 2006 was higher than it was in 2005 due to dramatically higher metals prices. Cash flow from operations in 2005 was lower than it was in 2004 due to reduced metal sales volumes recorded in 2005 as a result of processing lower grade ore from the eastern end of the open pit in the first half of the year. The principle use of cash in all years was for additions to mineral property, plant and equipment, the ongoing construction of the tailings impoundment facility, and repayment of Northgate's long-term debt.

Based on planned production levels, estimated gold and copper prices and the forecasted CDN\$/US\$ exchange rate, it is anticipated that existing cash reserves and 2007 cash flow from operations will be more than sufficient to fund planned capital expenditures of \$10,300,000 at the Kemess South mine, Northgate's estimated exploration expenditures of \$28,000,000 at Young-Davidson and Kemess and capital lease obligations as they become due.

**Outstanding indebtedness:** On February 15, 2006, Northgate repaid the outstanding balance of the syndicated credit facility. At December 31, 2006, capital lease obligations on mobile mining equipment totalled \$5,025,000. Payments of \$6,870,000 were made during 2006 and payments of \$2,439,000 are scheduled in 2007.

**Shareholders' equity:** Shareholders' equity was \$447,748,000 at December 31, 2006, compared with \$236,433,000 at December 31, 2005. The increase was attributable to Northgate's earnings in 2006, the issuance of 38,222,756 common shares upon the exercise of share purchase warrants, the issuance of 1,320,480 common shares upon the exercise of employee stock options and the issuance of 145,551 common shares pursuant to the Employee Share Purchase Plan ("ESPP").

Northgate's preferred share capital consists of 100,000,000,000 Class A preferred shares without par value, of which 100,000,000,000 have been designated Series 1 and 100,000,000,000 have been designated Series 2, and 100,000,000,000 Class B preferred shares. No preferred shares are issued. Northgate's common share capital consists of 100,000,000,000 common shares, of which 253,700,033 were issued and outstanding at December 31, 2006. At March 1, 2007, there were 254,115,058 common shares issued and outstanding.

During the year, 37,908,233 common share purchase warrants, with an exercise price of CDN\$3.00, were exercised and an identical number of common shares were issued. All unexercised common share purchase warrants expired on December 28, 2006.

The common share purchase warrants and broker warrants which were assumed upon the Young-Davidson acquisition were exercised and a total of 314,523 shares of Northgate were issued at an average price of CDN\$1.38 per share.

Northgate has a stock option plan, which allows it to issue a total of 9,710,752 shares to directors, employees and non-employees. At December 31, 2006, 4,655,340 options were granted and outstanding under the plan, and of this total, 2,097,340 were exercisable at a weighted average exercise price of CDN\$1.90 per share.

## ENVIRONMENTAL MANAGEMENT

Northgate is committed to maintaining effective management systems with respect to environmental matters at the Kemess South mine and the Young-Davidson property.

With respect to future site reclamation and closure costs, Northgate regularly updates its estimate of future expenditures. For the Kemess South mine, the provision at December 31, 2006 for site closure and reclamation is \$27,734,000. This estimate is based on available information, including preliminary closure plans, alternatives and applicable regulations. For the Young-Davidson property, the estimated cost of reclaiming the site after advanced exploration activities cease is \$463,000.

At December 31, 2006, Northgate had posted a CDN\$16.9 million bond, held in trust by the Government of British Columbia and another CDN\$0.5 million bond, held in trust by the Government of Ontario, against these future environmental obligations. The amount of the Kemess South closure bond will be increased on December 31 of each future year until the amount of the bond reaches CDN\$18.8 million by the end of the Kemess South mine-life in 2009.

## HUMAN RESOURCES

Northgate's success is in great part dependent on recruiting and retaining a competent, professional workforce at the Kemess South mine and the Young-Davidson property. To motivate and maintain this workforce, Northgate offers a challenging and rewarding work environment, as well as a competitive compensation program comprised of salary and benefits. Northgate also maintains a staff development and succession program for its key executive and operational management positions.

As part of its compensation program, Northgate has a share option plan designed to align the interests of key employees to those of its shareholders. At December 31, 2006, 4,655,340 options were outstanding under the plan. Options vest over a four-year period and have a seven-year life to encourage employees to take a long-term view toward creating shareholder value. Northgate also offers an employee share purchase plan (ESPP), which is available to all full-time employees of the Corporation. Under the terms of the ESPP, full-time employees can buy treasury shares at the current market price for up to 5% of their base salary and Northgate will contribute additional shares equal to 50% of the employees' contribution.

In addition to its regular variable compensation programs, Northgate paid a special bonus to all its employees in 2006 in recognition of their contribution to the tremendous financial success that the Corporation enjoyed during the year.

Hourly employees at the Kemess South mine are members of the International Union of Operating Engineers (Local 115). On February 24, 2005, a new three-year collective bargaining agreement was ratified by Northgate and its employees at the Kemess South mine. This agreement is scheduled to expire on December 31, 2007, and negotiations to renew the agreement are expected to begin in the second half of 2007.

## CONTRACTUAL OBLIGATIONS & COMMITMENTS

Northgate had the following contractual obligations and commitments as at December 31, 2006.

| (\$ millions)                          | 1 Year | 2 – 3 Years | 4 – 5 Years |
|--|--------|-------------|-------------|
| Capital lease obligations              | 2,439  | 2,586       | —           |
| Operating leases                       | 648    | 1,134       | —           |
| Tailings dam construction              | 2,500  | —           | —           |
| Exploration contract (minimum payment) | 214    | —           | —           |
| Closure bonding requirement            | 850    | 1,525       | —           |

In July 2004, Northgate entered into a multi-year agreement with Falconbridge Limited (a wholly owned subsidiary of Xstrata Plc.) for the shipment and sale of Kemess gold-copper concentrate from January 1, 2005 through June 30, 2007. Under the terms of the agreement, treatment and refining charges are adjusted annually based on prevailing world terms. In December 2006, Northgate and Falconbridge Limited reached an agreement on a new multi-year concentrate sales agreement that will see Kemess concentrates processed by Xstrata Plc.'s Horne smelter until December 31, 2009.

Northgate's interest in the Kemess South mine is subject to a 1.62% royalty on the value of payable metals produced.

In June 2006, Northgate entered into a Cooperation Agreement with the Tse Keh Nay (3 Nations) related to the operation of the existing Kemess South mine. Northgate will provide funding to benefit the Tse Keh Nay member communities in the amount of CDN\$1,000,000 per year over the remaining Kemess South mine-life.

Northgate has an agreement to purchase 12,000,000 litres of low-sulphur diesel fuel from a supplier, at a fixed price, for delivery during 2007. The quantity of fuel purchased represents approximately 50% of the Kemess South mine's expected consumption during the year.

Northgate has a commitment to reclaim the land occupied by the Kemess South mining and milling complex once activities there have ceased. The undiscounted costs for reclamation are currently estimated at \$36.8 million and is scheduled to begin in 2009 when current reserves are scheduled to be depleted. At December 31, 2006, Northgate had \$28.2 million accrued for these obligations. Northgate also has a commitment to reclaim the Young-Davidson property after completion of the advanced exploration phase. The undiscounted costs for reclamation are currently estimated at \$0.5 million.

## CONTROLS & PROCEDURES

### Internal Control Over Financial Reporting

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICOFR"). ICOFR is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Corporation's consolidated financial statements in accordance with Canadian GAAP. These controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Corporation; and,
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the annual financial statements or interim financial statements.

Management is responsible for establishing and maintaining internal controls over financial reporting and has designed such controls to ensure that the required objectives of these internal controls have been met.

### Disclosure Controls & Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Corporation in reports filed with or submitted to various securities regulators is recorded, processed, summarized and reported within the time periods specified. This information is gathered and reported to the Corporation's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), so that timely decisions can be made regarding disclosure.

The Corporation's management, under the supervision of, and with the participation of, the CEO and CFO, have designed and evaluated the Corporation's disclosure controls and procedures, as required in Canada by Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on this evaluation, the CEO and CFO have concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective.

The Corporation continually reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, management acknowledges that disclosure controls and procedures will not prevent or detect all misstatements due to error or fraud.

#### **Changes in Internal Control over Financial Reporting**

There were no changes during the final interim period of 2006 in internal control over financial reporting that have materially affected or are reasonably likely to materially affect internal control over financial reporting.

### **RISKS & UNCERTAINTIES**

#### **Commodity Prices, Foreign Exchange and Interest Rates**

Northgate's future revenues are dependent on the prices of gold and copper on world markets, the level of treatment and refining, and price participation charges that custom smelters charge for processing concentrate, in addition to the rail, truck and ocean freight rates associated with getting its concentrate to market. These prices and charges can vary significantly from year-to-year and affect Northgate's revenue and earnings. Operating costs at the Kemess South mine site are largely denominated in Canadian dollars and, as a result, the US dollar earnings will be directly affected by fluctuations in the CDN\$/US\$ exchange rate to the extent that these costs are not hedged with foreign currency instruments. Fluctuations in interest rates can affect Northgate's results of operations and cash flows. Bank debt, if any, and cash balances are subject to variable interest rates. Northgate retired its project loan facility in February 2006 and its capital lease agreements are subject to fixed interest rates. Therefore, Northgate is relatively insensitive to interest rates except to the extent that interest is earned on its current cash balances.

The following table shows the approximate impact on Northgate's 2007 earnings and cash flow of variations in prices and exchange rates, based on the projected production at the Kemess South mine, if the change was to remain in effect for the full year. These impacts include the effect of gold and copper derivatives that Northgate had entered into as of December 31, 2006.

|                          | Change       | Annual Earnings and<br>Cash Flow Impact (\$ millions) |
|--------------------------|--------------|---|
| Gold price               | \$10/ounce   | \$2.3   |
| Copper price             | \$0.05/pound | \$1.8   |
| CDN\$/US\$ exchange rate | \$0.02       | \$2.8   |
| Interest rates           | 1%           | \$2.6   |

#### **Uncertainty of Ore Reserves and Mineral Resources**

Although Northgate has carefully prepared the mineral reserves and resources figures included herein and believe that the methods of estimating mineral reserves and resources have been verified by mining experience and production history, such figures are estimates, and no assurance can be given that the indicated levels of recovery of gold and copper will be realized. The ore grade actually recovered by Northgate may differ from the estimated grades of the reserves and mineral resources. Such figures have been determined based upon assumed gold and copper prices and operating costs. Market price fluctuations of gold and copper, as well as increased production costs or reduced recovery rates may negatively impact the economic viability of reserves containing low grades of mineralization and may ultimately result in a restatement of reserves. Short-term factors that can impact the ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades may impair the profitability of a mine in any particular accounting period.

Mineral resources estimated for properties that have not commenced production are based, in most instances, on very limited and widely-spaced drill hole information, which is not necessarily indicative of conditions between and around the drill holes. Accordingly, such estimates may require revision as more drilling information becomes available or as actual production experience is gained.

#### **Mining Risks and Insurance**

The business of mining is generally subject to certain types of risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected rock formations, and changes in the regulatory environment. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Northgate carries insurance to protect itself against certain risks of mining and processing in amounts that it considers to be adequate, but which may not provide adequate coverage in certain unforeseen circumstances. However, Northgate may become subject to liability for pollution or other hazards against which it cannot insure or against which it may elect not to insure, because of high premium costs or other reasons. Northgate may also become subject to liabilities, which exceed policy limits. In such case, Northgate may be required to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

#### **Legal**

Northgate is subject to various legal claims, judgments, potential claims and complaints, including unexpected environmental remediation costs in excess of current reserves, arising out of the normal course of business. While Northgate believes that unfavourable decisions in any pending procedures or the threat of procedures related to any future assessment, or any amount it might be required to pay, will not have a material adverse effect on its financial condition, there is a risk that if such decisions are determined adversely to Northgate, they could have a material adverse effect on its profitability.

#### **Regulatory**

Northgate's mining operations and exploration activities are subject to extensive Canadian federal and provincial regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, water disposal, toxic substances, environmental protection, mine safety and other matters. Compliance with such laws and regulations increases the costs of planning, designing, drilling, developing, construction, operating and closing mines and other facilities. Northgate believes that it is in substantial compliance with all current laws and regulations. However, such laws and regulations are subject to constant change. Amendments to current laws and regulations governing operations and activities of mining companies or more stringent implementation or interpretation thereof could have a material adverse impact on Northgate, cause a reduction in levels of production and delay or prevent the development of new mining properties.

#### **Access to Capital**

To fund its growth, Northgate is often dependent on securing the necessary capital through debt or equity financings. The availability of this capital is subject to general economic conditions and lender and investor interest in Northgate and its projects. To increase its access to capital, Northgate maintains relationships with key financial participants and has an active investor relations program in order to inform institutional and retail investors and other stakeholders.

### **Labour and Strikes**

Northgate is dependent upon its workforce to extract and process minerals. The Kemess South mine has programs to recruit and train the necessary manpower for the operation, but the mine's output may be affected by strikes, lockouts and other work stoppages at and around the Kemess operation.

### **CRITICAL ACCOUNTING ESTIMATES**

Northgate's accounting policies are described in Note 2 to the consolidated financial statements. These consolidated financial statements are prepared in accordance with Canadian GAAP, which require Northgate to make various judgments with respect to certain estimates and assumptions. The following policies are considered by management to be most critical in understanding the judgments that are involved in the preparation of Northgate's consolidated financial statements and the uncertainties inherent within them.

### **Revenue Recognition**

Northgate recognizes revenue from the sale of its concentrate upon transfer of title and delivery, which usually occurs on receipt of provisional payment from the buyer, typically within seven days of the date that concentrate is loaded into railcars for shipment to the receiving smelter. Sales of gold-copper concentrate are based on specific sales agreements and are subject to adjustment upon final settlement of shipment weights, assays and metal prices. In addition, sales agreements include provisions where final prices are determined by quoted market prices in a period subsequent to the date of sale. Revenues are recorded at the time of sale based on forward prices for the expected date of final settlement. Subsequent variations to weights, assays and metal prices are recognized in revenue each period end and in the period of final settlement.

### **Site Closure and Reclamation Costs**

Minimum standards for site closure and mine reclamation have been established by various governmental agencies that affect certain operations of the Corporation. Northgate accounts for reclamation liabilities by recognizing any statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting cost capitalized into the carrying value of the related asset. In subsequent periods, the liability is adjusted for the accretion of the discount and any changes in the estimated amount or timing of the underlying future cash flows. The asset retirement cost is amortized to operations over the life of the asset. The determination of site closure and reclamation costs requires assumptions with respect to future expected costs, discount rates and inflation rates, changes in which can materially affect the recognized amount of the liability.

### **Mineral Property Costs**

Northgate records mineral property acquisition and mine development at cost. In accordance with Canadian GAAP, Northgate capitalizes pre-production expenditures, net of revenues received, until the commencement of commercial production. A significant portion of Northgate's mineral property, plant and equipment is depreciated and amortized on a unit-of-production basis. Under the unit-of-production basis, the calculation of depreciation, depletion and amortization of mineral property, plant and equipment is based on the amount of proven and probable reserves expected to be recovered. If these estimates of reserves prove to be inaccurate, or if Northgate revises its mining plan, reducing the amount of reserves expected to be recovered, Northgate could be required to write down the recorded value of its mineral property, plant and equipment, or could be required to increase the amount of future depreciation, depletion and amortization expenses, both of which would reduce Northgate's earnings and net assets.

In addition, Canadian GAAP requires Northgate to consider at the end of each accounting period whether or not there has been an impairment of the capitalized mineral property, plant and equipment. For producing properties, this assessment is based on expected future cash flows to be generated. For non-producing properties, this assessment is based on whether factors that may indicate the need for a write-down are present.

If Northgate determines there has been an impairment because its prior estimates of future cash flows have proven to be inaccurate due to reductions in the price of gold and copper, increases in the costs of production, reductions in the amount of reserves expected to be recovered or otherwise, or because Northgate has determined that the deferred costs of non-producing properties may not be recovered based on current economics or permitting considerations, Northgate would be required to write down the recorded value of its mineral property, plant and equipment, which would reduce Northgate's earnings and net assets.

#### **Valuation Allowance**

Northgate recognizes future tax assets associated with tax loss carry forwards and other tax deductions only if it is more likely than not that the related benefits will be realized in the future. The evaluation of whether future tax assets should be recognized is based on expected future income for tax purposes. The determination of expected future income for tax purposes requires significant judgments and estimates with respect to metal prices, foreign exchange rates and operating costs. Changes in those assumptions can materially affect the recognized amount of a future income tax asset. In future years, if Northgate determines it is no longer more likely than not that the benefit of its future tax assets will be realized, it would be required to set up a valuation allowance with a corresponding future income tax expense in results from operations.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

Northgate's only significant off-balance sheet arrangements are for gold forward sales contracts. These have been entered into with high-quality banking counterparties who engage in substantial derivative transactions with numerous third parties in addition to Northgate. These contracts were entered into for the purpose of guaranteeing minimum revenues from gold ounces produced and sold, as part of covenants contained in its syndicated project loan facility.

At December 31, 2006, Northgate had entered into a series of forward sales contracts for the sale of 60,000 ounces at an average price of \$307 per ounce. These contracts were entered into in 2003 and mature on a monthly basis between March 2007 and December 2007. As these contracts mature, it is anticipated they will be settled financially and the resulting loss or gain will be taken into income. The unrealized loss on these forward sales contracts at year end 2006 was \$20,265,400.

#### **CHANGE IN ACCOUNTING POLICY**

##### **Inventory**

During the year ended December 31, 2006, Northgate changed its accounting policy with respect to metal inventories to incorporate a full costing method and also to value additional components of inventory created during the mining process. This change in accounting policy has been applied retroactively for all years presented. As a result of this change, opening deficit at January 1, 2004 decreased \$4,608,000. Net earnings for the year ended December 31, 2005, increased by \$6,670,000 (2004 – \$1,541,000) or \$0.04 per share (2004 – nil). Additionally, as at December 31, 2005, inventory increased by \$13,882,000 and the future income tax asset decreased by \$1,063,000.

## FUTURE CHANGES IN ACCOUNTING POLICIES

### Financial Instruments

The Canadian Institute of Chartered Accountants ("CICA") has issued three new standards that apply to Northgate and will come into effect in fiscal 2007: Financial Instruments – Recognition and Measurement; Hedges; and, Comprehensive Income.

### NON-GAAP MEASURES

Northgate has included net cash costs of production per ounce of gold in the discussion of its results from operations, because it believes that these figures are a useful indicator to investors and management of a mine's performance as they provide: (i) a measure of the mine's cash margin per ounce by comparison of the cash operating costs per ounce to the price of gold; (ii) the trend in costs as the mine matures; and, (iii) an internal benchmark of performance to allow for comparison against other mines. However, cash costs of production should not be considered as an alternative to operating profit or net profit attributable to shareholders, or as an alternative to other Canadian GAAP measures and may not be comparable to other similarly titled measures of other companies.

A reconciliation of net cash costs per ounce of production to amounts reported in the statement of operations is shown below.

| (Thousands of dollars, except per ounce amounts) | 2006       | 2005       | 2004       |
|--|------------|------------|------------|
| Gold production (ounces)                         | 310,296    | 279,962    | 303,475    |
| Cost of sales                                    | \$ 224,584 | \$ 178,411 | \$ 146,081 |
| Change in inventories and other                  | 7,836      | 6,769      | (475)      |
| Gross copper and silver revenue                  | (249,699)  | (127,787)  | (104,637)  |
| Total cash cost                                  | (17,279)   | 57,393     | 40,969     |
| Cash cost per ounce                              | \$ (56)    | \$ 205     | \$ 135     |

Note: the figures in the table reflect Northgate's change in accounting policy for metal inventories.