

**KIRKLAND LAKE GOLD INC.**  
***Management Discussion and Analysis***

The following discussion of the financial position of Kirkland Lake Gold Inc. and the results of operations for the quarter ended October 31, 2004, are to be read in conjunction with the audited financial statements dated April 30<sup>th</sup>, 2004 and related notes for the periods then ended. All of the financial information presented herein is expressed in Canadian dollars, unless otherwise indicated. These statements together with the following Management's Discussion and Analysis, dated December 13, 2004, are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as certain forward-looking statements relating to the potential future performance. Additional information on the Company can be found in the Company's Annual Information Form ("AIF"), filed in form 20F, and filed with Canadian regulators on SEDAR at [www.sedar.com](http://www.sedar.com) and with the United States Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

**1. Overview**

Kirkland Lake Gold Inc. is an operating gold mining company located in Kirkland Lake, Ontario, which owns the Macassa Mine and Mill and four contiguous former gold producing properties purchased on December 14, 2001. The Company is committed to growth and profitability and its' corporate goal is to continue to expand its gold reserves and to become a low cost gold producer. Successful exploration results have increased proven and probable ore reserves. Ore reserves have increased by 78% since the acquisition of the mining properties. Gold production for fiscal year 2005 is planned to equal or exceed 50,000 ounces. The shares of Kirkland Lake Gold currently trade on the TSE and also trade on the AIM (Alternative Investment Market) of the London Stock Exchange.

**2. Discussion of Quarterly Results**

Kirkland Lake Gold incurred a loss for the quarter ended October 31, 2004 (Fiscal 2005) of \$8,886,037 or \$0.22 per share, which compares with a loss of \$0.16 per share or a loss of \$4,655,861 for the second quarter fiscal 2005. Gold revenues were higher on a year over year basis at \$5,129,390 (2004- \$1,596,927), 92% due to higher gold sales, and 8% due to higher prices. Operating costs rose to \$9,505,891 (2004- \$5,379,396), as near term development and stope mining activities increased. The Company continued an active exploration program with exploration expenditures rising to \$2,908,633 in the latest quarter, as compared with \$82,735 reported for the same period of the prior year. After raising \$7.7 million in flow through shares in late 2003 (\$7.3 million net), \$0.7 million remains to be spent on eligible exploration expenditures by December 31, 2004

<b>Financial Highlights (all amounts in thousands of Canadian dollars, except per share figures)</b>		
	<b>3 months ended October 31 2004</b>	<b>3 months ended October 31 2003</b>
Revenue	5,129	1,596
Operating Costs	9,505	5,379
Exploration Expenditure	2,908	82
Net (loss) before unusual item	(8,886)	(4,655)
Per share (basic and diluted)	(0.22)	(0.16)
Cash Flow (used) for operating activities	(7,582)	(3,460)
Net increase (decrease) in cash	4,547	1,574
Cash at end of period	7,687	11,720
Total Assets	40,684	40,530
Total Liabilities	14,450	12,690
Working Capital	(694)	(4,080)
Weighted average of shares outstanding	40,891,352	28,288,788

Gold sales during the latest fiscal quarter were 9,775 troy ounces with an average gold price of CDN\$525 per ounce as underground production from #3 Shaft continues to increase. This compares with gold sales of 3,211 ounces with an average sales price of CDN\$497 per ounce during the same period of the prior year. During the second quarter of fiscal 2005, negative operating cash flow amounted to \$7,582,832, (2004- negative \$3,460,945), as underground development and stoping activities continue to increase, in efforts to raise gold production to positive cash flow levels. Lastly, during the second quarter the Company raised \$14.9 million to fund its operations.

During the second quarter, total capital invested in the Company's operations stood at \$2,289,900 as compared with \$2,293,416 reported for the same quarter of the prior year. This aforementioned figure for the second quarter fiscal 2005 does not include the \$535,000 purchase of short term investments. Of the \$2.3 million invested in its operations, \$889,731 (2004-\$933,737) was spent on the purchase of equipment, while the remaining \$1,400,169 was invested in developmental projects which included 1,290 feet of lateral development to access the "D Zone," along with 82 feet of raising for the 3800 foot level waste pass. Additionally, 305 feet of development was accomplished for the development of the "S-Zones" at #2 Shaft. Lastly, 81 feet of raising was achieved at the chute on the 5043 foot level, and 157 feet of drifting was carried out on the 4900 foot level.

### **3. Discussion of Costs**

During the second quarter of fiscal year 2005, a total of \$9,505,891, (2004 - \$5,379,396) was spent on operating costs - (#3 Shaft Mining – \$5,533,313 versus first quarter fiscal 2004 - \$3,039,192– Lakeshore Ramp Mining – \$1,410,003 versus first quarter fiscal 2004- (\$436,828) – Milling – (\$969,954 versus first quarter fiscal 2004-(\$504,666), and other related costs, with approximately 54% of current operating costs related to labor. The increase in operating costs for the latest quarter over the same period last year is due to the significant increase in underground development and stoping activities as evidenced by the fact that 46,243 tons ( (2004- 10,121 tons) were broken underground, of which 28,912 tons was ore and 17,331 tons was waste, as compared to the first quarter's 25,840 tons broken, of which 7,817 tons was ore and 18,023 tons was waste.

Furthermore, 4,622 feet of lateral and 794 feet of vertical stope development was completed in the latest quarter, an increase of 1,351 feet over the first quarter. Lastly, the second quarter of fiscal 2005 experienced higher diamond drilling costs which totaled \$352,000 (2004 - \$290,491) with 24,616 feet of definition drilling carried out, which also contributed to a rise in operating costs. This compares to the first quarter's 22,444 feet of definition drilling.

During the latest quarter, Mill throughput was 39,855 tons at a cost of \$ 969,567, or \$24.33 per ton milled, as compared to the first quarter throughput of 27,589 tons at a cost of \$ 1,000,954, or \$36.28 per ton milled.

Looking at non-operating expenses, Kirkland Lake Gold incurred \$564,640 (2004- \$283,648) in amortization and depletion of asset costs and \$523,516 (2004 - \$108,657) on interest and bank charges and amortization of finance charges. For the quarter ended October 31, 2004, general and administrative expenses were \$348,142, which is lower when compared to \$388,745 reported for the same period of the prior year.

#### **4. Liquidity, Capital Resources and Financial Condition**

##### **Liquidity**

Kirkland Lake Gold's cash balance at October 31, 2004 was \$7,687,337 and the Company had a working capital deficit of \$694,820. The Company has a commitment to spend \$7.3 million on exploration under the previous flow through financing by December 31, 2004. Through October 31 2004, \$6.6 million had been spent on flow through expenditures, leaving \$0.7 million to be spent by calendar year end. Kirkland Lake Gold's ability to continue as a going concern is dependent on future financings until the attainment of profitable and cash-generating operations sufficient to sustain the Company.

##### **Cash Flow Discussion**

Cash flow used for operations was \$7,582,832 (2004-\$3,460,945), during the second quarter fiscal 2005, explained largely by the fact that the Company has built a significantly larger mining workforce and undertaken significantly more near term development and stoping activity as reviewed earlier. During the latest quarter, the total amount of capital invested in Kirkland Lake Gold's operations stood at \$2,289,900 (2004-\$2,293,416), with \$889,731 of this amount spent on new mining equipment, and \$1,400,169 on developmental work. During the first quarter, capital invested was \$1,608,049 of which \$493,875 was expended on mining equipment and \$1,114,174 was spent on development work.

## 5. Summary of Quarterly Results

<b>Summary of Quarterly Results</b>				
<b>(expressed in 000's of Canadian dollars )</b>				
	<b>4th Quarter</b>	<b>3rd Quarter</b>	<b>2nd Quarter</b>	<b>1st Quarter</b>
<b>Fiscal 2005</b>				
Revenue			5,129	3,591
Net Earnings (Loss)			(8,886)	(9,031)
Earnings (Loss) per share-Basic & diluted			(0.22)	(0.25)
<b>Fiscal 2004</b>	<b>4th Quarter</b>	<b>3rd Quarter</b>	<b>2nd Quarter</b>	<b>1st Quarter</b>
Revenue	4,114	3,390	1,596	707
Net Earnings (Loss)	(8,215)	(5,741)	(4,655)	(4,005)
Earnings (Loss) per share-Basic & diluted	(0.25)	(0.19)	(0.16)	(0.16)
<b>Fiscal 2003</b>	<b>4th Quarter</b>	<b>3rd Quarter</b>	<b>2nd Quarter</b>	<b>1st Quarter</b>
Revenue	1,478	2,153	8,073	0
Net Earnings (Loss)	(3,140)	(2,001)	1,366	(1,159)
Earnings (Loss) per share-Basic & diluted	(0.16)	(0.10)	0.07	(0.06)

Revenue generated by the Company is a function of gold production, coupled with prevailing gold prices on the spot market, and the US \$ exchange rate at the time of sale. Efforts are underway to increase production on a sustained basis by improving overall productivity of a significantly larger mining workforce. Revenues rose owing to higher gold production, however not enough to offset the higher cost base which lead to a higher reported loss on a year over year basis.

## 6. Outlook

Over the past 12 months, the Company has made considerable strides in establishing an efficient and productive underground workforce. The Company projects rising production levels resulting in positive operating cash flow during the second half of fiscal 2005. In addition to seeking to continue to improve efficiencies, finding additional low cost ore reserves remains a top priority for management, along with developing lower cost mining operations such as the "D" Zone, which is currently being mined. Several alterations in the Company's production plan has increased the projected capital spending to now be just under \$9 million, versus the previous \$5 million estimate. The increase in capital spending is due primarily to the development of significant exploration results, which have identified ore reserves, the bulk of which will not be mined in the next eighteen months. In addition, rehabilitation and development of the 5100' and 5300' levels is to continue, along with the rehabilitation of the recently dewatered 5400' level, and the 5600' level shaft stations, as the dewatering program continues. (The need for more station and shaft rehabilitation is now apparent on the 5400' level).

The underground mining fleet will continue to be enhanced to meet the requirements of the operation with some of the fleet enhancement being outside the early projections for capital.

## **7. Exploration Update**

Total exploration expenses for the latest quarter were \$2,908,633 (2004 - \$82,735), of which \$2,459,730 was associated with the Company's flow through exploration program. During the latest quarter exploration drilling consisted of 23,265 feet of regular exploration which totalled \$326,000, in addition to the 25,743 feet of regular flow-through drilling (\$378,000), and 91,531 feet of super flow-through drilling (\$1,391,000). Exploration drilling resulted in several significant discoveries and achievements. These include:

- The South Porphyry Zone located 1,800 feet south of the Macassa mine workings was found to be a north-south striking zone, similar to the Upper D-Zone, recently placed into production. (-3400 to -3700 levels) and may be the down-dip extension of the Upper D. The South Porphyry Zone has now been renamed as the Lower D. underground drilling extended the Upper D zone to the north 200 feet for a total strike length of 1,350 feet
- Significant mineralization was intersected 1,600 feet south of the Macassa mine workings east of the Macassa #2 shaft from the -4500 level. Drill hole 45-911A returned an intersection of 26.21 oz over 6.0 feet (uncut) and included a 102.46 ounces over 1.5 feet core length. This intersection is believed to be the one of the highest, if not the highest drill hole intersection in the history of the Kirkland Lake camp. It also extended the limits of several other veins at the 4200 level near #2 Shaft.
- Near surface mineralization was discovered in late October, 2,000 feet south of the Macassa #2 shaft and 4,000 feet south of the Main Break. The mineralization is quite unlike typical Kirkland Lake quartz veining and comprises pyritic mineralization hosted north to south within Timiskaming sediments.
- Surface drilling at Wright Hargreaves has expanded hangingwall vein systems both accessible from the existing Lakeshore decline to a depth of 600 feet below surface.

Surface diamond drilling at Kirkland Minerals has intersected mineralization on both the Main Break (Boundary Zone) as well as the South Break system. At the Teck Hughes property surface drilling successfully located the Court Vein west of the main glory hole with intersections at the -350 foot level.

Subsequent to fiscal 2004 year end, Kirkland Lake Gold announced that positive exploration results boosted ore reserves by 28% to 630,000 ounces up from 490,000 ounces for the prior year. Drilling costs for these additional ore reserves were under \$10.00 per ounce. Successful geological efforts have increased proven and probable ore reserves by 78% since the dewatering and rehabilitation permitted underground drilling in July 2002.

## **8. Changes in Accounting Policies**

### **Stock-Based Compensation**

Effective May 1<sup>st</sup> 2004, Kirkland Lake Gold has adopted the fair value method of accounting for stock based compensation. This method results in the recognition in earnings of the cost of stock-based compensation based on the estimated fair value of new stock options granted to directors and employees in the year. This change in accounting policy, which has been adopted retroactively, is

expected to decrease net earnings for fiscal 2005 and beyond, by the fair value of the stock options granted in 2004.

### **Asset Retirement Obligations**

Effective May 1, 2004, the Company has adopted the new accounting standard on asset retirement obligations. Under this standard, asset retirement obligations will be recognized for the costs associated with exit activities and recorded as a liability at fair value. The liability will be accreted over time through periodic charges to earnings. In addition, the asset retirement cost will be capitalized as part of the asset's carrying value and amortized over the asset's useful life. This change in accounting policy, which was adopted retroactively, has not had a significant impact on the Company.

## **9. Risks and Uncertainties**

### **Gold Price/Foreign Exchange**

The profitability of the Company is affected by business risks including the price of gold and the foreign currency exchange rate. The price of gold can be volatile and the Company does not hedge gold sales. Changes in the exchange rate can have a material impact as costs are incurred in Canadian dollars and revenues are in U.S. dollars.

### **Company's Operations**

The Company is also subject to the normal risks of underground mining which affects production rates and costs. Over the past 12 months, Kirkland Lake Gold has hired a significant number of new underground miners within a highly competitive market. The ability of the Company to achieve its' production objectives is dependent in large measure on the training and retention of Kirkland Lake Gold's workforce. Kirkland Lake Gold's mining operations and development and exploration activities are affected by various laws and regulations, including those which cover environmental, health, and safety matters. Existing legislation and regulations are subject to change, the impacts of which are difficult to measure. It is the policy of the Kirkland Lake Gold to maintain safe working conditions at its work site, comply with health and safety legislation, maintain equipment and premises in safe conditions, and ensure that all employees comply with safety procedures.

The company is pleased that Kirkland Lake Gold was found to have exceeded the standards of the Workplace Safety Insurance Board's "Workwell Audit"

### **Additional Financings May be Required**

While the Company has been successful in the past, there is no assurance that funding will be available under the terms that are satisfactory to management. The Company's operations have to date resulted in negative cash flow and significant losses. Funds available from operations may vary significantly from management's estimates, due to changes in gold prices and foreign exchange rates, which are outside the control of management, and to successfully achieve increased gold production volumes at acceptable costs, which the Company has not been able to achieve to date. Differences between actual results and management's estimates will occur, and these differences may be material. Accordingly, there is no assurance that operations will result in sufficient funds being available to the Company to continue in the normal course.

## **10. Environmental and Social Responsibility**

Kirkland Lake Gold has the necessary licenses and permits for its gold mining and milling operations on its Kirkland Lake properties. The current permit allows the discharge of tailings at a mill processing rate of 2,000 tons per day for over 10 years. Under the terms of the formal closure plan filed in respect of the properties, the Company has deposited with the Ontario Ministry of Environment and northern Development the sum of \$2,043,435 to fund the cost of the closure plans

*This report contains “forward-looking statements,” including, but not limited to, statements regarding the Company’s expectations as to the market price of gold, exchange rate, strategic plans, future commercial production, production targets and timetables, mine operating costs, capital expenditures, work programs, exploration budgets and mineral reserve and resource estimates. Forward-looking statements involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from current expectations expressed or implied by the forward-looking statements, include, but are not limited to, factors associated with fluctuations in the market price of precious metals, mining industry risks and hazards, environmental risks and hazards, uncertainty as to the calculation of mineral reserves and resources, requirement of additional financing, and other risks described in Kirkland Lake Gold Annual Report on Form 20-F filed as an alternative form of AIF with the Securities Commissions of the provinces of British Columbia and Ontario, and with the United States Securities and Exchange Commission, and with the Toronto Stock Exchange.*