

# **KIRKLAND LAKE GOLD INC.**

**UNAUDITED FINANCIAL STATEMENTS**

**THREE MONTH PERIOD ENDED JULY 31, 2007**

**(EXPRESSED IN CANADIAN DOLLARS)**

**The accompanying unaudited financial statements of Kirkland Lake Gold Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.**

**These statements have been approved by the Audit Committee and the Board of Directors of the Company.**

**The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.**

# KIRKLAND LAKE GOLD INC.

## Balance Sheets

(Unaudited)

As at July 31, 2007 and April 30, 2007

(expressed in Canadian dollars, except per share amounts)

	July 31 2007	April 30 2007
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 34,285,175	\$ 26,275,033
Short-term investments	265,004	283,589
Accounts receivable	733,949	1,608,666
Inventories (Note 5)	3,808,258	4,102,165
Prepaid expenses and deposits	226,837	264,590
	<b>39,319,223</b>	<b>32,534,043</b>
<b>Security deposits (Note 4)</b>	<b>290,000</b>	<b>190,000</b>
<b>Mineral properties (Note 6)</b>	<b>34,682,268</b>	<b>34,364,062</b>
<b>Property, plant and equipment (Note 7)</b>	<b>12,003,375</b>	<b>11,460,258</b>
<b>Mine closure bonds</b>	<b>2,235,829</b>	<b>2,220,506</b>
	<b>\$ 88,530,695</b>	<b>\$ 80,768,869</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 13(b))	\$ 6,490,062	\$ 6,317,611
<b>Contingencies</b>	<b>125,005</b>	<b>125,005</b>
<b>Asset retirement obligation (Note 8)</b>	<b>2,740,987</b>	<b>2,700,480</b>
	<b>9,356,054</b>	<b>9,143,096</b>
<b>Shareholders' Equity</b>		
<b>Capital stock (Note 9)</b>		
Authorized		
Unlimited common shares without par value		
Issued		
55,222,883 (2007 - 54,504,019) common shares	148,783,483	140,926,034
<b>Options (Note 10)</b>	<b>893,298</b>	<b>674,137</b>
<b>Warrants (Note 11)</b>	<b>-</b>	<b>595,163</b>
<b>Contributed surplus (Note 12)</b>	<b>2,828,952</b>	<b>2,797,768</b>
<b>Deficit</b>	<b>(73,331,092)</b>	<b>(73,367,329)</b>
	<b>79,174,641</b>	<b>71,625,773</b>
	<b>\$ 88,530,695</b>	<b>\$ 80,768,869</b>

Operations, going concern and measurement uncertainty (Note 1)

Approved by the Board of Directors:

(signed) "Brian E. Bayley" Director

(signed) "Brian Hinchcliffe" Director

See accompanying notes to interim financial statements.

# KIRKLAND LAKE GOLD INC.

## Statements of Operations and Deficit

(Unaudited)

For the three months ended July 31, 2007 and 2006

(expressed in Canadian dollars, except per share amounts)

	Three Month Period Ended July 31 2007	Three Month Period Ended July 31 2006
<b>Mining revenue</b>	<b>\$ 11,300,111</b>	<b>\$ 8,517,052</b>
<b>Operating expenses</b>		
Operating costs	8,432,570	8,094,549
Stock-based compensation for operational personnel	19,704	10,338
Amortization and depletion	977,940	818,822
Royalties	450,710	343,706
	<b>9,880,924</b>	<b>9,267,415</b>
<b>Operating margin</b>	<b>1,419,187</b>	<b>(750,363)</b>
<b>Other expenses</b>		
General and administrative	728,384	733,070
Stock-based compensation for administrative personnel	244,109	28,637
Exploration	786,826	1,982,308
Interest and bank charges	26,012	19,229
Interest and other income	(402,381)	(218,187)
	<b>1,382,950</b>	<b>2,545,057</b>
<b>Income (Loss) for the period</b>	<b>36,237</b>	<b>(3,295,420)</b>
<b>Deficit - beginning of period</b>	<b>(73,367,329)</b>	<b>(64,983,924)</b>
<b>Deficit - end of period</b>	<b>\$ (73,331,092)</b>	<b>\$ (68,279,344)</b>
<b>Basic and diluted earnings (loss) per share</b>	<b>\$ NIL</b>	<b>\$ (0.06)</b>
<b>Weighted Average number of shares outstanding</b>	<b>55,192,411</b>	<b>52,367,173</b>

See accompanying notes to interim financial statements.

# KIRKLAND LAKE GOLD INC.

## Statements of Cash Flows

(Unaudited)

For the three months ended July 31, 2007 and 2006

(expressed in Canadian dollars)

	Three Month Period Ended July 31 2007	Three Month Period Ended July 31 2006
<b>Cash flows from operating activities</b>		
Income (Loss) for the period	\$ 36,237	\$ (3,295,420)
Items not affecting cash		
Amortization and depletion	977,940	818,822
Loss on investment	18,585	-
Stock-based compensation	263,813	38,975
Asset Retirement Obligation	40,507	27,687
Gain on sale of asset	(28,319)	-
Changes in non-cash working capital items		
Accounts receivable	874,717	1,741,029
Inventories	293,907	(257,206)
Prepaid expenses and deposits	37,753	(152,770)
Accounts payable and accrued liabilities	172,451	1,069,974
Security deposits	(100,000)	-
Interest on Mine Closure Bond	(15,323)	-
	<u>2,572,268</u>	<u>(8,909)</u>
<b>Cash flows from financing activities</b>		
Net proceeds from issuance of capital stock	7,123,818	15,573,678
	<u>7,123,818</u>	<u>15,573,678</u>
<b>Cash flows from (applied to) investing activities</b>		
Purchase of property, plant and equipment	(1,226,793)	(785,037)
Disposal of property, plant and equipment	-	-
Proceeds of disposition of property, plant and equipment	196,798	-
Additions to mineral properties	(655,949)	(1,997,428)
	<u>(1,685,944)</u>	<u>(2,782,465)</u>
<b>Increase in cash and cash equivalents</b>	<b>8,010,142</b>	<b>12,782,304</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>26,275,033</b>	<b>9,411,925</b>
<b>Cash and cash equivalents - End of period</b>	<b>\$ 34,285,175</b>	<b>\$ 22,194,229</b>

See accompanying notes to interim financial statements.

# KIRKLAND LAKE GOLD INC.

## Notes to Financial Statements

For the three months ended July 31, 2007 and 2006

---

(expressed in Canadian dollars)

### 1. NATURE OF OPERATIONS AND GOING CONCERN

#### Operations

Kirkland Lake Gold Inc. (the company) owns gold mining and milling operations in Kirkland Lake, Canada, which were inactive when acquired in December 2001.

#### Going concern

While the annual financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, certain historical adverse conditions and events cast substantial doubt upon the validity of this assumption.

During the years ended April 30, 2007, 2006 and 2005, the Company incurred losses of \$8.4 million, \$6.5 million and \$28.2 million, respectively. Cash flow required for operating activities, including exploration costs charged to operations of \$18.0 million, aggregated \$37.7 million for the three years in total. The funds required to continue operations and exploration activities during this period have been financed primarily from the issue of equity or convertible debt instruments.

At July 31, 2007, the Company had working capital of \$32.8 million and was committed to spend \$1.1 million on eligible flow-through expenditures before Monday, December 31, 2007. Management estimates that these funds, together with cash flow from targeted operations, will be sufficient to meet the Company's obligations and capital expenditure plans for next year. However, differences between actual results and those projected by management may be material. It is possible that the operations will not generate sufficient cash flow for the Company to continue in the normal course without funding being provided from outside sources.

While management has been successful in obtaining sufficient funding for the Company's operating and capital exploration requirements in the past, there is no assurance that such funding will be available to the Company, or that it will be available on terms which are acceptable to management. If funding does not become available, the Company may not be able to continue as a going concern.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

#### Measurement uncertainty

The Company's history of operating losses from mining operations indicate that the recorded costs for mineral properties and related fixed assets may not be recoverable. Management estimates, using a constant gold price of \$600 per ounce \* and operating costs similar to historical costs incurred over the past year, that annual production of 59,000 ounces in fiscal 2008 and 80,000 ounces of gold for each year thereafter would be required to cover costs of operations and estimated capital expenditures required for mining operations. To date the company has not been successful in achieving and sustaining this rate of production. To recover these costs, and the carrying values of mineral properties and other mining assets over the life of the mine will require a significant increase in the average tonnes of ore processed and ounces of gold produced annually compared to the previous three years, a reduction in the workforce and associated mining costs through the curtailment of certain development projects, or both.

\*: Readers should note that the average sales price per ounce sold in the quarter was \$712.

# KIRKLAND LAKE GOLD INC.

## Notes to Financial Statements

For the three months ended July 31, 2007 and 2006

---

(expressed in Canadian dollars)

### 1. NATURE OF OPERATIONS AND GOING CONCERN (CONT'D)

#### Measurement uncertainty (Cont'd)

There is significant uncertainty associated with the ability of the Company to achieve the increase in production or reduction in costs necessary to recover the carrying value of the mineral property and related assets. In addition, gold price or Canadian/U.S. dollar exchange rate movements, the success of the Company in realizing the benefit of the production improvements noted above, changes in the costs of labour, and the other costs or unforeseen production difficulties all would have an impact on the ability of the Company to achieve its goals from operations. The amount of working capital currently available for use by the Company could mean that a minor adverse development could have a significant impact on the Company's operations and ability to recover costs.

### 2. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2007, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income, CICA Handbook Section 3855, Financial Instruments Recognition and Measurement and CICA Handbook Section 3251, which introduces a new component of equity referred to as accumulated other comprehensive income.

Under these new standards, all financial instruments included on the consolidated balance sheet are either classified as held for trading, held-to-maturity investments or available-for-sale categories and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. The gain or loss arising from a change in the fair value of a financial asset classified as available-for-sale is recognized in other comprehensive income until the financial instrument is derecognized and the cumulative gains or losses are then recognized in earnings. The Company is recognizing gains and losses on its instruments classified as available-for-sale in other comprehensive income, and these instruments are described in Note 15.

The initial adoption of these new standards had no material impact on the Company's financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PRESENTATION

These unaudited interim financial statements are prepared in accordance with generally accepted accounting principals ("GAAP") in Canada. They do not include all of the information and disclosures required by Canadian GAAP for annual audited financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The interim financial statements should be read in conjunction with the company's audited financial statements including the notes thereto for the year ended April 30, 2007.

### 4. SECURITY DEPOSITS

A security deposit for the benefit of the Independent Electrical System Operator of Ontario (IESO) to secure the provision of electricity, for \$225,000 was converted to a letter of credit during the quarter. A deposit in favour of Great West Life, the benefits provider, for \$65,000 was reclassified from Prepaid Expenses to Security Deposits.

# KIRKLAND LAKE GOLD INC.

## Notes to Financial Statements

For the three months ended July 31, 2007 and 2006

(expressed in Canadian dollars)

### 5. INVENTORIES

	<b>JULY 31</b>	<b>APRIL 30</b>
	<b>2007</b>	<b>2007</b>
Mine operating supplies	\$ 1,124,540	\$ 1,184,806
Dore bars	691,753	-
Gold in process	1,991,965	2,694,267
Surface stockpile	-	223,092
	<b>\$ 3,808,258</b>	<b>\$ 4,102,165</b>

### 6. MINERAL PROPERTIES

	<b>JULY 31</b>	<b>APRIL 30</b>
	<b>2007</b>	<b>2007</b>
Balance - Beginning of period	\$ 34,364,062	\$ 29,986,447
Additions:		
Development costs	780,949	6,044,890
Depletion	(462,743)	(1,667,275)
Balance - End of period	<b>\$ 34,682,268</b>	<b>\$ 34,364,062</b>

	<b>COST</b>	<b>ACCUMULATED AMORTIZATION</b>	<b>JULY 31</b>	<b>APRIL 30</b>
			<b>2007</b>	<b>2007</b>
Acquisition allocation	\$ 1,140,524	\$ 153,644	\$ 986,880	\$ 873,687
Underground development	35,851,474	4,758,574	31,092,900	30,850,669
Underground pumping	2,050,942	380,661	1,670,281	1,694,129
Mill & surface facilities	149,371	28,445	120,926	122,663
Lakeshore property	1,000,411	189,130	811,281	822,914
	<b>\$ 40,192,722</b>	<b>\$ 5,510,454</b>	<b>\$ 34,682,268</b>	<b>\$ 34,364,062</b>

# KIRKLAND LAKE GOLD INC.

## Notes to Financial Statements

For the three months ended July 31, 2007 and 2006

(expressed in Canadian dollars)

### 7. PROPERTY, PLANT AND EQUIPMENT

	COST	ACCUMULATED AMORTIZATION	JULY 31 2007 NET
Computer equipment	\$ 691,502	\$ 468,914	<b>222,588</b>
Mine and mill equipment	17,762,709	6,391,892	<b>11,370,817</b>
Vehicles	129,493	83,061	<b>46,432</b>
Buildings	591,822	228,284	<b>363,538</b>
	<b>\$ 19,175,526</b>	<b>\$ 7,172,151</b>	<b>\$ 12,003,375</b>

	COST	ACCUMULATED AMORTIZATION	APRIL 30 2007 NET
Computer equipment	\$ 647,830	\$ 428,327	<b>219,503</b>
Mine and mill equipment	16,723,590	5,992,127	<b>10,731,463</b>
Vehicles	129,493	76,587	<b>52,906</b>
Buildings	688,926	232,540	<b>456,386</b>
	<b>\$ 18,189,839</b>	<b>\$ 6,729,581</b>	<b>\$ 11,460,258</b>

### 8. ASSET RETIREMENT OBLIGATION

The company has assumed responsibility for the reclamation and site restoration plans originally filed with the Ontario Ministry of Northern Development and Mining (MNDM) in connection with the all the Kirkland Lake properties. The estimated total costs of reclamation and site restoration at July 31, 2007 are \$4,452,597 and financial assurance has been provided to the MNDM by way of mine closure bonds in the amount of \$2,235,829 which includes accrued interest of \$192,394 which bears interest at 2.75% per annum.

A reconciliation for asset retirement obligations is as follows:

	JULY 31 2007	APRIL 30 2007
Balance - Beginning of year	\$ 2,700,480	\$ 1,845,780
Revision to timing of estimate mining life	-	743,952
Accretion	40,507	110,748
Balance - End of period	<b>\$ 2,740,987</b>	<b>\$ 2,700,480</b>

There were no liabilities incurred or settled during fiscal 2008 or 2007.

The provision for asset retirement obligations is based on the following key assumptions.

- The total undiscounted cash flow as at April 30, 2008 is \$4,452,597.
- The expected settlement to be in 2020.
- A credit adjusted risk free rate at which the estimated payments have been discounted of 6%.
- An inflation rate of 2%.

# KIRKLAND LAKE GOLD INC.

## Notes to Financial Statements

For the three months ended July 31, 2007 and 2006

---

(expressed in Canadian dollars)

### 9. CAPITAL STOCK

	Number of shares	Amount
Balance - Beginning of period	54,504,019	\$ 140,926,034
Exercise of options (Note 10)	35,000	99,218
Exercise of warrants (Note 11)	670,924	7,639,865
Private placements	12,940	125,000
Share issuance costs	-	(6,634)
Balance - End of period	<u>55,222,883</u>	<u>\$ 148,783,483</u>

On May 10, 2007, the company issued 12,940 common shares valued at \$125,000 for the first tranche related to the purchase of the South Claims.

### 10. OPTIONS

The company has adopted a stock option plan. The plan allows the company to grant options to directors, senior officers and employees of or consultants to the company and its subsidiaries or employees of a corporation providing management services to the company. The aggregate number of shares which may be subject to issuance pursuant to options granted under this plan is 3,500,000 shares.

The plan provides that the exercise price of an option granted under the plan shall not be less than the market price at the time of granting the option. Options have a maximum term of 10 years and terminate on the 90th day after the optionee ceased to be any of a director, officer, consultant or employee; on the 30th day after the optionee ceased to be an employee or consultant if the optionee was engaged in providing investor relations services for the company; or the earlier of the 90th day and the third month after the optionee ceased to be an employee or officer if the optionee is subject to the tax laws of the United States of America.

Notwithstanding that options can have a maximum term of 10 years it is presently the policy of the company to issue options for terms of five years.

The change in stock options issued during the quarter ended July 31, 2007 are as follows:

	Number of shares	Weighted average exercise price
Options outstanding - May 1	561,000	\$ 7.09
Exercised	(35,000)	2.45
Forfeited	(40,000)	8.65
Options outstanding - July 31	<u>486,000</u>	<u>\$ 7.30</u>
Options exercisable - July 31	<u>161,000</u>	<u>\$ 4.57</u>

# KIRKLAND LAKE GOLD INC.

## Notes to Financial Statements

For the three months ended July 31, 2007 and 2006

(expressed in Canadian dollars)

### 10. OPTIONS (CONT'D)

The following table summarizes information about stock options outstanding and exercisable at July 31, 2007:

Exercise price	Options outstanding	Options exercisable	Outstanding options weighted average remaining life (years)	Exercisable options weighted average remaining life (years)
2.20	5,500	5,500	0.45	0.45
2.80	10,000	10,000	1.04	1.04
3.95	106,000	106,000	1.33	1.33
4.70	19,500	19,500	2.15	2.15
8.65	325,000	-	4.50	-
9.30	20,000	20,000	0.42	0.42
2.20 - 9.30	486,000	161,000	4.50	2.15

The company grants all employee stock options with an exercise price equal to the market value of the underlying common shares on the date of grant. Compensation costs for all grants under the employee stock option plan have been determined by the fair value method. Compensation expense recorded for the three months ended July 31, 2007 was \$263,813.

The fair value of each option at the date of grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

	JULY 31 2007	APRIL 30 2007
Expected life of options	5 years	5 years
Risk-free interest rate	4 - 5%	4 - 5%
Expected stock price volatility	50%	50%
Expected dividend yield	0%	0%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the company's stock options.

For the period ended July 31, 2007, the value ascribed to unexercised options recorded as a component of shareholders' equity is as follows:

	JULY 31 2007	APRIL 30 2007
Balance - Beginning of period	\$ 674,137	\$ 1,079,766
Accretion of options granted	263,813	347,853
Exercise of options	(13,468)	(753,482)
Options forfeited	(31,184)	-
Balance - End of period	\$ 893,298	\$ 674,137

# KIRKLAND LAKE GOLD INC.

## Notes to Financial Statements

For the three months ended July 31, 2007 and 2006

(expressed in Canadian dollars)

### 11. WARRANTS

The changes in warrants outstanding are as follows:

	Number of shares	Weighted average exercise price
Warrants outstanding - May 1, 2007	670,924	\$ 10.50
Exercised	(670,924)	10.50
Warrants outstanding - July 31, 2007	-	\$ -

  

	JULY 31 2007	APRIL 30 2007
Balance - Beginning of period	\$ 595,163	\$ -
Unit proceeds allocated to warrants	-	(55,298)
Agents warrants issued in private placements	-	879,467
Exercise of warrants	(595,163)	(229,006)
Balance - End of period	\$ -	\$ 595,163

### 12. CONTRIBUTED SURPLUS

	JULY 31 2007	APRIL 30 2007
Balance - Beginning of period	\$ 2,797,768	\$ 2,797,768
Forfeited options	31,184	-
Balance - End of period	\$ 2,828,952	\$ 2,797,768

### 13. RELATED PARTY TRANSACTIONS

The following related party transactions occurred during the period:

(a) The company paid office facilities and administration services in the amount of \$10,500 (2006 - \$10,500) to a company related by directors in common.

(b) At July 31, 2007, accounts payable included \$151 (2006 - \$4,000) owing to companies with directors in common. Amounts due to related parties are non-interest bearing and have no fixed terms of repayment.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

# KIRKLAND LAKE GOLD INC.

## Notes to Financial Statements

For the three months ended July 31, 2007 and 2006

---

(expressed in Canadian dollars)

### 14. SEGMENTED INFORMATION

The company has one operating segment consisting of a mining and milling operation located in Kirkland Lake, Canada. During the periods ended July 31, 2007 and 2006 all of the company's capital assets, revenues earned and operations were in Canada.

### 15. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short term investments, security deposits, accounts receivable, accounts payable, and other liabilities. At July 31, 2007, the carrying values of these instruments approximate their fair values based on the nature of these instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

As at April 30, 2007, the Company had an outstanding commodity contract with Johnson Matthey to fix the price of 232 ounces of gold at an average price of \$753 per ounce to be delivered under this contract. Fair value was not significantly different from stated value. As at July 31, 2007, the Company did not have any outstanding contracts.