

# **KIRKLAND LAKE GOLD INC.**

## **UNAUDITED FINANCIAL STATEMENTS**

**THREE AND SIX MONTH PERIODS ENDED OCTOBER 31, 2008**

**(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 October 31, 2008 and April 30, 2008

(expressed in Canadian dollars, except share amounts)

	October 31 2008	April 30 2008
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,072,251	\$ 15,602,593
Short-term investments (Note 5)	19,115,862	15,389,118
Accounts receivable	1,386,732	2,081,795
Inventories (Note 4)	3,818,199	3,868,211
Prepaid expenses and deposits	470,922	305,292
	<u>28,863,966</u>	<u>37,247,009</u>
<b>Security deposits</b>	65,000	65,000
<b>Restricted cash (Note 3)</b>	4,677,597	4,677,597
<b>Mineral properties (Note 6)</b>	38,968,633	36,947,885
<b>Property, plant and equipment (Note 7)</b>	12,912,212	12,583,488
	<u>\$ 85,487,408</u>	<u>\$ 91,520,979</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 12(b))	\$8,534,733	\$ 7,190,678
<b>Asset retirement obligation (Note 8)</b>	2,627,031	2,862,508
	<u>11,161,764</u>	<u>10,053,186</u>
<b>Shareholders' Equity</b>		
<b>Capital stock (Note 9)</b>		
Authorized		
Unlimited common shares without par value		
Issued		
55,713,312 (2008 - 55,703,312) common shares	153,463,668	153,421,306
<b>Options (Note 10)</b>	2,243,484	1,284,136
<b>Warrants (Note 11)</b>	677,891	677,891
<b>Contributed surplus</b>	2,797,768	2,797,768
<b>Deficit</b>	(84,857,167)	(76,713,308)
	<u>74,325,644</u>	<u>81,467,793</u>
	<u>\$ 85,487,408</u>	<u>\$ 91,520,979</u>

Operations, going concern and measurement uncertainty (Note 1)

Approved by the Board of Directors:

(signed) "Brian E. Bayley" Director

(signed) "Brian Hinchcliffe" Director

The accompanying notes are an integral part of these interim financial statements.

# KIRKLAND LAKE GOLD INC.

## Statements of Operations, Comprehensive Loss and Deficit (Unaudited)

For the three and six months ended October 31, 2008 and 2007  
(expressed in Canadian dollars, except share amounts)

	THREE MONTH PERIOD ENDED OCTOBER 31 2008	THREE MONTH PERIOD ENDED OCTOBER 31 2007	SIX MONTH PERIOD ENDED OCTOBER 31 2008	SIX MONTH PERIOD ENDED OCTOBER 31 2007
<b>Revenue</b>	<b>\$ 8,826,764</b>	\$ 7,362,326	<b>\$ 16,778,809</b>	\$ 18,662,437
<b>Expenses</b>				
Operating costs	10,414,710	6,833,979	19,131,325	15,266,549
Stock-based compensation for operational personnel	154,462	19,704	286,171	39,408
Amortization and depletion	965,011	921,509	1,861,122	1,899,449
Royalties	352,287	293,589	669,564	744,299
	<u>11,886,470</u>	<u>8,068,781</u>	<u>21,948,182</u>	<u>17,949,705</u>
	<u>(3,059,706)</u>	<u>(706,455)</u>	<u>(5,169,373)</u>	<u>712,732</u>
<b>Other expenses</b>				
General and administrative	510,134	621,735	1,036,254	1,350,119
Stock-based compensation for administrative personnel	482,080	184,002	687,539	428,111
Exploration	832,557	1,306,303	1,646,173	2,093,129
Interest and bank charges	1,878	11,532	4,006	37,544
Interest and other income	(95,993)	(436,764)	(399,486)	(839,145)
	<u>1,730,656</u>	<u>1,686,808</u>	<u>2,974,486</u>	<u>3,069,758</u>
<b>Net and comprehensive loss for the period</b>	<b>(4,790,362)</b>	(2,393,263)	<b>(8,143,859)</b>	(2,357,026)
<b>Deficit - beginning of period</b>	<b>(80,066,805)</b>	(73,331,092)	<b>(76,713,308)</b>	(73,367,329)
<b>Deficit - end of period</b>	<b>\$ (84,857,167)</b>	\$ (75,724,355)	<b>\$ (84,857,167)</b>	\$ (75,724,355)
<b>Basic and diluted loss per share</b>	<b>\$ (0.09)</b>	\$ (0.04)	<b>\$ (0.15)</b>	\$ (0.04)
<b>Weighted average number of shares outstanding</b>	<b>55,712,653</b>	55,309,397	<b>55,707,957</b>	55,248,452

Operations, going concern and measurement uncertainty (Note 1)

The accompanying notes are an integral part of these interim financial statements.

# KIRKLAND LAKE GOLD INC.

## Statements of Cash Flows (Unaudited)

For the three and six months ended October 31, 2008 and 2007  
(expressed in Canadian dollars)

	THREE MONTH PERIOD ENDED OCTOBER 31 2008	THREE MONTH PERIOD ENDED OCTOBER 31 2007	SIX MONTH PERIOD ENDED OCTOBER 31 2008	SIX MONTH PERIOD ENDED OCTOBER 31 2007
<b>Cash flows from (used in) operating activities</b>				
Net loss for the period	\$ (4,790,362)	\$ (2,393,263)	\$ (8,143,859)	\$ (2,357,026)
Items not affecting cash				
Amortization and depletion	965,011	921,509	1,861,122	1,899,449
Loss on investments	129,183	(15,958)	141,031	2,626
Stock-based compensation	636,542	203,706	973,710	467,519
Asset retirement obligation	38,257	40,507	76,514	81,014
Gain on sale of equipment	-	-	-	(28,319)
Changes in non-cash working capital items				
Accounts receivable	(438,133)	(1,098,982)	695,063	(224,265)
Inventories	832,358	(657,854)	50,012	(363,948)
Prepaid expenses and deposits	(215,597)	(97,520)	(165,630)	(59,767)
Accounts payable, accrued liabilities and other liabilities	755,521	48,359	1,344,055	220,809
Security deposits	-	-	-	(100,000)
Interest on mine closure bond	-	(15,534)	-	(30,857)
	<b>(2,087,220)</b>	<b>(3,065,030)</b>	<b>(3,167,982)</b>	<b>(492,765)</b>
<b>Cash flows from financing activities</b>				
Net proceeds from issuance of capital stock and warrants	28,000	5,023,828	28,000	12,147,646
	<b>28,000</b>	<b>5,023,828</b>	<b>28,000</b>	<b>12,147,646</b>
<b>Cash flows applied to investing activities</b>				
Purchase of property, plant and equipment	(626,839)	(792,605)	(1,580,668)	(2,019,396)
Purchase of short-term investments	(21,090,554)	-	(36,319,626)	-
Proceeds from sale of short-term investments	17,320,319	-	32,451,853	-
Proceeds from disposal of property, plant and equipment	-	-	-	196,798
Additions to mineral properties	(1,591,657)	(685,264)	(2,941,919)	(1,341,212)
	<b>(5,988,731)</b>	<b>(1,477,869)</b>	<b>(8,390,360)</b>	<b>(3,163,810)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(8,047,951)</b>	480,929	<b>(11,530,342)</b>	8,491,071
<b>Cash and cash equivalents - Beginning of period</b>	<b>12,120,202</b>	34,285,175	<b>15,602,593</b>	26,275,033
<b>Cash and cash equivalents - End of period</b>	<b>\$ 4,072,251</b>	\$ 34,766,104	<b>\$ 4,072,251</b>	\$ 34,766,104

The accompanying notes are an integral part of these interim financial statements.

# KIRKLAND LAKE GOLD INC.

## Notes to Unaudited Financial Statements

For the three and six months ended October 31, 2008 and 2007

(expressed in Canadian dollars)

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### 1. Operations, going concern and measurement uncertainty

#### 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 accompanying 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, 2008 and 2007, the Company incurred losses of \$3.3 million and \$8.4 million, respectively. Cash flow required for operating activities, including exploration costs charged to operations of \$8.7 million, aggregated \$4.9 million for the two years in total. The funds required to continue operations and exploration activities during this period have been financed primarily from the issue of equity.

At October 31, 2008, the Company has working capital of \$20.3 million.

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 the next twelve months.

Differences will occur between actual results and those targeted by management, and those differences 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.

Management has been successful in obtaining sufficient funding for its operating and capital exploration requirements in the past and believes that it will be able to do so in the future, if necessary. There is, however, 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 this does not occur, 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 \$802 per ounce and operating costs similar to historical costs incurred over the past year, that annual production of 46,000 - 50,000 ounces in fiscal 2009 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.

# KIRKLAND LAKE GOLD INC.

## Notes to Unaudited Financial Statements

For the three and six months ended October 31, 2008 and 2007  
(expressed in Canadian dollars)

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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. Significant accounting policies

### Basis of presentation

These unaudited interim financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. They do not include all of the information and disclosures required by Canadian GAAP for annual 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, 2008.

### Adoption of new accounting standards

Effective May 1, 2008, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, Inventories and CICA Handbook Section 1400, General Standards of Financial Statement Presentation.

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

### Accounting Changes

The following Canadian accounting pronouncements were issued and not yet adopted by the Company:

- CICA Handbook Section 3064, Goodwill and Intangible Assets. Management is currently assessing the impact of this new standard.
- The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

# KIRKLAND LAKE GOLD INC.

## Notes to Unaudited Financial Statements

For the three and six months ended October 31, 2008 and 2007  
(expressed in Canadian dollars)

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(expressed in Canadian dollars)

### 3. Restricted cash

Restricted cash includes:

	<b>OCTOBER 31 2008</b>	<b>APRIL 30 2008</b>
Letters of Credit:		
Ministry of Northern Development and Mines	<b>4,452,597</b>	4,452,597
Independent Electrical System Operator of Ontario	<b>225,000</b>	225,000
	<b>\$ 4,677,597</b>	<b>\$ 4,677,597</b>

Letters of credit are in place with the Ministry of Northern Development and Mines to cover the estimated total costs of reclamation and site restoration (Note 8) and with the Independent Electrical System Operator of Ontario to secure the provision of electricity.

### 4. Inventories

	<b>OCTOBER 31 2008</b>	<b>APRIL 30 2008</b>
Mine operating supplies	<b>\$ 1,469,007</b>	\$ 1,195,951
Gold in process	<b>2,349,192</b>	2,672,260
	<b>\$ 3,818,199</b>	<b>\$ 3,868,211</b>

### 5. Investments

Investments include:

	<b>OCTOBER 31 2008</b>	<b>APRIL 30 2008</b>
Government of Canada Treasury Bill bears interest at 0.75%, matures November 27, 2008	<b>\$ 3,999,475</b>	\$ -
Government of Canada Treasury Bill bears interest at 0.75%, matures January 8, 2009	<b>5,000,030</b>	-
Government of Canada Treasury Bill bears interest at 1.65%, matures January 8, 2009	<b>9,999,804</b>	-
Government of Canada Treasury Bill	-	15,131,534
Investment in mutual funds	<b>116,553</b>	257,584
	<b>\$ 19,115,862</b>	<b>\$ 15,389,118</b>

# KIRKLAND LAKE GOLD INC.

## Notes to Unaudited Financial Statements

For the three and six months ended October 31, 2008 and 2007  
(expressed in Canadian dollars)

### 6. Mineral properties

	OCTOBER 31 2008	APRIL 30 2008
Balance - Beginning of period	\$ 36,947,885	\$ 34,364,062
Development costs	2,629,926	4,322,324
Depletion	(609,178)	(1,738,501)
Balance - End of period	<b>\$ 38,968,633</b>	<b>\$ 36,947,885</b>

	COST	ACCUMULATED DEPLETION	OCTOBER 31 2008	APRIL 30 2008
Acquisition allocation	\$ 1,765,522	\$ 218,964	\$ 1,546,558	\$ 1,570,374
Underground development	41,397,777	6,437,615	34,960,162	32,872,445
Underground pumping	2,044,821	464,610	1,580,211	1,607,855
Mill & surface facilities	149,371	35,006	114,365	116,380
Lakeshore property	1,000,411	233,074	767,337	780,831
	<b>\$ 46,357,902</b>	<b>\$ 7,389,269</b>	<b>\$ 38,968,633</b>	<b>\$ 36,947,885</b>

### 7. Property, plant and equipment

	COST	ACCUMULATED AMORTIZATION	OCTOBER 31 2008
Computer equipment	\$ 738,064	\$ 634,935	\$ 103,129
Mine and mill equipment	21,505,569	9,018,016	12,487,553
Vehicles	129,493	103,776	25,717
Buildings	591,822	296,009	295,813
	<b>\$ 22,964,948</b>	<b>\$ 10,052,736</b>	<b>\$ 12,912,212</b>

	COST	ACCUMULATED AMORTIZATION	APRIL 30 2008
Computer equipment	\$ 707,228	\$ 578,070	\$ 129,158
Mine and mill equipment	19,959,033	7,854,616	12,104,417
Vehicles	129,493	102,483	27,010
Buildings	591,822	268,919	322,903
	<b>\$ 21,387,576</b>	<b>\$ 8,804,088</b>	<b>\$ 12,583,488</b>

# KIRKLAND LAKE GOLD INC.

## Notes to Unaudited Financial Statements

For the three and six months ended October 31, 2008 and 2007  
(expressed in Canadian dollars)

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### 8. Asset retirement obligation

The Company has filed a reclamation and site restoration plan in connection with the Kirkland Lake properties and these plans are being reviewed by the Ontario Ministry of Northern Development and Mining (MNDM). The estimated total costs of reclamation and site restoration at October 31, 2008 are \$4,452,597 and financial assurance has been provided to the MNDM by way of a letter of credit in the amount of \$4,452,597 (Note 3). In prior years assurance was provided by way of a mine closure bond.

A reconciliation for asset retirement obligations is as follows:

	<b>OCTOBER 31 2008</b>	<b>APRIL 30 2008</b>
Balance - Beginning of year	\$ 2,862,508	\$ 2,700,480
Revision to estimate cash flows	(311,991)	-
Accretion	76,514	162,028
Balance - End of period	<b>\$ 2,627,031</b>	<b>\$ 2,862,508</b>

During 2009, the Company reviewed total proven and probable reserves, which resulted in the extension of the remaining life of the mine and, consequently, the extension of the cash flow projection and reduction of the asset retirement obligations and mineral properties.

There were no liabilities incurred or settled during fiscal 2009.

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

- The total undiscounted cash flow as at October 31, 2008 is \$4,452,597.
- The expected settlement to be in 2023.
- A credit adjusted risk free rate at which the estimated payments have been discounted of 6%.
- An inflation rate of 2%.

### 9. Capital stock

	<b>Number of shares</b>	<b>Stated value</b>
Balance - Beginning of period	<b>55,703,312</b>	\$ 153,421,306
Exercise of options (Note 10)	<b>10,000</b>	42,362
Balance - End of period	<b>55,713,312</b>	<b>\$ 153,463,668</b>

# KIRKLAND LAKE GOLD INC.

## Notes to Unaudited Financial Statements

For the three and six months ended October 31, 2008 and 2007  
(expressed in Canadian dollars)

### 10. Options

The Company has adopted a stock option plan which allows the Company to grant options to directors, senior officers and employees of or consultants to the Company 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 changes in stock options issued during the 6 month period ended October 31, 2008 are as follows:

	Number of shares	Weighted average exercise price
Options outstanding - May 1, 2008	420,500	\$ 7.51
Granted	1,171,500	7.29
Exercised	(10,000)	2.80
Options outstanding - October 31, 2008	<b>1,582,000</b>	<b>\$ 7.38</b>
Options exercisable - October 31, 2008	<b>268,000</b>	<b>\$ 6.79</b>

The following table summarizes information about stock options outstanding and exercisable at October 31, 2008:

Exercise price	Options outstanding	Options exercisable	Outstanding options weighted average remaining life (years)	Exercisable options weighted average remaining life (years)
3.95	106,000	106,000	0.07	0.07
4.70	19,500	19,500	0.90	0.90
5.05	50,000	-	4.94	-
6.99	250,000	-	4.81	-
6.99	487,500	-	4.89	-
7.90	309,000	-	4.54	-
8.65	245,000	122,500	3.25	3.25
9.25	75,000	-	4.55	-
12.50	40,000	20,000	3.98	-
3.95 - 12.50	<b>1,582,000</b>	<b>268,000</b>	4.14	1.87

# KIRKLAND LAKE GOLD INC.

## Notes to Unaudited Financial Statements

For the three and six months ended October 31, 2008 and 2007  
(expressed in Canadian dollars)

The fair value of each option at the date of grant was estimated using the Black-Scholes option-pricing model.

	<b>OCTOBER 31 2008</b>	<b>APRIL 30 2008</b>
Expected life of options	<b>5 years</b>	5 years
Risk-free interest rate	<b>3%</b>	4 - 5%
Expected stock price volatility	<b>50%</b>	50%
Expected dividend yield	<b>0%</b>	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.

The value ascribed to unexercised options recorded as a component of shareholders' equity is as follows:

	<b>OCTOBER 31 2008</b>	<b>APRIL 30 2008</b>
Balance - Beginning of period	\$ 1,284,136	\$ 674,137
Accretion of options granted	<b>973,710</b>	815,759
Exercise of options	<b>(14,362)</b>	(49,154)
Options forfeited	-	(156,606)
Balance - End of period	<b>\$ 2,243,484</b>	\$ 1,284,136

## 11. Warrants

The changes in warrants outstanding are as follows:

	<b>Number of shares</b>	<b>Weighted average exercise price</b>
Warrants outstanding - May 1, 2008	<b>225,000</b>	<b>\$13.00</b>
Warrants outstanding - October 31, 2008	<b>225,000</b>	<b>\$13.00</b>

	<b>OCTOBER 31 2008</b>	<b>APRIL 30 2008</b>
Balance - Beginning of period	\$ 677,891	\$ 595,163
Unit proceeds allocated to warrants	-	-
Agents warrants issued in private placements	-	677,891
Exercise of warrants	-	(595,163)
Balance - End of period	<b>\$ 677,891</b>	\$ 677,891

# KIRKLAND LAKE GOLD INC.

## Notes to Unaudited Financial Statements

For the three and six months ended October 31, 2008 and 2007

(expressed in Canadian dollars)

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### 12. 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 (2007 - \$10,500) to a Company related by directors in common.

(b) At October 31, 2008, accounts payable included \$NIL (2007 - \$3,947) 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.

### 13. Commitments

A net smelter royalty is payable to Kinross Gold Corporation on a sliding scale commencing at 2% if the price of gold sold is equal to or greater than US\$300 per ounce and increasing to 4% if the price of gold sold is equal to or greater than US\$500 per ounce. The royalty amount due is payable quarterly commencing on the third month anniversary of the commencement of commercial production from any of the properties and terminates upon a maximum aggregate payment of \$15 million. During the period ended October 31, 2008, royalties under this agreement amounted to \$669,564 (2007 - \$744,299).

As at October 31, 2008, the Company had an outstanding commodity contract with Johnson Matthey Plc. to fix the price of 4,134 ounces of gold at an average price of \$969.74 per ounce to be delivered under this contract. Fair value was not significantly different from stated value when the gold was delivered during the months of November, 2008 and the beginning of December, 2008.

An agreement between Queenston Mining Inc. and the Company was formed in April 2007 to explore the Morgan property. The Company has agreed to spend \$908,000 on exploration for the fiscal year 2009.

### 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 October 31, 2008 and 2007 all of the Company's capital assets, revenues earned and operations were in Canada.