



**P.O. Box 370  
KIRKLAND LAKE, ON, P2N 3J7**

**Management's Discussion & Analysis ('MD&A') of Operations and Financial Condition**  
**Third Quarter – Fiscal 2009**

This MD&A is intended to help the reader understand Kirkland Lake Gold Inc. ('us', 'KGI' or 'the Company'), our operations and our present business environment.

This MD&A has been prepared as of March 16, 2009 and covers the results of operations for the quarter ended January 31, 2009. It is intended to supplement the unaudited Financial Statements and notes thereto which are expressed in Canadian Dollars and prepared in accordance with Canadian Generally Accepted Accounting Principles ('GAAP'). This MD&A should be read in conjunction with both the annual audited financial statements and notes thereto for the year ended April 30, 2008 and the related annual MD&A. Additional information relating to the Company is available from the Company's Annual Information Form ('AIF') filed with the Canadian securities regulators on SEDAR at [www.sedar.com](http://www.sedar.com).

**FORWARD LOOKING INFORMATION**

Certain statements in this MD&A constitute 'forward looking statements'. While these statements are made as of the date hereof they refer to future events. Any forward looking statements are based upon reasonable assumptions, but no guarantees or assurances can be given that actual results will be consistent with such statements.

Forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Such risks, uncertainties and other factors include, but are not limited to, the following:

- Risks inherent in natural resource exploration, development and production
- Lack of operating cash flow and the Company's reliance on additional capital
- Competition in the mineral exploration and mining industries
- Governmental regulation and environmental liability
- Uncertainty of title of resource properties
- Results of legal claims made by or against the Company

A comprehensive list of the risks and uncertainties are set out in the Company's AIF. Readers should not place undue reliance on any forward looking statements.

**OUR BUSINESS**

The Company is an operating gold mining company located in Kirkland Lake, Ontario, Canada which owns the Macassa Mine and Mill and four contiguous formerly producing gold mining properties. The Company's corporate goal is to expand its gold resources and reserves and reduce its operating costs to become a profitable gold producer. The Company's common shares trade on the TSX (Toronto Stock Exchange) and the AIM (Alternative Investment Market) of the London Stock Exchange.

## OPERATIONS REVIEW

There have been some significant operational developments over the past quarter. On December 17, 2008 the Company announced a decision to increase its own labour force and undertake work internally to fast-track the South Mine Complex (SMC) into production. Due to global economic problems and, in particular, lower base metal prices affecting employment at other mines within a 400km radius of Kirkland Lake, the Company has been able to attract the experienced staff required for this development. This in-house alternative will be more economic as it avoids premiums payable to contractors. Therefore compared to the previous quarter, the number of full time employees rose 49% to 348 (+114). This included replacing 48 contractor employees. Ongoing recruiting efforts for nineteen employees will continue during the final quarter of the fiscal year. This team will continue to drive infrastructure development necessary to mine the high grade area as economically and efficiently as possible.

The mine expansion project is progressing well and annual production for fiscal year ending April 30, 2009 is forecasted to be in the range of 46,000 - 50,000 oz. (See 'Forward Looking Information' for a description of the factors that may cause actual results to differ from this forecast).

## REVIEW OF REVENUES AND COSTS

The Company incurred a loss for the quarter ended January 31, 2009 of \$4,688,372 or \$0.08 per share, which compares with a net loss of \$4,790,362 or \$0.09 per share for the previous quarter and a net loss of \$1,894,726 or \$0.03 per share for the same quarter in fiscal 2008. The principal causes of these variations are discussed below.

- (1) Review of Production and Development Activities compared to the previous quarter (Q2/09) and the same quarter in the previous fiscal year (Q3/08).
  - a) Gold production was 10,081 ounces in the quarter, an increase of 21% compared to the previous quarter (Q2/09: 8,327) and unchanged compared to Q3/08 (10,079 ounces). Higher grade hoisted ore was the main factor leading to higher gold production. The reconciled grade for the quarter was 0.47 ounce per ton (opt), an increase of 47% compared to the previous quarter (Q2/09: 0.32 opt) and a 38% increase from the same quarter in fiscal 2008 (0.34 opt). The increase in grade reflected the first two of seven higher grade South Mine Complex stopes enter production over the next three months. A total of 5,132 tons of underground (u/g) waste tons were processed through the mill. The third quarter was a transition quarter, with the release of all mining contractors in December and their replacement by company employees in January, and the start of a mine expansion project on January 5<sup>th</sup>. Fifty-two percent (52%) of the ounces produced in the quarter were produced in January reflecting the Project ramp up.
  - b) Operating lateral and vertical development decreased 9% to 2,568 feet from the previous quarter (Q2/09: 2,807 feet). Operating development was 16% higher than in the same quarter in the previous fiscal year (Q3/08: 2,213 feet).
  - c) Operating development associated with the SMC (ore and waste) represents 44% (1,962 feet) of all operating development within the quarter and is 16% (Q2/09: 1,688 feet) more than what was completed in the SMC for Q2/09.
  - d) Ore generated from the production, development and delineation of the SMC throughout Q3/09 was 11,375 tons grading 0.54 opt for 6,147 ounces. Ore generated from the main break for the third quarter was 11,159 tons at a grade of 0.39 opt.

- e) The level of capital development increased from the previous quarter by 66% to 1,850 feet of vertical and lateral development (Q2/09 1,116 feet). These levels represent an increase of 144% compared to Q3/08 (757 feet). The increasing trend in capital development is due to long term access development associated with the SMC. During the third quarter development started for a 3,200 foot conveyor drift.
- f) During the quarter development and construction continued on ventilation boosting stations on 4250', 4500', 4750', 5000', and 5300' levels. Mine ventilation will increase 100% for the SMC on 5000' and 5300' levels once the project is completed; the ventilation boosting project will be completed in the early part of the fourth quarter. The contractor, Redpath, arrived on site during the quarter and completed a ventilation raise bore hole from the 5000' to the 5300' level. The raise bore machine moved to a second drill site to drill an egress raise between the 5000' and 5300' levels which will be completed in Q4/09.
- g) A total of 23,311 tons of ore were hoisted from underground operations, a 13.7% decrease compared to Q2/09 hoisted ore of 27,015 tons. In the same quarter of fiscal 2008 30,338 ore tons were hoisted. In Q3/09 hoisted ore was 23% lower than in Q3/08. For the third quarter of 2009 hoisted ore tons are down by 13.7%, the ore tonnage head grade is up 77% and the ounce production is up 21%. There were 19,770 tons of waste hoisted, an increase of 89% from Q3/08 reflecting an increasing program of stope development and capital development. Of the waste 62% of this was hoisted after the start of the Project.
- h) As a proportion of total production, use of the longhole production mining methods decreased from 37% in Q2/09 to 18% in Q3/09. Development ore produced 34% of the ore tonnage in the third quarter compared to 35% in the second quarter. Ore tons from mechanized and paste cut and fill mining methods was 48% in the third quarter compared to 28% in second quarter. As the SMC moves from being developed to being mined, the ore from development should decline and ore tons from cut and fill mining will increase. A shift from longhole to cut and fill mining reflects a shift toward more selective mining methods intended to increase grade and reduce dilution.

## SELECTED FINANCIAL INFORMATION & REVIEW OF OVERALL PERFORMANCE

Financial Highlights <i>(All amounts in 000s of Canadian Dollars, except shares and per share figures)</i>	Three months ended,		
	January 31, 2009	October 31, 2008	January 31, 2008
Gold Sales (ounces)	8,961	9,704	11,949
Average Price (per ounce)	\$954	\$910	\$801
Revenue	8,553	8,827	9,576
Operating Expenses	11,300	11,886	10,233
Exploration Expenditure	963	833	992
Net Income (loss)	(4,688)	(4,790)	(1,895)
Per share (basic and diluted)	(0.08)	(0.09)	(0.03)
Cash Flow from (used in) operating activities	(3,824)	(2,087)	618
Cash Flow from financing activities	0	28	194
Cash Flow (used in) for investing activities	2,951	(5,989)	(1,999)
Net increase (decrease) in cash	(873)	(8,048)	(1,186)
Cash at end of period	3,199	4,072	18,848
Short-term investments	11,616	19,116	0
Total cash resources	14,815	23,188	18,848

<b>Financial Highlights</b> <i>(All amounts in 000s of Canadian Dollars, except shares and per share figures)</i>	<b>Three months ended,</b>		
	<b>January 31, 2009</b>	<b>October 31, 2008</b>	<b>January 31, 2008</b>
Total Assets	81,567	85,487	90,573
Total Liabilities	11,048	11,162	9,961
Working Capital	12,687	20,329	32,770
Weighted average number of shares outstanding	55,716,361	55,712,653	55,676,805
Dividends per share	NIL	NIL	NIL

(2) Review of Financial Results compared to the quarter ended January 31, 2008:

- a) Gold revenues were 11% lower at \$8.6 million (2008: \$9.6 million) reflecting a decrease in gold sold which was partially offset by an increase in the price per ounce of gold in Canadian dollars.
- b) Operating expenses increased 10% to \$11.3 million (2008: \$10.2 million). This increase was a function of an increase in mining (\$745,151), milling (\$278,115), general site expenses (\$392,428), Stock based compensation (\$146,516), and amortization (\$82,148) which were offset by changes in the gold inventory levels (\$519,888).

Mining costs reflected an increase in mining and underground maintenance personnel and related recruitment expenses supporting the planned mine development in the main break and SMC.

Milling cost increases included heating (\$103,633), maintenance including secondary mill liner replacement (\$130,591) and reagents (\$43,891)

General site expenses increased by 44% to \$1,289,859 (2008: \$897,431) which reflects an increase in personnel staff including associated recruitment expenses in the engineering department and consulting fees related to studies due to tailings dam stability and the 2<sup>nd</sup> EEM study design.

- c) General and administrative expense increased by 17% to \$422,213 (2008: \$361,511) which reflects the timing of expenses for shareholder transactions including mail out information, transfer agent charges, and listing and filing fees.

Stock based compensation increased by 179% to \$671,994 (2008: \$241,063) during the period.

- d) Exploration costs dropped 3% to \$962,687 (2008: \$991,850) primarily due to a decrease of \$501,300 in the flow-through program which ended on December 31, 2007 and was offset by an increase in drilling in the SMC (\$472,138).
- e) Capital spending on mine development increased by \$1.6 million to \$2.5 million (2008: \$0.9 million). The increases in capital development were primarily due to expenditures on the 5000L and the ventilation raise.
- f) Capital spending on equipment increased by \$1.0 million to \$2.1 million (2008: \$1.1 million). The main investments for the quarter included four (4) scooptrams and twelve (12) dolley ore cars.
- g) Total spending including operating costs, capital spending and royalties increased \$3.2 million to \$14.5 million (2008: \$11.3 million).

- h) Other income decreased to \$118,317 (2008: \$390,144) mainly due to interest earned was on lower cash balances.

(3) Review of Financial Results compared to the quarter ended October 31, 2008:

- a) Gold revenues were 3% lower at \$8.6 million (Q2/09: \$8.8 million), reflecting an 8% decrease in ounces sold and a 5% increase in the realized gold price in Canadian dollars.
- b) Operating expenses decreased 5% to \$11.3 million (Q2/09: \$11.9 million). The decrease in expenses was largely due to general site expenses (\$158,185), gold inventory levels (\$819,181) which were offset by increases in mining (\$275,216) and milling (\$108,059)

Mining costs increased due primarily to an increase in mining and underground maintenance personnel and related recruitment expenses.

Increases in milling costs were primarily due to heating (\$134,557) and maintenance (\$51,403) which were offset by decreases in reagent consumption (\$77,902).

Decreases in general site expenses were primarily due to labour (\$42,602), contract/consulting (\$89,686), and general materials (\$25,897).

- c) General and administrative expenses were down 17% to \$422,213 (Q2/09: \$510,134) as a result of the timing of audit fee and capital tax charges during the period.
- d) Exploration expenditure rose 16% or \$130,130 to \$962,687 (Q2/09: \$832,557) primarily due to an increase in the SMC (\$168,249) which was offset by a reduction in exploration related to the Queenston agreement and materials (\$38,118).
- e) Capital spending on mine development increased 57% to \$2.5 million (Q2/09: \$1.6 million) as explained in 2(e) above.
- f) Capital spending on property and equipment increased \$1.4 million to \$2.1 million (Q2/09: \$0.6 million) as explained in section 2(f) above.
- g) Total spending including operating costs, capital spending and royalties increased \$1.5 million to \$14.7 million (Q2/09: 13.0 million).
- h) Other income increased to \$118,317 (Q2/09: \$95,993) mainly due to interest earned on investments in Canadian Government Treasury Bills.

### Summary of Quarterly Results

The quarterly results for the Company for the last eight fiscal quarters are set out in the following table.

<b>Quarterly Results</b> <i>(All amounts in 000s of Canadian Dollars, except Loss per share figures)</i>	<b>4<sup>th</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>1<sup>st</sup> Quarter</b>
<b>Fiscal 2009</b>				
Revenue		8,553	8,827	7,952
Net Income (Loss)		(4,688)	(4,790)	(3,354)
Loss per Share (Basic & Diluted)		(0.08)	(0.09)	(0.06)
<b>Fiscal 2008</b>				
Revenue	13,198	9,576	7,362	11,300
Net Income (Loss)	906	(1,895)	(2,393)	36
Loss per Share (Basic & Diluted)	0.00	(0.02)	(0.04)	0.00
<b>Fiscal 2007</b>				
Revenue	10,529			
Net (Loss)	(1,191)			
Loss per Share (Basic & Diluted)	(0.01)			

The Training Department has been temporarily increased by four employees to ensure training activities keep pace with high levels of recruitment mentioned above and the Company remains dedicated to promoting and enhancing employee's development, satisfaction and retention benefits.

The Company maintained its reputation for safe working practices not only during the quarter, but also for the calendar year 2008. There were no lost time accidents on the property (including contractors) and medical aid frequency was low at 1.7 for the year on the MASHA ratings scale. The Company will once again be receiving the Angus Campbell Award to recognise the achievement of a "0" frequency for Lost Time Accidents. In addition to the Angus Campbell, the Company will be receiving MASHA's 'Award of Excellence' for mines with less than 250 employees for having the lowest total accident frequency.

### Exploration Update

During the quarter four electric drills and two air machines were dedicated to exploration. Approximately 37,000 feet of exploration drilling was completed during the quarter. An additional 149 feet of track drifting east along the Kirkland Lake Gold/South Claims property boundary was completed. This will further enable exploration of the South Mine Complex on both the 100% KGI property as well as the South Claims joint venture with Queenston Mining.

Drilling highlights during the quarter included significant intersections on the New South Zone above the 5300' level. Drill hole 53-1199 returned 2.21 ounces of gold per ton (opt) over a true width of 12.4 feet on the New South Zone. New hanging wall mineralization was intersected as well with drill hole 53-945 returning 10.46 opt over a core length of 1.3 feet and drill hole 53-1236 which returned 6.07 opt over a core length of 2.3 feet.

Five new drill holes were completed on the South Claims joint venture with Queenston Mining. Highlights include drill hole 50-901W which returned 1.04 opt over 10.5 feet true width and drill hole 53-1028 which returned 1.82 opt over a true width of 4.7 feet.

#### Qualified Persons

The scientific and technical results of the Company's exploration programs and operations disclosed in this MD&A have been reviewed, verified (including sampling, analytical and test data) and compiled by the Company's geological and production staff (which includes a 'qualified person' in each department, Stewart Carmichael P.Geol., the Company's Chief Exploration Geologist in respect of exploration results, and Steve Gray, P. Geo, the Company's Chief Production Geologist in respect of production results, for the purpose of National Instrument 43-101, *Standards of Disclosure for Mineral Projects, of the Canadian Securities Administrators*). They also supervised the preparation of the information that forms the basis of the technical disclosure in this MD&A.

#### Quality Assurance & Control

The Company has implemented a quality assurance and control (QA/QC) program to ensure sampling and analysis of all exploration work is conducted in accordance with the best possible practices. The drill core is sawn in half with half of the core samples shipped to the Swastika Laboratories in Swastika, Ontario or to the Macassa mine laboratory for analysis. The other half of the core is retained for future assay verification. Other QA/QC includes the insertion of blanks, and the regular re-assaying of pulps/rejects at alternate certified labs (Polymet, Accurassay). Gold analysis is conducted by fire assay using atomic absorption or gravimetric finish. The laboratory re-assays at least 10% of all samples and additional checks may be run on anomalous values.

The reserves and resources amounts disclosed in this MD&A have been prepared and verified by Glenn R. Clark, P.Eng., an independent 'qualified person' for the purpose of National Instrument 43-101, *Standards of Disclosure for Mineral Projects, of the Canadian Securities Administrators*).

### **OUTLOOK**

This has been a key quarter in the development and evolution of the Company, with a huge amount of effort going into recruitment, engineering and geological planning and design and purchasing of equipment necessary to increase production. The Company has sufficient cash resources to fund these improvements and increasing production levels particularly from the high grade SMC and proceeding with our exploration programme remain key priorities for the Company.

### **LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION**

To date, the Company has relied significantly on private placement financings of equity securities to finance its operations. With current cash requirements and expenses exceeding income at this stage, the liquidity risk could be material. Success will depend, for the most part, upon increasing production, adding to reserves as cost effectively as possible and maintaining tight controls over material price increases and expenditures generally.

Sales of gold doré bars and the majority of the Company's expenses are incurred in Canadian Dollars therefore the Company is substantially protected against movements in foreign exchange. The Company's principal exchange rate risk relates to movements between the Canadian Dollar and US Dollar on the price of gold.

Our holding of cash balances is kept under constant review and surplus funds are held on deposit at the best available market rates set by reference to the prevailing Prime Rate. There are no fixed, floating rate or interest free financial liabilities by way of borrowing.

Cash resources, (cash, cash equivalents and short-term investments) were as follows:

Resource	At January 31,	
	2009	2008
Cash \$CDN	3,198,965	34,130,197
Cash \$US	0	20,016
Short-term Investments	11,615,657	0
Total	14,814,622	34,150,213

Interest received on Canadian Dollar deposits range from 0.00 to 0.22% per year. A breakdown of restricted cash and investments are available in Notes 3 and 5 of the accompanying Financial Statements.

There was an outflow of \$3.8 million during the quarter relating to operating activities. This cash outflow was mainly a consequence of a \$4.7 million net loss in the period.

Net proceeds from financing activities were \$0 during the quarter; however, shortly after the quarter ended, the Company raised \$13.1 million net of expenses.

Net investing activities of \$3.0 million included the purchase of mine equipment and capital development of \$4.5 million offset by a roll-over in the Canadian Government Treasury Bills of \$7.5 million.

As at March 16, 2009 the Company's cash resources (including short term investments) were \$30.3 million. These funds are expected to be sufficient to fund the Company's planned exploration and development activities for the next 12 months.

#### Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, security deposits, accounts receivable, accounts payable and accrued liabilities. At January 31, 2009, the carrying values of these instruments approximate their fair values based on the nature of these instruments.

As at January 31, 2009, the Company had an outstanding commodity contract with Johnson Matthey Plc. to fix the price of 5,744 ounces of gold at an average price of \$985.73 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 February 2009 and March 2009. As part of the commodity contract Johnson Matthey Plc. has a right to make a margin call if the price of gold falls below the price of the commodity contract until the full amount of the commodity contract has been satisfied. At period end \$250,000 was held on deposit by Johnson Matthey Plc.

### Commitments

As at January 31, 2009, capital commitments included:

<b>Capital Commitments</b> <i>(All commitments in 000s of Canadian Dollars)</i>	<b>\$000</b>
Property, Plant and Equipment	1,402
Underground Development	211
<b>TOTAL</b>	<b>1,613</b>

A net smelter royalty is payable to Kinross Gold Corporation on a sliding scale commencing at 2% if the price of gold 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 nine month period ended, January 31, 2009, royalties under this agreement amounted to \$1,010,926 (2008: \$1,126,225).

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.

On February 1, 2008 the Company submitted a revised end of mine life closure plan to the Ministry of Northern Development & Mines ('MNDM') of the Province of Ontario. At the same time, the Company put in place a letter of credit for \$4,452,597 in favour of the MNDM which, in turn, refunded a mine closure bond for \$2,235,829 on April 17, 2008.

In a letter dated September 25, 2008, the MNDM stated they believe the current cost estimate as prescribed in the mine closure plan amendment does not adequately represent the market value of cost of goods and services for rehabilitation work. The MNDM is requesting that the Company update the resubmit the closure plan cost estimate based on third party independent market costs. Although the plan does allow for scheduled site characterization studies, the MNDM is requesting that the Company accelerate their plans and implement a program of progressive rehabilitation. The company continues to review the costs for site characterization studies and third party market fees to accelerate reporting the estimated costs as they become available.

In a letter from the MNDM dated October 27, 2008 in regards to the Wright Hargreaves property, it was noted that there is no filed closure plan or financial assurance in place for this site. At this time the Company can proceed with progressive rehabilitation as per the Mining Act and Reg. 240/00. This process has a reporting and rehabilitation requirement but does not require financial assurance.

On March 5, 2009 the company has submitted a plan to address the progressive rehabilitation of the Wright Hargreaves property and awaits the Ministry's response.

### Related Party Transactions

Pursuant to an agreement between the Company and Ionic Management Corp. (formerly Quest Management Corp.), the Company pays \$3,500 per month to Ionic in consideration of Ionic providing corporate and administrative services to the Company. During the quarter, the total fees paid to Ionic for services performed under the agreement were \$14,000 (2008: \$10,500). Ionic is a private management company and has one director (Brian E. Bayley) in common and a corporate secretary (Sandra Lee) in common with the Company.

## **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

The 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.

The following estimates are considered by management to be the most critical for investors to understand some of the processes and reasoning that go into the preparation of the Company's financial statements, providing some insight also to uncertainties that could impact the Company's financial results.

### 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 January 31, 2009, the Company had working capital of \$12.7 million.

Management estimates that these funds, together with cash flow from operations, will be sufficient to meet the Company's obligations and capital expenditure plans for the next twelve months. The Company did, however, raise \$13.1 million net of expenses shortly after the end of the quarter as a safeguard during this period of increased development activity.

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 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 indicates that the recorded costs for mineral properties and related fixed assets may not be recoverable. Management estimates, using a constant gold price of approximately CDN \$802 per ounce and annual operating costs similar to historical costs incurred over the past year, that annual production in the range of 46,000 to 50,000 ounces in fiscal 2009 and at least 80,000 ounces 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 higher rate of production.

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 adverse developments could have a significant impact on the Company's operations and ability to recover costs.

#### Mineral Reserves & Deferred Exploration Costs

The Company expenses exploration expenditures and near term ore development costs as incurred. Property acquisition costs and longer term development costs incurred to expand ore reserves are deferred and depleted on a units-of-production basis over proven and probable reserves which are currently accessible by the Company. Management's estimate of gold price, recoverability, proven and probable reserves, operating capital and reclamation costs are subject to risk and uncertainties affecting the recoverability of the Company's investment in mineral properties. The Company assesses capitalized costs for recoverability on an annual basis or more frequently if changes in circumstances suggest that possible impairment. Where information is available and conditions suggest impairment, estimated future net cash flows are calculated using estimated future prices, reserves and operating, capital and reclamation costs on an undiscounted basis. If the net carrying value of the property exceeds the estimated future undiscounted net cash flows, the property will be written down to fair value.

#### Closure Costs

The Company has an obligation to reclaim its properties after the minerals have been mined from the site, and has estimated the costs necessary to comply with existing reclamation standards. These estimates are recorded as a liability at their fair values in the periods in which they occur. If the estimate of reclamation costs proves to be inaccurate, the Company could be required to increase the provision for site closure and reclamation costs, which would increase the amount of future reclamation expense, resulting in a reduction in the Company's earnings and net assets.

#### Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, management believes that any internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and will prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedure may deteriorate.

There have been no changes in the Company's internal control over financial reporting that occurred during the period ended January 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### Adoption of International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) and the Canadian Securities Administrators (CSA) have confirmed January 1, 2011 as the date IFRS will replace Canadian Generally Accepted Accounting Principles (Canadian GAAP) for publicly accountable, profit-oriented enterprises. This presents a change in the fundamental principles upon which financial reporting is conducted and requires significant analysis and planning to ensure a proper transition. The Company has started to assess on the implications of this change, has created a timeline for the implementation, and started training key personnel on IFRS. The

results of the assessment and key elements and timing of the plan will be discussed as information becomes available.

## **CHANGES IN ACCOUNTING POLICIES**

### **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 pronouncement was 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.

## **SUBSEQUENT EVENTS**

### **Private Placement:**

On February 4, 2009, the Company announced it has completed a non-brokered private placement for 2,200,000 units at a price of \$4.85 per unit for gross proceeds of \$10.67 million. Each unit consisted of one common share and one quarter of a share purchase warrant. Each whole warrant is exercisable to purchase one common share for a period of 12 months at a price of \$5.50. subject to receipt of regulatory approval, the Company proposes to privately place a second tranche of 620,000 units for gross proceeds of approximately \$3 million.

The proceeds from the financing will be used for working capital and to fund further development of the Company's mining operations in Kirkland Lake, Ontario.

The common shares issued and issuable pursuant to the private placement will be subject to restrictions on their transfer for a period of four months from the date of their issue.

## OTHER MATTERS

### Outstanding Share, Option & Warrant Data

As at the date of this MD&A the following securities are outstanding:

<b>Security</b>	<b>Shares issued or Issuable</b>	<b>Weighted Average Exercise Price</b>
Common Shares	58,548,898	--
Options	1,468,000*	\$7.62
Warrants	930,000	\$13.00

\*if all options have fully vested