



## **Management's Discussion & Analysis ('MD&A')**

**Period Ending October 31, 2009 – Q2 Fiscal 2010**

*This MD&A, including appendices, is intended to help the reader understand Kirkland Lake Gold Inc. ('us', 'KGI' or 'the Company'), our operations and our present business environment. It has been prepared as of December 10, 2009 and covers the results of operations for the quarter ended October 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, 2009 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).*

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## 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 reserves and resources to approximately five million ounces, and reduce its unit operating costs by increasing its production rate in order to become a profitable and sustainable intermediate 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).

Over the past year, the Company has announced a number of projects intended to increase production in two eighteen month phases. **Phase I**, to be completed by July, 2010, aims to double production to 600 to 700 tons per day, containing roughly 90,000 to 100,000 ounces of gold per year. A **Phase II** is intended to follow in early 2012 and aims to double production again to 1,200 to 1,400 tons per day, containing roughly 180,000 to 200,000 ounces of gold per year. Component parts of the Phase II plan are currently being drawn together and will include another major expansion of the Company's exploration program.

The Company has established the following operating priorities:

- 1) Maintaining Safety and Environmental – including Loss Control, Security, and Closure activities.
- 2) Improving availability of Plant and Equipment and generally upgrading the mine infrastructure.
- 3) Progressing development, including rehabilitation of existing workings.
- 4) Expediting construction, including the creation of new facilities and refurbishment of existing installations.
- 5) Driving forward our exploration program.
- 6) Growing production in a sustainable way.

The focus of the Company is on sustainability and future growth and directors and management are intent that the Company will build a successful mining operation in Kirkland Lake.

## HIGHLIGHTS OF THE QUARTER

- ➔ On June 23, the borehole that delivers paste fill from surface to 34 Level collapsed due to ground failure after being in service for eighteen years. This risk had been identified by the Company and backup holes had been scheduled for drilling during the second quarter as part of a Phase I Project. Unfortunately, drilling had not started at the time the borehole collapsed but a new replacement borehole was drilled and in service by October 1 and a second backup hole will be completed before the end of December. A third hole is also being drilled. The result of this significant event was that no paste fill could be delivered to the Mine for more than three months. Production at the Mine is directly proportional to the filling of stopes with paste fill. The lack of fill has a direct impact on production by taking most key mining areas off line for more than three months. Ore mining was limited to exploration mining, completion of the current cuts in some cut and fill stopes, and the removal of broken ore out of some longhole stopes. As a consequence, most production crews were reallocated to maintenance or project work during this quarter. This work primarily consisted of repairs and upgrades to both ground support in haulage ways and to mine infrastructure such as rail networks both of which will support development or production long term.

- The Kirkland Lake Operations continued to rank third lowest in accident frequency in the Province of Ontario in the Large Mines Category after finishing first in the Small Mines Category in 2008 notwithstanding the number of new employees added in 2009 reaching 173, a 74% increase over 2008. Ongoing efforts include a review of safety related policies and procedures initiated with the goal of ensuring that the Company has all required and relevant policies and procedures in place and up to date. Additional resources were assigned to the Safety, Training and Supervision Department with more to follow in the next quarter. A ground control audit was conducted jointly by Mine Engineering and a team of consultants. The Company's Ground Control Policies are being reviewed and an updated Mine Design Package is being prepared and will be complete in the next quarter. Fencing upgrades planned for completion in 2009 are on schedule as are other security and environmental monitoring upgrades throughout the Mine. A report is also being prepared by a consulting firm to assist in the identification, prioritization, planning, and scheduling of environmental and closure improvements over future years.
- A review and improvements to the Company's Planned Maintenance and Critical Spare Programs was also initiated during the quarter. A significant number of infrastructure repair and upgrade projects in areas such as the mill, surface shops, other surface facilities, underground maintenance facilities, parking areas, roadways, headframe, electrical, communications, ventilation, backfill, and shaft and hoisting systems were completed, were underway, or were being planned in the quarter.
- Work to increase the hoisting capacity of the Mine by over 300% to 3600 tons per day was initiated and is expected to be completed by late fiscal 2010. Design work on a new changing area for workers capable of accommodating an additional 300 persons is also well underway and expected to be completed by the third quarter of calendar 2010. Additions and improvements to the surface maintenance facilities, warehouse, cold storage capacity, core handling facility, offices, compressor plant, and backfill plant also to be completed in 2010 are now planned.
- Level rehabilitation programs on the 53 Level reached areas that had been targeted by exploration for diamond drilling sites along the main break. After site preparation is completed in January 2010, significant long term diamond drilling programs will be initiated targeting large areas east and west of the South Mine Complex (SMC). These programs will be similar in scope to the program that discovered the SMC.
- Gold production for the quarter was 3,912 ounces, 77% lower than in the previous quarter (17,135 ounces) due to a lack of paste fill bringing ore mining areas to a temporary standstill. Resources were therefore substantially reallocated to essential maintenance and project work required to prepare the Mine for much higher levels of production over the next few years.
- Cash flows used in operating activities were \$7,272,436 for the quarter.
- As a consequence of the above factors, the Company reports a net loss for the quarter ended October 31, 2009 of \$10,334,700 or \$0.17 per share, which compares with a net income of \$1,617,859 or \$0.03 per share for the previous quarter and a loss of \$4,790,362 or \$0.09 per share for the same quarter in fiscal 2009.
- Cash resources (including short-term investments) as at October 31, 2009 were \$49,694,752 and as at December 10, 2009 this figure had fallen to \$43,002,246.

## **OUTLOOK**

During the quarter, the Mine was effectively not in production due to the loss of the paste fill bore hole from surface to 34 level in late June. The Mine was able to resume filling activities on October 1<sup>st</sup> at a normal rate but it is unlikely that it will return to the usual 600 to 700 tons per day target rate of production until the end of Q3/10. This is primarily due to the amount of paste fill which must be poured to bring unfilled working areas back into production. Additionally, certain maintenance, construction, and development projects started in the quarter will also need to be completed before certain working areas can be brought back to production. These were essential projects that, once started, cannot be carried out concurrent with mining activities for logistical or safety reasons.

As a result of the filling problems, and due to the prioritization of some non-production related work, it is anticipated that fiscal year 2010 production will now be in the range of 50,000 to 60,000 ounces. We will continue to prioritize the work and investment required to meet our goals of attaining 5,000,000 ounces in total gold reserves and resources; and of reaching a profitable production rate of 180,000 to 200,000 ounces of gold per year by January 2012.

See 'Forward Looking Information' for a description of the factors that may cause actual results to differ from forecast.

## **CAPITAL PROJECTS UPDATE**

During the quarter the Company spent \$4.9 million on underground capital development and \$3.0 million on property, plant, and equipment.

Underground development spending consisted of \$2.9 million for Phase I Project development, \$1.9 million for ongoing development (including \$0.2 million for exploration development), and \$0.1 million for Phase II preliminary work. The Phase I Project will continue until July 2010 and consists of development work required to bring the SMC zone into sustained production at a rate of 300 to 350 tons per day. Ongoing development carried out concurrently with Phase I is required to sustain production in the Main Break area at a rate of 300 to 350 tons per day, and exploration development is designed to extend and add exploration drilling locations in both the Main Break and SMC as required. The goal of Phase II is to increase overall mine production from 600 to 700 tons per day to 1200 to 1400 tons per day. Phase II is expected to be complete by January 2012. Some of the work for Phase I and Phase II is being carried out concurrently.

Property, plant and equipment purchases included \$0.4 million for Phase I Project equipment, \$1.2 million for ongoing capital equipment, \$1.1 million for paste fill system upgrades, and \$0.3 million for Phase II Project related equipment, plant, and engineering.

## OPERATIONS REVIEW

Q2/10 Results	Commentary	Comparatives			
		Q1/10	B/ (W)*	Q2/09	B/ (W)
3,911 ounces	The paste fill system was down due to the loss of the borehole from surface to 34 Level on June 23 <sup>rd</sup> (replaced on October 1 <sup>st</sup> ). Without fill, <b>production</b> was curtailed during Q2/10 and crews and resources were reallocated to maintenance, mine rehabilitation, mine development, and construction activities. These activities were given priority over the remaining production activities in some areas, further reducing production in the quarter.	17,135 ounces	(77)%	8,327 ounces	(53)%
0.21 opt	The <b>ore grade</b> for the quarter was 0.21 ounces of gold per ton (opt) due to most key workplaces awaiting paste backfill, and an increase in low grade exploratory mining. Exploratory mining is required to define the limits of new ore zones and normally results in the mining of more dilution than in key strategic workplaces. The grade of exploratory mining can be as low as 50% of the grade of the resulting primary stope.	0.32 opt	(34)%	0.32 opt	(34)%
7,567 tons	The increase in <b>waste tonnage</b> being processed through the mill is a consequence of more ore mining area related development on the 53 Level in the SMC during the quarter. .	3,917 tons	93%	6,518 tons	16%
1,334 feet	The overall level of <b>operating development</b> was consistent and not affected by paste fill problems between quarters. Operating development had increased briefly in Q2/09 to fast-track some new areas into production.	1,366 feet	(2)%	2,807 feet	(52)%
4,230 tons	<b>Ore generated from production, development and delineation in the SMC</b> throughout Q2/10 was 4,230 tons grading 0.30 ounces of gold per ton with a recovery of 1,219 ounces. This represents a decrease of 89% in ounces produced compared to the previous quarter (Q1/10: 11,535 ounces) and a decrease of 58% compared to the same quarter last year (Q2/09: 2,921 ounces). Most primary stopes were waiting for fill in the quarter and much of the ore came from exploratory mining at lower grades.	25,303 tons	(83)%	7,084 tons	(40)%
14,485 tons	<b>Ore generated from the Main Break</b> area for the second quarter was 14,485 tons at a grade of 0.20 ounces of gold per ton with a recovery of 2,692 ounces. The lower grades reflect the increase in exploratory mining.	27,480 tons	(47)%	19,930 tons	(27)%
3,006 feet	<b>Capital development</b> increased during the quarter due to long term access development associated with the development of the SMC and development of additional sublevels to explore and mine multiple zones in the main break. This work will continue throughout fiscal 2010.	1,939 feet	55%	1,116 feet	169%
18,692 tons	<b>Tons of ore hoisted</b> was significantly lower as a result of key working areas being taken out of production due to the lack of available paste fill. Some mined ore was deliberately left underground in some areas to facilitate level maintenance activities. This resulted in hoisted ore tons decreasing compared to previous quarters.	54,306 tons	(66)%	27,015	(31)%

\*B / (W) = Better / (Worse)

## REVIEW OF FINANCIAL RESULTS

Q2/10 Results (\$000's)	Commentary	Comparatives			
		Q1/10	B/ (W)*	Q2/09	B/ (W)
6,925	As a consequence of the issues outlined above, <b>revenue</b> decreased and 14,381 fewer ounces of gold were sold compared to the previous quarter and 3,092 fewer ounces were sold compared to Q2/09.	22,499	(69)%	8,827	(22)%
15,514	<p><b>Operating Costs</b></p> <p>Compared to Q1/10:</p> <p>Operating expenses decreased by \$2.5 million primarily due to decreases in mining (\$2.4 million) and milling costs (\$0.6 million). These costs were offset by an increase in inventory levels. The decrease in mining costs was directly related to the lack of fill in most primary mining areas resulting from the failed borehole. Also, the reduced production levels contributed to the decrease in mill throughput and mill costs. As a result of the production stoppage, resources were allocated to undertake repairs, upgrade to ground support, and to repairing and upgrading mine infrastructure.</p> <p>Compared to Q2/09:</p> <p>Operating expenses increased \$3.5 million primarily due to mining costs (\$1.8 million) and a change in inventory levels (\$1.7 million). Mining costs were higher mainly due to increases headcount and associated materials. An inventory adjustment of \$1.7 million occurred between quarters resulting from a 69% reduction in the quantity of ounces.</p>	19,216	19%	11,886	(31)%
675	<b>General and administrative expenses</b> are higher because of higher consulting and legal fees, travel and listing and filing fees which were offset by lower accounting and audit fees.	515	(31)%	510	(32)%
1,062	<b>Exploration costs</b> remained consistent with the previous quarter but increased compared to the same quarter in the previous fiscal year as a result of a 23% increase in drilled footage, 37,274 feet in Q2/09 and 45,944 feet in Q2/10.	1,092	3%	833	28%
4,923	<b>Capital spending on mine development</b> increased during the quarter as explained in the capital project update above.	2,794	(76)%	1,592	(209)%
3,024	<b>Capital spending on equipment</b> increased during the quarter which included scissor lift, haul and surface trucks, personnel carriers, fencing, and new changing areas and hoist expansion.	1,305	(132)%	627	(382)%
22,173	The increase in <b>total spending</b> including operating costs, capital expenditures and royalties reflects increased mining and development and project related activities.	21,413	(4)%	12,985	(71)%
79	<b>Other income</b> remained consistent with the previous quarter but is lower than the same quarter of last year due to declining interest rates on investments.	76	5%	96	(17)%

\*B / (W) = Better / (Worse)

## 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 2010</b>				
Revenue			6,925	22,499
Net Income/ (Loss)			(10,335)	1,617
Loss per Share (Basic & Diluted)			(0.17)	0.03
<b>Fiscal 2009</b>				
Revenue	18,210	8,553	8,827	7,952
Net Income/ (Loss)	2,349	(4,688)	(4,790)	(3,354)
Loss per Share (Basic & Diluted)	0.04	(0.08)	(0.09)	(0.06)
<b>Fiscal 2008</b>				
Revenue	13,198	9,576		
Net Income/ (Loss)	906	(1,895)		
Loss per Share (Basic & Diluted)	0.00	(0.02)		

During Q3 and Q4/08 the Company placed emphasis on cost saving initiatives and worked towards becoming profitable. The Company achieved this with a \$0.9 million income in Q4/08. In Q1/09 a net loss of \$3.4 million dollars made management aware that maintaining profitability would not be possible through cost saving initiatives alone. This resulted in an aggressive plan to upgrade infrastructure and development in order to achieve a level of sustained profitability. The losses during Q2 and Q3/09 were a result of this increased spending on and devotion to development over production. By Q4/09 some of the foundation work had been completed and the Company began operating at a higher level of production which resulted in income of \$2.3 million. This higher level of production was maintained into Q1/10 until the borehole plugged and essentially halted production. During Q2/10 revenues declined dramatically due to the plugged borehole however costs remain similar to previous quarters which resulted in a \$10.3 million dollar loss.

## LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

To date, the Company has relied on private placement financings of equity securities to finance its operations. Expenses have often in the past exceeded income. Even with substantially increased current cash resources, if this were to continue, 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.

Our holding of cash balances is kept under constant review and surplus funds are held on deposit. Given the current climate, the Company has taken a very risk averse approach to manage cash resources by investing in Government of Canada Treasury Bills of varying denominations and maturity dates. There are no fixed, floating rate or interest free financial liabilities by way of debt.

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

Resource	At Oct 31,	
	2009	2008
Cash \$CDN	4,489,098	4,072,251
Cash \$US	0	0
Short-term Investments	45,205,654	19,115,862
Total	49,694,752	23,188,113

Interest received on Canadian dollar deposits range from 0.05 – 0.6% per year. A breakdown of restricted cash and investments is available in Notes 3 and 4 of the financial statements for the quarter.

The cash flow statement shows that the Company used \$7.3 million in cash for operations in the quarter. This cash outflow was a consequence of a \$10.3 million loss in the period, offset by a \$1.4 million change in items not effecting cash and changes in non-cash working capital items of \$1.6 million.

Net proceeds from financing activities during the quarter were \$36.5 million and included \$36.6 million dollars from a private placement that closed on September 10, 2009, and a capital lease for \$0.1 million.

Net investing activities of \$38.0 million was attributable to net purchase of short-term investments of \$30.0 million, as well as expenditures on mine equipment of \$3.0 million and capital development of \$4.9 million.

As at December 10, 2009 the Company's cash resources are \$43.0 million. These funds are expected to be sufficient to fund the Company's planned exploration and development activities for the next twelve months.

#### Financial Instruments

The Company's financial instruments as at year end consist of cash and cash equivalents, short-term investments, security deposits, restricted cash, capital leases, accounts receivable, accounts payable, and accrued liabilities. At October 31, 2009, the carrying values of these instruments approximate their fair values based on the nature of these instruments. 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 October 31, 2009, the Company had an outstanding commodity contract with Johnson Matthey Plc. to fix the price of 6,376 ounces of gold at an average price of \$1,067 per ounce to be delivered under this contract. 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 the end of the quarter, \$357,220 was on deposit to cover the margin calls made by Johnson Matthey Plc.

#### Commitments

As at October 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	1,052
Underground Development	70
TOTAL	1,123

The Company also has a capital lease in the amount of \$100,719 bearing interest at 8% per annum, repayable in monthly payments of \$8,487. The lease matures in 18 months.

A net smelter royalty is payable 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 terminates upon aggregate payments of \$15 million. During the 6 month period ended October 31, 2009, such royalties amounted to \$1,175,937 (2008: \$669,564). Of the \$15 million payable the Company has paid \$7,753,028.

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 \$770,000 on exploration of this property for the fiscal year 2010.

Under its obligations pursuant to the Morgan Property purchase agreement, the Company has completed the issuance of the third tranche of shares and made the third cash payment to the vendor. During the quarter, the Company issued 15,586 shares valued at \$62,500 (\$4.01 per

share) and paid \$62,500. To complete its purchase obligations, the Company must issue a further \$50,000 worth of shares and pay a further \$50,000 to the vendor by January 15, 2010.

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 the Company the original mine closure bond for \$2,235,829 on April 17, 2008.

The MNDM advised the Company on May 12, 2008 that the amended closure plan submitted on February 1, 2008 did not address all of the prescribed requirements for a certified closure plan and on September 25, 2008 the Company received from the MNDM technical comments regarding the plan's shortcomings. As a consequence, in the spring of 2009 the Company engaged third party consultants to provide reporting which is still ongoing.

The Wright Hargreaves Property is not included in the amended closure plan nor is there any financial assurance in place with respect to this property. A letter from the MNDM dated October 27, 2008 requires that the Company provide a schedule to determine how and when any hazards on this property will be rehabilitated. In response on March 5, 2009 the Company issued a letter to MNDM explaining that a consultant has been retained to assist in the identification of potential hazards and related obligations, if any. This process is currently ongoing.

#### Related Party Transactions

Pursuant to an agreement between the Company and Ionic Management Corp., the Company pays \$3,500 per month to Ionic in consideration of it providing corporate and administrative services to the Company. During year to date, the total fees paid to Ionic for services performed under the agreement were \$21,000 (2008: \$21,000). 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.

APPENDIX 1

SELECTED FINANCIAL INFORMATION & REVIEW OF OVERALL PERFORMANCE

<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>Oct 31, 2009</b>	<b>July 31, 2009</b>	<b>Oct 31, 2008</b>
Gold Sales (ounces)	6,612	20,994	9,704
Average Price (per ounce)	1,047	1,072	910
Revenue	6,925	22,499	8,827
Operating Expenses	15,514	19,216	11,886
Exploration Expenditure	1,062	1,092	833
Net Income (loss)	(10,335)	1,617	(4,790)
Per share (basic and diluted)	(0.17)	0.03	(0.09)
Cash Flow from (used) operating activities	(7,272)	7,001	(2,087)
Cash Flow from financing activities	36,532	210	28
Cash Flow (used) for investing activities	(37,990)	4,203	(5,989)
Net increase (decrease) in cash	(8,731)	11,413	(8,048)
Cash at end of period	4,489	13,220	4,072
Short-term investments	45,206	15,143	19,116
Total cash resources	49,695	28,363	23,188
Total Assets	129,075	103,233	85,487
Total Liabilities	13,298	14,122	11,162
Working Capital	45,524	25,856	20,329
Weighted average number of shares outstanding	61,168,393	58,557,132	55,712,653
Dividends per share	NIL	NIL	NIL

## APPENDIX 2

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The details of the Company's accounting policies are presented in accordance with Canadian GAAP as set out in Note 2 to the financial statements for the quarter. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The preparation of the Company's financial statements depend upon estimates of proven and probable reserves, measured and indicated mineral resources and recoverable ounces, assumptions of operating costs and future gold prices and possible values assigned to potential resources on exploration properties. Such estimates and assumptions affect the cost recovery of long-lived assets and the rate at which depletion and amortization are charged to earnings. In addition, management must estimate costs associated with mine reclamation and closure costs.

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 into the foreseeable future, certain historical adverse conditions and events, could cast significant doubt upon the validity of this assumption and hence the appropriateness of the use of accounting principles applicable to a going concern.

During the years ended April 30, 2009 and 2008, the Company incurred losses of \$10.5 million and \$3.3 million, respectively. Cash flow required for operating activities, including exploration costs charged to operations of \$7.5 million, aggregated \$3.0 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, 2009, the Company had working capital of \$45.5 million. Management projects that these funds, together with cash flow from operations, will be sufficient to meet the Company's obligations and capital expenditure plans for the foreseeable future. Nevertheless, differences are likely to occur between actual results and those predicted 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 the Company's operating and capital exploration requirements in the past and will pursue additional funding 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 (i) operations do not generate sufficient cash flow and (ii) sufficient

funding for the Company's operating and capital expenditure requirements on terms acceptable to management is not 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 at April 30, 2009, that the recorded costs for mineral properties and related fixed assets may not be recoverable. Management estimates, using a constant gold price of \$1,051 per ounce versus the average gold price of \$1,047 in Q2/10 and operating costs similar to historical costs incurred over the past year, that annual production of approximately 50,000 to 60,000 ounces for each year 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. 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. In spite of the increased working capital currently available for use by the Company an adverse development 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

As at the financial year ended April 30, 2009, the Chief Executive Officer and Chief Financial Officer evaluated the design and operating effectiveness of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operating effectiveness of internal control over financial reporting was effective as at April 30, 2009 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. During the period ended October 31, 2009, there has been no change in the Company's internal control over financial reporting that has materially affected 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. Therefore, effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, IFRS will replace the standards and interpretations currently applicable to publicly accountable, profit-oriented enterprises under Canadian GAAP.

Accordingly, the Company will issue its last financial statements prepared in accordance with Canadian GAAP for its fiscal year ending April 30, 2011. Starting from the first quarter of its 2012 fiscal year, the Company's financial statements will be prepared in accordance with IFRS, with previous year comparative figures and May 1, 2010 (being the date of transition to IFRS) opening balance sheet restated to conform with such IFRS, along with reconciliations from Canadian GAAP to IFRS, as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards*.

The transition to IFRS 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 completed a diagnostic review and further developed an implementation plan that comprises the following:

- Identification of adequate resources to conduct the implementation
- An ongoing extensive analysis of the expected accounting differences between Canadian GAAP and IFRS
- An ongoing assessment of the expected impact of the accounting differences on its financial statements, including the review of choices available upon the initial adoption of IFRS
- Initial training sessions provided to key finance personnel and management and the preparation of additional training sessions throughout the implementation process
- A review of the potential impact on the business activities of the Company, on its disclosure controls and internal controls over financial reporting, and on its financial reporting systems

The results of the assessment and key elements will be discussed in greater detail as information becomes available.

## **CHANGES IN ACCOUNTING POLICIES**

Effective May 1, 2009, the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets.

The initial adoption of this new standard 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 1582, Business Combinations. The new section prescribes how an organization recognizes, measures and discloses and business combination. This standard is not expected to have a significant impact on the Company's financial position or results. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.
- CICA Handbook Section 1601, Consolidated Financial Statements. The new section prescribes consolidation accounting standards. This standard is not expected to have a significant impact on the Company's financial position or results. This is effective for fiscal years beginning on or after January 1, 2011.
- CICA Handbook Section 1602, Non-Controlling Interests. The new section prescribes standards for the accounting for a non-controlling interest in business combination. This standard is not expected to have a significant impact on the Company's financial position or results. This is effective for fiscal years beginning on or after January 1, 2011.
- Adoption of International Financial Reporting Standards (IFRS) – see above.

## APPENDIX 3

### OTHER MATTERS

#### Outstanding Share, Option & Warrant Data

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

Security	Shares issued or Issuable	Weighted Average Exercise Price
Common Shares	63,377,148	--
Options	1,438,000*	\$7.66
Warrants	2,475,382	\$9.14

\*if all options have fully vested

#### 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.

### 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.Geo., 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.