
KIRKLAND LAKE GOLD INC.

FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)



KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of Kirkland Lake Gold Inc. as at April 30, 2010 and the statements of operations, comprehensive loss and deficit, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at April 30, 2009 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated July 17, 2009.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

June 30, 2010

KIRKLAND LAKE GOLD INC.

BALANCE SHEETS

AS AT APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 29,323,439	\$ 1,806,199
Short-term investments (Note 4)	30,232,554	23,638,142
Accounts receivable	981,585	4,162,458
Inventories (Note 5)	7,874,369	7,388,143
Prepaid expenses and other current assets	593,489	448,946
	<u>69,005,436</u>	<u>37,443,888</u>
Other long-term assets	291,980	67,480
Restricted cash (Note 3)	4,952,597	4,734,556
Mineral properties (Note 6)	64,508,733	43,319,425
Plant and equipment (Note 7)	23,448,589	15,330,251
	<u>\$ 162,207,335</u>	<u>\$ 100,895,600</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,229,894	\$ 11,085,540
Current portion of capital lease (Note 17)	76,299	-
	<u>13,306,193</u>	<u>11,085,540</u>
Asset retirement obligation (Note 8)	3,223,922	3,041,434
	<u>16,530,115</u>	<u>14,126,974</u>
Shareholders' Equity		
Capital stock (Note 9)		
Authorized		
Unlimited common shares without par value		
Issued		
67,727,634 (2009 - 58,548,898) common shares	226,933,558	165,755,459
Options (Note 10)	4,848,210	3,630,924
Warrants (Note 11)	9,315,584	1,499,541
Contributed surplus (Note 12)	4,037,799	3,079,066
Deficit	(99,457,931)	(87,196,364)
	<u>145,677,220</u>	<u>86,768,626</u>
	<u>\$ 162,207,335</u>	<u>\$ 100,895,600</u>

Going concern (Note 1)

Commitments (Notes 3 and 17)

KIRKLAND LAKE GOLD INC.

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

YEARS ENDED APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

	2010	2009
Revenue		
Mining revenue	\$ 51,231,538	\$ 43,542,037
Expenses		
Operating costs	47,229,654	40,243,583
Stock-based compensation for operational personnel	565,009	1,266,144
Amortization and depletion	4,104,224	4,275,829
Royalties	2,054,201	1,750,591
	<u>53,953,088</u>	<u>47,536,147</u>
	<u>(2,721,550)</u>	<u>(3,994,110)</u>
Other Expenses		
General and administrative	2,614,680	2,107,021
Exploration	5,284,627	3,652,235
Interest and bank charges	46,283	40,222
Stock-based compensation (Note 10)	1,045,699	1,279,669
Writedown of capital assets	994,216	-
Interest and other income	(445,488)	(590,202)
	<u>9,540,017</u>	<u>6,488,945</u>
Comprehensive loss for the year	<u>\$ (12,261,567)</u>	<u>\$ (10,483,055)</u>
Basic and diluted loss per share	<u>\$ (0.20)</u>	<u>\$ (0.19)</u>
Weighted average number of shares outstanding	<u>62,628,013</u>	<u>56,349,826</u>

Operations, going concern, and measurement uncertainty (Note 1)

KIRKLAND LAKE GOLD INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

	2010	2009
Cash flows from (used in) operating activities		
Loss for the year	\$ (12,261,567)	\$ (10,483,055)
Items not affecting cash and cash equivalents		
Amortization and depletion	4,104,224	4,275,829
Unrealized (gains) losses on investments	(54,125)	125,754
Stock-based compensation	1,610,708	2,545,813
Asset retirement obligation	182,488	153,030
Writedown of capital assets	994,216	-
	<u>(5,424,056)</u>	<u>(3,382,629)</u>
Changes in non-cash working capital items		
Accounts receivable	3,180,873	(2,080,663)
Inventories	(486,226)	(3,423,297)
Prepaid expenses and deposits	(144,543)	(143,654)
Accounts payable and accrued liabilities	2,144,354	3,894,861
Security deposits	<u>(224,500)</u>	<u>(2,480)</u>
	<u>(954,098)</u>	<u>(5,137,862)</u>
Cash flows used in investing activities		
Purchase of plant and equipment	(11,657,745)	(5,316,227)
Purchase of short-term investments	(6,540,287)	(8,374,778)
Restricted cash	(218,041)	(56,959)
Additions to mineral properties	(22,522,056)	(7,989,509)
	<u>(40,938,129)</u>	<u>(21,737,473)</u>
Cash flows from financing activities		
Net proceeds from issuance of capital stock, options and warrants	69,509,455	13,078,941
Repayment of capital lease	(99,988)	-
	<u>69,409,467</u>	<u>13,078,941</u>
Increase (decrease) in cash and cash equivalents	<u>27,517,240</u>	<u>(13,796,394)</u>
Cash and cash equivalents - Beginning of year	<u>1,806,199</u>	<u>15,602,593</u>
Cash and cash equivalents - End of year	<u>\$ 29,323,439</u>	<u>\$ 1,806,199</u>

Supplemental cash flow information (Note 19)

KIRKLAND LAKE GOLD INC.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

	2010	2009
Capital stock		
Balance, beginning of year	\$ 165,755,459	\$ 153,421,306
Exercise of stock options	310,880	42,362
Exercise of warrants	4,699,148	-
Shares issued to purchase mining claims	50,000	62,500
Private placements	69,137,375	13,677,000
Share issue costs	(3,703,720)	(626,059)
Share proceeds allocated to warrants	(9,315,584)	(821,650)
Balance, end of year	<u>\$ 226,933,558</u>	<u>\$ 165,755,459</u>
Options		
Balance, beginning of year	\$ 3,630,924	\$ 1,284,136
Attribution of options granted	1,610,708	2,642,448
Exercise of options	(112,580)	(14,362)
Cancellation of options	(256,132)	-
Expiry of options	-	(281,298)
Forfeiture of options	(24,710)	-
Balance, end of year	<u>\$ 4,848,210</u>	<u>\$ 3,630,924</u>
Warrants		
Balance, beginning of year	\$ 1,499,541	\$ 677,891
Warrants issued in private placements	9,315,584	821,650
Exercise of warrants	(821,650)	-
Expiry of warrants	(677,891)	-
Balance, end of year	<u>\$ 9,315,584</u>	<u>\$ 1,499,541</u>
Contributed surplus		
Balance, beginning of year	\$ 3,079,066	\$ 2,797,768
Expiry of options	-	281,298
Expiry of warrants	677,891	-
Cancellation of options	256,132	-
Forfeiture of options	24,710	-
Balance, end of year	<u>\$ 4,037,799</u>	<u>\$ 3,079,066</u>
Deficit		
Balance, beginning of year	\$ (87,196,364)	\$ (76,713,309)
Comprehensive loss for the year	(12,261,567)	(10,483,055)
Balance, end of year	<u>\$ (99,457,931)</u>	<u>\$ (87,196,364)</u>

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

1. Operations and going concern

Operations

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

Going concern

While the 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, 2010 and 2009, the Company incurred losses of \$12.3 million and \$10.5 million, respectively. Cash flow required for operating activities, including exploration costs charged to operations of \$8.9 million, aggregated \$6.1 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 April 30, 2010, the Company has working capital of \$55.7 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 next twelve months. Nevertheless, differences are likely to occur between actual results and those projected 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.

2. Significant accounting policies

Generally accepted accounting principles

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Adoption of new accounting standards

Effective May 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064 Goodwill and Intangible Assets, CICA Handbook Section 3862 Financial Instruments and CICA EIC 174 Mining Exploration Costs.

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

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

(a) Goodwill and Intangible Assets.

The new section prescribes standards for the accounting for goodwill and intangible assets. This standard did not have a significant impact on the Company's financial position or results.

(b) Financial Instruments

The amendments made to Handbook Section 3862 Financial Instruments include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises.

(c) EIC 174

This abstract provides guidance for mining exploration enterprises on the capitalization of exploration costs, when an assessment of impairment of these costs is required and conditions indicating impairment. This abstract did not have a significant impact on the Company's financial position or results.

Future changes in significant accounting policies

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

- CICA Handbook Section 1582, Business Combinations. The new standard prescribes how an organization recognizes, measures and discloses a 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 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 2011.

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, in particular in respect of property, plant and equipment, mineral properties, and asset retirement obligation, 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. Actual results could differ from these estimates and these differences could be material.

Financial instruments

All financial instruments included on the balance sheet are either classified as held for trading, held-to-maturity, available-for-sale, loans and receivables or other financial liabilities. Financial instruments classified as held to maturity, loans and receivables, and other financial liabilities are measured at amortized cost. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations.

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, security deposits, restricted cash and accounts payable and accrued liabilities, as follows:

Cash and cash equivalents	Held for trading
Short-term investments	
Mutual funds	Held for trading
Treasury bills	Held to maturity
Accounts receivable	Loans and receivables
Security deposits	Held to maturity
Restricted cash	Held for trading
Accounts payable and accrued liabilities	Other financial liabilities
Capital lease	Other financial liabilities

Comprehensive income

Comprehensive income is the change in shareholder's equity during a period from transactions and events from sources other than the Company's shareholders. The Company reports a statement of operations, comprehensive income or loss and accumulated other comprehensive income or loss is added to the shareholders' equity section of the balance sheet when components to be recognized in the comprehensive income or loss exist. There were no material components to be recognized in comprehensive income or loss during the year. As a result, net loss for the period approximates comprehensive loss.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with an initial maturity of 90 days or less at the date of acquisition.

Investments

The Company holds investments in various funds of a fund Company and Government of Canada Treasury Bills with maturity dates greater than 90 days at the date of acquisition but less than 365 days.

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

Inventories

Dore bars and gold in process, and stockpiled ore are recorded at the lower of average production cost and net realizable value. Production costs include all direct costs plus an allocation of fixed costs associated with the mine site. The Company uses a rolling period average cost to value the inventory of gold on hand. Mine operating supplies are valued at the lower of average cost and net realizable value as measured by replacement cost.

Mineral properties and 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 may exist. 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 net cash flows, the property will be written down to fair value.

Plant and equipment

Plant and equipment is recorded at cost and amortized on a straight line basis over the shorter of the remaining mine life and the following periods:

Computer equipment	3 years
Vehicles	5 years
Mine and mill equipment	10 - 15 years
Buildings	10 - 15 years
Capital spares	2 years

Asset retirement obligation

Future obligations to retire an asset or property are recognized and recorded as a liability at fair value as at the time the asset is acquired or the event occurs giving rise to such an obligation. At each reporting period, asset retirement obligations are increased to reflect the interest element (Accretion expense) considered in the initial fair value of the measurement of the liabilities. In addition, an asset retirement cost is added to the carrying amount of the related asset and amortized over the life of the asset. The capitalized asset retirement cost is amortized on the same basis as the related asset and along with the accretion expense, is included in net income.

Revenue recognition

Revenue is recognized upon title transfer. On January 7, 2010, the Company entered into a new agreement with the purchaser, where title transfer is defined as receipt of payment. Prior to January 7, 2010, revenue was recognized upon title transfer when the gold was received by the purchaser. Adjustments to accounts receivable, if any, between the date of title transfer and the settlement date are recorded when determined.

The Company from time to time enters into commodity contracts to minimize its exposure to fluctuations in the price of gold. Any gains or losses are recorded in revenue.

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

Foreign currency translation

The Company generally seeks to sell its gold in Canadian dollars. To the extent these transactions are denominated in foreign currencies, they are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Gains and losses arising from restatement of foreign currency monetary assets and liabilities and transactions are included in the statement of operations.

Income taxes

The Company uses the liability method of accounting for future income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Stock based compensation

The Company has a stock-based compensation plan which is described in Note 10. The Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date using the Black-Scholes valuation model and recognized over the vesting period of the options granted. Consideration paid on the exercise of stock options is credited to capital stock.

Flow-through shares

The Company from time to time issues flow through shares to finance a portion of its exploration program. Pursuant to the terms of flow through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. To recognize the foregone tax benefits, share capital is reduced and a future income tax liability is recognized as the related expenditures are renounced. This future income tax liability is then reduced by the recognition of previously unrecorded future income tax assets on unused tax losses.

Loss per common share

Loss per share is calculated using the weighted average number of common shares issued and outstanding during the year.

The Company follows the treasury stock method in the calculation of diluted earnings per share. As the Company is incurring losses, basic and diluted loss per share are the same since including the exercise of outstanding stock options and share purchase warrants in the diluted loss per share calculation would be anti-dilutive.

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

3. Restricted cash

Restricted cash includes:

	<u>2010</u>	<u>2009</u>
Letters of Credit:		
Ministry of Northern Development and Mines	\$ 4,452,597	\$ 4,452,597
Independent Electricity System Operator of Ontario	500,000	281,959
	<u>\$ 4,952,597</u>	<u>\$ 4,734,556</u>

Letters of credit are secured by the GIC investments as disclosed in Note 4 below.

4. Investments

Investments include:

	<u>2010</u>	<u>2009</u>
Government of Canada Treasury Bill bears interest at 0.05%, matures May 13, 2010	\$ 9,999,800	\$ -
Government of Canada Treasury Bill bears interest at 0.25%, matures August 5, 2010	9,999,396	-
Guaranteed Investment Certificate bears interest at 0.6%, matures October 4, 2010	10,000,000	
Guaranteed Investment Certificate bears interest at 0.6%, matures February 11, 2011	5,000,000	-
Investment in Government of Canada Treasury Bills	-	23,506,312
Investment in mutual funds	185,955	131,830
Reclassified to restricted cash	(4,952,597)	-
	<u>\$ 30,232,554</u>	<u>\$ 23,638,142</u>

Letters of credit are in place with the Ministry of Northern Development, Mines and Forestry to cover the estimated total costs of reclamation and site restoration (Note 8), for \$4,452,597, and with the Independent Electricity System Operator of Ontario to secure the provision of electricity, for \$500,000. The letters of credit are secured by a portion of the \$10,000,000 Guaranteed Investment Certificate purchased during the current period.

5. Inventories

	<u>2010</u>	<u>2009</u>
Gold in process	\$ 4,063,761	\$ 5,457,505
Mine operating supplies	2,300,907	1,559,459
Dore bars	1,509,701	-
Surface stockpile	-	371,179
	<u>\$ 7,874,369</u>	<u>\$ 7,388,143</u>

6. Mineral properties

The Company's mineral properties comprise five contiguous mining properties in and around Kirkland Lake, Ontario.

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

	2010	2009
Balance - Beginning of year	\$ 43,319,425	\$ 36,947,885
Development and rehabilitation costs	22,572,056	8,077,906
Depletion	(1,382,748)	(1,706,366)
Balance - End of year	<u>\$ 64,508,733</u>	<u>\$ 43,319,425</u>

	COST	ACCUMULATED DEPLETION	2010
Acquisition allocation	\$ 2,155,023	\$ 310,880	\$ 1,844,143
Underground development	69,028,311	8,683,069	60,345,242
Underground pumping	2,050,942	562,041	1,488,901
Mill and surface facilities	149,371	41,665	107,706
Lakeshore property	1,000,411	277,670	722,741
	<u>\$ 74,384,058</u>	<u>\$ 9,875,325</u>	<u>\$ 64,508,733</u>

	COST	ACCUMULATED DEPLETION	2009
Acquisition allocation	\$ 2,042,523	\$ 263,886	\$ 1,778,637
Underground development	46,568,756	7,416,747	39,152,009
Underground pumping	2,050,942	517,543	1,533,399
Mill and surface facilities	149,371	38,426	110,945
Lakeshore property	1,000,411	255,976	744,435
	<u>\$ 51,812,003</u>	<u>\$ 8,492,578</u>	<u>\$ 43,319,425</u>

7. Plant and equipment

	2010	2009
Balance - Beginning of year	\$ 15,330,251	\$ 12,583,489
Additions	11,834,030	5,316,227
Amortization	(2,721,476)	(2,569,465)
Writedown	(994,216)	-
Balance - End of year	<u>\$ 23,448,589</u>	<u>\$ 15,330,251</u>

	COST	ACCUMULATED AMORTIZATION	2010
Computer equipment	\$ 609,155	\$ 597,137	\$ 12,018
Mine and mill equipment	28,494,586	10,742,610	17,751,976
Vehicles	147,552	105,626	41,926
Buildings	2,561,536	1,481,276	1,080,260
Capital projects	4,562,409	-	4,562,409
	<u>\$ 36,375,238</u>	<u>\$ 12,926,649</u>	<u>\$ 23,448,589</u>

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

	COST	ACCUMULATED AMORTIZATION	2009
Computer equipment	\$ 780,226	\$ 695,722	\$ 84,504
Mine and mill equipment	25,202,263	10,245,820	14,956,443
Vehicles	129,493	108,912	20,581
Buildings	591,822	323,099	268,723
	<u>\$ 26,703,804</u>	<u>\$ 11,373,553</u>	<u>\$ 15,330,251</u>

Included under mine and mill equipment are assets under capital lease in the amount of \$137,160.

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 discussed with the Ontario Ministry of Northern Development and Mining (MNDM). The Company's best estimate of the total costs of reclamation and site restoration at April 30, 2010 are \$5,524,130 (2009 - \$5,415,814) and financial assurance has been provided to the MNDM by way of a letter of credit in the amount of \$5,415,814 (Note 4).

A reconciliation for asset retirement obligation is as follows:

	2010	2009
Balance - Beginning of year	\$ 3,041,434	\$ 2,862,508
Accretion	182,488	153,030
Revisions in estimated cash flows	-	25,896
Balance - End of year	<u>\$ 3,223,922</u>	<u>\$ 3,041,434</u>

The Company continues to correspond with the MNDM regarding the Wright Hargreaves property. The Company has retained a consultant to assist in the identification of, if any, potential hazards and related obligations to the Company. This process is ongoing, the outcome of which is indeterminable at this time.

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

- The total undiscounted cash flow as at April 30, 2010 is \$5,524,130.
- The expected settlement to be in 2024.
- A credit adjusted risk free rate at which the estimated payments have been discounted of 6%.
- An inflation rate of 2%.

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

9. Capital stock

	Number of shares	Amount
Balance - April 30, 2008	55,703,312	\$ 153,421,306
Exercise of options	10,000	42,362
Private placements	2,820,000	13,677,000
Shares issued to purchase mining claims	15,586	62,500
Share issuance costs	-	(626,059)
Share proceeds allocated to warrants	-	(821,650)
	<hr/>	<hr/>
Balance - April 30, 2009	58,548,898	165,755,459
Exercise of options	33,000	310,880
Exercise of warrants	705,000	4,699,148
Private placements	8,435,500	69,137,375
Shares issued to purchase mining claims	5,236	50,000
Share issuance costs	-	(3,703,720)
Share proceeds allocated to warrants	-	(9,315,584)
	<hr/>	<hr/>
Balance - April 30, 2010	67,727,634	\$ 226,933,558

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

(a) In February 2009 the Company closed a non-brokered private placement in two tranches:

(i) On February 4, 2009, the Company closed the first tranche of the private placement of 2,200,000 units at a price of \$4.85 per unit for gross proceeds of \$10,670,000. Each unit consisted of one common share and one quarter of a share purchase warrant. Each whole warrant was exercisable to purchase a further common share at a price of \$5.50 until February 4, 2010. The Company incurred commissions, fees and legal costs totaling \$475,249 in connection with this tranche. The share purchase warrants issued as part of this tranche have been recorded at a fair value of \$613,729 less allocated issuance costs. The following assumptions were used to calculate fair value:

Dividend yield	NIL
Risk free interest rate	1.52%
Expected stock volatility	63%
Expected life	1 year

(ii) On February 17, 2009, the Company closed the second tranche of the private placement of 620,000 units at a price of \$4.85 per unit for gross proceeds of \$3,007,000. Each unit consisted of one common share and one quarter of a share purchase warrant. Each whole warrant was exercisable to purchase a further common share at a price of \$5.50 until February 17, 2010. The Company incurred commissions, fees and legal costs totaling \$150,810 in connection with this tranche. The share purchase warrants issued as part of this tranche have been recorded at a fair value of \$310,976 less allocated issuance costs. The following assumptions were used to calculate fair value:

Dividend yield	NIL
Risk free interest rate	1.52%
Expected stock volatility	62%
Expected life	1 year

(b) On September 10, 2009, the Company closed a private placement of 4,555,000 units at a price of \$8.15 per unit for gross proceeds of \$37,123,250. Each unit consisted of one common share and one third of a share purchase warrant. Each whole warrant is exercisable to purchase a further common share at a price of \$9.85 until October 10, 2010. The share purchase warrants issued as part of this placement have been recorded at a fair value of \$6,855,184. The Offering was underwritten by Wellington West Capital Markets Inc. (WWCMI), which was paid a cash fee and issued broker warrants to purchase 273,300 common shares of the Company until September 10, 2010 at a price of \$8.15 each. The share purchase warrants issued to WWCMI as part of this placement have been recorded at a fair value of \$1,565,462 and recorded as a cost of the placement. In addition the Company incurred further commissions, fees and legal costs totalling \$1,985,700 in connection with this placement. The following assumptions were used to calculate fair value:

Dividend yield	NIL
Risk free interest rate	0.54%
Expected stock volatility	134 - 136%
Expected life	1 - 1.08 years

(c) On February 4, 2010, the Company closed a private placement of 3,880,500 units at a price of \$8.25 per unit for gross proceeds of \$32,014,131. Each unit consisted of one common share and one third of a share purchase warrant. Each whole warrant is exercisable to purchase a further common share at a price of \$10.00 until March 40, 2011. The share purchase warrants issued as part of this placement have been recorded at a fair value of \$1,385,425. The underwriters, WWCMI and Dundee Securities were paid a cash fee and issued broker warrants to purchase 232,830 common shares of the Company until February 4, 2011 at a price of \$8.90 each. The

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

share purchase warrants issued as part of this placement have been recorded at a fair value of \$259,537 and recorded as a cost of the placement. In addition the Company incurred further commissions, fees and legal costs totaling \$1,718,020 in connection with this placement. The following assumptions were used to calculate fair value:

Dividend yield	NIL
Risk free interest rate	0.63%
Expected stock volatility	57 - 61%
Expected life	1 - 1.08 years

10. Options

The Company has adopted a stock option plan which allows the Company to grant options to directors, senior officers and employees of and consultants to the Company and 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 10% of outstanding 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; or the earlier of the 90th day and the third month after the optionee ceased to be an employee or officer if the optionee is subject to the tax laws of the United States of America.

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

The change in stock options during the years ended April 30 is as follows:

	2010		2009	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding - Beginning of year	1,468,000	\$ 7.62	420,500	\$ 7.51
Granted	35,000	9.06	1,179,500	7.30
Exercised	(33,000)	6.01	(10,000)	2.80
Expired	-	-	(106,000)	4.55
Forfeited	(14,000)	7.90	(16,000)	7.90
Cancelled	(51,500)	11.47	-	-
Options outstanding - End of year	1,404,500	\$ 7.55	1,468,000	7.62
Options exercisable - End of year	814,250	\$ 7.71	284,500	\$ 8.65

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

The following table summarizes information about stock options outstanding and exercisable at April 30, 2010:

Exercise price	Options outstanding	Options exercisable	Outstanding options weighted average remaining life (years)	Exercisable options weighted average remaining life (years)
\$ 8.65	245,000	245,000	1.75	1.75
7.90	262,000	125,500	3.04	3.04
9.25	75,000	50,000	1.05	1.05
6.99	250,000	125,000	3.31	3.31
6.99	487,500	243,750	3.39	3.39
5.05	50,000	25,000	3.44	3.44
9.02	20,000	-	4.54	-
9.11	15,000	-	4.68	-
	1,404,500	814,250	2.93	2.69

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

	2010	2009
Expected life of options	1.91 - 2.64 years	3 - 5 years
Risk-free interest rate	1.51 - 1.97%	3.58 - 3.98%
Expected stock price volatility	96.8 - 110.1%	53.3 - 64%
Expected dividend yield	0%	0%
Weighted-average fair value of options	\$ 5.23	\$ 3.39

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 options recorded as a component of shareholders' equity is as follows:

	2010	2009
Balance - Beginning of year	\$ 3,630,924	\$ 1,284,136
Attribution of options granted	1,610,708	2,642,448
Expiry of options	-	(281,298)
Exercise of options	(112,580)	(14,362)
Cancellation of options	(256,132)	-
Forfeiture of options	(24,710)	-
Balance - End of year	\$ 4,848,210	\$ 3,630,924

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

11. Warrants

The following table summarizes information about warrants outstanding at April 30, 2010:

Exercise price	Expiry date	Warrants outstanding
\$ 8.15	9/10/2010	273,300
\$ 9.85	10/10/2010	1,518,332
\$ 8.90	2/4/2011	232,830
\$ 10.00	3/4/2011	1,513,474
		3,537,936

The changes in warrants outstanding are as follows:

	2010		2009	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding - Beginning of year	930,000	\$ 7.31	225,000	\$ 13.00
Issued	3,537,936	9.72	705,000	5.50
Exercised	(705,000)	5.50	-	-
Expired	(225,000)	13.00	-	-
Warrants outstanding - End of year	3,537,936	\$ 9.72	930,000	\$ 7.31

The value ascribed to unexercised warrants recorded as a component of equity is as follows:

	2010	2009
Balance - Beginning of year	\$ 1,499,541	\$ 677,891
Warrants issued in private placements	9,315,584	821,650
Exercise of warrants	(821,650)	-
Expiry of warrants	(677,891)	-
Balance - End of year	\$ 9,315,584	\$ 1,499,541

12. Contributed surplus

	2010	2009
Balance - Beginning of period	\$ 3,079,066	\$ 2,797,768
Expiry of options	-	281,298
Expiry of warrants	677,891	-
Cancellation of options	256,132	-
Forfeiture of options	24,710	-
Balance - End of period	\$ 4,037,799	\$ 3,079,066

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

13. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, security deposits, accounts payable and accrued liabilities. At April 30, 2010, the carrying values of these instruments approximate their fair values based on the nature of these instruments.

Fair Value Measurements of Financial Assets and Liabilities Recognized in the Balance Sheet

The amendments to Section 3862 (Note 2) introduce a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

The levels in the fair value hierarchy into which the Company's financial assets and liabilities measured and recognized in the balance sheet at fair value are categorized are as follows:

Cash and cash equivalents	Level 1
Short-term investments	
Mutual funds	Level 1
Treasury bills	Level 2
Accounts receivable	Level 2
Security deposits	Level 2
Restricted cash	Level 1
Accounts payable and accrued liabilities	Level 2
Capital lease	Level 2

Interest Rate and Credit Risk

The Company has significant cash and short-term investment balances. The Company currently invests excess cash in fixed rate Government of Canada Treasury Bills with maturity dates of approximately 90 days. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal risk.

An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information when necessary. As at April 30, 2010, there were no receivables past due.

There are no fixed, floating rate or interest free financial liabilities by way of borrowing. Deposits held with banks may exceed the amount of insurance provided on such deposits.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at April 30, 2010, the Company had a cash and cash equivalents and short term investments balance of \$59,555,993 to settle financial liabilities of \$13,229,894. All of the Company's financial liabilities are current liabilities which will mature within one year of the balance sheet date.

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

Currency Risk

Sales of gold dore 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.

Sensitivity Analysis

The carrying amount of financial instruments approximates their fair market value. The movement on cash and cash equivalents and short-term investments interest rates by a plus or minus 1% change would have no material impact on the value of those items.

14. Capital disclosures

The Company's capital under management includes shareholders' equity of \$145,677,220. The Company's objectives when managing capital are:

- (a) to safeguard the Company's ability to continue as a going concern.
- (b) provide an adequate return to shareholders.
- (c) to raise sufficient proceeds from share issuances to meet any deficiencies in operations.
- (d) to provide sufficient funding to support on-going exploration and capital development plans.

The Company manages its capital structure and makes adjustments to it to meet the above objectives. To date management has used primarily equity issuances in order to raise funds as required. Excess funds are then invested in highly liquid, interest bearing instruments until required.

15. Related party transactions

During the year the Company paid office facilities and administration services in the amount of \$42,000 (2009 - \$42,000) to a Company related by directors in common.

This transaction was in the normal course of operations and was measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

16. Income taxes

(a) Income taxes expenses vary from the amount that would be computed by applying the combined federal and provincial income tax rate of 30.67% (2009 - 31.33%) to loss before income taxes as follows:

	<u>2010</u>	<u>2009</u>
Loss before income taxes	\$ (12,261,567)	\$ (10,483,055)
Expected income taxes	\$ (3,760,623)	\$ (3,284,341)
Income tax benefit not recognized	3,281,242	2,453,916
Non-deductible items	479,381	830,425
	<u>\$ -</u>	<u>\$ -</u>

(b) Future income taxes reflect the net tax effects of non-capital loss carry-forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future tax assets are as follows:

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

	<u>2010</u>	<u>2009</u>
Future income tax assets		
Tax loss carry-forwards	\$ 15,415,079	\$ 12,820,684
Mineral properties	4,592,509	1,689,380
Asset retirement obligation	805,981	821,187
Property, plant and equipment	512,785	2,949,239
Share issuance costs	937,473	415,245
	<u>22,263,827</u>	<u>18,695,735</u>
Less: Valuation allowance	<u>(22,263,827)</u>	<u>(18,695,735)</u>
Net future tax assets	<u>\$ -</u>	<u>\$ -</u>

(c) The Company has non-capital losses, which may be carried forward and applied against taxable income in future years. These losses expire during the following years:

2010	\$ 1,929,543
2014	17,920,438
2015	18,207,964
2026	1,870,252
2027	4,032,443
2028	6,994,817
2029	6,188,151
	<u>\$ 57,143,608</u>

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

17. Commitments

As at April 30, 2010, capital commitments included:

Capital Commitments <i>(All commitments in 000s of Canadian Dollars)</i>	\$000
Plant and Equipment	\$ 7,704
Underground Development	338
Total	\$ 8,042

Capital commitments include Phase I, Phase II and ongoing project commitments which include: i) the dry expansion project, ii) the hoisting upgrade project and iii) mobile underground equipment required for maintaining and increasing production.

The Company has a capital lease bearing interest at 8% per annum, repayable in monthly payments of \$8,487. The lease matures in 10 months.

As at April 30, 2010, the Company had an outstanding commodity contract with Johnson Matthey Plc. to fix the price of 4,923 ounces of gold at an average price of \$1,169 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, \$16,000 was on deposit to cover the margin calls made by Johnson Matthey Plc.

A net smelter royalty is payable 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 terminates upon a maximum aggregate payment of \$15 million. During the year ended April 30, 2010, royalties under this agreement amounted to \$2,044,427 (2009 - \$1,737,346). Of the \$15 million the Company has paid \$8,278,640.

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. As at April 30, 2010, the Company spent \$708,038 out of the \$770,000 and work is continuing into fiscal 2011 to complete the agreement. Expenditures were delayed on development as a result of refurbishment work required in the mining area and drilling is still ongoing.

Under its obligations pursuant to the Morgan Property purchase agreement, the Company completed the issuance of the final tranche of shares and made the final cash payment to the vendor. During the fiscal year, the Company's purchase obligations were completed.

18. Segmented information

The Company has one operating segment consisting of a mining and milling operation located in Kirkland Lake, Canada. During the years ended April 30, 2010 and 2009 all of the Company's capital assets, revenues earned and operations were in Canada, and all mining revenue was earned from one customer.

KIRKLAND LAKE GOLD INC.

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2010 AND 2009

(EXPRESSED IN CANADIAN DOLLARS)

19. Supplemental cash flow information

Cash and cash equivalents comprise cash on deposit with Canadian chartered banks, lines of credit and treasury bills.

During the years ended April 30, 2010 and 2009, the Company conducted non-cash financing and investing activities as follows:

	<u>2010</u>	<u>2009</u>
Value assigned to options/warrant exercised	\$ 934,230	\$ 14,362
Issuance of shares for purchase of mineral properties	\$ 50,000	\$ 62,500