



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

**For the Quarter and Nine Month Period Ended January 31, 2011**

*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 March 14, 2011 and covers the results of operations for the quarter and nine month period ended January 31, 2011. It is intended to supplement the audited Financial Statements and notes thereto which are expressed in Canadian Dollars and prepared in accordance with Canadian Generally Accepted Accounting Principles ('GAAP'). These statements together with the following MD&A are intended to provide investors with a reasonable basis for assessing the potential future performance. 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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## COMPANY OVERVIEW

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 goals are to expand its gold reserves and resources to approximately five million ounces, and to become a profitable and sustainable intermediate gold producer. The Company's common shares trade on the TSX (Toronto Stock Exchange) and AIM (Alternative Investment Market of the London Stock Exchange).

The Company is actively working to increase production to between 1,200 and 1,400 tons per day with the objective of producing at a rate of 180,000 to 200,000 ounces of gold per year by November 2011. This plan also includes major expansions to the Company's exploration and development programs.

The Company has established the following priorities:

- 1) Safety and Environmental – including Loss Control, Security, and Closure activities.
- 2) Improving the 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 Company's directors and management believe that focussing on these priorities will provide the Company with the best opportunity to build a successful and long term mining operation.

## HIGHLIGHTS OF THE THIRD QUARTER ENDED JANUARY 31, 2011

### Mine Expansion and Production

- ➔ Despite the best efforts of the personnel involved, it became apparent to Management in the third quarter that the operational requirements being placed on the No. 3 Shaft were greater than its current capacity, that the shaft would not be able to service all requirements, and that some areas of activity would be adversely affected as a result. In accordance with the priorities outlined above, support for near term production activities was reduced to allow other higher priority longer term activities to continue. This decision was influenced by the higher than budgeted gold price realized year to date (\$1,313 versus \$1,100 budgeted), by lower than budgeted operating costs year to date (\$44.3 million versus \$50.2 million) and by significantly better than budgeted year to date financial results (net income of \$16.1 million versus \$8.9 million budgeted).
- ➔ A total of 20,231 ounces of gold were produced in the quarter for a total of 58,394 ounces produced year to date, which was lower than that targeted for the quarter, and lower than that required to reach the Company's production target for the year of 90,000 to 100,000 ounces. While the mill achieved record throughput of 635 tons of ore per day in the quarter, this was lower than expected due to the shaft constraints. The quarterly head grade of 0.362 ounces of gold per ton (opt) was also lower than expected. In some mining areas, lower grade ore was unexpectedly encountered along with the known higher grade ore, resulting in a blended grade being mined. This is a very common occurrence in this type of gold deposit and is the main reason that the Company's long term plans are based on an average long term head grade of approximately 0.4 opt despite a blended reserve and resource grade of over 0.5 opt. The year to date head grade of 0.397 opt is very

close to target and slightly higher than the budgeted head grade of 0.382 opt. The higher than expected gold price has reduced cut off grades in most areas to below those budgeted.

- Work to increase the hoisting capacity of the No. 3 Shaft continued in the quarter. The new service hoist was commissioned by the end of January after electrical design problems related to uneven input voltages were overcome. The working platform required to complete final headframe work and carry out shaft upgrades was also installed by the end of the quarter. A decision was made in the quarter to move forward and complete some shaft electrical and shaft air line installations utilizing the working platform rather than the new cage due to better working conditions. As a result, installation of the new cage is now targeted for June 2011. Shaft upgrade work continued in the quarter focused primarily on the headframe and the shaft services compartment and the shaft stations and loading pockets. However, this work was based on the existing conveyances rather than the new hoist and working platform and contributed significantly to the shaft overload. Shaft crews were also utilized on other shaft maintenance work that was brought forward because of the delay. This work also utilized the existing conveyances.
- Excavation of the truck loading chutes and stations below the 5300' Level and the underground haulage ramp between the No. 3 Shaft and the South Mine Complex (SMC) mining area continued. Excavation of the dumps and dump access drifts on the 5300' Level is complete. Construction work for a related ventilation upgrade targeted for May is on track. The first dump at the top of the haulageway above the 5100' Level Loading Pocket is near completion. This key project remains on track for completion by or before November 2011.
- The Company's workforce grew by an additional 48 people to 648 employees in the quarter. The majority of the new employees hired were underground workers in the areas of maintenance and capital projects. Most of these employees will require significant training and the opportunity to gain experience in the mine before becoming fully productive. A significant ongoing training effort is underway intended to continue to bring the new employees up to speed safely and to continue to upgrade the skills of all employees. The number of employees in the Safety and Training Group over the course of the Expansion Project has grown from three to eleven, with the activity level per employee also increasing significantly. The Company participated as a partner with Northern College in a Basic Underground Hard Rock Mining Common Core training program with the first twelve graduates of the program completing their course at the end of the quarter.
- The number of ore mining faces available for production was maintained at twenty-eight during the quarter, with another twenty-six ore mining faces in the development and planning stages. The level of ore production attained in the third quarter likely represents the maximum level attainable without severely impacting other higher priority activities.
- Additions and improvements to the surface maintenance facilities, changing facilities, warehouse, cold storage facility, offices and parking lots, compressor plant, electrical plant, and backfill plant are now being planned or are underway. This work is planned to be completed as required in fiscal 2011 and 2012.

## Exploration

- More diamond drills moved to a seven day per week operating schedule as the contractor added drillers to the workforce as requested by the Company. Exploration expenses increased by \$1.0 million over the previous quarter.
- An exploration drift has been advanced to the edge of the Amalgamated Kirkland - Queenston joint venture property of the Company and Queenston Mining Inc. in preparation for driving a drift onto that property in order to establish a central diamond drilling station in the second quarter (Q2) of fiscal 2012. The Company is awaiting authorization from the Ministry of Northern Development, Mines, and Forests to proceed with this development.

## Financial Results

- Net income for the third quarter (Q3) ended January 31, 2011 was \$4.2 million or \$0.06 per share, which compares to a net income of \$8.6 million for the previous quarter (Q2) of fiscal 2011, and a restated<sup>1</sup> net loss of \$4.9 million for Q3 of fiscal 2010.
- Operating costs were \$258 per ton (\$743 per ounce), compared with \$365 per ton (\$809 per ounce) in the prior quarter, and \$306 per ton (\$900 per ounce) in Q3 of fiscal 2010. Total cash costs were \$275 per ton (\$794 per ounce), compared to \$390 per ton (\$866 per ounce) in the prior quarter and \$316 per ton (\$930 per ounce) in Q3 of fiscal 2010. The Company's target is to reduce the operating costs to less than \$250 per ton by upgrading mine infrastructure and increasing production.<sup>2</sup>
- Cash flows generated from operating activities were \$6.2 million in Q3 of fiscal 2011 compared to \$16.0 million in Q2 of fiscal 2011 and a use of \$6.3 million in Q3 of fiscal 2010. Operating cash flows before non-cash working capital changes<sup>3</sup> were \$6.2 million in Q3 of fiscal 2011 compared to \$9.7 million in Q2 of fiscal 2011 and a use of \$3.3 million in Q3 of fiscal 2010. The major components of the non-cash working capital changes are movements in gold inventories, accounts receivable and accounts payable.
- Gold poured in the quarter was 18,331 ounces, which compares to 23,419 ounces for the previous quarter and 5,817 ounces for the same period in the previous fiscal year.
- After meeting all operating costs, spending \$16.0 million on capital and \$2.7 million on exploration, total cash resources (including short-term investments) as at January 31, 2011 were \$47.4 million. As at March 14, 2011 this number had increased to \$51.0 million.

## Health and Safety

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<sup>1</sup> Refer to page 10 of this MD&A for information regarding the prior year restated figures.

<sup>2</sup> The Company has included non-GAAP performance measures, operating cost and total cash cost per ton ore mined and per gold ounce produced, throughout this document. This is a common performance measure in the mining industry but does not have any standardized meaning. Refer to Appendix 2 for a reconciliation of operating costs and total cash costs to reported operating expenses.

<sup>3</sup> Operating cash flows before non-cash working capital changes is a non-GAAP measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining operations. Refer to Appendix 2 for a reconciliation of cash flows before non-cash working capital changes.

→ The Company completed calendar year 2010 with the lowest accident frequency in the Province of Ontario in the Large Mines category.

## OUTLOOK

The production forecast for fiscal 2011 has been reduced to 80,000 to 85,000 ounces of gold because of the issues outlined above. Higher grades are expected in the fourth quarter and attaining those higher grades is essential to meeting this forecast.

The Company's expansion activities will continue to take priority, and the available resources will be managed accordingly. The tonnage of ore to be hoisted and mined will be managed to meet these targets, provided higher priority activities are not hindered. The Company will continue to prioritize the work and investment required to meet our goals of attaining five million 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 November 2011.

The expected completion date of the current expansion project remains November 2011, and that is the first month in the current plan in which production is expected to exceed the 1,200 ton per day threshold. The Company is currently reviewing its plans as part of the 2012 fiscal year budgeting exercise, but that target date still appears feasible with some re-arrangement of activities and schedules. Production is planned to be in the range between 1,200 to 1,400 tons of ore per day after November 2011. Planning and engineering studies related to a potential further production expansion will continue with no decision expected until the latter part of fiscal year 2012.

There are some risks to the Expansion Project timeline that the Company will attempt to manage, but which are not totally within its control. These include:

- 1) Risks related to late delivery of equipment. Activity in the mining industry is picking up substantially and manufacturers may run into unanticipated shortages of skilled labour, material, or other resources. Delivery of some mining equipment ordered has been delayed up to four months past promised delivery in this fiscal year for these causes. The expected lead time on deliveries is also increasing well beyond that foreseen by manufacturers three months ago.
- 2) Risks related to delays in commissioning equipment due to unforeseen technical issues or shortages of skilled labour affecting manufacturers or contractors. The hoist installation and compressor upgrade projects both were delayed due to some combination of these problems, with the hoist project being delayed by a total of five months.
- 3) Risks related to recruiting and retaining skilled labour. Activity in the mining industry continues to pick up and competition for skilled, experienced, and qualified workers and staff is increasing. The Company remains well placed to compete for personnel and maintains an attractive combination of wages, bonuses, benefits, and other recruitment and retention policies. However, as the Expansion Project has advanced through each stage of recruitment, more training has been required to prepare new employees to work safely and productively. This trend is expected to continue. As well, the Company prioritizes recruitment of personnel from the local area or from those willing to relocate to the local area whenever practicable. This longer term strategy also increases the immediate training burden and may slow immediate progress, but has resulted in a workforce that is relatively loyal and well balanced by age level and by experience level.

These issues may or may not act to extend the Expansion Project timeline, but they will not affect the ultimate completion of the project. The near term impact of these problems to date has been to reduce production while slowing overall spending and lowering operating costs.

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

## CAPITAL PROJECTS UPDATE

During the third quarter the Company spent \$8.5 million on underground capital development and \$7.5 million on plant and equipment as shown below.

<b>Capital Spending by Quarter fiscal 2011</b> <i>(All amounts in millions of CDN Dollars)</i>	<b>Total</b>	<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>Expansion Project to Date (Q3/09 – Q3/11)</b>
Ongoing Development	12.6		5.6	4.4	2.6	31.2
Expansion Project Development	9.2		2.9	3.0	3.3	18.2
<b>Total Development</b>	<b>21.8</b>		<b>8.5</b>	<b>7.4</b>	<b>5.9</b>	<b>49.4</b>
Ongoing Equipment	7.2		2.1	2.7	2.4	10.8
Expansion Project Equipment and Projects	14.5		5.4	3.5	5.6	25.9
<b>Total Equipment and Projects</b>	<b>21.7</b>		<b>7.5</b>	<b>6.2</b>	<b>8.0</b>	<b>36.7</b>
<b>TOTAL CAPITAL</b>	<b>43.5</b>		<b>16.0</b>	<b>13.6</b>	<b>13.9</b>	<b>86.1</b>

Underground development spending consisted of \$5.6 million for ongoing development and \$2.9 million for Expansion Project development. Plant and equipment purchases included \$2.1 million for ongoing capital equipment and \$5.4 million for Expansion Project related equipment, plant, and engineering. Ongoing capital is the capital required to maintain the mine and sustain production, while project capital is utilized to upgrade the mine and increase the production rate. Total Expansion Project capital spent to date is \$44.1 million or 73.5% of the original \$60 million estimate. The overall Expansion Project remains on schedule and is on budget. Expansion Project development will continue to drop off as the various underground excavations required for the Expansion Project are completed.

## OPERATIONS REVIEW

Q3/2011 Results	Commentary	Comparatives			
		Q2/2011	B/ (W)*	Q3/2010	B/ (W)
20,231 Ounces	<b>Recovered ounces</b> were lower than expected due to lower than expected tons and lower than expected grades for the reasons discussed above.	21,542 Ounces	(6)%	8,221 Ounces	146%
0.35 Opt	The <b>recovered ore grade</b> for the third quarter was 0.347 opt. The head grade was 0.362 opt. The grade was lower than expected for the reasons discussed above. As well in Q2/11, mining in the larger SMC panel stopes was skewed toward the central core of the ore zones where dilution is lower, while mining in this quarter was more along the edges of the zones.	0.45 Opt	(23)%	0.35 Opt	(1)%
6,645 Tons	The increase in <b>waste tons going to the mill</b> was due to increased exploration and operating development on the 5300' Level.	2,223 Tons	198%	3,385 Tons	96%
1,149 Feet	<b>Operating development</b> was higher than previous quarters due to new mining areas currently being developed.	615 Feet	87%	321 Feet	258%
34,875 Tons	<b>Ore generated from production, development, and exploratory mining in the SMC</b> throughout Q3/11 was 34,875 tons grading 0.404 opt containing 14,101 (feed) ounces. Mill recovery for Q3/11 was 95.8% resulting in production grading 0.387 opt containing 13,509 ounces.	24,324 Tons	43%	7,758 Tons	350%
23,512 Tons	<b>Ore generated from production, development, and exploratory mining in the Main Break</b> area for the Q3/11 was 23,512 tons at a grade of 0.298 opt containing 7,016 (feed) ounces. Mill recovery for Q3/11 was 95.8% resulting in production grading 0.286 opt containing 6,722 ounces.	23,478 Tons	0%	16,430 Tons	43%
3,336 Feet	<b>Capital development</b> increased over Q3/10 due to additional resources being deployed.	3,413 Feet	(2)%	1,708 Feet	95%
58,387 Tons	<b>Tons of ore milled</b> increased compared to Q2/11 due to improvements in productivity as workers hired in Q2 were trained and gained experience and over Q3/10 due to an increase in active ore mining areas to twenty-eight.	47,802 Tons	22%	24,188 Tons	141%

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

## FINANCIAL REVIEW

Q3/2011 Results (\$000's)	Commentary	Comparatives			
		Q2/2011	B/(W)*	Q3/2010	B/(W)*
25,426	<p><b>Revenue</b> decreased as 5,112 fewer ounces of gold were sold offset by a 7% increase in gold prices compared to the previous quarter. Revenue increased year on year due to 12,477 more ounces being sold and a 31% increase in the price. The month to month grades delivered to the mill fluctuate significantly depending on the areas being mined and the timing of the delivery of high grade ore in any quarter can cause significant variances in mill inventories and the ounces sold in a quarter. The timing of gold pours can also affect the distribution of the sale of ounces between quarters.</p>	30,418	(16)%	6,177	312%
17,998	<p><b>Operating Expenses</b></p> <p>Compared to the second quarter of fiscal 2011: Operating expenses decreased by \$2.5 million due to a \$5.1 million favourable change in inventory valuations and levels which was offset by increases in mining (\$1.5 million), mine overhead (\$0.4 million) and milling costs (\$0.7 million) consistent with higher tonnage throughput. Inventory quantity fell by 1,850 ounces in Q2 and increased by 1,900 ounces in Q3 due to the timing of pours and sales. Inventory ounces are valued at the lower of the underlying cost of production or market price. The value of ounces of gold in inventory decreased by \$180 per ounce in Q2 due largely to higher ore grades and increased by \$73 per ounce in Q3 due largely to lower ore grades. The resulting large swing in the value of inventories was treated as a cost in Q2 and as a credit in Q3. Inventory changes can significantly move quarterly operating costs and reported unit operating costs in a quarter up or down, but tend to have little effect over the longer term. 6,908 ounces were in inventory at the end of Q3.</p> <p>Compared to the third quarter of fiscal 2010: Operating expenses were \$9.0 million higher as a consequence of increased production and support activities compared to the same time last year (during the paste-fill disruption). Key contributing areas to the higher costs were mining and milling, amortization and depletion, royalties and general site administration. Over 45,000 additional tons were mined and milled in Q3 of fiscal 2011 compared to Q3 of fiscal 2010 with the resulting increase in costs.</p>	20,535	12%	8,977	(100%)
744	<p><b>General and administrative expenses</b> were higher than the previous quarter and the same quarter of the previous year as a result of increased travel and payroll.</p>	512	(45)%	651	(14)%
2,709	<p><b>Exploration costs</b> increased compared to the previous quarter due to the planned increase in exploration drilling activity as more diamond drilling moved to a seven day a week operating schedule.</p>	1,792	51%	1,161	133%
8,515	<p><b>Capital spending on mine development</b> increased marginally compared to the previous quarter and substantially over the same quarter the previous year as management continues to focus efforts on ongoing refurbishment work combined with critical new infrastructure improvements and mine development.</p>	7,480	14%	6,523	31%
7,463	<p><b>Capital spending on plant and equipment</b> increased compared to the previous quarter and compared to the same quarter in the previous year with larger investments being made on equipment to support the overall increased level of activity and headcount. Major projects which continued to progress included the second new changing facility, compressor system upgrades, and the hoist expansion initiative.</p>	6,197	20%	2,238	234%

Q3/2011 Results (\$000's)	Commentary	Comparatives			
		Q2/2011	B/(W)*	Q3/2010	B/(W)*
32,032	The increase in <b>total spending</b> compared to the previous year reflects higher operating costs and capital expenditures as outlined above.	32,328	1%	16,407	(95%)
238	<b>Other income</b> increased during the quarter compared to the previous quarter as a result of higher interest rates received on larger cash investments and income from the sale of scrap materials.	184	29%	7	3139%

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

## SUMMARY OF QUARTERLY RESULTS

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

Quarterly Results <i>(All amounts in 000's of CDN Dollars, except Earnings/ (Loss) per share figures)</i>	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
<b>Fiscal 2011</b>				
Revenue		25,426	30,418	19,538
Net Income		4,195	8,565	3,313
Earnings per Share (Basic & Diluted)		0.06	0.13	0.05
<b>Fiscal 2010</b>				
Revenue	15,630	6,177	6,925	22,499
Net Income/ (Loss)	(1,710)	(4,896)	(7,273)	1,617
Earnings/ (Loss) per Share (Basic & Diluted)	(0.03)	(0.08)	(0.12)	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)
Earnings/ (Loss) per Share (Basic & Diluted)	0.04	(0.08)	(0.09)	(0.06)

The first three quarters of fiscal 2009 reflect Pre-Expansion Project mining activities. The results in Q4 of fiscal 2009 and Q1 of fiscal 2010 indicate the beginning of the Expansion Project and a corresponding increase in mining in the SMC. Results in Q2 and Q3 of fiscal 2010 were impacted by a severe reduction in production mining due to the loss of the pastefill borehole. Some production crews were placed on project work during this period of reduced production as many production areas were on hold waiting for pastefill.

The improvements in Q4 of fiscal 2010 and Q1, Q2 and Q3 of fiscal 2011 are the result of a planned build up in production as the first phase of the Expansion Project was completed and the second phase of the Expansion Project was initiated. Infrastructure constraints necessitate an ongoing

and careful balance between production and project work to ensure that the longer term growth of the Company is not sacrificed for short term results.

All exploration costs are expensed and the increase in exploration costs due to an accelerating exploration program reduced the net income reported in Q3 2011 by approximately \$1.0 million. Quarterly results are also significantly influenced by the timing of gold pours and sales, and by gold inventory balances, and trends observed or averaged over longer time periods are more reliable. Results in Q2 of fiscal 2011 were boosted by these short term factors.

#### Restatement of the Second and Third Quarters of Fiscal 2010

Capital expenditures in the second and third quarters of fiscal 2010 have been restated as a result of adjustments to capital development expenditures and, accordingly, operating expenses have also been restated. The net effect of the restatements was an increase to capital expenditures of \$3.1 million and \$3.4 million for Q2 of fiscal 2010 and Q3 of fiscal 2010 respectively and an equivalent decrease to net loss in each of those periods.

#### **SUBSEQUENT EVENT**

Subsequent to the quarter end, a total of 1,068,051 warrants were exercised and an equal number of common shares issued at \$10 each for total proceeds of \$10,680,510. These warrants were issued in February 2010 as part of a bought deal private placement of 4,540,500 units at \$8.25 per unit. Each unit consisted of one common share and one-third of one common share purchase warrant. Each whole warrant was exercisable to purchase one common share for \$10 until March 4, 2011. As at March 4, 2011, a total of 1,406,647 warrants had been exercised for total proceeds of \$14,066,470 and 106,827 warrants expired without being exercised.

## LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

To date, the Company has relied primarily on private placement financings of equity securities to finance its operational needs beyond internally generated cash flow. During the fiscal year 2011 to date, the Company has had three consecutive profitable quarters generating aggregate cash flows from operations of \$22.8 million; however, expenses in the past have often exceeded income. If this were to resume, the liquidity risk could be material, even with current cash resources. Success will depend, for the most part, upon continuing to increase production in stages, add to reserves and resources as cost effectively as possible, and maintain tight controls over all expenditures.

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

The Company's holding of cash balances are monitored constantly and surplus funds are held on deposit. The Company takes a very risk adverse 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:

<b>Resource</b> <i>(All amounts in CDN Dollars)</i>	<b>At January 31,</b>	
	<b>2011</b>	<b>2010</b>
Cash	37,033,296	10,198,477
Short-term Investments	10,381,291	25,228,454
Total	47,414,587	35,426,931

Interest received on Canadian dollar deposits range from 0.6 – 1.25% per year.

The Company generated \$6.2 million in cash flows from operations during the third quarter of its 2011 fiscal year. This was mainly a consequence of a \$4.2 million net income combined with amortization and depletion (items not affecting cash).

Net proceeds from financing activities during the quarter amounted to \$5.7 million from the exercise of warrants and options.

Cash flows used in investing activities amounted to \$1.0 million for the quarter. Investments included proceeds of \$15.0 million in net purchases of short-term investments which were offset by the investment of \$7.5 million in mine equipment and surface infrastructure and \$8.5 million in capital development and mine refurbishment.

As at March 14, 2011 the Company's cash resources are \$51.0 million. These funds, together with cash flow from operations, are expected to be sufficient to fund the Company's planned expansion, development and exploration activities for the next twelve months.

## Financial Instruments

The Company's financial instruments as at January 31, 2011 consist of cash and cash equivalents, short-term investments, security deposits, restricted cash, accounts receivable, accounts payable, and accrued liabilities. At January 31, 2011, 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.

## Commitments

As at January 31, 2011, capital commitments made to third parties included:

<b>Capital Commitments</b>	<b>\$000</b>
Property, Plant and Equipment	6,671
Underground Development	92
TOTAL	6,763

Capital commitments include the expansion project and ongoing capital project commitments as discussed above in the Capital Project Update section of this MD&A. Major commitments include: i) the second dry expansion project, ii) the hoisting upgrade and compressor projects and iii) mobile underground equipment required for maintaining and supporting higher production levels.

The Company had an outstanding commodity contract with Johnson Matthey Plc. to fix the price of 865 ounces of gold at an average price of \$1,409 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 4% net smelter royalty is payable to Kinross Gold Corporation on all gold produced by the Company. The royalty terminates upon aggregate payments of \$15 million. During the 9 month period ended January 31, 2011, royalties expensed under this agreement amounted to \$3,011,539 (2010 - \$1,422,336). Of the \$15 million the Company has paid \$10,893,394.

As at January 31, 2011, the Company agreed to enter into a new joint venture with Queenston Mining Inc. to explore the potential extension of one zone of the multi zone SMC on to the north portion of Queenston's 100% owned Amalgamated Kirkland property. Under the terms of the new agreement, the Company is required to spend \$400,000 in exploration expenses in order to earn a 50% interest in the north portion of the Amalgamated property. Once this earn-in is complete, further exploration will be expensed on a 50/50 basis by both companies. Underground drifting to create new drill platforms for this project on the Company's 5300' Level is anticipated to begin in early spring of 2011.

A Closure Plan, including Financial Assurance for \$4,452,597, was submitted to the Ontario Ministry of Northern Development, Mines, and Forestry (MNDMF) in 2008 for the Company's properties. The MNDMF advised that this plan might not address all of the prescribed requirements and requested additional studies. During this quarter, the MNDMF agreed to the Company's proposal to resubmit a Closure Plan Amendment (CPA) incorporating these additional studies by November 30, 2011. The Company is now working with consultants to scope and determine the

additional costs that will be incurred to meet this revised deadline. Some amount of additional financial assurance, which is still being quantified by management, will be required to cover the cost of the studies.

The Wright Hargreaves Property is not included in the closure plan nor are there any requirements to submit financial assurance for this property. However, in this quarter, the Company submitted a Rehabilitation Plan for this property to the MNDMF. Progressive rehabilitation plans for the Macassa, Kirkland Minerals, Teck-Hughes, Lake Shore and joint venture properties were also submitted at this time. The associated costs to complete the work listed in the plans are also currently being compiled for inclusion in the 2012 financial year budget.

The conclusions and recommendations of an MNDMF inspection/audit of Closure activities at all five properties conducted in the second quarter is also expected shortly, and the parties continue to liaise constructively on all of these environmental matters.

#### 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. For the year to date (to January 31, 2011), the total fees paid to Ionic for services performed under the agreement were \$31,500 (2010: \$31,500). 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.

APPENDIX 1

SELECTED FINANCIAL INFORMATION & REVIEW OF OVERALL PERFORMANCE

<b>Financial Highlights</b> <i>(All amounts in 000's of Canadian Dollars, except shares and per share figures)</i>	<b>Three months ended,</b>		
	<b>Jan 31, 2011</b>	<b>Oct 31, 2010</b>	<b>Jan 31, 2010 (restated)</b>
Gold Sales (ounces)	18,280	23,392	5,803
Average Price (per ounce)	1,391	1,300	1,064
Revenue	25,426	30,418	6,177
Operating Expenses	17,998	20,536	8,977
Exploration Expenditure	2,709	1,792	1,261
Net Income (loss)	4,206	8,565	(4,896)
Per share (basic and diluted)	0.06	0.13	(0.08)
Cash Flow from (used in) operating activities	6,169	16,046	(6,292)
Cash Flow from financing activities	5,655	2,379	817
Cash Flow from (used in) investing activities	(953)	(5,635)	11,184
Net increase in cash	10,871	12,790	5,709
Cash at end of period	37,033	26,162	10,198
Short-term investments	10,381	25,347	25,228
Total cash resources	47,415	51,509	35,427
Total Assets	191,675	179,809	128,848
Total Liabilities	22,340	20,367	13,740
Working Capital	41,049	45,147	34,291
Weighted average number of shares outstanding	68,116,420	67,763,116	63,415,452
Dividends per share	NIL	NIL	NIL

## APPENDIX 2

### FINANCIAL REVIEW FOR THE NINE MONTH PERIOD ENDED JANUARY 31, 2010 AND 2011

January 2011 (\$000s)	Commentary	Comparative January 2010 (\$000s)	*B/ (W)
75,382	<b>Revenue</b> was \$39.8 million (112%) higher than the previous year reflecting a 23% increase in the realized gold price in Canadian dollars combined with an increase of 23,990 ounces sold.	35,601	112%
52,603	<b>Operating Costs</b> were \$12.2 million (30%) higher year on year primarily due to increased mining activities and associated costs. Tons mined increased by over 60,000 tons and more than 230 additional personnel were employed year to date in fiscal 2011 over fiscal 2010. Other contributing factors include increases in royalties and inventory adjustments as discussed on page 8 of this MD&A.	40,387	30%
1,878	<b>General and administrative expenses</b> remained relatively consistent for the same period year on year.	1,845	(2%)
6,004	<b>Exploration costs</b> increased significantly over the previous fiscal year as a result of planned increases in exploration activity.	3,670	64%
21,901	<b>Capital spending on mine development</b> increased compared to the previous year as more resources were added to existing headings and more development headings were brought on line.	17,304	27%
21,612	<b>Capital spending on equipment</b> more than tripled compared to the previous year for reasons as explained in the Highlights and Capital Projects Update sections. Spending on surface infrastructure additions and upgrades were a significant component of the increase.	6,567	229%
90,791	The increase in <b>total spending</b> compared to the previous year reflects the increased investments being made to upgrade surface and underground infrastructure in preparation for planned production increases as well as current increases in production.	59,733	52%
538	<b>Other income</b> has more than doubled year on year due to higher cash balances and rising interest rates on cash investments.	164	229%

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

Note: Increased spending in Operations, Exploration, Capital Development, Capital Equipment and Total Spending were planned by management and, as such, are considered improvements.

## APPENDIX 3

### NON-GAAP FINANCIAL MEASURES

#### Total Cash Cost and Operating Cost per Ton Milled and Ounce Produced

The Company has included non-GAAP performance measures, total cash cost per ton ore milled and per gold ounce produced, throughout this document. This is a common performance measure in the mining industry but does not have any standardized meaning. The Company follows the recommendations of the Gold Institute Production Cost Standard for calculating this measure. Total cash costs include mine site operating costs (mining, processing and refining, inventory adjustments, in-mine drilling expenditures, administration, royalties and production taxes), but are exclusive of other costs (depreciation and depletion, off-site corporate costs, reclamation, capital, long-term development and exploration). The measure, along with sales, is considered to be a key indicator of the Company's ability to generate operating earnings and cash flow from its mining operations. The Company believes that certain investors use this information to evaluate the Company's performance and ability to generate cash flow. It should not be considered in isolation as a substitute for measures of performance prepared in accordance with GAAP and is not necessarily indicative of operating costs presented under GAAP. The following table provides a reconciliation of operating costs and total cash costs per ton milled and gold ounce produced to operating expenses per the financial statements for the three months ended January 31, 2011:

<i>All amounts in Canadian Dollars, except tons ore milled and gold ounces produced</i>	<b>Three months ended</b>		
	<b>January 31, 2011</b>	October 31, 2010	January 31, 2010
Operating Expense per Financial Statements	\$ 17,998,089	\$ 20,535,866	\$ 8,979,404
Amortization and Depletion	(1,943,970)	(1,841,084)	(1,244,600)
Stock-based compensation (non-cash)	(370)	(42,823)	(87,490)
<b>Total Cash Costs</b>	\$ 16,053,749	\$ 18,651,959	\$ 7,647,314
Royalties	(1,018,920)	(1,215,345)	(249,399)
<b>Operating Costs</b>	\$ 15,034,829	\$ 17,436,614	\$ 7,397,915
Tons Ore Milled	58,387	47,802	24,188
Gold Ounces Produced	20,231	21,542	8,221
Total Cash Cost per Ton	\$ 275	\$ 390	\$ 316
Total Cash Cost per Ounce	\$ 794	\$ 866	\$ 930
<b>Operating Cost per Ton</b>	\$ 258	\$ 365	\$ 306
<b>Operating Cost per Ounce</b>	\$ 743	\$ 809	\$ 900

## Cash flows from (used in) Operations before Non-Cash Working Capital Changes

Operating cash flows before non-cash working capital changes is a non-GAAP measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining operations.

<i>All amounts in Canadian Dollars</i>	<b>Three months ended</b>		
	<b>January 31, 2011</b>	October 31, 2010	January 31, 2010
Net Income/ (Loss) for the period	\$ 4,206,448	\$ 8,564,992	\$ (4,895,502)
<b>Items Not Affecting Cash</b>			
Future Income Tax Recovery	0	(899,823)	0
Amortization & Depletion	1,943,970	1,841,084	1,244,600
(Gain) on Investments	(38,843)	(15,550)	(19,100)
Stock Based Compensation	3,296	136,144	275,199
Asset Retirement Obligation	48,359	48,359	45,622
<b>Cash Flows Before Non-Cash Working Capital Changes</b>	<b>\$ 6,163,590</b>	<b>\$ 9,675,206</b>	<b>\$ (3,349,181)</b>
<b>Changes in Non-Cash Working Capital</b>			
Accounts Receivable	\$ 50,790	\$ 810,184	\$ (530,895)
Inventories	(2,239,224)	2,566,764	(2,763,263)
Prepaid Expenses & Deposits	267,123	277,764	(67,891)
Accounts Payable & Accrued Liabilities	1,951,875	2,748,811	419,307
Security Deposits	(25,522)	(32,000)	0
<b>Cash Flows from (used in) Operating Activities</b>	<b>\$ 6,168,632</b>	<b>\$ 16,046,043</b>	<b>\$ (6,292,013)</b>

## APPENDIX 4

### 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. 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 depends 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, 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 were financed primarily from the issue of equity.

At January 31, 2011, the Company had working capital of \$41.0 million. Management believes 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.

The 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.

### Mineral Properties & 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.

Management estimates, using a constant gold price of \$1,051 per ounce versus the average gold price of \$1,391 in the third quarter of fiscal 2011 and operating costs similar to historical costs incurred over the past year, that annual production of approximately 65,000 to 80,000 ounces for each year would be required to cover costs of operations and estimated ongoing capital expenditures required for mining operations. To date, the Company has not been successful in sustaining this higher rate of production.

### 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.

## **NATIONAL INSTRUMENT 52-109 AND IFRS DISCLOSURES**

### Internal Control over Financial Reporting

As at the financial year ended April 30, 2010, 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, 2010 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 quarter ended January 31, 2011, 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 (date of transition) 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 represents 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 is progressing well on the various phases of its implementation plan that comprises the following:

- Allocation of adequate resources to complete this transition.
- Analysis and quantification 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.
- Training sessions for finance personnel and management.
- An ongoing review of the potential impact of these new requirements given the extent and pace of change taking place in the business as the Company transforms into a mid tier producer, on its financial reporting processes and systems as well as on its disclosure controls and internal controls over financial reporting.

The Company has identified the areas noted below as those expected to have to most significant impact on its IFRS financial statements. The differences and impact described below may be subject to change as modifications to Canadian GAAP and IFRS standards may occur prior to May 1, 2011, the changeover date. The Company will continue to disclose additional impacts in future MD&As as they are determined.

#### a) First time adoption of IFRS

The Company's adoption of IFRS will require the application of IFRS 1, *First Time Adoption of International Financial Reporting Standards*, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity applies all IFRS effective at the end of its first IFRS reporting period retrospectively, with a number of optional exemptions and mandatory exceptions. The most significant IFRS 1 exemptions that are expected to apply to the Company upon adoption are summarized below.

- Property, plant and equipment, including mineral properties

The Company intends to elect to report any items of property, plant and equipment, including mineral properties, in its opening balance sheet on the transition date at actual cost instead of the deemed cost as defined under IFRS. Therefore, the optional exemption to value assets at deemed cost will have no impact or relevance at the transition date or thereafter.

- Asset retirement obligation

In accounting for changes in obligation to dismantle, remove and restore items of property, plant and equipment, the guidance in IFRS requires changes in such obligations to be added to or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. Rather than recalculating retrospectively the effect of all such changes throughout the life of the obligation, an entity may elect to measure the liability and the related depreciation effects at the date of transition to IFRS.

The Company intends to elect to measure the asset retirement obligation and the related depreciation effects at the date of transition to IFRS. The expected impact on transition to IFRS is still being quantified.

b) Ongoing accounting policies

- Property, plant and equipment, including mineral properties

Under IFRS, either a historical cost model or a revaluation model can be used to value property, plant and equipment. The Company intends to value its property, plant and equipment using the cost model. This is expected to have no impact at the transition date or thereafter.

In addition, under IFRS, where part of an item of property, plant and equipment has a cost that is significant in relation to the cost of the item as a whole, it must be depreciated separately from the remainder of the item. Canadian GAAP is similar in this respect but has less extensive guidance. The expected impact at the transition date is now being considered in more detail but is not expected to be significant.

- Impairment of long lived assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IFRS uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use, which is based on discounted future cash flows. This may potentially result in more impairment losses where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. This is expected not to have an impact at the transition date. Subsequent to the transition date, any potential impact will be dependent upon future circumstances as described above.

In addition, under IFRS, impairment losses previously recognised must be reversed if the circumstances leading to the impairment changed and caused the impairment to be reduced. Canadian GAAP prohibits reversal of impairment losses. The Company has not recognised any impairment losses in the past so no reversal of impairment losses would be required on the transition date to IFRS.

- Provisions, including asset retirement obligation

IFRS requires a provision to be recognized when there is a present obligation as a result of a past transaction or event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. “Probable” in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is “likely”, which is a higher threshold than “probable”. Therefore, it is possible that there may be some liabilities not recognized under Canadian GAAP which would require a provision under IFRS. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low end), and the requirement under IFRS for provisions to be discounted where material. These differences are not expected to have a material impact at the transition date. Subsequent to the transition date, provisions may be recognized more frequently under IFRS than under Canadian GAAP.

In relation to asset retirement obligation (ARO), measurement under IFRS shall be based on management's best estimate, while measurement under Canadian GAAP is based on the fair value of the obligation (which takes market assumptions into account). Under IFRS, cash flow estimates are discounted to present value where the effect of the time value of money is material; the discount rate utilised should be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, unless those risks have been built into the cash flow estimates. Canadian GAAP requires the use of a credit adjusted risk free rate to discount cash flow estimates. The unwinding of the discount, or accretion, under IFRS shall be included in finance costs whereas under Canadian GAAP there is no prescribed presentation for the accretion which is currently included in operating costs. Under IFRS, the provision for ARO should be reviewed at the end of each reporting period and adjusted to reflect the current best estimate; changes may result from changes in the amount or timing of the cash outflows or changes in discount rates. This is different from Canadian GAAP where changes in discount rates alone would not result in a change in the ARO. Accordingly, the Company will need to assess the discount rate applicable to the ARO on an ongoing basis. The expected impact of the aforesaid differences related to ARO at the transition date and thereafter has not yet been quantified.

- Share-based payments

Under IFRS, each installment of share options that vest in installments shall be treated as a separate award with a different fair value. Unlike Canadian GAAP, IFRS does not provide for an election to treat such options as a pool and recognise the expense on a straight line basis. Currently the Company records forfeitures as they occur. However, upon transition to IFRS, the Company will be required to make an estimate of the forfeiture rates for use in the determination of the total share based compensation expense. The Company has established that the use of the Black-Scholes model will be an acceptable method to estimate the fair value of the options at the date of grant under IFRS, and this is consistent with the Company's current practice. The aforesaid differences will result in a difference in valuation of the share based awards and timing differences for the recognition of compensation expenses. The expected impact is likely to be quantified following the implementation of a new options tracking and reporting system.

- Revenue recognition

Under IFRS, the Company will recognise revenue when all significant risks and rewards of ownership of the gold is transferred to the purchaser, which occurs when the gold is received by the purchaser. Under C-GAAP, the revenue is recognised on title transfer of the gold to the purchasers, which up to January 6, 2010 was occurring upon receipt of the gold by the purchaser and subsequent to January 6, 2010 occurs on the value date of the Early Settlement. On the date of transition to IFRS, the Company expects that the last gold bar shipped in

fiscal 2010 and received by the purchaser on April 30, 2010 will be recognised in the revenue of fiscal 2011 under C-GAAP while it will be recognised in fiscal 2010 under IFRS. The impact at the date of transition is expected to be a decrease in revenue in fiscal 2011 of \$1,857,528 (\$0.03 per share) and a corresponding increase in revenue in fiscal 2010. The impact for the remainder of fiscal 2011 will be dependent upon receipt of gold by the value date of the Early Settlement unless the Company enters into new or different sales agreements.

The above list and related comments should not be regarded as a complete list of changes that will result from the transition to IFRS. It is intended to highlight those areas believed to be most significant. The differences described are those existing based on Canadian GAAP and IFRS as of the date of this report.

c) IFRS impact on the organisation

The conversion to IFRS will impact the way the Company presents its financial results. The first financial statements prepared using IFRS (i.e. interim financial statements for the three months ended July 31, 2011) will be required to include numerous notes disclosing extensive transitional information and full disclosure of all new IFRS accounting policies.

The Company has obtained an understanding of IFRS from intensive training of its finance personnel and management believe the impact of the conversion to IFRS, when considered in isolation, on its information systems and on its disclosure controls and internal control over financial reporting will not be significant. The conversion to IFRS in conjunction with the anticipated growth of the organization is, however, already necessitating more careful consideration of the most appropriate organizational structures, reporting lines, systems, controls and procedures which will need to be in place to support a larger and more sophisticated mine in the future.

#### **CHANGES IN ACCOUNTING POLICIES**

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.

## APPENDIX 5

### 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	69,693,212	--
Options	1,225,900*	\$7.48

\*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.