

# **KIRKLAND LAKE GOLD INC.**

*UNAUDITED INTERIM FINANCIAL STATEMENTS*

**THREE MONTH PERIOD ENDED JULY 31, 2011**

**EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS**

The accompanying unaudited interim financial statements of Kirkland Lake Gold Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

These unaudited interim financial statements have been approved by the Audit Committee and the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by The Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# KIRKLAND LAKE GOLD INC.

## CONDENSED INTERIM BALANCE SHEET

AS AT JULY 31, 2011, APRIL 30, 2011 AND MAY 1, 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

	JULY 31 2011	APRIL 30 2011	MAY 1 2010
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 14,977	\$ 25,909	\$ 29,323
Short-term investments (Note 5)	25,315	25,322	30,233
Accounts receivable	5,198	2,348	2,839
Inventories (Note 6)	9,116	10,354	6,364
Prepaid expenses and other current assets	669	554	593
<b>Current assets</b>	<b>55,275</b>	<b>64,487</b>	<b>69,352</b>
<b>Non-current</b>			
Other long-term assets	791	519	292
Restricted cash (Note 4)	5,304	4,953	4,953
Mineral Properties (Note 7)	97,983	90,418	64,108
Property and equipment (Note 7)	55,709	48,995	23,449
Deferred tax assets (Note 15)	15,074	-	-
<b>Non-current assets</b>	<b>\$ 174,861</b>	<b>\$ 144,885</b>	<b>\$ 92,802</b>
<b>TOTAL ASSETS</b>	<b>\$ 230,136</b>	<b>\$ 209,372</b>	<b>\$ 162,154</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities (Note 18)	\$ 19,131	\$ 21,808	\$ 13,230
Current portion of capital lease	-	-	76
<b>Current liabilities</b>	<b>19,131</b>	<b>21,808</b>	<b>13,306</b>
<b>Non-current</b>			
Provisions (Note 8)	4,253	4,211	4,098
<b>Non-current liabilities</b>	<b>4,253</b>	<b>4,211</b>	<b>4,098</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock (Note 9)			
Authorized			
Unlimited common shares without par value			
Issued			
69,805,611 (2011 - 69,763,211) common shares	250,532	249,183	226,934
Options (Note 10)	4,094	4,224	4,848
Warrants	-	-	9,316
Contributed surplus (Note 11)	10,436	10,436	4,038
Deficit	(58,310)	(80,490)	(100,386)
<b>Total shareholders' equity</b>	<b>206,752</b>	<b>183,353</b>	<b>144,750</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 230,136</b>	<b>\$ 209,372</b>	<b>\$ 162,154</b>

Commitments (Notes 4 and 17)

The accompanying notes are an integral part to these condensed consolidated interim financial statements.

# KIRKLAND LAKE GOLD INC.

## CONDENSED INTERIM STATEMENT OF OPERATIONS AND OTHER COMPREHENSIVE INCOME

THREE MONTH PERIODS ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

	3 months ended July 31	
	2011	2010
REVENUE FROM GOLD SALES	\$ 35,698	\$ 17,681
PRODUCTION EXPENSES (Note 12)	24,320	12,507
GROSS PROFIT	11,378	5,174
OTHER EXPENSES		
General and administrative (Note 13)	601	768
Exploration (Note 3)	2,912	1,502
Finance expense	62	43
Finance income	(131)	(115)
	3,444	2,198
Income (loss) before income taxes	7,934	2,976
Provision for income taxes (recovery) (Note 15)	(14,246)	-
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<b>22,180</b>	<b>2,976</b>
Weighted average number of common shares outstanding (Note 9)	69,798,529	67,728,645
Diluted Weighted Average number of shares outstanding (Note 9)	70,354,626	67,728,645
<b>BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE</b>	<b>\$ 0.32</b>	<b>\$ 0.04</b>

The accompanying notes are an integral part to these condensed consolidated interim financial statements.

# KIRKLAND LAKE GOLD INC.

## CONDENSED INTERIM STATEMENT OF CASH FLOWS

THREE MONTH PERIODS ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

	2011	2010
<b>OPERATING ACTIVITIES</b>		
NET INCOME	\$ 22,180	\$ 2,976
ADD ITEMS NOT REQUIRING CASH		
Amortization and depletion	2,840	1,412
Deferred income taxes	(14,246)	-
Stock based compensation	47	227
Investment Gain or Loss	35	-
Provisions	42	48
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable	(2,850)	(65)
Inventory	1,238	(4,158)
Prepaid expenses	(115)	(318)
Accounts payable and accrued liabilities	(2,676)	101
Other long-term assets	(271)	(105)
<b>CASH INFLOWS (OUTFLOWS) FROM OPERATIONS</b>	<b>6,224</b>	<b>118</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(7,849)	(5,150)
Proceeds from (purchase of) sale of short-term investments	(28)	(5,003)
Additions to mineral properties	(9,271)	(5,913)
Restricted cash	(352)	-
<b>CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>	<b>(17,500)</b>	<b>(16,066)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of capital stock	344	24
Capital lease	-	(27)
<b>CASH INFLOWS (OUTFLOWS) FROM FINANCING ACTIVITIES</b>	<b>344</b>	<b>(3)</b>
<b>CHANGE IN CASH DURING THE PERIOD</b>	<b>(10,932)</b>	<b>(15,951)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>25,909</b>	<b>29,323</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 14,977</b>	<b>\$ 13,372</b>

Cash flow supplementary information (Note 19)

The accompanying notes are an integral part to these condensed consolidated interim financial statements.

# KIRKLAND LAKE GOLD INC.

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

THREE MONTH PERIODS ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

	Capital Stock	Options	Warrants	Contributed Surplus	Retained Earnings	TOTAL
<b>Balance, May 1, 2010</b>	<b>\$ 226,934</b>	<b>\$ 4,848</b>	<b>\$ 9,316</b>	<b>\$ 4,038</b>	<b>\$ (99,809)</b>	<b>\$ 145,327</b>
Net income	-	-	-	-	2,976	2,976
Options exercised	36	(12)	-	-	-	24
Forfeiture of options	-	(10)	-	10	-	-
Attribution of options granted	-	227	-	-	-	227
<b>Balance, July 31, 2010</b>	<b>\$ 226,970</b>	<b>\$ 5,053</b>	<b>\$ 9,316</b>	<b>\$ 4,048</b>	<b>\$ (96,833)</b>	<b>\$ 148,554</b>
<b>Balance, April 30, 2011</b>	<b>\$ 249,183</b>	<b>\$ 4,224</b>	<b>\$ -</b>	<b>\$ 10,436</b>	<b>\$ (79,914)</b>	<b>\$ 183,929</b>
Net income (loss)	-	-	-	-	22,180	22,180
Options exercised	344	-	-	-	-	344
Black-scholes value of options exercised	177	(177)	-	-	-	-
Recovery of deferred taxes	(828)	-	-	-	-	(828)
Attribution of options granted	-	47	-	-	-	47
<b>Balance, July 31, 2011</b>	<b>\$ 248,876</b>	<b>\$ 4,094</b>	<b>\$ -</b>	<b>\$ 10,436</b>	<b>\$ (57,734)</b>	<b>\$ 205,672</b>

The accompanying notes are an integral part to these condensed consolidated interim financial statements.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

**(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS**

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### 1. DESCRIPTION OF BUSINESS

The Company was incorporated in British Columbia, Canada on June 29, 1983 and transferred into the federal jurisdiction on July 27, 1988 to become governed by the Canada Business Corporations Act. Its registered office is in Vancouver, British Columbia. The Company's common shares trade on the TSX (Toronto Stock Exchange) and AIM (Alternative Investment Market of the London Stock Exchange).

The Company's Head Office and operating gold mine are located in Kirkland Lake, Ontario, Canada. Its operations consist of the Macassa Mine and Mill and four contiguous formerly producing gold mining properties. The Company does not have any subsidiaries.

### 2. BASIS OF PRESENTATION

#### *(a) Statement of Compliance and Conversion to International Financial Reporting Standards*

The financial statements of the Company for the year-ending April 30, 2012 will be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

These condensed consolidated interim financial statements for the three month period ended July 31, 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting, and as they are part of the Company's first IFRS annual reporting period, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

As these condensed consolidated interim financial statements are the Company's first financial statements prepared using IFRS, certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with pre-changeover Canadian GAAP have been included in these financial statements for the comparative annual period. However, these condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2011 annual financial statements and the explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 20.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on October 03, 2011.

#### *(b) Basis of Presentation*

These condensed consolidated interim financial statements have been prepared on a historical cost basis.

The condensed interim financial statements are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise indicated.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3(n).

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

**(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS**

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### 2. BASIS OF PRESENTATION *(continued)*

(c) Standards issued but not yet effective

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and is expected not to impact significantly the Company's disclosures.

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments ["IFRS 9"] covers the classification and measurement of financial assets and financial liabilities and is applicable for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is still assessing the impact of adopting IFRS 9.

IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements ["IFRS 10"] is effective for annual periods beginning on or after January 1, 2013 and will replace parts of IAS 27, Consolidated and Separate Financial Statements ["IAS 27"] and interpretation SIC-12, Consolidation - Special Purpose Entities. IFRS 10 establishes principles for identifying when an entity controls other entities and for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities. The Company does not expect any impact on its financial position or performance.

IFRS 11, Joint Arrangements

IFRS 11, Joint Arrangements ["IFRS 11"] supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. The standard addresses inconsistencies in the reporting of joint arrangements by requiring the equity method to account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is still assessing the impact of adopting IFRS 11.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities ["IFRS 12"] establishes comprehensive disclosure requirements for all forms of interests in other entities including subsidiaries, joint ventures, and associates. Many of the disclosure requirements were previously included in IAS 27, IAS 1 and IAS 28 while others are new. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is still assessing the impact of adopting IFRS 12.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

**(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS**

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### 2. BASIS OF PRESENTATION *(continued)*

IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement ["IFRS 13"] provides guidance on how to measure fair value of financial and nonfinancial assets and liabilities when fair value is required or permitted per IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles could have a significant effect on some entities adopting the standard. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 shall be applied prospectively. The Company is still assessing the impact of adopting IFRS 13.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Revenue recognition*

*Sale of Gold Doré Bars*

The principal product from the mining operations of the Company is the sale of gold doré bars. The doré bars are a low-purity gold metal which is sent to a refiner that will further purify the doré bars to produce tradeable gold bars of high purity (gold bullion).

Revenue associated with the sale of the doré bars is recognised when all significant risks and rewards of ownership of the asset sold are transferred to the refiner, which is when the commodity has been received by the refiner (Time of Receipt). At the Time of Receipt, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the gold and the costs incurred or to be incurred in respect of the sale can be reliably measured. Revenue is recognised at fair value of the consideration receivable to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the Time of Receipt for the minimum determinable or agreed amount of gold at that time, with any adjustment between the preliminary and final settlement when the latter is determined.

The Company from time to time enters into commodity contacts 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 THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *(b) Income Taxes*

Tax expense for the period comprises current and deferred taxes. Tax is recognised in the income statement, except to the extent it relates to items recognized in other comprehensive income or directly in equity. In that case, the related tax impact is also recognized in other comprehensive income, or directly in equity, respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognised in the financial statements using the liability method of accounting. Under this method of tax allocation, deferred 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 deferred income tax assets or liabilities are expected to be settled or realized.

Deferred income tax assets are recognized only to the extent that it is probable that deferred taxable profit will be available against which temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and where there is the intent to settle the balance on a net basis.

#### *(c) Earnings Per Share*

Basic earnings or loss per share is computed by dividing the net income or loss applicable to common shares by the weighted average number of common shares outstanding for the relevant period. The Company follows the treasury stock method in the calculation of diluted earnings per share. Diluted income or loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *(d) Property, Plant and Equipment*

Property, plant and equipment other than land is carried at cost less accumulated depreciation and accumulated impairment losses. Land is carried at cost less accumulated impairment losses. The cost of property, plant and equipment comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated close down and restoration costs associated with the asset.

Depreciation is recorded over the shorter of the useful life of the asset or the remaining life of the mine based on proven and probable reserves. Depreciation for the major categories of property, plant and equipment is as follows:

#### *Not depreciated*

- Land
- Capital work in progress

#### *Straight line basis*

Assets within operations for which usage is not expected to fluctuate significantly from one year to another are depreciated on a straight line basis as follows:

Buildings	10 - 15 years
Computer equipment and software	2 to 5 years
Vehicles	5 years
Mine and mill equipment	2 to 15 years

Expenditures on major maintenance or repairs include the cost of the replacement of significant parts of assets and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Company for more than 18 months and the cost of the replacement exceeds approximately 25% of the original cost of the asset, the expenditure is capitalised and the carrying amount of the item replaced is derecognised. Similarly, overhaul costs associated with major maintenance are capitalised and depreciated over their useful lives where it is probable that future economic benefits will be available to the Company for more than 18 months and any remaining carrying amounts of the cost of previous overhauls are derecognised. All other costs are expensed as incurred.

Where an item of property, plant and equipment is disposed of, it is derecognised and the difference between its carrying value and the net sales proceeds is disclosed as a profit or loss on disposal in the income statement.

Any items of property, plant or equipment that cease to have future economic benefits are derecognised with any gain or loss included in the income statement in the financial year in which the item is derecognised.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *(e) Mineral Properties*

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 capitalised if the criteria for recognition as an asset are met and are depreciated on a units of production basis over proven and probable reserves. Near term development cost occur in areas where the Company expects production to occur within 18 months.

#### *Units of production basis*

Assets for which the economic benefits are consumed in a pattern which is linked to the production are depreciated on a units of production basis based on the proven and probable reserves, which results in a depreciation charge proportional to the depletion of the reserves.

Where significant parts of an asset have different useful lives, depreciation is calculated on each separate part. Remaining useful lives are reviewed, and adjusted if appropriate, annually. Changes to the estimated useful lives are accounted for prospectively. In applying the units of production method, depreciation is normally calculated using the quantity of material milled in the period as a percentage of the total quantity of material to be extracted from the mine in current and future periods based on proven and probable reserves.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

**(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS**

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *(f) Impairment of non-financial assets*

The carrying amounts of non-current assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash inflows independent of other assets, in which case the review is undertaken at the cash generating unit level. A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Generally for the Company this represents the mine. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts.

An asset's recoverable amount is determined as the higher of its fair value less costs to sell ('fair value') and its value in use (being the net present value of expected future cash flows of the relevant cash generating unit). The best evidence of fair value is the value obtained from an active market or from a binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the cash generating unit in an arm's length transaction. This is often estimated using discounted cash flow techniques. In cases where fair value less costs to sell cannot be estimated, value in use is utilized as the basis to determine the recoverable amount.

In assessing the value in use, the relevant future cash flows expected to arise from the continuing use of the assets and from their disposal are discounted to their present value using a market-determined pre-tax discount rate which reflects current market assessments of the time value of money and asset-specific risks for which the cash flow estimates have not been adjusted.

If the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, an impairment loss is recorded in the income statement to reflect the assets at the lower amount.

An impairment loss is reversed in the income statement if there is a change in the estimates used to determine the recoverable amount since the prior impairment loss was recognised. The carrying amount is increased to the recoverable amount but not beyond the carrying amount net of depreciation or amortisation which would have arisen if the prior impairment loss had not been recognised. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

**(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS**

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *(g) Financial Assets*

Financial assets consist of cash and cash equivalents, short-term investments in mutual funds, short term investments in treasury bills and guaranteed investment certificates, accounts receivable, other long-term assets and restricted cash.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets other than financial assets at fair value through profit or loss are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Cash and cash equivalents include cash and short-term investments with an initial maturity of 90 days or less at the date of acquisition and are subsequently measured at fair value through profit and loss.

Short term investments in mutual funds and restricted cash are subsequently measured at fair value through profit and loss.

Accounts receivable are subsequently measured at amortized cost and are carried at the amount of cash expected to be received.

Short term investments in treasury bills and guaranteed investment certificates, other long-term assets are subsequently measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the carrying amount. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument.

Income related to financial instruments subsequently measured at amortized cost is recognized in profit or loss and is included in the 'finance income' line item.

Financial assets measured at fair value through profit and loss are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss and the interest income related to financial instruments measured at fair value through profit and loss are included in the 'finance income' line item in the statement of comprehensive income.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *(h) Impairment of Financial Assets*

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and the event has a negative impact on the estimated cash flows of the financial asset and the loss can be reliably estimated.

The amount of the impairment loss recognised is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset other than the accounts receivable decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial instrument at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from an asset.

#### *(i) Inventories*

Doré bars and gold in process 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.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (j) *Provisions - Reclamation and Remediation*

Costs for reclamation and remediation are a normal consequence of mining, and the majority of these costs are incurred at the end of the life of the mine. Provision is made for estimated close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of the affected areas) in the financial period when the related environmental obligation occurs, based on the estimated future costs using information available at the balance sheet date. The costs are estimated on the basis of a closure plan which represents management's best estimate of the costs. The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is included in interest expense. At the time of establishing the provision, a corresponding asset is capitalised within property, plant and equipment, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates.

The provision is reviewed on an annual basis to reflect known developments, such as revisions to cost estimates and to the estimated lives of operations, and for changes to legislation or discount rates. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

#### *Other Provisions*

Provisions are recognised when the Company has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted to the net present value using an appropriate current market-based pre-tax discount rate and the unwinding of the discount is included in finance costs.

#### (k) *Contingencies*

Contingent liabilities are not recognised in the financial statements but are disclosed by way of note unless the likelihood of them crystallising is considered remote.

Contingent assets are not recognised in the financial statement but are disclosed by way of note if they are deemed probable.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *(l) Share-Based Compensation*

The Company has a share-based compensation plan described in Note 10 which is accounted for in accordance with the requirements of IFRS 2. Under the plan, the Company can grant options to directors, senior officers and employees of or consultants to the Company or employees of a corporation providing management services to the Company.

For transactions with directors, senior officers, employees and others providing similar services (collectively referred to hereinafter as Employees), the fair value of the equity-settled awards is measured at the initial grant date and is recognised as assets for the portion that qualifies for recognition as assets and the balance as an expense with a corresponding amount credited to equity, on a straight-line basis over the vesting period after adjusting for the estimated number of awards that are expected to vest.

For transactions with non-Employees, the fair value of the equity-settled awards is measured at the fair value of the goods or services received, at the date the goods or services are received by the Company. In cases where the fair value of goods or services received cannot be reliably estimated the Company estimates the fair value of the awards at the date of grant.

The Company may also issue warrants, as part of private placements, to finance mine expansion plans, exploration or working capital. The warrants are also accounted for in accordance with the requirements of IFRS 2, following the same principles as outlined above for the transactions with non-Employees.

#### *(m) Financial Liabilities*

Financial liabilities are initially recognized at fair value net of directly attributable transaction costs. The Company's financial liabilities include accounts payable and accrued liabilities and finance lease.

After initial recognition, the Company's finance lease is subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any fees or costs related to the finance lease.

Interest expense is included in net income within finance expense.

Non-interest bearing financial liabilities such as accounts payable and accrued liabilities are carried at the amount owing.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Any gains or losses are recognized in net income when liabilities are derecognized.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *(n) Significant Accounting Estimates & Judgements*

##### Estimated recoverable reserves and resources

Estimated proven and probable reserves are used in the calculation of the depreciation of the mineral properties, in performing impairment testing and for forecasting the timing of the payment of rehabilitation costs. Estimates are prepared by appropriately qualified persons, but will be impacted by forecast commodity prices, exchange rates, changes in capital, operating, mining, processing and reclamation costs, discount rates and recoveries amongst other factors. Changes in assumptions will impact the carrying value of the mineral properties and the depreciation, amortisation and impairment charges recorded in profit and loss.

##### Provision – reclamation and remediation

The Company's mining activities are subject to various laws and regulations governing the protection of the environment. The Company recognises management's best estimate for asset retirement obligations in the period in which they occur. Actual costs incurred in future periods could differ materially from the estimates. The ultimate cost of environmental remediation can vary in response to many factors including future changes to environmental laws and regulations, the emergence of new restoration techniques, changes in the life of mine estimates and in discount rates, which could affect the carrying amount of this provision.

##### Contingencies

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will only be resolved when one or more future events not wholly within the control of the Company occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

##### Amortization and depletion

Amortization and depletion of property, plant and equipment and mineral property assets are dependent upon estimates of useful lives and reserve estimates, both of which are determined with the exercise of judgement. The assessment of any impairment of property, plant and equipment or mineral properties is dependent upon estimates of recoverable amount that take into account factors such as reserves, economic and market conditions and the useful lives of assets.

##### Income tax expense

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. From time to time, there may be disagreement with the taxation authorities over our interpretation of the income tax rules. The final outcome of these disputes could be materially different from our estimated tax liabilities. In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain test at the time the losses are recouped.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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### 4. RESTRICTED CASH

Restricted cash includes:

	JULY 31 2011	APRIL 30 2011
Letters of Credit:		
Ministry of Northern Development of Mines and Forestry	\$ 4,453	\$ 4,453
Independent Electricity System Operator of Ontario	851	500
	<u>\$ 5,304</u>	<u>\$ 4,953</u>

Letters of credit are secured by the GIC investments as disclosed in Note 5 below.

### 5. SHORT-TERM INVESTMENTS

Investments include:

	JULY 31 2011	APRIL 30 2011
Government of Canada Treasury Bill bears interest at 0.80%, matures September 1, 2011	\$ 5,002	\$ -
Government of Canada Treasury Bill bears interest at 1.18%, matures December 6, 2011	352	-
Government of Canada Treasury Bill bears interest at 0.75%, matures September 29, 2011	10,001	-
Government of Canada Treasury Bill bears interest at 1.05%, matures October 3, 2011	5,013	-
Government of Canada Treasury Bill bears interest at 1.12%, matures August 2, 2011	5,000	5,000
Guaranteed Investment Certificate bears interest at 1.07%, matures August 10, 2011	5,013	-
Guaranteed Investment Certificates	-	5,000
Government of Canada Treasury Bills	-	20,002
Investment in mutual funds	238	273
Less amounts related to letters of credit (see below)	(5,304)	(4,953)
	<u>\$ 25,315</u>	<u>\$ 25,322</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 \$4,453, and with the Independent Electricity System Operator of Ontario to secure the provision of electricity, for \$851. The letters of credit are secured by a portion of the \$5,013 Guaranteed Investment Certificate as well as the 1.18% Government of Canada Treasury Bill purchased during the current period.

### 6. INVENTORIES

	JULY 31 2011	APRIL 30 2011
Gold in process	\$ 5,849	\$ 7,255
Mine operating supplies	3,267	3,099
	<u>\$ 9,116</u>	<u>\$ 10,354</u>

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

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### 7. PROPERTY AND EQUIPMENT AND MINERAL PROPERTIES

COST	Land and Buildings	Vehicles and Computer Equipment	Mine and Mill Equipment	Capital Works in Progress	Mineral Properties	Total
Balance at May 1, 2010	\$ 2,562	\$ 757	\$ 28,495	\$ 4,562	\$ 74,243	\$ 110,619
Additions	4,159	213	10,228	14,364	30,849	59,813
Balance at April 30, 2011	\$ 6,721	\$ 970	\$ 38,723	\$ 18,926	\$ 105,092	\$ 170,432
Additions	42	38	4,058	3,711	9,271	17,120
Disposals	-	(5)	-	-	-	-
Balance at July 31, 2011	\$ 6,763	\$ 1,003	\$ 42,781	\$ 22,637	\$ 114,363	\$ 187,552

#### DEPRECIATION

Balance at May 1, 2010	\$ 1,481	\$ 703	\$ 10,743	\$ -	\$ 10,135	\$ 23,062
Additions	71	28	3,319	-	4,539	7,957
Balance at April 30, 2011	\$ 1,552	\$ 731	\$ 14,062	\$ -	\$ 14,674	\$ 31,019
Additions	111	36	988	-	1,706	2,841
Disposals	-	(4)	-	-	-	(4)
Balance at July 31, 2011	\$ 1,663	\$ 763	\$ 15,050	\$ -	\$ 16,380	\$ 33,856

#### CARRYING AMOUNTS

Balance at May 1, 2010	\$ 1,081	\$ 54	\$ 17,752	\$ 4,562	\$ 64,108	\$ 87,557
Balance at April 30, 2011	\$ 5,169	\$ 239	\$ 24,661	\$ 18,926	\$ 90,418	\$ 139,413
Balance at July 31, 2011	\$ 5,100	\$ 240	\$ 27,731	\$ 22,637	\$ 97,983	\$ 153,691

Depreciation expense for the three month period amounted to \$1,135 (2010 - \$604).

### 8. PROVISIONS - RECLAMATION AND REMEDIATION

The Company has filed a reclamation and site restoration plan in connection with the Kirkland Lake properties and this plan is currently being discussed with the Ontario Ministry of Northern Development of Mines and Forestry (MNDMF). The Company's best estimate of the total costs of reclamation and site restoration at July 31, 2011 are \$5,524 and financial assurance has been provided to the MNDMF by way of a letter of credit in the amount of \$4,453 (Note 5).

A reconciliation for asset retirement obligations is as follows:

	July 31, 2011	April 30, 2011
Balance, beginning of year	\$ 4,211	\$ 4,098
Accretion expense for the period	42	113
Balance, end of the year	\$ 4,253	\$ 4,211

The Wright Hargreaves Property is not included in the closure plan nor are there any requirements to submit financial assurance for this property, however, prior to the end of the quarter the Company submitted a Rehabilitation Plan for this property to the MNDMF. Additionally, progressive rehabilitation plans for the Macassa, Kirkland Minerals, Teck-Hughes, Lakeshore and Joint Venture properties were also submitted at the same time, however, the associated costs have still to be quantified to complete the work listed in the plans.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

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### 9. CAPITAL STOCK

The following is a summary of changes in common share capital.

	Number of Shares	Amount
Balance - April 30, 2010	67,727,634	\$ 226,934
Exercise of options (Note 10)	296,100	3,281
Exercise of warrants	1,739,477	18,968
Balance - April 30, 2011	69,763,211	\$ 249,183
Exercise of options (Note 10)	42,400	521
Benefit of share issuance costs tax assets not previously recognized	-	828
Balance, July 31, 2011	69,805,611	\$ 250,532

#### Diluted weighted average number of shares outstanding

	2012	2011
Basic weighted average shares outstanding:	69,798,529	67,728,645
Dilutive stock options	556,097	-
Diluted weighted average shares outstanding	70,354,626	67,728,645

Dilutive stock options and warrants were determined using the Company's average share price for the period. The average share price exceeded the exercise price of all outstanding options and warrants therefore no options were excluded from the calculation of diluted earnings per share. The average share price for the period was \$15.07.

### 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 changes in stock options issued during the period ended July 31, 2011 are as follows:

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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### 10. OPTIONS (continued)

	Number of shares	Weighted average exercise price
Options outstanding - beginning of period	1,155,900	\$ 7.56
Exercised	(42,400)	8.11
Forfeited	-	7.90
Options outstanding - end of period	<u>1,113,500</u>	7.54
Options exercisable - end of period	<u>1,046,000</u>	\$ 7.42

The following table summarizes information about stock options outstanding and exercisable at July 31, 2011:

Exercise price	Options outstanding	Options exercisable	Outstanding options weighted average remaining life (years)	Exercisable options weighted average remaining life (years)
6.99	250,000	250,000	2.06	2.06
6.99	428,500	428,500	2.14	2.14
7.90	125,000	125,000	1.79	1.79
8.20	50,000	-	4.14	-
8.65	232,500	232,500	0.50	0.50
9.02	20,000	10,000	3.29	3.29
9.11	7,500	-	3.92	3.92
	<u>1,113,500</u>	<u>1,046,000</u>	2.36	2.24

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

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

	JULY 31 2011	APRIL 30 2011
Balance - Beginning of period	\$ 4,224	\$ 4,848
Attribution of stock options granted	-	413
Exercise of stock options	(177)	(1,028)
Stock options forfeited	-	(9)
Balance - End of period	<u>\$ 4,047</u>	<u>\$ 4,224</u>

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

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### 11. CONTRIBUTED SURPLUS

	JULY 31 2011	APRIL 30 2011
Balance - Beginning of period	\$ 10,436	\$ 4,038
Cancellation of options		10
Expiry of warrants	-	7,301
Tax impact of expiry of warrants	-	(913)
Balance - End of period	<u>\$ 10,436</u>	<u>\$ 10,436</u>

### 12. PRODUCTION EXPENSES

	3 months ended July 31	
	2011	2010
Operating costs	\$ 19,943	\$ 10,232
Stock-based compensation for operational personnel	47	81
Amortization and depletion	2,903	1,412
Royalties	1,427	782
	<u>\$ 24,320</u>	<u>\$ 12,507</u>

### 13. GENERAL AND ADMINISTRATIVE

	3 months ended July 31	
	2011	2010
Stock based compensation for administrative personnel	\$ -	\$ 146
General corporate and administrative costs	601	622
	<u>\$ 601</u>	<u>\$ 768</u>

### 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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 July 31, 2011, the carrying values of these instruments approximate their fair values based on the nature of these instruments.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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### 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS *(continued)*

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

Financial assets and liabilities are characterised using a fair value hierarchy 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 1
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 July 31, 2011, 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 July 31, 2011, the Company had a cash and cash equivalents and short term investments balance of \$40,292 to settle financial liabilities of \$19,131. All of the Company's financial liabilities are current liabilities which will mature within one year of the balance sheet date.

#### 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.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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### 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (continued)

#### 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.

### 15. INCOME TAXES

	July 31, 2011	July 31, 2010
Income (loss) before income taxes	\$ 7,934	\$ 2,976
Combined federal and provincial tax rate	26.00%	27.83%
Expected income tax expense	2,063	828
Non-deductible expenses	12	22
Deferred mining tax	536	-
Income tax benefit	(16,857)	(850)
Deferred income tax recovery	\$ (14,246)	\$ -

The significant components of the Company's deferred income tax assets (liabilities) are as follows:

	July 31, 2011	April 30, 2011
Provisions reclamation - remediation	\$ 1,063	\$ -
Timing differences related to property, plant and equipment and mineral properties	8,568	-
Share issuance costs (directly recognized in equity)	828	-
Tax loss carry-forwards	4,615	-
Deferred income tax assets (liabilities)	\$ 15,074	\$ -

In the current year the Company recognized \$15,074 of previously unrecognized tax benefits as management considered it probable that future taxable profits will be available against which they can be utilized.

At April 30, 2011 the Company had deferred tax assets of approximately \$16,329 that have not been recognized in the financial statements as management does not consider it probable that the Company will have future taxable profits against which they can be utilized. Approximately \$7,288 of the deferred tax assets not recognized related to tax losses which expire between 2017 and 2030. Approximately \$8,134 of the deferred tax assets not recognized relate to timing differences related to Company assets and liabilities. The balance of \$907 related to share issuance costs.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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### 16. RELATED PARTY TRANSACTIONS

The Company paid office facilities and administration services in the amount of \$12 (2010 - \$11) to a Company related to a director in common.

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

### 17. COMMITMENTS

As at July 31, 2011, capital commitments included:

Capital Commitments <i>(All commitments in 000s of Canadian Dollars)</i>	\$000
Property, Plant and Equipment	12,247
Underground Development	103
Total	12,350

Capital commitments include the expansion project and ongoing project commitments. Major commitments include: i) mobile underground equipment required for maintaining and supporting higher production levels, ii) equipment for underground pumping, iii) the mill upgrade project and iv) the hoisting upgrade and compressor projects.

As at July 31, 2011, the Company had an outstanding commodity contract with HSBC Bank Canada to fix the price of 1,000 ounces of gold at \$1,530 per ounce. The Company also had an outstanding commodity contract with Johnson Matthey Plc. to fix the price of 12,146 ounces of gold at an average price of \$1,523 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 was on deposit to cover the margin calls made by Johnson Matthey Plc. This figure had increased to \$430 subsequent to the quarter end.

A 4% net smelter royalty is payable to Kinross Gold Corporation on all gold produced by the Company. The royalty terminates upon a maximum aggregate payment of \$15 million. During the period ended July 31, 2011, royalties expensed under this agreement amounted to \$1,427 (2010 - \$780). The Company has paid \$13,300 and will make its final payment under this agreement before the end of the second quarter of fiscal 2012.

As at April 30, 2011, the Company agreed to enter into a joint venture with Queenston Mining Inc. to explore the potential extension of the SMC onto the north portion of Queenston's 100% owned Amalgamated Kirkland property. Under the terms of the agreement, the Company is required to spend \$400 in exploration expenses in order to earn a 50% interest in the north portion of the Amalgamated Kirkland and the Kirkland Hudson property. The Kirkland Hudson property is located east of the Amalgamated Kirkland. Once this earn-in is complete, further exploration will be expensed on a 50/50 basis by both companies. Underground diamond drilling from the Company's 5300 Level is now underway.

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## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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### 18. SEGMENTED INFORMATION

The Company has one operating segment consisting of a mining and milling operation located in Kirkland Lake, Canada. During the periods ended July 31, 2011 and 2010 all of the Company's property, plant and equipment, revenues earned and operations were in Canada.

### 19. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2011	2010
Value assigned to stock options / warrants exercised	\$ 1,942	\$ 952
Purchase of asset under capital lease	\$ -	\$ (137)

### 20. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company's financial statements for the year ending April 30, 2012 are the first annual financial statements that will be prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was May 1, 2011 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be April 30, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP.

#### OPTIONAL EXEMPTIONS

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

##### Business Combinations

The Company elected not to retrospectively apply IFRS 3 Business Combinations to any business combinations that have occurred prior to its Transition Date and such business combinations have not been restated.

##### Share -based Payment Transactions

The Company has elected not to retrospectively apply IFRS 2 Share-based Payment, to equity instruments that were granted and had vested before the Transition Date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as at the Transition Date.

##### Compound Financial Instruments

The Company has elected not to retrospectively separate the liability and equity components of compound instruments for which the liability component is no longer outstanding at the date of transition to IFRS.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

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### Provision for Reclamation

As a result of applying the IFRS 1 election related to reclamation and remediation obligations, the Company estimated the amount that would have been included in the cost of the reclamation and remediation asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate that would have applied for that liability over the periods prior to the transition date. Accumulated depreciation on the cost at the transition date was determined using the UOP method based on the current estimate of the life of mine and the recoverable ounces to be mined from estimated proven and probable reserves.

### Borrowing Costs

The Company has elected to apply the transitional provisions of IAS 23 Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date. There was no impact on the financial statements as a result of this election.

### MANDATORY EXCEPTIONS

#### Derecognition of Financial Assets and Liabilities

The Company has applied the derecognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39. There was no impact on the financial statements as a result of this mandatory exception.

#### Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

### RECONCILIATIONS OF PRE-CHANGEOVER CANADIAN GAAP EQUITY AND COMPREHENSIVE INCOME TO IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive income as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no material adjustments to the net cash flows, no reconciliation of the statement of cash flows has been prepared.

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

### RECONCILIATION OF ASSETS, LIABILITIES AND EQUITY

	As at May 1, 2010			As at July 31, 2010			As at April 30, 2011		
	GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>									
Current assets									
Cash and cash equivalents	\$ 29,323	\$ -	\$ 29,323	\$ 13,372	\$ -	\$ 13,372	\$ 25,909	\$ -	\$ 25,909
Short-term investments	30,233	-	30,233	35,236	-	35,236	25,322	-	25,322
Accounts receivable	Note A 982	1,857	2,839	2,904	-	2,904	2,348	-	2,348
Inventories	Note A 7,874	(1,510)	6,364	10,523	-	10,523	10,354	-	10,354
Prepaid expenses and other current assets	593	-	593	911	-	911	554	-	554
<b>Total current assets</b>	<b>69,005</b>	<b>347</b>	<b>69,352</b>	<b>62,946</b>	<b>-</b>	<b>62,946</b>	<b>64,487</b>	<b>-</b>	<b>64,487</b>
Non-current assets									
Other long-term assets	292	-	292	397	-	397	519	-	519
Restricted cash	4,953	-	4,953	4,953	-	4,953	4,953	-	4,953
Mineral properties	Note B 64,509	(401)	64,108	69,604	(397)	69,207	90,748	(330)	90,418
Plant and equipment	23,449	-	23,449	30,792	-	30,792	48,995	-	48,995
<b>Total non-current assets</b>	<b>93,203</b>	<b>(401)</b>	<b>92,802</b>	<b>105,746</b>	<b>(397)</b>	<b>105,349</b>	<b>145,215</b>	<b>(330)</b>	<b>144,885</b>
<b>Total Assets</b>	<b>\$ 162,208</b>	<b>\$ (54)</b>	<b>\$ 162,154</b>	<b>\$ 168,692</b>	<b>\$ (397)</b>	<b>\$ 168,295</b>	<b>\$ 209,702</b>	<b>\$ (330)</b>	<b>\$ 209,372</b>

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

### RECONCILIATION OF ASSETS, LIABILITIES AND EQUITY (Continued)

	As at May 1, 2010			As at July 31, 2010			As at April 30, 2011		
	GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS
<b>LIABILITIES</b>									
Current liabilities									
Accounts payable and accrued liabilities	\$ 13,230	\$ -	\$ 13,230	\$ 16,130	\$ -	\$ 16,130	\$ 21,808	\$ -	\$ 21,808
Current portion of capital lease	76	-	76	49	-	49	-	-	-
Total current liabilities	13,306	-	13,306	16,179	-	16,179	21,808	-	21,808
Non-current liabilities									
Provisions	Note B 3,224	874	4,098	3,272	868	4,140	3,418	793	4,211
Total liabilities	16,530	874	17,404	19,451	868	20,319	25,226	793	26,019
<b>SHAREHOLDERS' EQUITY</b>									
Capital stock	226,934	-	226,934	226,969	-	226,969	249,183	-	249,183
Options	4,848	-	4,848	5,053	-	5,053	4,224	-	4,224
Warrants	9,316	-	9,316	9,316	-	9,316	-	-	-
Contributed surplus	4,038	-	4,038	4,048	-	4,048	10,436	-	10,436
Deficit	(99,458)	(928)	(100,386)	(96,145)	(1,265)	(97,410)	(79,367)	(1,123)	(80,490)
Total shareholder's equity	145,678	(928)	144,750	149,241	(1,265)	147,976	184,476	(1,123)	183,353
<b>Total liabilities and shareholders' equity</b>	<b>\$ 162,208</b>	<b>\$ (54)</b>	<b>\$ 162,154</b>	<b>\$ 168,692</b>	<b>\$ (397)</b>	<b>\$ 168,295</b>	<b>\$ 209,702</b>	<b>\$ (330)</b>	<b>\$ 209,372</b>

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

### RECONCILIATION OF INCOME AND COMPREHENSIVE INCOME

		Three months ended July 31, 2010			Year ended April 30, 2011		
		GAAP	Effect of Transition to IFRS	IFRS	GAAP	Effect of Transition to IFRS	IFRS
Revenue	Note A	\$ 19,538	\$ (1,857)	\$ 17,681	\$ 105,177	\$ (1,858)	\$ 103,319
Production expenses	Notes A and B	14,069	(1,562)	12,507	74,409	(1,774)	72,635
		5,469	(295)	5,174	30,768	(84)	30,684
<b>Other Expenses</b>							
General and administrative		768	-	768	3,319	-	3,319
Exploration		1,502	-	1,502	9,001	-	9,001
Finance expense		-	43	43	-	113	113
Finance income		(115)	-	(115)	(731)	-	(731)
		-	-	-	-	-	-
		2,155	43	2,198	11,589	113	11,702
<b>Net income</b>		3,314	(338)	2,976	19,179	(197)	18,982
Future income tax recovery		-	-	-	(913)	-	(913)
<b>Provision for income taxes</b>		-	-	-	(913)	-	(913)
<b>Comprehensive income for the year</b>		\$ 3,314	\$ (338)	\$ 2,976	\$ 20,092	\$ (197)	\$ 19,895

# KIRKLAND LAKE GOLD INC.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

THREE MONTH PERIOD ENDED JULY 31, 2011 AND 2010

**(UNAUDITED) - EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS**

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Notes to the reconciliations:

The description of the pre-changeover Canadian GAAP to IFRS reconciling items are presented on a pre-tax basis. The deferred income tax effect of the combined adjustments is amalgamated and presented separately.

### A) Revenue recognition

Under IFRS, if an entity retains only an insignificant risk of ownership, for example to protect the collectibility of the amount due, but has transferred the significant risks and rewards of ownership, revenue is recognised,

Under the pre-changeover Canadian GAAP, revenue was recognized upon title transfer, which was upon receipt of payment.

As a result of this change, at the Transition Date of May 1, 2010, accounts receivable was increased by \$1,857 and inventories were reduced by \$1,510, with a corresponding adjustment to retained earnings.

As a result of this change, revenue was reduced by \$1,857 and operating expenses were reduced by \$1,510 for the three months ended July 31, 2010. This change had no additional impact for the year ended April 30, 2011.

### B) Provisions

Under IFRS, the discount rate used when the time value of money is material shall be a pre-tax rate and shall reflect current market assessments of the time value of money and the risks specific to the liability.

Under the pre-changeover Canadian GAAP, the Company was using a credit adjusted risk-free rate.

The Company has determined that under IFRS a discount rate of 4.2% at May 1, 2010 was appropriate while the rate used under the pre-changeover Canadian GAAP was 6% at that date.

As a result of this change, at the Transition Date of May 1, 2010, the decommissioning cost included in the cost of mineral properties was decreased by \$141 and the related accumulated depletion was increased by \$260 for a total impact on mineral properties of \$401 and the decommissioning liability was increased by \$874, with a corresponding adjustment to retained earnings.

As a result of this change, the depletion of the mineral properties was decreased by \$3 for the three months ending July 31, 2010 and by \$14 for the year ending April 30, 2011 with a corresponding adjustment to the accumulated depletion of mineral properties. In addition, the accretion expense was decreased by \$5 for the three months ending July 31, 2010 and by \$21 for the year ending April 30, 2011 with a corresponding adjustment to assets retirement obligation,