



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

For the Quarter Ended July 31, 2011

This MD&A, including appendices, is intended to help the reader understand Kirkland Lake Gold Inc. ('KGI' or 'the Company'), our operations and our present business environment. It has been prepared as of October 3, 2011 and covers the results of operations for the quarter ended July 31, 2011. It is intended to supplement the unaudited Financial Statements and notes thereto which are expressed in Canadian Dollars and prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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.

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COMPANY OVERVIEW

KGI 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 common shares trade on the TSX (Toronto Stock Exchange) and AIM (Alternative Investment Market of the London Stock Exchange).

KGI'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 is actively working to increase mine capacity to an average of 1600 tons per day with the objective of realizing an annual production rate of 210,000 to 250,000 ounces of gold per year by November 2012.

The Company's directors and management believe that focusing on the following priorities will provide the Company with the best opportunity to build a successful and long term mining operation.

- 1) Improving our Safety and Environmental Performance – including the Loss Control, Security, and Closure activities.
- 2) Increasing the availability of Plant and Equipment by upgrading mine infrastructure and prioritizing planned maintenance.
- 3) Progressing mine development, including the 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.

International Financial Reporting Standards (IFRS)

Effective January 1, 2011, IFRS replaced Canadian Generally Accepted Accounting Principles (C-GAAP) for publicly accountable, profit-oriented enterprises. Accordingly, this MD&A as well as the condensed consolidated interim financial statements which accompany this MD&A for the fiscal quarter ending July 31, 2011 are prepared in accordance with IFRS for the first time, with previous year comparative figures and May 1, 2010 (date of transition) opening balance sheet restated to conform with such IFRS. Note 20 of the Company's condensed consolidated interim financial statements for the quarter ended July 31, 2011 include reconciliations and full explanations of the restatement from C-GAAP reporting to IFRS for all comparative figures beginning with the opening balance sheet of May 1, 2010.

There were two changes made when changing from C-GAAP to IFRS:

- *Revenue Recognition* – Under C-GAAP revenue was recognized upon title transfer which usually was the date of receipt of payment. Under IFRS, once the Company has transferred the significant risks and rewards of ownership of the gold, revenue can be recognized. As a result, revenue is now being recognized by the Company at an earlier point under IFRS.
- *Provision for Reclamation* – Under C-GAAP the Company was using a credit adjusted risk-free rate of 6.0%. 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 risk specific to the liability. At the date of transition, the Company determined a discount rate of 4.2% was appropriate under IFRS.

HIGHLIGHTS OF THE FIRST QUARTER OF FISCAL YEAR 2012 ENDED JULY 31, 2011

Production

- In the quarter, 57,500 tons of ore were milled at a head grade of 0.45 ounces of gold per ton (opt) and a recovery of 96.4% to produce 25,061 ounces of gold. The budgeted mine plan for the quarter was to mill 57,000 tons of ore at a head grade of 0.42 opt and a recovery of 96.0% to produce 22,800 ounces of gold. All actual results were slightly better than budgeted.
- The number of ore mining faces available for production at quarter end was thirty-two, with twenty-eight of these faces being actively mined. Another ten faces are currently being developed, with twenty-two additional ore mining faces at the planning stages. Production continues to be managed around the other higher priority Mine Expansion activities. The underground mine is currently capable of producing more ore and waste than can be hoisted to surface until planned upgrades are completed. For this reason, not all available faces are being mined, and not all faces being mined are active on all shifts.
- Monthly head grades can range from between 0.2 opt to 0.3 opt at the low end, and 0.6 opt to 0.7 opt at the high end, due to the erratic distribution of high grade material in the ore zones, and depending on which zones and which areas of the many ore zones are in production in any given month. In the first quarter, the monthly head grades included values from across the entire grade range expected (0.43 opt in May, 0.26 opt in June, 0.66 opt in July). A constant recovered grade of 0.40 opt has been budgeted for this fiscal year.

Mine Expansion

- The target of the revised Expansion Project remains to reach an average milling rate of 1,600 tons per day by November 2012. The overall project budget to complete the infrastructure upgrades remains at \$75 million. This work is targeted to be substantially complete by the end of April 2012. The period between April and November will be utilized as a production ramp up period as required. Required work was underway and on schedule to meet these goals at the end of the quarter.
- Work to increase the hoisting capacity of the No. 3 Shaft continued utilizing the new service hoist and working platform in the quarter, as well as the existing service compartment and shaft stations and the main production hoist and conveyances as required. Ongoing work includes upgrades to the shaft timberwork and manway brattices, installation of new shaft services and removal of redundant services, maintenance and refurbishment of existing shaft installations, upgrades to ground support, and improvements to the level stations and headframe. A significant amount of shaft refurbishment work has been rescheduled from after the Expansion Project period to being carried out during the project to take advantage of the working platform being in the shaft, in order to improve efficiencies and reduce subsequent shaft delays and minimize the overall timeline. The working platform will remain in the shaft until this work is completed. The hoisting capacity upgrade is the key component of the critical path for the extended project.
- Work on the haulage ramp system continued throughout the quarter with raise crews working on dump, feed, and ventilation raises and the development crew working on excavations for ramp related facilities. Construction work for dumps and ramp facilities also continued in the quarter. All haulage ramp work is expected to be complete before the hoisting capacity upgrade is complete.
- Most major projects on surface, with the exception of the mill and production hoist upgrades, are nearing completion or are complete. The pace of project work in this area will slow considerably going forward.

Exploration

- Fourteen drills are currently active on the property, including two surface drills. Underground exploration on an expenditure basis is slightly ahead of target. Surface exploration is behind target as three surface drills had been budgeted and only two have been available to date.
- Underground exploration is targeted on increasing the South Mine Complex reserves and resources, while maintaining the Main Mine reserves and resources. Surface Exploration in the first quarter included drilling on the Lakeshore and Wright-Hargreaves Mine properties, as well as more grassroots exploration drilling on other company properties.

Workforce

- The Company's workforce grew by an additional 71 people in the quarter to a total of 756 employees. The Company is not experiencing difficulty in meeting its workforce requirements at this time. Most entry level hires are coming from the local area, except for those positions with a specific education requirement, and the Company is fully prepared to fill positions locally and train if required. More experienced workers are being hired as available.

Financial Results

- Net income before income taxes for the quarter ended July 31, 2011 was \$7.9 million, which compares to net income before taxes of \$3.0 million for Q1 of fiscal 2011 and \$4.1 million for the previous quarter (Q4 of fiscal 2011).
- Net income and comprehensive income for the quarter was \$22.2 million (\$0.32 per share) because the Company recognised a \$14.2 million non cash and one-off accounting entry representing the tax benefit of accumulated income tax losses which management considers will be used against future taxable profits. This compares to net and comprehensive income of \$3.0 million (\$0.04 per share) for Q1 of fiscal 2011 and \$4.1 million (\$0.06 per share) for Q4 of fiscal 2011.
- Production costs for the quarter were \$347 per ton (\$796 per ounce), compared with \$324 per ton (\$761 per ounce) in the prior quarter, and \$222 per ton (\$616 per ounce) in Q1 of fiscal 2011. Total cash costs for the quarter were \$372 per ton (\$853 per ounce), compared to \$346 per ton (\$812 per ounce) in the prior quarter and \$239 per ton (\$663 per ounce) in Q1 of fiscal 2011. Short term variances in results tend to be caused primarily by fluctuations in ore grade and the amount of gold inventory held between the periods with increases in the value of gold inventory held reducing the reported costs. The impact on reported operating costs of inventory changes was an increase in reported costs in Q1 of fiscal 2012 of \$23 per ton, a decrease in Q4 of fiscal 2011 of \$2 per ton, and a decrease in Q1 of fiscal 2011 of \$48 per ton. The remaining variances in short term results are usually caused by short term swings in the allocation of personnel between operating activities and capital projects. The Company's target is to reduce the operating costs to less than \$250 per ton by completing the Expansion Project and increasing production.¹

¹ 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.

- Cash flows generated from operating activities were \$6.2 million for the quarter compared to \$6.4 million in the previous quarter and \$0.1 million in Q1 of fiscal 2011. Cash flows from operations has been positive for six consecutive quarters.
- Gold poured for the quarter was 24,204 ounces, 13% higher than the previous quarter (21,454 ounces) and 72% higher than Q1 of fiscal 2011 (14,086 ounces). A total of 24,178 ounces were sold. Ounces in the mill inventory increased by 856 ounces in the quarter, but the overall closing value of the inventory decreased as a result of the very high ore grade in July leading to lower underlying production costs per ounce in July. Ounces in inventory at the end of the quarter were valued at the low July production cost. Ounces in inventory at the start of the quarter were valued at the higher April production cost. The inventory value adjustment for the quarter was a negative \$1.4 million despite the increase in ounces held. This inventory adjustment is considered a production cost as noted above.
- The 4% net smelter royalty agreement with Kinross Gold Corporation, part of the original purchase agreement, will terminate shortly before the end of the second quarter of fiscal 2012 following settlement of royalties due on first quarter gold sales.
- After meeting all operating costs, spending \$17.2 million on infrastructure and \$2.9 million on exploration, total cash resources (including short-term investments) as at July 31, 2011 were \$40.3 million. As at October 3, 2011 this number had increased to \$42.5 million.

OUTLOOK

The production forecast for Fiscal Year 2012 remains 110,000 to 130,000 ounces of gold. The wide range is an allowance against the normal swings in the ore grades realized as discussed above. In order to optimize the recovery of ore zones and maintain stable mining conditions, ore in the zones is mined as encountered regardless of grade. Low grade ore is not left as pillars for possible later recovery as was the practice under previous operators. Most ore zones consist of a mix of high grade and low grade material.

Production guidance for Fiscal Year 2013 remains estimated at 180,000 to 200,000 ounces of gold due to an allowance for a ramp-up in production between May 2012 and November 2012. Full production of 210,000 to 250,000 ounces is not being forecast as a precaution against late completion of any critical portion of the Expansion Project and any delays in delivering or commissioning new equipment. As well, due to differences in mining techniques and conditions between mines throughout the world, it is normal for even experienced employees to take some time to get up to full speed. The Company will be adding a total of 275 employees in Fiscal Year 2012, including the 71 employees hired fiscal year to date.

Production guidance for Fiscal Years 2014 to 2016 is estimated at 210,000 to 250,000 ounces per year, with the wide range given as an allowance against the actual mined grades. The Company currently plans to try to manage ore grades to a yearly average recovered grade of 0.40 opt or higher going forward.

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 prioritize the work and investment required to meet its goals of attaining five million ounces in total gold reserves and resources and of reaching a profitable production rate of 210,000 to 250,000 ounces of gold per year by November 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 key mining equipment ordered was delayed up to four months past promised delivery in the past fiscal year for these causes. The expected lead time on deliveries is also increasing well beyond that foreseen by manufacturers last year at this time.
- 2) Risks related to delays in commissioning equipment. Unforeseen technical issues or shortages of skilled labour affecting manufacturers or contractors may delay equipment becoming operational. The service hoist installation and the compressor upgrade projects both were delayed due to some combination of these problems, with the critical path 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. The Company has allowed for a ramp up period for production during the first six months of Fiscal 2013 as a precaution against these potential problems.

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

CAPITAL PROJECTS UPDATE

During the first quarter of fiscal 2012 the Company spent \$9.3 million on underground infrastructure development and \$7.9 million on property and equipment for a total of \$17.2 million invested into the operation as shown below.

Capital Spending by Quarter fiscal 2012 <i>(All amounts in millions of CDN Dollars)</i>	YTD Total	1st Quarter	Expansion Project to Date (Q3/09 – Q1/12)
Ongoing Development	8.4	8.4	47.5
Expansion Project Development	0.9	0.9	20.1
Total Development	9.3	9.3	67.6
Ongoing Equipment	5.0	5.0	17.6
Expansion Project Equipment and Projects	2.9	2.9	34.4
Total Equipment and Projects	7.9	7.9	52.0
TOTAL CAPITAL	17.2	17.2	119.6

Spending on underground development during the period consisted of \$8.4 million for ongoing development and \$0.9 million for Expansion Project development. Plant and equipment purchases included \$5.0 million for ongoing capital equipment and \$2.9 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 \$54.5 million or 72.7% of the \$75 million estimate.

Ongoing capital includes refurbishment work required to improve the condition of the existing Macassa mine and mill. As the mine was flooded and partly decommissioned by the previous owner, the work required is significant and essential in order to reach the Company's future goals. As well, the level of operating maintenance carried out in past years was at a level required to support exploration and minor levels of production. Current operating maintenance activities include significant amounts of work aimed at preparing the operation for much higher levels of production.

OPERATIONS REVIEW

Q1/12 Results	Commentary	Comparatives			
		Q4/11	B/ (W)*	Q1/11	B/ (W)
25,061 Ounces	Recovered ounces increased due to planned increases in production and higher grades.	23,466 Ounces	7%	16,621 Ounces	51%

Q1/12 Results	Commentary	Comparatives			
		Q4/11	B/ (W)*	Q1/11	B/ (W)
0.44 Opt	The recovered ore grades increased due to the mix of ore workplaces available to mine being higher grade. The head grade for the quarter was 0.45 opt.	0.43 Opt	3%	0.36 Opt	22%
7,409 Tons	The amount of waste tons going to the mill fluctuates with the amount of waste development required on 53L.	6,641 Tons	12%	9,829 Tons	(25)%
569 Feet	Operating development fluctuates depending on the number of stopes being developed in any quarter.	347 Feet	64%	662 Feet	(1)%
31,984 Tons	Ore generated from production, development, and exploratory mining in the SMC throughout Q1/12 was 31,984 tons grading 0.61 opt containing 19,526 (feed) ounces. Mill recovery for Q1/12 was 96.4% resulting in production grading 0.59 opt containing 18,823 ounces. SMC ore contributed 56% of the produced tons and 75% of the produced ounces.	36,618 Tons	(13)%	22,030 Tons	45%
25,516 Tons	Ore generated from production, development, and exploratory mining in the Main Break area for Q1/12 was 25,516 tons at a grade of 0.25 opt containing 6,470 (feed) ounces. Mill recovery for Q1/12 was 96.4% resulting in production grading 0.24 opt containing 6,238 ounces. Main Break ore contributed 44% of the produced tons, and 25% of the produced ounces.	18,415 Tons	39%	24,070 Tons	6%
2,661 Feet	Capital development decreased over Q4/11 due to the completion of some headings and the redeployment of some crews to mine refurbishment work. Capital development increased slightly over the previous year due to an increase in the number of crews over that period.	2,899 Feet	(8)%	2,373 Feet	12%
57,500 Tons	Tons of ore milled increased compared to Q4/11 and Q1/11 due to an increase in active ore mining workplaces. Thirty two ore mining workplaces are currently available, but not all areas are currently fully active due to the restricted hoisting capacity. Higher grade workplaces are prioritized.	55,033 Tons	4%	46,100 Tons	25%

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

FINANCIAL REVIEW

Q1/12 Results (\$000's)	Commentary	Comparatives			
		Q4/11	B/ (W)*	Q1/11	B/ (W)
35,698	Revenue increased with 2,768 more ounces being sold compared to the previous quarter and 10,050 more ounces being sold compared to the same quarter in the previous year combined with increases in the price of gold.	29,795	20%	17,681	102%

Q1/12 Results (\$000's)	Commentary	Comparatives			
		Q4/11	B/ (W)*	Q1/11	B/ (W)
24,320	<p>Production Expenses</p> <p>Compared to the fourth quarter of fiscal 2011:</p> <ul style="list-style-type: none"> Production expenses increased by \$3.6 million due to a \$1.4 million unfavourable adjustment to inventory, a \$1.1 million increase in mining, milling and maintenance costs and a \$1.1 million increase in general site costs, depreciation and royalties' expense. These increases were however offset by a \$1.0 million rebate received by virtue of the Company's participation in energy conservation initiatives being promoted in Ontario. This credit was a catch up adjustment associated with prior periods and is likely to be between \$0.3 million - \$0.4 million in future quarters. The fluctuations in gold inventory levels and valuation occurred as a result of varying operating costs and inventory levels between quarters. Inventory quantity increased by 2,120 ounces in Q4 and increased again by 856 ounces in Q1 fiscal 2012 due to the timing of pours and sales. Inventory ounces are valued at the lower of the underlying cost of production in the previous month, or the market price. The value of ounces of gold in inventory decreased by \$312 per ounce in Q4 fiscal 2011 and by \$202 per ounce in Q1 fiscal 2012 due to higher ore grades in the last months of these quarters, thus lower unit costs. The resulting swings in the value of inventories resulted in a small credit to costs in Q4, and as a significant reported cost in Q1 of fiscal 2012. 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. 9,883 ounces were in inventory at the end of Q1. The increases in mining and maintenance, depreciation, and royalties were all reflective of increased activities. Accretion expense has been reclassified from production expense to finance expense to comply with IFRS. <p>Compared to the first quarter of fiscal 2011:</p> <ul style="list-style-type: none"> Production expenses increased \$11.8 million due to the increase in site-wide activity and associated labour and material charges and due to inventory changes. Mining, milling, and maintenance costs increased \$3.5 million, general site costs increased \$1.2 million, amortization and depletion increased \$1.4 million and royalties increased \$0.6 million. In addition to the increased activity costs, changes in the valuation of inventory between periods were negative (\$5.1 million) bringing the total cost increase to \$11.8 million. 	21,697	12%	12,507	94%
601	<p>General and administrative expenses were lower than the previous quarter due to the timing of accruals landing in Q4 of fiscal 2011. Expenses were relatively consistent year over year.</p>	1,039	42%	622	3%
2,912	<p>Exploration expenses remained consistent compared to the previous quarter. Costs increased drastically over the previous fiscal year as a result of more drills coming online, changes to the shift schedule that increased the manning of drills, and a refinement in cost allocation processes involving exploration.</p>	2,997	3%	1,502	94%
9,270	<p>Capital spending on mine development increased compared to the previous quarter and year with more resources being deployed for projects such as ongoing refurbishment combined with more development headings being opened.</p>	8,947	4%	5,907	57%

Q1/12 Results (\$000's)	Commentary	Comparatives			
		Q4/11	B/ (W)*	Q1/11	B/ (W)
7,912	Capital spending on equipment remained consistent during the quarter compared to the previous quarter and the same quarter last year. Property and equipment spending fluctuations are dependent on management's prioritization of project work. Projects which continued to progress included the second changing facility, compressor system upgrades, backfill plant upgrade, and the hoist expansion initiative.	7,379	7%	7,952	(0)%
38,552	The increase in total spending compared to the previous quarter was largely a result of fluctuations in operating costs (including inventory adjustments) as explained above. The increase in total spending compared to the previous year was attributable to the overall increase in manpower and activities (and the inventory adjustment as explained above).	35,391	9%	24,872	55%
130	Finance income remained relatively consistent between quarters and mainly reflects interest received on short term investments.	193	(33)%	115	13%
14,246	Provision for Income Taxes (recovery) represents previously unrecognized tax benefits as management considers it probable that future taxable profits will be available against which they can be utilized.	13	-	-	-

*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.

SUMMARY OF QUARTERLY RESULTS

The quarterly results for the Company for the last eight 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>	Fiscal 2012	Fiscal 2011				Fiscal 2010 ⁽¹⁾		
	1 st Quarter	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter	4 th Quarter	3 rd Quarter	2 nd Quarter
Revenue	35,698	29,795	25,426	30,418	17,681	15,630	6,177	6,925
Net Income and Comprehensive Income (Loss)	22,180	4,131	4,215	8,574	2,976	(1,710)	(4,896)	(7,273)
Earnings (Loss) per Share (Basic & Diluted)	0.32	0.05	0.06	0.13	0.04	(0.03)	(0.08)	(0.12)

⁽¹⁾ Fiscal 2010 quarterly information is presented in accordance with C-GAAP. It has not been restated to conform to IFRS.

In general, the quarterly results indicate progress due to planned increases in production and a favourable trend in the gold price. Production in Q2 and Q3, 2010, was low due to the paste backfill interruption. 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. Results in Q1, 2012, were depressed by an inventory valuation adjustment of \$1.4 million as noted above.

All exploration drilling costs are expensed and an increase in exploration costs due to an accelerating exploration program reduced the net income reported in Q3, 2011, and Q4, 2011, by approximately \$1.0 million and \$1.3 million respectively. Exploration activity in Q1, 2012, remained at a level comparable to Q4, 2011. The results in Q1, 2012, include a \$14.2 million non-cash taxation allowance adjustment as explained above.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

To date, the Company has relied primarily on private placement financings of equity securities to finance its operational and development requirements beyond internally generated cash flow. By virtue of increases in both the gold price and production, the Company has now reported six consecutive quarters of positive operating cash flows. This trend is expected to continue, however, capital expenses are expected to exceed these cash flows until higher levels of production are realized. The Company believes that current cash resources are sufficient to cover this shortfall until these higher levels of operating cash flows are achieved and all expenses can be covered internally.

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:

Resource <i>(All amounts in 000s of CDN Dollars)</i>	At July 31,	
	2011	2010
Cash	14,977	13,372
Short-term Investments	25,315	35,235
Total	40,292	48,608

Interest received on Canadian dollar deposits during the quarter ranged from 0.75% to 1.18% per year.

The Company generated \$6.2 million in cash flows from operations during the quarter. This was mainly a consequence of net income before income taxes of \$7.9 million combined with amortization and depletion (items not affecting cash) which were offset with changes in non-cash working capital items. Net income before income taxes was attributable to favourable upward trends in the price of gold and ounces sold. Non-cash working capital items which offset the increased income were primarily a result of the change in accounts receivables and payables.

Net proceeds from financing activities during the quarter amounted to \$0.3 million and related to the exercise of stock options.

Cash flows used in investing activities amounted to \$17.5 million for the quarter. Investments included \$0.4 million used in net purchases of short-term investments, \$7.8 million spent on mine equipment and surface infrastructure and \$9.3 million spent on capital development and mine refurbishment. Further details on this area are discussed in the Capital Update section above.

As at October 3, 2011 the Company's cash resources are \$42.5 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 July 31, 2011 consist of cash and cash equivalents, short-term investments, restricted cash, accounts receivable, other long-term assets, 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. 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 July 31, 2011, capital commitments made to third parties included:

Capital Commitments	\$000
Property, Plant and Equipment	12,247
Underground Development	103
TOTAL	12,350

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) 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.

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 outstanding contracts 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 July 31, 2011, \$16,000 was on deposit to cover the margin calls made by Johnson Matthey Plc. This figure had increased to \$430,000 as at the date of this MD&A.

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 quarter ended July 31, 2011, royalties expensed under this agreement amounted to \$1,426,508 (2010 - \$780,318). The Company has paid \$13,299,949 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 \$400,000 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.

A Mine 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.

A limited scope Closure Plan Amendment was submitted to the MNDMF and on April 29, 2011 the Director of Mine Rehabilitation for the MNDMF notified the Company that the limited scope Closure Plan Amendment (CPA) for the Macassa, Kirkland Minerals, Teck-Hughes, Lakeshore and Joint Venture Properties including the Amalgamated Kirkland joint venture property was filed (accepted). This filing now allows advanced exploration or mining to take place on all four Company properties within the boundary area defined in the CPA submission including the joint venture properties with Queenston. The mine Closure Plan filed by Kinross in 1999 was for the Macassa and Lakeshore properties and mining and advanced exploration outside this area was not allowed.

This limited scope CPA was accepted on the basis that the Company would submit a more comprehensive CPA by November 30, 2011. Purchase orders have been issued to Golder Associates and Klohn-Crippen Consultants to complete the required closure studies. These studies will also determine whether the current \$4,452,597 financial assurance level is adequate or needs to be increased. In addition, the amended CPA will address any deficiencies noted in the September 2010 MNDMF inspection for the Macassa, Kirkland Minerals, Teck-Hughes and Lakeshore properties.

The Wright Hargreaves property is not included in the Mine Closure Plan nor are there any requirements to submit financial assurance for this property. The MNDMF carried out an inspection of the Wright Hargreaves property in September 2010. The MNDMF concluded that certain Wright Hargreaves shaft and adit caps installed over 25 years ago as well as certain crown pillars may pose a longer term public risk. Golder Associates has been retained to carry out an inspection program of concrete caps in fiscal 2012 (by the end of calendar year 2011). In a June 2011 letter, the Company committed to inspect Wright Hargreaves shaft caps and raise caps in 2011. The Company also committed to completing a comprehensive geotechnical study of Wright Hargreaves crown pillars by the end of calendar year 2014. The associated costs to complete the work listed for both the CPA and the Wright Hargreaves rehabilitation work have been included in the 2012 financial year budget.

The MNDMF and the Company continue to liaise constructively on rehabilitation requirements for the Company's properties. Consultation with First Nations is a necessary component of a Closure Plan. Meetings have been held with the Beaverhouse, Matachewan and Wahgoshig First Nation Bands. The onsite meetings included a tour of the mine and properties as well as a Closure Presentation by the Company. A MNDMF representative attended the meetings. Additional consultation meetings are scheduled or planned.

Related Party Transactions

Pursuant to an agreement between the Company and Ionic Management Corp., the Company pays \$4,000 per month to Ionic (\$3,500 up until February, 2011) in consideration of it providing corporate and administrative services to the Company. For the three month period ended July 31, 2011, the total fees paid to Ionic for services performed under the agreement were \$12,000 (2010: \$10,500). Ionic is a private management company and has one director (Brian E. Bayley) in common and a corporate secretary (Sandra Lee) in common with the Company.

APPENDIX 1

SELECTED FINANCIAL INFORMATION & REVIEW OF OVERALL PERFORMANCE

Financial Highlights <i>(All amounts in 000's of Canadian Dollars, except shares and per share figures)</i>	Three months ended,		
	July 31, 2011	April 30, 2011	July 31, 2010
Gold Sales (ounces)	24,178	21,410	14,111
Average Price (per ounce)	1,476	1,392	1,252
Revenue	35,698	29,795	17,681
Production Expenses	24,320	21,697	12,507
Exploration Expenses	2,912	2,997	1,502
Net Income before Income Taxes	7,934	4,118	2,976
Net and Comprehensive Income	22,180	4,131	2,976
Per share (basic and diluted)	0.32	0.06	0.04
Cash Flow from operating activities	6,223	6,584	118
Cash Flow from (used in) financing activities	344	11,147	(3)
Cash Flow used in investing activities	(17,499)	(28,856)	(16,066)
Net increase (decrease) in cash	(10,932)	(11,124)	(15,951)
Total cash resources	40,292	51,231	48,608
Other Current Assets	14,983	13,256	14,338
Current Liabilities	19,131	21,809	16,130
Working Capital	36,143	42,678	46,816
Total Assets	230,712	209,372	168,295
Total Liabilities	23,384	26,020	20,320
Weighted average number of shares outstanding	69,805,611	68,282,898	67,728,645
Dividends per share	NIL	NIL	NIL

APPENDIX 2

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 of ore milled and per ounce of gold 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 tables provide 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 quarter ended July 31, 2011:

<i>All amounts in 000s of Canadian Dollars except tons ore milled and gold ounces produced</i>	Three months ended		
	July 31, 2011	April 30, 2011	July 31, 2010
Production Expense per Financial Statements	\$ 24,320	\$ 21,697	\$ 12,507
Amortization and Depletion	(2,903)	(2,591)	(1,412)
Stock-based compensation (non-cash)	(47)	(41)	(81)
Total Cash Costs	\$ 21,370	\$ 19,065	\$ 11,014
Royalties	<u>(1,427)</u>	<u>(1,216)</u>	<u>(782)</u>
Production Costs	\$ 19,943	\$ 17,849	\$ 10,232
Tons Ore Milled	57,500	55,033	46,100
Gold Ounces Produced	25,060	23,465	16,621
Total Cash Cost per Ton	\$ 372	\$ 347	\$ 239
Total Cash Cost per Ounce	\$ 853	\$ 812	\$ 663
Operating Cost per Ton	\$ 347	\$ 324	\$ 222
Operating Cost per Ounce	\$ 796	\$ 761	\$ 616

APPENDIX 3

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

(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 tradable 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.

(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, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized.

Deferred income tax assets are recognized only to the extent that it is probable that future 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) 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.

(d) Reclamation and Remediation, and Other Provisions

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.

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.

(e) *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. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the 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 tests at the time the losses are recouped.

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 \$1,350 per ounce versus the average gold price of \$1,476 in the first quarter of fiscal 2012 and operating costs similar to historical costs incurred over the past year, that annual production of approximately 75,000 to 80,000 ounces of gold for each year would be required to cover costs of operations and estimated ongoing capital expenditures required for mining operations. Moving forward, the Company's target is to exceed this rate of production; however to date, the Company has not been successful in sustaining this higher rate of production for more than one year.

NATIONAL INSTRUMENT 52-109 DISCLOSURES

Internal Control over Financial Reporting

As at the financial year ended April 30, 2011, 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, 2011 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Other than changes relating to the transition to IFRS, there has been no change in the Company's internal control over financial reporting during the quarter ended July 31, 2011, that has materially affected the Company's internal control over financial reporting.

APPENDIX 4

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	69,893,112	--
Options	1,838,000*	\$12.14

*if all options have fully vested

Forward Looking Information

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

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

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

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