



LAKE SHORE GOLD CORP
2006 SECOND QUARTER REPORT

for the six months ended June 30, 2006

LAKE SHORE GOLD CORP.

MANAGEMENT'S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

June 30, 2006 and 2005

GENERAL

The following management's discussion and analysis of Lake Shore Gold Corp. (the "Company" or "Lake Shore"), dated as at August 8, 2006, for the three and six month periods ended June 30, 2006, should be read in conjunction with the interim and audited financial statements including the notes thereto for the period ended June 30, 2006 and year ended December 31, 2005, respectively. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Lake Shore is an exploration stage mineral exploration company engaged in the acquisition and exploration of mineral properties with prospects for hosting gold and base metal deposits. The Company is currently active in Canada and holds a number of mineral resource properties, either directly or through option agreements, in Ontario and Québec.

Lake Shore is a reporting issuer in British Columbia, Alberta, Manitoba, Ontario and Québec, and trades on the Toronto Stock Exchange (LSG-T).

OVERALL PERFORMANCE

In February 2006, the Company completed a bought deal financing and received gross proceeds of \$20 million from the sale of 2 million flow through shares at \$2.50 per share and 7,317,073 non-flow through common shares at \$2.05 per share.

Approximately \$5.3 million was spent on exploration during the first half of 2006 including approximately \$4.1 million on drilling costs. The majority of the drilling costs relate to the Timmins West Property (\$2,558,000), DeSantis Property (\$378,000), Vogel Property (\$206,000), Blakelock Property (\$447,000) and Schumacher Property (\$391,000).

Administrative expenses increased by \$554,569 (excluding general exploration and property write offs) for the six months ended June 30, 2006 due to an increase in consulting fees, overall corporate activity and additional costs relating to the Toronto Stock Exchange listing.

TIMMINS WEST GOLD PROPERTY, ONTARIO

The Timmins West Property is located north of the Destor-Porcupine Fault Zone on the west end of the Timmins Gold Camp, 18 kilometres west of the city of Timmins. Lake Shore owns 100% of the Timmins West Property, which is subject to two net smelter royalties. There is a 1.5% royalty (the "Inco Royalty") to a maximum of \$2.5 million, after which that royalty is reduced to 0.75%, payable to Inco Limited ("Inco"). This royalty results from an agreement that the Company entered into with Aurora Platinum Corp. ("Aurora") and an underlying agree-

ment between Aurora and Inco regarding the use of certain data owned by Inco. The second royalty is a 1.5% royalty (which royalty can be purchased for \$1 million) payable on one claim.

Resource Expansion and Exploration Drilling

In January 2005, the Company initiated a resource expansion drill program that continued throughout the second quarter of 2006. Three drill rigs concentrated on completing sectional drilling at 50 metre centres. A fourth drill was used to test exploration targets throughout the Property.

By the end of the second quarter of 2006, the Company had completed property wide exploration drilling and 9,287 metres of sectional drilling for a total of 18,376 metres for the year to date. Drilling continues on sections 4400E and 4150E and is anticipated to be completed in the third quarter. After assay results are received, the Company will commission a new resource audit to update the previous audit of September 2004.

A total of five holes were drilled at the Main Zone targeting down plunge to the 4550E section. Drill results released on April 17, 2006 confirmed that the mineralization and mineralized zones maintain their distinctive characteristics and predictability between sections. Core intersection highlights within the Ultramafic and Footwall zones include 32.52 grams per tonne gold (uncut) over 6.0 metres, 31.43 grams per tonne gold (uncut) over 3.70 metres, with another intercept averaging 18.31 grams per tonne gold (uncut) over 4.2 metres, 8.18 grams per tonne gold (uncut) over 2.25 metres and another hole returning 9.74 grams per tonne gold (uncut) over 5.50 metres. Drilling focused at the down plunge extension of the Main Zone intersected 7.77 grams per tonne gold over 4.0 metres.

Pre-Feasibility Study

The pre-feasibility study continues to be advanced. The metallurgical study and tailings design are completed, and work continues updating the deposit model as drilling advances. Environmental assessment studies and permitting are ongoing, and the mine plan is awaiting finalized input from the other studies and completion of the sectional drilling discussed above. It is anticipated that the study will be completed in early 2007.

Advanced Exploration Permit

The advanced exploration permit process was initiated in June 2006 and is expected to take four to six months to complete at an estimated cost of \$250,000. This work will include all aspects of conducting underground advanced exploration programs, including environmental and mine engineering, surface infrastructure, shaft and/or ramp construction, underground drilling and bulk sampling and scheduling. Completion of this work would make it possible to initiate underground development work in early 2007. Golder Associates Ltd. and AMEC Mining and Metals Company ("AMEC") have been retained to complete the required environmental and underground access development studies for the advanced exploration program.

THUNDER CREEK PROPERTY, ONTARIO

The Thunder Creek Property is contiguous to and southwest of the Timmins West Property. The Company is earning a 60% interest in the Property pursuant to an option agreement entered into with Band-Ore Resources Ltd. in 2003. Lake Shore must spend \$1,705,000 and make cash payments totalling \$420,000 (\$120,000 has been paid to date) over five years, and issue 100,000 shares (75,000 shares have been issued to date). The Property is subject to the Inco Royalty. To date approximately \$1 million has been spent by Lake Shore.

Lake Shore will test the 54 claim unit package for gold mineralization in an ultramafic intrusive body, similar to the Ultramafic Zone in the Timmins West Property, which extends more than 1,800 metres southwest of the Timmins West Property. Mechanical stripping has been completed at three locations along the pyroxenite/sediment footwall contact zone. Washing, channel sampling and mapping is under way, and will be followed by a third quarter drill program. The drill program will follow up on previous gold intersections and further test the ultramafic-to-sediment contact zone.

Historical Resources

The resource estimates described below for the Vogel, Schumacher and DeSantis gold properties are historical and the Company is not treating the estimates as National Instrument 43-101 ("NI 43-101") defined resources. The Company has not completed the work necessary to verify the classification of the resources and therefore such historical estimates should not be relied upon. The Company believes that these historical estimates are relevant because they were an important consideration in the decision to acquire these properties in addition to their proximity to the Timmins West Property.

VOGEL PROPERTY

In March 2005, the Company purchased 100% of Black Hawk Mining Inc.'s ("Black Hawk") interest in the mining lease on the Vogel Gold Property by paying \$3 million and issuing 100,000 common shares to Black Hawk, a subsidiary of Glencairn Gold Corporation. The Property is subject to a maximum 3% net smelter royalty with annual advance royalty payments of US\$50,000. Upon Lake Shore's delivery to Black Hawk of a NI 43-101 report showing an indicated resource of 600,000 ounces of gold, Lake Shore is required to make a further cash payment of \$500,000 to Black Hawk.

The Property consists of one 64 hectare mining lease in Hoyle Township, within the eastern part of the Timmins Gold Camp, and straddles an 800 metre section of the favourable gold-bearing stratigraphy between the Hoyle Pond Mine and Bell Creek gold deposits. The currently producing Hoyle Pond Mine, located east of the Property, has the highest head grade of all significant past and present gold producers in the Timmins Gold Camp, and the Bell Creek Mine (a former producer) is located west of the Property.

The Vogel Property has been explored by several companies in the past and contains an historical measured and indicated resource estimate of 642,000 tonnes at 12.2 grams per tonne gold and an inferred resource of 933,800 tonnes at 12.7 grams per tonne gold (the historical resource is not NI 43-101 compliant). Drill results for the first phase program were released on December 5, 2005. Eighteen shallow holes were drilled (totalling 4,476 metres) and successfully intersected gold-bearing horizontal veins. Significant intersections include 28.80 grams per tonne gold over 1.30 metres, 98.08 grams per tonne gold over 0.50 metres, 208.85 grams per tonne gold over 0.22 metres, and 166.79 grams per tonne gold over 0.78 metres. Drill results released on June 21, 2006 from the first four holes of the resource expansion drilling initiated in the second quarter on the Vogel Property returned 487.20 grams per tonne gold over 0.40 metres, 28.36 grams per tonne gold over 2.0 metres, 7.62 grams per tonne gold over 0.50 metres, 7.53 grams per tonne gold over 0.50 metres and 5.73 grams per tonne over 1.50 metres. These results are similar to Hoyle Pond sub-horizontal quartz carbonate veins.

The four sub-vertical holes (H-06-03 to 06) completed to date at Vogel are located 15 metres east of the Vogel-Schumacher properties boundary and are spaced at 30 metre north-south intervals. These holes were drilled to expand the continuity of high-grade gold horizontal quartz/carbonate veins intersected in 2005 and to further test selected sub-vertical veins in an area largely untested because of its close proximity to the common boundary. Horizontal vein sets intersected to date range in thickness up to two metres, and consistently carry visible gold, up to 5% pyrite, and trace amounts of sphalerite, pyrrhotite and chalcocopyrite. The Company plans to continue to test for horizontal and sub-vertical vein sets across the Property at greater depth.

SCHUMACHER PROPERTY

In November 2005, the Company signed a 20 year lease agreement with the Canada Trust Company and a trustee of an estate giving Lake Shore a leasehold interest in the surface and mining rights on the Schumacher Property. The lease is renewable for a further 20 year term. The Property consists of one patented lot covering 64 hectares located contiguous to and west of the Vogel Property. Lake Shore is required to make cash payments totalling \$150,000 payable over two years and incur exploration expenditures of \$500,000 over three years. In addition, Lake Shore is required to pay an advance annual royalty of \$25,000 in years 4 to 6 of the lease and \$50,000 in years 7 to 9 of the lease and pay a production royalty of 2% of net smelter returns.

The Property has seen limited exploration in the past. The focus of past exploration has been on the eastern part of the Property where a historical measured and indicated resource of 156,000 tonnes at 5.99 grams per tonne gold (the historical resource is not NI 43-101 compliant) has been estimated by Pentland Firth Ventures Ltd. This resource, which remains open, represents the western continuation of the immediately adjacent Vogel gold mineralization.

Two deep stratigraphic holes were drilled in the first half of 2006 to advance the understanding of the geology in the central and eastern part of the Property in order to aid the preparation of future drill programs. One significant intersection returned 4.11 grams per tonne gold over 0.40 metres associated with narrow quartz veining at a depth of 582 metres on the eastern side of the Property. Additional drilling is planned for the third and fourth quarters.

Through the acquisition of Vogel, and the adjacent and contiguous Schumacher ground to the west, the Company has consolidated 1.6 kilometres of the main mine stratigraphy between the Hoyle Pond Mine to the east and the Bell Creek Mine to the west

The current 6,000 metre drill program, which includes the first two holes drilled earlier, will continue to test for the presence of mineralized shoots at depth (combination of sub-vertical and horizontal veins) which may occur along a shallow easterly plunge. The holes will also test the potential of the northwest projection of the Hallnor Fault, which may trend through the Schumacher Property. This structure represents a significant untested opportunity, as it may have influenced the location of the Bell Creek Mine and Marlhill Mine mineralization.

Advanced Exploration Permit Application

The permitting process for the Vogel-Schumacher Project was initiated in June 2006 and is expected to take six to ten months at an estimated cost of \$350,000. This work will include

all aspects of conducting underground advanced exploration programs, including environmental and mine engineering, surface infrastructure, shaft and/or ramp construction, underground drilling and bulk sampling and scheduling. In addition, the Vogel-Schumacher Project will now be included as part of the ongoing Timmins West pre-feasibility study. Completion of this work will make it possible to initiate underground development work in early 2007.

DESANTIS PROPERTY

In March 2005, Lake Shore entered into an agreement with Explorers Alliance Corporation to earn up to a 70% interest in the DeSantis Property in Ogden Township, Ontario. Lake Shore can earn a 51% interest by making cash payments totalling \$375,000, issuing 75,000 common shares plus additional common shares worth \$200,000 and spending \$3 million (approximately \$900,000 has been spent to date) in exploration expenditures on the Property over a three year period. Lake Shore can earn up to a 70% interest by spending an additional \$3,726,000 on the Property. The Property is also subject to an underlying 1.5% net smelter royalty. To date, the Company has issued the 75,000 common shares and additional common shares valued at \$100,000. As well, the Company has made cash payments of \$175,000.

The Property consists of 22 patented and two leased claims covering approximately 665 hectares immediately north of the Destor-Porcupine Fault Zone in the western part of the Timmins Gold Camp, and eight kilometres east of the Company's Timmins West Property.

As reported in the Company's news release dated February 7, 2006, the Property has a past history of underground mining, mainly in the 1930's and 1940's, accessed by two shafts and 7,000 metres of underground drifting. Limited surface and underground exploration in the 1980's reported historical resource estimates, including: 129,000 tons at a cut grade of 0.265 ounces per ton gold, and 0.58 ounces per ton gold (uncut) in the Hydrothermal Zone (above 300 metres) and 72,212 tons at 0.229 ounces per ton gold (cut grade) in the Albitite Zone between 200 and 365 metres depth. The historical resource is not NI 43-101 compliant. The potential to define additional mineralization along strike and to the depth of the known mineralization is considered to be excellent. A number of other isolated intercepts from past exploration that have not had follow up drilling are also considered promising.

A total of eight holes were completed on the DeSantis Property between November 2005 and April 2006. The first three holes tested induced polarization and resistivity geophysical anomalies located on the north-central part of the Property, 1,200 metres northwest of and 500 metres north of the main gold bearing structures, and tested geological targets within the southwest part of the Property. The best intersection returned values up to 1.43 grams per tonne gold over 0.65 metres. The remaining five holes tested the depth/down-dip extension of known gold mineralization encountered within the DeSantis Property and the main structural corridor to the west of the known gold resources. The last hole of this program intersected a new gold occurrence located approximately 400 metres west and 950 metres south of the area on the DeSantis Property for which resource estimates (historical resource estimates are not 43-101 compliant) have been calculated. The new occurrence returned 25.15 grams per tonne gold over 0.30 metres from a wide zone of stockwork quartz-tourmaline pyrite-arsenopyrite mineralization encountered between 129.5 and 146 metres. The discovery of gold mineralization associated with a strongly altered structural zone opens up new potential for the DeSantis Property and will be the focus of future drilling on the Property.

PRICE PROPERTY

In September 2004, Lake Shore entered into an option agreement to acquire 100% of a property located in Price, Ogden and Thornloe townships, east and south of the Timmins West Property. The Price Property consists of 126 claim units covering favourable geology on and north of the Destor-Porcupine Break.

A drill program was carried out on the Price Property in early 2005 in which two holes were completed for a total of 610 metres. The objective of this program was to test stratigraphy by targeting felsic porphyries that appear to cut mafic and ultramafic rocks on the Property. To follow up on the 2005 drill program a three hole stratigraphic fence totalling 1,274 metres was drilled in the second quarter of 2006. The holes intersected felsic porphyry to mafic and ultramafic rocks and sediments locally containing strong deformation and alteration. Assays are pending.

OTHER PROJECTS

Lake Shore's Blakelock Property was expanded in the second quarter from three claims to fifty-five claims in Blakelock, Hoblitzell, Newman and Tweed townships approximately 140 kilometres northeast of the city of Timmins and 58 kilometres west of the Casa Berardi Gold Mine, along the western extension of the Casa Berardi Fault. The Property is subject to the Inco Royalty. A 27 line kilometre ground magnetic survey was completed on the Property in September 2005 in preparation for a drill program. This was a helicopter supported program to follow up on historical core intersections reported by Esso Minerals Canada Limited of 34.50 grams per tonne gold and 260.97 grams per tonne silver over 2.95 metres and 9.39 grams per tonne gold and 26.69 grams per tonne silver over 2.90 metres. These results pre-date NI 43-101 and should not be relied upon. An eight hole diamond drill program was completed in May 2006 with final assay results pending due to lab delays. An airborne magnetic survey covering the new expanded property is planned for the third quarter that will lead to the development of additional drill targets for the fourth quarter.

In April 2004, Lake Shore executed an agreement with Fieldex regarding Lake Shore's Noranda North volcanogenic massive sulphide (VMS) and gold property in western Québec. Under the terms of the agreement, Fieldex can earn a 50% interest in the Property by spending \$500,000 by September 30, 2006, which must include at least 1,000 metres of drilling. The Property is subject to the Inco Royalty. A third quarter 2006 field exploration program will be carried out on the Property to develop diamond drill targets. Drilling is planned to follow up the summer field exploration program.

The Company's Qualified Persons ("QP") are Jacques Samson, P.Geo. for Timmins West and Thunder Creek properties, Richard Labine, P.Geo. for the Vogel-Schumacher properties and William Waychison, P.Geo. for the DeSantis Property. Each QP has prepared or supervised the preparation of the scientific or technical information for the respective properties.

RESULTS OF OPERATIONS

The net loss for the three and six months ended June 30, 2006 was \$329,830 (2005 – \$1,195,604) or \$0.00 (2005 – \$0.02) per share and \$861,504 (2005 – \$1,440,587) or \$0.01 (2005 – \$0.02) per share, respectively. The decrease in both periods when compared to the corresponding periods in the prior year was the result of lower stock-based compensation costs and higher interest income and was partially offset by higher general and administrative costs.

General and administrative expenditures increased by \$144,529 and \$554,569 during the three and six months ended June 30, 2006, respectively. The increase was mainly the result of higher consulting fees and office expenses due to performance bonuses granted to executives, consultants (included in consulting and management fees) and employees (included in office expense). There was also an increase in shareholder information costs related to the Toronto Stock Exchange listing and additional regulatory and filing fees.

The Company incurred \$59,515 (2005 – \$32,818) and \$121,687 (2005 – \$58,545) in general exploration costs during the three and six months ended June 30, 2006, respectively. These costs relate to general reconnaissance expenditures relating to its field offices and to the generation of new projects.

Interest income increased by \$160,452 and \$244,448 during the three and six month periods ended June 30, 2006 as compared to the corresponding periods in the prior year due to a significantly larger cash balance resulting from the financing completed in February 2006.

As a result of stock options vesting during the six month period ended June 30, 2006, the Company recorded \$347,670 (June 30, 2005 – \$1,134,350) as stock-based compensation expense and included this amount in contributed surplus. This value was determined using the Black-Scholes option pricing model. A grant-date fair value of \$1.02 (June 30, 2005 – \$0.40) for each option grant was estimated using the following assumptions: no dividends are to be paid; volatility of 66% (June 30, 2005 – 70%); risk free interest rate of 4.0% (June 30, 2005 – 3.5%); and expected life of 3.5 years (June 30, 2005 – 3.5 years).

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, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

As a result of the tax benefits of deductible expenses incurred during the three and six month periods ended June 30, 2006, the Company recorded a recovery of future income tax of \$78,000 and \$277,000 (June 30, 2005 – \$96,000 and \$171,000), respectively.

SUMMARY OF QUARTERLY RESULTS

	2nd Quarter June 30 2006	1st Quarter Mar 31 2006	4th Quarter Dec 31 2005	3rd Quarter Sept 30 2005
<i>Fiscal Quarter ended</i>				
Interest and other income	199,700	102,279	22,452	29,139
Net loss	(329,830)	(531,674)	(2,394,734)	(301,686)
Loss per share*	(0.00)	(0.01)	(0.03)	(0.00)
	2nd Quarter June 30 2005	1st Quarter Mar 31 2005	4th Quarter Dec 31 2004	3rd Quarter Sept 30 2004
<i>Fiscal Quarter ended</i>				
Interest and other income	39,248	18,283	10,971	12,361
Net loss	(1,195,604)	(244,983)	(42,817)	(642,885)
Loss per share*	(0.02)	(0.00)	(0.00)	(0.02)

* Loss per share is calculated based on the weighted-average number of shares outstanding.

An analysis of the quarterly results over the last eight quarters shows a significant variation between the second quarters of 2006 and 2005, and fourth quarters of 2005 and 2004. The fourth quarter variance was the result of a mineral property write off in 2005 and the second quarter variance was the result of stock-based compensation expense totalling \$1,021,850 recorded in 2005.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company is not in commercial production on any of its resource properties and, accordingly, it does not generate cash from operations. The Company finances its activities by raising capital through the equity markets. There was a significant increase in the Company's cash and working capital position due to a \$20 million financing completed in February 2006. As at June 30, 2006, the Company had a cash balance of \$18.6 million (December 31, 2005 – \$2.6 million).

Cash used in operating activities during the six months ended June 30, 2006 was \$797,106 (June 30, 2005 – \$616,828). Recovery of income tax, stock-based compensation expense and changes in non-cash operating items make up the amounts that reconcile the statement of loss to the statement of cash flows from operating activities.

Cash used in investing activities totalled \$5.3 million (June 30, 2005 – \$5.6 million). The Company's principal investing activity is the acquisition and exploration of its resource properties. During the six month period ended June 30, 2006, the Company expended \$3.2 million on exploration, including drilling and pre-feasibility costs, on the Timmins West Property, \$0.6 million (excluding option payments) relating to the DeSantis Property, \$1.1 million on the Blakelock and Schumacher properties and the remaining \$0.4 million on the Company's various non-core properties.

Net proceeds of approximately \$22.1 million were received during the six months ended June 30, 2006 from the issuance of common shares pursuant to a bought deal financing and exercise of convertible securities.

A bought deal financing was completed on February 13, 2006 pursuant to which the Company issued 2 million flow through shares at \$2.50 per share and 7,317,073 common shares at \$2.05 per share for gross proceeds of \$20 million. The underwriters received a cash commission equal to 6% of gross proceeds. The Company also received \$2,493,611 from the exercise of 1,281,000 warrants at \$1.75 and 314,301 broker warrants at \$0.80; and a further \$1,170,950 was received from the exercise of 1,938,167 stock options.

As a result of the flow through shares issued in February 2006, the Company has an obligation to expend \$5 million on eligible Canadian Exploration Expenditures ("CEE") in accordance with flow through requirements. As at June 30, 2006, the Company had incurred \$3.6 million in CEE.

At June 30, 2006, exploration advances and other receivables include \$451,563 relating to Québec refundable tax and mining duties refunds and \$215,800 in GST receivable. Accounts payable and accrued charges include \$744,000 in trade payables (mainly relating to drilling invoices), a \$150,000 exploration advance from Fieldex relating to the Noranda North Property, and \$70,000 in other accrued liabilities.

In management's view, the Company currently has sufficient financial resources to fund planned exploration programs and ongoing operating expenditures. The Company will continue to be dependent on raising equity capital as required in the long term and believes that it will be successful in doing so.

SHAREHOLDER RIGHTS PLAN

In March 2006, Lake Shore's Board of Directors adopted a shareholder rights plan (the "Rights Plan") to encourage the fair treatment of shareholders in the event of a take-over bid. The Rights Plan, details of which are provided in the Company's Management Information Circular dated March 21, 2006 and filed on SEDAR, will provide the directors and the shareholders more time to consider fully any unsolicited take-over bid. The Rights Plan was approved at Lake Shore's Annual and Special Meeting of Shareholders in May 2006.

OUTSTANDING SHARE CAPITAL

As at July 31, 2006, there were 94,990,713 common shares issued and outstanding and the following options and warrants:

Options

	Number of options outstanding	Exercise price range
	4,356,333	\$0.24-\$0.90
	778,000	\$1.05-\$1.94
	685,000	\$2.00-\$2.28
Total	<u>5,819,333</u>	

Warrants

Date issued	Number of warrants	Exercise price	Expiry date
March 31, 2005	132,000	\$0.80	March 31, 2007

CONTRACTUAL OBLIGATIONS

The Company has earn-in/option agreements with third parties pursuant to which the Company has the option to earn an interest in the Thunder Creek, Price, DeSantis and Schumacher properties. In order to continue earning its interest in these properties, the Company is required to make certain cash payments and spend amounts on exploration as follows:

	2006	2007	2008	2009
Cash payments	\$ 125,718	\$ 540,727	\$ 226,256	\$ 136,806
Expenditures	1,148,724	1,476,109	650,000	200,000
	<u>\$ 1,274,442</u>	<u>\$ 2,016,836</u>	<u>\$ 876,256</u>	<u>\$ 336,806</u>

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

i) Acquisition costs of resource properties together with direct exploration and development expenditures are capitalized. When production is attained, these costs will be amortized. When capitalized expenditures on individual producing properties exceed the estimated net

realizable value, the properties are written down to the estimated value. Costs relating to properties abandoned are written off when the decision to abandon is made.

ii) The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities.

iii) CICA Handbook section 3870, "Stock-Based Compensation and Other Stock-Based Payments" establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. Compensation expense is determined using the Black-Scholes option pricing model based on estimated fair values of all stock-based awards at the date of grant and is expensed to operations over each award's vesting period.

The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2006, the Company paid a total of \$251,325 (June 30, 2005 — \$103,363) on account of consulting and management services of which \$138,250 was paid to a director who is an officer and \$113,075 to independent directors. In addition, there were fees of \$18,000 (June 30, 2005 — \$18,000) paid to Southwestern Resources Corp. ("Southwestern"), a company which provides administrative services under the terms of an administrative services agreement. The basis for the various fees is either a monthly or per diem rate. As at June 30, 2006, there was \$214 (December 31, 2005 — \$2,835) owing to Southwestern.

CORPORATE GOVERNANCE

The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders.

The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and audited annual financial statements prior to their submission to the Board of Directors for approval. The Audit Committee, comprised of three independent directors, meets with management and the external auditors on a quarterly basis to review the financial statements, including the MD&A, and to discuss other financial, operating and internal control matters. The Company also has the practice of engaging its external auditors to perform quarterly reviews of its interim financial statements.

Management is responsible for the preparation and integrity of the financial statements and maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

FORWARD-LOOKING STATEMENTS

Some of the statements in this document constitute "forward-looking statements." Where Lake Shore expresses an expectation or belief as to future events or results, including management plans and objectives, and projections of exploration results, such expectation or belief is expressed in good faith and is believed to have a reasonable basis. While these

statements represent our best current judgment, they are subject to risks and uncertainties that could cause actual results to vary, the specifics of which are detailed in disclosures with the heading “Risk Factors” in the Company’s periodic filings with securities regulators. Lake Shore does not assume the obligation to update any forward-looking statement.

ADDITIONAL INFORMATION

Additional information is provided in the Company’s audited consolidated financial statements for the year ended December 31, 2005, the Annual Information Form and the Company’s Information Circular. These documents are available on SEDAR at www.sedar.com.

LAKE SHORE GOLD CORP.

CONSOLIDATED BALANCE SHEETS

<i>Unaudited</i>	June 30 2006	December 31 2005
ASSETS		
Current		
Cash and cash equivalents	\$ 18,557,672	\$ 2,592,588
Exploration advances and other receivables	676,326	671,992
	19,233,998	3,264,580
Resource properties <i>note 2</i>	75,818,874	70,045,459
Property, plant and equipment	31,327	14,179
	\$ 95,084,199	\$ 73,324,218
LIABILITIES		
Current		
Accounts payable and accrued charges	\$ 963,754	\$ 631,008
Due to affiliated company <i>note 4</i>	214	2,835
	963,968	633,843
Long Term	18,692,000	17,764,000
Future income tax <i>note 5</i>	19,655,968	18,397,843
SHAREHOLDERS' EQUITY		
Share capital <i>note 3</i>	84,814,199	61,214,693
Contributed surplus	3,575,476	4,059,622
Deficit	(12,961,444)	(10,347,940)
	75,428,231	54,926,375
	\$ 95,084,199	\$ 73,324,218

See accompanying notes to consolidated financial statements

Approved by the Board


MURRAY A GORDON


ALAN C MOON

LAKE SHORE GOLD CORP.

CONSOLIDATED STATEMENTS

OF LOSS AND DEFICIT

<i>Unaudited</i>	Three months ended June 30 2006	Three months ended June 30 2005	Six months ended June 30 2006	Six months ended June 30 2005
EXPENSES				
Consulting and management fees	\$ 181,769	\$ 85,303	\$ 452,488	\$ 170,931
General exploration	59,515	32,818	121,687	58,545
Shareholder information	66,167	38,260	161,918	81,300
Legal and accounting	33,916	25,461	57,628	58,847
Office expense	33,795	40,598	219,141	50,927
Resource property costs written off	-	59,666	-	59,666
Travel	45,400	26,896	79,951	54,552
Loss before undernoted items	(420,562)	(309,002)	(1,092,813)	(534,768)
Interest income	199,700	39,248	301,979	57,531
Stock-based compensation <i>note 3d</i>	(186,968)	(1,021,850)	(347,670)	(1,134,350)
Loss before income taxes	(407,830)	(1,291,604)	(1,138,504)	(1,611,587)
Recovery of income tax <i>note 5</i>	78,000	96,000	277,000	171,000
Net loss for the period	(329,830)	(1,195,604)	(861,504)	(1,440,587)
Deficit at beginning of period	(12,631,614)	(5,580,916)	(10,347,940)	(5,298,433)
Renunciation of flow through shares <i>note 5</i>	-	-	(1,752,000)	-
Loss on cancelled shares <i>note 3</i>	-	-	-	(37,500)
Deficit at end of period	\$ (12,961,444)	\$ (6,776,520)	\$ (12,961,444)	\$ (6,776,520)
Loss per share	\$ (0.00)	\$ (0.02)	\$ (0.01)	\$ (0.02)
Weighted-average number of shares outstanding	94,714,289	79,072,415	91,171,815	74,633,012

See accompanying notes to consolidated financial statements

LAKE SHORE GOLD CORP.

CONSOLIDATED STATEMENTS

OF CASH FLOWS

<i>Unaudited</i>	Three months ended June 30 2006	Three months ended June 30 2005	Six months ended June 30 2006	Six months ended June 30 2005
OPERATING ACTIVITIES				
Net loss for the period	\$ (329,830)	\$ (1,195,604)	\$ (861,504)	\$ (1,440,587)
Recovery of income tax	(78,000)	(96,000)	(277,000)	(171,000)
Resource property costs written off	-	59,666	-	59,666
Stock-based compensation	186,968	1,021,850	347,670	1,134,350
	(220,862)	(210,088)	(790,834)	(417,571)
Change in non-cash operating working capital items:				
(Increase) decrease in exploration advances and other receivables	(24,822)	48,002	(16,263)	(30,072)
(Decrease) increase in accounts payable and accrued charges	(216,791)	(29,143)	9,991	(169,185)
Cash used in operating activities	(462,475)	(191,229)	(797,106)	(616,828)
INVESTING ACTIVITIES				
Resource property expenditures	(2,831,672)	(4,789,646)	(5,318,638)	(5,597,789)
Additions to property, plant and equipment	(14,477)	-	(20,362)	-
Cash used in investing activities	(2,846,149)	(4,789,646)	(5,339,000)	(5,597,789)
FINANCING ACTIVITY				
Shares issued	587,039	8,394	22,101,190	7,754,637
Cash provided by financing activity	587,039	8,394	22,101,190	7,754,637
(Decrease) increase in cash and cash equivalents during the period	(2,721,585)	(4,972,481)	15,965,084	1,540,020
Cash and cash equivalents at beginning of period	21,279,257	10,608,500	2,592,588	4,095,999
Cash and cash equivalents at end of period	\$ 18,557,672	\$ 5,636,019	\$ 18,557,672	\$ 5,636,019
Cash and cash equivalents consist of:				
Cash	\$ 18,557,672	\$ 346,111	\$ 18,557,672	\$ 346,111
Short-term investments	-	5,289,908	-	5,289,908
Cash and cash equivalents at end of period	\$ 18,557,672	\$ 5,636,019	\$ 18,557,672	\$ 5,636,019

Supplemental Cash Flow Information *note 6*

See accompanying notes to consolidated financial statements

LAKE SHORE GOLD CORP.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS

Six months ended June 30, 2006 and 2005
Unaudited

1/ SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and follow the same accounting policies and methods of application as the most recent annual consolidated financial statements dated December 31, 2005 and these financial statements should be read in conjunction with those annual financial statements and notes thereto. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for fair presentation have been included.

2/ RESOURCE PROPERTIES

For the six month period ended June 30, 2006:

	Timmins West	Vogel	Schumacher	Blakelock	DeSantis	Other ¹	Total
Balance, beginning of period	\$62,925,459	\$3,612,506	\$ 45,000	\$ 36,924	\$ 450,349	\$2,975,221	\$70,045,459
Property acquisition, assessment and maintenance	9,010	71,016	377	71,834	204,181	58,588	415,006
Analytical	165,544	9,664	15,796	19,810	60,189	2,270	273,273
Geophysics	4,248	-	-	26,433	-	2,456	33,137
Geology	315,862	39,553	87,801	80,947	137,392	124,415	785,970
Drilling	2,558,479	205,722	391,477	447,438	377,536	133,096	4,113,748
Project administration	137,162	600	670	-	600	1,200	140,232
Québec refundable tax credits	-	-	-	-	-	12,049	12,049
Balance, end of period	\$66,115,764	\$3,939,061	\$541,121	\$683,386	\$1,230,247	\$3,309,295	\$75,818,874

¹ Includes: Bazooka (\$719,840); Thunder Creek (\$1,114,449); Abitibi (\$655,998); Price (\$209,526); Lacey Lake (\$171,156); Noranda North (\$157,290); Miscellaneous (\$281,036).

For the year ended December 31, 2005:

	Timmins West	Vogel	Thunder Creek	Bazooka	DeSantis	Other ¹	Total
Balance, beginning of period	\$58,227,434	\$ -	\$ 771,839	\$623,760	\$ -	\$2,025,685	\$61,648,718
Property acquisition, assessment and maintenance	42,268	3,123,898	100,770	-	137,690	100,445	3,505,071
Analytical	237,556	33,585	15,145	13,637	11,989	20,042	331,954
Geophysics	-	2,009	265	-	4,840	115,093	122,207
Geology	761,214	94,987	30,073	71,437	127,873	351,477	1,437,061
Drilling	3,757,046	352,474	159,513	348,380	162,904	64,020	4,844,337
Project administration	139,274	5,553	-	1,856	5,053	-	151,736
Québec refundable tax credits	-	-	-	(352,279)	-	(127,395)	(479,674)
Adjustment related to Holmer acquisition <i>note 3</i>	(239,333)	-	-	-	-	-	(239,333)
Resource property costs written off	-	-	-	-	-	(1,276,618)	(1,276,618)
Balance, end of year	\$62,925,459	\$3,612,506	\$1,077,605	\$706,791	\$450,349	\$1,272,749	\$70,045,459

¹ Includes: Noranda North (\$141,764); Abitibi (\$576,767); Price (\$101,148); Lacey Lake (\$162,260); Miscellaneous (\$290,810).

3 / SHARE CAPITAL

a) Authorized unlimited common shares without par value.

b) Issued Capital

During the six months ended June 30, 2006 and the year ended December 31, 2005, changes in issued share capital were as follows:

Issued and outstanding	June 30, 2006		December 31, 2005	
	Shares	Amount	Shares	Amount
Balance, beginning of period	82,080,751	\$ 61,214,693	70,295,022	\$ 51,708,202
Private placement – net of share issue costs of \$1,016,317 (net of future income taxes of \$547,000) (2005 – \$559,346)	9,317,073	18,983,629	9,020,000	7,447,154
Exercise of warrants	1,595,870	2,493,611	1,635,451	1,108,129
Exercise of options (including transfer of \$831,816 (2005 – \$695,708) from contributed surplus)	1,938,167	2,002,766	1,746,945	1,603,791
Issued in exchange for resource properties	58,852	119,500	200,000	173,250
Own shares cancelled	-	-	(816,667)	(825,833)
Balance, end of period	94,990,713	\$ 84,814,199	82,080,751	\$ 61,214,693

On February 13, 2006, the Company completed a bought deal financing pursuant to which it received gross proceeds of \$20 million from the sale of 2 million flow through shares at \$2.50 per share and 7,317,073 common shares at \$2.05 per share. The agents received a cash commission equal to 6% of gross proceeds.

In March 2006, Lake Shore's Board of Directors adopted a shareholder rights plan (the "Rights Plan") to encourage the fair treatment of shareholders in the event of a take-over bid.

The Rights Plan, details of which are provided in the Company's Management Information Circular dated March 21, 2006 and filed on SEDAR, will provide the directors and the shareholders more time to consider fully any unsolicited take-over bid. The plan was adopted at Lake Shore's Annual and Special Meeting of Shareholders in May 2006.

On March 31, 2005, the Company issued 5,270,000 flow through shares at \$0.95 per share and 3,750,000 non-flow through shares at \$0.80 per share for gross proceeds totalling \$8,006,500. The underwriters received \$480,390 in cash and 541,200 compensation options. Each compensation option entitles the holder to purchase one common share at a price of \$0.80 within two years after closing.

c) Stock Options

As at June 30, 2006, the Company had 5,819,333 stock options outstanding, of which 5,591,833 were exercisable.

	June 30, 2006		December 31, 2005	
	Number of options	Weighted- average exercise price	Number of options	
			Weighted- average exercise price	
Outstanding at beginning of period	7,597,500	\$ 0.77	5,236,111	\$ 0.52
Granted to consultants and employees	160,000	\$ 2.05	4,185,000	\$ 0.98
Exercised/cancelled	(1,938,167)	\$ 0.60	(1,823,611)	\$ 0.53
Outstanding at end of period	5,819,333	\$ 0.86	7,597,500	\$ 0.77
Exercisable at end of period	5,591,833	\$ 0.84	7,110,000	\$ 0.73

d) Stock-Based Compensation

As a result of stock options vesting during the six month period ended June 30, 2006, the Company recorded \$347,670 (June 30, 2005 – \$1,134,350) as stock-based compensation expense and included this amount in contributed surplus. This value was determined using the Black-Scholes option pricing model. A grant-date fair value of \$1.02 (June 30, 2005 – \$0.40) for each option grant was estimated using the following assumptions: no dividends are to be paid; volatility of 66% (June 30, 2005 – 70%); risk free interest rate of 4.0% (June 30, 2005 – 3.5%); and expected life of 3.5 years (June 30, 2005 – 3.5 years).

The fair value computed using the Black-Scholes model is only an estimate of the potential value of the individual options and the Company is not required to make payments for such transactions.

e) Warrants

The Company has 132,000 warrants outstanding with an exercise price of \$0.80 expiring on March 31, 2007.

4 / RELATED PARTY TRANSACTIONS

For the six month period ended June 30, 2006, fees amounting to \$251,325 (June 30, 2005 – \$103,363) were paid on account of consulting and management services provided by directors and directors who are officers. As well, for the six months ended June 30, 2006,

there were fees of \$18,000 (June 30, 2005 – \$18,000) paid to Southwestern Resources Corp. (“Southwestern”), a company which provides administrative services under the terms of an administrative services agreement. As at June 30, 2006, there was an amount owing to Southwestern totalling \$214 (December 31, 2005 – \$2,835).

5/ INCOME TAXES

As a result of the tax benefits of deductible expenses and share issue costs incurred during the six month period ended June 30, 2006, the Company recorded a reduction in future income tax of \$824,000. The reduction is comprised of \$277,000 recorded as a recovery of income tax in the statement of loss and deficit and \$547,000 recorded as an adjustment to share capital.

As well, funds raised in 2005 were renounced in 2006 which resulted in a \$1,752,000 (June 30, 2005 – nil) reduction in shareholders' equity with a corresponding charge to future income tax liability.

6/ SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended June 30, 2006, the Company issued 58,852 common shares, valued at \$119,500, pursuant to the DeSantis and Price North property agreements. Pursuant to the DeSantis and Vogel property agreements, the Company issued 175,000 common shares valued at \$137,000 during the period ended June 30, 2005.

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