



**NEXT PHASE**  
**LAKE SHORE GOLD CORP.**

THIRD QUARTER REPORT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Nine months ended September 30, 2007 and 2006*

The information in this Management's Discussion and Analysis, or MD&A, is intended to assist the reader in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of Lake Shore Gold Corp. ("Lake Shore" or the "Company"). This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Company for the three and nine month periods ended September 30, 2007 and the annual MD&A for the year ended December 31, 2006. This MD&A includes information up to and as at October 31, 2007.

### HIGHLIGHTS

During the third quarter of 2007 Lake Shore incurred \$4.5 million exploration and development expenditures of which \$3.1 million were spent in the Timmins West property ("Timmins West"). The pre-feasibility ("PFS") report for Timmins West was completed by SRK Consulting ("SRK"). The mineral reserve estimate and associated preliminary mine plan conducted by SRK assessed that over 90% of the previously identified available resources are now considered mineral reserves. The Company's advanced exploration in Timmins West is in progress with \$2.1 million spent in the third quarter and \$2.8 million in the nine months of 2007.

During the first quarter of 2007 Lake Shore filed the required permit applications in connection with the advanced underground exploration program on Timmins West. In April 2007 the Company received government approval of the closure plan application and receipt of related permits required to proceed with the program. The Company now has the required permits and certificates in place with the exception of the air certificate currently being processed (see "Advanced Exploration Program" under Timmins West Gold Property, Ontario).

The Company has intersected additional new high-grade gold mineralization on the Thunder Creek property near Timmins, Ontario. The character of the mineralization in the new gold zone is similar to the Ultramafic Zone that hosts the majority of the gold mineralization at Timmins West and opens up a whole new target for expansion of the Company's Timmins West resource base (see "Thunder Creek Property").

During the first quarter of 2007 Lake Shore entered into an agreement to acquire the Bell Creek mine and mill (the “Bell Creek Assets”), which includes a hoist, headframe, underground mine, surface infrastructure and tailings. The due diligence review was completed on April 20, 2007 and the definitive agreement signed on July 20, 2007. The acquisition is expected to close in the fourth quarter of 2007 (see “Bell Creek Acquisition”).

During the third quarter the Company also obtained positive results from its Canopener property located in northwestern Ontario, a joint venture project with Superior Diamonds Inc. (“Superior”), where positive gold grain data, including a significant number of pristine gold grains, from an overburden sampling program at the property were found. The recovery of pristine gold grains implies that these grains have not moved very far in overburden soil cover and suggests a local bedrock source for the gold (see “Canopener Property”).

Also during the third quarter Lake Shore entered into a joint venture agreement with Aurizon Mines Ltd (“Aurizon”). The joint venture property covers a 30 kilometer strike length of the Casa Berardi deformation zone. Historical exploration data has been received and a detailed compilation will be conducted during the fourth quarter. A significant drilling program is planned for this project in the winter of 2008 (see “Casa Berardi”).

In April 2007 Lake Shore completed a \$28.8 million bought deal financing by issuing 6 million flow-through shares at \$2.50 per share and 6,875,000 units at \$2.00 per unit. Proceeds of the financing are being used to fund expenditures on Timmins West, the completion of the Bell Creek acquisition and for general working capital.

## **CURRENT DEVELOPMENTS**

### *Timmins West Gold Property, Ontario*

#### *Resource Expansion and Exploration Drilling*

The 2007 drilling program at Timmins West has focused on drilling the hanging wall vein zones and the main zone at depth. It has been determined that it will be more cost effective and efficient to test the vein and main zones from underground, therefore the Company has ceased the surface drilling of the vein zones and will concentrate on drilling other exploration targets on the property as they are identified and will also complete any necessary cementing of certain drill holes that have been identified as potentially having an effect on the exploration program.

A single drill was in operation at Timmins West during the third quarter. Drilling was focused on extending drill holes and testing stratigraphy in the vicinity of the exploration shaft, and exploring for potential mineralization at depth within the ultramafic body which lies along the volcanic-to-sediment contact zone. A total of 1,710 meters in five holes was completed during the quarter. A sixth hole (TG04-50) is still in progress, for a total of 2,181 meters completed during the quarter and 10,427 meters completed since the beginning of the year. No significant mineralization was intersected.

All holes are being cemented, and casings around the planned infrastructures are being removed.

Exploration drilling and cementation of old drill holes is expected to continue as required in the fourth quarter.

#### *Pre-Feasibility Study*

The technical work for the pre-feasibility study at Timmins West was completed and reviewed during the third quarter.

The Company announced an agreement for the acquisition of the Bell Creek mine and mill facility which will provide a processing facility to treat ore from Timmins West. The closure plans for each of the Bell Creek mine and mill have been amended and submitted for approval to the Ontario government. SRK Consulting ("SRK") continued to work on optimizing the preliminary underground Timmins West mine plan, which was prepared to complete the pre-feasibility study. SRK compiled the consolidated PFS report for Timmins West in September. An optimization study is underway, evaluating the different mining alternatives to maximize mine economics. The study is expected to be delivered in the fourth quarter. Based on these major milestones in the development of Timmins West, Lake Shore initiated intensive studies to determine any required modifications of the Bell Creek mill and associated tailings storage facilities to handle the metallurgical testing of the Timmins West mineralization. This work continued during the third quarter and will be ongoing during the rest of the year and into 2008. The environmental and permitting studies regarding the Bell Creek Assets were incorporated into the PFS report. Detailed long-range studies and options for the Bell Creek Assets will continue to be evaluated.

#### *Advanced Exploration Program*

Preliminary plans for an advanced underground exploration program were completed at Timmins West and were incorporated into the PFS. These plans provide for an exploration shaft to be sunk to a level that will provide a practical platform for in-fill drilling in the area of current resources and to explore the prospective areas outside the current resource envelope. A representative bulk sample from several of the major mineralized zones will be excavated from this level.

Site preparation started during the third quarter and was completed in early September. A local mining contractor started the sink cut in September and is expected to complete the shaft collar concrete work by the end of the fourth quarter. Tenders for shaft sinking and the development for advanced exploration work including the bulk sample were sent out in September. The settling pond construction was tendered in September as well.

Lake Shore sourced and purchased a suitable hoist and associated equipment for the advanced exploration program, which will be delivered to the site during the fourth quarter. An engineering company was engaged to design the headframe and its fabrication is scheduled to take place in the fourth quarter.

Work on various agreements for connection to the Hydro One electrical grid continued in the third quarter and all major agreements have been completed. The remaining documentation required for the connection was put in place during the third quarter. Electrical equipment needed to make the connection will be ordered for delivery during the fourth quarter and into first quarter in 2008.

Detailed planning will continue in order to prepare for other major commitments associated with the implementation of the advanced exploration program.

#### ***Bell Creek Complex (Vogel-Schumacher Properties)***

No exploration work was carried out on the Vogel and Schumacher properties during the third quarter. Historical database was reviewed and confirmed and initial geology and resource interpretation based on first quarter diamond drill results on Vogel were commenced. Lake Shore is developing a strategy for the Bell Creek Complex, which includes the Bell Creek mine (see “Bell Creek Acquisition”) and the Vogel and Schumacher properties. This strategic plan will assess the process and viability of bringing the Bell Creek mine back into production and will include a proposed underground exploration program of the Vogel, Schumacher and Bell Creek gold zones by gaining access through the Bell Creek mine shaft. The study will also investigate and recommend a surface diamond drill program on the properties.

#### ***Blakelock-Little Abitibi Properties***

An extensive reverse circulation (“RC”) drill program was conducted during the first quarter with two RC drills. The program consisted of a total of 90 RC holes primarily located on the western and central parts of the Blakelock property. RC samples were collected from the overburden till cover and from the bedrock. This method is widely utilized in areas with extensive overburden cover in the Canadian Shield to further define diamond drill targets. During the second and third quarters, samples collected from this program were analyzed for their gold grain content and shape in an attempt to determine proximity to the in situ source of any gold mineralization to the north, in the up ice direction. In total, three separate drill holes contained pristine gold grain counts.

A 10-hole diamond drill program was initiated during the third quarter and continues at the present time. To date 8 of the planned 10 diamond drill holes have been completed for an approximate total of 2,500 meters. The primary focus of drilling efforts has been to follow up on the results obtained during this past winter’s RC program. To date the majority of assays remain outstanding.

Upon completion of a helicopter supported drill program on Blakelock, the diamond drill will be mobilized to the Little Abitibi project to conduct reconnaissance drilling and test geo-physical targets defined by an airborne survey.

### ***Thunder Creek Property***

Lake Shore's Thunder Creek property consists of 54 claim units, contiguous to and southwest of Timmins West. Thunder Creek is underlain by an ultramafic intrusive body similar to the Ultramafic Zone at Timmins West. The Thunder Creek property represents a primary gold exploration target. Lake Shore is earning a 60% interest pursuant to an option agreement with West Timmins Mining Inc. by spending \$1.7 million over a five-year period ending in November 2008. At September 30, 2007 the Company has incurred approximately \$1.6 million of the required expenditures.

In 2007 Lake Shore plans to complete approximately 8,000 meters of diamond drilling on the Thunder Creek property, systematically testing the Rusk Zone as well as other exploration targets on the property. To this quarter a total of 5,107 meters in nine holes has been completed.

Hole TC07-30 intersected at least three separate mineralized zones within the ultramafic-to-sediment contact zone historically referred to as the Rusk Zone. The zone is characterized by very strong deformation, strong and pervasive iron-carbonate alteration, accompanied by numerous syenitic dykes, minor quartz-ankerite stringers and veinlets, disseminated pyrite, and traces of chalcopyrite and visible gold. The intercepts included 10.91 grams per tonne gold over 3.65 meters, 5.43 grams per tonne gold over 1.20 meters, 27.60 grams per tonne gold over 0.50 meters, and 9.77 grams per tonne gold over 3.95 meters. The total width of these gold zones extend over a 31.70 meter wide core length, at a vertical depth of about 300 meters, and represent the most significant gold intercepts on the property to date. Additional drilling is in progress around this new discovery with results expected in the next quarter.

Drilling will continue to focus on the Rusk Zone during the fourth quarter. The number of drills in this zone was increased to two in order to expedite the process. Drilling will also test the East-West Shear Zone, several other structures, and the syenite intrusive body further to the southeast.

The new intersections occur approximately 280 meters from surface and are located only 865 meters southwest of the Timmins West shaft planned as part of Lake Shore's advanced underground exploration program.

### ***Casa Berardi***

Lake Shore entered into a joint venture agreement with Aurizon Mines Ltd. ("Aurizon") during the third quarter for the Casa Berardi property which covers a 30 kilometer strike length of the Casa Berardi deformation zone. The historical exploration data has been received and a detailed compilation will be conducted in the fourth quarter. A significant drilling program is planned for this project in the winter of 2008.

The Casa Berardi Exploration Property is located outside of Aurizon's existing mining leases and outside of its 100% owned Casa Berardi mine, which hosts proven mineral reserves of 1.2 million ounces (4.7 million tonnes at 7.7 grams per tonne gold) along with mineral resources totalling approximately 526,000 ounces (3.1 million tonnes at 5.3 grams per tonne gold) in the measured and indicated category and an additional one million ounces (5 million tonnes at 6.6 grams per tonne gold) in the inferred category.

The Casa Berardi Exploration Property covers 227 claims in an east and west block surrounding the Casa Berardi mine and covers an area of 11,594 hectares along a 30 kilometer section of the Casa Berardi fault. The Casa Berardi fault is a major structural zone that is host to a number of gold and base metal deposits. Numerous gold showings occur within the Casa Berardi Exploration Property, which have been subject to limited exploration since their discovery in the 1980s.

Under the terms of the agreement, Lake Shore can earn an undivided 50% interest in the Casa Berardi Exploration Property by incurring exploration expenditures of \$5 million over a five-year period, including a firm commitment of \$600,000 in the first year. Lake Shore will be the operator during the earn-in period. If an indicated mineral resource of at least 500,000 ounces of gold at a minimum grade of 6.0 grams of gold per tonne (or economic equivalent thereof) is established, the area containing the resource plus a one kilometer radius surrounding the outer perimeter of the resource may be transferred to a specific property joint venture, in which Aurizon and Lake Shore will each have a 50% interest. Aurizon shall then have the right to earn an additional 10% interest in the specific property by funding the costs of a feasibility study. Any ore produced from the Casa Berardi Exploration Property will be processed at Aurizon's 100% owned Casa Berardi milling facility.

### ***Canopener Property***

In January 2007 the Company entered into a 50/50 joint venture agreement with Superior for gold exploration on Lake Shore's Canopener property in northwestern Ontario. Under the terms of the agreement, Superior contributed mineral claims, issued 75,000 Superior common shares to Lake Shore and agreed to spend \$500,000 on exploration over three years, including a firm commitment of \$50,000 in the first year. During the nine months ended September 30, 2007, Superior spent \$0.9 million of exploration expenditures on the property (the Company's share – \$175,960).

The Company has received positive gold grain data, including a significant number of pristine gold grains, from an overburden-sampling program on the property. The recovered gold grains define a dispersal apron approximately two kilometers long from a fertile source with a strike length of at least six kilometers. The average number of gold grains identified in 98 overburden samples was 135, up to a maximum of 478. Analyzing overburden samples for the presence of gold grains is a common exploration procedure in overburden-covered ter-

rains. The gold grain values obtained on the Canopener property exceed or equal those from significant gold deposits discovered elsewhere on the Canadian Shield.

## RESULTS OF OPERATIONS

Lake Shore recorded a net income of \$299,833 or \$0.00 per share during the third quarter of 2007 compared with a net loss of \$144,188 or \$0.00 per share for the same period in 2006. Increases in corporate overhead costs were offset by future tax recovery and increased interest and other income recorded during the third quarter of 2007 as compared to the same period in 2006. For the nine months ended during the same periods, the net losses for 2007 and 2006 were \$1,359,461 or \$0.01 per share and \$1,005,692 or \$0.01 per share, respectively. The increase during the nine months was mainly due to higher corporate overhead costs as well as the write-off of resource property costs relating to non-core properties, partially offset by future tax recovery and increased interest and other income.

Effective January 1, 2007 the Company changed its practice of reporting stock-based compensation on a separate line in the Consolidated Statements of Income (Loss) and Deficit to a method of allocating the expense to i) office expense for employees, ii) consulting fees, and to iii) general exploration for individuals involved in exploration work. The allocation for the three and nine month periods ended September 30, 2007 and 2006 was as follows:

	Three months ended Sept 30		Nine months ended Sept 30	
	2007	2006	2007	2006
Office expense	\$ 37,883	\$ 10,800	\$ 326,873	\$ 185,760
Consulting fees	32,769	21,737	367,097	159,227
General exploration	26,899	–	278,187	35,220
Total stock-based compensation	<b>\$ 97,552</b>	\$ 32,537	<b>\$ 972,157</b>	\$ 380,207

For the nine months ended September 30, 2007, Lake Shore recorded \$539,591 (2006 – \$231,115) in general reconnaissance expenditures of which \$278,187 (2006 – \$35,220) relates to the allocation of stock-based compensation expense for grants to personnel involved in exploration work. The increase in the stock-based compensation expense for 2007 is mostly due to the increase in long-term compensation to exploration personnel. For this quarter end, the Company recorded \$135,171 (2006 – \$74,208) of which \$26,899 (2006 – \$Nil) related to the allocation of stock-based compensation expense.

Consulting and management fees during the third quarter and nine months of 2007 increased by \$115,354 and \$182,415 respectively compared to the same periods during 2006. The overall increase for the nine month period ended September 30, 2007 in comparison to the same period in 2006 was mainly due to increased stock-based compensation expense, higher consulting fees due to preparatory work for the Bell Creek acquisition and a slight increase in monthly management fees.

Shareholder information costs for the third quarter and the nine months of 2007 increased by \$32,473 and \$157,289 respectively compared to the same periods in 2006. The increase was due to increases in regulatory and transfer agent fees, as well as higher expenditures related to investor relations.

Office expense increased by \$89,073 during this quarter and by \$296,739 during the nine month period compared with the same periods in 2006 mainly due to an increase in stock-based compensation expense as well as an increase in overall office salaries and number of employees.

Resource property costs relating to various projects in Ontario in the amount of \$14,189 and \$407,335 were written off during the three and nine month periods ended September 30, 2007, respectively. Projects written off during the nine months included Lacey Lake, Drouet, Cameron East, Horwood Lake and Mcklem. These projects were not a part of Lake Shore's core group of projects and exploration results to date did not warrant further expenditures.

As a result of the tax benefits of deductible expenses, share issue costs incurred during the nine month period ended September 30, 2007 and reduction in expected future tax rates, the Company recorded a reduction in future income tax liabilities of \$1,677,391 (September 30, 2006 – \$884,000). The reduction is comprised of \$996,391 (September 30, 2006 – \$337,000) recorded as a recovery of income tax in the statement of income (loss) and deficit and \$681,000 (September 30, 2006 – \$547,000) recorded as an adjustment to share capital. In addition, funds raised in 2006 were renounced in 2007 which resulted in a \$1,700,000 (September 30, 2006 – \$1,752,000) reduction in share capital with a corresponding increase to future income tax liability.

During the quarter ended September 30, 2007, the Company determined that its consolidated financial statements for the year ended December 31, 2006 contained an error related to the accounting for the future tax impact of flow through expenditures renounced during 2006. Additionally, the Company identified an accounting presentation issue within shareholders' equity with respect to the future tax impact of the renouncement of flow through shares. The correction of these items had no impact on the consolidated statements of net loss or of cash flows for the years ended December 31, 2006 and 2005 (for more details, refer to note 11 on the unaudited consolidated financial statements for the three and nine month periods ended September 30, 2007).

#### **BELL CREEK ACQUISITION**

On January 31, 2007 Lake Shore signed a binding letter agreement with Goldcorp Canada Ltd. ("Goldcorp"), manager of the Porcupine Joint Venture (the "PJV"), a joint venture

between Goldcorp and Kinross Gold Corporation (“Kinross”), to acquire the Bell Creek Assets located immediately to the west of the Vogel-Schumacher properties, in the Timmins gold camp, Ontario. The Bell Creek Assets include a hoist, headframe and underground mine infrastructure, a 1,500 tonne per day mill with permitted tailings facilities, and all surface infrastructure including office buildings, road and hydro access.

Under the terms of the agreement, Lake Shore will acquire the Bell Creek Assets for \$6 million in cash and up to 2,649,006 Lake Shore common shares at a price of \$1.51 per share, as well as two million common share purchase warrants exercisable for a period of two years at \$2.41 per share. At Lake Shore’s option and sole discretion, Lake Shore has the right to increase the cash component to \$7.5 million and decrease the number of shares to 1,655,629 (without changing the purchase warrant number and terms). Goldcorp and Kinross, as parties to the PJV, have agreed to hold their respective Lake Shore shares for a period of 12 months. In addition, Lake Shore will grant the PJV a royalty equal to 2% of net smelter returns on the Bell Creek mine, subject to any existing underlying royalties encumbering the Bell Creek mine. Upon completion of the transaction, the PJV will have no ownership or liabilities with regard to the Bell Creek Assets other than the referenced royalty interest.

This transaction has been conditionally approved by the Toronto Stock Exchange and the definitive agreement was signed on July 20, 2007. The transaction will be completed in the fourth quarter of 2007.

#### QUARTERLY FINANCIAL INFORMATION

The following selected financial data has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and should be read in conjunction with the Company’s interim consolidated financial statements.

	<b>Sept 30</b>	June 30	March 31	Dec 31
<i>Fiscal Quarter ended</i>	<b>2007</b>	2007	2007	2006
Interest and other income	<b>\$ 411,433</b>	\$ 346,619	\$ 168,115	\$ 161,636
Net income (loss)	<b>299,833</b>	(686,835)	(972,459)	(1,245,520)
Basic and diluted income (loss) per share*	<b>0.00</b>	(0.01)	(0.01)	(0.01)
	Sept 30	June 30	March 31	Dec 31
<i>Fiscal Quarter ended</i>	2006	2006	2006	2005
Interest and other income	\$ 185,188	\$ 199,700	\$ 102,279	\$ 22,452
Net loss	(144,188)	(329,830)	(531,674)	(2,394,734)
Loss per share*	(0.00)	(0.00)	(0.01)	(0.03)

\* Income (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 net income in the third quarter of 2007 compared to a net loss during the second quarter mainly due to higher tax recovery recorded in the third quarter and lower general exploration expenditures and resource properties written off. During the third quarter of this fiscal year the Company concentrated its efforts mainly on Timmins West, which would explain the lower focus on general exploration and other non-core properties. The higher tax recovery is due to higher deductible expenditures incurred in the third quarter combined with lower tax rates.

The net loss for the second quarter of 2007 was lower than on the first quarter mainly due to higher consulting and management fees as a result of preparatory work for the Bell Creek acquisition and higher stock-based compensation expense. The significant variation between the second quarters of 2007 and 2006 was mainly due to increased stock-based compensation and resource property costs written off. There was also a significant difference between the fourth quarters of 2006 and 2005 mainly due to higher recovery of income tax partially offset by higher resource property write-offs in 2006.

The Company does not have any asset-backed commercial paper and is thus unaffected by the situation in the United States.

#### **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

Lake Shore 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 equity issues. As at September 30, 2007 the Company had cash of \$29.7 million and working capital of \$28.5 million.

Cash used in operating activities during the three and nine month periods ended September 30, 2007 was \$779,366 (2006 – \$308,183) and \$1,660,673 (2006 – \$1,105,289), respectively. Resource property cost written-off, stock-based compensation expense and recovery of income tax make up the principal amounts that reconcile the statement of loss to the statement of cash flows from operating activities.

Cash used in investing activities for the same three and nine month periods totalled \$4,149,421 (2006 – \$2,235,892) and \$10,158,559 (2006 – \$7,574,892), respectively. The Company's principal investing activity is the acquisition and exploration of its resource properties. During the nine month period ended September 30, 2007, the Company incurred the majority of its resource property expenditures on advanced exploration (\$2.8 million), geology (\$1.3 million) and drilling (\$1.4 million) on the Timmins West. Overall drilling costs for Timmins West decreased during the nine month period ended September 30, 2007 in comparison to the same period in 2006 mainly due to an increase on geology and advanced exploration expenditures.

Also included in investing activities was an irrevocable letter of credit for \$533,000 posted by the Company during the first quarter of 2007 as a security deposit required by the application for the advanced exploration permit for Timmins West.

Proceeds of \$1,222,074 were received during the nine months ended September 30, 2007 from the exercise of 129,000 warrants and 1,911,833 options.

On April 16, 2007 the Company closed a bought deal financing underwritten by a syndicate of underwriters. The financing consisted of 6,875,000 units and 6 million flow through common shares of the Company at an issue price of \$2.00 per unit and \$2.50 per flow through share for net proceeds to the Company of \$26.7 million. Each unit consists of one common share plus one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$2.50 expiring 18 months from the closing of the offering. Also during the third quarter of 2007, 60,000 stock options were exercised at an average price of \$0.90.

In management's view Lake Shore 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 until it reaches the production stage and generates cash flow from operations.

#### **OUTSTANDING SHARE CAPITAL**

As at October 31, 2007 there were 111,009,046 common shares issued and outstanding and the following options and warrants:

##### **OPTIONS**

Number of options outstanding	Exercise price range
1,950,000	\$0.00-\$0.99
575,000	\$1.00-\$1.49
1,880,000	\$1.50-\$1.99
605,000	\$2.00-\$2.50
<u>5,010,000</u>	

##### **WARRANTS**

Date issued	Number of warrants	Exercise price	Expiry date
April 16, 2007	3,437,500	\$2.50	October 16, 2008

## CONTRACTUAL OBLIGATIONS

Lake Shore has earn-in/option agreements with third parties pursuant to which the Company has the option to earn an interest in the Thunder Creek, Schumacher and Casa Berardi properties. If the Company wishes to maintain its interest in these properties, the Company will be required to make certain cash payments and spend amounts on exploration as follows (as at September 30, 2007):

	2007 <sup>2</sup>	2008	2009	2010	2011	Thereafter	Total
Cash payments	\$155,000	\$125,000	\$ 25,000	\$ 25,000	\$ 50,000	\$ 100,000	\$ 480,000
Expenditures <sup>1</sup>	300,000	733,333	1,000,000	1,000,000	1,133,333	933,333	5,100,000
	<b>\$455,000</b>	<b>\$858,333</b>	<b>\$1,025,000</b>	<b>\$1,025,000</b>	<b>\$1,183,333</b>	<b>\$1,033,333</b>	<b>\$5,580,000</b>

<sup>1</sup> Expenditures include expenditures required for the Casa Berardi property as discussed under "Casa Berardi" in this MD&A.

<sup>2</sup> from September 30 to December 31, 2007

The Company is required to make yearly cash payments of US\$50,000 (advanced royalty payments) to maintain its 100% interest on the Vogel property (paid for 2007).

The Company also has office rent obligations as at September 30, 2007 as follows:

	2008	2009	2010	2011	Thereafter	Total
	\$280,779	\$220,079	\$160,679	\$162,729	\$164,779	\$989,045

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet arrangements.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash, exploration advances and other receivables, restricted cash, investment and accounts payable and accrued charges. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments.

## CHANGES IN ACCOUNTING POLICIES

### *Financial Instruments*

Effective January 1, 2007 the Company has adopted the recommendation of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, Hedges and Section 3251, Equity. These accounting policy changes were adopted on a prospective basis with no restatement

of prior period financial statements. The accounting policy changes as a result of these new standards are as follows:

*Financial Instruments – Recognition and Measurement (Section 3855); Financial Instruments – Disclosure and Presentation (Section 3861)*

In accordance with the new standards, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivables or other financial liabilities. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized on the statement of loss.

Upon adoption of the new standards, the Company has designated its cash as held-for-trading, which is measured at fair value. Exploration advances and other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued charges are classified as other financial liabilities which are measured at amortized cost. The Company has classified its investment in a public company as available-for-sale and therefore carries it at fair market value, with the unrealized gain or loss recorded in shareholders' equity as a component of other comprehensive loss. These amounts will be reclassified from shareholders' equity to net income when the investment is sold. Previously the Company did not have any available-for-sale investments and therefore no adjustments were required as at January 1, 2007.

*Comprehensive Income (Section 1530)*

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports a consolidated statement of comprehensive income (loss) and a new category, accumulated other comprehensive loss, in the shareholders' equity section of the consolidated balance sheet. The components of this new category will include unrealized gains and losses on financial assets classified as available-for-sale.

*Equity (Section 3251)*

These recommendations require separate presentation of the components of equity, including retained earnings (deficit), accumulated other comprehensive income (loss), contributed surplus, share capital and reserves, and the changes therein. The adoption of this standard has resulted in expanded disclosure of the Company's components of shareholder equity.

**FUTURE ACCOUNTING PRONOUNCEMENTS**

*Capital Disclosures*

In December 2006, the CICA issued Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed.

The entity's disclosure should include information about its objectives, policies and processes for managing capital and disclose whether or not it has complied and the consequences of non-compliance with any capital requirements to which it is subject. The new standard will become effective on January 1, 2008 for the Company. The Company is currently evaluating the impact of the adoption of Section 1535 but the Company does not expect the adoption of 1535 to have a significant effect on the consolidated financial statements.

#### *Financial Instruments – Disclosures and Financial Instruments – Presentation*

In December 2006 the CICA issued Handbook Sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation. Section 3862 modifies the disclosure requirements of Section 3861, Financial Instruments – Disclosure and Presentation, including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks, whereas Section 3863 carries forward the presentation related requirements of Section 3861. The new standards will become effective on January 1, 2008 for the Company. The Company is currently evaluating the impact of the adoption of Sections 3862 and 3863 while the Company does not expect the adoption of 3862 and 3863 to have a significant effect on the consolidated financial statements.

#### **RELATED PARTY TRANSACTIONS**

During the three and nine months ended September 30, 2007 and 2006, the Company paid a total of \$90,121 (2006 – \$120,375) and \$368,288 (2006 – \$371,700) respectively, on account of consulting and management services provided by directors and by a director who is also an officer. Included in the total paid in the nine months of 2007, \$217,000 was paid to a director who is an officer and \$151,288 to independent directors. In addition, during the three and nine month periods ended September 30, 2007, there were fees of \$13,500 and \$37,500 (2006 – \$9,000 and \$27,000) respectively paid to Southwestern Resources Corp. ("Southwestern"), a company which provides administrative services under the terms of an administrative services agreement and with which the Company had certain common officers until May 30, 2007. At June 1, 2007 Southwestern is no longer considered a related party. As at September 30, 2007 there was no payable to Southwestern (December 31, 2006 – \$3,093).

#### **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 of the Company 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 of the

Company 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.

#### **CONTROLS AND PROCEDURES**

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Management is also responsible for the design and maintenance of effective internal control over financial reporting to provide reasonable assurance regarding the integrity and reliability of the Company's financial information and the preparation of its financial statements in accordance with Canadian GAAP. Management maintains appropriate information systems, procedures and controls to ensure 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. The Company has a Disclosure Policy and a Disclosure Committee in place to mitigate risks associated with the disclosure of inaccurate or incomplete information.

As required by Multilateral Instrument 52-109, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2006 by and under the supervision of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls were operating effectively as of December 31, 2006.

During the third quarter this evaluation was revisited since management determined that the consolidated financial statements of the Company for the year ended December 31, 2006 contained a future tax error with respect to the accounting for the renunciation of flow through shares and the Company will restate its audited financial statements for the 2006 fiscal year. In view of the restatement of the financial statements described above, the CEO and CFO have concluded that a material weakness existed in the Company's internal disclosure controls and procedures as of December 31, 2006, related specifically to certain tax filings and computation of future tax provisions. Management recognizes that improvements are required and is taking appropriate action to remediate deficiencies by the end of 2007.

#### **OUTLOOK**

Lake Shore is continuing to advance its key projects toward development decisions with the pre-feasibility study and advanced underground exploration program on Timmins West and continuation of exploration on Vogel-Schumacher. Furthermore, on completion of the Bell

Creek Assets acquisition, management believes that Lake Shore will quickly be able to transform itself from a junior exploration company into a gold producer and become a significant player in one of Canada's most prospective gold mining camps.

#### **FORWARD-LOOKING STATEMENTS**

Some of the statements in this MD&A constitute "forward-looking statements." Where Lake Shore expresses an expectation or belief as to future events or results, including management's 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 relating to the Company is provided in the Company's interim consolidated financial statements for the period ended September 30, 2007, audited consolidated financial statements for the year ended December 31, 2006, its Annual Information Form and Information Circular. These and other documents relating to the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## CONSOLIDATED BALANCE SHEETS

<i>Unaudited</i>	<b>September 30 2007</b>	December 31 2006
<b>ASSETS</b>		<i>(restated – note 11)</i>
Current		
Cash	<b>\$ 29,667,284</b>	\$ 13,518,082
Exploration advances and other receivables	<b>1,225,317</b>	328,175
	<b>30,892,601</b>	13,846,257
Investment <i>notes 2(a) and 6</i>	<b>18,750</b>	–
Restricted cash <i>note 3</i>	<b>533,000</b>	–
Deferred acquisition cost <i>note 4</i>	<b>311,343</b>	–
Property, plant and equipment <i>note 5</i>	<b>2,363,110</b>	56,241
Resource properties <i>note 6</i>	<b>87,395,524</b>	79,337,652
	<b>\$ 121,514,328</b>	\$ 93,240,150
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued charges	<b>\$ 2,399,150</b>	\$ 693,961
Long term		
Future income taxes <i>notes 9 and 11</i>	<b>17,057,609</b>	17,035,000
	<b>19,456,759</b>	17,728,961
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>notes 7(b) and 11</i>	<b>109,030,881</b>	82,857,739
Contributed surplus <i>note 7(f)</i>	<b>6,088,551</b>	4,340,102
Accumulated other comprehensive loss	<b>(15,750)</b>	–
Deficit <i>note 11</i>	<b>(13,046,113)</b>	(11,686,652)
	<b>102,057,569</b>	75,511,189
	<b>\$ 121,514,328</b>	\$ 93,240,150

Subsequent events *note 7(c)*

See accompanying notes to consolidated financial statements

Approved by the Board



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MURRAY A GORDON

## CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND DEFICIT

<i>Unaudited</i>	Three months ended September 30 2007	Three months ended September 30 2006	Nine months ended September 30 2007	Nine months ended September 30 2006
<b>EXPENSES</b>				
Consulting and management fees <i>note 7(d)</i>	\$ 182,173	\$ 66,819	\$ 839,212	\$ 656,797
General exploration <i>note 7(d)</i>	135,171	74,208	539,591	231,115
Shareholder information	74,631	42,158	361,365	204,076
Legal and accounting	47,863	21,964	111,317	79,592
Office expense <i>note 7(d)</i>	224,760	135,687	826,527	529,788
Resource property costs written off <i>note 6</i>	14,189	—	407,335	—
Depreciation of property, plant and equipment	5,853	—	5,853	—
Travel	107,851	48,540	190,819	128,491
Loss before undernoted item	(792,491)	(389,376)	(3,282,019)	(1,829,859)
Interest and other income	411,433	185,188	926,167	487,167
Loss before income taxes	(381,058)	(204,188)	(2,355,852)	(1,342,692)
Recovery of income tax <i>note 9</i>	680,891	60,000	996,391	337,000
Net income (loss) for the period	299,833	(144,188)	(1,359,461)	(1,005,692)
Deficit at beginning of period	(13,345,946)	(10,296,944)	(11,686,652)	(9,435,440)
Deficit at end of period	\$ (13,046,113)	\$ (10,441,132)	\$ (13,046,113)	\$ (10,441,132)
Net income (loss) per share – basic and diluted <i>note 7(g)</i>	\$ 0.00	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted-average number of shares outstanding	110,551,324	95,171,039	105,055,271	92,504,889

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<i>Unaudited</i>	Three months ended September 30 2007	Three months ended September 30 2006	Nine months ended September 30 2007	Nine months ended September 30 2006
Net income (loss) for the period	299,833	(144,188)	(1,359,461)	(1,005,692)
Other comprehensive income (loss):				
Unrealized loss on available-for-sale investment	(18,000)	—	(15,750)	—
Comprehensive income (loss) for the period	281,833	(144,188)	(1,375,211)	(1,005,692)

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended September 30 2007	Three months ended September 30 2006	Nine months ended September 30 2007	Nine months ended September 30 2006
<i>Unaudited</i>				
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	\$ 299,833	\$ (144,188)	\$ (1,359,461)	\$ (1,005,692)
Recovery of income tax	(680,891)	(60,000)	(996,391)	(337,000)
Other income	—	—	(34,500)	—
Resource property costs written off	14,189	—	407,335	—
Stock-based compensation	97,552	32,537	972,157	380,207
Depreciation	5,853	—	5,853	—
	<b>(263,464)</b>	<b>(171,651)</b>	<b>(1,005,007)</b>	<b>(962,485)</b>
Change in non-cash operating working capital items:				
Increase in exploration advances and other receivables	(686,496)	(135,180)	(760,807)	(151,443)
Increase (decrease) in accounts payable and accrued charges	170,594	(1,352)	105,141	8,639
Cash used in operating activities	<b>(779,366)</b>	<b>(308,183)</b>	<b>(1,660,673)</b>	<b>(1,105,289)</b>
<b>INVESTING ACTIVITIES</b>				
Restricted cash	—	—	(533,000)	—
Deferred acquisition cost	—	—	(311,343)	—
Additions to property, plant and equipment	(858,131)	(16,006)	(2,268,970)	(36,368)
Resource property expenditures	(3,291,290)	(2,219,886)	(7,045,246)	(7,538,524)
Cash used in investing activities	<b>(4,149,421)</b>	<b>(2,235,892)</b>	<b>(10,158,559)</b>	<b>(7,574,892)</b>
<b>FINANCING ACTIVITY</b>				
Proceeds from private placements (net of share issue cost), exercise of stock options and warrants	54,000	157,800	27,968,434	22,258,990
Cash provided by financing activity	<b>54,000</b>	<b>157,800</b>	<b>27,968,434</b>	<b>22,258,990</b>
(Decrease) increase in cash during the period	<b>(4,874,787)</b>	<b>(2,386,275)</b>	<b>16,149,202</b>	<b>13,578,809</b>
Cash at beginning of period	<b>34,542,071</b>	<b>18,557,672</b>	<b>13,518,082</b>	<b>2,592,588</b>
Cash at end of period	<b>\$ 29,667,284</b>	<b>\$ 16,171,397</b>	<b>\$ 29,667,284</b>	<b>\$ 16,171,397</b>

See accompanying notes to consolidated financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the three and nine months ended September 30, 2007 and 2006  
Unaudited*

### **1 / BASIS OF PRESENTATION**

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements and follow the same accounting policies and methods of application as the annual consolidated financial statements of the Company for the year ended December 31, 2006, except for the items discussed in note 2(a) below. These interim consolidated financial statements do not contain all disclosures required by Canadian GAAP and accordingly should be read in conjunction with the 2006 annual consolidated financial statements and the notes thereto.

Lake Shore Gold Corp. (“Lake Shore” or the “Company”) is a development stage junior mining company engaged in the identification, acquisition, evaluation, exploration and development of gold properties in Canada. The Company has not determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and attaining future profitable production from the properties or proceeds from disposition.

The Company has sufficient working capital in the near term to fund ongoing operating and exploration expenditures. However, the Company is dependent on raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake further exploration and development of its mineral properties.

## **2 / CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS**

### a) Changes in Accounting Policies

#### *Financial Instruments*

Effective January 1, 2007 the Company has adopted the recommendation of the Canadian Institute of Chartered Accountants (“CICA”) Hand-book Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, Hedges and Section 3251, Equity. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The accounting policy changes as a result of these new standards are as follows:

#### *Financial Instruments – Recognition and Measurement (Section 3855); Financial Instruments – Disclosure and Presentation (Section 3861);*

In accordance with the new standards, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivables or other financial liabilities. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized on the statement of income (loss).

Upon adoption of the new standards, the Company has designated its cash as held-for-trading, which is measured at fair value. Exploration advances and other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued charges are classified as other financial liabilities which are measured at amortized cost. The Company has classified its investment in a public company as available-for-sale and therefore carries it at fair market value, with the unrealized gain or loss recorded in shareholders’ equity as a component of other comprehensive loss. These amounts will be reclassified from shareholders’ equity to net income when the investment is sold. Previously the Company did not have any available-for-sale investments and therefore no adjustments were required as at January 1, 2007.

#### *Comprehensive Income (Section 1530)*

Comprehensive income is the change in shareholders’ equity during a period from transac-

tions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports a consolidated statement of comprehensive income (loss) and a new category, accumulated other comprehensive loss, in the shareholders' equity section of the consolidated balance sheet. The components of this new category will include unrealized gains and losses on financial assets classified as available-for-sale.

#### *Equity (Section 3251)*

These recommendations require separate presentation of the components of equity, including retained earnings (deficit), accumulated other comprehensive income (loss), contributed surplus, share capital and reserves, and the changes therein. The adoption of this standard has resulted in expanded disclosure of the Company's components of shareholder equity.

#### b) Future Accounting Pronouncements

##### *(i) Capital Disclosures*

In December 2006 the CICA issued Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and processes for managing capital and disclose whether or not it has complied and the consequences of non-compliance with any capital requirements to which it is subject. The new standard will become effective on January 1, 2008 for the Company. The Company is currently evaluating the impact of the adoption of Section 1535 but the Company does not expect the adoption of 1535 to have a significant effect on the consolidated financial statements.

##### *(ii) Financial Instruments – Disclosures and Financial Instruments – Presentation*

In December 2006 the CICA issued Handbook Sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation. Section 3862 modifies the disclosure requirements of Section 3861, Financial Instruments – Disclosure and Presentation, including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks, whereas Section 3863 carries forward the presentation related requirements of Section 3861. The new standards will become effective on January 1, 2008 for the Company. The Company is currently evaluating the impact of the adoption of Sections 3862 and 3863 but the Company does not expect the adoption of 3862 and 3863 to have a significant effect on the consolidated financial statements.

### **3 / RESTRICTED CASH**

In February 2007 the Company posted an irrevocable letter of credit in the amount of \$533,000 in favour of the Ontario Ministry of Northern Development and Mines as security for the Company's obligations under the Closure Plan submitted in respect of the application for the advanced exploration permit for Timmins West. These funds are security for the letter of credit and therefore restricted and not available for current operations.

### **4 / DEFERRED ACQUISITION COST**

On January 31, 2007 the Company signed a binding Letter Agreement with Goldcorp Canada Ltd. ("Goldcorp"), manager of the Porcupine Joint Venture (the "PJV"), a joint venture between Goldcorp and Kinross Gold Corporation ("Kinross"), to acquire the PJV's Bell Creek mine and associated infrastructure located in the Timmins Gold Camp, Ontario. The definitive agreement was signed on July 20, 2007. The transaction has been conditionally approved by the Toronto Stock Exchange and is expected to be completed in the fourth quarter of 2007. As at September 30, 2007, \$311,343 was spent in relation to the acquisition and capitalized as acquisition costs.

The acquisition includes the hoist, headframe and underground mine infrastructure, a 1,500 tonne per day mill with permitted tailings facilities, plus all surface infrastructure including office buildings, road and hydro access (the "Bell Creek Assets"). Consideration for the acquisition will consist of \$6 million cash and up to 2,649,006 common shares, as well as two million common share purchase warrants exercisable for a period of two years at \$2.41 per share. At Lake Shore's option and sole discretion, Lake Shore has the right to increase the cash component to \$7.5 million and decrease the number of shares to 1,655,629 (without changing the purchase warrants number and terms). Goldcorp and Kinross, as parties to the PJV, have agreed to hold their respective Lake Shore shares for a period of 12 months. Lake Shore will also grant the PJV a royalty equal to 2% of net smelter returns on the Bell Creek mine, subject to any existing underlying royalties encumbering the Bell Creek mine. Upon completion of the transaction, the PJV will have no ownership or liabilities with regard to the Bell Creek Assets other than the referenced royalty interest.

## 5 / PROPERTY, PLANT AND EQUIPMENT

The details of property, plant and equipment are as follows:

	Cost	Accumulated amortization	Sept 30, 2007 Net book value
Office equipment	\$ 32,721	\$ 1,351	\$ 31,370
Computer equipment	193,698	31,144	162,554
Field equipment	262,956	1,223	261,733
Construction in progress <sup>1</sup>	1,907,453	-	1,907,453
	<b>\$ 2,396,828</b>	<b>\$ 33,718</b>	<b>\$ 2,363,110</b>

<sup>1</sup> Construction in progress are assets under construction or development that will be used in the advance exploration program at the Timmins West property. These assets have not yet been placed into service and are therefore not subject to amortization.

The amortization of equipment used in the exploration activities is capitalized in resource properties (\$16,248 capitalized for the nine months ended September 30, 2007).

	Cost	Accumulated amortization	December 31, 2006 Net book value
Office equipment	\$ 1,109	\$ 276	\$ 833
Computer equipment	63,293	10,482	52,811
Field equipment	3,456	859	2,597
	<b>\$ 67,858</b>	<b>\$ 11,617</b>	<b>\$ 56,241</b>

## 6 / RESOURCE PROPERTIES

For the nine month period ended September 30, 2007:

	Timmins West	Bell Creek Complex	Blakelock	Other <sup>1</sup>	Total
Balance, beginning of period	\$ 70,332,789	\$ 4,815,453	\$ 841,600	\$ 3,347,810	\$ 79,337,652
Property acquisition, assessment and maintenance	3,951	176,442	13,439	122,168	316,001
Analytical	76,217	12,029	73,301	45,066	206,614
Geophysics	985	-	22,541	35,400	58,925
Geology	1,288,447	69,137	166,644	271,420	1,795,649
Drilling	1,387,569	83,884	714,356	715,535	2,901,344
Project administration	223,928	25,963	300	2,651	252,841
Québec refundable tax credits	-	-	-	136,335	136,335
Advanced exploration	2,797,499	-	-	-	2,797,499
Resource property costs written off	-	-	-	(407,335)	(407,335)
Balance, end of period	<b>\$ 76,111,385</b>	<b>\$ 5,182,908</b>	<b>\$ 1,832,181</b>	<b>\$ 4,269,050</b>	<b>\$ 87,395,524</b>

<sup>1</sup>Bazooka (\$898,244); Thunder Creek (\$1,846,724); Abitibi (\$1,107,047); Canopener property (175,960); Miscellaneous (\$241,075).

During the nine month period ended September 30, 2007, the Company wrote off exploration expenditures totalling \$407,335 relating to various non-core projects in Ontario.

For the year ended December 31, 2006:

	Timmins West	Bell Creek Complex	Blakelock	DeSantis	Other <sup>1</sup>	Total
Balance, beginning of year	\$ 62,925,459	\$ 3,657,506	\$ 36,924	\$ 450,349	\$ 2,975,221	\$ 70,045,459
Property acquisition, assessment and maintenance <sup>2</sup>	1,630,962	121,645	74,863	204,181	166,539	2,198,190
Analytical	329,330	38,532	47,433	72,992	5,101	493,388
Geophysics	4,248	-	116,979	-	76,622	197,849
Geology	1,092,753	198,683	117,649	203,938	292,581	1,905,604
Drilling	4,058,235	797,323	447,438	646,217	138,608	6,087,821
Project administration	291,802	1,764	314	925	(4,906)	289,899
Québec refundable tax credits	-	-	-	-	14,662	14,662
Resource property costs written off	-	-	-	(1,578,602)	(316,618)	(1,895,220)
Balance, end of year	\$ 70,332,789	\$ 4,815,453	\$ 841,600	\$ -	\$ 3,347,810	\$ 79,337,652

<sup>1</sup>Includes: Bazooka (\$768,567); Thunder Creek (\$1,216,645); Abitibi (\$803,824); Lacey Lake (\$171,156); Noranda North (\$81,949); Miscellaneous (\$305,669).

<sup>2</sup>Includes Inco royalty purchase of \$1 million.

In January 2007 the Company entered into a 50/50 joint venture agreement with Superior Diamonds Inc. ("Superior") for gold exploration on Lake Shore's Canopener property in northwestern Ontario. Under the terms of the agreement, Superior contributed mineral claims, issued 75,000 Superior common shares to Lake Shore and agreed to spend \$500,000 on exploration over three years, including a firm commitment of \$50,000 in the first year. The common shares of Superior were valued at fair market value at the time of issue and resulted in a gain of \$34,500 recorded in interest and other income.

On September 13, 2007 the Company entered into an option joint venture agreement with Aurizon Mines Ltd. ("Aurizon") to acquire a 50% interest in Aurizon's large land position surrounding its Casa Berardi mine (the "Casa Berardi Exploration Property"). Under the terms of the agreement, Lake Shore can earn an undivided 50% interest in the Casa Berardi Exploration Property by incurring exploration expenditures of \$5 million over a five-year period, including a firm commitment of \$600,000 in the first year. Lake Shore will be the operator of the Casa Berardi Exploration Property during the earn-in period. If an indicated mineral resource of at least 500,000 ounces of gold at a minimum grade of 6.0 grams of gold per tonne (or economic equivalent thereof) is established, the area containing the resource plus a one kilometre radius surrounding the outer perimeter of the resource may be transferred to a specific property joint venture, in which Aurizon and Lake Shore will each have a 50% interest. Aurizon shall then have the right to earn an additional 10% interest in the specific property by funding the costs of a feasibility study. Any ore produced from the Casa Berardi Exploration Property will be processed at Aurizon's 100% owned Casa Berardi milling facility.

## 7 / SHARE CAPITAL

a) Authorized unlimited number of common shares without par value.

b) Issued and fully paid common shares:

During the nine months ended September 30, 2007 and the year ended December 31, 2006, changes in issued share capital were as follows:

Issued and outstanding	September 30, 2007		December 31, 2006	
	Shares	Amount	Shares	Amount
			<i>restated – note 11</i>	
Balance, beginning of year	95,655,713	\$ 82,857,739	82,080,751	\$ 60,302,193
Private placement – net of share issue costs of \$1,322,641 <sup>1</sup> (2006 – \$1,563,317 <sup>1</sup> )	12,875,000	25,773,061	9,317,073	18,759,629
Exercise of warrants	129,000	103,200	1,595,870	2,493,611
Exercise of options (including transfer of \$878,007 (2006 – \$947,056) from contributed surplus)	1,911,833	1,996,881	2,228,167	2,275,806
Renunciation of flow-through shares (note 9)	–	(1,700,000)	–	(1,752,000)
Issued in exchange for resource properties	–	–	433,852	778,500
Balance, end of period/year	110,571,546	\$ 109,030,881	95,655,713	\$ 82,857,739

<sup>1</sup>Share issue costs includes a \$681,000 (December 31, 2006 – \$323,000) adjustment for recovery of income tax.

On April 16, 2007 the Company completed a bought deal financing consisting of 6,875,000 units and 6 million flow through common shares at an issue price of \$2.00 per unit and \$2.50 per flow through share, for gross proceeds of \$28,750,000. Each unit consisted of one common share plus one-half of one common share purchase warrant (note 7(e)). Each warrant entitles the holder to purchase one common share at a price of \$2.50 expiring in 18 months.

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

c) Stock Options

As at September 30, 2007 the Company had 5,447,500 stock options outstanding of which 5,082,500 were exercisable.

A summary of the changes in the Company's incentive share option plan for the year ended

December 31, 2006 and nine months ended September 30, 2007 are as follows:

	<b>September 30, 2007</b>		December 31, 2006	
	<b>Number of options</b>	<b>Weighted-average exercise price</b>	Number of options	Weighted-average exercise price
Outstanding at beginning of year	<b>6,724,333</b>	<b>\$ 1.03</b>	7,597,500	\$ 0.77
Granted	<b>650,000</b>	<b>\$ 1.88</b>	1,455,000	\$ 1.78
Exercised/cancelled	<b>(1,926,833)</b>	<b>\$ 0.57</b>	(2,328,167)	\$ 0.65
Outstanding at end of period/year	<b>5,447,500</b>	<b>\$ 1.29</b>	6,724,333	\$ 1.03
Exercisable at end of period/year	<b>5,082,500</b>	<b>\$ 1.24</b>	6,036,833	\$ 0.95

Subsequent to the end of the quarter, 437,500 stock options were exercised for total proceeds of \$214,125.

#### d) Stock-Based Compensation

Stock-based compensation recognized is allocated to Consulting and Management fees (stocks granted to consultants), General Exploration (stocks granted to individuals involved in exploration work) and Office Expense (stocks granted to employees).

As a result of stock options vesting and the amortization of previous grants during the three and nine month period ended September 30, 2007 and September 30, 2006, the Company recognized stock-based compensation expense and included this amount in contributed surplus as follows:

	<b>Three months ended Sept 30 2007</b>	Three months ended Sept 30 2006	<b>Nine months ended Sept 30 2007</b>	Nine months ended Sept 30 2006
Office expense	<b>\$ 37,883</b>	\$ 10,800	<b>\$ 326,873</b>	\$ 185,760
Consulting and management fees	<b>32,769</b>	21,737	<b>367,097</b>	159,227
General exploration	<b>26,899</b>	–	<b>278,187</b>	35,220
Total	<b>\$ 97,552</b>	\$ 32,537	<b>\$ 972,157</b>	\$ 380,207

For the nine months ended September 30, 2007 and September 30, 2006, the stock-based compensation value was determined using the Black-Scholes option pricing model. A grant-date fair value of \$1.08 (September 30, 2006 – \$1.02) for each option grant was estimated using the following assumptions: no dividends are to be paid; volatility of 74% (September 30, 2006 – 66%); risk free interest rate of 4.2% (September 30, 2006 – 4.0%); and expected life of 3.5 years (September 30, 2006 – 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 3,437,500 warrants outstanding, issued as part of a bought deal financing on April 16, 2007 (note 7(b)) with an exercise price of \$2.50 expiring on October 16, 2008. These warrants were valued at \$1,654,299 and were included in contributed surplus using the Black-Scholes option pricing model on the date of issue, using the following assumptions: no dividends are to be paid; volatility of 64%; risk free interest rate of 4.0%; and expected life of 1.5 years.

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

f) Contributed Surplus

	Nine months ended Sept 30, 2007	Year ended December 31, 2006
Balance, beginning of year	\$ 4,340,102	\$ 4,059,622
Stock-based compensation	972,157	1,227,536
Stock options exercised	(878,007)	(947,056)
Warrants granted	1,654,299	-
Balance, end of period/year	<b>\$ 6,088,551</b>	\$ 4,340,102

g) The impact of the outstanding options and warrants has not been included in the calculation of loss per share as the impact would be anti dilutive.

**8 / RELATED PARTY TRANSACTIONS**

During the three and nine month periods ended September 30, 2007 and September 30, 2006, fees were paid on account of consulting and management services provided by directors and by a director who is also an officer (a). As well, for the nine months ended September 30, 2007, there were fees paid to Southwestern Resources Corp. ("Southwestern"), a company with which Lake Shore had certain common officers until May 30, 2007, under the terms of an administrative services agreement (b) as follows:

	Three months ended Sept 30 2007	Three months ended Sept 30 2006	Nine months ended Sept 30 2007	Nine months ended Sept 30 2006
Consulting and management services (a)	\$ 90,121	\$ 120,375	\$ 368,288	\$ 371,700
Administrative services agreement (b)	\$ 13,500	\$ 9,000	\$ 37,500	\$ 27,000

As at September 30, 2007 there was no amount owed to Southwestern (December 31, 2006 – \$3,093). As of June 1, 2007, Southwestern is no longer a related party.

Related party transactions are measured at the exchange amount which is the consideration agreed to between the parties.

## **9 / INCOME TAXES**

As a result of the tax benefits of deductible expenses and share issue costs incurred during the nine month period ended September 30, 2007 and reduction in tax rates, the Company recorded a reduction in future income tax liabilities of \$1,667,391 (September 30, 2006 – \$884,000). The reduction is comprised of \$996,391 (September 30, 2006 – \$337,000) recorded as a recovery of income tax in the statement of income (loss) and deficit and \$681,000 (September 30, 2006 – \$547,000) recorded as an adjustment to share capital. This decrease has been offset by flow through funds raised in 2006 which were renounced in 2007 resulting in a \$1,700,000 (September 30, 2006 – \$1,752,000) reduction in share capital with a corresponding increase to future income tax liability.

## **10 / COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current period's presentation.

## **11 / RESTATEMENT OF COMPARATIVE FIGURES**

During the quarter ended September 30, 2007, the Company determined that its consolidated financial statements for the year ended December 31, 2006 contained an error related to the accounting for the future tax impact of flow through expenditures renounced during 2006. Additionally, the Company identified an accounting presentation issue within shareholders' equity with respect to the future tax impact of the renouncement of flow through shares. The correction of these items had no impact on the consolidated statements of net loss or of cash flows for the years ended December 31, 2006 and 2005.

a) During the year ended December 31, 2006, the Company renounced flow through expenditures of \$2,506,500 to investors, but did not record the future tax impact of the renouncement to the Company. The financial statements have been restated to record the tax impact of the renouncement, which decreased share capital and increased the future income tax liability by \$875,000. The impact of this restatement on the interim financial statements as at March 31, 2007 and June 30, 2007 is that future income tax liabilities were understated and share capital was overstated by \$875,000 for the periods presented.

b) The Company identified a presentation inconsistency with respect to the tax impact of the renouncement of flow through shares. Canadian GAAP requires that the tax effect of the impact of a renouncement of flow through shares be treated the same way as share issue costs which the Company records as a reduction in share capital. As a result, the Company has reduced share capital by \$1,789,500 and increased the deficit by the same amount for the year ended December 31, 2006 (December 31, 2005 – reduced share capital and increased the deficit by \$912,500). The reclassification had no impact on the total balance of shareholder's equity as previously presented.

The impact of the above corrections on the Company's consolidated balance sheet as at December 31, 2006 and 2005 is as follows:

	December 31 2006 as previously recorded	Adjustment (including 2005 as described below)	Reference	December 31 2006 as restated
Future tax liabilities	\$ 16,160,000	\$ 875,000	(a)	\$ 17,035,000
Share capital	\$ 85,522,239	\$ (2,664,500)	(a) (b)	\$ 82,857,739
Deficit	\$ (13,476,152)	\$ 1,789,500	(b)	\$ (11,686,652)
	December 31 2005 as previously recorded	Adjustment	Reference	December 31 2005 as restated
Share capital	\$ 61,214,693	\$ (912,500)	(b)	\$ 60,302,193
Deficit	\$ (10,347,940)	\$ 912,500	(b)	\$ (9,435,440)



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